



**eFORCE HOLDINGS LIMITED**

(INCORPORATED IN BERMUDA WITH LIMITED LIABILITY)

(STOCK CODE : 943)

**2006 INTERIM REPORT**

## CONDENSED CONSOLIDATED INCOME STATEMENT

for the six months ended 30 June 2006 — unaudited

(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June	
		2006 HK\$'000 (unaudited)	2005 HK\$'000 (unaudited)
<b>Turnover</b>	3	<b>85,030</b>	67,048
Cost of sales		<b>(66,743)</b>	(51,770)
		<b>18,287</b>	15,278
Other revenue		<b>475</b>	244
Other income, net		<b>480</b>	436
Distribution costs		<b>(3,665)</b>	(3,043)
Administrative expenses		<b>(21,242)</b>	(18,829)
Other operating expenses		<b>(2,105)</b>	(405)
Loss from operations		<b>(7,770)</b>	(6,319)
Finance costs		<b>(1,095)</b>	(761)
Share of profits less losses of associates		—	(2,161)
<b>Loss from ordinary activities before taxation</b>	4	<b>(8,865)</b>	(9,241)
Taxation	5	—	—
<b>Loss attributable to shareholders</b>		<b>(8,865)</b>	(9,241)
<b>Loss per share</b>			
Basic — HK Cents	6	<b>(0.45)</b>	(0.48)

The notes on pages 5 to 13 form part of this interim financial report.

## CONDENSED CONSOLIDATED BALANCE SHEET

at 30 June 2006 — unaudited  
(Expressed in Hong Kong dollars)

		At 30 June 2006 HK\$'000 (unaudited)	At 31 December 2005 HK\$'000 (audited)
<b>Non-current assets</b>			
Fixed assets		23,467	25,169
Interest in associates		—	2,000
Available-for-sales securities	8	<u>2,373</u>	<u>4,478</u>
		<u>25,840</u>	<u>31,647</u>
<b>Current assets</b>			
Inventories	9	16,985	18,040
Trade and other receivables	10	21,716	20,472
Pledged bank deposits		1,500	1,500
Cash and bank balances		<u>1,130</u>	<u>2,639</u>
		<u>41,331</u>	<u>42,651</u>
<b>Current liabilities</b>			
Loans from financial institutions		(17,221)	(16,518)
Unsecured other loans	11	(6,500)	(6,500)
Trade and other payables	12	(79,476)	(78,328)
Taxation		<u>(4,347)</u>	<u>(4,347)</u>
		<u>(107,544)</u>	<u>(105,693)</u>
<b>Net current liabilities</b>		<u>(66,213)</u>	<u>(63,042)</u>
<b>Total assets less current liabilities</b>		<u>(40,373)</u>	<u>(31,395)</u>
<b>Capital and reserves</b>			
Share capital	14	96,891	96,891
Reserves	15	<u>(137,264)</u>	<u>(128,286)</u>
<b>Total assets less current liabilities</b>		<u>(40,373)</u>	<u>(31,395)</u>

The notes on pages 5 to 13 form part of this interim financial report.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2006 — unaudited

(Expressed in Hong Kong dollars)

		<b>Six months ended 30 June</b>	
		<b>2006</b>	2005
	<i>Note</i>	<b>HK\$'000</b>	<i>HK\$'000</i>
		<b>(unaudited)</b>	(unaudited)
Shareholders' equity at 1 January		<b>(31,395)</b>	(3,982)
Net gain for the period recognized directly in equity:			
Exchange differences on translation of the financial statements of subsidiaries outside Hong Kong	15	<b>(113)</b>	46
Changes in fair value of equity securities available-for-sale	15	—	75
Net loss for the period	15	<b>(8,865)</b>	(9,241)
Total recognized gain/(loss) for the period		<b>(8,978)</b>	(9,120)
Shareholders' equity at 30 June		<b>(40,373)</b>	(13,102)

The notes on pages 5 to 13 form part of this interim financial report.

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2006 — unaudited

(Expressed in Hong Kong dollars)

	Note	2006 <b>HK\$'000</b> (unaudited)	2005 <i>HK\$'000</i> (unaudited)
Net cash (outflow)/inflow from operating activities		(3,822)	721
Net cash (outflow)/inflow from investing activities		2,009	(622)
Net cash inflow/(outflow) from financing activities		<u>304</u>	<u>110</u>
Increase/(decrease) in cash and cash equivalents		(1,509)	209
Effect of foreign exchange rates		—	—
Cash and cash equivalents at 1 January		<u>2,639</u>	<u>1,650</u>
Cash and cash equivalents at 30 June		<u><u>1,130</u></u>	<u><u>1,859</u></u>

The notes on pages 5 to 13 form part of this interim financial report.

## NOTES ON THE INTERIM FINANCIAL REPORT (UNAUDITED)

*For the six months ended 30 June 2006*

### 1. Basis of preparation and principal accounting policies

This interim financial report is unaudited, but has been reviewed by the Company's Audit Committee.

The unaudited interim report has been prepared in accordance with the Hong Kong Accounting Standard ("HKAS") 34, Interim financial reporting, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "SEHK").

The accounting policies adopted by the Group in this interim financial report are consistent with those adopted in the Group financial statements for the year ended 31 December 2005, except that the Group has adopted the following new and revised standards and interpretations (hereafter collectively referred to as "new HKFRSs") issued by the HKICPA which are mandatory for accounting period beginning on or after 1 January 2006 and are relevant to its operations.

HKAS 21 (Amendment)	The Effect of Changes in Foreign Exchange Rates
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transaction
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 and HKFRS 4 (Amendment)	Financial Guarantee Contracts
HK(IFRIC) — Int 4	Determining whether an Arrangement contains a Lease

The application of these new HKFRSs has no material effect on how the results for the current and prior accounting periods are prepared and presented.

The HKICPA has issued a number of new HKFRSs which are available for early adoption for accounting period beginning on or after 1 January 2006. There is no early adoption of these new HKFRSs and the directors anticipate that the adoption of these new HKFRSs will have no material impact on the results and financial positions of the Group.

## 2. Going concern basis

Notwithstanding that the Group sustained recurrent losses and had net current liabilities and capital deficiency as at 30 June 2006, including unsecured other loans together with accrued interest of \$7.8 million which are overdue and remain outstanding as at the date of authorisation for issue of the interim financial report, this interim financial report has been prepared on a going concern basis as the directors of the Company are of the opinion that the Group is able to continue as a going concern and to meet its obligations as and when they fall due having regard to the following:

- (i) HK\$30 million loan facilities is made available to the Company from financial institutions up to 31 March 2007 which the financial institutions reserve the right to terminate the facilities at any time by notice to the Company in writing; and
- (ii) Continuing financial support received from a substantial shareholder, Tees Corporation.

The directors believe that the Group will have sufficient cash resources to satisfy its future working capital and other financing requirements. Accordingly it is appropriate that this interim financial report should be prepared on a going concern basis and does not include any adjustments that would be required should the Group fail to continue as a going concern.

## 3. Turnover and segment information

The principal activity of the Company is investment holding. During the period ended 30 June 2006, the Group is wholly engaged in the manufacture and sales of healthcare and household products.

Turnover represents the aggregate of sales value of goods supplied to customers less goods returned, trade discounts and sales tax.

During the current interim period, segment information is presented in respect of the Group's business and geographical segments. Business segment information will continue to be chosen as the primary reporting format as this is more relevant to the Group's internal financial reporting.

### (i) Business segments

The Group has been operating in a single business segment that is the manufacturing and sales of healthcare and household products.

### 3. Turnover and segment information (Continued)

#### (ii) Geographical segments

	Group turnover	
	Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Geographical locations of customers		
North America	39,888	35,311
Europe	32,576	17,696
Asia	10,245	8,903
Others	2,321	5,138
	<u>85,030</u>	<u>67,048</u>

### 4. Loss from ordinary activities before taxation

Loss from ordinary activities before taxation is arrived at after charging/(crediting):

	Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
(a) Finance costs:		
Interest on borrowings	<u>1,095</u>	<u>761</u>
(b) Other items:		
Cost of inventories	52,926	42,382
Staff costs	16,942	16,168
Depreciation	2,167	2,326
Impairment of available-for-sale securities	2,105	—
Net (profit)/loss on disposal of fixed assets	(438)	(671)
Interest income	<u>(37)</u>	<u>(4)</u>



## 5. Taxation

Provision for Hong Kong Profits Tax is calculated at 17.5% (2005: 17.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxation for subsidiaries outside Hong Kong is charged at the appropriate current rates of taxation ruling in the relevant countries in which the subsidiaries operate.

No provision for Hong Kong and overseas profits tax has been made as the Group sustained a loss for taxation purpose for the period.

No deferred tax assets in respect of the accumulated losses has been recognized as it is not probable that future profits will be available against which the asset can be utilized.

## 6. Loss per share

### (a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to shareholders of HK\$8,865,000 (2005: HK\$9,241,000) and the weighted average number of ordinary shares of 1,937,826,789 (2005: 1,937,826,789) in issue during the period.

### (b) Diluted loss per share

No diluted loss per share is presented as the inclusion of the effects of all potential dilutive ordinary shares would have an anti-dilutive effect on the basic loss per share for both the current and prior periods.

## 7. Dividends

The Directors do not recommend the payment of an interim dividend in respect of the six months ended 30 June 2006 (2005: HK\$Nil).

## 8. Available-for-sales securities

	<b>At 30 June 2006 HK\$'000 (unaudited)</b>	At 31 December 2005 HK\$'000 (audited)
At beginning of year	<b>4,478</b>	6,269
Change in fair value and impairment	<b>(2,105)</b>	(1,791)
	<b><u>2,373</u></b>	<u>4,478</u>

## 8. Available-for-sales securities (Continued)

The Group's available-for-sales securities represented 74,632,500 ordinary shares of Megainfo Holdings Limited ("Megainfo"). On 27 June 2006, the Company received an unconditional mandatory cash offer made by Partners Capital on behalf of Maxprofit Global Inc. to acquire all the issued shares of Megainfo for a consideration of HK\$0.0318 per share (the "Offer").

The Board has considered the advice from the independent financial adviser of the Offer and believes that the terms of the Offer are fair and reasonable and the acceptance of the Offer would enhance the Group's liquidity and is in the interests of the shareholders of the Company as a whole.

The Company has accepted the Offer on 7 July 2006 and disposed of all its interest in Megainfo. An impairment loss of HK\$2,105,000 was recognized in this condensed consolidated income statement which represented the deficit of consideration over the carrying value to bring down carrying value of securities at the balance sheet date.

## 9. Inventories

	<b>At 30 June 2006 HK\$'000 (unaudited)</b>	At 31 December 2005 HK\$'000 (audited)
Raw materials	<b>10,346</b>	7,982
Work in progress	<b>5,191</b>	7,127
Finished goods	<b>1,448</b>	2,931
	<b>16,985</b>	18,040

At 30 June 2006, inventories of \$88,000 (at 31 December 2005: \$Nil) are stated at estimated net realisable value.

## 10. Trade and other receivables

Included in trade and other receivables are trade debtors (net of specific provisions for bad and doubtful debts) with the following ageing analysis:

	<b>At 30 June 2006 HK\$'000 (unaudited)</b>	At 31 December 2005 HK\$'000 (audited)
Current	<b>12,901</b>	12,710
1 to 3 months overdue	<b>4,256</b>	3,067
More than 3 months but less than 12 months overdue	—	105
More than 12 months overdue	<b>172</b>	139
	<hr/>	<hr/>
Total trade debtors and bills receivables	<b>17,329</b>	16,021
Other debtors, deposits and prepayments	<b>4,366</b>	4,430
Amount due from associates	<b>21</b>	21
	<hr/>	<hr/>
	<b>21,716</b>	20,472
	<hr/> <hr/>	<hr/> <hr/>

Trade debts are due within 30 days from the date of billing.

## 11. Unsecured other loans

On 1 February 2000, pursuant to a placing and underwriting agreement dated 16 December 1999 entered into between the Company and independent placing agents, 4% convertible notes with an aggregate principal amount of HK\$9 million were issued (the "Notes"). The Notes were convertible to ordinary shares of HK\$0.05 each of the Company at any time between 1 April 2000 and 27 January 2002 and Notes of HK\$2.5 million were converted during 2000.

Prior to maturity, holders of the remaining Notes of HK\$6.5 million had not exercised the conversion right, therefore, the directors of the Company consider that the conversion right attaching to the Notes has lapsed. The Notes should be regarded as unsecured other loans and the outstanding balances together with accrued interest of approximately HK\$7.8 million are due for repayment. As at the date of authorisation for issue of the interim financial report, the creditors have not yet requested the Company to repay the loans.

## 12. Trade and other payables

Included in trade and other payables are trade creditors with the following ageing analysis:

	<b>At 30 June 2006 HK\$'000 (unaudited)</b>	At 31 December 2005 HK\$'000 (audited)
Due within 1 month or on demand	<b>11,244</b>	13,576
Due after 1 month but within 3 months	<b>7,975</b>	7,157
Due after 3 month but within 6 months	<b>2,570</b>	1,323
Due after 6 months	<b>1,599</b>	1,283
	<hr/>	<hr/>
Total trade creditors	<b>23,388</b>	23,339
Other creditors and accrued charges	<b>46,809</b>	44,827
Amount due to a substantial shareholder	<b>40</b>	40
Amount due to directors	<b>9,239</b>	10,122
	<hr/>	<hr/>
	<b>79,476</b>	78,328
	<hr/> <hr/>	<hr/> <hr/>

## 13. Pledge of assets

At 30 June 2006, a loan from a financial institution of approximately HK\$7.4 million (at 31 December 2005: HK\$8.2 million) was secured by the Group's land and buildings held for own use situated outside Hong Kong with a carrying value of approximately HK\$16 million (at 31 December 2005: HK\$16 million).

## 14. Share capital

	<b>No. of shares</b>	<b>Amount HK\$'000</b>
<i>Authorised:</i>		
Ordinary shares of \$0.05 each at 31 December 2005 and 30 June 2006	<b>6,000,000,000</b>	<b>300,000</b>
	<hr/> <hr/>	<hr/> <hr/>
<i>Issued and fully paid:</i>		
At 31 December 2005 and 30 June 2006	<b>1,937,826,789</b>	<b>96,891</b>
	<hr/> <hr/>	<hr/> <hr/>

#### 14. Share capital (Continued)

##### (i) Placing of new shares

Reference is made to the announcement of the Company dated 16 June 2006 and 25 July 2006. The Company has successfully placed a total of 360,000,000 ordinary shares of each HK\$0.05 each to not less than 6 Placers at the placing price of HK\$0.05 per placing shares. The net proceeds of HK\$17.5 million were used for repayment of loans from financial institutions and general working capital. Dealing in the new shares on the SEHK was commenced on 25 July 2006.

#### 15. Reserves

	Share premium HK\$'000	Exchange reserves HK\$'000	Warrant reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2005	1,392,241	(1,742)	24,226	(1,515,598)	(100,873)
Exchange differences on translating foreign operations	—	(190)	—	—	(190)
Loss for the year	—	—	—	(27,223)	(27,223)
At 31 December 2005	<u>1,392,241</u>	<u>(1,932)</u>	<u>24,226</u>	<u>(1,542,821)</u>	<u>(128,286)</u>
At 1 January 2006	1,392,241	(1,932)	24,226	(1,542,821)	(128,286)
Exchange differences on translating foreign operations	—	(113)	—	—	(113)
Loss for the period	—	—	—	(8,865)	(8,865)
At 30 June 2006	<u>1,392,241</u>	<u>(2,045)</u>	<u>24,226</u>	<u>(1,551,686)</u>	<u>(137,264)</u>

## 16. Capital commitments

At 30 June 2006, the Group had the following capital commitments outstanding and not provided for in the financial statements:

	<b>At 30 June 2006 HK\$'000 (unaudited)</b>	At 31 December 2005 HK\$'000 (audited)
Contracted for:		
Quality guarantee deposit	<b>17,500</b>	17,500
Purchase of fixed assets	<b>368</b>	—
	<b><u>17,868</u></b>	<u>17,500</u>

## 17. Contingent liabilities

- (i) In October 1999, Mersongate Holdings Limited, an independent third party (the "Plaintiff"), commenced an action against (1) Mr. Huen Raico Hing Wah, a former director of the Company; (2) Central Growth Limited and Bridal Path Corporation, former substantial shareholders of the Company; and (3) the Company (collectively the Defendants"), alleging that the Defendants have agreed to certain arrangements in relation to the share capital of the Company, including certain rights of the Plaintiff to participate in the share capital of the Company, and that the Defendants have failed to perform their respective obligations under the arrangements, and claiming specific performance or, alternatively, damages. The Company has no knowledge of and is not a party to the alleged arrangements. The Company has filed a defence against the claim and the Directors of the Company consider that no provision for the claim is necessary.
- (ii) At 30 June 2006, the Company had provided corporate guarantee to the extent of HK\$19 million (at 31 December 2005: HK\$19 million) for banking facilities granted to a subsidiary, which were utilized to the extent of HK\$4.66 million (at 31 December 2005: HK\$1.57 million).

## 18. Approval of interim financial report

This interim financial report was approved and authorised for issue by the Board of Directors on 21 September 2006.

## **INTERIM DIVIDEND**

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2006 (2005: HK\$Nil per share).

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Business Review**

Turnover for the period increased to HK\$85 million represented an increase of 27% as compared to the corresponding period last year. Gross profit margin fell marginally by 1.3% to 21.5% amidst the continual increase in prices of key raw materials and labor cost partly offset by cost savings resulted from production rationalization. As a result, gross profit increased by \$3M, which was more than offset by the increased in administrative expenses of HK\$2 million and an impairment loss of HK\$2 million resulted from the disposal of the available-for-sale securities. Following the disposal of Chinese 2 Linux (Holdings) Limited ("C2L"), an associated company of the Group, the Group no longer share the losses of C2L during the period under review, whereas a loss of HK\$2 million was recognized in the same period last year.

### **Outlook**

In view of the rises in material and labor costs and the severe competition among different manufacturers, the management will focus on research and development and to maintain the competitiveness of our products range.

### **Liquidity and Financial Resources**

At 30 June 2006, the Group recorded a net current liability of HK\$66,213,000 (31 December 2005: HK\$63,042,000) and a current ratio of 0.38 (31 December 2005: 0.4). Cash and bank balances at 30 June 2006 were HK\$1,130,000 (31 December 2005: HK\$2,639,000).

## **MANAGEMENT DISCUSSION AND ANALYSIS** *(Continued)*

### **Liquidity and Financial Resources** *(Continued)*

Borrowings at 30 June 2006 were all due within one year amounted to HK\$23,721,000 (31 December 2005: HK\$23,018,000). Secured borrowings amounted to HK\$7,372,000 (31 December 2005: HK\$8,269,000) were secured by legal charge on certain leasehold land and buildings of the Group situated in the PRC with carrying value of approximately HK\$16 million (31 December 2005: HK\$16 million). No other assets of the Group were pledged to secure borrowings outstanding at 30 June 2006.

The total facilities available to the Group from its financial institutions amounted to HK\$30 million (31 December 2005: HK\$30 million). The management believes the Group has adequate financial resources for its business requirement.

### **Exposure to Fluctuations in Exchange Rates, Interest Rates and Related Hedges**

The Group's borrowings and cash and cash equivalents were primarily denominated in Hong Kong dollars, Renminbi and US dollars. The Group does not hedge against foreign exchange risk as the managements do not foresee any exchange rate fluctuation to have significant impact on the Group.

The interest rates profile of the Group's borrowings comprises a mixture of fixed and floating rates. The Group does not hedge against interest rates risk as the managements do not foresee the impact of any fluctuation in interest rates to be material to the Group.

### **Material Contingent Liabilities**

At 30 June 2006, the Company had provided corporate guarantee to the extent of HK\$19 million (at 31 December 2005: HK\$19 million) for banking facilities granted to a subsidiary, which were utilized to the extent of HK\$4.66 million (at 31 December 2005: HK\$1.57 million).



## **MANAGEMENT DISCUSSION AND ANALYSIS** *(Continued)*

### **Employees and Remuneration Policies**

At 30 June 2006, the Group employed approximately 36 staffs (31 December 2005: 38) in Hong Kong and approximately 1,200 employees (31 December 2005: 1,450) in PRC.

The managements review its remuneration policy regularly and reward staffs through fair remuneration packages and other fringe benefits, which includes a contributory provident fund and medical insurance plans. In addition, the Group may also grant discretionary bonus to eligible staff based on the Group's performance and individual merits.

The Company also granted share options to certain employees of the Group on 10 July 2000, entitling them to subscribe for shares of the Company. However, with effect from 1 September 2001, the Company no longer can grant any options under the existing scheme unless the Company changes the terms of the scheme to comply with the requirements of Chapter 17 of the Listing Rules.

## DISCLOSURE OF INTERESTS

### (a) Interests and short positions of the directors and the chief executives of the Company in shares, underlying shares and debentures of the Company and its associated corporations

At 30 June 2006, the interests and short positions of each directors and chief executives of the Company in shares, underlying shares and debenture of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO")), as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the SEHK pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

#### *Long position in issued shares and underlying shares*

Name of director	Capacity	Nature of interests	Number of shares held	Number of underlying shares held	% of total issued shares
Leung Chung Shan ("Mr. Leung")	Interests of a controlled corporation	Corporate	880,762,000 (Note 1)	—	45.45%
Mr. Leung	Beneficial owner	Personal	58,212,000 (Note 1)	—	3.01%

*Note:*

- (1) The 880,762,000 shares are held by Tees Corporation (“Tees”), a Company incorporated in the British Virgin Islands and is wholly-owned by Mr. Leung. Together with Mr. Leung’s personal interest in 58,212,000 shares, Mr. Leung is deemed to be interested in an aggregate of 938,974,000 shares and in which 838,974,000 shares was pledged to TKR Finance Limited (“TKR Finance”) for personal reasons. TKR Finance is currently under liquidation.

## DISCLOSURE OF INTERESTS *(Continued)*

### (a) Interests and short positions of the directors and the chief executives of the Company in shares, underlying shares and debentures of the Company and its associated corporations *(Continued)*

Save as disclosed above, as at 30 June 2006, none of the directors nor their associates had any interests and short positions in any shares, underlying shares and debenture of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register maintained by the Company pursuant to 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.

### (b) Share options

There are no changes in any terms of the share options scheme during the six months ended 30 June 2006. The detailed terms of the share options scheme were disclosed in the Company's 2005 annual reports.

Details of the share options outstanding at 30 June 2006 which have been granted under the scheme whereas follows:

Grantees	Date of grant	Exercise price per share (Adjusted)	Options <i>(Note 1)</i>				
			Number of options				
			Outstanding at 1 January 2006	Cancelled during the period	Acquired on Exercise of options during the period	Adjusted during the period	Outstanding at 30 June 2006
Directors	—	—	—	—	—	—	—
Employees	10 July 2000	HK\$0.392	2,490,000	540,000	—	—	1,950,000
Others <i>(Note 2)</i>	10 July 2000	HK\$0.392	28,290,000	—	—	—	28,290,000
			30,780,000	540,000	—	—	30,240,000

## **DISCLOSURE OF INTERESTS** *(Continued)*

### **(b) Share options** *(Continued)*

*Note:*

- (1) The options were granted under the share option scheme adopted by the Company on 2 June 1997. The options are exercisable subject to the terms and conditions stipulated each time options are granted. All the options granted will expire at the end of ten years from the date of grant. With effect from 1 September 2001, the Company no longer can grant any options under the existing scheme unless the Company changes the terms of the scheme to comply with the requirements of Chapter 17 of the Listing Rules.
- (2) Ex-employees of the Group who are still entitled to the options under the terms of the share option scheme.

Save as disclosed above, none of the directors or chief executive of the Company or their spouses or children under 18 years of age, had any right to subscribe for equity or debt securities of the Company, or had exercised any such right during the period.

Apart from the foregoing, at no time during the period was the Company or any of its holding company, subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors and chief executives of the Company or any of their spouses or children under 18 years of age to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporation.

## DISCLOSURE OF INTERESTS *(Continued)*

### (c) Interest and short positions of shareholders discloseable under the SFO

As at 30 June 2006, the following persons had interests in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

*Long positions of substantial shareholders in the shares and underlying shares*

Name of Shareholder	Capacity	Number of shares held	Number of underlying shares held	% of total issued shares
Tees Corporation ("Tees")	Beneficial Owner	880,762,000 (Note 1)	—	45.45%
TKR Finance Limited ("TKR Finance")	Interest of a controlled corporation/beneficial owner	871,186,144 (Note 2)	—	44.96%

Notes:

- (1) Tees is a company incorporated in the British Virgin Islands and wholly owned by Mr. Leung. By virtue of Tees's interest in 880,762,000 shares and Mr. Leung's personal interests in 58,212,000 shares, Mr. Leung is deemed to be interested in an aggregate of 938,974,000 shares of the Company in which 838,974,000 shares was pledged to TKR Finance for personal reasons. TKR Finance is currently under liquidation. For the avoidance of doubt, the same interests have been disclosed by Mr. Leung under the heading "Interests and short positions of the directors and the chief executives of the Company in shares, underlying shares and debentures of the Company and its associated corporations" above.
- (2) In accordance with the SDI forms received by the Company from Tingkong Rexcapital Holdings Limited ("TRHL") and Rexcapital Partners Incorporated ("RPI") on 25 June 2005, TRHL and RPI were deemed to be interested in 826,022,000 shares of the Company which TKR Finance has a security interest and has been included in the share of the Company which Mr. Leung pledged to TKR Finance. TKR Finance is a wholly-owned subsidiary of TRHL which in turn RPI has a 52.1% interest. TKR Finance is currently under liquidation.

## **DISCLOSURE OF INTERESTS** *(Continued)*

### **(c) Interest and short positions of shareholders discloseable under the SFO** *(Continued)*

Save as disclosed above, as at 30 June 2006, the Company according to the records required to be kept by the Company under Section 336 of the SFO, there was no person who had any interest or short positions in the shares or underlying shares of the Company.

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

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

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

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

## **CORPORATE GOVERNANCE**

The Company complied with all requirements set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Listing Rules, with deviation from code provision A.4.1 that non-executive directors should be appointed for a specific term, subject to re-election. There is no service contract between the Company and the independent non-executive directors whom are not appointed for a specific term but are subject to retirement by rotation at the annual general meeting in accordance with the Bye-laws of the Company. Their appointment will be reviewed when they are due for re-election and the Company is of the view that this meets the same objectives of the said code provision.

## AUDIT COMMITTEE

In compliance with the Code, an Audit Committee, comprising three independent non-executive directors, namely Messrs Chow Siu Ngor, Ting Leung Huel, Stephen and Lam Bing Kwan, was established on 28 December 1999 with written terms of reference. The principal activities of the Audit Committee include the review and supervision of the Group's financial reporting process and internal controls.

The unaudited interim financial report for the six months ended 30 June 2006 has been reviewed by the audit committee.

## REMUNERATION COMMITTEE

In compliance with the Code, the Company has established its remuneration committee ("Remuneration Committee") on 1 August 2005.

The Remuneration Committee comprises three Independent Non-executive Directors, namely, Mr. Lam Bing Kwan (Chairman of the Remuneration Committee), Mr. Chow Siu Ngor and Mr. Ting Leung Huel, Stephen and an Executive Director, Mr. Tam Lup Wai, Franky. The Remuneration Committee has adopted terms of reference which are in line with the Code.

By order of the Board

**Leung Chung Shan**

*Chairman and Executive Director*

Hong Kong, 21 September 2006

*As at the date of this interim financial report, the Board comprises Mr. Leung Chung Shan and Mr. Tam Lup Wai, Franky being Executive Directors and Mr. Chow Siu Ngor, Mr. Ting Leung Huel, Stephen and Mr. Lam Bing Kwan being Independent Non-Executive Directors*