

The Sincere Company, Limited

Interim Report 2006

stock code : 244

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SINCERE

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INTERIM RESULTS

The interim results for the six months ended 31 August 2006 have not been audited by the Company's auditors, but have been reviewed by the Audit Committee on 16 November 2006.

CONDENSED CONSOLIDATED INCOME STATEMENT – UNAUDITED

For the six months ended 31 August 2006

	Notes	2006 HK\$'000	2005 HK\$'000
REVENUE	4	264,619	233,113
Cost of sales		(146,910)	(142,957)
Other income		81,648	5,720
Selling and distribution costs		(61,774)	(60,323)
General and administrative expenses		(59,817)	(49,113)
Other operating expenses		(77,048)	(31,782)
Finance costs		(5,717)	(4,129)
Share of profits less losses of associates		13,751	(498)
PROFIT/(LOSS) BEFORE TAX	5	8,752	(49,969)
Tax	6	(1,121)	–
PROFIT/(LOSS) FOR THE PERIOD		7,631	(49,969)
ATTRIBUTABLE TO:			
Equity holders of the Company		2,897	(47,999)
Minority interests		4,734	(1,970)
		7,631	(49,969)
EARNINGS/(LOSS) PER SHARE	7		
Basic		0.50 cent	(8.36 cents)
Diluted		N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET – UNAUDITED

31 August 2006

	Notes	31 August 2006 HK\$'000	28 February 2006 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		79,364	82,635
Investment properties		118,380	166,380
Prepaid land premium		785	798
Properties under development		76,800	108,800
Interests in associates		142,459	256,863
Available-for-sale investments	8	9,171	43,709
Rental deposits		6,610	5,404
Pension scheme assets		6,039	6,039
Total non-current assets		439,608	670,628
CURRENT ASSETS			
Properties held for sale		–	75,260
Inventories		60,087	42,584
Debtors	9	690	689
Prepayments, deposits and other receivables		24,292	132,339
Investments at fair value through profit or loss	10	284,872	263,377
Derivative financial instruments	11	950	–
Due from a minority shareholder	12	35,157	–
Pledged bank balances		17,863	12,589
Pledged deposits with banks		135,155	102,240
Cash and bank balances	13	86,615	57,135
Total current assets		645,681	686,213
CURRENT LIABILITIES			
Interest-bearing bank loans and overdrafts		81,934	306,579
Creditors	14	73,126	88,580
Deposits, accrued expenses and other payables		31,071	36,908
Derivative financial instruments	11	3,187	–
Tax		3,442	150
Unclaimed dividends		4,605	4,605
Total current liabilities		197,365	436,822
NET CURRENT ASSETS		448,316	249,391
TOTAL ASSETS LESS CURRENT LIABILITIES		887,924	920,019
CAPITAL AND RESERVES			
Equity attributable to equity holders of the Company			
Issued share capital		287,154	287,154
Share premium account		26	26
Reserves		612,515	591,789
Minority interests		899,695 (11,771)	878,969 41,050
Total equity		887,924	920,019

Walter K W Ma
Director

Philip K H Ma
Director

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – UNAUDITED*For the six months ended 31 August 2006*

	Issued share capital HK\$'000	Share premium account HK\$'000	Reserves				Minority interests HK\$'000	Total HK\$'000
			General and other reserve HK\$'000	Retained profits HK\$'000	Total reserves HK\$'000			
At 1 March 2006	287,154	26	58,329	533,460	591,789	41,050	920,019	
Exchange differences on translation of the financial statements of foreign entities	-	-	17,829	-	17,829	-	17,829	
Profit for the period	-	-	-	2,897	2,897	4,734	7,631	
Divestment of minority interests	-	-	-	-	-	387	387	
Movement in balances with minority interests	-	-	-	-	-	(57,942)	(57,942)	
At 31 August 2006	287,154	26	76,158	536,357	612,515	(11,771)	887,924	

For the six months ended 31 August 2005

	Issued share capital HK\$'000	Share premium account HK\$'000	Reserves				Minority interests HK\$'000	Total HK\$'000
			General and other reserve HK\$'000	Retained profits HK\$'000	Total reserves HK\$'000			
At 1 March 2005	287,154	26	61,760	529,332	591,092	47,576	925,848	
Exchange differences on translation of the financial statements of foreign entities	-	-	(11,826)	-	(11,826)	-	(11,826)	
Loss for the period	-	-	-	(47,999)	(47,999)	(1,970)	(49,969)	
Movement in balances with minority interests	-	-	-	-	-	(3,099)	(3,099)	
At 31 August 2005	287,154	26	49,934	481,333	531,267	42,507	860,954	

CONDENSED CONSOLIDATED CASH FLOW STATEMENT – UNAUDITED

For the six months ended 31 August 2006

	2006	2005
	HK\$'000	HK\$'000
Net cash inflow/(outflow) from:		
Operating activities	139,061	76,773
Investing activities	207,982	(12,049)
Financing activities	(303,821)	(60,162)
	<hr/>	<hr/>
Increase in cash and cash equivalents	43,222	4,562
Cash and cash equivalents at beginning of period	41,254	359
Effects of foreign exchange rate changes, net	(206)	292
	<hr/>	<hr/>
Cash and cash equivalents at end of period	84,270	5,213
	<hr/>	<hr/>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	86,615	25,301
Bank overdrafts	(2,345)	(20,088)
	<hr/>	<hr/>
	84,270	5,213
	<hr/>	<hr/>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

31 August 2006

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” and other relevant HKASs and Interpretations, Hong Kong Financial Reporting Standards (collectively, the “HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”). Save for those new HKFRSs adopted during the period as set out in note 2, the accounting policies and basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 28 February 2006.

2. IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The HKICPA has issued a number of new and revised HKFRSs that are effective for accounting periods commencing on or after 1 January 2006. The adoption of the following HKFRSs does not have any material effect on the financial statements of the Group:

HKAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 Amendment	Net investment in a Foreign Operation
HKAS 39 and HKFRS 4 Amendment	Financial Guarantee Contracts
HK(IFRIC) – Int 4	Determining whether an Arrangement contains a Lease

The Group has not early applied the following new HKFRSs that have been issued but are not yet effective. The Group expects that application of these new HKFRSs will have no material impact on how the results and financial position of the Group are prepared and presented:

HKAS 1 Amendment	Presentation of Financial Statements “Capital Disclosures” ¹
HKFRS 7	Financial Instruments: Disclosures ¹
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives ²

¹ Effective for accounting periods beginning on or after 1 January 2007.

² Effective for accounting periods beginning on or after 1 June 2006.

3. SEGMENT INFORMATION

(a) Business segments

The following table presents revenue and results for the Group's business segments.

	Department store operations		Property rental		Property development		Securities trading		Corporate and others		Eliminations		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:														
Sales to external customers	153,808	155,320	4,729	5,968	101,872	61,762	2,075	7,906	2,135	2,157	-	-	264,619	233,113
Inter-segment sales	-	-	8,803	8,977	-	2,534	-	-	5,212	4,621	(14,015)	(16,132)	-	-
Other revenue	354	800	-	-	71,150	113	-	295	1	112	-	-	71,505	1,320
Total	154,162	156,120	13,532	14,945	173,022	64,409	2,075	8,201	7,348	6,890	(14,015)	(16,132)	336,124	234,433
Segment results	(7,501)	(9,215)	(255)	3,089	86,115	(8,923)	(725)	4,936	(6,213)	(6,013)	-	-	71,421	(16,126)
Interest, dividend income and unallocated revenue													9,957	4,400
Unallocated expenses													(660)	(3,616)
Finance costs													(5,717)	(4,129)
Changes in fair value of investment properties in Mainland China	-	-	(48,000)	(18,000)	-	-	-	-	-	-	-	-	(48,000)	(18,000)
Impairment on properties under development in Mainland China	-	-	(32,000)	(12,000)	-	-	-	-	-	-	-	-	(32,000)	(12,000)
Share of profits less losses of associates													13,751	(498)
Profit/(loss) before tax													8,752	(49,969)
Tax													(1,121)	-
Profit/(loss) for the period													7,631	(49,969)

(b) Geographical segments

The following table presents revenue for the Group's geographical segments.

	Hong Kong		Mainland China		United Kingdom		Others		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:										
Sales to external customers	157,767	163,508	3,599	4,694	101,872	61,820	1,381	3,091	264,619	233,113

4. REVENUE

Revenue represents the Group's turnover from the invoiced value of goods sold less discounts and returns, net income from counter and consignment sales, rental income net of outgoings, gross proceeds from the sales of properties, net gain or loss on securities trading and advertising agency fee income.

5. PROFIT/(LOSS) BEFORE TAX

The Group's profit/(loss) before tax is arrived at after charging/(crediting):

	For the six months ended	
	31 August	
	2006	2005
	HK\$'000	HK\$'000
Depreciation	5,663	5,525
Amortisation of prepaid land premium	12	12
Changes in fair value of investment properties in Mainland China*	48,000	18,000
Impairment on properties under development in Mainland China*	32,000	12,000
Loss/(gain) on disposal of properties, plant and equipment	(58)	555
	<u> </u>	<u> </u>

* Amounts are included in "Other operating expenses" on the face of the condensed consolidated income statement.

6. TAX

	For the six months ended	
	31 August	
	2006	2005
	HK\$'000	HK\$'000
Provision for tax in the income statement represent:		
Hong Kong	-	-
Overseas		
– charge for the period	3,180	-
– overprovision in prior years	(2,059)	-
	<u> </u>	<u> </u>
	1,121	-
	<u> </u>	<u> </u>

No provision for Hong Kong tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the period (2005: Nil).

Overseas tax has been provided on the profits of a subsidiary in accordance with the tax laws of the country in which the subsidiary operate (2005: Nil).

7. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the net profit attributable to equity holders of the Company for the period of HK\$2,897,000 (2005: net loss of HK\$47,999,000) and the 574,308,000 (2005: 574,308,000) shares in issue throughout the period.

No diluted earnings/(loss) per share is presented for both current and last period as there are no dilutive potential ordinary shares.

8. AVAILABLE-FOR-SALE INVESTMENTS

	As at 31 August 2006 HK\$'000	As at 28 February 2006 HK\$'000
Unlisted investments at cost:		
Hong Kong	13,052	13,052
Taiwan	23,108	23,108
Overseas	–	34,538
	<u>36,160</u>	<u>70,698</u>
Less: Provisions for impairment	<u>(26,989)</u>	<u>(26,989)</u>
	<u>9,171</u>	<u>43,709</u>

9. DEBTORS

The maturity profile of the current portion of the amounts due from purchasers of units in the Sincere House and debtors from other services at the balance sheet date was as follows:

	As at 31 August 2006 HK\$'000	As at 28 February 2006 HK\$'000
Current – 3 months	623	689
4 – 6 months	67	–
	<u>690</u>	<u>689</u>

10. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 August 2006 HK\$'000	As at 28 February 2006 HK\$'000
Listed investments, at market value:		
Hong Kong	28,104	26,253
Overseas	256,768	237,124
	<u>284,872</u>	<u>263,377</u>

At the balance sheet date, investments at fair value through profit or loss with an aggregate market value of approximately HK\$283,690,000 (28 February 2006: HK\$252,863,000) were pledged to certain banks to secure banking facilities granted to the Group.

11. DERIVATIVE FINANCIAL INSTRUMENTS

The following is the summary of the fair values of each significant type of derivatives at 31 August 2006:

	Assets	Liabilities
	HK\$'000	HK\$'000
Derivatives held for trading		
Equity contracts	296	879
Foreign exchange rate contracts	568	2,065
Interest rate swap	86	243
	<u>950</u>	<u>3,187</u>

12. DUE FROM A MINORITY SHAREHOLDER

Balance due from a minority shareholder is unsecured, interest-free and has no fixed terms of repayment.

13. CASH AND BANK BALANCES

	As at	As at
	31 August 2006	28 February 2006
	HK\$'000	HK\$'000
Cash on hand and at banks	28,034	43,614
Deposits with banks with original maturity within three months	58,581	13,521
	<u>86,615</u>	<u>57,135</u>

14. CREDITORS

The age analysis of trade creditors at the balance sheet date included in the total creditors balance was as follows:

	As at	As at
	31 August 2006	28 February 2006
	HK\$'000	HK\$'000
Current – 3 months	67,967	84,501
4 – 6 months	2,948	1,988
7 – 12 months	271	277
Over 1 year	1,940	1,814
	<u>73,126</u>	<u>88,580</u>

15. CONTINGENT LIABILITIES

Contingent liabilities at the balance sheet date were as follows:

	As at 31 August 2006 HK\$'000	As at 28 February 2006 HK\$'000
Guarantees executed by the Group in favour of a bank to secure a loan granted to an associate	–	313,698

In addition to the above, the Group's share of guarantee provided by certain associates amounted to approximately HK\$218,724,000 (28 February 2006: HK\$212,257,000) as at the balance sheet date in respect of one banking facility granted to their associate.

16. OUTSTANDING COMMITMENTS

Outstanding commitments at 31 August 2006 were as follows:

	As at 31 August 2006 HK\$'000	As at 28 February 2006 HK\$'000
Irrevocable letters of credit	1,882	7,928
Capital commitments – contracted, but not provided for	600	–

In addition to the above, an associate of the Group had outstanding capital commitments in aggregate of approximately HK\$258,740,000 (28 February 2006: HK\$251,149,000) as at the balance sheet date in respect of certain property development projects in Australia. In the opinion of the management, these property development projects were financed by bank borrowings instead of internal financial resources.

17. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in the financial statements, the Group also paid insurance premium expenses of approximately HK\$673,000 (2005: HK\$604,000) to an associate. The insurance premium expenses were at prices and terms similar to those offered to other unrelated customers of the associate.

(b) Compensation of key management personnel of the Group:

	For the six months ended 31 August	
	2006 HK\$'000	2005 HK\$'000
Short term employee benefits	16,505	14,791
Post-employment benefits	238	236
Total compensation paid to key management personnel	16,743	15,027

18. APPROVAL OF THE INTERIM FINANCIAL REPORT

These condensed consolidated interim financial statements were approved and authorised for issue by the board of directors on 16 November 2006.

INTERIM RESULTS

The Group's unaudited consolidated revenue for the six months ended 31 August 2006 amounted to approximately HK\$265 million, representing an increase of 14% as compared to the last corresponding period. This was mainly driven by the sales of UK properties of HK\$102 million. The unaudited net profit attributable to shareholders improved to HK\$3 million as compared to a net loss of HK\$48 million in the last corresponding period. This was mainly derived from an investment in UK of HK\$69 million, increase in interest income, exchange gains, while offset by an impairment loss on the property in Dalian of HK\$80 million.

The net cash inflow during the period has significantly improved by 9.5 times from the last corresponding period as a result of various projects being completed in UK. The increased cash inflow was mainly used to settle the bank loans which substantially decreased the total bank borrowings by 73%.

BUSINESS REVIEW AND PROSPECTS

The revenue of the Group's department store operation maintained at similar level as the last corresponding period. The decline in revenue for men's apparel and health products brought an adverse impact on the Group's revenue. Nevertheless, the overall retail objective of lifting the gross profit margin was successful, the management was delighted to report that the gross profit margin was increased by 2.2 percentage point and the segment results of the department store operation has improved by 19%.

The continuous sales and promotion events "Roadshow", in which short-term promotional sales activities were being held in non-traditional Sincere sales area, was well received by customers. During the period, 18 Roadshows that contributed 10% of the Group's revenue were being held in different districts in which Quarry Bay, Hunghom and Lei Yu Mun were first attempts and with favourable returns. The management recognized that this kind of sales concept is very competitive and a team for monitoring the Roadshow operation has been established. The management believed that Roadshow has become a successful growth drivers and a mature operation through tight business network among the suppliers and landlords.

On the store operation, the revenue for the flagship Central store recorded a decline, this was caused by a decrease in the demand for men's formal suits under the trend of casual wear dressing for office work. With a more competitive pricing strategy, there was an improved performance in the ladies apparel with higher margin. The Grand Century Place store recorded a growth in both revenue and gross profit of 7% and 13% respectively, this was attributable to the store area being expanded and moving from the first to the third floor. Departments for hardgoods and shoes have been enlarged and, going along with aggressive marketing strategies and better merchandising mix, the foot traffic has improved and met with the Company's expectations. The Shamshuipo store recorded a decline in both revenue and gross profit. This was mainly attributable to lesser promotional sales being held in the shopping mall at atrium due to the tight booking schedule. This year, the store was refurbished with new floor tiles for the ladies and men apparels section and new fixtures in the hardgoods department.

In PRC, the property market in Dalian was still sluggish and an impairment loss of HK\$80 million has been made for the Dalian Sincere Building. The lower block of this Building continued to operate as a department store by Dashang, our business partner, while the management is still seeking proposals to develop the upper floor flats.

The revenue in the securities trading recorded a decline of 74% with a marginal loss of HK\$1 million as compared with a profit of HK\$5 million in the last corresponding period. It was arising from certain loss provisions being made on the overseas portfolios as compared to its market value. The management believed it was more a timing issue.

In the advertising operation, the business continues to attract new clients while providing support to the Group. The management believed that the Group enjoys competitive advantages through this in-house and one-stop service.

Following the expansion of the retail operation in Wanchai in February 2006, the revenue in the furniture operation of "Sincere Living" has increased by 54%. This was mainly arising from residential projects including quite a few upmarket new developments. This expansion brought a restructuring of the business to have a higher retail profile.

The travel franchise business "UNIGLOBE" has established a new branch office in Shanghai and operated as a travel agency to meet the local statutory requirements for being a master franchisor. The business was in its early stage of development and is upgrading the professionalism of the Mainland travel industry.

In UK, segment results on property development recorded a substantial growth in both revenue and net profit of HK\$40 million and HK\$95 million respectively. Several projects were completed and sold during the period including London Parklane Marriot Hotel, the prestigious duplex penthouse in Lowndes Square and the remaining apartment and penthouses in the West India Quay, Canary Wharf project. All these projects contributed favourable returns to the Group and were recognized in the current period. Upon the completion of the above projects, the Group had materialized most of its UK property projects with success.

Looking ahead, the Group is cautiously optimistic on the Hong Kong retail performance under the inflated retail property rents, higher interest rates and weaker spending for consumers. The department store section will be steady with the overall gross margin keep improving. On the non-retail businesses, the Group is confident to sustain a stable growth in the second half of the year. The Group will also be carefully exploring investment opportunities for expansion by utilizing the cash available to sustain the business momentum.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 August 2006, the Group had cash and bank balance of total HK\$240 million (28 February 2006: HK\$172 million) of which HK\$153 million were pledged. After receiving cash from various UK projects, the Group's gearing significantly dropped by 25.9% from 34.9% to 9% in total debt to the shareholders' funds as compared to that of 28 February 2006. The bank borrowings were mainly in HK dollars and US dollars with interest rates ranging from 4.70% to 6.57%. The net interest expense charged to the consolidated income statement for the period was HK\$6 million (2005: HK\$4 million).

The current ratio improved by 1.70 from 1.57 to 3.27 as compared to that of 28 February 2006. The Group currently has a foreign currency hedging policy on Euro for the purchase of stocks, which is to hedge 50% of anticipated total value of European stock purchase of the following season. In addition to the internal generated cash flows, the Group also made use of short term borrowings to finance its operation during the period under review. All borrowings were secured against certain properties and bank deposits.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 August 2006, the Group had 554 employees (including part time staff). The Group operates different remuneration schemes for sales and non-sales employees to motivate front-line and back office staff towards higher sales achievement and operating efficiencies. Sales personnel are remunerated on the basis of goal-oriented packages comprising salary and sales commission. Non-sales personnel are offered discretionary year-end bonuses based on individual merit. The Group provides employee benefits such as subsidised medical care, staff purchase discounts and subsidised internal training.

INTERIM DIVIDEND

The Board of Directors of the Company has decided not to declare an interim dividend for the year ending 28 February 2007.

PRINCIPAL SHAREHOLDERS

At 31 August 2006, according to the register of interests kept by the Company pursuant to the Section 336 of the Securities and Futures Ordinance (the "SFO") and so far as is known to the directors, The Sincere Life Assurance Company Limited and The Sincere Insurance & Investment Company, Limited were interested in 183,136,032 and 75,608,064 shares of HK\$0.50 each in the Company, representing 31.89% and 13.17% of the issued share capital of the Company, respectively. Save for the above, there were no other shareholders who had registered an interest, directly or indirectly, of 5% or more of the nominal value of the issued equity share capital of the Company.

DIRECTORS' INTEREST IN SHARES

At 31 August 2006, the interests of the directors in the share capital of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under Section 352 of the SFO, were as follows:

(a) Long position in shares of the Company

Directors	Number of ordinary shares held				Total	Percentage of issued share capital
	Personal interests	Family interests	Corporate interests	Other interests		
Walter K W MA	9,925,000	–	–	–	9,925,000	1.7
Philip K H MA	2,000,000	–	–	–	2,000,000	0.3
King Wing MA	992,576	–	–	–	992,576	0.2
Eric K K LO	2,200,400	–	–	–	2,200,400	0.4
Charles M W CHAN	40,000	–	–	–	40,000	–

(b) Associated corporations

At 31 August 2006, Walter K W MA, Philip K H MA, King Wing MA and Eric K K LO held 527, 713, 575 and 216 ordinary shares, respectively, in The Sincere Life Assurance Company Limited. In addition, at 31 August 2006, Philip K H MA held 500 promoter shares in The Sincere Life Assurance Company Limited.

At 31 August 2006, Walter K W MA, Philip K H MA, King Wing MA and Eric K K LO held 4,521, 2,485, 6 and 1,019 ordinary shares, respectively, in The Sincere Insurance & Investment Company, Limited.

At 31 August 2006, Walter K W MA and Philip K H MA held 10 and 10 ordinary shares, respectively, in The Sincere Company (Perfumery Manufacturers) Limited.

In addition to the above, certain directors have non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with minimum company membership requirements.

Save as disclosed herein, as at 31 August 2006, none of the directors or any of their associates had any interests or short positions in any of the shares, underlying shares or debentures of the Company or any of its associated corporations that is required to be recorded and kept in the register in accordance with Section 352 of the SFO.

At no time during the financial period was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company or their spouses or children under the age of 18 to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SHARE OPTION SCHEME

The Company operates a share option scheme ("Option Scheme") for the purpose of providing incentives and rewards to eligible participants for their contribution to the Group. Eligible participants of the Option Scheme include any full-time employees and directors, excluding any non-executive directors, of the Group. The Option Scheme became effective on 1 August 2000 and, unless otherwise amended or altered, will remain in force for a period of 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Option Scheme is an amount equivalent, upon their exercise, of up to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Option Scheme is limited to 25% of the aggregate number of shares issuable under the Option Scheme.

The offer of the grant of a share option may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences on a date determinable by the directors, and ends on a date which is not later than 10 years from the commencement date of the exercise period or the expiry date of the Option Scheme, if earlier.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) 90% of the average of the closing price of the Company's shares on The Stock Exchange of Hong Kong Limited for the five trading days immediately preceding the date of offer of the option; and (ii) the nominal value of the Company's shares.

No options had been granted or agreed to be granted under the Option Scheme up to the date of these condensed consolidated financial statements.

PURCHASE, SALE AND REDEMPTION OF OWN LISTED SECURITIES

There was no purchase, sale or redemption by the Company or any of its subsidiaries of the Company's listed securities during the period.

AUDIT COMMITTEE

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting including the review of unaudited consolidated interim financial statements for the six months ended 31 August 2006.

ADOPTION OF THE MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules") as the code of conduct regarding Director's securities transactions. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code during the period under review.

CORPORATE GOVERNANCE

None of the directors of the Company is aware of any information which would reasonably indicate that the Group is not, or was not, in compliance with the Code of Corporate Governance Practice as set out in Appendix 14 of the Listing Rules throughout the period, except that the non-executive directors were not appointed for a specific term but are subject for retirement by rotation and re-election at the Company's annual general meetings in accordance with the Company's articles of association.

By order of the Board

Walter K W MA

Chairman

Hong Kong, 16 November 2006