



福山國際能源集團有限公司  
Fushan International Energy Group Limited

Stock Code: 639

Interim Report  
**2006**

## INTERIM RESULTS

The board of directors (the “Directors”) of Fushan International Energy Group Limited (the “Company”) announces that the unaudited interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30th June 2006 (the “period”) together with the unaudited interim results for the six months ended 30th June 2005 for comparison are as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June 2006

		<b>Six months ended 30th June</b>	
		<b>2006 (Unaudited) HK\$'000</b>	2005 (Unaudited) HK\$'000
	Notes		
<b>Revenue</b>	2	<b>2,799</b>	4,225
Cost of sales	4	<u>(2,013)</u>	<u>(3,667)</u>
<b>Gross profit</b>		<b>786</b>	558
Other operating income		<b>163</b>	167
Administrative expenses		<b>(13,161)</b>	(7,612)
Other operating expenses		<u>(2,762)</u>	<u>(1,552)</u>
<b>Operating loss</b>		<b>(14,974)</b>	(8,439)
Finance costs	3	<b>(3,769)</b>	(62)
Share of results of associates		<u>–</u>	<u>(1,196)</u>
<b>Loss before income tax</b>	4	<b>(18,743)</b>	(9,697)
Income tax expense	5	<u>–</u>	<u>–</u>
<b>Loss for the period</b>		<b><u>(18,743)</u></b>	<b><u>(9,697)</u></b>
<b>Attributable to:</b>			
Equity holders of the Company		<b>(12,137)</b>	(6,938)
Minority interest		<u>(6,606)</u>	<u>(2,759)</u>
<b>Loss for the period</b>		<b><u>(18,743)</u></b>	<b><u>(9,697)</u></b>
<b>Loss per share for loss attributable to the equity holders of the Company during the period</b>	6		
– Basic		<b>HK(0.58 cents)</b>	HK(0.33 cents)
– Diluted		<u>N/A</u>	<u>N/A</u>

**CONDENSED CONSOLIDATED BALANCE SHEET**

As at 30th June 2006

	Notes	As at 30th June 2006 (Unaudited) HK\$'000	As at 31st December 2005 (Audited) HK\$'000
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment	7	235,853	223,064
Leasehold land and land use rights		16,876	17,088
Goodwill		–	–
Interest in associates		–	–
Prepayments and deposits	8	172,227	120,624
		<u>424,956</u>	<u>360,776</u>
<b>Current assets</b>			
Inventories		–	–
Trade receivables	9	2,605	6,853
Prepayments, deposits and other receivables		14,677	5,583
Cash and cash equivalents		16,955	10,587
		<u>34,237</u>	<u>23,023</u>
<b>Current liabilities</b>			
Trade payables	10	2,275	6,326
Other payables		24,172	24,370
Bank loan		48,005	22,898
Other loans	11	57,260	1,633
Amount due to a minority equity holder of a subsidiary	12	1,920	1,920
		<u>133,632</u>	<u>57,147</u>
<b>Net current liabilities</b>		<u>(99,395)</u>	<u>(34,124)</u>
<b>Total assets less current liabilities</b>		<u>325,561</u>	<u>326,652</u>
<b>Non-current liabilities</b>			
Other loans	11	126,371	116,015
Amount due to ultimate holding company	13	10,000	10,000
Amounts due to related companies	14	13,714	15,271
Amounts due to minority equity holders of subsidiaries	15	63,520	57,905
		<u>213,605</u>	<u>199,191</u>
<b>Net assets</b>		<u>111,956</u>	<u>127,461</u>
<b>EQUITY</b>			
<b>Equity attributable to equity holders of the Company</b>			
Share capital		208,080	208,080
Reserves		(143,794)	(134,895)
		<u>64,286</u>	<u>73,185</u>
Minority interest		47,670	54,276
<b>Total equity</b>		<u>111,956</u>	<u>127,461</u>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June 2006

	Six months ended 30th June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Net cash used in operating activities	(16,021)	(1,638)
Net cash used in investing activities	(59,717)	(58,863)
Net cash generated from financing activities	<u>82,106</u>	<u>34,132</u>
Net increase/(decrease) in cash and cash equivalents	6,368	(26,369)
Cash and cash equivalents at 1st January	<u>10,587</u>	<u>36,331</u>
Cash and cash equivalents at 30th June	<u><b>16,955</b></u>	<u><b>9,962</b></u>
<b>Analysis of balances of cash and cash equivalents:</b>		
Deposits with banks	3,011	6,048
Cash at bank and on hand	<u>13,944</u>	<u>3,914</u>
	<u><b>16,955</b></u>	<u><b>9,962</b></u>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June 2006

	Equity attributable to equity holders of the Company					Minority interest	Total equity
	Share capital HK\$'000	Share premium HK\$'000	Accumulated losses HK\$'000	Share-based compensation reserve HK\$'000	Translation reserve HK\$'000	HK\$'000	HK\$'000
At 1st January 2006 (audited)	208,080	399,169	(535,231)	–	1,167	54,276	127,461
Loss for the period (unaudited)	–	–	(12,137)	–	–	(6,606)	(18,743)
Share-based compensation (unaudited)	–	–	–	3,238	–	–	3,238
<b>At 30th June 2006 (unaudited)</b>	<u><b>208,080</b></u>	<u><b>399,169</b></u>	<u><b>(547,368)</b></u>	<u><b>3,238</b></u>	<u><b>1,167</b></u>	<u><b>47,670</b></u>	<u><b>111,956</b></u>
At 1st January 2005 as restated (audited)	208,080	399,169	(521,211)	–	(118)	42,080	128,000
Loss for the period (unaudited)	–	–	(6,938)	–	–	(2,759)	(9,697)
<b>At 30th June 2005 (unaudited)</b>	<u><b>208,080</b></u>	<u><b>399,169</b></u>	<u><b>(528,149)</b></u>	<u><b>–</b></u>	<u><b>(118)</b></u>	<u><b>39,321</b></u>	<u><b>118,303</b></u>

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

### 1. Basis of preparation of financial statements and accounting policies

The unaudited condensed consolidated interim financial statements of the Group have 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 on The Stock Exchange of Hong Kong Limited. The condensed consolidated interim financial statements of the Group should be read in conjunction with the annual financial statements for the year ended 31st December 2005.

The accounting policies adopted and the basis of preparation used in the preparation of the interim financial statements are consistent with those used in the annual financial statements for the year ended 31st December 2005 except for the adoption of the amendments and interpretations issued by the HKICPA that are effective for accounting periods beginning on or after 1st January 2006. The effect of the adoption of these amendments and interpretations had no significant effect on the results and financial position of the Group for the six months ended 30th June 2006.

### 2. Revenue and segmental information

The Group is principally engaged in production and sales of coking coal products and side products and sales of jewellery products. An analysis of the Group’s revenue, segment results and loss for the periods by principal activities and markets was as follows:

	Revenue		Segment results	
	Six months ended 30th June		Six months ended 30th June	
	2006 (Unaudited) HK\$’000	2005 (Unaudited) HK\$’000	2006 (Unaudited) HK\$’000	2005 (Unaudited) HK\$’000
<b>Principal activities:</b>				
Sales of coal products	2,298	4,225	(8,330)	(5,116)
Sales of jewellery products	501	–	501	–
Unallocated expenses	–	–	(7,145)	(3,323)
	<u>2,799</u>	<u>4,225</u>	<u>(14,974)</u>	<u>(8,439)</u>
Finance costs			(3,769)	(62)
Share of results of associates			–	(1,196)
<b>Loss for the period</b>			<u>(18,743)</u>	<u>(9,697)</u>
<b>Principal markets:</b>				
The Mainland	2,298	4,225	(8,330)	(5,050)
Hong Kong	501	–	(6,644)	(3,389)
	<u>2,799</u>	<u>4,225</u>	<u>(14,974)</u>	<u>(8,439)</u>

### 3. Finance costs

	Six months ended 30th June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Interest charges on:		
Bank loans and overdrafts repayable within five years	1,647	1,505
Other loans wholly repayable within five years	<u>8,270</u>	<u>1,343</u>
Total borrowing costs	9,917	2,848
Less: Interest capitalised to construction in progress*	<u>(6,148)</u>	<u>(2,786)</u>
	<u><b>3,769</b></u>	<u><b>62</b></u>

\* The borrowing costs have been capitalized at rates of 6.00 % to 8.00% per annum (2005: 7.00% to 8.00% per annum).

### 4. Loss before income tax

	Six months ended 30th June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Loss before income tax is arrived at after charging/(crediting):		
Cost of inventories recognised as expense	27,763	3,667
Less: Provision for inventories written back upon disposal	<u>(25,750)</u>	<u>–</u>
Cost of sales	<u><b>2,013</b></u>	<u>3,667</u>
Staff costs (including directors' remuneration, share-based compensation expense and retirement benefits scheme contributions)	7,042	3,862
Share-based compensation expense	3,238	–
Retirement benefits scheme contributions	33	39
Depreciation of property, plant and equipment	1,380	1,361
Less: Amount capitalised to construction in progress	<u>(37)</u>	<u>–</u>
	<u><b>1,343</b></u>	<u>1,361</u>
Amortisation of operating lease prepayments	212	–
Operating leases charges in respect of land and buildings	317	109
Other operating expenses		
– exploration costs incurred for a potential mining project	1,406	894
– design fee and other professional fees incurred for a potential mining project	<u>1,356</u>	<u>658</u>
Other operating income		
– gain on disposal of property, plant and equipment	–	(40)
– bank interest income	<u>(163)</u>	<u>(127)</u>

## 5. Income tax expense

No provision for Hong Kong profits tax and the PRC income tax has been made in the interim financial statements in respect of the Company and its subsidiaries for the period (2005: NIL), as the Company and its subsidiaries either have substantial unrecognised accumulated tax losses brought forward which are available for setting off against current period's assessable profits or incurred tax losses for the period.

As at 30th June 2006, no deferred tax liabilities have been provided (2005: NIL) as the amount involved was immaterial and no deferred tax assets have been recognised (2005: NIL) in relation to the deductible temporary differences and unused tax losses as it is uncertain whether future taxable profit will be available against which the deductible temporary differences and tax losses can be utilised.

## 6. Loss per share

### (a) Basic

The calculation of basic loss per share is based on the consolidated loss attributable to the equity holders of the Company for the six months ended 30th June 2006 of HK\$12,137,000 (2005: HK\$6,938,000) and 2,080,800,000 (2005: 2,080,800,000) ordinary shares in issue during the period.

### (b) Diluted

No diluted loss per share has been presented as there were no dilutive potential ordinary shares in existence for the six months ended 30th June 2006 and 2005.

## 7. Property, plant and equipment

During the period, the Group acquired property, plant and equipment at costs of HK\$13,398,000 (2005: HK\$37,021,000) in relation to construction in progress for two coke plants of two subsidiaries.

## 8. Prepayments and deposits

Included in prepayments and deposits of the Group were (a) prepayment of HK\$96,010,000 (2005: HK\$48,005,000) paid by a subsidiary for a potential mining project; and (b) prepayments of HK\$76,217,000 (2005: HK\$72,619,000) paid by another two subsidiaries for construction and installation of certain property, plant and machinery in relation to two coke plants.

## 9. Trade receivables

General credit terms of the Group range from 60 to 90 days. At 30th June 2006, the ageing analysis of the trade receivables (net of specific provision for impairment of receivables) was as follows:

	<b>As at 30th June 2006 (Unaudited) HK\$'000</b>	As at 31st December 2005 (Audited) HK\$'000
0 – 30 days	2,605	6,819
31 – 90 days	–	–
Over 90 days	–	34
	<b>2,605</b>	<b>6,853</b>

Included in trade receivables of the Group amounted to HK\$2,597,000 (2005: HK\$6,839,000) denominated in Renminbi ("RMB").

## 10. Trade payables

At 30th June 2006, the ageing analysis of the trade payables was as follows:

	<b>As at 30th June 2006 (Unaudited) HK\$'000</b>	As at 31st December 2005 (Audited) HK\$'000
0 – 30 days	<u>2,275</u>	<u>6,326</u>

As at the balance sheet date, all of the trade payables of the Group were denominated in RMB.

## 11. Other loans

At 30th June 2006, other loans were repayable as follows:

	<b>As at 30th June 2006 (Unaudited) HK\$'000</b>	As at 31st December 2005 (Audited) HK\$'000
Current portion – within 1 year	57,260	1,633
Non-current portion – between 1 and 2 years	<u>126,371</u>	<u>116,015</u>
	<u><b>183,631</b></u>	<u><b>117,648</b></u>

At 30th June 2006, other loans, denominated in RMB, are unsecured and interest bearing at fixed rates ranging from 5.49% to 10.20% (2005: 5.49% to 10.20% per annum). As at 30th June 2006, interest payables of HK\$7,605,000 (2005: HK\$3,684,000) were accrued and are repayable together with the principal debts on the maturity dates.

## 12. Amount due to a minority equity holder of a subsidiary

The amount denominated in RMB, is unsecured, interest-free and repayable on demand.

## 13. Amounts due to ultimate holding company

The amount due to ultimate holding company is unsecured, interest-free and repayable on 31st December 2008 (2005: 14th August 2007).

## 14. Amounts due to related companies

The amounts due to related companies, denominated in RMB, in which a substantial equity holder of the Company who is also a director of the Company has beneficial interest, are unsecured, interest bearing at a fixed rate of 7.00% per annum (2005: 7.00% per annum) and are not expected to be settled within one year from the balance sheet date. During the six months ended 30th June 2006, interest expenses of HK\$364,000 (2005: HK\$358,000) were recognised in the interim financial statements. As at 30th June 2006, interest payable of HK\$1,233,000 (2005: HK\$869,000) was accrued and is repayable together with the principal debts.



## 15. Amounts due to minority equity holders of subsidiaries

The amounts of HK\$17,282,000 (2005: HK\$17,282,000) due to minority equity holders of subsidiaries are not expected to be settled within one year from the balance sheet date. The remaining amounts of HK\$41,545,000 (2005: HK\$37,705,000) due to minority equity holders of another subsidiary are repayable one year after production commences (As at 30th June 2006, production had not commenced). These amounts due to minority equity holders of subsidiaries, denominated in RMB, are unsecured and interest bearing at fixed rates ranging from 6.00% to 7.00% per annum (2005: 6.00% to 7.00% per annum). During the six months ended 30th June 2006, interest expenses of HK\$1,775,000 (2005: HK\$317,000) were recognised in the interim financial statements. As at 30th June 2006, interest payable of HK\$4,693,000 (2005: HK\$2,918,000) was accrued and is repayable together with the principal debts on the maturity dates.

## 16. Capital commitments

Capital commitments outstanding of the Group at 30th June 2006 not provided for in the interim financial statements were as follows:

	<b>As at 30th June 2006 (Unaudited) HK\$'000</b>	As at 31st December 2005 (Audited) HK\$'000
Contracted but not provided for:		
– capital expenditure in respect of acquisition of property, plant and equipment	<b>67,256</b>	70,364
– capital expenditure in respect of exploration and design fees for a potential mining project	<b>5,501</b>	6,509
	<b><u>72,757</u></b>	<b><u>76,873</u></b>

## 17. Operating lease commitments

At 30th June 2006, the total future minimum lease payments under non-cancellable operating leases of the Group in respect of land and buildings were payable as follows:

	<b>As at 30th June 2006 (Unaudited) HK\$'000</b>	As at 31st December 2005 (Audited) HK\$'000
Within one year	<b>633</b>	633
In the second to fifth years	<b>2,533</b>	2,533
After five years	<b>25,323</b>	25,640
	<b><u>28,489</u></b>	<b><u>28,806</u></b>

The Group leases certain land and buildings under operating lease arrangements for terms ranging from 47 to 50 years.

## 18. Related party transactions

The following transactions were carried out with related parties:

- (a) Details of borrowings from related parties are disclosed in notes 12 to 15 to the interim financial statements.
- (b) Key management personnel receive compensation in the form of fees, salaries, housing and other allowances, benefits in kind, share options and retirement scheme contribution.

Key management personnel compensation of the Group was summarised as follows:

	<b>Six months ended 30th June</b>	
	<b>2006 (Unaudited) HK\$'000</b>	2005 (Unaudited) HK\$'000
Wages and salaries	1,273	1,206
Share-based compensation expense	470	–
Retirement benefits scheme contributions	12	12
	<u>1,755</u>	<u>1,218</u>

## BUSINESS REVIEW

In the first half of the year, our turnover recorded approximately HK\$2.8million, which was attributable to coal trades of approximately HK\$2.3 million and jewellery sales of approximately HK\$0.5 million. Our two coke plants were still in the build phase, together with the granting of the share option during the period, the Group recorded a net consolidated loss attributable to the equity holders of the Company of approximately HK\$12.1 million for the period.

In China, the imbalance demand situation of raw materials tended to be stabilized relatively after the enforcement of cooling measures in recent years. However, both prices of coke and coal in the domestic market experienced an increasing trend since the second quarter of 2006 as international steel price index rose. The Group strongly believes that our core business will be on the rising trend as China GDP maintains its continuous growth rate. Also, in our view, the profit return generated from coal sector investment is optimistic if the oil price stays at the current level.

## FINANCIAL POSITION

### Material Acquisitions and Disposals

During the six months ended 30th June 2006, neither the Company nor any of its subsidiaries had any material acquisitions or disposals.

### Charges on Assets

At 30th June 2006, none of the Group's assets was charged or subject to any encumbrance.

## **Contingent Liabilities**

At 30th June 2006, except that the Group and two subsidiaries of a minority holder of the Group have given joint guarantees for an amount of approximately HK\$48,005,000 to a financial institution in favour of the lender of the Group for a loan denominated in RMB of approximately HK\$48,005,000, there was no guarantees given to any banks or financial institutions by the Group.

## **Gearing Ratio**

At 30th June 2006, the gearing ratio of the Group, which is computed from the Group's interest bearing liabilities divided by total equity, was approximately 285%. The borrowings were mainly used to finance the construction and installation of two coke plants of two subsidiaries in the PRC.

## **Exposure to Fluctuations in Exchange Rates**

At 30th June 2006, other than assets and liabilities denominated in Renminbi, the Group had no other material exposure to foreign exchange fluctuations.

## **Liquidity and Financial Resources**

At 30th June 2006, the Group's current ratio (current assets divided by current liabilities) was approximately 0.26 and the Group's cash and bank deposits amounted to HK\$16,955,000.

## **Staff**

The Group had 7 Hong Kong employees and 210 Mainland employees at 30th June 2006 with remuneration packages to be reviewed annually. The Group provides a mandatory provident fund scheme for Hong Kong employees and the state-sponsored retirement plan for Mainland employees. The Group has also adopted a share option scheme, details of which are set out below, since 20th June 2003.

## **INTERIM DIVIDEND**

The Directors do not recommend the payment of any interim dividend for the six months ended 30th June 2006.

## **FUTURE PROSPECTS**

The global economy remained strong with stable growth in the past 6 months despite interest hikes and increasing oil price. For the second half of the year, interest rates may have a possibility to remain steady through to the end of the year as inflation will ease. Economic environment is expected to be broadly favorable whilst high energy price stays.

With high economic growth, China continues to put forward the defined policies of shutting down the small and unqualified coke plants as well as coalmines to improve both safety working standards and environmental levels. Guidelines have been set to encourage sizable companies investing into coalmine industry to promote operation with economics of scale, safe production and improvement of resource utilisation. We have confidence and capabilities to run our investments in line with these clear regulations. In respect of the target mine investment, we are in the final process of submitting documents to the relevant government authorities for the obtaining of mining rights. The geological information of the mine survey is encouraging as indicated that the resources level was estimated to have rich in content which would support the feasibility to have a sizable coal production in future to maintain our competitive edge. We are also considering further investment into an operated coalmine when our financial situation is capable. The movement will facilitate the current recurring income fundamental as well as our long term aim in the energy sector for the Group.

## **DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS**

As at 30th June 2006, the interests and short positions of the directors and chief executives of the Company in the shares, debentures or underlying shares of the Company or any of its associated corporations (within the meaning of the Part XV of the Securities and Futures Ordinance (the "SFO") or which were required, pursuant to section 352 of the SFO to be entered in the register referred to therein or which were required to be 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 (the "Model Code") were as follows:

### **(i) Long positions in ordinary shares (HK\$0.10 each) of the Company:**

<b>Name of Director</b>	<b>Number of ordinary shares held</b>			<b>% of issued share capital of the Company</b>
	<b>Personal interests</b>	<b>Corporate interests</b>	<b>Total</b>	<b>Total</b>
Mr. Wong Lik Ping	90,750,000	1,149,200,000 <i>(Note)</i>	1,239,950,000	59.59%

*Note:* Mr. Wong Lik Ping is the beneficial owner of the entire issued share capital of China Merit Limited, which owned 1,149,200,000 ordinary shares in the Company as at 30th June 2006.

### **(ii) Options to subscribe for ordinary shares (HK\$0.10 each) of the Company:**

The directors of the Company have been granted unlisted options under the Company's share option scheme, details of which are set out in the section "Share Option Scheme" below.

Save as disclosed above, none of the directors and chief executives had any interest or short position in the shares, debentures or underlying shares of the Company or its associated corporations which were recorded in the register required to be kept under section 352 of the SFO or notified to the Company pursuant to the Model Code.

## **DIRECTORS' RIGHTS TO ACQUIRE SECURITIES**

Save as disclosed in the section "Share Option Scheme" below, at no time during the period was the Company, its holding company or any of its subsidiaries a party to any arrangements which enable a director or chief executive of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate and none of the directors or their spouses or their children under the age of 18 had any right to subscribe for the securities of the Company or had exercised any such rights.

## **SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS**

As at 30th June 2006, no other person, not being a director or chief executive of the Company, other than the directors or chief executives of the Company whose interests are set out in the sections "Directors' and Chief Executives' Interests and Short Positions" above and "Share Option Scheme" below, had an interest or short position in 5% or more of the issued share capital of the Company as recorded in the register required to be kept under section 336 of the SFO.

## **SHARE OPTION SCHEME**

At the annual general meeting of the Company held on 20th June 2003, the equity holders of the Company approved the adoption of a new option scheme (the "Scheme") to give the Directors the power to implement and administer the Scheme with effect from the date of passing of the resolution.

At 30th June 2006, the option holders of the Company had the following interest in unlisted options to subscribe for shares of the Company granted under the Scheme. The vesting period of the options is two years from the date of grant and the options are then exercisable within a period of next five years. Each option gives the option holder the right to subscribe for one ordinary share of HK\$0.10 each of the Company.

	No. of options granted during the period	No. of shares acquired on exercise of options during the period	No. of options outstanding at the period end	Grant date	Period during which options are exercisable	Exercise price per share
<b>Directors</b>						
Wong Lik Ping	2,000,000	–	2,000,000	26th April 2006	26th April 2008 to 25th April 2013	HK\$1.50
So Kwok Hoo	6,500,000	–	6,500,000	26th April 2006	26th April 2008 to 25th April 2013	HK\$1.50
Chan Pat Lam	800,000	–	800,000	26th April 2006	26th April 2008 to 25th April 2013	HK\$1.50
Choi Wai Yin	800,000	–	800,000	26th April 2006	26th April 2008 to 25th April 2013	HK\$1.50
Kee Wah Sze	800,000	–	800,000	26th April 2006	26th April 2008 to 25th April 2013	HK\$1.50
<b>Sub-total</b>	<u>10,900,000</u>	<u>–</u>	<u>10,900,000</u>			
<b>Employees</b>	78,500,000	–	78,500,000	26th April 2006	26th April 2008 to 25th April 2013	HK\$1.50
<b>Others</b>	14,600,000	–	14,600,000	26th April 2006	26th April 2008 to 25th April 2013	HK\$1.50
<b>Total</b>	<u>104,000,000</u>	<u>–</u>	<u>104,000,000</u>			

*Note:* Closing price per share immediately before the date of grant of options was HK\$1.34.

The fair value of the options granted in the current period, measured at the date of grant on 26th April 2006, totalled approximately HK\$38,858,000. As the options vest after two years from the date of grant on 26th April 2006, the amount will be recognised as a share-base compensation expense in the consolidated income statement over 2 years from 26th April 2006 to 25th April 2008. Thus, HK\$3,238,000 was recognised as a share-based compensation expense in the consolidation income statements with a corresponding credit in share-based compensation reserve for the six months ended 30th June 2006.

Using the Black-Scholes option pricing model, the following significant assumptions were used to derive the fair value of the options granted on 26th April 2006:

1. an expected volatility of 57.33%;
2. nil dividend yield;
3. the estimated weight average expected life of the options granted on 26th April 2006 is 2.1 years. The corresponding period Hong Kong Exchange Fund Notes interest rate at the date of the options granted was 4.27%; and
4. estimated turnover rates of the Mainland employees and Hong Kong employees are both 15%.

For the purposes of the calculation of fair value, no adjustment has been made in respect of options expected to be forfeited, due to the absence of historical data.

The Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price. Because changes in subjective input assumptions can materially affect the fair value estimate, in the director's opinion, the existing model does not necessarily provide a reliable single measure of the fair value of the share options.

Options which lapse or are cancelled prior to their exercise date are deleted from the registered of outstanding options.

## **PURCHASE, SALE OR REDEMPTION OF SECURITIES**

During the six months ended 30th June 2006, neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company.

## **AUDIT COMMITTEE**

The audit committee of the Company has reviewed the unaudited interim financial statements for the six months ended 30th June 2006.

## **CODE ON CORPORATE GOVERNANCE PRACTICES**

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30th June 2006, in compliance with the Code of Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities ("the Listing Rules") on The Stock Exchange, except the following deviation:

*Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term and subject to re-election.*

All non-executive directors of the Company are appointed for a specific term but are not subject to re-election on or before 16th June 2006. A special resolution in respect of the amendment to the Articles of Association of the Company has been passed at the annual general meeting held on 16th June 2006 to the effect that at each annual general meeting of the Company, one-third of the directors of the Company (including those appointed for a specific term) shall retire from office by rotation at least once every three years.

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

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its code of code of conduct regarding securities transactions by directors (the "Code of Conduct"). The Directors have made enquiry to all directors of the Company to confirm that they have complied with the Code of Conduct during the six months ended 30th June 2006.

By Order of the Board  
**SO Kwok Hoo**  
Executive Director

Hong Kong, 19th September 2006

*As at the date of this interim report, the executive directors of the Company comprise Mr. Wong Lik Ping, Mr. So Kwok Hoo and Mr. Li King Luk; the independent non-executive directors of the Company comprise Mr. Kee Wah Sze, Mr. Choi Wai Yin and Mr. Chan Pat Lam.*