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FIRST SHANGHAI GROUP

**FIRST SHANGHAI INVESTMENTS LIMITED**

(Stock Code : 227)



2007

INTERIM REPORT

# FIRST SHANGHAI INVESTMENTS LIMITED

## CORPORATE INFORMATION

### BOARD OF DIRECTORS

#### *Chairman*

Mr. Lao Yuan Yi

#### *Executive Directors*

Mr. Xin Shulin, Steve

Mr. Yeung Wai Kin

#### *Non-executive Director*

Mr. Kwok Lam Kwong, Larry, J.P.

#### *Independent Non-executive Directors*

Prof. Woo Chia Wei

Mr. Liu Ji

Mr. Yu Qi Hao

### COMPANY SECRETARY

Mr. Yeung Wai Kin

### REGISTERED OFFICE

Room 1903, Wing On House  
71 Des Voeux Road Central  
Hong Kong

Telephone: (852) 2522 2101

Fax: (852) 2810 6789

E-mail address: enquiry@firstshanghai.com.hk

Website: www.firstshanghai.com.hk

### AUDITORS

PricewaterhouseCoopers  
Certified Public Accountants

### SOLICITORS

Richards Butler

T. H. Koo & Associates

Jennifer Cheung & Co

### PRINCIPAL BANKERS

CITIC Ka Wah Bank Limited  
Standard Chartered Bank

### REGISTRARS & TRANSFER OFFICE

Computershare Hong Kong Investor  
Services Limited  
17th Floor, Hopewell Centre  
183 Queen's Road East  
Hong Kong

### STOCK CODE

Stock Code on The Stock Exchange of  
Hong Kong Limited: 227

The Board of Directors (the "Board") of First Shanghai Investments Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries, associated companies and jointly controlled entities (together, the "Group") for the six months ended 30th June 2007 together with the comparative figures for the corresponding period last year as follows:

## CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

|  |         | Unaudited<br>Six months ended 30th June |                                |
|--|---------|---|--------------------------------|
|  | Note    | 2007<br>HK\$'000                        | 2006<br>HK\$'000<br>(Restated) |
| <b>Continuing operations:</b>  |         |   |                                |
| Revenue  | 4       | 343,069                                 | 726,186                        |
| Cost of sales  |         | <u>(96,126)</u>                         | <u>(620,871)</u>               |
| Gross profit   |         | 246,943                                 | 105,315                        |
| Other gains — net  | 5       | 150,252                                 | 11,865                         |
| Selling and distribution costs   |         | <u>(2,600)</u>                          | <u>(3,086)</u>                 |
| Administrative expenses  |         | <u>(130,030)</u>                        | <u>(115,846)</u>               |
| Operating profit/(loss)  | 4 and 6 | 264,565                                 | (1,752)                        |
| Finance costs  |         | <u>(14,818)</u>                         | <u>(9,472)</u>                 |
| Share of profits less losses of  |         |   |                                |
| — Associated companies   |         | (1,445)                                 | (17,951)                       |
| — Jointly controlled entities  |         | <u>260</u>                              | <u>9,408</u>                   |
| Profit/(loss) before taxation  |         | 248,562                                 | (19,767)                       |
| Taxation   | 8       | <u>(8,310)</u>                          | <u>(1,526)</u>                 |
| Profit/(loss) for the period from continuing operations  |         | 240,252                                 | (21,293)                       |
| <b>Discontinued operations:</b>  |         |   |                                |
| Profit for the period from discontinued operations   |         | <u>—</u>                                | <u>107,437</u>                 |
| <b>Profit for the period</b>   |         | <u><b>240,252</b></u>                   | <u><b>86,144</b></u>           |
| <b>Attributable to:</b>  |         |   |                                |
| Shareholders of the Company  |         | 244,165                                 | 89,888                         |
| Minority interests   |         | <u>(3,913)</u>                          | <u>(3,744)</u>                 |
|  |         | <u><b>240,252</b></u>                   | <u><b>86,144</b></u>           |
| <b>Basic earnings/(losses) per share for profit/(loss) attributable to shareholders of the Company during the period</b>   |         |   |                                |
| — Continuing operations  |         | HK20.10 cents                           | HK(1.49) cents                 |
| — Discontinued operations  |         | <u>—</u>                                | <u>HK9.09 cents</u>            |
|  | 10      | <u><b>HK20.10 cents</b></u>             | <u><b>HK7.60 cents</b></u>     |
| <b>Diluted earnings/(losses) per share for profit/(loss) attributable to shareholders of the Company during the period</b> |         |   |                                |
| — Continuing operations  |         | HK19.86 cents                           | HK(1.45) cents                 |
| — Discontinued operations  |         | <u>—</u>                                | <u>HK8.90 cents</u>            |
|  | 10      | <u><b>HK19.86 cents</b></u>             | <u><b>HK7.45 cents</b></u>     |
| Interim dividend   | 9       | <u><b>27,320</b></u>                    | <u><b>23,701</b></u>           |

## CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

|   | Note | Unaudited<br>30th June<br>2007<br>HK\$'000 | Audited<br>31st December<br>2006<br>HK\$'000 |
|---|------|--|--|
| <b>Non-current assets</b>                                       |      |  |  |
| Intangible assets   | 11   | 3,393                                      | 3,393  |
| Property, plant and equipment                                   | 11   | 58,600                                     | 268,340                                      |
| Investment properties   | 11   | 39,828                                     | 39,828                                       |
| Leasehold land and land use rights                              | 11   | 49,342                                     | 67,478                                       |
| Investments in associated companies                             |      | 382,049                                    | 297,570                                      |
| Investments in jointly controlled entities                      |      | 75,100                                     | 72,336                                       |
| Deferred tax assets   |      | 1,328                                      | 1,231  |
| Available-for-sale financial assets                             |      | 420,377                                    | 115,033                                      |
| Loans receivable  | 12   | 29,340                                     | 28,266                                       |
|   |      | <u>1,059,357</u>                           | <u>893,475</u>                               |
| <b>Current assets</b>   |      |  |  |
| Inventories   |      | 19,041                                     | 18,892                                       |
| Loans and advances  |      | 311,691                                    | 206,961                                      |
| Trade receivables   | 13   | 1,289,015                                  | 157,563                                      |
| Other receivables, prepayments and deposits                     |      | 310,831                                    | 180,794                                      |
| Tax recoverable   |      | 389  | 374  |
| Financial assets at fair value through income statement         |      | 249,396                                    | 157,904                                      |
| Cash and cash equivalents                                       |      | 831,557                                    | 476,142                                      |
|   |      | <u>3,011,920</u>                           | <u>1,198,630</u>                             |
| <b>Current liabilities</b>                                      |      |  |  |
| Trade and other payables  | 14   | 500,627                                    | 224,258                                      |
| Amount due to a related party                                   | 15   | 1,947                                      | —  |
| Taxation payable  |      | 27,328                                     | 24,242                                       |
| Short-term bank borrowings, unsecured                           |      | 933,592                                    | 2,989  |
|   |      | <u>1,463,494</u>                           | <u>251,489</u>                               |
| <b>Net current assets</b>                                       |      |  |  |
|   |      | <u>1,548,426</u>                           | <u>947,141</u>                               |
| <b>Total assets less current liabilities</b>                    |      |  |  |
|   |      | <u>2,607,783</u>                           | <u>1,840,616</u>                             |
| <b>Non-current liabilities</b>                                  |      |  |  |
| Deferred tax liabilities  |      | 414  | 496  |
| Long-term bank borrowings, secured                              |      | —  | 144,449                                      |
| Convertible bonds   | 17   | 29,481                                     | —  |
|   |      | <u>29,895</u>                              | <u>144,945</u>                               |
| <b>Net assets</b>   |      |  |  |
|   |      | <u>2,577,888</u>                           | <u>1,695,671</u>                             |
| <b>Equity</b>   |      |  |  |
| Share capital   | 16   | 273,204                                    | 238,773                                      |
| Reserves  |      | 2,249,256                                  | 1,383,640                                    |
|   |      | <u>2,522,460</u>                           | <u>1,622,413</u>                             |
| Capital and reserves attributable to the Company's shareholders |      | 2,522,460                                  | 1,622,413                                    |
| Minority interests  |      | 55,428                                     | 73,258                                       |
| <b>Total equity</b>   |      |  |  |
|   |      | <u>2,577,888</u>                           | <u>1,695,671</u>                             |

## CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT

|  | Unaudited<br>Six months ended 30th June |                  |
|--|---|------------------|
|  | 2007<br>HK\$'000                        | 2006<br>HK\$'000 |
| Net cash used in operating activities  | (59,351)                                | (92,712)         |
| Net cash generated from investing activities                                 | 195,890                                 | 394,930          |
| Net cash generated from/(used in) financing activities                       | 220,113                                 | (17,900)         |
| <b>Net increase in cash and cash equivalents and bank overdrafts</b>         | <b>356,652</b>                          | <b>284,318</b>   |
| Cash and cash equivalents and bank overdrafts at 1st January                 | 476,142                                 | 149,990          |
| Exchange losses on cash and cash equivalents and bank overdrafts             | (1,237)                                 | (1,265)          |
| <b>Cash and cash equivalents and bank overdrafts at 30th June</b>            | <b>831,557</b>                          | <b>433,043</b>   |
| <b>Analysis of balances of cash and cash equivalents and bank overdrafts</b> |   |                  |
| Cash at bank and in hand   | 86,409                                  | 209,623          |
| Bank deposits with original maturities within three months                   | 730,148                                 | 207,750          |
| Pledged bank deposits  | 15,000                                  | 15,799           |
| Cash and cash equivalents  | 831,557                                 | 433,172          |
| Bank overdrafts  | —                                       | (129)            |
|  | <b>831,557</b>                          | <b>433,043</b>   |

## CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

|   | Unaudited<br>Attributable to shareholders of the Company |                              |  |                                |  |  |  |  |  | Minority<br>interests | Total         |                                  |
|---|--|------------------------------|--|--------------------------------|--|--|--|--|--|-----------------------|---------------|----------------------------------|
|   | Share<br>capital<br>HK\$'000                             | Share<br>premium<br>HK\$'000 | Employee<br>share-based<br>compensation<br>reserve<br>HK\$'000 | Capital<br>reserve<br>HK\$'000 | Capital<br>redemption<br>reserve<br>HK\$'000 | Assets<br>revaluation<br>reserve<br>HK\$'000 | Investment<br>revaluation<br>reserve<br>HK\$'000 | Convertible<br>bonds equity<br>reserve<br>HK\$'000 | Exchange<br>fluctuation<br>reserve<br>HK\$'000 |                       |               | Retained<br>earnings<br>HK\$'000 |
| Balance at 1st January 2007   | 238,773  | 597,406                      | 16,498   | 164,344                        | 14,006                                       | 12,262                                       | 41,272   | –  | 22,020   | 515,812               | 73,258        | 1,695,671                        |
| Issue of new shares on placement  | 19,000   | 175,750                      | –  | –                              | –  | –  | –  | –  | –  | –                     | –             | 194,750                          |
| Issue of new shares on exercise of<br>share options                         | 15,431   | 40,045                       | (11,699)   | –                              | –  | –  | –  | –  | –  | –                     | –             | 43,867                           |
| Employees share option benefits   | –  | –                            | 9,568  | –                              | –  | –  | –  | –  | –  | –                     | –             | 9,568                            |
| Recognition of equity components<br>of convertible bonds                    | –  | –                            | –  | –                              | –  | –  | –  | 2,382  | –  | –                     | –             | 2,382                            |
| Acquisition of subsidiaries   | –  | –                            | –  | –                              | –  | –  | –  | –  | 551  | –                     | –             | 551                              |
| Disposal of subsidiaries  | –  | –                            | –  | –                              | –  | –  | –  | –  | (2,917)  | –                     | (27,506)      | (30,423)                         |
| Capital contribution to<br>a subsidiary by its minority<br>shareholders     | –  | –                            | –  | –                              | –  | –  | –  | –  | 419  | –                     | 11,853        | 12,272                           |
| Share of post-acquisition reserves<br>of an associated company              | –  | –                            | –  | 90,038                         | –  | –  | –  | –  | –  | –                     | –             | 90,038                           |
| Fair value gains on available-for-<br>sale financial assets                 | –  | –                            | –  | –                              | –  | –  | 306,621  | –  | –  | –                     | –             | 306,621                          |
| Reserve realised upon disposal<br>of available-for-sale<br>financial assets | –  | –                            | –  | –                              | –  | –  | 563  | –  | –  | –                     | –             | 563                              |
| Currency translation differences  | –  | –                            | –  | (561)                          | –  | –  | –  | –  | 16,731   | –                     | 1,736         | 17,906                           |
| Profit for the period   | –  | –                            | –  | –                              | –  | –  | –  | –  | –  | 244,165               | (3,913)       | 240,252                          |
| 2006 final dividend paid  | –  | –                            | –  | –                              | –  | –  | –  | –  | –  | (6,130)               | –             | (6,130)                          |
| Balance at 30th June 2007   | <u>273,204</u>   | <u>813,201</u>               | <u>14,457</u>  | <u>253,841</u>                 | <u>14,006</u>                                | <u>12,262</u>                                | <u>348,456</u>                                   | <u>2,382</u>                                       | <u>36,804</u>                                  | <u>753,847</u>        | <u>55,428</u> | <u>2,577,888</u>                 |
| Retained by:  |  |                              |  |                                |  |  |  |  |  |                       |               |                                  |
| Company and subsidiaries  | 273,204  | 813,201                      | 14,457   | 31,493                         | 14,006                                       | 12,262                                       | 348,456  | 2,382  | 26,189   | 487,659               | 55,428        | 2,078,737                        |
| Associated companies  | –  | –                            | –  | 222,182                        | –  | –  | –  | –  | 3,178  | 125,688               | –             | 351,048                          |
| Jointly controlled entities   | –  | –                            | –  | 166                            | –  | –  | –  | –  | 7,437  | 140,500               | –             | 148,103                          |
| Balance at 30th June 2007   | <u>273,204</u>   | <u>813,201</u>               | <u>14,457</u>  | <u>253,841</u>                 | <u>14,006</u>                                | <u>12,262</u>                                | <u>348,456</u>                                   | <u>2,382</u>                                       | <u>36,804</u>                                  | <u>753,847</u>        | <u>55,428</u> | <u>2,577,888</u>                 |

## CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY (Continued)

|   | Unaudited<br>Attributable to shareholders of the Company |                              |                                     |                                |  |  |  |  | Minority<br>interests | Total         |                                  |
|---|--|------------------------------|-------------------------------------|--------------------------------|--|--|--|--|-----------------------|---------------|----------------------------------|
|   | Share<br>capital<br>HK\$'000                             | Share<br>premium<br>HK\$'000 | Employee<br>share-based             | Capital<br>reserve<br>HK\$'000 | Capital<br>redemption<br>reserve<br>HK\$'000 | Assets<br>revaluation<br>reserve<br>HK\$'000 | Investment<br>revaluation<br>reserve<br>HK\$'000 | Exchange<br>fluctuation<br>reserve<br>HK\$'000 |                       |               | Retained<br>earnings<br>HK\$'000 |
|   |  |                              | compensation<br>reserve<br>HK\$'000 |                                |  |  |  |  |                       |               |                                  |
| Balance at 1st January 2006   | 236,406  | 596,020                      | 2,508                               | 95,779                         | 14,006                                       | 12,262                                       | 5,119  | 17,037   | 362,036               | 72,287        | 1,413,460                        |
| Issue of new shares   | 608  | 358                          | —                                   | —                              | —  | —  | —  | —  | —                     | —             | 966                              |
| Employees share option benefits                                       | —  | —                            | 12,875                              | —                              | —  | —  | —  | —  | —                     | —             | 12,875                           |
| Capital reserve realised upon disposal of jointly controlled entities | —  | —                            | —                                   | 35,279                         | —  | —  | —  | (7,699)  | (35,310)              | —             | (7,730)                          |
| Share of post-acquisition reserves of an associated company           | —  | —                            | —                                   | 8,259                          | —  | —  | —  | —  | —                     | —             | 8,259                            |
| Fair value gains on available-for-sale financial assets               | —  | —                            | —                                   | —                              | —  | —  | 9,053  | —  | —                     | —             | 9,053                            |
| Currency translation differences                                      | —  | —                            | —                                   | 3                              | —  | —  | —  | 292  | —                     | 2,672         | 3,167                            |
| Profit for the period   | —  | —                            | —                                   | —                              | —  | —  | —  | —  | 89,888                | (3,744)       | 86,144                           |
| 2006 final dividend paid  | —  | —                            | —                                   | —                              | —  | —  | —  | —  | (17,758)              | —             | (17,758)                         |
| Balance at 30th June 2006   | <u>237,014</u>   | <u>596,378</u>               | <u>15,383</u>                       | <u>139,320</u>                 | <u>14,006</u>                                | <u>12,262</u>                                | <u>14,172</u>                                    | <u>9,630</u>                                   | <u>398,856</u>        | <u>71,415</u> | <u>1,508,436</u>                 |
| Retained by:  |  |                              |                                     |                                |  |  |  |  |                       |               |                                  |
| Company and subsidiaries  | 237,014  | 596,378                      | 15,383                              | 26,946                         | 14,006                                       | 12,262                                       | 14,172   | 6,488  | 333,738               | 71,415        | 1,327,802                        |
| Associated companies  | —  | —                            | —                                   | 112,209                        | —  | —  | —  | 674  | 50,252                | —             | 163,135                          |
| Jointly controlled entities   | —  | —                            | —                                   | 165                            | —  | —  | —  | 2,468  | 14,866                | —             | 17,499                           |
| Balance at 30th June 2006   | <u>237,014</u>   | <u>596,378</u>               | <u>15,383</u>                       | <u>139,320</u>                 | <u>14,006</u>                                | <u>12,262</u>                                | <u>14,172</u>                                    | <u>9,630</u>                                   | <u>398,856</u>        | <u>71,415</u> | <u>1,508,436</u>                 |

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

### 1. General information

First Shanghai Investments Limited (the "Company") and its subsidiaries, associated companies and jointly controlled entities (together, the "Group") are principally engaged in securities trading and investment, corporate finance and stockbroking, property development and investments, hotel operation, container transportation and freight forwarding services, motor vehicle meters and components manufacturing, and investment holding and management.

The Company is a limited liability company incorporated in Hong Kong. The address of its registered office is Room 1903, Wing On House, 71 Des Voeux Road Central, Hong Kong. The Company has its primary listing on The Stock Exchange of Hong Kong Limited.

This unaudited condensed consolidated interim financial information are presented in thousands of units of Hong Kong dollars (HK\$'000), unless otherwise stated.

### 2. Basis of preparation

This unaudited condensed consolidated interim financial information for the six months ended 30th June 2007 has 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"). This unaudited condensed interim financial information should be read in conjunction with the audited financial statements for the year ended 31st December 2006.

### 3. Accounting policies

The accounting policies adopted are consistent with those as described in the annual financial statements for the year ended 31st December 2006 with the additions of the following new Standards, amendments and interpretations to existing Standards which are mandatory for financial year ending 31st December 2007. The adoption of such new Standards, amendments and interpretations to existing Standards does not result in substantial changes to the Group's accounting policies and has no significant effect on the interim results.

- |                      |  |
|----------------------|--|
| • HKAS 1 (Amendment) | Capital Disclosures                        |
| • HKFRS 7            | Financial Instruments: Disclosures         |
| • HK(IFRIC) — Int 8  | Scope of HKFRS 2: Share-based payment      |
| • HK(IFRIC) — Int 9  | Reassessment of Embedded Derivatives       |
| • HK(IFRIC) — Int 10 | Interim Financial Reporting and Impairment |

The new interpretation to existing Standard, HK(IFRIC) — Int 7, "Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies", is mandatory for financial year ending 31st December 2007 but is not relevant to the Group.



## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

### 3. Accounting policies *(Continued)*

The following new Standards and interpretations to existing Standards have been issued but are not effective for 2007 and have not been early adopted:

- |                      |   |
|----------------------|---|
| • HKFRS 8            | Operating Segments                              |
| • HK(IFRIC) — Int 11 | HKFRS 2 — Group and Treasury Share Transactions |
| • HK(IFRIC) — Int 12 | Service Concession Arrangements                 |

Certain comparative figures have been reclassified to conform with the current period's presentation.

### 4. Segment information

The Group has determined the business segments be presented as the primary reporting format and geographical as the secondary reporting format.

Segment assets consist primarily of intangible assets, property, plant and equipment, investment properties, leasehold land and land use rights, inventories, financial assets and operating cash. Segment liabilities comprise operating liabilities and borrowings but exclude taxation and deferred taxation. Capital expenditure comprises additions to property, plant and equipment, investment properties and leasehold land and land use rights.

In respect of geographical segment reporting, revenue is based on the country in which the customers are allocated.

#### ***Primary reporting format – business segments***

The Group is organised into seven main business segments:

- Securities trading and investment
- Corporate finance and stockbroking
- Property development and investments
- Hotel operation
- Container transportation and freight forwarding services
- Motor vehicle meters and components manufacturing
- Investment holding and management

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

### 4. Segment information (Continued)

#### Primary reporting format – business segments (Continued)

The unaudited segment results, capital expenditure, depreciation and amortisation of leasehold land and land use rights of the Group for the six months ended 30th June 2007 are as follows:

|  | Securities<br>trading and<br>investment<br>HK\$'000 | Corporate<br>finance and<br>stockbroking<br>HK\$'000 | Property<br>development<br>and<br>investments<br>HK\$'000 | Hotel<br>operation<br>HK\$'000 | Container<br>transportation<br>and freight<br>forwarding<br>services<br>HK\$'000 | Motor vehicle<br>meters and<br>components<br>manufacturing<br>HK\$'000 | Investment<br>holding and<br>management<br>HK\$'000 | Group<br>HK\$'000 |
|--|---|--|---|--------------------------------|--|--|---|-------------------|
| Revenue  | <u>52,671</u>                                       | <u>138,100</u>                                       | <u>1,450</u>  | <u>26,724</u>                  | <u>24,627</u>  | <u>20,437</u>  | <u>79,060</u>                                       | <u>343,069</u>    |
| Segment results  | <u>48,061</u>                                       | <u>53,010</u>  | <u>(660)</u>  | <u>150,265</u>                 | <u>(2,846)</u>   | <u>(178)</u>   | <u>16,913</u>                                       | 264,565           |
| Finance costs  |   |  |   |                                |  |  |   | (14,818)          |
| Share of profits less<br>losses of                       |   |  |   |                                |  |  |   |                   |
| – Associated<br>companies                                | (225)   | –  | –   | –                              | –  | 1,588  | (2,808)   | (1,445)           |
| – Jointly controlled<br>entities                         | –   | –  | 254   | –                              | –  | –  | 6   | 260               |
| Profit before taxation                                   |   |  |   |                                |  |  |   | 248,562           |
| Taxation   |   |  |   |                                |  |  |   | <u>(8,310)</u>    |
| Profit for the period                                    |   |  |   |                                |  |  |   | <u>240,252</u>    |
| <b>Other information</b>                                 |   |  |   |                                |  |  |   |                   |
| Capital expenditure                                      | 78  | 1,058  | 478   | 911                            | 296  | 65   | 110   | 2,996             |
| Depreciation   | 99  | 826  | 468   | 5,060                          | 2,082  | 317  | 888   | 9,740             |
| Amortisation of leasehold<br>land and land use<br>rights | –   | –  | 99  | 165                            | 325  | 1  | –   | 590               |

Note: There are no sales or other transactions among the business segments.

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

### 4. Segment information (Continued)

#### Primary reporting format – business segments (Continued)

The unaudited segment results, capital expenditure, depreciation and amortisation of leasehold land and land use rights of the Group for the six months ended 30th June 2006 are as follows:

|  | Securities trading and investment<br>HK\$'000<br>(Restated) | Corporate finance and stockbroking<br>HK\$'000<br>(Restated) | Property development and investments<br>HK\$'000<br>(Restated) | Hotel operation<br>HK\$'000 | Container transportation and freight forwarding services<br>HK\$'000 | Motor vehicle meters and components manufacturing<br>HK\$'000 | Investment holding and management<br>HK\$'000<br>(Restated) | Group<br>HK\$'000<br>(Restated) |
|--|---|--|--|-----------------------------|--|---|---|---------------------------------|
| Revenue  | <u>23,654</u>   | <u>61,524</u>  | <u>546</u>   | <u>34,739</u>               | <u>571,286</u>   | <u>17,442</u>   | <u>16,995</u>   | <u>726,186</u>                  |
| Segment results                                    | <u>15,140</u>   | <u>11,476</u>  | <u>964</u>   | <u>1,670</u>                | <u>(3,876)</u>   | <u>(962)</u>  | <u>(26,164)</u>   | (1,752)                         |
| Finance costs                                      |   |  |  |                             |  |   |   | (9,472)                         |
| Share of profits less losses of                    |   |  |  |                             |  |   |   |                                 |
| – Associated companies                             | –   | –  | –  | –                           | –  | 1,089   | (19,040)  | (17,951)                        |
| – Jointly controlled entities                      | –   | –  | 9,327  | –                           | –  | –   | 81  | 9,408                           |
| Loss before taxation                               |   |  |  |                             |  |   |   | (19,767)                        |
| Taxation   |   |  |  |                             |  |   |   | <u>(1,526)</u>                  |
| Loss for the period from continuing operations     |   |  |  |                             |  |   |   | (21,293)                        |
| Profit for the period from discontinued operations | –   | –  | –  | –                           | –  | –   | 107,437   | <u>107,437</u>                  |
| Profit for the period                              |   |  |  |                             |  |   |   | <u>86,144</u>                   |
| <b>Other information</b>                           |   |  |  |                             |  |   |   |                                 |
| Capital expenditure                                | 291   | 430  | 12,107   | 22,305                      | 1,412  | 45  | 6,065   | 42,655                          |
| Depreciation                                       | 237   | 625  | 514  | 6,215                       | 5,097  | 270   | 6,734   | 19,692                          |
| Amortisation of leasehold land and land use rights | –   | –  | 83   | 233                         | 306  | 1   | –   | 623                             |

Note: There are no sales or other transactions among the business segments.

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

### 4. Segment information (Continued)

#### Primary reporting format – business segments (Continued)

The unaudited segment assets and liabilities of the Group as at 30th June 2007 are as follows:

|   | Securities<br>trading and<br>investment<br>HK\$'000 | Corporate<br>finance and<br>stockbroking<br>HK\$'000 | Property<br>development<br>and<br>investments<br>HK\$'000 | Hotel<br>operation<br>HK\$'000 | Container<br>transportation<br>and freight<br>forwarding<br>services<br>HK\$'000 | Motor vehicle<br>meters and<br>components<br>manufacturing<br>HK\$'000 | Investment<br>holding and<br>management<br>HK\$'000 | Group<br>HK\$'000 |
|---|---|--|---|--------------------------------|--|--|---|-------------------|
| Segment assets                                | 171,738   | 1,689,999  | 315,002   | 92,964                         | 101,257  | 42,930   | 1,198,521   | 3,612,411         |
| Investments in associated<br>companies        | 392   | —  | —   | —                              | —  | 13,474   | 368,183   | 382,049           |
| Investments in jointly<br>controlled entities | —   | —  | 52,960  | —                              | —  | —  | 22,140  | 75,100            |
| Tax recoverable                               | —   | —  | —   | —                              | —  | —  | —   | 389               |
| Deferred tax assets                           | —   | —  | —   | —                              | —  | —  | —   | 1,328             |
| Total assets                                  |   |  |   |                                |  |  |   | <u>4,071,277</u>  |
| Segment liabilities                           | 4,976   | 1,140,977  | 5,320   | 39,854                         | 13,574   | 36,431   | 224,515   | 1,465,647         |
| Taxation payable                              | —   | —  | —   | —                              | —  | —  | —   | 27,328            |
| Deferred tax liabilities                      | —   | —  | —   | —                              | —  | —  | —   | 414               |
| Total liabilities                             |   |  |   |                                |  |  |   | <u>1,493,389</u>  |

The audited segment assets and liabilities of the Group as at 31st December 2006 are as follows:

|   | Securities<br>trading and<br>investment<br>HK\$'000 | Corporate<br>finance and<br>stockbroking<br>HK\$'000 | Property<br>development<br>and<br>investments<br>HK\$'000<br>(Restated) | Hotel<br>operation<br>HK\$'000 | Container<br>transportation<br>and freight<br>forwarding<br>services<br>HK\$'000 | Motor vehicle<br>meters and<br>components<br>manufacturing<br>HK\$'000 | Investment<br>holding and<br>management<br>HK\$'000<br>(Restated) | Group<br>HK\$'000 |
|---|---|--|---|--------------------------------|--|--|---|-------------------|
| Segment assets                                | 152,723   | 379,737  | 199,450   | 239,302                        | 118,449  | 36,683   | 594,250   | 1,720,594         |
| Investments in associated<br>companies        | 4,601   | —  | —   | —                              | —  | 11,487   | 281,482   | 297,570           |
| Investments in jointly<br>controlled entities | —   | —  | 50,943  | —                              | —  | —  | 21,393  | 72,336            |
| Tax recoverable                               | —   | —  | —   | —                              | —  | —  | —   | 374               |
| Deferred tax assets                           | —   | —  | —   | —                              | —  | —  | —   | 1,231             |
| Total assets                                  |   |  |   |                                |  |  |   | <u>2,092,105</u>  |
| Segment liabilities                           | 865   | 7,028  | 3,177   | 161,280                        | 12,793   | 30,130   | 156,423   | 371,696           |
| Taxation payable                              | —   | —  | —   | —                              | —  | —  | —   | 24,242            |
| Deferred tax liabilities                      | —   | —  | —   | —                              | —  | —  | —   | 496               |
| Total liabilities                             |   |  |   |                                |  |  |   | <u>396,434</u>    |

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

### 4. Segment information (Continued)

#### Secondary reporting format – geographical segments

The Group operates in two main geographical areas:

- Hong Kong — securities trading and investment, corporate finance and stockbroking, and investment holding and management
- Chinese Mainland — property development and investments, hotel operation, container transportation and freight forwarding services, and motor vehicle meters and components manufacturing

|  | Unaudited                  |                 |                  | Capital          |
|--|----------------------------|-----------------|------------------|------------------|
|  | Revenue                    | Segment results | Total assets     | expenditure      |
|  | Six months ended 30th June | 30th June       | 30th June        | Six months ended |
|  | 2007                       | 2007            | 2007             | 30th June 2007   |
|  | HK\$'000                   | HK\$'000        | HK\$'000         | HK\$'000         |
| Hong Kong                                  | 252,541                    | 123,033         | 2,793,809        | 148              |
| Chinese Mainland                           | 88,214                     | 139,753         | 780,084          | 2,770            |
| Others                                     | 2,314                      | 1,779           | 38,518           | 78               |
|  | <u>343,069</u>             | <u>264,565</u>  | <u>3,612,411</u> | <u>2,996</u>     |
| Investments in associated companies        |                            |                 | 382,049          |                  |
| Investments in jointly controlled entities |                            |                 | 75,100           |                  |
| Tax recoverable                            |                            |                 | 389              |                  |
| Deferred tax assets                        |                            |                 | <u>1,328</u>     |                  |
| Total assets                               |                            |                 | <u>4,071,277</u> |                  |
|  | Unaudited                  |                 | Audited          | Unaudited        |
|  | Revenue                    | Segment results | Total assets     | Capital          |
|  | Six months ended 30th June | 31st December   | 30th June        | expenditure      |
|  | 2006                       | 2006            | 2006             | Six months ended |
|  | HK\$'000                   | HK\$'000        | HK\$'000         | 30th June 2006   |
|  | (Restated)                 | (Restated)      |                  | HK\$'000         |
| Hong Kong                                  | 88,283                     | 8,104           | 784,341          | 448              |
| Chinese Mainland                           | 638,134                    | (5,308)         | 909,743          | 41,922           |
| Others                                     | (231)                      | (4,548)         | 26,510           | 285              |
|  | <u>726,186</u>             | <u>(1,752)</u>  | <u>1,720,594</u> | <u>42,655</u>    |
| Investments in associated companies        |                            |                 | 297,570          |                  |
| Investments in jointly controlled entities |                            |                 | 72,336           |                  |
| Tax recoverable                            |                            |                 | 374              |                  |
| Deferred tax assets                        |                            |                 | <u>1,231</u>     |                  |
| Total assets                               |                            |                 | <u>2,092,105</u> |                  |

Note: There are no sales among the geographical segments.

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

### 5. Other gains — net

|  | Unaudited<br>Six months ended 30th June |                                |
|--|---|--------------------------------|
|  | 2007<br>HK\$'000                        | 2006<br>HK\$'000<br>(Restated) |
| Interest income  | 5,848                                   | 8,232                          |
| Gain on disposal of subsidiaries ( <i>Note</i> )                     | 146,844                                 | 3,633                          |
| Loss on deemed disposal of partial interest in an associated company | (2,349)                                 | —                              |
| Loss on disposal of available-for-sale financial assets              | (91)                                    | —                              |
|  | <u>150,252</u>                          | <u>11,865</u>                  |

*Note:*

Included is the gain on disposal of the Group's entire 100% interest in First Shanghai Hotel Group Limited and its 65% interest in subsidiary, Kunshan Traders Park Hotel Company Limited, of approximately HK\$146,764,000 for the six months ended 30th June 2007.

### 6. Operating profit/(loss)

The following items have been credited/charged to the operating profit/(loss) during the interim period:

|   | Unaudited<br>Six months ended 30th June |                  |
|---|---|------------------|
|   | 2007<br>HK\$'000                        | 2006<br>HK\$'000 |
| <b>Crediting:</b>                                     |   |                  |
| Net gain on disposal of property, plant and equipment | <u>54</u>                               | <u>—</u>         |
| <b>Charging:</b>                                      |   |                  |
| Depreciation  | 9,740                                   | 19,692           |
| Amortisation of leasehold land and land use rights    | 590                                     | 623              |
| Impairment loss on intangible assets                  | —                                       | 400              |
| Staff costs ( <i>Note 7</i> )                         | 100,590                                 | 101,535          |
| Net loss on disposal of property, plant and equipment | <u>—</u>                                | <u>225</u>       |

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

### 7. Staff costs

Staff costs, including directors' remuneration, comprise:

|                                 | Unaudited<br>Six months ended 30th June |                  |
|---------------------------------|---|------------------|
|                                 | 2007<br>HK\$'000                        | 2006<br>HK\$'000 |
| Wages, salaries and allowances  | 84,119                                  | 79,722           |
| Retirement benefit costs        | 2,538                                   | 3,314            |
| Other employee benefits         | 4,365                                   | 5,624            |
| Employees share option benefits | 9,568                                   | 12,875           |
|                                 | <u>100,590</u>                          | <u>101,535</u>   |

### 8. Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profit for the period. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged to the consolidated income statement represents:

|  | Unaudited<br>Six months ended 30th June |                  |
|--|---|------------------|
|  | 2007<br>HK\$'000                        | 2006<br>HK\$'000 |
| Hong Kong profits tax                      |   |                  |
| — Current                                  | 10,100                                  | 1,257            |
| — (Over)/under provision in previous years | (2,272)                                 | 58               |
| Overseas profits tax                       |   |                  |
| — Current                                  | 661                                     | 444              |
| — Under provision in previous years        | —                                       | 547              |
| Deferred taxation                          | (179)                                   | (780)            |
| Taxation charge                            | <u>8,310</u>                            | <u>1,526</u>     |

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

### 9. Interim dividend

|   | Unaudited<br>Six months ended 30th June |                  |
|---|---|------------------|
|   | 2007<br>HK\$'000                        | 2006<br>HK\$'000 |
| Interim dividend, of HK\$0.02 (2006: HK\$0.02) per ordinary share | 27,320                                  | 23,701           |

At a meeting held on 12th September 2007, the Board declared an interim dividend of HK\$0.02 (2006: HK\$0.02) per ordinary share in respect of the results for the six months ended 30th June 2007. The interim dividend is not reflected as a dividend payable in these unaudited consolidated interim financial statements.

At a meeting held on 20th April 2007, the Board declared a final dividend of HK\$0.005 (2005: HK\$0.015) per ordinary share for the year ended 31st December 2006. Total amount of approximately HK\$6,130,000 (2006: HK\$17,758,000) was paid in 2007 and has been fully reflected as an appropriation of retained earnings for the six months ended 30th June 2007.

### 10. Earnings per share

The calculations of basic and diluted earnings per share are based on the Group's profit attributable to shareholders of approximately HK\$244,165,000 (2006: HK\$89,888,000). The basic earnings per share is based on the weighted average number of 1,214,864,804 (2006: 1,182,511,448) ordinary shares in issue during the period. The diluted earnings per share is based on 1,229,457,162 (2006: 1,206,893,204) ordinary shares which is the weighted average number of ordinary shares in issue during the period plus the weighted average of 14,592,358 (2006: 24,381,756) ordinary shares deemed to be issued at no consideration if all outstanding options had been exercised.

### 11. Capital expenditure

|   | Unaudited                        |   |                                      |  |
|---|----------------------------------|---|--------------------------------------|--|
|   | Intangible<br>assets<br>HK\$'000 | Property,<br>plant and<br>equipment<br>HK\$'000 | Investment<br>properties<br>HK\$'000 | Leasehold<br>land and<br>land use rights<br>HK\$'000 |
| Net book value at 1st January<br>2007     | 3,393                            | 268,340   | 39,828                               | 67,478   |
| Additions                                 | —                                | 2,996   | —                                    | —  |
| Disposals                                 | —                                | (72)  | —                                    | —  |
| Disposal of subsidiaries                  | —                                | (211,289)                                       | —                                    | (18,372)   |
| Depreciation and amortisation<br>(Note 6) | —                                | (9,740)   | —                                    | (590)  |
| Exchange differences                      | —                                | 8,365   | —                                    | 826  |
| Net book value at 30th June<br>2007       | 3,393                            | 58,600  | 39,828                               | 49,342   |



## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

### 11. Capital expenditure (Continued)

|  | Intangible<br>assets<br>HK\$ '000 | Audited<br>Property,<br>plant and<br>equipment<br>HK\$ '000 | Investment<br>properties<br>HK\$ '000 | Leasehold<br>land and<br>land use rights<br>HK\$ '000 |
|--|-----------------------------------|---|---------------------------------------|---|
| Net book value at 1st January<br>2006                  | 3,893                             | 262,203   | 19,260                                | 66,377  |
| Additions  | —                                 | 51,275  | 8,329                                 | 1,447   |
| Disposals  | —                                 | (17,268)  | —                                     | —   |
| Disposal of subsidiaries                               | —                                 | (444)   | —                                     | —   |
| Depreciation and amortisation                          | —                                 | (36,861)  | —                                     | (1,275)   |
| Impairment loss  | (500)                             | —   | —                                     | —   |
| Net increase in fair value of<br>investment properties | —                                 | —   | 12,239                                | —   |
| Exchange differences                                   | —                                 | 9,435   | —                                     | 929   |
| Net book value at 31st<br>December 2006                | <u>3,393</u>                      | <u>268,340</u>  | <u>39,828</u>                         | <u>67,478</u>   |

### 12. Loans receivable

The loans receivable represents loans to third parties of approximately HK\$17,547,000 (31st December 2006: HK\$16,961,000) which bear weighted average interest rate at 5% (31st December 2006: 5%) per annum, and an interest free loan of approximately HK\$11,793,000 (31st December 2006: HK\$11,305,000). These loans receivable are not repayable within one year from 30th June 2007. The carrying value of loans receivable approximates its fair value. The weighted average effective interest rate at 30th June 2007 was 6.3% (31st December 2006: 6.3%) per annum.

### 13. Trade receivables

|  | Unaudited<br>30th June<br>2007<br>HK\$ '000 | Audited<br>31st December<br>2006<br>HK\$ '000 |
|--|---|---|
| Due from stockbrokers and Hong Kong<br>Securities Clearing Company Limited | 87,239                                      | 34,309  |
| Due from stockbroking clients  | 1,119,267                                   | 58,807  |
| Trade receivables, net   | 81,592                                      | 63,700  |
| Bills receivables  | 917   | 747   |
|  | <u>1,289,015</u>                            | <u>157,563</u>                                |

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

### 13. Trade receivables (Continued)

At 30th June 2007 and 31st December 2006, the ageing analysis of trade receivables is as follows:

|              | <b>Unaudited<br/>30th June<br/>2007<br/>HK\$'000</b> | Audited<br>31st December<br>2006<br>HK\$'000 |
|--------------|--|--|
| 0 — 30 days  | 1,259,457  | 125,300                                      |
| 31 — 60 days | 8,419  | 8,084  |
| 61 — 90 days | 9,493  | 6,024  |
| Over 90 days | <u>11,646</u>  | <u>18,155</u>                                |
|              | <b><u>1,289,015</u></b>                              | <b><u>157,563</u></b>                        |

For securities business, trade receivables shall be due on the settlement day of the respective securities and commodities transactions. For the remaining business of the Group, trade receivables are mainly on credit terms of 30 to 90 days.

### 14. Trade and other payables

|                                 | <b>Unaudited<br/>30th June<br/>2007<br/>HK\$'000</b> | Audited<br>31st December<br>2006<br>HK\$'000 |
|---------------------------------|--|--|
| Due to stockbrokers and dealers | 24,252   | 1,918  |
| Due to stockbroking clients     | 280,201  | 75,260                                       |
| Trade payables                  | <u>38,499</u>  | <u>39,735</u>                                |
| Total trade payables            | <b>342,952</b>                                       | 116,913                                      |
| Other payables and accruals     | <u>157,675</u>                                       | <u>107,345</u>                               |
|                                 | <b><u>500,627</u></b>                                | <b><u>224,258</u></b>                        |

At 30th June 2007 and 31st December 2006, the ageing analysis of total trade payables is as follows:

|              | <b>Unaudited<br/>30th June<br/>2007<br/>HK\$'000</b> | Audited<br>31st December<br>2006<br>HK\$'000 |
|--------------|--|--|
| 0 — 30 days  | 315,816  | 93,087                                       |
| 31 — 60 days | 6,043  | 4,557  |
| 61 — 90 days | 1,209  | 2,878  |
| Over 90 days | <u>19,884</u>  | <u>16,391</u>                                |
|              | <b><u>342,952</u></b>                                | <b><u>116,913</u></b>                        |

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

### 15. Amount due to a related party

The balance represents the amount due to Mr. Lao Yuan Yi, the major shareholder and director of the Company. The balance is unsecured, interest free and repayable on demand.

### 16. Share capital

|                                     | Unaudited<br>30th June 2007 |                | Audited<br>31st December 2006 |                |
|-------------------------------------|-----------------------------|----------------|-------------------------------|----------------|
|                                     | Number of<br>shares '000    | HK\$'000       | Number of<br>shares '000      | HK\$'000       |
| Authorised:                         |                             |                |                               |                |
| Ordinary shares of HK\$0.2 each     | <u>2,000,000</u>            | <u>400,000</u> | <u>2,000,000</u>              | <u>400,000</u> |
| Issued and fully paid:              |                             |                |                               |                |
| At 1st January                      | 1,193,867                   | 238,773        | 1,182,030                     | 236,406        |
| Issue of new shares on<br>placement | 95,000                      | 19,000         | —                             | —              |
| Exercise of share options           | <u>77,156</u>               | <u>15,431</u>  | <u>11,837</u>                 | <u>2,367</u>   |
|                                     | <u>1,366,023</u>            | <u>273,204</u> | <u>1,193,867</u>              | <u>238,773</u> |

During the period, 95,000,000 (2006: Nil) new ordinary shares of HK\$0.2 each were issued pursuant to a Placing Agreement and two Top-up Subscription Agreements dated 7th June 2007 at a placing price of HK\$2.05 per ordinary share to finance the Group's general working capital. These shares rank pari passu with the existing shares of the Company.

During the period, 77,156,000 (2006: 11,836,844) new ordinary shares of HK\$0.2 each were issued upon exercise of options under the Employee Share Option Scheme adopted by the Company on 24th May 2002 at exercise price ranging from HK\$0.283 to HK\$0.816 per ordinary share. The related weighted average share price at the time of exercise was HK\$1.77 per ordinary share. These shares rank pari passu with the existing shares of the Company.

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(Continued)*

### 17. Convertible bonds

On 27th June 2007, the Company issued two-year 1% convertible bonds with a face value of approximately HK\$31,860,000. The convertible bonds can be converted into ordinary shares of the Company at a price of HK\$1.32 per ordinary share and bear an interest rate of 1% per annum payable yearly in arrear. No conversion has been made during the period. The value of the liability component and the equity conversion component were determined at the issue of the convertible bonds. The fair value of the liability component included in the non-current liabilities was arrived at using discounted cash flow method at market interest rate of 5.0% per annum for an equivalent non-convertible bond. The residual amount, representing the value of the equity conversion component, is included in shareholders' equity under the convertible bonds equity reserve.

The convertible bonds recognised in the consolidated balance sheet was arrived at as follows:

|   | <b>Unaudited<br/>30th June 2007<br/>HK\$'000</b> |
|---|--|
| Fair value of convertible bonds issued on 27th June 2007 <i>(Note 18)</i> | <b>31,860</b>                                    |
| Equity portion  | <u><b>(2,382)</b></u>                            |
| Liability portion at date of issue  | <b>29,478</b>                                    |
| Interest expenses charged to income statement                             | <u><b>3</b></u>                                  |
| Liability portion at 30th June 2007                                       | <u><u><b>29,481</b></u></u>                      |

The carrying value of the liability component of the convertible bonds at 30th June 2007 approximates their fair value. Interest expenses on the convertible bonds are calculated using effective interest rate of 5.0% per annum to the liability component.

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

### 18. Business combination

On 27th June 2007, the Group acquired from its major shareholder and director, Mr. Lao Yuan Yi and his daughter, Ms. Lao Yuan, Vivian, 100% of the share capital of and the benefit of loans of approximately HK\$21 million advanced to HK Sunshine Real Estate Limited and its wholly owned subsidiary, Wuxi Sunshine Real Estate Limited (together, the "Sunshine Group") that are principally engaged in property development and investments. The aggregate consideration is approximately HK\$54 million, of which approximately HK\$22 million was settled in cash and the balance of approximately HK\$32 million was settled by the issue of convertible bonds of the Company. The Sunshine Group has not commenced operation for the period from the date of acquisition to 30th June 2007.

Details of net assets acquired and goodwill are as follows:

|  | <b>Unaudited<br/>30th June 2007<br/>HK\$'000</b> |
|--|--|
| Purchase consideration:                    |  |
| — cash paid                                | 22,100   |
| — direct costs relating to the acquisition | 959  |
| — issue of convertible bonds (Note 17)     | <u>31,860</u>                                    |
| Total purchase consideration               | 54,919   |
| Fair value of net assets acquired          | <u>(54,919)</u>                                  |
| Goodwill                                   | <u>—</u>   |

The assets and liabilities at 30th June 2007 arising from the acquisition are as follows:

|   | <b>Acquiree's<br/>carrying<br/>amount<br/>HK\$'000</b> | <b>Fair value<br/>HK\$'000</b> |
|---|--|--------------------------------|
| Other receivables – purchase deposit of land use rights | 56,708   | 90,627                         |
| Prepayments   | 1,367  | 1,367                          |
| Cash and cash equivalents                               | 969  | 969                            |
| Other payables  | (36,097)   | (36,097)                       |
| Amount due to a related party (Note 15)                 | <u>(1,947)</u>   | <u>(1,947)</u>                 |
| Net assets acquired                                     | <u>21,000</u>  | <u>54,919</u>                  |
|   |  | <b>HK\$'000</b>                |
| Cash consideration                                      |  | 23,059                         |
| Cash and cash equivalents in subsidiaries acquired      |  | <u>(969)</u>                   |
| Total net cash outflow for acquisition of business      |  | <u>22,090</u>                  |

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

### 19. Commitments

- (a) *Capital commitments for property, plant and equipment, and leasehold land and land use rights:*

|  | <b>Unaudited<br/>30th June<br/>2007<br/>HK\$'000</b> | Audited<br>31st December<br>2006<br>HK\$'000 |
|--|--|--|
| Contracted but not provided for  | <u>21,576</u>  | <u>41,803</u>                                |
| Authorised but not contracted  | <u>328,626</u>                                       | <u>320,348</u>                               |
| The Group's share of capital commitments of an associated company and a jointly controlled entity not included in the above is as follows: |  |  |
| Contracted but not provided for  | <u>—</u>   | <u>5,059</u>                                 |
| Authorised but not contracted  | <u>1,548</u>   | <u>—</u>                                     |

- (b) *Commitments under operating leases*

The Group had future aggregate minimum lease receivables under non-cancellable operating leases in respect of property, plant and equipment, and leasehold land and land use rights as follows:

|   | <b>Unaudited<br/>30th June<br/>2007<br/>HK\$'000</b> | Audited<br>31st December<br>2006<br>HK\$'000 |
|---|--|--|
| Not later than one year                           | 7,490  | 1,735  |
| Later than one year but not later than five years | 4,222  | 717  |
| More than five years                              | <u>762</u>   | <u>—</u>                                     |
|   | <u>12,474</u>  | <u>2,452</u>                                 |

The Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of property, plant and equipment, and leasehold land and land use rights as follows:

|   | <b>Unaudited<br/>30th June<br/>2007<br/>HK\$'000</b> | Audited<br>31st December<br>2006<br>HK\$'000 |
|---|--|--|
| Not later than one year                           | 5,768  | 7,251  |
| Later than one year but not later than five years | <u>3,408</u>   | <u>7,858</u>                                 |
|   | <u>9,176</u>   | <u>15,109</u>                                |

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Continued)

### 20. Related party transactions

During the period, the Group had the following material transactions with related parties, which were carried out in normal course of business at terms determined and agreed by both parties.

(a) Transactions with related parties:

|  | Unaudited<br>Six months ended 30th June |                  |
|--|---|------------------|
|  | 2007<br>HK\$'000                        | 2006<br>HK\$'000 |
| Purchase of raw materials from associated companies                | 1,032                                   | 5,464            |
| Purchase of investment properties from a jointly controlled entity | —                                       | 12,108           |
| Acquisition of subsidiaries from related parties (Note 18)         | 53,960                                  | —                |
| Amount due to a related party (Note 15)                            | 1,947                                   | —                |
|  | <u>56,949</u>                           | <u>17,572</u>    |

(b) Key management compensations:

|                                      | Unaudited<br>Six months ended 30th June |                  |
|--------------------------------------|---|------------------|
|                                      | 2007<br>HK\$'000                        | 2006<br>HK\$'000 |
| Fee                                  | 600                                     | 600              |
| Salaries and other employee benefits | 3,779                                   | 24,346           |
| Retirement benefit costs             | 295                                     | 260              |
| Employees share option benefits      | 7,288                                   | 9,610            |
|                                      | <u>11,962</u>                           | <u>34,816</u>    |

### 21. Contingent liabilities

As at 30th June 2007, the Group had no material contingent liabilities.

## BUSINESS REVIEW

During the first half year of 2007, the Group has achieved record high in overall performance with a net profit attributable to shareholders of approximately HK\$244 million over the six months ended 30th June 2007, representing a surge of over 172% from the corresponding period of 2006. Such significant increase was mainly attributable to an improved performance of the Group's Financial Services business. This was also contributed by the incorporation of the net gain on disposal of the Group's hotel in Kunshan amounted to approximately HK\$147 million. The Group's total revenue, as a result of the scale down of container transportation and freight forwarding business, dropped by 53% from approximately HK\$726 million for the six months ended 30th June 2006 to approximately HK\$343 million for the corresponding period in 2007.

The total net assets of the Group has raised significantly from approximately HK\$1,696 million at 31st December 2006 to approximately HK\$2,578 million at 30th June 2007, representing an increase of 52%. Besides the encouraging results recorded in 2007, the Group has recognised an unrealised gain amounting to approximately HK\$291 million from the increase in fair value of its investment in the holding company of a Hong Kong listed company, Shenyin Wanguo (H.K.) Limited. As the Group is holding this investment for long term strategic purpose, the impact on fair value change will not be realised in the income statement until disposal.

The Group has continued its focus on three major business sectors: Financial Services, Property and Hotels, and Direct Investments.

### Financial Services

The Group focuses its securities investments and securities brokerage business on the stocks and futures market in Hong Kong as well as the B-share market in Chinese Mainland. The Hong Kong financial market continues to be benefited from the robust economic performance of Chinese Mainland. During the first half of the year, in view of the booming economy, the Hong Kong securities markets have maintained rapid growth. The Hang Seng Index has soared above its record high of over 22,000 mark while the total market capitalisation has surpassed approximately HK\$15 trillion. The Stock Exchange has recorded relatively active trade with the daily average market turnover increased from approximately HK\$32.4 billion for the first half year of 2006 to approximately HK\$58.7 billion for the corresponding period of 2007.

As benefited from this robust market growth, the Group has reported satisfactory performance from both the assets management division and the securities brokerage division. The assets management fund size, the number of brokerage clients as well as the client margin loan size has increased significantly. The total revenue of Financial Services, mainly net gain from securities investment and stockbroking commission income, has increased dramatically from approximately HK\$85 million for the six months ended 30th June 2006 to approximately HK\$191 million for the same period in 2007, representing an increase of 124%. Despite the keen market competition on margin loan business, the operating results has been boosted by 280% to approximately HK\$101 million for the six months ended 30th June 2007 from the corresponding period of 2006.

Our corporate finance division continued to be an active player in the financial advisory and the IPO market. During the first half year, we have completed 20 corporate advisory assignments and acted as compliance advisers to three listed companies.



## BUSINESS REVIEW *(Continued)*

### Property and Hotels

The Property and Hotels division is specialising in developing and operating property projects ranging from commercial parks, hotels, service apartments and recreation resorts. In June 2007, the Group acquired a piece of land in Wuxi which will be developed into a complex consisting of a luxury hotel, service apartments and offices. Following this acquisition, the Group's total gross floor area available for development has accumulated up to approximately 280,000 square meters, situated mainly in Yangtze River Delta and Pearl River Delta.

Following the successful disposal of properties developed by our subsidiary, Fu Hai Digital Science & Technology (Shanghai) Company Limited, to an international property investment fund in 2006, the Group has completed the disposal of its hotel in Kunshan to an international investment group, Kingdom Hotel Investments, on 30th April 2007. The Group has recognised net gain on disposal of approximately HK\$147 million which has been fully reflected in the interim results of 2007.

Development of the remaining properties in Zhangjiang by our jointly controlled entity, Shanghai Zhangjiang Information Technology Company Limited, has been completed in early 2007 and is currently held for investment purpose.

### Direct Investments

The Group currently invests in certain direct investments, the major contributors include container transportation and freight forwarding business, and motor vehicle meters and components manufacturing business. In view of the keen market competition, substantial working capital requirement and thin profit margin of container transportation and freight forwarding business, the Group has carried out certain restructure programs with an objective to scale down this business which resulted in a sharp reduction of the Group's total revenue. The slight decrease in operating loss of its segment results in 2007 when compared with the corresponding period of 2006 has proven the success of this plan.

China Assets (Holdings) Limited ("China Assets"), the Group's major associated company, has suffered an unrealised investment loss due to the drop in market price of its major listed investment in US, Kongzhong Corporation, though this impact has been partially set off by the gain on investment in equity options.

## PROSPECTS

The Management believes Financial Services will continue to be one of the key contributors of operating profit to the Group for the second half of the year. Chinese Mainland's economy will continue to boom with fixed investment and individual consumption recording sustained fast and steady growth. The financial market environment of Hong Kong will further improve since the government has embarked on the implementation of relevant initiatives to strengthen Hong Kong as an international platform of Chinese Mainland's capital and a world-class international financial centre. Furthermore, with the expectation for the launch of QDII policies and the new mainland individuals direct investments scheme, together with the expectation of continuous appreciation of Renminbi, the securities trading brisk activities will be continued in the second half of the year. To capture the growing momentum and strong market demand, the Group will reinforce its assets management and stockbroking businesses by enhancing its trading systems and service quality. The Group will also make full use of its professional brokerage team and business network in Chinese Mainland to further strengthen its customer base and market share.

Tapping the strong market demand on quality China stocks, we successfully sponsored China's largest safety and critical control system provider, China Automation Group Limited, which raised approximately HK\$352 million in its public listing in Hong Kong in July 2007. The listing was well accepted by the market and achieved excellent share performance. On the pipeline, we prepare to launch the IPO of a Chinese online game company with a sizeable fund raising size in latter half of 2007. In line with our strategy to become a financial service solution provider, we will continue to actively pursue transactions in both the financial advisory and the IPO market.

Following the disposal of the investment in a child products manufacturing company in 2006 and the hotel in Kunshan in 2007, the Group has maintained significant cash on hand amounting to approximately HK\$832 million as at 30th June 2007. This strong financial position will help the Group to meet the future working capital requirements of property development projects, which will become the Group's future profit rocket in medium term. We will continue to seek property development opportunities in Chinese Mainland with satisfactory returns. We believe the Group's hotel project in Wuxi will be benefited from the continuing robust tourism and travel industry in the Yangtze River Delta Area. Meanwhile, the Group will also continue to expand its Direct Investments business by continuous exploration of potential new investments in line with the business strategy of the Group.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial results

For the six months ended 30th June 2007, the Group recorded a net profit attributable to shareholders of approximately HK\$244 million, representing an increase of 172% over the corresponding period of 2006 of approximately HK\$90 million. Basic earnings per share attributable to the shareholders of the Company grew from HK7.60 cents in 2006 to HK20.10 cents in 2007. Revenue of the Group is approximately HK\$343 million, which recorded a decrease by 53% over the same period of 2006.

## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### Disposal of subsidiaries

On 5th April 2007, the Company entered into an agreement for the sales of its entire 100% interest in First Shanghai Hotel Group Limited and its 65% interest in subsidiary, Kunshan Traders Park Hotel Company Limited (together, the "Hotel Group") to KHI-11 Ltd., an independent third party, at a consideration of approximately RMB201.5 million. The transaction has been completed on 30th April 2007, thereafter the Group has no interest in the Hotel Group and has recorded a net gain on disposal of approximately HK\$147 million in the interim results.

### Liquidity and financial resources

The Group relies principally on its internal resources to fund its operations and investment activities. Bank loan is raised occasionally to meet the different demands of our various investment projects. As at 30th June 2007, the Group had raised bank loans of approximately HK\$934 million and held approximately HK\$832 million cash reserves. The aggregate amount of bank loans at 30th June 2007 increased significantly with the borrowing of certain short term IPO loans, amounting to approximately HK\$930 million. The gearing ratio (total borrowings to shareholders' fund) is at the level of 37%. Investment in financial assets at fair value through income statement as at 30th June 2007 amounted to approximately HK\$249 million.

The Group's principal operations are transacted and recorded in Hong Kong dollars and Renminbi. We expect that Renminbi will continue to appreciate in a stable pattern in future. The Group has no significant exposure to other foreign exchange fluctuations.

### Pledge of assets

Certain properties of the Group with an aggregate net book value of approximately HK\$58 million as at 30th June 2007 (31st December 2006: HK\$76 million) as well as fixed deposits of HK\$33 million (31st December 2006: HK\$32 million) were pledged as securities against bank loans and general banking facilities amounting to HK\$18 million (31st December 2006: HK\$161 million) granted to the Group.

### Human resources

As at 30th June 2007, the Group employed 587 (30th June 2006: 1,544) staff, of which 498 are located in Chinese Mainland. Employees' remuneration is performance based and is reviewed annually. In addition to basic salary payments, other staff benefits include medical schemes, defined contribution provident fund schemes and employee shares option scheme. Training courses are provided to staff where necessary. The staff costs of the Group for the six months ended 30th June 2007 amounted to approximately HK\$101 million.

### Contingent liabilities

As at 30th June 2007, the Group had no material contingent liabilities.

## INTERIM DIVIDEND

The Board recommends the payment of an interim dividend of HK\$0.02 (2006: HK\$0.02) per ordinary share, totaling approximately HK\$27,320,000 (2006: HK\$23,701,000).

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

At 30th June 2007, the interests of the Directors and chief executives in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO"), as recorded in the register maintained by the Company under Section 352 of the SFO or as notified to the Company were as follows:

### (a) Ordinary shares of HK\$0.2 each in the Company:

| Directors                       | Number of shares and underlying shares held |                     |            | % of issued share capital of the Company |        |
|---------------------------------|---|---------------------|------------|--|--------|
|                                 | Personal Interests                          | Corporate Interests | Total      |  |        |
| Mr. Lao Yuan Yi                 | Long position                               | 104,573,636         | 72,952,000 | 177,525,636                              | 13.00% |
| Mr. Xin Shulin, Steve           | Long position                               | 24,644,640          | —          | 24,644,640                               | 1.80%  |
| Mr. Yeung Wai Kin               | Long position                               | 26,824,304          | —          | 26,824,304                               | 1.96%  |
| Mr. Kwok Lam Kwong, Larry, J.P. | Long position                               | 1,000,000           | —          | 1,000,000                                | 0.07%  |
| Prof. Woo Chia Wei              | Long position                               | 1,000,000           | —          | 1,000,000                                | 0.07%  |
| Mr. Liu Ji                      | Long position                               | 500,000             | —          | 500,000                                  | 0.04%  |
| Mr. Yu Qi Hao                   | Long position                               | 1,000,000           | —          | 1,000,000                                | 0.07%  |

*No Directors and chief executives have any interest of short positions in any share or underlying shares of the Company.*

### (b) Options in respect of shares in an associated corporation:

| Directors         | Number of shares and underlying shares held |               |           | % of issued share capital of the associated corporation |       |
|-------------------|---|---------------|-----------|---|-------|
|                   | Personal Interests                          | Total         |           |   |       |
| Mr. Lao Yuan Yi   | China Assets                                | Long position | 1,475,000 | 1,475,000   | 1.93% |
| Mr. Yeung Wai Kin | China Assets                                | Long position | 1,450,000 | 1,450,000   | 1.90% |

*The above share options were granted under the share option scheme of China Assets (Holdings) Limited ("China Assets") adopted on 19th May 2004.*

Saved as disclosed above, at no time during the period, the directors and chief executives had any interest in shares, underlying shares and debentures of the Company and its associated corporation required to be disclosed pursuant to the SFO.

## SHARE OPTIONS

On 24th May 2002, the shareholders of the Company approved the termination of the 1994 Share Option Scheme and the adoption of a new scheme (the "Scheme") to comply with the new requirements of Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"). The purpose of the Scheme is to assist in recruiting, retaining and motivating key staff. Under the terms of the Scheme, the Directors have the discretion to grant to employees and Directors of any member of the Group to subscribe for shares in the Company.

Movement of share options during the six months ended 30th June 2007 is as follows:

|                                 | Options held at 1st January 2007 | Options granted during period (Note 1) | Options exercised during period (Note 2) | Options lapsed during period | Options held at 30th June 2007 | Exercise price HK\$ | Date of grant | Exercise period       | Vesting period        |
|---------------------------------|----------------------------------|--|--|------------------------------|--------------------------------|---------------------|---------------|-----------------------|-----------------------|
| Directors:                      |                                  |  |  |                              |                                |                     |               |                       |                       |
| Mr. Lao Yuan Yi                 | 10,000,000                       | —                                      | (10,000,000)                             | —                            | —                              | 0.816               | 01/11/1997    | 01/05/1998-12/11/2007 | 01/11/1997-30/04/1998 |
|                                 | 22,842,000                       | —                                      | (22,842,000)                             | —                            | —                              | 0.564               | 30/11/2005    | 30/05/2006-11/12/2015 | 30/11/2005-29/05/2006 |
|                                 | —                                | 11,944,000                             | —  | —                            | 11,944,000                     | 1.950               | 23/05/2007    | 23/11/2007-22/05/2017 | 23/05/2007-22/11/2007 |
| Mr. Xin Shulin, Steve           | 2,500,000                        | —                                      | (2,500,000)                              | —                            | —                              | 0.816               | 01/11/1997    | 01/05/1998-12/11/2007 | 01/11/1997-30/04/1998 |
|                                 | 4,464,000                        | —                                      | (4,464,000)                              | —                            | —                              | 0.283               | 08/07/1998    | 08/01/1999-15/07/2008 | 08/07/1998-07/01/1999 |
|                                 | 11,810,000                       | —                                      | (11,810,000)                             | —                            | —                              | 0.564               | 30/11/2005    | 30/05/2006-11/12/2015 | 30/11/2005-29/05/2006 |
|                                 | —                                | 8,032,000                              | —  | —                            | 8,032,000                      | 1.950               | 23/05/2007    | 23/11/2007-22/05/2017 | 23/05/2007-22/11/2007 |
| Mr. Yeung Wai Kin               | 2,500,000                        | —                                      | (2,500,000)                              | —                            | —                              | 0.816               | 01/11/1997    | 01/05/1998-12/11/2007 | 01/11/1997-30/04/1998 |
|                                 | 6,980,000                        | —                                      | (6,980,000)                              | —                            | —                              | 0.283               | 08/07/1998    | 08/01/1999-15/07/2008 | 08/07/1998-07/01/1999 |
|                                 | 11,810,000                       | —                                      | —  | —                            | 11,810,000                     | 0.564               | 30/11/2005    | 30/05/2006-11/12/2015 | 30/11/2005-29/05/2006 |
|                                 | —                                | 8,032,000                              | —  | —                            | 8,032,000                      | 1.950               | 23/05/2007    | 23/11/2007-22/05/2017 | 23/05/2007-22/11/2007 |
| Mr. Hu Yi Ming                  | 1,000,000                        | —                                      | (1,000,000)                              | —                            | —                              | 0.816               | 01/11/1997    | 01/05/1998-12/11/2007 | 01/11/1997-30/04/1998 |
|                                 | 1,300,000                        | —                                      | (1,300,000)                              | —                            | —                              | 0.283               | 08/07/1998    | 08/01/1999-15/07/2008 | 08/07/1998-07/01/1999 |
| Mr. Kwok Lam Kwong, Larry, J.P. | —                                | 1,000,000                              | —  | —                            | 1,000,000                      | 1.950               | 23/05/2007    | 23/11/2007-22/05/2017 | 23/05/2007-22/11/2007 |
| Prof. Woo Chia Wei              | —                                | 1,000,000                              | —  | —                            | 1,000,000                      | 1.950               | 23/05/2007    | 23/11/2007-22/05/2017 | 23/05/2007-22/11/2007 |
| Mr. Liu Ji                      | —                                | 500,000                                | —  | —                            | 500,000                        | 1.950               | 23/05/2007    | 23/11/2007-22/05/2017 | 23/05/2007-22/11/2007 |
| Mr. Yu Qi Hao                   | —                                | 1,000,000                              | —  | —                            | 1,000,000                      | 1.950               | 23/05/2007    | 23/11/2007-22/05/2017 | 23/05/2007-22/11/2007 |
| Employees                       | 950,000                          | —                                      | (950,000)                                | —                            | —                              | 0.816               | 01/11/1997    | 01/05/1998-12/11/2007 | 01/11/1997-30/04/1998 |
|                                 | 1,004,000                        | —                                      | (1,000,000)                              | —                            | 4,000                          | 0.283               | 08/07/1998    | 08/01/1999-15/07/2008 | 08/07/1998-07/01/1999 |
|                                 | 11,810,000                       | —                                      | (11,810,000)                             | —                            | —                              | 0.564               | 30/11/2005    | 30/05/2006-11/12/2015 | 30/11/2005-29/05/2006 |
|                                 | 16,600,000                       | —                                      | —  | (250,000)                    | 16,350,000                     | 0.680               | 03/03/2006    | 03/03/2008-02/03/2016 | 03/03/2006-02/03/2008 |
|                                 | —                                | 5,300,000                              | —  | —                            | 5,300,000                      | 1.950               | 23/05/2007    | 23/11/2007-22/05/2017 | 23/05/2007-22/11/2007 |
|                                 | <u>105,570,000</u>               | <u>36,808,000</u>                      | <u>(77,156,000)</u>                      | <u>(250,000)</u>             | <u>64,972,000</u>              |                     |               |                       |                       |

**SHARE OPTIONS** *(continued)*

Notes:

- (1) During the period, 36,808,000 share options were granted under the Scheme with an exercise price of HK\$1.950 per share. The related weighted average closing price immediately before the date on which the share options were granted was HK\$1.950 per share. The fair value of share options granted is estimated using the Black-Scholes valuation model based on the following assumptions:

**As at 30th June 2007**

|   |                |
|---|----------------|
| Date of grant   | 23rd May 2007  |
| Fair value per share option                                 | HK\$1.09       |
| Share closing price   | HK\$1.95       |
| Exercise price  | HK\$1.95       |
| Expected volatility *                                       | 59.33%         |
| Annual risk-free interest rate **                           | 4.281%         |
| Life of options   | 9.5 years      |
| Dividend yield ***  | 2.08%          |
| Fair value of total share options granted during the period | HK\$40,166,000 |

\* Expressed as annualized volatility for 1 year immediately preceding the grant date

\*\* Based on yield of 10-year Exchange Fund Notes

\*\*\* Expressed as annualised dividend of the most recent financial year and the closing price on grant date

The fair value calculated is inherently subjective and uncertain due to the assumptions made and the limitations of the model used. The value of a share option varies with difference variables of certain subjective assumptions. Any change in variables so adopted may materially affect the estimation of the fair value of a share option.

- (2) During the period, 77,156,000 shares options were exercised under the Scheme with an exercise price ranging from HK\$0.283 to HK\$0.816 per share. The related weighted average closing price immediately before the dates on which the share options were exercised was HK\$1.85 per share.
- (3) No share options granted under the Scheme were cancelled during the six months ended 30th June 2007.
- (4) The accounting policy adopted for share options is consistent with that as described in the annual financial statements for the year ended 31st December 2006.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS

The register of substantial shareholders maintained under section 336 of the SFO shows that as at 30th June 2007, the Company had been notified of the following substantial shareholders' interests, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors.

Ordinary shares of HK\$0.2 each in the Company:

|   |               | <b>Corporate<br/>Interests</b> | <b>Percentage</b> |
|---|---------------|--------------------------------|-------------------|
| China Assets (Holdings) Limited<br>("China Assets") | Long position | 248,249,300                    | 18.17%            |

China Assets is a Hong Kong listed company, which is also an associated company of the Group. Apart from the above, so far as the Directors are aware, there are no parties which were, directly or indirectly, interested in 5% or more of the nominal value of the issued share capital of the Company as at 30th June 2007.

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

The Company has not redeemed any of its shares during the period. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the period.

## AUDIT COMMITTEE

The Audit Committee was established on 27th December 1998. The Audit Committee comprises the non-executive Director, Mr. Kwok Lam Kwong, Larry, J.P. and the three independent non-executive Directors, Prof. Woo Chia Wei, Mr. Liu Ji and Mr. Yu Qi Hao. The Audit Committee acts in an advisory capacity and makes recommendations to the Board.

The Audit Committee has reviewed with the Management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matter, including a review of the unaudited interim financial statements for the six months ended 30th June 2007 for approval by the Board.

## REMUNERATION COMMITTEE

A Remuneration Committee, comprising two independent non-executive directors, Prof. Woo Chia Wei and Mr. Yu Qi Hao and an executive director, Mr. Lao Yuan Yi, was established on 30th June 2005. The committee was set up to review and approve the remuneration packages of the directors and senior management including the terms of salary and bonus schemes and other long term incentive schemes. Meetings will be held in the second half of this year to discuss the above for the year of 2007 in details.

## COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the applicable code provisions of the Code on Corporate Governance Practices ("CG Code") as set out in Appendix 14 of the Listing Rules throughout the period, except for the following deviation.

### (a) Code Provision A.2.1

This Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Currently, Mr. Lao Yuan Yi holds both the positions of the Chairman of the Board and the Chief Executive Officer. The Board believes that vesting the role of both positions in Mr. Lao provides the Group with strong and consistent leadership and allows for more effective planning and execution of long term business strategies. The Board also 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 strong and independent non-executive element on the Board. The Board believes that the structure outlined above is beneficial to the Company and its business.

### (b) Code Provision A.4.2

This Code stipulates that every director should be subject to retirement by rotation at least once every three years. However, according to the Articles of Association of the Company, at each annual general meeting one-third of the directors for the time being shall retire from office. The Articles of Association constitutes a deviation from the CG Code. The Management is considering the amendment of the Articles of Association to comply with the code provision A.4.2.

## COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed issuers as set out in Appendix 10 of the Listing Rules ("Model Code"). Having made specific enquiry, the Company confirmed that all directors have complied with the required standard set out in the Model Code.

## CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Wednesday, 3rd October 2007 to Friday, 5th October 2007, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:00 p.m. on Tuesday, 2nd October 2007. Dividend warrants will be despatched on Monday, 29th October 2007.

By order of the Board  
**LAO Yuan Yi**  
 Chairman

Hong Kong, 12th September 2007