

# First Sign International Holdings Limited

(Incorporated in Bermuda with limited liability) (Stock Code: 933)

Interim Report  
**2007**

## INTERIM RESULTS

The board of directors (the "Board") of First Sign International Holdings Limited (the "Company") is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 31st December, 2007 together with the comparative figures for the corresponding period as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 31st December,	
		2007	2006
		(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000
Revenue	3	12,376	15,740
Cost of sales		(372)	(1,716)
Gross profit		12,004	14,024
Other income	5	8,808	8,372
Increase in fair value of investment properties		1,330	110
Fair value change of financial assets held for trading		(3,107)	8,513
Gain on foreign exchange		1,684	3,499
Gain on disposal of available-for-sale investments		43,671	111
Selling expenses		(1,303)	(3,148)
Administrative expenses		(12,399)	(10,123)
Allowance for advance to an associate		–	(2,501)
Profit before taxation		50,688	18,857
Taxation	6	–	–
Profit for the period	7	50,688	18,857
Basic earnings per share	9	4.2 cents	1.6 cents

## CONDENSED CONSOLIDATED BALANCE SHEET

		At 31st December, 2007 (Unaudited) HK\$'000	At 30th June, 2007 (Audited) HK\$'000
	Notes		
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	10	6,816	5,675
Investment properties	10	7,000	5,670
Available-for-sale investments	11	2,305	10,356
Interests in associates	12	–	–
Advance to an associate	12	–	–
		<u>16,121</u>	<u>21,701</u>
<b>CURRENT ASSETS</b>			
Inventories		6,854	2,624
Trade receivables	13	15	406
Other receivables, prepayments and deposits		5,117	3,678
Financial assets held for trading		264,046	266,227
Bank balances and cash		405,727	376,400
		<u>681,759</u>	<u>649,335</u>
<b>CURRENT LIABILITIES</b>			
Trade payables	14	48	252
Other payables, accrued charges and deposits received		5,894	9,266
Tax payables		17,614	17,614
		<u>23,556</u>	<u>27,132</u>
<b>NET CURRENT ASSETS</b>			
		<u>658,203</u>	<u>622,203</u>
		<u><u>674,324</u></u>	<u><u>643,904</u></u>
<b>CAPITAL AND RESERVES</b>			
Share capital	15	121,587	121,587
Reserves		552,737	522,317
		<u><u>674,324</u></u>	<u><u>643,904</u></u>

## CONDENSED STATEMENT OF CHANGES IN EQUITY

Six months ended 31st December, 2007

	Share capital (Unaudited) HK\$'000	Share premium (Unaudited) HK\$'000	Capital redemption reserve (Unaudited) HK\$'000	Special reserve (Unaudited) HK\$'000	Translation reserve (Unaudited) HK\$'000	Investment revaluation reserve (Unaudited) HK\$'000	Retained profits (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1st July, 2007	121,587	239,520	3,489	1,000	1,185	9,570	267,553	643,904
Exchange differences arising on translation of foreign operations	-	-	-	-	768	-	-	768
Fair value change on available-for-sale investments	-	-	-	-	-	353	-	353
Net income recognised directly in equity	-	-	-	-	768	353	-	1,121
Transfer to profit or loss on disposal of available-for-sale investments	-	-	-	-	-	(9,230)	-	(9,230)
Profit for the period	-	-	-	-	-	-	50,688	50,688
Total recognised income for the period	-	-	-	-	-	(9,230)	50,688	41,458
Prior year final dividend paid	-	-	-	-	-	-	(12,159)	(12,159)
At 31st December, 2007	<u>121,587</u>	<u>239,520</u>	<u>3,489</u>	<u>1,000</u>	<u>1,953</u>	<u>693</u>	<u>306,082</u>	<u>674,324</u>

Six months ended 31st December, 2006

	Share capital (Unaudited) HK\$'000	Share premium (Unaudited) HK\$'000	Capital redemption reserve (Unaudited) HK\$'000	Special reserve (Unaudited) HK\$'000	Translation reserve (Unaudited) HK\$'000	Investment revaluation reserve (Unaudited) HK\$'000	Retained profits (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1st July, 2006	121,609	239,544	3,467	1,000	686	3,577	234,848	604,731
Exchange differences arising on translation of foreign operations	-	-	-	-	499	-	-	499
Fair value change on available-for-sale investments	-	-	-	-	-	(135)	-	(135)
Net income recognised directly in equity	-	-	-	-	499	(135)	-	364
Transfer to profit or loss on disposal of available-for-sale investments	-	-	-	-	-	(276)	-	(276)
Profit for the period	-	-	-	-	-	-	18,857	18,857
Total recognised income for the period	-	-	-	-	-	(276)	18,857	18,581
Repurchase of own shares	(22)	(24)	22	-	-	-	(22)	(46)
At 31st December, 2006	<u>121,587</u>	<u>239,520</u>	<u>3,489</u>	<u>1,000</u>	<u>1,185</u>	<u>3,166</u>	<u>253,683</u>	<u>623,630</u>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 31st December,	
	2007	2006
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
NET CASH USED IN OPERATING ACTIVITIES	(9,321)	(8,118)
NET CASH FROM INVESTING ACTIVITIES	49,242	20,929
CASH USED IN FINANCING ACTIVITIES	(12,159)	(45)
NET INCREASE IN CASH AND CASH EQUIVALENTS	27,762	12,766
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	376,400	305,580
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	1,565	499
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	<u>405,727</u>	<u>318,845</u>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### (1) Basis of preparation

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

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

The unaudited interim condensed consolidated financial statements should be read in conjunction with the Company's 2007 annual financial statements.

### (2) Principal accounting policies

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

The accounting policies used in the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 30th June, 2007.

In the current period, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRSs") issued by the HKICPA that are effective for the Group's financial year beginning on 1st July, 2007. The adoption of the new HKFRSs had no material effect on the Group's results for the current or prior accounting periods, which have been prepared and presented. Accordingly, no prior year adjustment has been required.

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements <sup>1</sup>
HKAS 23 (Revised)	Borrowing Costs <sup>1</sup>
HKFRS 8	Operating Segments <sup>1</sup>
HK (IFRIC)-Int 12	Service Concession Arrangements <sup>2</sup>
HK (IFRIC)-Int 13	Customer loyalty programmes <sup>3</sup>
HK (IFRIC)-Int 14	HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction <sup>2</sup>

<sup>1</sup> Effective for accounting periods beginning on or after 1st January, 2009

<sup>2</sup> Effective for accounting periods beginning on or after 1st January, 2008

<sup>3</sup> Effective for accounting periods beginning on or after 1st July, 2008

The Directors of the Company anticipate that the application of these new and revised standards, amendment or interpretations will have no material impact on the results and the financial position of the Group.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### (3) Revenue

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

	Six months ended 31st December, 2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Sales of goods	1,229	3,774
Dividends from listed equity securities	19	4
Interest income from bonds	1,899	3,292
Interest income from convertible note receivable	–	403
Interest income from structured loan notes	9,229	8,267
	<u>12,376</u>	<u>15,740</u>

### (4) Segmental information

#### *Business segments*

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

Principal activities of the operating division are as follows:

- Garment operation – sourcing, manufacturing, processing, wholesaling, marketing and selling of garments
- Direct investments – investments in listed and unlisted equity and debt securities

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### (4) Segmental information – continued

*Business segments – continued*

Segment information about these businesses is presented below:

*Six months ended 31st December, 2007*

	Garment Operation (Unaudited) HK\$'000	Direct Investment (Unaudited) HK\$'000	Consolidated (Unaudited) HK\$'000
<b>REVENUE</b>			
External sales	1,229	11,147	12,376
<b>RESULTS</b>			
	(4,254)	53,659	49,405
Increase in fair value of investment properties			1,330
Other income			8,808
Unallocated corporate expenses			(8,855)
Profit before taxation			50,688
Taxation			–
Profit for the period			50,688

*Six months ended 31st December, 2006*

	Garment Operation (Unaudited) HK\$'000	Direct Investment (Unaudited) HK\$'000	Consolidated (Unaudited) HK\$'000
<b>REVENUE</b>			
External sales	3,774	11,966	15,740
<b>RESULTS</b>			
	(3,894)	24,241	20,347
Other income			8,372
Unallocated corporate expenses			(7,361)
Allowance for advance to an associate			(2,501)
Profit before taxation			18,857
Taxation			–
Profit for the period			18,857



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### (4) Segmental information – continued

#### *Geographical segments*

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

	<b>Revenue by geographical market</b>	
	<b>Six months ended 31st December,</b>	
	<b>2007</b>	<b>2006</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Hong Kong	19	521
The PRC	1,229	3,660
Europe – United Kingdom	5,761	9,752
Europe – France	988	988
The United States of America	2,706	–
Others	1,673	819
	<u>12,376</u>	<u>15,740</u>

### (5) Other income

	<b>Six months ended 31st December,</b>	
	<b>2007</b>	<b>2006</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Interest income on bank deposits	8,745	8,113
Rental income from investment properties, net of outgoings	63	249
Sundry income	–	10
	<u>8,808</u>	<u>8,372</u>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### (6) Taxation

	Six months ended 31st December,	
	2007	2006
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current tax	–	–
Deferred tax – changes in fair value of investment properties	233	–
	<u>233</u>	<u>–</u>
	<u>233</u>	<u>–</u>

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

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

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

### (7) Profit for the period

Profit for the period has been arrived at after charging:

	Six months ended 31st December,	
	2007	2006
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Depreciation of property, plant and equipment	<u>444</u>	<u>905</u>

### (8) Dividend

During the period, the Company has paid the final dividend for the year ended 30th June, 2007 of HK\$12,159,000 (HK1 cent per share).

The Board has resolved not to declare any interim dividend for the six months ended 31st December, 2007 (31st December, 2006: Nil).

### (9) Basic earnings per share

The calculation of basic earnings per share for the six months ended 31st December, 2007 is based on the unaudited profit for the period of HK\$50,688,000 (six months ended 31st December, 2006: HK\$18,857,000) and the weighted average number of 1,215,870,400 shares (31st December, 2006: 1,215,870,400 shares) in issue during the period.

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

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

During the period, additions to the Group's property, plant and equipment amounted to approximately HK\$1,667,000 (31st December, 2006: HK\$35,000).

The Group's investment properties were revalued on 31st December, 2007 by Savills Valuation and Professional Services Limited, independent qualified professional valuers not connected with the Group, on an open market value basis. The resulting increase in fair value on investment properties of HK\$1,330,000 (six months ended 31st December, 2006: HK\$110,000) has been recognised directly in the income statement for the period.

### (11) Available-for-sale investments

Available-for-sale investments comprise:

	At 31st December, 2007 (Unaudited) HK\$'000	At 30th June, 2007 (Audited) HK\$'000
Listed investments:		
Equity securities listed in Hong Kong	2,305	10,356
Unlisted investments:		
Equity securities overseas	258	258
Less: Impairment loss recognised	(258)	(258)
	<hr/>	<hr/>
	-	-
	<hr/>	<hr/>
Total	<u>2,305</u>	<u>10,356</u>
Analysed for reporting purpose as:		
Non-current asset	<u>2,305</u>	<u>10,356</u>

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

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

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### (12) Interests in associates

	At 31st December, 2007 (Unaudited) HK\$'000	At 30th June, 2007 (Audited) HK\$'000
Investment in associates, unlisted	–	–
Share of post-acquisition losses	–	–
Advance to an associate	27,207	27,207
Less: Allowance for advance to an associate	(27,207)	(27,207)
	<u>–</u>	<u>–</u>

The cost of investment in associates was HK\$50.00.

The advance to an associate by the Group at 31st December, 2007 is secured by a floating charge over the assets of the associate, non-interest bearing and is repayable on demand.

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

The Directors had reassessed the recoverability of the advance to an associate as at 31st December, 2007 and 30th June, 2007 by reference to the future prospects and expected revenue to be generated from the associate and determined that allowance of HK\$27,207,000 (30th June, 2007: HK\$27,207,000) was required. The carrying amount of the interests in associates was zero as at 31st December, 2007 and 30th June, 2007.

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

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

	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Revenue	<u>3,039</u>	<u>3,440</u>
Profit/(loss) for the period	<u>944</u>	<u>(816)</u>

#### Financial position

	At 31st December, 2007 (Unaudited) HK\$'000	At 30th June, 2007 (Audited) HK\$'000
Total assets	4,135	3,006
Total liabilities	<u>(27,889)</u>	<u>(28,112)</u>
Net liabilities	<u>(23,754)</u>	<u>(25,106)</u>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### (12) Interests in associates – continued

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

	Six months ended 31st December, 2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Unrecognised share of gain/(losses) of associates for the period	<u>676</u>	<u>(408)</u>
Accumulated unrecognised share of losses of associates	<u>11,881</u>	<u>12,048</u>

### (13) Trade receivables

The Group allows an average credit period of 90 days to its garment trade customers.

The aged analysis of trade receivables is as follows:

	At 31st December, 2007 (Unaudited) HK\$'000	At 30th June, 2007 (Audited) HK\$'000
0 – 30 days	–	90
31 – 60 days	–	44
61 – 90 days	8	272
Over 90 days	<u>7</u>	<u>–</u>
	<u>15</u>	<u>406</u>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### (14) Trade payables

The aged analysis of trade payables is as follows:

	At 31st December, 2007 (Unaudited) <i>HK\$'000</i>	At 30th June, 2007 (Audited) <i>HK\$'000</i>
0 – 30 days	–	–
31 – 60 days	–	35
Over 60 days	<u>48</u>	<u>217</u>
	<u>48</u>	<u>252</u>

### (15) Share capital

	Number of shares	Share Capital <i>HK\$'000</i>
<b>Ordinary shares of HK\$0.10 each</b>		
Authorised		
As at 30th June, 2007 and 31st December, 2007	<u>2,000,000,000</u>	<u>200,000</u>
Issued and fully paid		
As at 30th June, 2007 and 31st December, 2007	<u>1,215,870,400</u>	<u>121,587</u>

### (16) Contingent liabilities

At 31st December, 2007, neither the Company nor any of its subsidiaries has significant contingent liabilities.

### (17) Related party transactions

During the period, the Group paid rental for a Director's accommodation to a landlord in which Mr. Lau Tung Hoi has a beneficial interest. The rental paid for the period under review amounted to HK\$480,000 (six months ended 31st December, 2006: HK\$360,000).

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

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Results

The Group has reported a profit before taxation of HK\$50,688,000 (2006: HK\$18,857,000) for the period under review after crediting the following:

- gain on foreign exchange of HK\$1,684,000 (2006: HK\$3,499,000)
- net unrealised gain on fair value changes of financial assets held for trading of HK\$2,367,000 (2006: HK\$7,383,000)
- changes in fair value of investment properties of HK\$1,330,000 (2006: HK\$110,000)
- gain on disposal of available-for-sale investments of HK\$43,671,000 (2006: HK\$111,000)

Excluding the above, the operating profit was HK\$1,636,000 (2006: HK\$7,865,000).

### Garment operation

The Group has confirmed sales order for 2008 Spring Summer with a slight growth. With an established reputation in the OEM/ODM nylon T-shirt industry, the Group is pleased to have received orders from a few new customers. Since the Group has focused its efforts on the OEM/ODM market, the Group has re-structured its organisation and minimized the operating costs. The Group is of the view that the garment operation has been moving on the right track and there would be contribution to the Group in the foreseeable future.

### Investments

The Group maintained its conservative strategy in managing the surplus cash. With the downward trend in the interest market and the volatility of the debts securities market, the Group will attempt to generate stable interest income for the Group.

The profit of HK\$43 million had resulted from the disposal of most of the available-for-sale investments in listed equity securities which had been held for over six years with nil carrying value.

### Health Food

The health food business of the associated company has not seen any real progress. The main reason for the improvement in results was the direct result of the relocation of the associated company to a more economical premises.

The previous animal test on alcoholic liver steatosis has been finalized. The report indicated that WinUBoost has beneficial effect on the animals under the alcoholic and fatty dietary intakes. The associated company may consider further in-depth tests if its financial resources and market opportunities warrant.

## EMPLOYEES AND REMUNERATION POLICIES

As at 31st December, 2007, the Group had 178 full time employees in Hong Kong and the PRC. The Group remunerates its employees by reference to their performance, experience and prevailing industry practice. Employee benefits provided by the Group include mandatory provident fund scheme, medical scheme, discretionary performance-related bonus and share option scheme.

## LIQUIDITY AND FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group's principal source of funds for the period ended 31st December, 2007 was derived from investment income with total net income so generated amounting to HK\$49 million.

As at 31st December, 2007, the Group had bank balances and cash of approximately HK\$405,727,000 and financial assets held for trading of approximately HK\$264,046,000, which were denominated in US dollars and EURO. Majority of the financial assets were debt securities with maturity period from 2 to 14 years.

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

As at 31st December, 2007, the Group did not have any assets charged or any significant contingent liabilities.

As at 31st December, 2007, the Company had 1,215,870,400 shares in issue with total shareholders' funds of the Group amounting to HK\$674,323,000.

## USE OF PROCEEDS FROM NEW ISSUE

An analysis of the use of proceeds up to 31st December, 2007 is as follows:

	Up to 30th June, 2007 HK\$'000	Amount incurred in period under review HK\$'000	Accumulated spending as at 31st December, 2007 HK\$'000
(a) Promote its own brand "IXESSE" in Hong Kong and the PRC	8,019	135	8,154
(b) Acquire plant and machinery in Hong Kong and the PRC	22,467	1,667	24,134
(c) Develop herbal and health products	27,305	–	27,305
Total	<u>57,791</u>	<u>1,802</u>	<u>59,593</u>



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

At 31st December, 2007, the interests of the Directors, chief executives and their associates in the shares, underlying shares and debentures of the Company and its associated corporations, within the meaning of the Securities and Futures Ordinance ("SFO") as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code"), were as follows:

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

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

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

Save as disclosed above, none of the Directors, chief executives nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31st December, 2007, which were required to be recorded pursuant to Section 352 of the SFO, or as otherwise, notified to the Company and the Stock Exchange pursuant to the Model Code.

## SHARE OPTION SCHEME

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

## SHARE OPTION SCHEME – continued

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

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

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

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

No option was granted under the New Scheme since its adoption and no option was outstanding as at 31st December, 2007.

## SUBSTANTIAL SHAREHOLDER

As at 31st December, 2007, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO showed that, apart from the interests disclosed above in respect of certain directors, the Company has not been notified of any other interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under Part XV of the SFO.

## CODE ON CORPORATE GOVERNANCE PRACTICES

The Board is responsible for ensuring that high standards of corporate governance are maintained and for accounting to shareholders. On 1st July, 2006, the Company has applied the principles and complied with all the applicable code provision of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Listing Rules for the period ended 31st December, 2007, except for the following deviations:

### 1. Code Provision A.2.1

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

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

### 2. Code Provision A.4.1

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

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

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

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

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

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules as the code of conduct regarding Director’s securities transactions. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code during the six months ended 31st December, 2007.

## **REMUNERATION COMMITTEE**

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

## **AUDIT COMMITTEE**

The audit committee of Company as at 31st December, 2007 was comprising Mr. Wu Wing Kit, the non-executive Director and Mr. Man Mo Leung, Mr. Ho Yau Ming and Mr. Hung Kwok Keung, Keith, the three independent non-executive Directors.

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

The unaudited interim condensed consolidated financial statements for the six months ended 31st December, 2007 have been reviewed by the audit committee of the Company.



## **INTERNAL CONTROL**

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

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

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

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

Hong Kong, 27th February, 2008