



中國興業控股有限公司

# China Investments Holdings Limited | Interim Report 2007

*(Incorporated in Bermuda with limited liability)*  
(Stock Code: 132)



## CORPORATE INFORMATION

Executive Directors	Leung Siu Fai ( <i>Chairman</i> ) You Guang Wu ( <i>Vice Chairman</i> ) Kam Hung Chung ( <i>Managing Director</i> ) Wang Jin Yuan
Independent Non-executive Directors	Chan Kwok Wai Chen Da Cheng Deng Hong Ping
Registered Office	Clarendon House 2 Church Street Hamilton HM 11 Bermuda
Principal Place of Business	Unit 601, Tsim Sha Tsui Centre 66 Mody Road Tsimshatsui Kowloon Hong Kong
Registrars	Butterfield Fund Services (Bermuda) Limited Rosebank Centre 11 Bermudiana Road Pembroke Bermuda
Branch Registrars	Progressive Registration Limited 26/F Tesbury Centre 28 Queen's Road East Hong Kong
Principal Bankers	Bank of China Bank of Communications
Solicitors	Woo, Kwan, Lee & Lo Guangdong Weonline Law Firm Guangdong Zhongxin Zhicheng Law Office
Auditors	HLM & Co. Certified Public Accountants
Secretary	Lo Tai On
Stock Code	132
Website	<a href="http://chinainvestments.quamir.com">http://chinainvestments.quamir.com</a>

## **RESULTS**

For the six months ended 30 June 2007, the Group has recorded a turnover of HK\$226,840,000, representing a growth of 30% over the same period last year. The Group's profit amounted to HK\$40,056,000, representing a significant growth of 1,175% over the same period last year.

## **BUSINESS REVIEW**

### **Fiberboard Operations**

Through staff trainings and incentives, renovations and innovations to production process, acquisition of leasehold equipment, and appropriately adjusting product prices, the Group has enhanced output, reduced material consumption and increased revenue. Under the continued increase in the prices of raw materials, the fiberboard operations could still record satisfactory results, which has been very encouraging. For the period ended 30 June 2007, total output of fiberboards was 168,000 cubic meters, and total sales was 161,000 cubic meters, representing increase of 10% and 5% over the same period of last year respectively. Total sales amounted to HK\$213,578,000, representing an increase of 30% over the same period of last year, operating profit substantially increased by 142% to HK\$44,689,000.

## **Hotel Operations**

Competition in the hotel market in Guilin was still keen, however, the hotel management still upheld the operating concept of “Human orientation and brandname as the core”, and by leveraging on a stable and high quality management team and sales team, the hotel actively explored the market, and continued to enhance service quality, and successfully established a good brandname, and increased economic efficiency. Average occupancy rate of hotels in first half year was 70%, representing an increase of 13% over the same period last year, while turnover by 26% to HK\$12,448,000, which has turned from loss to profit, and an operating profit of HK\$3,119,000 was recorded.

## **Property Investment**

The Group’s overall rental incomes in the first half year amounted to HK\$814,000, representing an increase of 11% over the same period last year. As at 15 May 2007, the Group has successfully sold the Kiu Sun Factory Building in Kwun Tong, Hong Kong, and received HK\$30,000,000 in cash.

## **Financial Situation**

As at 30 June 2007, the Group had total assets of HK\$755,438,000 (31 December 2006: HK\$764,171,000) and no bank loans or other long-term debts (31 December 2006: bank loans and total convertible note liabilities of nil and HK\$196,026,000 respectively). Net assets amounted to HK\$524,474,000 (31 December 2006: HK\$406,532,000). The gearing ratio was 0 (31 December 2006: 25.7%). Net assets per Share was HK44.14 cents (31 December 2006: HK44.43 cents).

The Group's net current assets amounted to HK\$145,294,000 (31 December 2006: HK\$16,060,000), current ratio (being current assets divided by current liabilities) was approximately 1.63 times (31 December 2006: 1.04 times), while bank deposits and cash amounted to approximately HK\$185,306,000 (31 December 2006: HK\$137,415,000), which is sufficient to meet the capital requirements for the Group's future operations and developments.

During the period, convertible notes with an aggregate amount HK\$73,800,000 was converted into the ordinary shares of the Company. HK\$50,000,000 of the principal moneys was repaid and the outstanding HK\$75,000,000 was recorded in the current liabilities. Details of the convertible notes was set out in note 15 of the Notes to the condensed Financial Statements.

## **FOREIGN EXCHANGE EXPLOSURE**

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

## OUTLOOK

The PRC economy and real estate market are booming, and are favorable for the development of fiberboard operations. On the basis of the existing solid foundation, the Company will expedite in explorations, and make the best efforts to secure better returns to shareholders.

## DIRECTORS' INTERESTS IN SHARES

As at 30 June 2007, the interests and short positions of the Directors in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") as recorded in the register maintained by the Company pursuant to Section 352 of the SFO were as follows :

Name of Director	Number of shares of the Company	Nature of Interest	Notes	% of total issued share capital as at 30 June 2007
Leung Siu Fai	151,610,779	Corporate	1	12.76%
Kam Hung Chung	58,971,428	Corporate	2	4.96%

Notes :

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

Save as disclosed above, none of the directors or the chief executives of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporation as recorded in the register required to be kept under section 352 of the SFO as at 30 June 2007.

## SUBSTANTIAL SHAREHOLDERS

As at 30 June 2007, according to the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO, the persons who were interested in 5% or more in the shares and underlying shares of the Company are as follows :

Name	Number of shares	Notes	Capacity	Approximate percentage (in aggregate) of total issued share capital as at 30 June 2007
佛山市南海聯達投資(控股)有限公司 (Foshan City Nanhai Lian Da Investment (Holdings) Limited*)	203,703,703	1	Beneficial owner/ Controlled corporation	17.14%
Leung Siu Fai	151,610,779	2	Controlled corporation	12.76%
Mighty Management Limited	151,610,779	2	Beneficial owner	12.76%
Industrial and Commercial Bank of China	131,657,142		Beneficial owner	11.08%
Nam Keng Van Investment Co. Ltd.	121,864,487	3	—	10.26%

### Notes:

1. These interests were disclosed by 佛山市南海聯達投資(控股)有限公司(Foshan City Nanhai Lian Da Investment (Holdings) Limited\*) and were held by Prize Rich Inc which was wholly-owned by 佛山市南海聯達投資(控股)有限公司 (Foshan City Nanhai Lian Da Investment (Holdings) Limited\*).
2. These 151,610,779 shares were held by Mighty Management Limited which was wholly-owned by Mr. Leung Siu Fai.
3. These 121,864,487 shares were held by Nam Keng Van Investment Co. Ltd. which was wholly-owned by 崔國堅 (Cui Guo Jian\*), 陳桃源 (Chen Tao Yuan\*) and 鍾寶國 (Mr. Zhong Baoguo).

\* For identification purpose only

4. The convertible notes issued by the Company, which were either converted into shares of the Company or repaid in cash, were due on 9 May 2007. The derivative interests in connection therewith as previously reported were accordingly ceased.

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

## **INTERIM DIVIDEND**

The Board resolved not to declare an interim dividend for the six months ended 30 June 2007 (2006: nil).

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

During the six months ended 30 June 2007, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed shares of the Company.

## **EMPLOYEES**

The total number of employees of the Group is approximately 1,135.

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

## **CORPORATE GOVERNANCE**

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



## CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by directors. On specific enquiries made, all directors have confirmed that, in respect of the six months ended 30 June 2007, they have complied with the required standard as set out in the Model Code.

## AUDIT COMMITTEE

The audit committee comprising the three independent non-executive Directors of the Company has reviewed with the management the accounting principles and practices adopted by the Group, and discussed auditing, internal control and financial reporting matters, including review of the unaudited interim results for the six months ended 30 June 2007.

By Order of the Board

**Leung Siu Fai**

*Chairman*

Hong Kong, 13 September 2007

## CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2007

	Notes	Six months ended 30 June	
		2007	2006
		HK\$'000	HK\$'000
		(unaudited)	(unaudited)
Turnover	4	226,840	174,671
Cost of sales and services		<u>(168,961)</u>	<u>(145,554)</u>
Gross profit		57,879	29,117
Other income		8,229	790
Selling and distribution costs		(248)	(317)
Administrative expenses		(19,277)	(20,015)
Finance costs		<u>(3,429)</u>	<u>(4,203)</u>
Profit before taxation		43,154	5,372
Income tax expense	5	<u>(3,098)</u>	<u>(2,230)</u>
Profit for the period	6	<u>40,056</u>	<u>3,142</u>
Earnings per share	8		
Basic		<u>HK4.05cents</u>	<u>HK0.34cents</u>
Diluted		<u>N/A</u>	<u>N/A</u>

## CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2007

		30.6.2007	31.12.2006
		<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>Notes</i>	<i>(unaudited)</i>	<i>(audited)</i>
<b>Non-current assets</b>			
Investment properties	9	7,900	37,400
Property, plant and equipment	9	267,840	249,869
Leasehold land and land use rights	10	13,560	13,323
Goodwill	11	89,880	89,880
		<u>379,180</u>	<u>390,472</u>
<b>Current assets</b>			
Properties held for sale		104,600	104,600
Inventories		70,493	67,841
Trade and other receivables	12	15,856	63,840
Financial assets at fair value through profit or loss		3	3
Bank balances and cash		185,306	137,415
		<u>376,258</u>	<u>373,699</u>
<b>Current liabilities</b>			
Trade and other payables	13	186,686	110,754
Tax payable		6,278	12,859
Provision for loss in litigation		38,000	38,000
Convertible notes	15	—	196,026
		<u>230,964</u>	<u>357,639</u>
<b>Net current assets</b>		<u>145,294</u>	<u>16,060</u>
		<u>524,474</u>	<u>406,532</u>
<b>Capital and reserves</b>			
Share capital	14	118,833	91,500
Reserves		405,641	315,032
		<u>524,474</u>	<u>406,532</u>

## CONDENSED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2007

	Share capital	Share premium	Statutory reserve	Convertible notes reserve	Hotel property revaluation reserve	Exchange reserve	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2006	91,500	426,372	—	30,545	93,542	(55,452)	(241,275)	345,232
Deficit on revaluation of hotel properties	—	—	—	—	(9,048)	—	—	(9,048)
Release of revaluation reserve of hotel properties	—	—	—	—	(4,550)	—	4,550	—
Exchange differences arising on translation of foreign operations	—	—	—	—	—	(592)	—	(592)
Transfer to statutory reserve	—	—	17,839	—	—	—	(17,839)	—
Profit for the year	—	—	—	—	—	—	70,940	70,940
At 31 December 2006 and 1 January 2007	91,500	426,372	17,839	30,545	79,944	(56,044)	(183,624)	406,532
Shares issued on conversion of convertible notes	27,333	57,787	—	(11,339)	—	—	—	73,781
Release of convertible notes reserve upon redemption	—	—	—	(19,206)	—	—	19,206	—
Surplus on revaluation of hotel properties	—	—	—	—	3,700	—	—	3,700
Release of revaluation reserve of hotel properties	—	—	—	—	(1,998)	—	1,998	—
Exchange differences arising on translation of foreign operations	—	—	—	—	—	405	—	405
Transfer to statutory reserve	—	—	3,322	—	—	—	(3,322)	—
Profit for the period	—	—	—	—	—	—	40,056	40,056
At 30 June 2007	118,833	484,159	21,161	—	81,646	(55,639)	(125,686)	524,474

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2007

	Six months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Net cash generated from operating activities	64,667	28,420
Net cash generated from/ (used in) investing activities	31,629	(10,392)
Net cash used in financing activities	(50,000)	—
Net increase in cash and cash equivalents	46,296	18,028
Cash and cash equivalents at beginning of period	137,415	81,505
Effect of foreign exchange rate changes	1,595	24
Cash and cash equivalents at end of period, represented by bank balances and cash	185,306	99,557

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

*For the six months ended 30 June 2007*

### **1. BASIS OF PREPARATION**

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

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

As explained in note 17 to the financial statements, the Group is still currently engaged in certain litigations. The Group has denied and will continue to deny liability and contest against those claims vigorously. Based on the opinion of the Group’s legal advisors, the Directors consider that those claims will not have any material adverse impact on the business operations and financial position of the Group. Accordingly, the condensed financial statements have been prepared on a going concern basis.

## 2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2006.

In the current period, the Group has applied, for the first time, the following new standard, amendment and interpretations ("new HKFRSs") issued by the HKICPA, which are effective for the Group's financial year beginning on 1 January 2007.

HKAS 1 (Amendment)	Capital disclosures
HKFRS 7	Financial instruments: Disclosures
HK(IFRIC) – Int 7	Applying the restatement approach under HKAS 29 Financial reporting in hyperinflationary economies
HK(IFRIC) – Int 8	Scope of HKFRS 2
HK(IFRIC) – Int 9	Reassessment of embedded derivatives
HK(IFRIC) – Int 10	Interim financial reporting and impairment

The adoption of these new HKFRSs had no material effect on the results or financial position for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

## 2. PRINCIPAL ACCOUNTING POLICIES - continued

The Group has not early applied the following new standards and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards and interpretations will have no material impact on the results and the financial position of the Group.

HKAS 23(Revised)	Capital disclosures <sup>1</sup>
HKFRS 8	Operating segments <sup>1</sup>
HK(IFRIC) – Int 11	HKFRS 2 – Group and treasury share transactions <sup>2</sup>
HK(IFRIC) – Int 12	Service concession arrangements <sup>3</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2009

<sup>2</sup> Effective for annual periods beginning on or after 1 March 2007

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2008



### 3. FINANCIAL RISK MANAGEMENT

All aspects of the Group's financial risk management objectives and policies are consistent with those disclosed in the annual financial statements for the year ended 31 December 2006.

### 4. SEGMENT INFORMATION

	Six months ended 30 June			
	2007		2006	
	Turnover	Segment results	Turnover	Segment results
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
<b>By business segments:</b>				
Fiberboard and veneer	213,578	44,689	164,070	18,431
Hotel operations	12,448	3,119	9,868	(2,169)
Property investment	814	597	733	504
	<u>226,840</u>	<u>48,405</u>	<u>174,671</u>	<u>16,766</u>
Interest income		2,370		534
Unrealised holding gain on financial assets at fair value through profit or loss		—		2
Unallocated corporate expenses		(4,192)		(7,727)
Finance costs		(3,429)		(4,203)
Profit before taxation		43,154		5,372
Income tax expenses		(3,098)		(2,230)
Profit for the period		<u>40,056</u>		<u>3,142</u>

4. SEGMENT INFORMATION - continued

	Six months ended 30 June			
	2007		2006	
	Turnover	Segment results	Turnover	Segment results
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
<b>By geographical segments :</b>				
The People's Republic of China, other than Hong Kong	226,284	47,929	174,148	16,452
Hong Kong	556	476	523	314
	<u>226,840</u>	<u>48,405</u>	<u>174,671</u>	<u>16,766</u>
Interest income		2,370		534
Unrealised holding gain on financial assets at fair value through profit or loss		—		2
Unallocated corporate expenses		(4,192)		(7,727)
Finance costs		(3,429)		(4,203)
Profit before taxation		43,154		5,372
Income tax expenses		(3,098)		(2,230)
Profit for the period		<u>40,056</u>		<u>3,142</u>

## 5. TAXATION

	<b>Six months ended 30 June</b>	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>

The charges comprises:

Current tax – Provision for

PRC enterprises income tax	3,098	2,230
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No provision for Hong Kong Profits Tax has been made in the financial statements as the Company and its subsidiaries in Hong Kong have no assessable profits for both periods.

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

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

The tax charge for the period can be reconciled to the profit before taxation per the consolidated income statement as follows:

	<b>Six months ended 30 June</b>	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Profit before taxation	43,154	5,372
Tax at the domestic income		
tax rates applicable to profit in the respective country	15,197	3,511
Tax effect of non deductible expenses	1,666	742
Tax effect of non taxable revenue	(1,429)	(56)
Tax effect of tax deductible not recognised	(78)	(113)
Effect of tax exemptions granted to PRC subsidiaries	(12,258)	(3,902)
Tax effect of tax loss for the period	—	2,048
Tax effect for the period	3,098	2,230

## 5. TAXATION - continued

At the balance sheet date, the Group has unused estimated tax losses of HK\$14,412,000 (2006: HK\$14,412,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the estimated tax losses due to the unpredictability of future profit streams.

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

## 6. PROFIT FOR THE PERIOD

Profit for the period has been arrived at after charging:

	Six months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Staff cost	14,686	12,796
Retirement benefit		
scheme contributions	908	682
Depreciation of property, plant and equipment	7,357	6,913
Amortization of land use right	154	273
Unrealised holding gain on financial assets at fair value through profit or loss	—	(2)
	<u>          </u>	<u>          </u>

## 7. DIVIDENDS

The Board does not declare any interim dividend for the six months ended 30 June 2007 (2006: Nil).

## 8. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit of HK\$40,056,000 (30 June 2006: HK\$3,142,000) and on weighted average number of ordinary shares of 988,975,761 (30 June 2006: 914,995,817 ordinary shares) in issue during the period.

No diluted earnings per share has been presented for the period because no diluting event existed during the period.

No diluted earnings per share has been presented for the period ended 30 June 2006 because the exercise of conversion of the Company's outstanding convertible notes would result in an increase in earnings per share.

## 9. MOVEMENTS IN INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

The Group's hotel property and investment properties were revalued at 30 June 2007 by Associated Surveyors & Auctioneer Ltd., an independent firm of professional valuers, on an open market value basis. There was no revaluation surplus or deficit arising from the revaluation in respect of the investment properties as at 30 June 2007. Consequently, no revaluation surplus or deficit has been recognised in the current period.

At 30 June 2007, the carrying amounts of the Group's hotel property were carried at revalued amounts and were subject to depreciation. This valuation gave rise to revaluation surplus of HK\$3,700,000, which has been directly credited to the hotel property revaluation reserve and hotel revaluation reserve has released HK\$1,998,000 to accumulated loss in current period.

## 10. LEASEHOLD LAND AND LAND USE RIGHT

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

## 11. GOODWILL

The goodwill is arising on acquisitions on subsidiaries in 2002.

The Group's goodwill was revalued at 31 December 2006. Valuation was made on the basis of open market value by Associated Surveyors & Auctioneers Ltd., an independent firm of professional valuers.

At 30 June 2007 the directors considered the carrying amounts of the Group's goodwill carried at the revalued amounts and estimated that the carrying amounts as at 30 June 2007 do not differ significantly from the open market value of those goodwill as at 31 December 2006. Consequently, no impairment has been charged to the income statement in current period.

## 12. TRADE AND OTHER RECEIVABLES

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

	30.6.2007 <i>HK\$'000</i> <i>(unaudited)</i>	31.12.2006 <i>HK\$'000</i> <i>(audited)</i>
0 – 60 days	3,207	2,948
61 – 90 days	108	1,051
91 –120 days	12	418
Over 120 days	1,666	2,017
	<hr/>	<hr/>
Trade receivables	4,993	6,434
Other receivables	10,863	57,406
	<hr/>	<hr/>
	<u>15,856</u>	<u>63,840</u>

The fair value of the Group's accounts receivable and other receivables at 30 June 2007 equal approximately to the corresponding carrying amounts.

### 13. TRADE AND OTHER PAYABLES

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

	30.6.2007 <i>HK\$'000</i> <i>(unaudited)</i>	31.12.2006 <i>HK\$'000</i> <i>(audited)</i>
0 – 60 days	15,174	3,949
61 – 90 days	492	2,141
91 –120 days	131	7
Over 120 days	4,333	6,720
Trade payables	<u>20,130</u>	<u>12,817</u>
Other payables	<u>166,556</u>	<u>97,937</u>
	<u><u>186,686</u></u>	<u><u>110,754</u></u>

The fair value of the Group's accounts payable and other payables at 30 June 2007 equal approximately to the corresponding carrying amounts.

### 14. SHARE CAPITAL

	Number of shares		Nominal value	
	30.6.2007 <i>(unaudited)</i>	31.12.2006 <i>(audited)</i>	30.6.2007 <i>HK\$'000</i> <i>(unaudited)</i>	31.12.2006 <i>HK\$'000</i> <i>(audited)</i>
Ordinary shares of HK\$0.10 each				
Authorised:	<u>3,000,000,000</u>	<u>3,000,000,000</u>	<u>300,000</u>	<u>300,000</u>
Issued and fully paid:				
At beginning of the year	914,995,817	914,995,817	91,500	91,500
Shares issued on conversion of convertible notes	<u>273,333,325</u>	<u>—</u>	<u>27,333</u>	<u>—</u>
At end of the year	<u><u>1,188,329,142</u></u>	<u><u>914,995,817</u></u>	<u><u>118,833</u></u>	<u><u>91,500</u></u>

## 15. CONVERTIBLE NOTES

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

During the period Notes with an aggregate amount of HK\$73,800,000 was converted into the ordinary shares of the Company. Accordingly, 273,333,325 ordinary shares were converted (Note 14).

The Company repaid the principal moneys outstanding under the Notes which were not converted into shares of the company to the holders of the Notes on the Maturity Date together with all interest accrued thereon up to and including the Maturity Date.

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

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

	30.6.2007 <i>HK\$'000</i> <i>(unaudited)</i>	31.12.2006 <i>HK\$'000</i> <i>(audited)</i>
<b>Liability component</b>		
Balance brought forwards	196,026	189,487
Interest charge	3,429	8,527
Interest paid	(674)	(1,988)
Conversion during the period	(73,781)	—
Repaid during the period	(125,000)	—
	<hr/>	<hr/>
Balance carried forwards	—	196,026
	<hr/> <hr/>	<hr/> <hr/>



## 16. OPERATING LEASE ARRANGEMENTS

### The Group as lessee

At 30 June 2007, the Group had outstanding lease commitments for future minimum lease payments under non-cancellable operating lease in respect of rented premises and plant and machinery, which fall due as follows:

	30.6.2007 <i>HK\$'000</i> <i>(unaudited)</i>	31.12.2006 <i>HK\$'000</i> <i>(audited)</i>
Within one year	979	977
In the second to fifth years inclusive	<u>162</u>	<u>649</u>
	<u><u>1,141</u></u>	<u><u>1,626</u></u>

### The Group as lessor

At 30 June 2007, the Group had contracted with tenants for the following future minimum lease payments:

	30.6.2007 <i>HK\$'000</i> <i>(unaudited)</i>	31.12.2006 <i>HK\$'000</i> <i>(audited)</i>
Within one year	625	1,055
In the second to fifth years inclusive	<u>46</u>	<u>324</u>
	<u><u>671</u></u>	<u><u>1,379</u></u>

## 17. CONTINGENT LIABILITIES

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

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

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

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

## 17. CONTINGENT LIABILITIES - continued

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

- b. The Court issued to each of Jia Shun and Heng Da a summons both dated 17 October 2005 to request Jia Shun and Heng Da to attend the interlocutory hearings which were held by the Court on 23 November 2005, in relation to two alleged claims initiated by the Claimant against Jia Shun and Heng Da as follows:
  - (i) the Claimant alleged that a bank loan contract dated 11 October 2002 was entered into between Jia Shun as borrower and the Claimant as lender in relation to a loan amount in the sum of RMB30,000,000 (equivalent to approximately HK\$30,801,000) (“First Alleged Claim”); and
  - (ii) the Claimant alleged that a bank loan contract dated 11 October 2002 was entered into between Heng Da as borrower and the Claimant as lender in relation to a loan amount in the sum of RMB20,000,000 (equivalent to approximately HK\$20,534,000) (“Second Alleged Claim”).

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

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

## 17. CONTINGENT LIABILITIES - continued

- (iii) the aforesaid bank loan contracts and other related documents under the First Alleged Claim and the Second Alleged Claim were suspected to be falsified.

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

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

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

- (i) obtained a statement from Mr. Sun Pak Fun dated 1 November 2005, which he confirmed, among other things, according to his knowledge, the aforesaid bank loan contracts did not exist and Jia Shun or Heng Da has never received the sum representing the alleged loans. Mr. Sun Pak Fun also confirmed that the signature and name chop that were allegedly affixed to the aforesaid bank loan contracts and appeared therein as his own were in fact forged;

## 17. CONTINGENT LIABILITIES - continued

- (ii) filed a defence to court in denying liability on 2 November 2005;
- (iii) applied to court for extension in period for obtaining further evidence and such application was granted to obtain further evidence as soon as possible with no specified due date; and
- (iv) attended the interlocutory hearings held by the Court on 23 November 2005.

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

## 17. CONTINGENT LIABILITIES - continued

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

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

## 17. CONTINGENT LIABILITIES - continued

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

## 18. COMMITMENTS

As at 30 June 2007, the Group was committed to capital expenditure of HK\$1,593,781 for the completion of its environmental renovation project.