

## BUSINESS REVIEW

On 30 March 2006, the Company and Dragon Hill Development Limited (“Dragon Hill”) jointly announced that Magnum (Guernsey) Limited (“MGL”)(former immediate holding company of the Company) and Dragon Hill have entered into a share sale agreement (“Share Sale Agreement”), pursuant to which, MGL has conditionally agreed to sell and Dragon Hill has conditionally agreed to purchase a total of 316,973,680 issued shares of the Company, representing 51.54% equity interest in the Company. The details of the Share Sale Agreement and other related agreements were set out in the Company’s announcement dated 30 March 2006 and the Company’s circular dated 29 April 2006.

On 23 May 2006, the Company and Dragon Hill jointly announced that all the resolutions relating to the conditions of the Share Sale Agreement were approved by the independent shareholders at the special general meeting held on the same date. The details of the results and resolutions of the Special General Meeting can be referred to the announcement of 23 May 2006.

As a result of the changes mentioned above, for the six months ended 30 June 2006, the Group recorded a gain of HK\$12.9 million from the disposal of the Lismore Group and a gain of HK\$20.1 million on the waiver of loan advances and related interest by former holding companies and a former fellow subsidiary, details of which are set out in notes 8 and 5(ii) to the interim report, respectively.

The revenue from securities dealing dropped to HK\$1.6 million as compared to that of the six months ended 30 June 2005. Such decrease is mainly due to intense competition of local security houses and retail banks which adversely affected the market share of the group.

The segment of securities investment recorded a contribution of HK\$0.6 million for the six months ended 30 June 2006 (nil for the six months ended 30 June 2005). Management will regularly review its corporate strategies and seek for opportunities to explore its prospect and develop this segment.

## **FUTURE PROSPECTS**

The Hong Kong security market has been changing rapidly in these few years which in turn, will affect our securities dealing business. With the withdrawal of minimum commission and more retail banks participate in securities business, it will be a challenge for all local security houses. The management is exploring different ways to retain our existing clients and to broaden our client base.

The Group is also constantly looking for new business opportunities. As the economy gradually improves and market sentiment picks up, the Board believes the Group can achieve better results in the second half of the year ahead.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Comment on segment information**

During the period under review, the turnover of the securities brokering business accounted for over 36% of the turnover of the Group. Geographically, the turnover generated by businesses in Hong Kong accounted for all the turnover of the Group.

### **Liquidity and capital structure**

There was no long-term and bank borrowings as at 30 June 2006 and 30 June 2005. The cash and cash equivalents as at 30 June 2006 were held in Hong Kong dollars, United States dollars and Philippines pesos.

### **Exposure to fluctuation in exchange rates**

Since the Group's main business is securities brokering in Hong Kong, its exposure to fluctuations in exchange rates and currencies is minimal.

### **Remuneration of employees**

At 30 June 2006, the Group had 21 employees, including directors. The Group continuously recruits new sales and marketing staff. The remuneration of employees is reviewed annually. Staff benefits include a medical scheme, provident fund, a share option scheme and a discretionary bonus based on performance.



## DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30th June 2006, the interests and short positions of the directors of the Company in the shares and underlying shares of the Company or 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 by the Company under section 352 of the SFO or as notified to the Company pursuant to the Model Code for Securities Transactions by Directors of Listed Companies "Model Code" were as follows:-

### Long Positions in Ordinary Shares of the Company

<u>Name of director</u>	<u>Capacity</u>	<u>Number of ordinary shares</u>	<u>Percentage of the Company's issued share capital</u>
Lee Shing	Through controlled corporation (Note 1)	316,973,680	51.54%

Note 1: The 316,973,680 ordinary shares are owned by Dragon Hill Development Limited, a company wholly-owned by Mr Lee Shing.

### Long Positions in Convertible Non-Redeemable Preference Shares of the Company

<u>Name of director</u>	<u>Capacity</u>	<u>Number of preference shares</u>	<u>Percentage of the Company's issued share capital</u>
Lee Shing	Through controlled corporation (Note 1)	1,521,400,000	100%

Note 1: The 1,521,400,000 convertible non-redeemable preference shares are owned by Dragon Hill Development Limited, a company wholly-owned by Mr Lee Shing.

Save as disclosed above, during the six months ended 30th June 2006, none of the directors of the Company nor any of their spouse or minor children was granted or held options to subscribe for shares in the Company (within the meaning of Part XV of the SFO), or had exercised such rights.

## DIRECTORS' RIGHT TO ACQUIRE SHARES

Apart from as disclosed above and in the section "SHARE OPTION SCHEME" relating to the Company's share option schemes and the section "CONVERTIBLE PREFERENCE SHARES", at no time during the six-month period were rights to acquire benefits by means of the acquisition of shares in or debenture of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding companies, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

## SHARE OPTION SCHEME

On 11 June 2002, the Company adopted a share option scheme (the "Scheme"). The following share options were outstanding under the Scheme during the period:

Name or category of participant	Number of share options			Date of grant of share options	Exercise period of share options
	At 1 January 2006	Lapsed during the period	At 30 June 2006		
Employees in aggregate	11,250,000	(4,050,000)	7,200,000	8th July 2002	8th July 2002 to 7th July 2012
Exercise price of share options*:					HK\$0.111
Price of Company's shares at grant date of option**:					HK\$0.104

\* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.



\*\* The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options.

The share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

At 30 June 2006, the Company had 7,200,000 share options outstanding under the Scheme which represented approximately 1.17% of the Company's ordinary shares in issue as at that date. The exercise in full of these remaining share options would, under the present capital structure of the Company, result in the issue of 7,200,000 additional ordinary shares of the Company and additional share capital of HK\$7,200 and share premium of HK\$792,000 (before issue expenses).

Subsequent to the balance sheet date, on 13 July 2006, 7,200,000 share options had been tendered for cancellation under the mandatory unconditional offer for cancellation of all outstanding options at the offer price of HK\$0.001 per option made by Dragon Hill. At the date of approval of these financial statements, there are no outstanding and unexercised share options under the Scheme.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

The register of substantial shareholders required to be kept under section 336 of the SFO shows that as at 30th June 2006, the Company had been notified of the following substantial shareholders' interests and short positions, being interests of 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the directors of the Company.

### Long Positions in Ordinary Shares of the Company

<u>Name of shareholder</u>	<u>Capacity</u>	<u>Number of ordinary shares</u>	<u>Percentage of the Company's issued share capital</u>
Dragon Hill Development Limited	Beneficial Owner	316,973,680	51.54%
Pasmina Overseas Inc.	Beneficial Owner	66,013,175	10.73%
Yuwira International Corp. (Note 1)	Beneficial Owner	43,599,000	7.09%

Note 1: The Company noted from the website of The Stock Exchange of Hong Kong Limited that Yuwira International Corp. has filed disclosure form in respect of its interest of 5% or more of the issued share capital of the Company.



## Long Positions in Convertible Non-Redeemable Preference Shares of the Company

<u>Name of shareholder</u>	<u>Capacity</u>	<u>Number of preference shares</u>	<u>Percentage of the Company's issued share capital</u>
Dragon Hill Development Limited	Beneficial Owner	1,521,400,000	100%

Note 1: The 1,521,400,000 convertible non-redeemable preference shares are owned by Dragon Hill Development Limited, a company wholly-owned by Mr Lee Shing.

Save as disclosed above, as at 30th June 2006, no persons, other the directors whose interests are set out in the above section headed "Directors' interests in shares and underlying shares", had registered an interest or short position in the shares and underlying shares of the Company that was recorded in the register required to be kept by the Company under section 336 of the SFO.

## PURCHASE, REDEMPTION AND SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period under review.

## CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the directors, the Company has complied with the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 14 of the Main Board Listing Rules of the Hong Kong Stock Exchange, throughout the accounting period covered by the interim report, except for the following deviations:

### Code Provision A.2.1

Code Provision A.2.1 stipulated that the roles of Chairman and Chief Executive Officer (“CEO”) should be separate and should not be performed by the same individual. The Chairman and CEO of the Company is Mr. Lee Shing who is primarily responsible for leading the Board, ensuring the effectiveness on all aspects of its role, whereas clearly established responsibilities for running of the business operations of the Group lie with different designated senior executives.

The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the business of the Group given that there is a professional and independent non-executive element on the Board and a clear division of responsibility for the running of the business of the Group.

### Code Provision A.4.1

Code Provision A.4.1 stipulated that non-executive directors should be appointed for a specific term, subject to re-election. The Company’s independent non-executive Directors are not appointed for a specified term, but are subject to retirement by rotation and re-election at annual general meeting in accordance with the Company’s Bye-Laws.





#### **Code provision A.4.2**

Code Provision A.4.2 stipulated that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

According to the Company's bye-laws, at each annual general meeting, one-third of the directors for the time being or, if their number is not 3 or a multiple of 3, the number nearest to one-third shall retire from office provided that notwithstanding anything herein, the chairman of the directors and the managing director of the Company shall not, whilst holding such office, be subject to retirement by rotation or be taken into account in determining the number of directors to retire in each year.

In order to ensure compliance with the above Code Provision A.4.2, relevant amendments to the Bye-Laws of the Company will be proposed for approval by the shareholders at the annual general meeting to be held in 2007 such that every director shall be subject to retirement by rotation at least once every three years.

#### **Code provision B.1.1**

The Company did not establish a remuneration committee with specific terms of reference during the six months ended 30 June 2006. It is the intention of the Board to establish a remuneration committee in the future.

## COMPLIANCE WITH MODEL CODE

The Company has adopted its own code of securities transactions by directors (“Own Code”) on terms no less exactly than the required standard set out in Appendix 10 - Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) of the Listing Rules.

Having made specific enquiry of all directors, save as already disclosed elsewhere in this Report, directors of the Company have confirmed that they have complied with the required standards set out in the Model Code and in the Own Code throughout the six months period ended 30 June 2006. The Company has also established its own written guidelines for relevant employees of the Company who are likely to be in possession of the unpublished price-sensitive information of the Company in respect of their dealings in the securities of the Company.

## AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code, for the purposes of reviewing and providing supervision over the Group’s financial reporting process and internal controls. The audit committee comprises the three independent non-executive directors of the Company and one executive director, Mr. Lee Shing.

The unaudited interim financial statements for the six months ended 30 June 2006 have been reviewed by the Audit Committee.



## **PUBLICATION OF INTERIM RESULTS ON THE WEBSITE OF THE STOCK EXCHANGE OF HONG KONG LIMITED**

All information as required under paragraphs 46(1) to 46(6) of Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited will be published on the website of The Stock Exchange of Hong Kong Limited (<http://www.hkex.com.hk>) in due course.

By order of the Board

**Lee Shing**

*Chairman*

Hong Kong, 25 September 2006

As at the date of this report, the Board comprises:

### **Executive Directors**

Mr. Lee Shing (Chairman)

Ms. Liu Yaling

Mr. Wang Shaohua

Mr. Pei Qingrong

### **Independent Non-Executive Directors**

Mr. Yu Xiumin

Mr. Zuo Duofu

Mr. Cheng Kin Wah, Thomas