

# First Sign International Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 933)

Interim Report  
**2006**

The background of the cover features a series of thin, parallel red lines that curve and flow across the page, creating a sense of movement and depth. The lines are more densely packed in some areas, creating a gradient of red tones from light to dark.

## INTERIM RESULTS

The board of directors (the "Board") of First Sign International Holdings Limited (the "Company") is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 31st December, 2006 together with the comparative figures for the corresponding period as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 31st December,	
		2006	2005
	Notes	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Turnover	3	15,740	13,785
Cost of sales		<u>(1,716)</u>	<u>(793)</u>
Gross profit		14,024	12,992
Other income	5	8,372	6,553
Increase in fair value of investment properties		110	690
Gain on disposal of financial assets held for trading		1,130	1,354
Net unrealised gain/(loss) on revaluation of financial assets held for trading		7,383	(5,962)
Gain/(loss) on foreign exchange		3,499	(3,890)
Gain on disposal of available for sales investments		111	-
Selling expenses		(3,148)	(1,946)
Administrative expenses		(10,123)	(10,912)
Allowance for advance to an associate		<u>(2,501)</u>	<u>-</u>
Profit/(loss) before taxation		18,857	(1,121)
Taxation	6	<u>-</u>	<u>(121)</u>
Profit/(loss) for the period	7	<u>18,857</u>	<u>(1,242)</u>
Basic earnings/(loss) per share	9	<u>1.6 cents</u>	<u>(0.1) cent</u>

## CONDENSED CONSOLIDATED BALANCE SHEET

		At 31st December, 2006 (Unaudited) <i>HK\$'000</i>	At 30th June, 2006 (Audited) <i>HK\$'000</i>
	<i>Notes</i>		
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	10	209	1,066
Investment properties	10	8,680	8,570
Available-for-sale investments	12	3,434	10,522
Interests in associates	13	–	–
		<u>12,323</u>	<u>20,158</u>
<b>CURRENT ASSETS</b>			
Inventories		6,778	2,744
Trade debtors	14	16	23
Other debtors, prepayments and deposits		5,607	5,640
Convertible note receivable	11	20,000	20,000
Financial assets held for trading		284,394	272,423
Bank balances and cash		318,845	305,580
		<u>635,640</u>	<u>606,410</u>
<b>CURRENT LIABILITIES</b>			
Trade creditors	15	109	58
Other creditors, accrued charges and deposits received		6,610	4,165
Tax liabilities		17,614	17,614
		<u>24,333</u>	<u>21,837</u>
<b>NET CURRENT ASSETS</b>		<u>611,307</u>	<u>584,573</u>
<b>NET ASSETS</b>		<u>623,630</u>	<u>604,731</u>
<b>CAPITAL AND RESERVES</b>			
Share capital	16	121,587	121,609
Reserves		502,043	483,122
		<u>623,630</u>	<u>604,731</u>

## CONDENSED STATEMENT OF CHANGES IN EQUITY

Six months ended 31st December, 2006

	Share Capital HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Special reserve HK\$'000	Translation reserve HK\$'000	Investment revaluation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st July, 2006	121,609	239,544	3,467	1,000	686	3,577	234,848	604,731
Exchange differences arising on translation of foreign operations	-	-	-	-	499	-	-	499
Unrealised (loss) on change in fair value of available for sale investments	-	-	-	-	-	(135)	-	(135)
Written off on disposal of available for sales investments	-	-	-	-	-	(276)	-	(276)
Net income recognized directly in equity	-	-	-	-	499	(411)	-	88
Profit for the period	-	-	-	-	-	-	18,857	18,857
Total recognized income for the period	-	-	-	-	499	(411)	18,857	18,945
Repurchase of own shares	(22)	(24)	22	-	-	-	(22)	(46)
At 31st December, 2006	<u>121,587</u>	<u>239,520</u>	<u>3,489</u>	<u>1,000</u>	<u>1,185</u>	<u>3,166</u>	<u>253,683</u>	<u>623,630</u>

Six months ended 31st December, 2005

	Share Capital HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Special reserve HK\$'000	Translation reserve HK\$'000	Investment revaluation reserve HK\$'000	Dividend reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st July, 2005	121,609	239,544	3,467	1,000	(115)	-	18,241	233,959	617,705
Exchange differences arising on translation of foreign operations	-	-	-	-	811	-	-	-	811
Unrealised gain on change in fair value of available-for-sale investments	-	-	-	-	-	2,100	-	-	2,100
Net income recognized directly in equity	-	-	-	-	811	2,100	-	-	2,911
Loss for the period	-	-	-	-	-	-	-	(1,242)	(1,242)
Total recognized income for the period	-	-	-	-	811	2,100	-	(1,242)	1,669
Prior year final dividend paid	-	-	-	-	-	-	(18,241)	-	(18,241)
At 31st December, 2005	<u>121,609</u>	<u>239,544</u>	<u>3,467</u>	<u>1,000</u>	<u>696</u>	<u>2,100</u>	<u>-</u>	<u>232,717</u>	<u>601,133</u>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 31st December,	
	2006 (Unaudited) <i>HK\$'000</i>	2005 (Unaudited) <i>HK\$'000</i>
NET CASH USED IN OPERATING ACTIVITIES	(8,118)	(7,176)
NET CASH INFLOW FROM INVESTING ACTIVITIES	20,929	30,876
NET CASH USED IN FINANCING ACTIVITIES	(45)	(18,241)
NET INCREASE IN CASH AND CASH EQUIVALENTS	12,766	5,459
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	305,580	295,159
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	499	419
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	<u>318,845</u>	<u>301,037</u>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### (1) Basis of preparation

The interim condensed consolidated financial statements have not been audited by the Company's auditors but have been reviewed by the Company's Audit Committee.

The unaudited condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of the Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The unaudited interim condensed consolidated financial statements should be read in conjunction with the Company's 2006 annual financial statements.

### (2) Principal accounting policies

The accounting policies used in the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 30th June, 2006.

In the current interim period, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are either effective for accounting periods beginning on or after 1st December, 2005 or 1st January, 2006. The adoption of the new HKFRSs has had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standard, amendments or interpretations that have been issued but are not yet effective. The directors of the Company (the "Directors") anticipate that the application of these standard, amendments or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital disclosures <sup>1</sup>
HKFRS 7	Financial instruments: Disclosures <sup>1</sup>
HK(IFRIC)-INT10	Interim financial reporting and impairment <sup>2</sup>
HK(IFRIC)-INT11	HKFRS 2 – Group and treasury shares transactions <sup>3</sup>

<sup>1</sup> Effective for accounting periods beginning on or after 1st January, 2007.

<sup>2</sup> Effective for accounting periods beginning on or after 1st November, 2006.

<sup>3</sup> Effective for accounting periods beginning on or after 1st March, 2007.

### (3) Turnover

Turnover represents the amounts received and receivable for garments sold by the Group to customers, less returns and allowances, and interest income and dividends income for the period.

	Six months ended 31st December,	
	2006	2005
	HK\$'000	HK\$'000
Sales of goods	3,774	1,578
Dividends from listed investments	4	2
Interest income from listed debt securities	3,292	3,508
Interest income from convertible note receivable	403	403
Interest income from unlisted debt securities	8,267	8,294
	15,740	13,785
	15,740	13,785

#### (4) Business and Geographical Segments

##### (a) Business segments

For management purposes, the Group is currently organized into two operating divisions namely, garment operation and direct investments. These operating divisions are the basis on which the Group reports its primary segment information.

Principal activities of the operating division are as follows:

Garment operation – sourcing, manufacturing, processing, wholesaling, marketing and selling of garments

Direct investments – investments in listed and unlisted equity and debt securities

In 2006, the Group has considered direct investment activities rather than proprietary trading in securities as one of the business segments. In prior years, proprietary trading in securities was an operating division responsible for investments in listed and unlisted equity securities and a convertible loan note. However, all the surplus funds of the Group were invested in equity and debt securities and a convertible loan note to secure a reasonable return on the capital to the Group. The Group considers all the investments in equity and debt securities and a convertible loan note should be reported as an individual segment. Therefore, there is a change in the presentation. Interest income of the investments are included in turnover. The comparative figures have been amended to correspond with this new presentation.

During the period ended 31st December, 2006 and 2005, the Group included “health products development”, which principal activities were production and trading of health food products, being one of the operating divisions of the Group. As the revenue, segment results and assets of health products development for both periods were less than 10% of the Group’s revenue, segment results and assets, no separate disclosure of segment information on health products development has been presented.

Segment information about these businesses is presented below:

	<b>Garment Operation (unaudited) HK\$'000</b>	<b>Direct Investment (unaudited) HK\$'000</b>	<b>Consolidated (unaudited) HK\$'000</b>
<b>TURNOVER</b>			
External sales	<u>3,774</u>	<u>11,966</u>	<u>15,740</u>
<b>RESULTS</b>			
	<u>(3,894)</u>	<u>24,241</u>	20,347
Unallocated revenue			8,394
Unallocated corporate expenses			(7,383)
Allowance for advance to an associate			<u>(2,501)</u>
Profit before taxation			
Taxation			18,857
			–
Profit for the period			<u>18,857</u>

	Garment Operation (unaudited) <i>HK\$'000</i>	Direct Investments (unaudited) <i>HK\$'000</i>	Consolidated (unaudited) <i>HK\$'000</i>
<b>TURNOVER</b>			
External sales	<u>1,578</u>	<u>12,207</u>	<u>13,785</u>
<b>RESULTS</b>	<u>(4,629)</u>	<u>3,581</u>	(1,048)
Unallocated revenue			6,013
Unallocated corporate expenses			(6,086)
Share of losses of associates			<u>–</u>
Loss before taxation			(1,121)
Taxation			<u>(121)</u>
Loss for the period			<u>(1,242)</u>

(b) *Geographical segments*

The Group's operations are located in Hong Kong and the People's Republic of China (the "PRC"). The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods/services:

	Sales revenue by geographical market Six months ended 31st December,	
	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Hong Kong	521	479
The PRC	3,660	1,504
Europe – Luxemburg	349	3,025
Europe – United Kingdom	9,752	7,603
Europe – France	988	991
Others	<u>470</u>	<u>183</u>
	<u>15,740</u>	<u>13,785</u>

(5) **Other income**

	Six months ended 31st December,	
	2006 (Unaudited) <i>HK\$'000</i>	2005 (Unaudited) <i>HK\$'000</i>
Interest income on bank deposits	8,113	5,920
Rental income from investment properties, net of insignificant outgoings	249	336
Sundry income	<u>10</u>	<u>297</u>
	<u>8,372</u>	<u>6,553</u>



(6) **Taxation**

	<b>Six months ended 31st December,</b>	
	<b>2006</b>	<b>2005</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Current tax	–	–
Deferred tax – changes in fair value of investment properties	–	121
	<u>–</u>	<u>121</u>
	<u>–</u>	<u>121</u>

No provision for Hong Kong Profits Tax has been made in the financial statements as the Company and its subsidiaries operating in Hong Kong incurred tax losses for both period.

No provision for taxation in other jurisdiction has been made in the financial statements as profits generated by those subsidiaries are not taxable.

A deferred tax asset has not been recognised in the financial statements in respect of estimated tax losses due to the uncertainty of future profit streams.

(7) **Profit/(loss) for the period**

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

	<b>Six months ended 31st December,</b>	
	<b>2006</b>	<b>2005</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Depreciation of property, plant and equipment	905	1,695
Written off of property, plant and equipment	–	391
	<u>905</u>	<u>1,695</u>
	<u>–</u>	<u>391</u>

(8) **Dividend**

The Board has resolved not to declare any interim dividend for the six months ended 31st December, 2006 (31st December, 2005: Nil).

(9) **Basic earnings/(loss) per share**

The calculation of basic earnings/(loss) per share for the six months ended 31st December, 2006 is based on the unaudited net profit for the period of HK\$18,857,000 (six months ended 31st December, 2005: unaudited loss for the period of HK\$1,242,000) and the weighted average number of 1,215,870,400 shares (31st December, 2005: 1,216,090,400 shares) in issue during the period.

No diluted earnings/(loss) per share is presented as there were no dilutive potential shares outstanding during the period.

## (10) Movements in investment properties, property, plant and equipment

During the period, additions to the Group's property, plant and equipment amounted to approximately HK\$35,000 (31st December, 2005: HK\$67,000).

During the period, the Group has written off its office equipments with a carrying amount of approximately HK\$9,000.

The Group's investment properties were revalued on 31st December, 2006 by Savills (Hong Kong) Limited, independent professional valuer on an open market value basis. The resulting increase in fair value on investment properties of HK\$110,000 (six months ended 31st December, 2005: HK\$690,000) has been recognised directly in the income statement for the period.

## (11) Convertible note receivable

	At 31st December, 2006 (Unaudited) HK\$'000	At 30th June, 2006 (Audited) HK\$'000
Convertible note receivable	<u>20,000</u>	<u>20,000</u>

The original maturity date of the convertible note receivable (the "Note") bearing interest at 4% per annum payable semi-annually in arrears was 30th June, 2004. On 14th June, 2004, the Company and the note issuer namely, China Star Entertainment Limited ("Note Issuer") entered into a supplemental deed, pursuant to which the Group and the Note Issuer have agreed to extend the maturity date of the Note from 30th June, 2004 to 30th June, 2007. The Note carries the right to convert the principal amount of the Note into shares of HK\$0.05 each in the share capital of the Note Issuer at an initial conversion price of HK\$0.2 per share, subject to adjustment. The conversion price was adjusted to HK\$5.83 per share due to the completion of rights issue, consolidation of shares and bonus issue of the Note Issuer during the year ended 31st December, 2002. From 14th June, 2004 to the 14 business days immediately preceding 30th June, 2007, the Group has the right to convert the outstanding principal amount of the Note into shares of the Note Issuer.

The Note contains embedded derivative for conversion option and the note receivable. In accordance with HKAS 39 Financial Instruments: *Recognition and Measurement*, the conversion option should be separated from the Note as the economic characteristics and risks of the embedded derivative are not closely related to that of the Note. The fair value of the embedded derivative is classified as a financial asset held for trading. HKAS 39 requires all financial assets and financial liabilities to be measured at fair value on initial recognition. The Group has applied the relevant transitional provision in HKAS 39. The current conversion price was stated as HK\$5.83 per share whereas the market price at 1st July, 2006 and 31st December 2006 were HK\$0.38 and HK\$0.28 per share, respectively. At 1st July, 2006 and 31st December 2006, the Group assessed the fair value of the embedded derivative using the Black-Scholes model and considered the amount insignificant. No adjustment had therefore been made.

## (12) Available-for-sale investments

Available-for-sale investments comprise:

	At 31st December, 2006 HK\$'000	At 30th June, 2006 HK\$'000
Listed investments:		
Equity securities listed in Hong Kong	3,434	10,522
Unlisted investments:		
Equity securities	258	258
Less: Impairment loss recognized	(258)	(258)
	—	—
Total	<u>3,434</u>	<u>10,522</u>
Analysed for reporting purpose as:		
Non-current asset	<u>3,434</u>	<u>10,522</u>

As at the balance sheet date, all available-for-sale investments are stated at fair value except for those unlisted equity investments of which their fair value cannot be measured reliably. Fair value of listed investments have been determined by reference to bid prices quoted in the Stock Exchange.

The above unlisted investments represent investments in unlisted equity securities issued by two private entities incorporated in Hong Kong and the British Virgin Islands. They are measured at cost less impairment at each balance sheet date because the directors are of the opinion that their fair values cannot be measured reliably.

## (13) Interests in associates

	At 31st December, 2006 (Unaudited) HK\$'000	At 30th June, 2006 (Audited) HK\$'000
Cost of investment in associates, unlisted	—	—
Share of post-acquisition losses	—	—
	<u>—</u>	<u>—</u>
Advance to an associate	27,207	24,706
Less: Allowance for advance to an associate	(27,207)	(24,706)
	<u>—</u>	<u>—</u>

The cost of investment in associates and share of post-acquisition losses were HK\$50.00 respectively.

The advance to an associate by the Group at 31st December, 2006 is secured by a floating charge over the assets of the associate, non-interest bearing and is repayable on demand.

In the opinion of the Directors, the amount was not repayable within the next twelve months and accordingly, the advance was classified as non-current asset.

The Directors had reassessed the recoverability of the advance to an associate as at 30th June, 2006 by reference to the future prospects and expected revenue to be generated from the associate and determined that allowances of HK\$24,706,000, which was provided in prior years, was required. Additional provision for allowance of HK\$2,501,000 was made on the funding providing by the group to an associate for the period under review.

The following details have been extracted from the unaudited financial statements of the Group's significant associates:

**Results for the six months ended 31st December,**

	<b>2006</b> <b>(Unaudited)</b> <i>HK\$'000</i>	<b>2005</b> <b>(Unaudited)</b> <i>HK\$'000</i>
Turnover	<u><u>3,440</u></u>	<u><u>3,204</u></u>
(Loss)/profit before taxation	<u><u>(816)</u></u>	<u><u>311</u></u>

**Financial position**

	<b>At</b> <b>31st December,</b> <b>2006</b> <b>(Unaudited)</b> <i>HK\$'000</i>	<b>At</b> <b>30th June,</b> <b>2006</b> <b>(Audited)</b> <i>HK\$'000</i>
Non-current assets	47	44
Current assets	3,925	2,510
Current liabilities	<u><u>(28,065)</u></u>	<u><u>(25,831)</u></u>
Net liabilities	<u><u>(24,093)</u></u>	<u><u>(23,277)</u></u>

The Group has discontinued recognition of its share of losses of the associates. The amounts of unrecognised share of those associates, extracted from the relevant audited financial statements of associates, both for the period and cumulatively, are as follows:

	<b>Six months ended</b>	
	<b>31st December</b>	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unrecognised share of (losses) gain of associates for the period	<u>(408)</u>	<u>156</u>
Accumulated unrecognised share of losses of associates	<u>12,048</u>	<u>11,356</u>

**(14) Trade debtors**

The Group allows an average credit period of 45 days to its garment trade customers.

The aged analysis of trade debtors is as follows:

	At 31st December, 2006 (Unaudited) <i>HK\$'000</i>	At 30th June, 2006 (Audited) <i>HK\$'000</i>
1 – 30 days	<u>16</u>	<u>23</u>

**(15) Trade creditors**

The aged analysis of trade creditors is as follows:

	At 31st December, 2006 (Unaudited) <i>HK\$'000</i>	At 30th June, 2006 (Audited) <i>HK\$'000</i>
1 – 30 days	63	14
Over 60 days	<u>46</u>	<u>44</u>
	<u>109</u>	<u>58</u>

## (16) Share capital

	Number of shares		Share Capital	
	31st December, 2006 (Unaudited)	30th June, 2006 (Audited)	31st December, 2006 (Unaudited) HK\$'000	30th June, 2006 (Audited) HK\$'000
<b>Ordinary shares of HK\$0.10 each</b>				
Authorised				
At beginning and end of period	<u>2,000,000,000</u>	<u>2,000,000,000</u>	<u>200,000</u>	<u>200,000</u>
Issued and fully paid				
At beginning of period and end of period	<u>1,216,090,400</u>	<u>1,216,090,400</u>	<u>121,609</u>	<u>121,609</u>
Share repurchased	<u>(220,000)</u>	<u>-</u>	<u>(220)</u>	<u>-</u>
At end of period	<u>1,215,870,400</u>	<u>1,216,090,400</u>	<u>121,587</u>	<u>121,609</u>

During the period, the Company repurchased its own shares through the Stock Exchange as follows:

Month of repurchase	No. of shares of HK\$0.10 each	Price Per share		Aggregate consideration Paid HK\$'000
		Highest HK\$	Lowest HK\$	
October 2006	<u>220,000</u>	<u>0.208</u>	<u>0.208</u>	<u>46</u>

The above shares were cancelled upon repurchased. The Directors believe that the repurchase are in the best interests of the Company and its shareholders and will lead to an enhancement of the net assets and the earnings per share of the Company.

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period.

## (17) Contingent liabilities

At 31st December, 2006, neither the Company nor any of its subsidiaries has significant contingent liabilities.

## (18) Related party transaction

During the period, the Group paid rental for a Director's accommodation to a landlord in which Mr. Lau Tung Hoi has a beneficial interest. The rental paid for the period under review amounted to HK\$360,000 (six months ended 31st December, 2005: HK\$360,000).

The rental was determined with reference to the prevailing market rent when the relevant rental agreement was entered into.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Results

The Group has reported a profit before taxation of HK\$18,857,000 (2005: loss of HK\$1,121,000) for the period under review after crediting the followings:

- gain on foreign exchange of HK\$3,499,000 (2005 – loss of HK\$3,890,000)
- net unrealised gain on revaluation of financial assets held for trading of HK\$7,383,000 (2005 – loss of HK\$5,962,000)
- change in fair value of investment properties of HK\$110,000 (2005 – HK\$690,000)

Excluding the above, the operating profit was HK\$7,865,000 (2005 – HK\$7,920,000).

### Garment operation

The garment business in the PRC has recorded a turnover of 1.4 times than that of the previous corresponding period. The overall performance of the garment operation has also improved with the loss reduced by 15.8% as compared with previous corresponding period, mainly as result of our efforts on strengthening product development and the recognition of the brandname "IXESSE" by the customers in the PRC. The Group plans to further strengthen the product categories and designs to cater for the PRC market and anticipates positive results in the coming years.

In this second year of our OEM/ODM business we are pleased to note that the orders received increased by 20% as compared with the previous season. The Group will continue to explore more OEM/ODM businesses and improve the overall performance of the garment operation.

### Investments

Due to the improvement in the capital and debt markets, the market value of the Group's debt investments has increased and recorded an unrealised gain on revaluation of HK\$7,383,000. The Group will maintain its conservative policy to generate stable interest income on the surplus funds of the Group.

### Health Food

The associate company has participated in the HK Product Expo for the last three years with a certain degree of success. The associate company has been able to build up the brand "WINUBOOST" and the message "WINUBOOST – the best investment in health" is now generally recognised by the public.

The associate company was still at a loss position as it spent more resources in co-operation with one of the universities in Hong Kong for various animal tests and clinical trials on the improvement of the functions of liver, cirrhosis and protection of liver against alcohol.

Upon completion of these tests and the trials with positive results, the Group expects to see a breakthrough in coming years.

## EMPLOYEES AND REMUNERATION POLICIES

As at 31st December, 2006, the Group had 174 full time employees in Hong Kong and the PRC. The Group remunerates its employees by reference to their performance, experience and prevailing industry practice. Employee benefits provided by the Group include mandatory provident fund scheme, medical scheme, discretionary performance-related bonus and share option scheme.

## LIQUIDITY AND FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group's principal source of funds for the period ended 31st December, 2006 was derived from investment income with total net income so generated amounted to HK\$19 million.

As at 31st December, 2006, the Group had bank balances and cash of approximately HK\$318,845,000 and financial assets held for trading of approximately HK\$284,394,000, which were denominated in US dollars and EURO. Majority of the financial assets were debt securities with maturity period from 2 to 14 years.

In view of the operation of the Group, the exposure to fluctuation in exchange rates was limited and no hedging activity was considered necessary.

As at 31st December, 2006, the Group did not have any assets charged or any significant contingent liabilities.

As at 31st December, 2006, the Company had 1,215,870,400 shares in issue with total shareholders' funds of the Group amounting to HK\$623,630,000.

## USE OF PROCEEDS FROM NEW ISSUE

An analysis of the use of proceeds up to 31st December, 2006 is as follows:

	Up to 30th June 2006 <i>HK\$'000</i>	Amount incurred in period under review <i>HK\$'000</i>	Accumulated spending as at 31st December, 2006 <i>HK\$'000</i>
(a) Promote its own brand "IXESSE" in Hong Kong and PRC	7,618	421	8,039
(b) Acquire plant and machinery in Hong Kong and PRC	21,166	36	21,202
(c) Develop herbal and health products	24,804	2,501	27,305
Total	<u>53,588</u>	<u>2,958</u>	<u>56,546</u>



## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 31st December, 2006, the interests of the Directors, chief executives and their associates in the shares, underlying shares and debentures of the Company and its associated corporations, within the meaning of the Securities and Futures Ordinance ("SFO") as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code"), were as follows:

### Long positions in ordinary shares of HK\$0.10 each of the Company

Name of Director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Lau Tung Hoi	Held by trust ( <i>Note</i> )	867,010,000	71.31%
Ho Yau Ming	Beneficial owner	500,000	0.04%
Yan Miu King	Beneficial owner	370,000	0.03%

*Note:* These shares are held by Linwood Services Ltd. ("Linwood"), 48 shares of Linwood (representing the entire issued share capital of Linwood) are owned by Money Belt Worldwide Limited ("Money Belt"). Money Belt is a company incorporated in the British Virgin Islands and the entire issued share capital of which is held by HSBC International Trustee Limited as trustee of a discretionary trust, the discretionary objects of which include Mr. Lau Tung Hoi and his family members.

Save as disclosed above, none of the Directors, chief executives nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31st December, 2006, which were required to be recorded pursuant to Section 352 of the SFO, or as otherwise, notified to the Company and the Stock Exchange pursuant to the Model Code.

## SHARE OPTION SCHEME

The Company operates share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. On 30th October, 1995, the Company approved a share option scheme (the "Old Scheme") under which the Board may, at its discretion, grant options to eligible employees, including executive directors of the Company and its subsidiaries, to subscribe for shares of the Company at any time during the ten years from the date of approval of the Old Scheme. No option was granted under the Old Scheme since its adoption.

In compliance with the amended Chapter 17 of the Listing Rules, the Old Scheme was terminated and a new share option scheme (the "New Scheme") was adopted pursuant to an ordinary resolution passed at the annual general meeting of the Company on 20th October, 2004.

Under the New Scheme, all directors and employees of the Group and consultants, advisors, agents, customers, service providers, contractors, business partners of any members of the Group or any company or other entity in which the Group or any member thereof has a shareholding interest, in the sole discretion of the Board, has contributed to the Group or any member thereof are eligible to participate in the New Scheme.

The total number of shares in respect of which options may be granted under the New Scheme is not permitted to exceed 10% of the shares of the Company in issue as at the date of adoption of the New Scheme, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or non-executive Director or independent non-executive Directors in excess of 0.1% of the Company's share capital or with a value in excess of HK\$5 million must be approved in advance by the Company's shareholders.

Options granted must be taken up within 30 days of the date of grant, upon payment of HK\$1.00 per each grant of option. Options may be exercised at any time from the date of grant of the share option to a period to be notified by the Board to each grantee at the time of making such offer, which shall not expire later than 10 years from the date of grant. The exercise price is determined by the Board at its absolute discretion and will not be less than the higher of (a) the closing price of the shares of the Company as stated in the daily quotations sheets issued by the Stock Exchange on the date of grant; (b) the average closing price of the shares of the Company as stated in the daily quotations sheet issued by the Stock Exchange for the 5 business days immediately preceding the date of grant; and (c) the nominal value of a share of the Company on the date of grant.

No option was granted under the New Scheme since its adoption and no option was outstanding as at 31st December, 2006.

## **SUBSTANTIAL SHAREHOLDER**

As at 31st December, 2006, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO showed that, apart from the interests disclosed above in respect of certain directors, the Company has not been notified of any other interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under Part XV of the SFO.

## CODE ON CORPORATE GOVERNANCE PRACTICES

The Board is responsible for ensuring high standards of corporate governance are maintained and for accounting to shareholders. On 1st July, 2006, the Company has applied the principles and complied with all the applicable code provision of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Listing Rules for the period ended 31st December, 2006, except for the following deviations:

### 1. Code Provision A.2.1

Under the code provision A.2.1 of the Code, the roles of chairman and chief executive officer ("CEO") should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and CEO should be clearly established and set out in writing.

The Company does not maintain the office of CEO, however, the day-to-day operation of the Group is managed by the chairman of the Company. Given the Group's current stage of development, the Board considers that vesting the roles of both chairman and CEO in the same person facilitates the execution of the Group's business strategies and maximizes effectiveness of its operation.

### 2. Code Provision A.4.1

Under the code provision A.4.1 of the Code, non-executive directors should be appointed for a specific term and subject to re-election. However, all the independent non-executive Directors and non-executive Director are not appointed for specific terms but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provision of the Company's Bye-laws. The Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the Code.

### 3. Code Provision B.1.4 and C.3.4.

Under note 1 to the code provisions B.1.4 and C.3.4 of the Code, the issuer should make available the terms of reference of its remuneration committee and audit committee on request and by including the information on the issuer's website.

Since the Company has yet to establish its own website, the above requirement regarding provision of such information on website cannot be met accordingly. However, the terms of reference of the two committees are available on request.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS**

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 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 six months ended 31st December, 2006.

## **REMUNERATION COMMITTEE**

The Company has established a remuneration committee with written terms of reference in accordance with the Code on 25th January, 2006. The remuneration committee comprises three independent non-executive Directors, namely Mr. Hung Kwok Keung, Keith, Mr. Man Mo Leung and Mr. Ho Yau Ming, and the non-executive Director, namely Mr. Wu Wing Kit. Mr. Hung Kwok Keung, Keith is the chairman of the remuneration committee. The remuneration committee is principally responsible for formulating and making recommendation to the Board on the Group's policy and structure for all remuneration of the Directors and senior management of the Group. The terms of reference of the remuneration committee are available to the public on request.

## **AUDIT COMMITTEE**

The audit committee of Company as at 31st December, 2006 was comprising Mr. Wu Wing Kit, the non-executive Director and Mr. Man Mo Leung, Mr. Ho Yau Ming and Mr. Hung Kwok Keung, Keith, the three independent non-executive Directors.

The principal duties of the audit committee are to review with the management of the Company the accounting principles and practices adopted by the Group and discuss internal controls and financial reporting matters including reviews of interim and annual financial statements.

The unaudited interim condensed consolidated financial statements for the six months ended 31st December, 2006 have been reviewed by the audit committee of the Company.

## **INTERNAL CONTROL**

A sound and effective internal control system is important to safeguard the shareholders' investment and the Company's assets. During the year, the Board reviewed and satisfied the effectiveness of the internal control system of the Group including financial, operation, compliance controls and risk management functions.

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

Apart from the particulars of the repurchases of own shares by the Company as set out in note to the financial statements, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period.

On behalf of the Board  
**Lau Tung Hoi**  
**First Sign International Holdings Limited**  
*Chairman*

Hong Kong, 22nd March, 2007

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

*Executive Directors:*

Mr. Lau Tung Hoi (*Chairman*)

Ms. Yan Miu King (*Deputy Chairman*)

*Non-Executive Director:*

Mr. Wu Wing Kit

*Independent Non-Executive Directors:*

Mr. Man Mo Leung

Mr. Hung Kwok Keung, Keith

Mr. Ho Yau Ming