



fulbond

福 邦 控 股

Fulbond Holdings Limited

福邦控股有限公司\*

(Stock Code: 1041)

2008

INTERIM REPORT

\* For identification purpose only



---

## CONTENTS

Corporate Information	2
Chairman's Statement	3
Management Discussion and Analysis	4
Report on Review of Interim Financial Information	7
Condensed Consolidated Income Statement	8
Condensed Consolidated Balance Sheet	9
Condensed Consolidated Statement of Changes in Equity	10
Condensed Consolidated Cash Flow Statement	11
Notes to the Condensed Consolidated Financial Statements	12
Other Information	31

## CORPORATE INFORMATION

### DIRECTORS

#### *Executive Directors*

Mr. Zhang Xi (*Chairman*)

Ms. Zhang Huafang

Mr. Cai Duanhong

*(resigned on 5 August 2008)*

Ms. Catherine Chen (*Managing Director*)

#### *Independent Non-executive Directors*

Mr. Hong Po Kui, Martin

Mr. Yam Tak Fai, Ronald

Mr. Wong Man Hin, Raymond

### BOARD COMMITTEES

#### *Audit Committee*

Mr. Yam Tak Fai, Ronald (*Chairman*)

Mr. Wong Man Hin, Raymond

Mr. Hong Po Kui, Martin

#### *Remuneration Committee*

Mr. Hong Po Kui, Martin (*Chairman*)

Mr. Wong Man Hin, Raymond

Mr. Yam Tak Fai, Ronald

Mr. Zhang Xi

### COMPANY SECRETARY

Mr. Ho Yee Kee, Ricky

### AUDITOR

Deloitte Touche Tohmatsu

*Certified Public Accountants*

### LEGAL ADVISER

Richards Butler in association with

Reed Smith LLP

### REGISTERED OFFICE

Clarendon House

2 Church Street

Hamilton HM11

Bermuda

### HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

2807, 28th Floor

The Center

99 Queen's Road Central

Central

Hong Kong

### PRINCIPAL SHARE REGISTRAR

Butterfield Fund Services (Bermuda) Limited

Rosebank Centre

11 Bermudiana Road

Pembroke

Bermuda

### HONG KONG BRANCH SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited

Shops 1712-1716

17th Floor

Hopewell Centre

183 Queen's Road East

Hong Kong

### STOCK CODE

1041

### WEBSITE

[www.fulbond.com](http://www.fulbond.com)

## CHAIRMAN'S STATEMENT

Dear Shareholders,

I am pleased to present to you the interim results of Fulbond Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the six months ended 30 June 2008 for your review.

For the first half of 2008, the timber industry in the People's Republic of China ("PRC") encountered a number of unfavourable factors, including the continued rise in raw materials, energy, labour costs and RMB appreciation. The growth rates in production and sales of timber related products were lower when compared with the corresponding period last year. For the six months ended 30 June 2008, the Group turnover reached US\$10,660,000 down by 15% over the corresponding period of 2007. Gross profit margin realized 9%, a decrease of 5% over the corresponding period of 2007.

Looking forward, the management of the Group will continue to cut unnecessary operating expenditures by simplifying production procedures and enhancing efficiency of production costs control. On the other hand, the Group will strengthen internal control and reduce the Group's operating expenses significantly. The Group will also monitor foreign exchange exposure in our operating activities and will consider managing foreign currency exposure when necessary.

The Board believes that the Group will be able to improve the overall profit performance by expanding other businesses. During the period, the Group acquired 20% of entire issued share capital of Prowealth Holdings Group Limited ("Prowealth"), a company engaging in seafood trading and processing business, and further acquisition of the remaining equity of Prowealth has been approved by the shareholders at the Special General Meeting on 17 July 2008. Moreover, to enhance the future production requirements in food processing business, the Group has also acquired a piece of land located in Maoming, the PRC with approximate total area of 16,500 square meters for the construction of ice and cold storage facilities to cope with future production requirements in the food processing business. In addition, the Group will continue to strengthen the development of new business in the food processing industry while continuing with its existing timber business.

The Board of Directors has complied with the provisions of the Code on Corporate Governance Practices (the "CG Code") to ensure each decision is independent, rational and protecting the public shareholders effectively. Pursuant to the requirements set out in the CG Code, we have established internal control mechanism to establish internal management standards to enable implementation of our long term strategies and decision making process to be effectiveness and operational efficiency.

On behalf of the Board, I hereby express our sincere gratitude to our management team and employees as well as investors for their dedicated support.

By the Order of the Board  
**Zhang Xi**  
*Chairman*

Hong Kong 19 September 2008

# MANAGEMENT DISCUSSION AND ANALYSIS

## REVIEW OF RESULT

For the six months ended 30 June 2008, the Group recorded a turnover of US\$10.66 million (2007: US\$12.61 million), representing a decrease of 15% over the same period last year. The Group's unaudited consolidated gross profit dropped by US\$0.76 million during the six months ended 30 June 2008 to approximately US\$0.98 million from approximately US\$1.74 million for the corresponding period last year, the gross profit margin of the Group had dropped from about 14% to 9%. The basic loss per share for the six months ended 30 June 2008 was US0.002 cent (2007: approximately US0.012 cent) and diluted loss per share was US0.041 cent.

During the reporting period, the total turnover attributed from 3 segments, namely the door skin, blockboard and particle board and other wooden products. The manufacture and trading of door skin, blockboard and particle board and other wooden products accounted for about 60%, 36% and 4% of the total turnover of the Group.

## BUSINESS REVIEW

### Timber Business

The Group is engaged in the business of manufacturing and sale of timber related products. In the first half of 2008, the Group recorded a recession result in timber business. Our subsidiary, Jilin Fudun Timber Company Limited ("Fudun"), specializes in the production of molded door skin in the PRC and exports to overseas markets, including Turkey, the Middle East and Pakistan. Fudun has been undergoing a very difficult operating environment in the past few years with an increase in operating and overhead costs coupled with strong competition in the timber industry. In view of the sharp increase in raw materials and energy costs in recent years and the continuous appreciation of RMB, the operating and production costs of the manufacturing bases in the PRC have been increasing.

On 5 June 2008, the Group disposed of its entire interest in Jilin Province Fuchun Timber Co., Ltd., a 55% subsidiary of the Group, to the PRC minority shareholder at a consideration of RMB1,000,000 (equivalent to US\$145,000), giving rise to a gain on disposal of US\$1,051,000 which was arrived at after accounting for the net surplus of exchange translation reserve of US\$234,000 released on disposal. The Directors were of the view that the disposal of the losses marking subsidiary can improve the overall performance of the Group and the gain from disposal could be utilized for general working capital.

## Food Processing Business

In order to develop a new line of business in the food processing industry and broaden the source of income, the Group acquired 20% of the entire issued share capital of Prowealth Holdings Group Limited (“Prowealth”). Prowealth holds 100% equity interest in Yield On International Limited and through various intermediary subsidiaries holds 100% equity interest in Maoming Changxing Foods Company Limited and Hainan Jiadexin Foodstuff Company Limited (both companies engaged in the seafood processing business in the PRC). The total consideration of HK\$121 million was satisfied by issue of the SPA convertible note to the vendor.

To cope with the future production requirements in the food processing business, the Company acquired the entire issued share capital of Maoming Jiaxing Foods Co. Limited (“Maoming”) which holds the land use right in a piece of land located in Science & Technology Industrial Zone, Dianbai, Maoming, Guangdong Province with an approximate total site area of 16,500 square metres. The parcel of land will be used for the construction of ice and cold storage facilities to further develop the seafood trading and processing food business.

Subsequent to the first acquisition of Prowealth in February 2008, the Directors believe that the Group is well positioned to tap into the promising and growing market of the seafood processing business. Thus, the Directors acquired the remaining equity interest of Prowealth and further expand and develop in the seafood trading and food processing business. The consideration was HK\$484 million and was satisfied by issue of the SPA convertible notes of HK\$161 million and SPA consideration shares of HK\$323 million to the vendors. The Directors will re-deploy more resources into this business segment. The acquisition has been approved by the Shareholders at the special general meeting held on 17 July 2008. Details of the acquisition are set out in the circular of the Company dated 30 June 2008.

## LIQUIDITY AND CAPITAL RESOURCES

As at 30 June 2008, the bank balances and cash of the Group were US\$7,508,000 (2007: US\$6,888,000). Total bank and other borrowings as at 30 June 2008 were approximately US\$25,844,000 (2007: US\$10,844,000). The Group’s bank loans are mainly denominated in HK dollar and Renminbi, and its sales and purchases are mainly denominated in Renminbi and US dollars. As the exchange rates of Renminbi and US dollars against Hong Kong dollars were relatively stable during the review period, the Group’s exposure to exchange rate fluctuations was relatively low and the Group will closely monitor its foreign exchange exposure. During the six months ended 30 June 2008, the Group repaid bank loans totalling US\$99,000 (six months ended 30 June 2007: US\$300,000) and no new bank loans were obtained during both periods. All borrowings bear interest at prevailing market rates and are repayable within five years.



As at 30 June 2008, the gearing ratio of the Group was approximately 57% (31 December 2007: 35%) (calculated as a percentage of total borrowings over total assets). The Group's total assets was valued at approximately US\$45,606,000 (31 December 2007: US\$31,336,000). The ratio of cash to shareholder's equity was approximately 115% (31 December 2007: 106%) (calculated as a percentage of total bank balances and cash over equity attributable to equity holders of the Company). The equity attributable to equity holders of the Company was US\$6,512,000 (2007: US\$6,508,000).

On 22 February 2008, the Company entered into the subscription agreement with the independent third party, Sun Boom Limited, in relation to the subscription of the Convertible Note with an aggregate principal amount of US\$3,700,000 (equivalent to approximately HK\$28,860,000). The Convertible Note shall bear interest at the rate of 6.00% per annum and (in the absence of an earlier demand by the holder thereof) will be due on the date falling 24 months from the date of issue of the Convertible Note (9 April 2008). The Convertible Note is convertible into Conversion Shares at an initial Conversion Price of HK\$0.086 per Conversion Share. The net proceeds from the issue of the Convertible Note of approximately HK\$28,860,000 will be applied towards the general working capital of the Group and/or any suitable investment(s).

## **CAPITAL STRUCTURE**

The capital structure of the Group consists of debt, which includes the loan borrowings, bank balances and cash and equity attributable to equity holders of the Company, comprising issued share capital and reserves. The Directors review the capital structure regularly and consider the cost of capital and the risks associated with each class of capital. The Directors will balance its overall capital structure through the issue of new shares as well as issue of new debt or the redemption of existing debt.

## **OUTLOOK**

The Group believes that it is progressing along a steady growth path. We are performing restructuring strategies to cope with a difficult market competitions and continued operating loss commensurate with previous periods. The Group will look into feasible investment opportunities to diversify risk and broaden the sources of income of the Group. The Group have adequate resources to continue with business operations, and will continue to centralize corporate objective of developing both timber businesses and food processing businesses in order to strengthen the competitiveness, integrating its capital resources and contribute a maximum wealth to our equity holders.

# REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

## Deloitte.

德勤

TO THE BOARD OF DIRECTORS OF FULBOND HOLDINGS LIMITED

福邦控股有限公司

*(Incorporated in Bermuda with limited liability)*

### Introduction

We have reviewed the interim financial information set out on pages 8 to 30 which comprise the condensed consolidated balance sheet of Fulbond Holdings Limited as of 30 June 2008 and the related condensed consolidated income statement, statement of changes in equity and cash flow statement for the six-month period then ended and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements (“HKSRE”) 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

**Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

19 September 2008

## CONDENSED CONSOLIDATED INCOME STATEMENT

For the period ended 30 June 2008

		Six months ended 30 June	
		2008	2007
		(Unaudited)	(Unaudited)
		US\$'000	US\$'000
	Notes		
Turnover	3	10,664	12,607
Cost of sales		(9,683)	(10,866)
Gross profit		981	1,741
Other income		151	652
Selling and distribution costs		(913)	(1,680)
Administrative expenses		(2,895)	(1,532)
Impairment loss recognised in respect of property, plant and equipment	7	(3,143)	-
Gain on disposal of a subsidiary	18	1,051	-
Gain on disposal of an associate	8	-	521
Share of results of associates		-	(354)
Change in fair value of derivative financial instruments		3,613	-
Finance costs		(572)	(414)
Loss before taxation		(1,727)	(1,066)
Taxation	4	-	(351)
Loss for the period	5	(1,727)	(1,417)
Attributable to:			
Equity holders of the Company		(199)	(1,059)
Minority interests		(1,528)	(358)
		(1,727)	(1,417)
Loss per share attributable to equity holders of the Company	6		
- basic		US(0.002) cent	US(0.012) cent
- diluted		US(0.041) cent	N/A

## CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2008

	Notes	30.6.2008 (Unaudited) US\$'000	31.12.2007 (Audited) US\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	7	9,211	12,967
Prepaid lease payments		1,468	810
Interests in associates	8	–	–
Other investments	9	15,513	–
		<b>26,192</b>	<b>13,777</b>
<b>CURRENT ASSETS</b>			
Inventories		7,366	6,653
Trade and other receivables	10	2,773	2,370
Deposits and prepayments		1,686	1,585
Prepaid lease payments		81	63
Bank balances and cash		7,508	6,888
		<b>19,414</b>	<b>17,559</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	11	9,219	8,858
Derivative financial instruments	12	950	–
Amounts due to associates	13	95	98
Amount due to a former associate	13	49	49
Amount due to a shareholder	13	161	702
Amount due to former ultimate holding company	13	–	560
Taxation payable		143	242
Bank and other borrowings			
– amount due within one year	14	9,837	9,769
Convertible notes	15	14,940	–
		<b>35,394</b>	<b>20,278</b>
<b>NET CURRENT LIABILITIES</b>			
		<b>(15,980)</b>	<b>(2,719)</b>
Total assets less current liabilities		<b>10,212</b>	<b>11,058</b>
Non-current liabilities			
Bank and other borrowings			
– amount due after one year	14	1,067	1,075
		<b>9,145</b>	<b>9,983</b>
<b>CAPITAL AND RESERVES</b>			
Share capital	16	9,197	9,197
Reserves		(2,685)	(2,689)
Equity attributable to equity holders of the Company		<b>6,512</b>	<b>6,508</b>
Minority interests		2,633	3,475
		<b>9,145</b>	<b>9,983</b>

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 30 June 2008

	Share capital US\$'000	Share premium US\$'000	Capital reserve US\$'000	General reserve US\$'000	Exchange translation reserve US\$'000	Share option reserve US\$'000	Capital redemption reserve US\$'000	Accumulated losses US\$'000	Sub-total US\$'000	Minority interests US\$'000	Total US\$'000
At 1 January 2008 (audited)	9,197	47,640	923	1,969	2,561	4,003	4	(59,809)	6,508	3,475	9,983
Exchange difference arising on translation of functional currency to presentation currency directly recognised in equity	-	-	-	-	437	-	-	-	437	160	597
Loss for the period	-	-	-	-	-	-	-	(199)	(199)	(1,528)	(1,727)
Released upon disposal of a subsidiary	-	-	(372)	(723)	(234)	-	-	1,085	(234)	-	(234)
Total recognised income and expense for the period	-	-	(372)	(723)	203	-	-	896	4	(1,368)	(1,364)
Disposal of a subsidiary	-	-	-	-	-	-	-	-	-	526	526
At 30 June 2008 (unaudited)	<u>9,197</u>	<u>47,640</u>	<u>551</u>	<u>1,246</u>	<u>2,784</u>	<u>4,003</u>	<u>4</u>	<u>(58,913)</u>	<u>6,512</u>	<u>2,633</u>	<u>9,145</u>
At 1 January 2007 (audited)	9,197	47,640	716	1,585	1,576	-	4	(51,761)	8,957	4,983	13,940
Exchange differences arising on translation of functional currency to presentation currency directly recognised in equity	-	-	-	-	506	-	-	-	506	(9)	497
Share of reserve of associates	-	-	-	-	5	-	-	-	5	-	5
Net income directly recognised in equity	-	-	-	-	511	-	-	-	511	(9)	502
Loss for the period	-	-	-	-	-	-	-	(1,059)	(1,059)	(358)	(1,417)
Reserve released upon disposal of an associate	-	-	(165)	(17)	1	-	-	-	(181)	-	(181)
Total recognised income and expense for the period	-	-	(165)	(17)	512	-	-	(1,059)	(729)	(367)	(1,096)
Dividends paid to a minority shareholder	-	-	-	-	-	-	-	-	-	(76)	(76)
Transfer	-	-	-	58	-	-	-	(58)	-	-	-
At 30 June 2007 (unaudited)	<u>9,197</u>	<u>47,640</u>	<u>551</u>	<u>1,626</u>	<u>2,088</u>	<u>-</u>	<u>4</u>	<u>(52,878)</u>	<u>8,228</u>	<u>4,540</u>	<u>12,768</u>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the period ended 30 June 2008

	Notes	Six months ended 30 June	
		2008 (Unaudited) US\$'000	2007 (Unaudited) US\$'000
Net cash (used in) from operating activities		<b>(1,348)</b>	2,098
Investing activities			
Purchases of property, plant and equipment		<b>(461)</b>	(441)
Proceeds on disposal of property, plant and equipment		<b>4</b>	21
Proceeds from disposal of a subsidiary	18	<b>95</b>	-
Proceeds from disposal of associates		-	340
Repayment to former ultimate holding company		<b>(588)</b>	-
Repayment to associates		-	(895)
Other investing activities (net)		<b>28</b>	15
Net cash used in investing activities		<b>(922)</b>	(960)
Financing activities			
Repayment of bank loans		<b>(99)</b>	(300)
Proceed from issue of convertible notes		<b>3,700</b>	-
Proceed from issue of warrants		<b>192</b>	-
Transaction cost paid on issue of convertible notes		<b>(102)</b>	-
Repayment to a shareholder		<b>(576)</b>	-
Other financing cash flows (net)		<b>(370)</b>	(427)
Net cash from (used in) financing activities		<b>2,745</b>	(727)
Net increase in cash and cash equivalents		<b>475</b>	411
Cash and cash equivalents at beginning of the period		<b>6,888</b>	3,661
Effect of changes in foreign exchange rate		<b>145</b>	9
Cash and cash equivalents at end of the period, representing bank balances and cash		<b>7,508</b>	4,081



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the period ended 30 June 2008*

## 1. Basis of Preparation

The condensed consolidated 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 and with Hong Kong Accounting Standard 34 (“HKAS”), Interim Financial Reporting.

In preparing the condensed consolidated financial statements, the directors have given consideration to the future liquidity of the Group. While recognising that the Group had sustained a net current liabilities of US\$15,980,000 as at 30 June 2008, the Group has obtained financial support from a shareholder of the Company, Civil Talent International Limited, to enable the Group to meet in full its financial obligations as they fall due in the foreseeable future. Accordingly, the condensed consolidated 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 financial instruments, which are measured at fair values.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2007.

In addition, the Group has applied the following accounting policies during the current interim period.

## 2. Principal Accounting Policies (Continued)

*Convertible loan notes contains liability component, conversion option derivative and early redemption option derivatives*

Convertible loan notes issued by the Company that contain host liability and embedded derivatives (conversion option and early redemption option which is not closely related to the host liability component) are classified separately into respective items on initial recognition. Conversion option will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is a conversion option derivative. At the date of issue, the liability and embedded derivatives are recognised at fair value.

In subsequent periods, the liability component of the convertible loan notes is carried at amortised cost using the effective interest method. The embedded derivatives are measured at fair value with change in fair values recognised in the consolidated income statement.

Transaction costs that relate to the issue of the convertible loan notes are allocated to the liability and embedded derivatives in proportion to the allocation of the proceeds. Transaction costs relating to the embedded derivatives are charged to the consolidated income statement immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible loan notes using the effective interest method.

*Derivative financial instruments*

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately.

In the current interim period, the Group has applied, for the first time the new interpretations issued by the HKICPA, which are effective for the Group's financial year beginning 1 January 2008. The adoption of these new interpretations had no material effect on the results and financial position of the Group for the current or the prior accounting periods. Accordingly, no prior period adjustment has been recognised.

## 2. Principal Accounting Policies (Continued)

### *Derivative financial instruments (Continued)*

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>
HKAS 27 (Revised)	Consolidated and separate financial statements <sup>2</sup>
HKAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation <sup>1</sup>
HKFRS 2 (Amendment)	Vesting conditions and cancellations <sup>1</sup>
HKFRS 3 (Revised)	Business combinations <sup>2</sup>
HKFRS 8	Operating segments <sup>2</sup>
HK(IFRIC)-INT 13	Customer loyalty programmes <sup>3</sup>
HK(IFRIC)-INT 15	Agreements for the construction of real estate <sup>1</sup>
HK(IFRIC)-INT 16	Hedges of a net investment in a foreign operation <sup>4</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 July 2009.

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

<sup>4</sup> Effective for annual periods beginning on or after 1 October 2008.

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. The adoption of HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The directors of the Company anticipate that the application of the other new or revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

## 3. Segment Information

### *Business segments*

For management purposes, the Group is currently organised into three principal operating divisions, the principal activities of which are disclosed as follows and these divisions form the basis on which the Group reports its primary segment information.

### 3. Segment Information (Continued)

#### Business segments (Continued)

Principal activities:

Blockboard and particle board	–	manufacture and trading of blockboard and particle board products
Door skin	–	manufacture and trading of door skin
Other wooden products	–	manufacture and trading of wooden products other than those identified above

On 20 March 2007, the Group disposed of its entire interest in Fulhua Microelectronics Corporation, a 31.73% associate of the Group which is engaged in the high-technology related business. The high-technology related business division was included as others in the prior period.

For the six months ended 30 June 2008

	Blockboard and particle board US\$'000	Door skin US\$'000	Other wooden products US\$'000	Consolidated US\$'000
<b>TURNOVER</b>				
External sales	3,843	6,438	383	10,664
<b>RESULT</b>				
Segment Result	(1,765)	(3,121)	(15)	(4,901)
Unallocated corporate income				71
Unallocated corporate expenses				(989)
Finance costs				(572)
Gain on disposal of a subsidiary				1,051
Change in fair value of derivative financial instruments				3,613
Loss before taxation				(1,727)
Taxation				–
Loss for the period				(1,727)

### 3. Segment Information *(Continued)*

*For the six months ended 30 June 2007*

	Blockboard and particle board <i>US\$'000</i>	Door skin <i>US\$'000</i>	Other wooden products <i>US\$'000</i>	Others <i>US\$'000</i>	Consolidated <i>US\$'000</i>
<b>TURNOVER</b>					
External sales	4,650	7,526	431	–	12,607
<b>SEGMENT RESULT</b>					
	(434)	(314)	(18)	52	(714)
Unallocated corporate income					23
Unallocated corporate expenses					(128)
Finance costs					(414)
Gain on disposal of an associate	–	–	–	521	521
Share of results of associates	–	–	–	(354)	(354)
Loss before taxation					(1,066)
Taxation					(351)
Loss for the period					(1,417)

## 4. Taxation

	Six months ended 30 June	
	2008	2007
	US\$'000	US\$'000
The charge comprises:		
People's Republic of China (the "PRC")		
Enterprise Income Tax	-	351
	<u>          </u>	<u>          </u>

No provision for Hong Kong Profits Tax has been made as the Group has no assessable profits for both periods presented.

The PRC Enterprise Income Tax is provided for with reference to the applicable tax rates prevailing in the respective regions of the PRC on the estimated assessable profits of subsidiaries.

On 16 March 2007, the People's Republic of China promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the People's Republic of China. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations will change the tax rate from 15% to 25% at progressive rates gradually for certain subsidiaries, and from 24% to 25% for certain subsidiaries from 1 January 2008.

## 5. Loss for the period

	<b>Six months ended 30 June</b>	
	<b>2008</b>	2007
	<b>US\$'000</b>	US\$'000
Loss for the period has been arrived at after charging:		
Allowance for bad and doubtful debts	<b>590</b>	–
Depreciation of property, plant and equipment	<b>1,651</b>	1,555
Loss on disposal of property, plant and equipment	<b>47</b>	–
Write-down of inventories (included in cost of sales) (Note a)	<b>744</b>	1,125
Interest on convertible notes	<b>202</b>	–
and after crediting:		
Interest income	<b>28</b>	15
Value added tax refund (Note b)	<b>–</b>	561
	<b>—————</b>	<b>—————</b>

### Notes:

- (a) The directors compared the carrying amounts of the Group's inventories at 30 June 2008 with their estimated net realisable value, as a result, a write-down of inventories totalling US\$744,000 (six months ended 30 June 2007: US\$1,125,000) was charged to the condensed consolidated income statement.
- (b) Certain subsidiaries of the Company established in the PRC are involved in the production of wooden products which require the use of raw materials that are environmental friendly. Pursuant to the relevant rules and regulations of the PRC governing the value added tax ("VAT") treatment of such subsidiaries, during the six months ended 30 June 2007, VAT totalling US\$561,000 (six months ended 30 June 2008: nil) was refunded to these subsidiaries.

## 6. Loss per share

The calculation of the basic and diluted loss per share attributable to equity holders of the Company is based on the following data:

	<b>Six months ended 30 June</b>	
	<b>2008</b>	2007
	<i>US\$'000</i>	<i>US\$'000</i>
<b>Loss:</b>		
Loss for the period attributable to equity holders of the Company for the purpose of basic loss per share	<b>(199)</b>	(1,059)
Effect of dilutive potential ordinary shares:		
Interest on convertible notes	<b>202</b>	
Change in fair value of embedded conversion option	<b>(3,976)</b>	
Exchange difference of convertible notes	<b>(2)</b>	
Loss for the purpose of diluted loss per share	<b>(3,975)</b>	
<b>Number of shares:</b>		
Weighted average number of ordinary shares for the purpose of basic loss per share	<b>9,197,779,755</b>	9,197,779,755
Effect of dilutive potential ordinary shares:		
Convertible notes	<b>390,869,159</b>	
Weighted average number of ordinary shares for the purpose of diluted loss per share	<b>9,588,648,914</b>	

## 6. Loss per share *(Continued)*

The computation of diluted loss per share does not assume the exercise of the Company's outstanding share options as the exercise price of those options is higher than the average market price for shares during the current period. In addition, it does not assume the exercise of the Company's outstanding warrants since their exercise would result in a decrease in the loss per share.

No diluted loss per share has been presented for the six months ended 30 June 2007 as the exercise of the outstanding share options would result in a decrease in the loss per share.

## 7. Property, Plant and Equipment

During the six months ended 30 June 2008, the Group spent approximately US\$461,000 (six months ended 30 June 2007: US\$441,000) on acquisitions of property, plant and equipment.

During the current period, the directors conducted a review of the Group's manufacturing assets and determined that a number of those assets were impaired. An impairment loss of US\$3,143,000 (six months ended 30 June 2007: nil) was recognised based on the recoverable amounts of plant and machinery which were determined on the basis of their value in use. The carrying amounts of the plant and machinery were reduced to the respective recoverable amounts. The discount rate in measuring the amounts of value in use was 20.86% in relation to plant and machinery.

## 8. Interests in Associates

On 20 March 2007, the Group disposed of its entire interest in Fulhua Microelectronics Corporation, a 31.73% associate of the Group, to a third party at a consideration of US\$340,000 giving rise to a gain on disposal of US\$521,000 which was arrived at after accounting for the reserves of US\$181,000 released on disposal.

## 9. Other Investments

The investments classified as available-for-sales investments as at 30 June 2008 comprise:

	<b>30.6.2008</b> <i>US\$'000</i>	31.12.2007 <i>US\$'000</i>
Equity securities		
Costs of investments	<b>18,629</b>	3,116
Less: Impairment loss recognised	<b>(3,116)</b>	(3,116)
	<b>15,513</b>	–

The balance represents investments in unlisted securities issued by private entities. They are measured at cost less impairment at each balance sheet date because the directors of the Company are of the opinion that their fair values cannot be measured reliably as there is no active market information available.

Pursuant to a sale and purchase agreement dated 22 February 2008, a supplemental deed dated 27 February 2008 and a second supplemental agreement dated 30 April 2008 entered between the Company and Sun Boom Limited (“Sun Boom”), an independent third party to the Group, to purchase 20% of the issued share capital of Prowealth Holdings Group Limited (“Prowealth”) at a consideration of HK\$121,000,000 (equivalent to US\$15,513,000) satisfied by issue of SPA convertible note (as detailed in note 15(b)). Prowealth is an investment holding company and its subsidiaries are engaged in seafood trading and processing business in Hong Kong and the PRC. The cost of investment in Prowealth is classified as other investments because the Group is not in a position to exercise significant influence over this company as there are no representatives from the Company in the board of directors of Prowealth.

## 10. Trade and Other Receivables

Payment terms with customers are largely on credit. Invoices are normally payable within 30 to 90 days after issuance.

The following is an analysis of trade and other receivables, net of allowances for doubtful debts, at the balance sheet date:

	<b>30.6.2008</b> <i>US\$'000</i>	31.12.2007 <i>US\$'000</i>
Trade receivables, aged		
0-90 days	<b>2,082</b>	904
91-180 days	<b>117</b>	260
More than 180 days	–	79
	<b>2,199</b>	1,243
Other receivables	<b>574</b>	1,127
	<b>2,773</b>	2,370

## 11. Trade and Other Payables

The following is an analysis of trade and other payables at the balance sheet date:

	<b>30.6.2008</b> <i>US\$'000</i>	31.12.2007 <i>US\$'000</i>
Trade payables, aged		
0-90 days	<b>641</b>	53
91-180 days	<b>801</b>	794
More than 180 days	<b>2,039</b>	1,847
	<b>3,481</b>	2,694
Amounts payable to minority shareholders of subsidiaries	<b>892</b>	827
Other payables	<b>4,846</b>	4,324
Compensation payable for laid off of employees	–	1,013
	<b>9,219</b>	8,858

## 12. Derivative Financial Instruments

	<b>30.6.2008</b> <b>US\$'000</b>	31.12.2007 <i>US\$'000</i>
Derivative financial liabilities:		
Warrants	<b>555</b>	–
Embedded conversion option (note 15)	<b>395</b>	–
	<b>950</b>	–

On 28 January 2008, the Company issued 1,500,000,000 unlisted warrants at price of HK\$0.001 per warrant to six placees and each warrant entitles its holder to subscribe for one ordinary share of US\$0.001 each of the Company (“Subscription Share”) at the initial subscription price of HK\$0.074 per Subscription Share at any time during the period of 30 months commencing from the date of issue of the warrants. The proceed from the issue amounts to HK\$1,500,000 (equivalent to US\$192,000) represents the fair value of the warrants at date of issue. At 30 June 2008, the fair value of the warrants was determined using binomial option pricing model and the inputs into the model were as follows:

Warrants:

	<b>30.6.2008</b>
Exercise price	<b>HK\$0.074</b>
Share price	<b>HK\$0.037</b>
Expected volatility	<b>46.28%</b>
Remaining life	<b>2.05 years</b>
Risk free rate	<b>2.441%</b>

## 12. Derivative Financial Instruments (Continued)

Embedded conversion option represents the fair value of the noteholders' option to convert the convertible bonds issued on 9 April 2008 ("April Convertible Note") and 30 May 2008 ("May SPA Convertible Note") (as detailed in note 15) into equity of the Company, but the conversion will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments. The early redemption option was insignificant in value as the holder is highly improbable to exercise its early redemption option due to current market conditions. The fair value of the embedded conversion options were determined using binomial option pricing model and the inputs into the model at each respective dates were as follows:

April Convertible Note:

	9.4.2008	30.6.2008
Conversion price	HK\$0.086	HK\$0.086
Share price	HK\$0.080	HK\$0.037
Expected volatility	46.35%	47.53%
Remaining life	2 years	1.77 years
Risk-free rate	1.311%	2.441%

May SPA Convertible Note:

	30.5.2008	30.6.2008
Conversion price	HK\$0.086	HK\$0.086
Share price	HK\$0.080	HK\$0.037
Expected volatility	46.46%	46.71%
Remaining life	2 years	1.91 years
Risk-free rate	2.052%	2.441%

During the six months ended 30 June 2008, US\$3,613,000 was recognised as a gain on change in fair value of derivative financial instruments.

### **13. Amounts due to Associates/A Former Associate/A Shareholder/ Former Ultimate Holding Company**

The amounts due to associates, a former associate, a shareholder and former ultimate holding company are unsecured, interest free and repayable on demand.

### **14. Bank and Other Borrowings**

During the six months ended 30 June 2008, the Group repaid bank loans totalling US\$99,000 (six months ended 30 June 2007: US\$300,000) and no new bank loans were obtained during both periods. All borrowings bear interest at prevailing market rates and are repayable within five years.

### **15. Convertible Notes**

#### *(a) April Convertible Note*

On 9 April 2008, the Company issued a 6% convertible note with principal amount of US\$3,700,000 to Sun Boom. The April Convertible Note is denominated in United States dollars with a conversion period of 24 months from the issue date and can be converted into ordinary shares of the Company at HK\$0.086 per share, subject to the usual anti-dilution adjustments and certain events such as share consolidation, share subdivision, capitalisation issue, capital distribution, rights issue and other equity or equity derivative issues. The April Convertible Note matures on 8 April 2010 and can be redeemed at par by the holder at the maturity date.

#### *(b) May SPA Convertible Note*

On 30 May 2008, the Company issued a 6% convertible note with principal amount of HK\$121,000,000 (equivalent to US\$15,513,000) to Sun Boom for acquisition of 20% equity interest in Prowealth. The May SPA Convertible Note is denominated in Hong Kong dollars with a conversion period of 24 months from the issue date and can be converted into ordinary shares of the Company at HK\$0.086 per share, subject to the usual anti-dilution adjustments and certain events such as share consolidation, share subdivision, capitalisation issue, capital distribution, rights issue and other equity or equity derivative issues. The May SPA Convertible Note matures on 29 May 2010 and can be redeemed at par by the holder at the maturity date.

## 15. Convertible Notes (Continued)

The holder may require the Company to redeem the April Convertible Note and May SPA Convertible Note at par at any time from the date of issue up to and including the date which is immediately prior to the date of maturity to repay the outstanding principal amount of the note and the interest accrued.

The April Convertible Note and May SPA Convertible Note contains three components, liability component, embedded conversion option derivative and an early redemption option. The effective interest rate of the liability components of the April Convertible Note and May SPA Convertible Note are 20.79% and 20.86% respectively.

The movement of the components of the April Convertible Note and May SPA Convertible Note during the period is set out below:

	<b>Liability</b>	<b>Embedded conversion option</b>	<b>Total</b>
	<b>US\$'000</b>	<b>US\$'000</b>	<b>US\$'000</b>
At 1 January 2008	–	–	–
Issued during the period	14,740	4,371	19,111
Change in fair value	–	(3,976)	(3,976)
Interest charged	202	–	202
Exchange difference	(2)	–	(2)
	<hr/>	<hr/>	<hr/>
At 30 June 2008	<b>14,940</b>	<b>395</b>	<b>15,335</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

## 16. Share Capital

	<b>Number of shares</b>	<b>Amount US\$'000</b>
Ordinary shares of US\$0.001 each		
Issued and fully paid		
At 1 January 2008 and 30 June 2008	9,197,779,755	9,197

## 17. Acquisition of a subsidiary

On 5 June 2008, the Group acquired certain assets through acquisition of 100% equity interest in Maoming Jiaxing Foods Co., Limited from an independent third party, for a consideration of RMB4,800,000 (equivalent to US\$700,000).

The net assets acquired in the transaction are as follows:

	<b>Fair value US\$'000</b>
Net assets acquired	
Property, plant and equipment	20
Prepaid lease payment	665
Other receivables	15
	700

The consideration payable was included in the Group's other payables at 30 June 2008.

## 18. Disposal of a subsidiary

On 5 June 2008, the Group disposed of its entire interest in Jilin Province Fuchun Timber Co., Ltd. ("Jilin Fuchun"), a 55% subsidiary of the Group, to the PRC minority shareholder at a consideration of RMB1,000,000 (equivalent to US\$145,000), giving rise to a gain on disposal of US\$1,051,000 which was arrived at after accounting for the net surplus of exchange translation reserve of US\$234,000 released on disposal.

The net liabilities of Jilin Fuchun at the date of disposal were as follows:

	<i>US\$'000</i>
<hr/>	
Net liabilities disposed of:	
Inventories	538
Other receivables	15
Bank balances and cash	50
Trade and other payables	(1,496)
Bank borrowings	(305)
	<hr/>
	(1,198)
Minority interest	526
	<hr/>
	(672)
Gain on disposal	1,051
Release of exchange translation reserve upon disposal	(234)
	<hr/>
Total cash consideration	145
	<hr/> <hr/>
Net cash inflow arising on disposal:	
Cash consideration received	145
Cash and cash equivalents disposed of	(50)
	<hr/>
	95
	<hr/> <hr/>

## 19. Leasing arrangements

### The Group as lessee

At the balance sheet date, the Group had outstanding commitment for future minimum lease payments under non-cancellable operating leases in respect of land and buildings which fall due as follows:

	<b>30.6.2008</b> <i>US\$'000</i>	31.12.2007 <i>US\$'000</i>
Within one year	<b>267</b>	223
In the second to fifth year inclusive	<b>217</b>	282
	<b>484</b>	505

### The Group as a lessor

At the balance sheet date, the Group had contracted with lessees for the following future minimum lease payments in respect of certain plant and machinery:

	<b>30.6.2008</b> <i>US\$'000</i>	31.12.2007 <i>US\$'000</i>
Within one year	-	139
In the second to fifth year inclusive	-	136
	-	275

## 20. Pledge of Assets

At 30 June 2008, the Group had pledged certain properties and plant and equipment with an aggregate carrying amount of US\$4,223,000 (31 December 2007: US\$5,449,000) to various banks to secure the bank loans and general banking facilities granted to the Group.

## 21. Related Party Transactions

During the period, the Group has received management service fee income of US\$35,000 (six months ended 30 June 2007: nil) from a company controlled by a director of the Company, Mr. Zhang Xi.

The key management personnel of the Group are the directors of the Company. During the six months ended 30 June 2008, no remuneration (six months ended 30 June 2007: nil) were paid to the directors of the Company.

## 22. Post Balance Sheet Events

On 28 May 2008, the Company through its wholly-owned subsidiary, Fulbond Investments Limited, entered into an agreement (the "Agreement") with Sun Boom and Wise Virtue Holdings Limited ("Wise Virtue") to acquire the remaining equity interest in Prowealth at a consideration of HK\$484,000,000 (the "Acquisition"). The consideration will be satisfied in the following manner:

- (i) HK\$323,088,240 is to be satisfied by the issue of 3,756,840,000 ordinary shares of the Company to Wise Virtue on completion; and
- (ii) HK\$160,911,760 is to be satisfied by the issue of secured convertible notes to be issued by the Company to Sun Boom and Wise Virtue (the "SPA Convertible Notes"). The SPA Convertible Notes shall bear interest at the rate of 6% per annum and (in the absence of an earlier demand by the holder thereof) will be due on the maturity date which is 60 months from the date of issue. The SPA Convertible Notes are convertible into ordinary shares of the Company at a conversion price of HK\$0.086 per share ("SPA Conversion Shares").

In addition, the conversion right attaching to the SPA Convertible Notes cannot be exercised and accordingly the Company will not issue the SPA Conversion Shares if and to the extent that the total number of SPA Conversion Shares with voting rights held by the holders of the respective SPA Convertible Notes and parties acting in concert with it within the meaning of the takeover code immediately after the issue of the SPA Conversion Shares would be more than 29.9% of the enlarged issued share capital of the Company or such other amount equal to 0.1% below the amount as may at the relevant time be specified in the takeover code as being the level for triggering a mandatory general offer.

The Acquisition has been approved by the shareholders of the Company at the special general meeting held on 17 July 2008 and is conditional upon the fulfillment and completion of the conditions set out in the Agreement. The Acquisition has not yet completed up to the date of this report.

## **OTHER INFORMATION**

### **Interim Dividend**

The Board has resolved not to declare an interim dividend in respect of the six months ended 30 June 2008 (2007: Nil).

### **Share Options**

#### **Share options to subscribe Company's shares**

Pursuant to the Company's share option scheme adopted on 19 November 2001 under which the board of the Directors, at their discretion, may grant options to any directors, executives, employees and any other persons who have contributed or will contribute to the Group.

Pursuant to the disclosure of share options of the Group's 2007 annual report, the ex-directors, executives and employees of the Company surrendered and cancelled the share options previously granted to them by the Company under the Company's share option scheme during the year 2007. During the six months ended 30 June 2008, there is no movement in the number of options outstanding which have been granted, exercised, cancelled or lapsed by the Company to the Directors, executives and employees of the Company under the Company's share option scheme.

Apart from the above, no other interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporations as at 30 June 2008 were recorded in the register required to be kept under section 352 of the Securities and Futures Ordinance ("SFO").

Save as mentioned above, at no time during the period was the Company, its holding company or any of its subsidiaries a party to any arrangement to enable the Directors or chief executives of the Company to acquire benefits by means of the acquisition of shares in, debentures of, the Company or any other body corporate.

## Disclosure of Interests

### Directors Interests

As at 30 June 2008, save as disclosed below, none of the directors or chief executives of the Company or any of their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) with (i) had to be notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the directors and the chief executives were taken or deemed to have under such provisions of the SFO) or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register of the Company referred to therein or (iii) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange.

*Long positions in interests in the shares of the Company*

<b>Name of Director</b>	<b>Capacity</b>	<b>Number of issued Ordinary Shares held</b>	<b>Approximate percentage of the issued share capital of the Company</b>
Mr. Zhang Xi	Interest of controlled corporation (Note)	2,092,826,000	22.75%

Note: The above Shares are held through Civil Talent International Limited, which is wholly owned by Mr. Zhang.

### Interests of Substantial Shareholders in Securities

As far as was known to any Director or chief executive of the Company, as at 30 June 2008, the persons or companies (not being a Director or chief executive of the Company) who had interests or short positions in the Shares or underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly deemed to be

interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group were as follows:

(i) **Long positions in Shares of the Company**

<b>Name of Shareholders</b>	<b>Number of Shares</b>	<b>Approximate percentage of issued share capital (%)</b>
Civil Talent International Limited ( <i>note 1</i> )	2,092,826,000	22.75%
Wise Virtue Holdings Limited ( <i>note 2</i> )	3,756,840,000	40.85%
Sun Boom Limited ( <i>note 3</i> )	1,742,558,139	18.95%

*Note 1.* Civil Talent International Limited, a company incorporated in British Virgin Islands, is wholly owned by the executive Director, Mr. Zhang Xi.

*Note 2.* Wise Virtue Holdings Limited, a company incorporated in British Virgin Islands, is wholly owned by Ms. Lam So Ying. Wise Virtue Holdings Limited is deemed to be interested in 3,756,840,000 shares of the Company pursuant to the entering into an agreement dated 28 May 2008, the details of which was disclosed in the circular of the Company dated 30 June 2008. As at 30 June 2008, the transaction in relation to such agreement has not yet been completed.

*Note 3.* Sun Boom Limited, a company incorporated in British Virgin Islands, is wholly owned by Ajia Partners Special Situations Fund I LP. Sun Boom Limited is deemed to be interested in 1,742,558,139 shares pursuant to its investments in two convertible notes issued by the Company, the details of which was disclosed in the announcement of the Company dated 29 February 2008.

Save as disclosed above, as at 30 June 2008, the Directors were not aware of any other person who had an interest or short positions in the Shares or underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or who was interested in 5% or more of the nominal value of any class of share capital, or options in respect of such capital, carrying rights to vote in all circumstances at general meetings of the Company.

(ii) **Short positions in the Shares and underlying Shares of equity derivatives of the Company**

As far as the Directors are aware, save as disclosed herein, as at 30 June 2008, no persons had short positions in Shares or underlying Shares of equity derivatives of the Company.

## **Audit Committee**

The Audit Committee has reviewed with management and the Company's auditor, Deloitte Touche Tohmatsu, the accounting principles and practices adopted by the Group and discussed, internal control and financial reporting matters including the review of the unaudited interim financial statements for the six months period ended 30 June 2008.

## **Corporate Governance**

The Board is committed to maintain a high standard of corporate governance in the best interests of the shareholders. The corporate governance principles adopted by the Company emphasized on a highly efficient board of directors, sound internal control and the transparency and accountability to all shareholders.

The Code on Corporate Governance Practices (the "CG Code") as set out in the Appendix 14 of the Listing Rules stipulates the principles of good corporate governance and two levels of recommendations: (a) Code Provisions and (b) Recommended Best Practices. As disclosed in the Corporate Governance Report contained in the Company's 2007 annual report, the Company has applied the principles under the CG Code, and has been in full compliance with all the Code Provisions and certain Recommended Best Practices as set out in the CG Code. Throughout the reporting period, the Company has been in full compliance with all the Code Provisions and certain Recommended Best Practices as set out in the CG Code.

## **Employees and Compensation Policy**

As at 30 June 2008, the Group employed approximately 800 full time management, administrative and production staff in PRC and Hong Kong. The Group's emolument policies, which are reviewed periodically, are linked to the performance of individual employees and are based on the salary trends in the market.

## **Model Code for Securities Transactions by Directors of the Company**

During the period, the Company has adopted a code of conduct regarding Directors' securities transactions on terms less exacting than the required standard set out in the Model Code set out in Appendix 10 to the Listing Rules. After having made specific enquiry of all Directors, the Directors have complied with the required standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions.

## **Purchase, Sale or Redemption of Listed Securities of the Company**

During the six months ended 30 June 2008, neither the Company nor any of its subsidiaries had purchased, sold, or redeemed any listed securities of the Company.