



中國興業控股有限公司

China Investments Holdings Limited | Interim Report 2006

(Incorporated in Bermuda with limited liability)

(Stock Code: 132)



RESULTS

For the six months ended 30th June, 2006, the Group has recorded a turnover of HK\$174,671,000, representing a growth of 24% over the same period last year. After deducting depreciation of HK\$3,929,000 in hotel properties and additional accruals in virtual interests of HK\$3,210,000, the Group's profit in the first half year amounted to HK\$3,142,000.

BUSINESS REVIEW

Fiberboard Operations

In September 2005, the management adopted correct strategic decisions, actively making purchases and reserves in woods, thereby the fiberboard production lines were able to be in full operations in the first half year, thus reducing production costs and enhancing economic efficiency. At the same time, the continued researches and renovations in the process manufacturing technology have enhanced output and quality, and reduced material consumption and costs. In addition, leadership over the sales team has also been strengthened, reaching the equilibrium in production, supply and sales, and the satisfactory situation of remaining active in low seasons. As at 30th June, 2006, total output of fiberboards was 153,461 cubic meters, and total sales was 153,073 cubic meters, representing increase of 36% and 39% over the same period of last year respectively. Total sales amounted to HK\$164,070,000, representing an increase of 26% over the same period of last year, which has reversed the loss situation in the same period of last year, and achieved a profit of HK\$18,431,000.

Hotel Operations

Competition in the hotel market in Guilin was still keen, and a number of cheap hotels have commenced operation, thus intensifying competition in both customer sources and prices. The management has on the one hand been focusing on the construction of the sales team, and enhancing its sales efforts, on the other hand, renovations were made to the equipment facilities, which further controlled and saved costs. Average occupancy rate of hotels in first half year was 61.29%, which approximately equally to that in the same period last year, while turnover increased by 3% to HK\$9,868,000, which after deducting amortization in depreciation, loss of HK\$2,169,000 was recorded.

Property Investment

Upon active promotions to sluggish properties, the Group's overall rental incomes in the first half of the year amounted to HK\$733,000, representing an increase of 55% over the same period last year.

Financial Situation

As at 30th June, 2006, the Group had total assets of HK\$688,720,000 (31st December, 2005: HK\$678,111,000) and no bank loans (31st December, 2005: nil). Convertible notes due on 9th May, 2007 amounted to HK\$192,696,000 (31st December, 2005: HK\$189,487,000). Net assets amounted to HK\$353,530,000 (31st December, 2005: HK\$345,232,000). The gearing ratio was 27.9% (31st December, 2005: 27.9%).

As at 30th June, 2006, the convertible notes issued by the Group have repayment terms of less than one year, and have to be treated as current liabilities, leading to the Group's net current liabilities of HK\$35,206,000 (31st December, 2005: net assets of HK\$96,727,000), and the current ratio (being current assets divided by current liabilities) was reduced to 0.89 times (31st December, 2005: 1.67 times). The Group's bank deposits and cash amounted to approximately HK\$109,557,000 (31st December, 2005: HK\$81,505,000), representing an increment of HK\$28,052,000 during the period, which was mainly derived from a net cash inflow from operations of HK\$28,420,000. Therefore, the Group has prudently assessed the capital requirements in respect of the maturing convertible notes, and is now implementing the following effective measures to cope with the maturing debts:-

- 1) Enhance the Group's operation efficiency, so as to increase net cash inflow from operations;
- 2) Consider disposal of non-core operations for cash; and
- 3) Proactively seeking for new indebtedness and equity financing (such as additional banking facilities).

Based on the Group's currently available cash and implementation of the above measures, the Group considers that the Group will have sufficient resources to satisfy its financial commitments in the foreseeable future.

FOREIGN EXCHANGE EXPLOSURE

The Group mainly earned revenue and incurred cost in Hong Kong Dollar and Renminbi. The directors consider that the Group's foreign exchange risks are minimal.

PROSPECTS

Upon employing expertise and strengthening in corporate management, fiberboard operations have been operating well, with satisfactory efficiency achieved. The management will be dedicated in studying the opportunities of increasing the added-values of products and seeking for expansions, increasing market coverage of its fiberboard products, so as to further create high efficiency for the Company.

DIRECTORS' INTERESTS IN SHARES

As at 30th June, 2006, the interests and short positions of the Directors in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") as recorded in the register maintained by the Company pursuant to Section 352 of the SFO were as follows :

Name of Director	Number of shares of the Company	Nature of Interest	Notes	% of total issued share capital as at 30th June, 2006
Leung Siu Fai	151,610,779	Corporate	1	16.57%
Kam Hung Chung	58,971,428	Corporate	2	6.44%

Notes :

1. These shares were held by Mighty Management Limited which was wholly-owned by Mr. Leung Siu Fai.
2. These shares were held by Sintex Investment Limited in which Mr. Kam Hung Chung had 50% interest.

Save as disclosed above, none of the directors or the chief executives of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporation as recorded in the register required to be kept under section 352 of the SFO as at 30th June, 2006.

SUBSTANTIAL SHAREHOLDERS

As at 30th June, 2006, according to the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO, the persons who were interested in 5% or more in the shares and underlying shares of the Company are as follows :

Name	Number of shares	Number of underlying shares in derivative interests *	Notes	Capacity	Approximate percentage (in aggregate) of total issued share capital as at 30th June, 2006
Leung Siu Fai	151,610,779	—	1	Controlled corporation	16.57%
Mighty Management Limited	151,610,779	—	1	Beneficial owner	16.57%
Industrial and Commercial Bank of China	131,657,142	—		Beneficial owner	14.39%
Nam Keng Van Investment Co. Ltd.	89,271,895	32,592,592	2	—	13.32%
Lau Ming En	700,000	111,111,111		Beneficial owner	12.22%
Fung Kam Wing	—	111,111,111		Beneficial owner	12.14%
Topgrow Limited	—	92,592,592		Nominee for another person	10.12%
Wideco Investment Limited	—	92,592,592		Nominee for another person	10.12%
Delight View Enterprises Limited	—	74,074,074		Nominee for another person	8.10%

Name	Number of shares	Number of underlying shares in derivative interests *	Notes	Capacity	Approximate percentage (in aggregate) of total issued share capital as at 30th June, 2006
Kam Hung Chung	58,971,428	—	3	Controlled corporation	6.44%
Sintex Investment Limited	58,971,428	—	3	Beneficial owner	6.44%
Zhong Baoguo	58,971,428	—	3	Controlled corporation	6.44%
Oriental Trade Ltd.	55,555,555	—		Beneficial owner	6.07%
Success Digital International Limited	—	55,555,555		Beneficial owner	6.07%
Gearway Limited	—	55,555,555		Nominee for another person	6.07%
He Yongwen	48,917,142	—	4	Controlled corporation	5.35%
New City Holdings Limited	48,917,142	—	4	Beneficial owner	5.35%

* *being unlisted physically settled derivatives interests*

Notes:

1. These 151,610,779 shares were held by Mighty Management Limited which was wholly-owned by Mr. Leung Siu Fai.
2. These interests (including derivative interests in respect of 32,592,592 shares) were disclosed by Nam Keng Van Investment Co. Ltd.
3. These 58,971,428 shares were held by Sintex Investment Limited in which Mr. Kam Hung Chung had 50% interest and Mr. Zhong Baoguo had 50% interest.
4. These 48,917,142 shares were held by New City Holdings Limited which was wholly-owned by Mr. He Yongwen.

Save as disclosed above, no other parties were recorded in the register as having an interest in 5% or more of the issued share capital of the Company.

INTERIM DIVIDEND

The Board resolved not to declare an interim dividend for the six months ended 30th June, 2006 (2005: nil).

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

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

EMPLOYEES

The total number of employees of the Group is approximately 1,140.

The remuneration of each employee of the Group is determined on the basis of his or her responsibility and performance. The Group provides education allowances to the employees.

CORPORATE GOVERNANCE

The Company placed great emphasis in corporate governance, and reviewed and strengthened measures in corporate governance from time to time. The Company has adopted all the provisions under the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Listing Rules as its own code on corporate governance practices. The Company has been in compliance with all the provisions under the Code during the accounting period covered within this announcement.

Code for securities transactions by Directors

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by directors. On specific enquiries made, all directors have confirmed that, in respect of the six months ended 30th June, 2006, they have complied with the required standard as set out in the Model Code.

LIST OF DIRECTORS

As at the date of this report, the board of directors of the Company comprises of the following directors:

Executive Directors

Leung Siu Fai (*Chairman*)
You Guang Wu (*Vice Chairman*)
Kam Hung Chung (*Managing Director*)
Wang Jin Yuan

Independent Non-Executive Directors

Chan Kwok Wai
Chen Da Cheng
Deng Hong Ping

By Order of the Board
Leung Siu Fai
Chairman

Hong Kong, 21st September, 2006

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June, 2006

	Notes	Six months ended 30th June,	
		2006	2005
		HK\$'000	HK\$'000
		(unaudited)	(unaudited)
Turnover	3	174,671	140,403
Cost of sales and services		(145,554)	(133,651)
Gross profit		29,117	6,752
Other income		790	2,994
Selling and distribution costs		(317)	(280)
Administrative expenses		(20,015)	(20,448)
Impairment loss on goodwill		—	(7,604)
Finance costs		(4,203)	(4,065)
Profit/(loss) before taxation		5,372	(22,651)
Income tax expense	4	(2,230)	—
Profit/(loss) for the period	5	3,142	(22,651)
Profit/(loss) per share	7		
Basic		HK0.34cents	(HK2.48cents)
Diluted		N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th June, 2006

	Notes	30.6.2006 HK\$'000 (unaudited)	31.12.2005 HK\$'000 (audited)
Non-current assets			
Investment properties	8	18,900	18,900
Property, plant and equipment	8	255,560	256,803
Properties held for development		—	48,000
Leasehold land and land use rights	9	24,396	24,409
Goodwill	10	89,880	89,880
		<u>388,736</u>	<u>437,992</u>
Current assets			
Properties held for sale		104,600	104,600
Inventories		35,699	39,936
Trade and other receivables	11	50,125	14,077
Financial assets at fair value through profit or loss		3	1
Time deposit		10,000	—
Bank balances and cash		99,557	81,505
		<u>299,984</u>	<u>240,119</u>
Current liabilities			
Trade and other payables	12	97,549	88,488
Deposit received on disposal of properties held for development		—	9,623
Tax payable		6,945	7,281
Provision for loss in litigation		38,000	38,000
Convertible notes		192,696	—
		<u>335,190</u>	<u>143,392</u>
Net current (liabilities)/assets		<u>(35,206)</u>	<u>96,727</u>
		<u>353,530</u>	<u>534,719</u>
Capital and reserves			
Share capital	13	91,500	91,500
Reserves		262,030	253,732
		<u>353,530</u>	<u>345,232</u>
Non-current liabilities			
Convertible notes	14	—	189,487
		<u>353,530</u>	<u>534,719</u>

CONDENSED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2006

	Share capital	Share premium	Convertible notes reserve	Hotel property revaluation reserve	Exchange reserve	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January, 2005	91,500	426,372	30,545	90,294	(57,217)	(256,396)	325,098
Surplus on revaluation of hotel properties	—	—	—	7,500	—	—	7,500
Release of revaluation reserve of hotel properties	—	—	—	(4,252)	—	4,252	—
Exchange differences arising on translation of foreign operations	—	—	—	—	1,765	—	1,765
Profit for the year	—	—	—	—	—	10,869	10,869
At 31st December, 2005 and 1st January, 2006	91,500	426,372	30,545	93,542	(55,452)	(241,275)	345,232
Surplus on revaluation of hotel properties	—	—	—	3,929	—	—	3,929
Release of revaluation reserve of hotel properties	—	—	—	(2,228)	—	2,228	—
Exchange differences arising on translation of foreign operations	—	—	—	—	1,227	—	1,227
Profit for the period	—	—	—	—	—	3,142	3,142
At 30th June, 2006	91,500	426,372	30,545	95,243	(54,225)	(235,905)	353,530

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June, 2006

	Six months ended 30th June,	
	2006	2005
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Net cash generated from operating activities	28,420	15,068
Net cash used in investing activities	(10,392)	(1,279)
Net cash used in financing activities	—	—
	<hr/>	<hr/>
Net increase in cash and cash equivalents	18,028	13,789
Cash and cash equivalents at beginning of period	81,505	35,958
Effect of foreign exchange rate changes	24	—
	<hr/>	<hr/>
Cash and cash equivalents at end of period, represented by bank balances and cash	<u>99,557</u>	<u>49,747</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30th June, 2006

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the 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”) and with Hong Kong Accounting Standard 34 (“HKAS 34”) Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

The condensed consolidated interim financial statements have not been audited by the Company’s auditors but have been reviewed by the Company’s audit committee and auditors.

In preparing the condensed financial statements, the directors of the Company (the “Director”) have given consideration to the liquidity of the Group in light of its net current liabilities of HK\$35,206,000 as at 30th June, 2006. The Directors are taking active steps to improve the liquidity position of the Group. Included in the condensed consolidated balance sheet at 30th June, 2006 are convertible notes of HK\$192,696,000, at fair value. The Company is making arrangement for the funds required for settlement of those convertible notes, should they were not converted into shares of the Company and, the Directors are confident that the Group will be able to meet in full its financial obligations that fall due for the foreseeable future.

In addition, as explained in note 16 to the financial statements, the Group is currently engaged in certain litigations. The Group has denied and will continue to deny liability and contest against those claims vigorously. Based on the opinion of the Group’s legal advisors, the Directors consider that those claims will not have any material adverse impact on the business operations and financial position of the Group. Accordingly, the condensed financial statements have been prepared on a going concern basis.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at fair values or revalued amounts, as appropriate.

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st December, 2005.

In the current interim period, a number of new standards, amendments and interpretations have been issued by the HKICPA, which are effective for accounting periods beginning on or after 1st December, 2005 or 1st January, 2006 respectively.

The following new standards, amendments to standards and interpretations which are relevant to Group's operations are mandatory for financial year ending 31st December, 2006.

HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures
HKFRS 21 (Amendment)	The effects of changes in foreign exchange rates
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions
HKAS 39 (Amendment)	The fair value option
HKAS 39 & HKFRS 4	Financial guarantee contracts (Amendment)
HK(IFRIC) - Int 4	Determining whether an arrangement contains a lease

The adoption of the new standards, amendments and interpretations had no material effect on how the results for the current and/or prior accounting periods are prepared and presented. Accordingly, no prior period adjustment has been required.

2. PRINCIPAL ACCOUNTING POLICIES - continued

Potential impact arising from the recently issued Accounting Standards

The following new standards, amendments to standards and interpretations have been issued but are not effective for the year ending 31st December, 2006 and have not been early adopted by the Group:

HKAS 1 (Amendment)	Capital disclosures ¹
HKFRS 7	Financial instruments: Disclosures ¹
HK(IFRIC) - Int 7	Applying the restatement approach under HKAS 29 Financial reporting in hyperinflationary economies ²
HK(IFRIC) - Int 8	Scope of HKFRS 2 ³
HK(IFRIC) - Int 9	Reassessment of embedded derivatives ⁴

¹ Effective for annual periods beginning on or after 1st January, 2007

² Effective for annual periods beginning on or after 1st March, 2006

³ Effective for annual periods beginning on or after 1st May, 2006

⁴ Effective for annual periods beginning on or after 1st June, 2006

The directors of the Company anticipate that the application of these standards, amendments or interpretations will have no material impact on the financial statements of the Group.

3. SEGMENT INFORMATION

	Six months ended 30th June,			
	2006		2005	
	Segment		Segment	
Turnover	results	Turnover	results	
<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	
<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>
By business segments:				
Fiberboard and veneer	164,070	18,431	130,319	(4,697)
Hotel operations	9,868	(2,169)	9,612	(1,981)
Property investment	733	504	472	276
	<u>174,671</u>	<u>16,766</u>	<u>140,403</u>	<u>(6,402)</u>
Interest income		534		146
Unrealised holding gain on financial assets at fair value through profit or loss		2		—
Unallocated corporate expenses		(7,727)		(12,330)
Finance costs		(4,203)		(4,065)
Profit/(loss) before taxation		5,372		(22,651)
Income tax expenses		(2,230)		—
Profit/(loss) for the period		<u>3,142</u>		<u>(22,651)</u>

3. SEGMENT INFORMATION - continued

	Six months ended 30th June,			
	2006		2005	
	Segment	Segment	Segment	Segment
Turnover	results	Turnover	results	results
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
By geographical segments :				
The People's Republic of China, other than Hong Kong	174,148	16,452	139,931	(6,675)
Hong Kong	523	314	472	273
	<u>174,671</u>	<u>16,766</u>	<u>140,403</u>	<u>(6,402)</u>
Interest income		534		146
Unrealised holding gain on financial assets at fair value through profit or loss		2		—
Unallocated corporate expenses		(7,727)		(12,330)
Finance costs		(4,203)		(4,065)
Profit/(loss) before taxation		5,372		(22,651)
Income tax expenses		(2,230)		—
Profit/(loss) for the period		<u>3,142</u>		<u>(22,651)</u>

4. TAXATION

	Six months ended 30th June,	
	2006	2005
	HK\$'000	HK\$'000
	<i>(unaudited)</i>	<i>(unaudited)</i>

The charges comprises:

Current tax – Provision for PRC enterprises income tax

	2,230	—
	2,230	—

No provision for Hong Kong Profits Tax has been made in the financial statements as the Company and its subsidiaries have no assessable profits for both periods.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

One of the Group's PRC subsidiary was in tax holiday and exempted from PRC enterprise income tax for the first two years starting from its first profit-making year followed by a 50% reduction for the next three years.

The tax credit for the period can be reconciled to the profit/(loss) before taxation per the consolidated income statement as follows:

	Six months ended 30th June,	
	2006	2005
	HK\$'000	HK\$'000
	<i>(unaudited)</i>	<i>(unaudited)</i>

Profit/(loss) before taxation	5,372	(22,651)
	5,372	(22,651)

Tax at the domestic income tax rates applicable to profit in the respective country

	3,511	(3,667)
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Tax effect of non deductible expenses	742	3,042
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Tax effect of non taxable revenue	(56)	(105)
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Tax effect of tax deductible not recognised	(113)	(590)
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Effect of tax exemptions granted to

PRC subsidiaries	(3,902)	—
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Tax effect of tax loss for the year	2,048	1,320
	2,048	1,320

Tax effect for the year	2,230	—
	2,230	—

4. TAXATION - continued

At the balance sheet date, the Group has unused estimated tax losses of HK\$14,412,000 (2005: HK\$14,412,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the estimated tax losses due to the unpredictability of future profit streams.

The revaluation surplus for the year arising on the revaluation of properties of the Group does not constitute a timing difference. Therefore, deferred tax has not been recognised in respect of the valuation surplus relating to properties.

5. PROFIT/(LOSS) FOR THE PERIOD

Profit/(loss) for the period has been arrived at after charging/(crediting):

	Six months ended 30th June,	
	2006	2005
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Staff cost	12,796	10,910
Retirement benefit scheme contributions	682	680
Depreciation of property, plant and equipment	6,913	9,219
Amortization of land use right	273	267
Impairment loss on goodwill	—	7,604
Unrealised holding gain on financial assets at fair value through profit or loss	(2)	—
	<u> </u>	<u> </u>

6. DIVIDENDS

The Board does not declare any interim dividend for the six months ended 30th June, 2006 (2005: Nil).

7. PROFIT/(LOSS) PER SHARE

The calculation of basic profit/(loss) per share is based on the profit of HK\$3,142,000 (30th June, 2005: a loss of HK\$22,651,000) and on 914,995,817 ordinary shares (30th June, 2005: 914,995,817 ordinary shares) in issue during the period.

No diluted profit/(loss) per share has been presented for the period because the exercise of conversion of the Company's outstanding convertible notes would result in an increase in profit per share (2005: decrease in loss per share) from continuing ordinary operations for the periods.

8. MOVEMENTS IN INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

The Group's hotel property and investment properties were revalued at 30th June, 2006 by Associated Surveyors & Auctioneer Ltd., an independent firm of professional valuers, on an open market value basis. There was no revaluation surplus or deficit arising from the revaluation in respect of the investment properties as at 30th June, 2006. Consequently, no revaluation surplus or deficit has been recognised in the current period.

At 30th June, 2006, the carrying amounts of the Group's hotel property were carried at revalued amounts and were subject to depreciation. This valuation gave rise to revaluation surplus of HK\$ 3,929,000, which has been directly credited to the hotel property revaluation reserve and hotel revaluation reserve has released HK\$2,228,000 to accumulated loss in current period.

9. LEASEHOLD LAND AND LAND USE RIGHT

The group's interests in leasehold land and land use rights represent prepaid operating lease payments. The leasehold land is held outside Hong Kong and with a lease term between 10 to 50 years.

10. GOODWILL

The goodwill is arising on acquisitions on subsidiaries in 2002.

The Group's goodwill was revalued at 30th June, 2005. Valuation was made on the basis of open market value by Associated Surveyors & Auctioneers Ltd., an independent firm of professional valuers.

At 30th June, 2006 the directors considered the carrying amounts of the Group's goodwill carried at the revalued amounts and estimated that the carrying amounts as at 30th June, 2006 do not differ significantly from the open market value of those goodwill as at 31st December, 2005. Consequently, no impairment has been charged to the income statement in current period.

11. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 90 days to its trade customers. The following is an ageing analysis of the Group's trade receivables at the reporting date:

	30.6.2006	31.12.2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>	<i>(audited)</i>
0-60 days	3,494	3,070
61-90 days	428	750
91-120 days	68	299
Over 120 days	1,663	1,552
	<hr/>	<hr/>
Trade receivables	5,653	5,671
Other receivables	44,472	8,406
	<hr/>	<hr/>
	50,125	14,077
	<hr/> <hr/>	<hr/> <hr/>

The fair value of the Group's accounts receivable and other receivables at 30th June, 2006 equal approximately to the corresponding carrying amounts.

12. TRADE AND OTHER PAYABLES

The following is an ageing analysis of the Group's trade payables at the reporting date:

	30.6.2006 <i>HK\$'000</i> <i>(unaudited)</i>	31.12.2005 <i>HK\$'000</i> <i>(audited)</i>
0-60 days	8,744	8,656
61-90 days	1,881	1,562
91-120 days	209	199
Over 120 days	6,033	4,516
Trade payables	<u>16,867</u>	<u>14,933</u>
Other payables	<u>80,682</u>	<u>73,555</u>
	<u><u>97,549</u></u>	<u><u>88,488</u></u>

The fair value of the Group's accounts payable and other payables at 30th June, 2006 equal approximately to the corresponding carrying amounts.

13. SHARE CAPITAL

	Number of shares		Nominal value	
	30.6.2006 <i>(unaudited)</i>	31.12.2005 <i>(audited)</i>	30.6.2006 <i>HK\$'000</i> <i>(unaudited)</i>	31.12.2005 <i>HK\$'000</i> <i>(audited)</i>
Ordinary shares of HK\$0.10 each				
Authorised:	<u>3,000,000,000</u>	<u>3,000,000,000</u>	<u>300,000</u>	<u>300,000</u>
Issued and fully paid:	<u>914,995,817</u>	<u>914,995,817</u>	<u>91,500</u>	<u>91,500</u>

14. CONVERTIBLE NOTES

On 9th May, 2002, the Group issued HK\$230,000,000 convertible notes (the "Notes") which are due on 9th May, 2007 (the "Maturity Date"), bear interest at 1% per annum and in units of HK\$1,000,000 each. The Notes are convertible at the discretion of the holders of the Notes, at any time upon the expiry of 6 months from the date of issue of the Notes up to, and including, its Maturity Date in whole or in part into shares of HK\$0.10 each in the Company at an initial conversion price of HK\$0.27 per share, subject to adjustment.

During the period, no Notes were converted into shares of the Company.

The Company will have to repay the principal moneys outstanding under the Notes to the holders of the Notes on the Maturity Date together with all interest accrued thereon up to, and including, the Maturity Date should the Notes were not converted into shares of the Company.

Convertible notes issued by the Company that contain both financial liability and equity components are classified separately into respective liability and equity components on initial recognition at fair value. The fair value of the liability component is determined by using the cash flows discounted at a rate based on the borrowing rate of 4.5%.

The movement of the liability component of the Notes for the period is set out below:

	30.6.2006 <i>HK\$'000</i> <i>(unaudited)</i>	31.12.2005 <i>HK\$'000</i> <i>(audited)</i>
Liability component		
Balance brought forwards	189,487	183,230
Interest charge	4,203	8,245
Interest paid	(994)	(1,988)
	<hr/>	<hr/>
Balance carried forwards	<u>192,696</u>	<u>189,487</u>

15. OPERATING LEASE ARRANGEMENTS

The Group as lessee

At 30th June, 2006, the Group had outstanding lease commitments for future minimum lease payments under non-cancellable operating lease in respect of rented premises and plant and machinery, which fall due as follows:

	30.6.2006 <i>HK\$'000</i> <i>(unaudited)</i>	31.12.2005 <i>HK\$'000</i> <i>(audited)</i>
Within one year	9,169	17,364
In the second to fifth years inclusive	1,135	973
	<u>10,304</u>	<u>18,337</u>

The Group as lessor

At 30th June, 2006, the Group had contracted with tenants for the following future minimum lease payments:

	30.6.2006 <i>HK\$'000</i> <i>(unaudited)</i>	31.12.2005 <i>HK\$'000</i> <i>(audited)</i>
Within one year	263	292
In the second to fifth years inclusive	—	—
	<u>263</u>	<u>292</u>

16. CONTINGENT LIABILITIES

- a. On 16th January, 2004, the Company's subsidiaries Nanhai Heng Da Timber Company Limited ("Heng Da") and Nanhai Jia Shun Timber Company Limited ("Jia Shun") both received summons issued by the Intermediate People's Court of Foshan City, Guangdong Province, the People's Republic of China (the "Court") regarding a bank loan contract dated 23rd May, 2003 entered into between Nanhai Heng Yi Timber Company Limited ("Heng Yi"), an independent third party, as borrower and the Shenzhen Development Bank Foshan Branch (the "Claimant") as lender in relation to a loan facility in a sum of RMB40 million (equivalent to approximately HK\$38 million) and that the Claimant has advanced such loan to Heng Yi. The summons also included a guarantee dated 23rd May, 2003 entered into by, among others, Jia Shun, Heng Da and Nanhai Hua Guang Decorative Board Company Limited ("Hua Guang") in favour of the Claimant in relation to such loan (the "Claims"). As the operations of Hua Guang were suspended and Hua Guang was one of the guarantors in relation to the bank loan, Jia Shun and Heng Da, among others, should make full repayment of the loan and interest thereon before maturity under the bank loan contract.

Jia Shun and Heng Da had reported to the Public Securities Bureau in Nanhai, PRC on 23rd March, 2004 that, among other things:

- (i) without the knowledge of board of directors of the Company and the respective board of directors of Jia Shun and Heng Da, the company chops of Heng Da and Jia Shun, and the name chop of Mr. Sun Pak Fun, the then legal representative and chairman of board of directors of Jia Shun and Heng Da, were affixed to the aforesaid guarantees;
- (ii) neither Jia Shun nor Heng Da had any record recording any details of the aforesaid guarantees; and
- (iii) the claims were suspected to involve criminal offence.

Based on the above, the Group will deny liability and contest the Claims vigorously. The Directors consider that the Claimant does not have any valid claim against Heng Da and Jia Shun in relation to the Claims, and they strongly believe that the Group can successfully defend against the Claims.

The legal proceedings in relation to the above claims were suspended by the Intermediate Court on 26th February, 2004. As at the date hereof, the Group has not received notice issued by any relevant PRC court to resume such legal proceedings.

16. CONTINGENT LIABILITIES - continued

- b. The Court issued to each of Jia Shun and Heng Da a summons both dated 17th October, 2005 to request Jia Shun and Heng Da to attend the interlocutory hearings which were held by the Court on 23rd November, 2005, in relation to two alleged claims initiated by the Claimant against Jia Shun and Heng Da as follows:
- (i) the Claimant alleged that a bank loan contract dated 11th October, 2002 was entered into between Jia Shun as borrower and the Claimant as lender in relation to a loan amount in the sum of RMB30,000,000 (equivalent to approximately HK\$28,846,000) (“First Alleged Claim”); and
 - (ii) the Claimant alleged that a bank loan contract dated 11th October, 2002 was entered into between Heng Da as borrower and the Claimant as lender in relation to a loan amount in the sum of RMB20,000,000 (equivalent to approximately HK\$19,231,000) (“Second Alleged Claim”).

Based on the fact finding and investigation conducted by Jia Shun and Heng Da with the assistance of its PRC lawyers, it appeared that:

- (i) without the knowledge of the Board and the respective boards of directors of Jia Shun and Heng Da, the company chops of Jia Shun and Heng Da and a forged name chop of Mr. Sun Pak Fun (a former executive director of the Company and joint chairman of the Board who resigned on 26th November, 2003, and the former legal representative and chairman of Jia Shun and Heng Da who resigned on 26th November, 2003) were allegedly affixed to the aforesaid bank loan contracts;
- (ii) neither Jia Shun nor Heng Da had received any sum of money representing the RMB30,000,000 loan and RMB20,000,000 loan respectively, and the Claimant had not provided sufficient cogent evidence to show that such bank loans were in fact received by Jia Shun and Heng Da; and
- (iii) the aforesaid bank loan contracts and other related documents under the First Alleged Claim and the Second Alleged Claim were suspected to be falsified.

16. CONTINGENT LIABILITIES - continued

On 9th November, 2005, Jia Shun and Heng Da reported to the Public Security Bureau in Nanhai, the PRC, among other things, that the respective subject loans of the First Alleged Claim and the Second Alleged Claim involved illegal appropriation by unknown third party of Jia Shun and Heng Da's names and Mr. Sun Pak Fun's name chop and signature. It was later found that, based on the confession to the police made by the Claimant's branch manager and certain people controlled by Mr. Feng that:

- (i) the First and the Second Alleged Claims were fictitious transactions created by the Claimant and an enterprise controlled by Mr. Feng,
- (ii) the documents for the loan application were forged by the Claimant, and
- (iii) the proceeds from the alleged loans were used to settle the then existing loans borrowed by enterprises controlled by Mr. Feng from the Claimant.

The Company has engaged PRC lawyers who on behalf of Jia Shun and Heng Da, had:-

- (i) obtained a statement from Mr. Sun Pak Fun dated 1st November, 2005, which he confirmed, among other things, according to his knowledge, the aforesaid bank loan contracts did not exist and Jia Shun or Heng Da has never received the sum representing the alleged loans. Mr. Sun Pak Fun also confirmed that the signature and name chop that were allegedly affixed to the aforesaid bank loan contracts and appeared therein as his own were in fact forged;
- (ii) filed a defence to court in denying liability on 2nd November, 2005;
- (iii) applied to court for extension in period for obtaining further evidence and such application was granted to obtain further evidence as soon as possible with no specified due date; and
- (iv) attended the interlocutory hearings held by the Court on 23rd November, 2005.

16. CONTINGENT LIABILITIES - continued

Jia Shun and Heng Da received the respective written judgements of the first instance from the Intermediate Court on 28th August, 2006, whereby the Intermediate Court held that both Jia Shun and Heng Da are liable to repay the alleged loans amount in the sum of RMB30,000,000 and RMB20,000,000 respectively together with accrued interest to the Claimant, which in aggregate amounted to an equivalent of HK\$58,321,000. Upon receiving the judgments, Jia Shun and Heng Da had promptly engaged PRC lawyers to look into the matters and respective appeals were filed with the High Court on 11th September, 2006 to appeal against such written judgments of first instance. Based on the legal opinion issued by PRC lawyers, according to the laws of the PRC as at the date hereof, a written judgment of the first instance is only a preliminary hearing and such a judgment cannot be enforced once an appeal is filed against such a judgment. The aforesaid written judgements of the first instance therefore become invalid.

Based on the legal opinions of PRC lawyers engaged for each of the Claims, and the facts finding and investigations conducted so far by Jia Shun and Heng Da and PRC lawyers, it has appeared that:- i) the respective boards of directors of Jia Shun and Heng Da and the Board had never discussed or approved any of the alleged loans and the relevant guarantees; ii) without the knowledge of the respective boards of directors of Jia Shun and Heng Da and the Board, the alleged company chops of Jia Shun and Heng Da and the alleged Mr. Sun's name chop and signature (as the case may be), were affixed to certain bank loan contracts and guarantees. Mr. Sun has confirmed in his statements that his name chop and signature (as the case may be) that were allegedly affixed to certain bank loan contracts and guarantees were in fact forged. All such acts being suspected to involve forgery of documents; and iii) none of the alleged loans had ever been deposited into any of Jia Shun's and/or Heng Da's bank accounts. The Company is of the view that the Claims were in fact a conspiracy to defraud among certain staff of the Claimant and certain enterprises controlled by Mr. Feng. The Group will continue to contest vigorously against the Claims.

Based on the legal opinion of the PRC lawyers, the Directors consider that the Claimant does not have any valid claim against Jia Shun and Heng Da in relation to the First Alleged Claim and the Second Alleged Claim, and they believe that the Group can successfully defend against both claims. Thus, the Group has contested and will continue to contest against the First Alleged Claim and the Second Alleged Claim vigorously. Accordingly, the board will not make any provision on loss in litigation in respect of the Alleged claims. At present, the Board anticipates that the respective Alleged claims will not cause any material adverse impact on the business operations and financial position of the Group.

16. CONTINGENT LIABILITIES - continued

- c. The Group had a maximum contingent consideration of HK\$48,000,000 in respect of the acquisition of the entire issued share capital of Can Manage. However, as the vendor being uncontactable, the Directors have been unable to ascertain whether this amount has been properly dealt with, which will become payable, among others, when the consolidated net profit of Can Manage and its subsidiary, namely Jia Shun, achieved an amount of HK\$80,000,000. However, the operation of Jia Shun was suspended during the period from 17th August, 2003 to 10th October, 2003 due to a failure in the supply of electricity and steam from the power plant operated under the power supply agreement and a court order dated 19th August, 2003 to freeze Jia Shun's assets in relation to an alleged claim from the Shenzhen Development Bank Foshan Branch. In addition, the production facilities were substantially different from those prior to the suspension. In view of all the above incidences, couple with the fact that the vendor was not contactable up to the date of this report, the directors could not reasonably ascertain the amount of contingent consideration, if any, which has to be paid to the vendor.

17. COMMITMENTS

As at 30th June, 2006, the Group was committed to capital expenditure of HK\$1,593,781 for the completion of its environmental renovation project.

18. EVENT AFTER THE BALANCE SHEET DATE

On 6th February, 2005, the Group entered into a land use right transfer agreement (“Principal Agreement”) with an independent third party for the disposal of the property under development, a piece of land (the “Sales Land”) situated in District No.18 Jiangbei, Huizhou, Guangdong Province, PRC, held by Wise Lite Limited, Skyway Limited and Fairwind International Limited at a consideration of RMB51,000,000.

Owing to the fact that certain squatters are unlawfully occupying the Sales Land, the Group is obliged to evacuate the squatters in order to complete the sale. As it takes time to do so, the Group had entered into a supplemental agreement with the Purchasers to amend the payment terms of the Principal Agreement and set the deadline for evacuation the squatters.

On 31st July, 2005, the Group entered into a Further Supplemental Agreement with the Purchaser that the Purchaser agreed to further extend the deadline for evacuation of the squatters from the Sales Land until the date on which the Group had evacuated the squatters from the Sales Land, upon which the Purchaser shall make the balance payment to the Group.

As at the balance sheet date, the squatters have not yet been evacuated from the Sales Land and the balance payment of RMB40,800,000 was recorded as other receivable.