



Fortune
Sun

Fortune Sun (China) Holdings Limited
富陽(中國)控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 352)



Fortune Sun

2006
Interim Report

CONTENTS

CORPORATE INFORMATION	2
CONDENSED CONSOLIDATED INCOME STATEMENT	3
CONDENSED CONSOLIDATED BALANCE SHEET	4
CONDENSED CONSOLIDATED CASH FLOW STATEMENT	5
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	6
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS	7
MANAGEMENT DISCUSSION AND ANALYSIS	26
DISCLOSURE OF INTERESTS	28
OTHER INFORMATION	33

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Chiang Chen Feng (*Chairman*)
Ms. Chang Hsiu Hua
Mr. Han Lin

Non-executive Director

Ms. Lin Chien Ju

Independent non-executive Directors

Mr. Ng Wai Hung
Mr. Cui Shi Wei
Dr. Cheng Chi Pang

AUDIT COMMITTEE

Dr. Cheng Chi Pang (*Chairman*)
Mr. Ng Wai Hung
Mr. Cui Shi Wei

REMUNERATION COMMITTEE

Mr. Cui Shi Wei (*Chairman*)
Mr. Ng Wai Hung
Dr. Cheng Chi Pang

REGISTERED OFFICE

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681GT
George Town
Grand Cayman
Cayman Islands
British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

Units 01-08
Level 31
China Insurance Building
No. 166 Lujiazui Road East
Pudong Xin District
Shanghai
The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 4109, 41st Floor, Jardine House
1 Connaught Place
Central
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Cayman) Limited
Butterfield House
Fort Street
P.O. Box 705
George Town
Grand Cayman
British West Indies

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
26/F Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

COMPANY SECRETARY

Mr. Leung Ka Lok *FCCA, CPA*

QUALIFIED ACCOUNTANT

Mr. Leung Ka Lok *FCCA, CPA*

COMPLIANCE ADVISER

Taifook Capital Limited

AUDITORS

Baker Tilly Hong Kong Limited
Certified Public Accountants

HONG KONG LEGAL ADVISERS

Chiu & Partners

BANKERS

Standard Chartered Bank (Hong Kong) Limited
China Minsheng Banking Corporation Limited

WEBSITE ADDRESS

www.fortune-sun.com
www.fortune-sun.cn
www.fortune-sun.com.cn

The board (the “Board”) of directors (the “Directors”) of Fortune Sun (China) Holdings Limited (the “Company”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2006 together with the comparative figures in 2005 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2006

		Six months ended 30 June	
	<i>Notes</i>	2006 <i>RMB'000</i> <i>(Unaudited)</i>	2005 <i>RMB'000</i> <i>(Unaudited)</i>
Turnover	4	24,494	51,374
Business tax and other levies	6(b)	(1,220)	(2,629)
Cost of services		(14,232)	(23,948)
		<hr/>	<hr/>
Gross profit		9,042	24,797
Other revenue		78	5
Operating and administrative expenses		(8,742)	(11,145)
Share of net profit of associated company	13	398	—
		<hr/>	<hr/>
Profit from ordinary activities before income tax	5	776	13,657
Income tax	6(a)	(380)	(2,277)
		<hr/>	<hr/>
Profit from ordinary activities attributable to shareholders		396	11,380
		<hr/> <hr/>	<hr/> <hr/>
Dividends	7	(10,000)	—
		<hr/> <hr/>	<hr/> <hr/>
Earnings per share	8		
– Basic (RMB: cent(s))		0.3	7.6
		<hr/> <hr/>	<hr/> <hr/>
– Diluted (RMB: cent)		0.3	N/A
		<hr/> <hr/>	<hr/> <hr/>

CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2006

	<i>Notes</i>	30 June 2006 RMB'000 (Unaudited)	31 December 2005 RMB'000 (Audited)
Non-current assets			
Fixed assets	9	1,199	1,498
Goodwill	10	190	—
Investment properties	11	9,345	899
Deposits for investment properties	11	—	8,324
Deferred tax assets	12(a)	458	549
Investments in associated company	13	—	272
Golf club membership		291	291
		11,483	11,833
Current assets			
Trade receivables	14	25,202	29,838
Trade deposits	15	19,477	16,177
Prepayments and other deposits		3,632	1,043
Other receivables		1,960	1,215
Deferred expenses		6,392	3,381
Amounts due from associated company	13	—	602
Cash and cash equivalents		19,832	34,402
		76,495	86,658
Current liabilities			
Accrued expenses and other payables		5,912	5,316
Tax payables		1,105	2,639
		7,017	7,955
Net current assets		69,478	78,703
Total assets less current liabilities		80,961	90,536
Non-current liabilities			
Convertible bond	16	—	25,945
Deferred tax liabilities	12(b)	3,663	4,519
		3,663	30,464
Net assets		77,298	60,072
Financed by			
Share capital	17	243	828
Reserves	19	77,055	59,244
Shareholders' funds		77,298	60,072

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2006

	Six months ended 30 June	
	2006 RMB'000 (Unaudited)	2005 RMB'000 (Unaudited)
Cash used in operating activities	(3,639)	(5,769)
Interest received	78	24
PRC enterprise income tax paid	(2,679)	(7,310)
Net cash used in operating activities	(6,240)	(13,055)
Net cash generated from/(used in) investing activities	1,670	(335)
Net cash used in financing activities	(10,000)	—
Net decrease in cash and cash equivalents	(14,570)	(13,390)
Cash and cash equivalents at 1 January	34,402	18,427
Cash and cash equivalents at 30 June	19,832	5,037

Cash and cash equivalents as at 30 June 2006 and 2005 are all cash and bank balances.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2006

	Six months ended 30 June	
	2006	2005
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Total equity as at 1 January	60,072	42,254
Dividends approved during the period	(10,000)	—
Employee share-based compensation reserve	130	—
Conversion of convertible bond	26,700	—
Profit for the period	396	11,380
Total equity as at 30 June	<u>77,298</u>	<u>53,634</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. GROUP REORGANISATION

The Company was incorporated in the Cayman Islands on 28 January 2003 as an exempted company with limited liability under the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Following the Group's reorganisation (the "Reorganisation") implemented on 10 June 2006 to rationalise the structure of the Group in preparation for the listing (the "Listing") of the Company's shares on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of Millstone Developments Limited ("Millstone"), Shanghai Fu Yang Property Consultant Co., Ltd. ("Shanghai Fortune Sun") and SinoCity Asset Management Consultancy (Shanghai) Limited ("SinoCity") upon completion of the Reorganisation. Further details of the Reorganisation are set out in Appendix V to the Company's prospectus dated 23 June 2006 (the "Prospectus").

The shares of the Company were listed on the main board of the Stock Exchange on 5 July 2006 (the "Listing Date").

The principal activities of the Company are investment holding. During the period under review, the Group was principally engaged in providing property consultancy and agency services for the primary property market in the People's Republic of China (the "PRC").

2. ADOPTION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS ("HKFRSs")

The unaudited condensed consolidated interim financial statements of the Group (the "Condensed Financial Report") have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which became effective for accounting periods beginning on or after 1 January 2005, and applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") issued by the Stock Exchange.

The accounting policies and methods of computation used in the preparation of the Condensed Financial Report are consistent with those used in the preparation of the Group's financial information as set out in the Appendix I to the Prospectus.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

2. ADOPTION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS (“HKFRSs”) (Continued)

During the period under review, the Group adopted the following new HKFRSs issued by the HKICPA, which are effective for accounting periods commencing on or after 1 December 2005 or, as the case may be, 1 January 2006:

HKAS 19 (Amendment)	Employee benefits — Actuarial gains and losses, group plans and disclosures
HKAS 21 (Amendment)	The effect of changes in foreign exchange rates — Net investment in a foreign operation
HKAS 39 (Amendment)	Cash flow hedges of forecast intragroup transactions
HKAS 39 (Amendment)	The fair value option
HKAS 39 and HKFRS 4 (Amendments)	Financial instruments: Recognition and measurement and insurance contracts — Financial guarantee contracts
HKFRS 6	Exploration for and evaluation of mineral resources
HKFRS – Int 4	Determining whether an arrangement contains a lease
HKFRS – Int 5	Rights to interests arising from decommissioning, restoration and environment rehabilitation funds
HK(IFRIC) – Int 6	Liabilities arising from participating in a specific market — waste electrical and electronic equipment

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

2. ADOPTION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS (“HKFRSs”) (Continued)

The adoption of these new HKFRSs did not result in substantial changes to the accounting policies of the Group and the methods of computation used in the Condensed Financial Report. As there is no material effect on the results for the current or prior accounting periods, no prior period adjustment is required.

As at the date of the Condensed Financial Report, the following standards and interpretations were in issue but not yet effective:

HKAS 1 (Amendment)	<i>Note a</i>	Capital disclosures
HKFRS 7	<i>Note a</i>	Financial Instruments: Disclosures
HK(IFRIC) – Int 7	<i>Note b</i>	Applying the restatement approach under HKAS 29 — Financial reporting in hyperinflationary economies
HK(IFRIC) – Int 8	<i>Note c</i>	Scope of HKFRS 2
HK(IFRIC) – Int 9	<i>Note d</i>	Reassessment of embedded derivatives

Note a: effective for annual periods beginning on or after 1 January 2007

Note b: effective for annual periods beginning on or after 1 March 2006

Note c: effective for annual periods beginning on or after 1 May 2006

Note d: effective for annual periods beginning on or after 1 June 2006

The Group has begun to consider the potential impact of the above HKFRSs but is not yet in a position to determine whether these HKFRSs would have a significant impact on how its result of operations and financial position are prepared and presented. These HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

3. BASIS OF PRESENTATION

(a) Basis of preparation

The measurement basis used in the preparation of the Condensed Financial Report is historical cost.

(b) Basis of consolidation

The Condensed Financial Report has been prepared using the merger basis of accounting as a result of the Reorganisation. Under this basis, the Company has been treated as the holding company of its subsidiaries for the financial periods presented rather than from the date of their acquisition. The consolidated/combined results of the Group for the six months ended 30 June 2005 and 2006 include the results of the Company and its subsidiaries with effect from 1 January 2005 or since their respective dates of incorporation, where this is a shorter period. The comparative combined balance sheet as at 31 December 2005 has been prepared on the basis that the existing structure of the Group has been in place at that date.

4. TURNOVER

The Group is principally engaged in providing property consultancy and agency services for the primary property market in the PRC. Turnover during the period under review represents income from the following services:

	Six months ended 30 June	
	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Comprehensive property consultancy and sales agency service projects	24,444	50,803
Pure property consultancy service projects	50	571
	24,494	51,374

The Group has carried on single business in a single geographical segment, which is the provision of agency services for the sale of properties and property consultancy services in the PRC, and therefore no segmental information has been presented.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

5. PROFIT FROM ORDINARY ACTIVITIES BEFORE INCOME TAX

Profit from ordinary activities before income tax is arrived at after crediting and charging the following:

	Six months ended 30 June	
	2006 RMB'000 (Unaudited)	2005 RMB'000 (Unaudited)
Crediting:		
Share of net profit of associated company	398	—
Interest income	78	24
	<u>476</u>	<u>24</u>
Charging:		
Amortisation of discount on the convertible bond (Note 16)	755	—
Depreciation of fixed assets	345	352
Depreciation of investment properties	10	—
Loss on disposals of fixed assets	54	13
Staff costs		
– Wages and salaries	2,453	2,754
– Pension costs (defined contribution plan) and other social benefits	615	650
– Employee stock option benefits	130	—
Operating lease rentals in respect of buildings (Write-back of)/Provision for doubtful debts	2,494	3,241
– Trade receivables	(128)	362
– Other receivables	129	276
– Trade deposits	1,277	867
	<u>1,277</u>	<u>867</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

6. TAXATION

(a) Income Tax

Income tax expense represents:

	Six months ended 30 June	
	2006 <i>RMB'000</i> <i>(Unaudited)</i>	2005 <i>RMB'000</i> <i>(Unaudited)</i>
Current income tax —		
PRC enterprise income tax	1,145	1,095
Deferred tax assets	91	(100)
Deferred tax liabilities	(856)	1,282
	<hr/>	<hr/>
Income tax expense	380	2,277
	<hr/> <hr/>	<hr/> <hr/>

The Company and Millstone are not subject to income tax.

The Company's subsidiaries, namely Shanghai Fortune Sun and SinoCity, are foreign investment enterprises registered in Pudong New District of Shanghai, the PRC. According to the relevant confirmations from the relevant Shanghai tax authorities in charge of the state and local tax of Shanghai Fortune Sun and SinoCity, both Shanghai Fortune Sun and SinoCity are currently subject to the preferential PRC enterprise income tax rate of 15%. PRC enterprise income tax is calculated at the applicable rate of 15% on the estimated assessable profit of Shanghai Fortune Sun and SinoCity for the period under review. However, since the above local preferential tax policy was not approved by the State Council or the State Administration of Tax, there is no assurance that Shanghai Fortune Sun and SinoCity will still be able to enjoy such preferential tax rate of 15% in the future.

No Hong Kong profits tax has been provided as the Group did not derive any assessable profit from Hong Kong during the period under review.

(b) Business tax

Shanghai Fortune Sun and SinoCity are subject to PRC business tax at a rate of 5% on turnover from the provision of property agency and consultancy services and the provision of property consultancy services respectively.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

7. DIVIDENDS

The Company was incorporated on 28 January 2003. No dividend has been paid or declared by the Company since its incorporation. In May 2006, prior to the Reorganisation, the directors of Millstone declared dividends amounting to RMB10,000,000 to its then shareholders in respect of the year ended 31 December 2005, which was subsequently paid in June 2006.

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2006.

8. EARNINGS PER SHARE

The calculation of the basic earnings per share for the six months ended 30 June 2006 is based on the unaudited consolidated net profit attributable to shareholders of the Company of approximately RMB396,000 (six months ended 30 June 2005: RMB11,380,000) and the weighted average number of 150,000,000 shares (six months ended 30 June 2005: 150,000,000 shares), comprising 2,361,888 shares in issue and 147,638,112 shares to be issued pursuant to the Capitalisation Issue (as defined in the Prospectus), deemed to be in issue throughout the period under review.

The calculation of the diluted earnings per share for the six months ended 30 June 2006 is based on the unaudited consolidated net profit attributable to shareholders of the Company of approximately RMB396,000 and the weighted average number of 150,696,133 shares after adjusting for the effects of all dilutive potential shares to be issued pursuant to the exercise of the options granted under the Pre-IPO Share Option Scheme (as hereinafter defined). No diluted earnings per share for the six months ended 30 June 2005 has been presented as the Company had no dilutive potential shares during that period.

9. FIXED ASSETS

During the period under review, the Group acquired fixed assets amounting to RMB99,800 (six months ended 30 June 2005: RMB334,576) and disposed of fixed assets with net book value of RMB54,312 (six months ended 30 June 2005: RMB13,242).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

10. GOODWILL

Goodwill represents the excess of the cost of the acquisition made in May 2006 over the fair value of SinoCity, which was the Group's associated company in which the Group had indirect equity interests of 45% as at 31 December 2005. After the acquisition of the remaining equity interests of SinoCity by Shanghai Fortune Sun in May 2006, SinoCity became an indirect wholly-owned subsidiary of the Company. Details of the net assets acquired and goodwill arisen from the acquisition as at 30 June 2006 are as follows:

	<i>RMB'000</i> <i>(Unaudited)</i>
Total purchase consideration	1,009
Fair value of the net assets acquired	(819)
	<hr/>
Goodwill	190
	<hr/> <hr/>

Being accounted for as an intangible asset, this goodwill is stated at cost less accumulated impairment losses and is tested annually for impairment at the balance sheet date. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM
FINANCIAL STATEMENTS (Continued)**

**11. INVESTMENT PROPERTIES AND DEPOSITS FOR INVESTMENT
PROPERTIES**

	Investment properties RMB'000	Deposits for investment properties RMB'000	Total RMB'000
		<i>Note</i>	
Cost			
At 31 December 2005 (Audited)	899	8,324	9,223
Additions	—	132	132
Transferred from deposit	8,456	(8,456)	—
	<hr/>	<hr/>	<hr/>
At 30 June 2006 (Unaudited)	9,355	—	9,355
Accumulated depreciation			
Charge for the period and at 30 June 2006	10	—	10
	<hr/>	<hr/>	<hr/>
Net book value			
At 30 June 2006 (Unaudited)	9,345	—	9,345
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 December 2005 (Audited)	899	8,324	9,223
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Note:

This represents the payments made for the acquisition of the properties in Beijing, the PRC in 2005. As the local authorities have acknowledged that registrations of the related purchase contracts have been completed at the balance sheet date, the balance is accounted for as an investment property. The Board is of the opinion that the total market value of these properties as at 30 June 2006 approximated the carrying amount as at 30 June 2006.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

12. DEFERRED TAX ASSETS AND LIABILITIES

Deferred taxation is calculated in full on temporary differences under the liability method using a tax rate of 15%.

The movements in deferred tax assets and liabilities during the period under review are as follows:

(a) Deferred tax assets

	Accrued expenses and others	
	30 June 2006 RMB'000 (Unaudited)	31 December 2005 RMB'000 (Audited)
Beginning of the period/year	549	769
Charged to income statement during the period/year	(91)	(220)
End of the period/year	<u>458</u>	<u>549</u>

(b) Deferred tax liabilities

	Uninvoiced revenue	
	30 June 2006 RMB'000 (Unaudited)	31 December 2005 RMB'000 (Audited)
Beginning of the period/year	4,519	1,764
Credited/(charged) to income statement during the period/year	(856)	2,755
End of the period/year	<u>3,663</u>	<u>4,519</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

12. DEFERRED TAX ASSETS AND LIABILITIES (Continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current assets against current liabilities and when the deferred income taxes relate to the same fiscal authority.

13. INVESTMENTS IN ASSOCIATED COMPANY

	30 June 2006 RMB'000 (Unaudited)	31 December 2005 RMB'000 (Audited)
Beginning of the period/year	272	—
Share of net profit/net assets during the period/year	398	272
	670	272
Balance eliminated on consolidation	(670)	—
End of the period/year	—	272
Amounts due from associated company	—	602

SinoCity was incorporated as a wholly foreign owned enterprise on 26 September 2005 in the PRC. As at 31 December 2005, its registered and fully paid capital amounted to USD200,000 and was owned as to 45% by Millstone, a wholly-owned subsidiary of the Company. As mentioned in note 10, in May 2006, Shanghai Fortune Sun acquired the remaining 55% equity interest in SinoCity at a cash consideration of RMB819,000 and since then, SinoCity became an indirect wholly-owned subsidiary of the Company.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

14. TRADE RECEIVABLES

The credit period granted to customers is generally ranging from 1 month to 3 months. The duration between the issuance of invoice and the collection of trade receivables is generally within 1 to 2 weeks.

Ageing analysis of trade receivables is as follows:

	30 June 2006 RMB'000 (Unaudited)	31 December 2005 RMB'000 (Audited)
Within 90 days	10,705	17,885
Between 91 and 180 days	6,666	6,025
Between 181 and 365 days	8,244	2,127
Between 1 and 2 years	—	4,341
	<hr/>	<hr/>
	25,615	30,378
Provision for doubtful debts	(413)	(540)
	<hr/>	<hr/>
	25,202	29,838
	<hr/> <hr/>	<hr/> <hr/>

The amounts of provision for trade receivables made by the Group during the period under review based on its provision policy approximate the impairment losses determined as the differences between the assets' carrying amounts and the discounted present values of estimated future cash flows in accordance with HKAS 39 issued by the HKICPA.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

15. TRADE DEPOSITS

Trade deposits represent the amounts paid for comprehensive property consultancy and sales agency service contracts, which are usually refunded to the Group in stages according to various contract terms when the sales volumes specified in the contracts are met.

	30 June 2006	31 December 2005
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Within 90 days	822	163
Between 91 and 180 days	6,556	2,200
Between 181 and 365 days	4,362	6,300
Between 1 and 2 years	14,047	13,847
Between 2 and 3 years	1,700	400
Over 3 years	200	200
	<hr/>	<hr/>
	27,687	23,110
Provision for doubtful debts	(8,210)	(6,933)
	<hr/>	<hr/>
	19,477	16,177
	<hr/> <hr/>	<hr/> <hr/>

The amounts of provision for trade deposits made by the Group during the period under review based on its provision policy approximate the impairment losses determined as the differences between the assets' carrying amounts and the discounted present values of estimated future cash flows in accordance with HKAS 39 issued by the HKICPA.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

16. CONVERTIBLE BOND

	30 June 2006 RMB'000 (Unaudited)	31 December 2005 RMB'000 (Audited)
Beginning of the period/year	25,945	—
Proceeds from issue of the convertible bond (the “Bond”) (Note (a))	—	26,026
Amounts classified as equity component (Note (b))	—	(617)
Discount on the Bond	755	536
Conversion during the period (Note (c))	(26,700)	—
	<hr/>	<hr/>
End of the period/year	—	25,945
	<hr/> <hr/>	<hr/> <hr/>

Notes:

- (a) In October 2005, Millstone issued the Bond with a nominal value of HK\$25,000,000 (equivalent to RMB26,026,000) to an independent party (the “Holder”). The Bond was guaranteed by Ms. Lin Chien Ju and Mr. Chiang Chen Feng, both of them are the Directors, and is non-interest bearing except that, had Millstone defaulted in payment of any sum due and payable under the Bond, Millstone would have to pay interest on such sum to the Holder from the due date to the date of actual payment in full calculated at the rate of 18% per annum.
- (b) The value of the liability and equity components of the Bond was determined by an independent firm of surveyors, Sallmanns (Far East) Limited, who have among their staff Fellows of the Hong Kong Institute of Surveyors, based on the discounted cash flow method at the issuance of the Bond.
- (c) Pursuant to the conditions of the Bond, the maturity date of the Bond is on 30 April 2007 or the Listing Date, whichever the earlier. During the period under review, all principal amount of the Bond was converted into 361,888 ordinary shares of the Company (note 17 (d)) in accordance with its terms and conditions.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

17. SHARE CAPITAL

	Notes	Number of ordinary shares	Nominal value	
		'000	HK\$'000	RMB'000
Authorised				
Ordinary share of HK\$0.1 each as at 31 December 2005	(a)	1,000	100	103
Increase in authorised share capital during the period	(b)	1,999,000	199,900	205,897
		<u>2,000,000</u>	<u>200,000</u>	<u>206,000</u>
Issued and fully paid				
Balance as at 1 January 2006		—	—	—
Credited as fully paid as part of Reorganisation during the period	(a)	1,000	100	103
Ordinary shares of HK\$0.1 each issued as consideration for acquisition of the entire issued share capital of Millstone	(c)	1,000	100	103
Conversion of the Bond	(d)	362	36	37
		<u>2,362</u>	<u>236</u>	<u>243</u>

Notes:

- (a) On 28 January 2003, the Company was incorporated in the Cayman Islands with an initial authorised share capital of HK\$100,000 (equivalent to RMB103,000) divided into 1,000,000 shares of HK\$0.1 each. On 28 February 2003, 1,000,000 ordinary shares of HK\$0.1 each were allotted and issued as nil paid. All such nil paid shares were subsequently credited as fully paid at par during the period.
- (b) Pursuant to a resolution passed on 10 June 2006, the Company's authorised share capital was increased from HK\$100,000 to HK\$200 million by the creation of additional 1,999,000,000 shares of HK\$0.1 each in aggregate.
- (c) On 10 June 2006, as part of the Reorganisation (Note 1), the Company issued additional 1,000,000 ordinary shares of HK\$0.1 each in the capital of the Company, credited as fully paid to the then shareholders of Millstone in consideration for the acquisition of the entire issued share capital of Millstone.
- (d) On 10 June 2006, the Bond in the principal amount of HK\$25 million was converted into 361,888 shares in the share capital of the Company.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

17. SHARE CAPITAL (Continued)

The share capital of RMB828,000 presented as at 31 December 2005 represented the share capital of Millstone, which was the then holding company of the Group.

18. SHARE OPTION SCHEMES

The Group recognises the fair value of the share options or shares granted as an expense over the vesting period and the corresponding amount is recognised in the employee share-based compensation reserve under equity. When the eligible participants choose to exercise share options, the respective amount in employee share-based compensation reserve is transferred to share capital and share premium, together with exercise price. At each balance sheet date, the Group revises its estimates of the number of share options or shares that are expected to become vested. The impact of the revision of original estimates, if any, is recognised in the income statement with a corresponding adjustment to the employee share-based compensation reserve over the remaining vesting period.

A share option scheme (the “Pre-IPO Share Option Scheme”) was adopted pursuant to a written resolution passed by all shareholders of the Company on 10 June 2006. The purpose of the Pre-IPO Share Option Scheme is to recognise and reward the contribution of certain directors, senior management, employees, consultants and advisers of the Group to the growth and development of the Group and the Listing. For the six months ended 30 June 2006, options to subscribe for an aggregate of 6,000,000 shares of the Company have been granted by the Company to the eligible participants under the Pre-IPO Share Option Scheme and no such option was exercised and lapsed as at 30 June 2006.

In addition, another share option scheme (the “Share Option Scheme”) was also adopted pursuant to the written resolution passed by all shareholders of the Company on 10 June 2006. The purpose of the Share Option Scheme is to enable the Group to grant options to selected participants as incentives or rewards for their contribution to the Group. As at 30 June 2006, no option was granted under the Share Option Scheme.

The fair value of the options granted under the Pre-IPO Share Option Scheme are determined at the date of grant under the Binominal Option Pricing Model by an independent valuer and the following assumptions were used to calculate the fair value of the options:

Option value	HK\$0.41
Exercise price	HK\$0.795
Risk-free interest rate	4.84%
Expected volatility	45%
Dividend yield	3.5%
Life of options	10 years

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

19. RESERVES

	Share premium	Merger reserve	Reserve fund	Employee share-based compensation reserve	Convertible bond reserve	Retained earnings	Total
	<i>RMB'000</i>	<i>Note (a)</i> <i>RMB'000</i>	<i>Note (b)</i> <i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
As at 1 January 2005 (<i>Audited</i>)	10,453	3,376	7,040	—	—	20,557	41,426
Profit for the period	—	—	—	—	—	11,380	11,380
As at 30 June 2005 (<i>Unaudited</i>)	10,453	3,376	7,040	—	—	31,937	52,806
As at 1 January 2006	10,453	3,376	11,238	—	617	33,560	59,244
Dividends (<i>Note 7</i>)	—	—	—	—	—	(10,000)	(10,000)
Issue of shares of the Company to acquire Millstone	(10,453)	11,178	—	—	—	—	725
Share capital fully paid	(103)	—	—	—	—	—	(103)
Employee share option benefits	—	—	—	130	—	—	130
Conversion of the Bond (<i>Note 16(c)</i>)	27,280	—	—	—	(617)	—	26,663
Profit for the period	—	—	—	—	—	396	396
As at 30 June 2006 (<i>Unaudited</i>)	27,177	14,554	11,238	130	—	23,956	77,055

Notes:

- (a) The merger reserve of the Group represents the difference between the nominal value of the share capital issued by the Company and the aggregate of share capital and the share premium of Millstone acquired pursuant to the Reorganisation.
- (b) According to the articles and association of Shanghai Fortune Sun, at least 10% of its net profit as stated in its statutory accounts prepared under the applicable PRC accounting regulations and relevant regulations in the PRC shall be transferred to the reserve fund before dividend distribution, until the balance of such fund has reached 50% of its registered capital. The reserve fund can only be used, upon approval by the relevant authority, to offset accumulated losses or increase capital.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

20. NOTES TO THE CONDENSED CONSOLIDATED CASH FLOW STATEMENT

The assets and liabilities arising from the acquisition of SinoCity are as follows:

	Acquiree's carrying amount before acquisition and its fair value <i>RMB'000</i> <i>(Unaudited)</i>
Fixed assets	148
Deferred assets	180
Trade and other receivables	158
Cash and cash equivalents	2,392
Accruals and other payables	(1,389)
	<hr/>
Net assets	1,489
Share of 45% net assets of SinoCity prior to acquisition	(670)
	<hr/>
Net assets acquired (representing 55% of the net assets of SinoCity prior to acquisition)	819
	<hr/> <hr/>
Purchase consideration settled in cash as at 30 June 2006	(819)
Cash and cash equivalents in subsidiary acquired	2,392
	<hr/>
Cash inflow on acquisition	1,573
	<hr/> <hr/>

21. CONTINGENCIES

As at 31 December 2005 and 30 June 2006, the Group had the following contingencies:

	30 June 2006 <i>RMB'000</i> <i>(Unaudited)</i>	31 December 2005 <i>RMB'000</i> <i>(Audited)</i>
Combined property consultancy and agency contract for the property project in Ningbo	1,020	1,500
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Continued)

21. CONTINGENCIES (Continued)

Pursuant to the comprehensive property consultancy and agency contract for one property in Ningbo entered into in 2002, if the Group is not able to fulfil the committed sales target at the end of the contract, the Group is obliged to apply the Group's trade deposit amounting to RMB1,020,000 (31 December 2005: RMB1,500,000) deposited to the relevant developers to purchase the unsold properties at a contracted price stipulated in the relevant contracts. Up to the date of the authorisation of the Condensed Financial Report, this project is still under process.

22. OPERATING LEASE COMMITMENTS

As at 31 December 2005 and 30 June 2006, the Group had future aggregate minimum lease payments under non-cancellable operating leases for office buildings as follows:

	30 June 2006 <i>RMB'000</i> <i>(Unaudited)</i>	31 December 2005 <i>RMB'000</i> <i>(Audited)</i>
Within one year	2,628	2,829
Later than one year but not later than five years	191	1,447
	2,819	4,276

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

For the six months ended 30 June 2006, the Group recorded an unaudited turnover of approximately RMB24.5 million, which represented a decrease of approximately 52.3% as compared with the unaudited turnover of approximately RMB51.4 million for the corresponding period in 2005. Such decrease was principally due to the significant decrease in the revenue generated from the comprehensive property consultancy and agency projects undertaken by the Group. For the period under review, the unaudited revenue generated from the comprehensive property consultancy and agency projects decreased by approximately 52.0% to approximately RMB24.4 million from the unaudited revenue of approximately RMB50.8 million for the corresponding period in 2005, which was mainly because (i) the sales commencement date of the underlying properties of certain projects had been deferred by the property developers; and (ii) the market sentiment in the PRC property market as a result of another series of the austerity measures implemented by the PRC government in the first half of 2006.

For the six months ended 30 June 2006, the gross profit margin of the Group was approximately 36.9% which was less than 48.3% as achieved during the corresponding period in 2005. The decrease in the gross profit margin was mainly due to relatively higher percentage of advertising and marketing expenses to the turnover incurred as compared with that of the first half of 2005 in which there was an active property market in the PRC. These expenses generally are less incurred under buoyant market sentiment. Besides, the unaudited profit attributable to the shareholders of the Company during the period under review decreased by approximately 96.5% to approximately RMB0.40 million as compared with the unaudited profit attributable to the shareholders of the Company of approximately RMB11.4 million for the corresponding period in 2005. Such significant decrease was principally due to the significant decrease in the turnover and the gross profit margin as mentioned above.

COMPREHENSIVE PROPERTY CONSULTANCY AND AGENCY BUSINESS

During the period under review, the Group continued to focus on the provision of comprehensive property consultancy and agency services for the primary property market in the PRC. For the six months ended 30 June 2006, the Group had generated revenue from 22 (six months ended 30 June 2005: 29) comprehensive property consultancy and agency projects and approximately 0.22 million square metres (six months ended 30 June 2005: 0.36 million square metres) of gross floor areas of the relevant underlying properties under these comprehensive property consultancy and agency projects were sold through the Group. Total unaudited revenue generated from these comprehensive property consultancy and agency projects was approximately RMB24.4 million, accounting for approximately 99.6% the total unaudited turnover of the Group of approximately RMB24.5 million during the period under review. As at 30 June 2006, the Group had 34 comprehensive property consultancy and agency projects on hand with a total of approximately 2.7 million square metres of unsold gross floor areas. Among these 34 projects, the sales of the underlying properties of 13 projects have not yet commenced as at 30 June 2006.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

FUTURE PROSPECTS

The Group experienced a difficult time in the first half of 2006. However, the Group believes that the continuing growth in national income, improving living standard and growing demand for better living environment will rejuvenate the robust growth of the property market under the adequate regulatory measures imposed in recent years.

The Group plans to engage in more property consultancy and agency projects with targets at low to mid-priced and small to medium sized residential properties which are expected to have a stronger market demand. Further, the Group will explore more potential projects in some major second tier and developing cities which are expected to have a strong growth in the residential property market as a result of continuous demand for the residential properties in those areas. The Group also will improve its market share in the primary commercial property market through enhancing its level of its research capabilities and sales forces in respect of the primary commercial property market.

In addition, the Group will continue to strengthen the internal control and staff training in order to continuously render high quality of services to customers under the current market conditions, thereby enabling the Group to maintain its industry reputation and become more competitive in exploring new business opportunities and securing new quality property consultancy and agency projects.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2006, the Group had unaudited net current assets of approximately RMB69.5 million, unaudited total assets of approximately RMB88.0 million and unaudited shareholders' funds of approximately RMB77.3 million.

As at 30 June 2006, the unaudited cash balance of the Group amounted to approximately RMB19.8 million.

The Group had no borrowing as at 30 June 2006 while the total borrowing of the Group as at 31 December 2005 was HK\$25 million in the form of the convertible bond (the "Bond"). On 10 June 2006, the Bond in the principal amount of HK\$25 million was converted into 361,888 shares in the share capital of the Company.

The Group had no material contingent liabilities and capital commitments as at 30 June 2006.

STAFF

As at 30 June 2006, the Group had a total of 188 staff, whose remuneration and benefits were determined based on market rates, the PRC's state policies and individual performance.

DISCLOSURE OF INTERESTS

INTERESTS AND SHORT POSITION OF DIRECTORS OR CHIEF EXECUTIVE IN THE SHARES, UNDERLYING SHARES OR DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 June 2006, interests or short positions of the Directors or chief executive in any shares, underlying shares or debentures of the Company and any of its associated corporations (within the meaning of Part XV of Securities and Futures Ordinance (“SFO”)) were not required to be notified to the Company and the Stock Exchange under the provisions of Divisions 7 and 8 of Part XV of SFO as the Company was not a “listed corporation” as defined in and for the purpose of Divisions 7 and 8 of Part XV of SFO on that date.

Immediately upon the listing of the Company’s shares on the Stock Exchange on 5 July 2006, the interests and short positions of the Directors or chief executive in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of the SFO) which would be required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of SFO (including interests and short positions in which they are taken or deemed to have under such provisions of the SFO) or which would be required pursuant to section 352 of the SFO to be entered in the register referred to therein, or which would be required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) as set out in Appendix 10 to the Listing Rules were as follows:

Name of Director	Company/name of associated corporation	Capacity	Number and class of securities (Note 1)	Approximate percentage of shareholding
Mr. Chiang Chen Feng (“Mr. Chiang”)	The Company	Interest of a controlled Corporation (Note 2)	67,820,850 Shares (L)	33.9104%
		Beneficial owner and interest of spouse (Note 3)	1,300,000 Shares (L)	0.6311% (Note 7)
Ms. Lin Chien Ju (“Ms. Lin”)	The Company	Interest of a controlled corporation (Note 4)	36,352,050 Shares (L)	18.1760%
Mr. Han Lin (“Mr. Han”)	The Company	Beneficial owner Beneficial owner (Note 5)	7,051,801 Shares (L) 750,000 Shares (L)	3.5259%
Ms. Chang Hsiu Hua (“Ms. Chang”)	The Company	Interest of spouse (Note 6)	67,820,850 Shares (L)	33.9104%
	The Company	Beneficial owner and interest of spouse (Note 7)	1,300,000 Shares (L)	0.6311%

DISCLOSURE OF INTERESTS (Continued)

INTERESTS AND SHORT POSITION OF DIRECTORS OR CHIEF EXECUTIVE IN THE SHARES, UNDERLYING SHARES OR DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS (Continued)

Notes:

1. The letter “L” denotes the Director’s long position in the share of the Company and/or the relevant associated corporation.
2. These shares were registered in the name of Active Star Investment Limited (“Active Star”), the entire issued capital of which was owned by Mr. Chiang. Mr. Chiang was deemed to be interested in all the shares in which Active Star was interested by virtue of the SFO.
3. The long position of Mr. Chiang in these 1,300,000 shares comprises the 750,000 options and 550,000 options granted to him and his wife, Ms. Chang, respectively by the Company under the Pre-IPO Share Option Scheme. Mr. Chiang was regarded as interested in all the options in which Ms. Chang was interested by virtue of the Model Code in the Listing Rules.
4. These shares were registered in the name of Upwell Assets Corporation (“Upwell Assets”), the entire issued capital of which was owned by Ms. Lin. Ms. Lin was deemed to be interested in all the shares in which Upwell Assets was interested by virtue of the SFO.
5. The long position of Mr. Han in these 750,000 shares comprises the 750,000 options granted to him by the Company under the Pre-IPO Share Option Scheme.
6. Ms. Chang was regarded as interested in all the shares referred to in note (2) above, in which Mr. Chiang, her husband, was interested by virtue of the Model Code.
7. The long position of Ms. Chang in these 1,300,000 shares comprises the 550,000 options and 750,000 options granted to her and her husband, Mr. Chiang, respectively by the Company under the Pre-IPO Share Option Scheme. Ms. Chang was regarded as interested in all the options in which Mr. Chiang was interested by virtue of the Model Code.

Save as disclosed above, immediately upon the listing of the Company’s shares on the Stock Exchange on 5 July 2006, none of the Directors or chief executive had any interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the SFO) which would be required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of SFO (including interests and short positions in which they were taken or deemed to have under such provisions of the SFO) or which would be required pursuant to section 352 of the SFO to be entered in the register referred to therein, or which would be required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

DISCLOSURE OF INTERESTS (Continued)

INTEREST DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 30 June 2006, interests or short positions in any shares or underlying shares of the Company were not required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as the Company was not a “listed corporation” as defined in and for the purpose of Divisions 2 and 3 of Part XV of the SFO on that date.

Immediately upon the listing of the Company’s shares on the Stock Exchange on 5 July 2006, the following persons/entities had an interest or a short position in the shares or the 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 who will be, directly or indirectly, to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any other members of the Group:

Name	Company	Capacity	Class and number of securities (Note 1)	Approximate percentage of shareholding
Active Star	The Company	Beneficial owner (Note 2)	67,820,850 Shares (L)	33.9104%
Mr. Chiang	The Company	Interest of a controlled corporation (Note 2)	67,820,850 Shares (L)	33.9104%
		Beneficial owner and interest of spouse (Note 3)	1,300,000 Shares (L)	0.6311%
Ms. Chang	The Company	Interest of spouse (Note 4)	67,820,850 Shares (L)	33.9104%
		Beneficial owner and interest of spouse (Note 3)	1,300,000 Shares (L)	0.6311%
Upwell Assets	The Company	Beneficial owner (Note 5)	36,352,050 Shares (L)	18.1760%
Ms. Lin	The Company	Interest of a controlled corporation (Note 5)	36,352,050 Shares (L)	18.1760%
Honorway Nominees Limited	The Company	Beneficial owner (Note 6)	16,248,300 Shares (L)	8.1242%
Mr. Ho Hau Chong, Norman	The Company	Interest of a controlled corporation (Note 6)	16,248,300 Shares (L)	8.1242%

DISCLOSURE OF INTERESTS (Continued)

INTEREST DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS (Continued)

Name	Company	Capacity	Class and number of securities (Note 1)	Approximate percentage of shareholding
Ms. Yvette Therese Ma	The Company	Interest of spouse (Note 7)	16,248,300 Shares (L)	8.1242%
Mr. Ho Hau Hay, Hamilton	The Company	Interest of a controlled corporation (Note 6)	16,248,300 Shares (L)	8.1242%
Ms. Sharon Young	The Company	Interest of spouse (Note 8)	16,248,300 Shares (L)	8.1242%
Honorway Investments Limited	The Company corporation	Interest of a controlled (Note 6)	16,248,300 Shares (L)	8.1242%

Notes:

1. The letter "L" denotes the shareholders' long position in the share capital of the relevant member of the Group.
2. These shares were registered in the name of Active Star, the entire issued share capital of which was owned by Mr. Chiang. Mr. Chiang was deemed to be interested in all the shares in which Active Star was interested by virtue of the SFO.
3. The respective long positions of Mr. Chiang and Ms. Chang in these 1,300,000 shares comprised the 750,000 options and 550,000 options granted to Mr. Chiang and Ms. Chang, respectively, by the Company under the Pre-IPO Share Option Scheme. Each of Mr. Chiang and Ms. Chang was deemed to be interested in all the options in which the other was interested by virtue of the SFO.
4. Ms. Chang was deemed to be interested in all the shares in which her husband, Mr. Chiang, was interested by virtue of the SFO.
5. These shares were registered in the name of Upwell Assets, the entire issued share capital of which was deemed to be interested in all the shares in which Upwell Assets was interested by virtue of the SFO.
6. These shares were registered in the name of Honorway Nominees Limited, which was controlled by Honorway Investments Limited, which was in turn controlled by Mr. Ho Hau Chong, Norman and his brother, Mr. Ho Hau Hay, Hamilton. Mr. Ho Hau Chong, Norman, Mr. Ho Hau Hay, Hamilton and Honorway Investments Limited were deemed to be interested in all the shares in which Honorway Nominees Limited was interested by virtue of the SFO.
7. Ms. Yvette Therese Ma is deemed to be interested in all the shares in which her husband, Mr. Ho Hau Chong, Norman, was interested by virtue of the SFO.
8. Ms. Sharon Young is deemed to be interested in all the shares in which her husband, Mr. Ho Hau Hay, Hamilton, was interested by virtue of the SFO.

DISCLOSURE OF INTERESTS (Continued)

INTEREST DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS (Continued)

Save as disclosed above and so far as the Directors are aware of, immediately upon the listing of the Company's shares on the Stock Exchange on 5 July 2006, there was no other person who had interests or short positions in the shares, underlying shares and debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of SFO or who was, 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 the Company or any other members of the Group.

SHARE OPTION SCHEMES

The Pre-IPO Share Option Scheme was adopted pursuant to a written resolution passed by all shareholders of the Company on 10 June 2006. The purpose of the Pre-IPO Share Option Scheme is to recognise and reward the contribution of certain directors, senior management, employees, consultants and advisers of the Group to the growth and development of the Group and the Listing. For the six months ended 30 June 2006, options to subscribe for an aggregate of 6,000,000 shares of the Company had been granted by the Company to the eligible participants under the Pre-IPO Share Option Scheme and no such option had been exercised and lapsed during the said period.

Details of the options granted under the Pre-IPO Share Option Scheme during the period from 10 June 2006 (being the date of adoption of the Pre-IPO Share Option Scheme) to 30 June 2006 were as follows:

Name/ category of participant	Date of grant	Exercise price HK\$	Exercise period	Number of shares subject to options		
				Outstanding as at 10 June 2006	Lapsed/ Exercised during the period	Outstanding as at 30 June 2006
The Directors						
Mr. Chiang	10 June 2006	0.795	6 July 2007 - 5 July 2016	750,000	—	750,000
Mr. Han	10 June 2006	0.795	6 July 2007 - 5 July 2016	750,000	—	750,000
Ms. Chang	10 June 2006	0.795	6 July 2007 - 5 July 2016	550,000	—	550,000
Others						
Certain employees of the Group	10 June 2006	0.795	6 July 2007 - 5 July 2016	3,950,000	—	3,950,000

In addition, the Share Option Scheme was also adopted pursuant to the written resolution passed by all shareholders of the Company on 10 June 2006. The purpose of the Share Option Scheme is to enable the Group to grant options to selected participants as incentives or rewards for their contribution to the Group. For the six months ended 30 June 2006, no option had been granted under the Share Option Scheme.

OTHER INFORMATION

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

Since the shares of the Company were listed on the main board of the Stock Exchange on the Listing Date, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company.

CORPORATE GOVERNANCE

None of Directors is aware of any information which would reasonably indicate that the Company is not, or was not, in compliance with the code provisions set out in the Code on Corporate Governance Practices ("CG Code") as set out in Appendix 14 to the Listing Rules since the Listing Date, except for CG Code A2.1 regarding the responsibilities between the chairman and chief executive officer ("CEO") which have not been segregated.

The Company does not have a separate chairman and CEO and Mr. Chiang Chen Feng currently performs these two roles. The Board believes that vesting the roles of both chairman and CEO in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board considers that the balance of power and authority for the present arrangement will not be impaired and this structure will enable the Company to make and implement decisions promptly and efficiently.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules. Having made specific enquiry of all Directors, all Directors have confirmed that they have fully complied with the required standard set out in the Model Code since the Listing Date.

AUDIT COMMITTEE

Pursuant to the requirements of the CG Code and Rule 3.21 of the Listing Rules, the Company has established an audit committee (the "Audit Committee") comprising all three existing independent non-executive Directors, namely Mr. Ng Wai Hung, Mr. Cui Shi Wei, and Dr. Cheng Chi Pang. The Audit Committee has reviewed the unaudited condensed consolidated interim financial statements for the six months ended 30 June 2006 including the accounting, internal control and financial reporting issues. In carrying out this review, the Audit Committee has relied on a review conducted by the Group's external auditors in accordance with Statement of Auditing Standards 700 issued by the HKICPA as well as obtaining reports from the management. The Audit Committee has not undertaken detailed independent audit checks.

OTHER INFORMATION (Continued)

REMUNERATION COMMITTEE

The Company has established a remuneration committee (the “Remuneration Committee”) in compliance with the CG Code as set out in Appendix 14 to the Listing Rules. The primary duties of the Remuneration Committee are to review and determine the terms of remuneration packages, bonuses and other compensation payable to the Directors and senior management of the Group. The Remuneration Committee consists of three members comprising all three independent non-executive Directors, namely Mr. Ng Wai Hung, Mr. Cui Shi Wei, and Dr. Cheng Chi Pang.

REVIEW OF ACCOUNTS

At the request of the Directors, the Group’s external auditors, Baker Tilly Hong Kong Limited, has carried out a review on the unaudited condensed consolidated interim financial statements for the six months ended 30 June 2006 in accordance with Statement of Auditing Standards 700 issued by the HKICPA.

The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2006 were approved by the Board on 12 September 2006.

By order of the Board
Chiang Chen Feng
Chairman

Hong Kong, 12 September 2006