



FEHI

Far East Holdings International Limited

INTERIM REPORT 2008

Stock Code : 0036

Board of Directors

Executive Directors

Deacon Te Ken Chiu, J.P. (Chairman)
Mr. Duncan Chiu, B.Sc (Managing Director and Chief Executive Officer)
Mr. Dennis Chiu, B.A.

Non-Executive Directors

Tan Sri Dato' David Chiu, B.Sc.
Mr. Daniel Tat Jung Chiu
Mr. Derek Chiu, B.A.
Mr. Desmond Chiu, B.A.
Ms. Margaret Chiu, LL.B.
Ms. Min Tang (Resigned on 1st June, 2008)

Independent Non-Executive Directors

Dr. Lee G. Lam
Mr. Eugene Yun Hang Wang, MBA
Mr. Hing Wah Yim, CPA (Practising), FCCA, CPA

Audit Committee

Dr. Lee G. Lam (Chairman)
Mr. Eugene Yun Hang Wang, MBA
Mr. Derek Chiu, B.A.
Mr. Hing Wah Yim, CPA (Practising), FCCA, CPA

Remuneration Committee

Mr. Duncan Chiu, B.Sc (Chairman)
Dr. Lee G. Lam
Mr. Eugene Yun Hang Wang, MBA

Company Secretary and Qualified Accountant

Mr. Hung Kwong Lui, FCPA, FCCA, CGA, ACA

Solicitors

Woo, Kwan, Lee & Lo

Auditors

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

Principal Bankers

The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited

Registered Office

16th Floor, Far East Consortium Building, 121 Des Voeux Road Central, Hong Kong

Principal Office

Room 1802-1804 18th Floor, Far East Consortium Building, 121 Des Voeux Road Central, Hong Kong

Share Registrar

Computershare Hong Kong Investor Services Limited, Shops 1712-1716,
17th Floor Hopewell Centre, 183 Queen's Road East, Hong Kong

Listing Information Stock Exchange

The Stock Exchange of Hong Kong Limited
Stock Code: 036

Website

<http://www.feholdings.com.hk>

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CORPORATE PROFILE

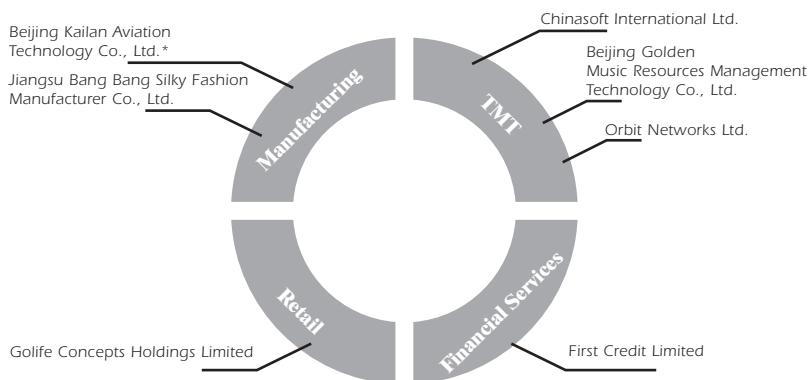
Far East Holdings International Limited (Far East Holdings) (HKEX: 36), a consolidated enterprise backed by the legendary Deacon Chiu's family, has been listed on the main board of the Hong Kong Stock Exchange since 1973. As an investment holdings company, its subsidiaries and associates are active in a broad range of regions and sectors, including Technology, Media and Telecom (TMT), Manufacturing, Retail and Financial Services.

We identify opportunities in the Greater China region with the core philosophy of creating benefits to stakeholders and the wider community. Convinced that Greater China is quickly becoming a global investment hub, we provide unique investment insight and value-oriented strategies thanks to our extensive China network and deep vertical sector knowledge. We acquire high quality companies that possess niche market positioning, a clear focus on the respective business and the potential to fully expand in mainland China. We acquire majority and minority stakes in companies at their early stage at comparatively low prices. We aim to help them realize their full potentials and target multifold returns, after committing our resources to develop them over 3-7 years' of time. Our success is also based on the professional and experienced team of directors, managing directors and investment associates.

Our mission is to realize the potential of our portfolio of companies as well as their management teams and employees in order to generate superior returns for our shareholders. We understand shareholders' desire to make gains in their investment. We share this common value and strive to work towards securing attractive returns, while minimizing the risk of capital loss through all stages of the business cycle.

CORPORATE PROFILE

INVESTMENT PORTFOLIO



* Unofficial English translation of the official name in Chinese.

MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER'S STATEMENT

CORPORATE RESULTS

During the six months period ended 30th June, 2008 (the "Period") the Company and its subsidiaries (the "Group") reported a turnover of HK\$49.22 million (2007: HK\$39.25 million), representing a rise of 25.4% over corresponding period in 2007. The Group's loss attributable to equity holders of the Company amounted to HK\$4.68 million (2007: profit of HK\$38.27 million) representing a decline of 112% over corresponding period in 2007.

BUSINESS REVIEW

PORTFOLIO COMPANIES

TMT

Chinasoft International Limited ("Chinasoft")

The Group has reduced its shareholdings in Chinasoft to approximately 131.27 million shares and its holdings as at 30th June, 2008 is 13.10%. Chinasoft has satisfactory results for the first half of 2008 with approximately turnover of RMB 449.67 million and net profit of RMB 68.97 million (contributable to the Group is HK\$9.2 million).

The gross profit margin of Hinge Global Resources Inc.'s business acquired in the second half of 2007 was lower than that of the original business of Chinasoft. It resulted in a slight decrease in overall gross profit margin of Chinasoft during the reporting period. With the development of Chinasoft's business management and the gradual surfacing of the synergy effect from acquisitions, Chinasoft's gross profit margin will improve and increase accordingly.

It was mainly because most of Chinasoft business and profit contribution were from the People's Republic of China (the "PRC") which has been hit by a series of natural disasters such as snowstorm and earthquake in the first half of 2008. In addition, the change of focus brought forward by the Beijing 2008 Olympics Games event has caused certain government institutions to adjust their IT buildup plans and postpone the IT implementation originally scheduled in the reporting period. As government institutions are the main clients of Chinasoft's solution business, the adjustment has resulted in a slowdown effect in the gain and profit of Chinasoft business during the reporting period. The growth in the Chinasoft's recurring incomes generated from its outsourcing service, e-Services and software maintenance service are stably on tracks. Chinasoft will continue to be benefited from such growing revenue streams while the operation efficiency and the economic scale are being improved.

MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER'S STATEMENT

BUSINESS REVIEW (Continued)

PORTFOLIO COMPANIES (Continued)

Beijing Golden Music Resources Management Technology Co., Ltd. ("GMR")

The Company entitled to the entire issued share capital of Wealth Trend Investment Limited ("Wealth Trend"), which in turn holds 65% equity interest of GMR, a sino-foreign equity joint venture established in the PRC. The principal business activities of GMR are copy right related business. According to the management accounts of GMR, as at 30th June, 2008, the unaudited total assets of GMR was approximately RMB 20.9 million and the unaudited net asset value of GMR was approximately RMB 20.7 million. From 13th August, 2007, the date of establishment of GMR, to 30th June, 2008, GMR recorded a net loss of approximately RMB 2.9 million.

The Group believes that piped music playing equipments and related services will continue to be a very popular service in most large department stores in the PRC and a major growth driver in the revenue of GMR in the second half year of 2008.

Manufacturing

Beijing Kailan Aviation Technology Co., Ltd. ("Beijing Kailan")

Upon completion of the transformation, Beijing Kailan will be owned as to approximately 79.98% by China Aviation Supplies Import and Export Group Corporation and as to approximately 20.02% by Jubilee Star Limited, a wholly owned subsidiary of the Company. During the Period, Beijing Kailan has recorded a turnover of approximately RMB 36.3 million (2007: RMB 32.7 million) representing a rise of 11% over the corresponding period in 2007 and net profit of RMB 3.3 million (2007: RMB 2.2 million) representing an increase of 50% over corresponding period in 2007.

Demand for the Beijing Kailan's services are expected to remain firm notwithstanding the negative impact of high fuel prices on the aviation industry. Therefore, it is expected that Beijing Kailan's business will continue to growth in the second half of the year.

MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER'S STATEMENT

BUSINESS REVIEW (Continued)

Manufacturing (Continued)

Jiangsu Bang Bang Silky Fashion Manufacturer Co., Ltd.

The Group's manufacturing operations, Jiangsu Bang Bang Silky Fashion Manufacturer Company Limited ("Jiangsu Bang Bang"), 51% subsidiary of the Group being affected by the US economy slump, as at 30th June, 2008, Jiangsu Bang Bang recorded a turnover of RMB 10.2 million (2007: RMB 14.9 million) representing 32% decrease comparing with the corresponding period in 2007 and a net loss of RMB 0.28 million (2007: profit, RMB 0.15 million) representing a decline of 287% comparing with the corresponding period in 2007. The profit margin of the garment manufacturing and trading business of Jiangsu Bang Bang is likely to be affected by the economic slowdown in the Japan market as well as the increase in production costs owing to inflation and the appreciation of Reminbi. The Group will strive to improve profit margin by offering a variety of value added services to its customers and implementation of stringent cost control. With the gloomy global economic outlook, the Group has negative view on the performance of Jiangsu Bang Bang in the second half of 2008.

Retail

Golife Concepts Holdings Limited

The Group has reduced its shareholdings in Golife Concepts Holdings Limited ("Golife") to approximately 429.37 million shares and its deemed shareholdings as at 30th June, 2008 is 33.36%. Golife has recorded the first half of 2008 with approximately turnover of HK\$35.25 million and net loss of HK\$25.14 million. Within the total losses, HK\$22.4 million was attributed by the termination of the acquisition of Financiere Solola in April 2008 and certain related financing exercises. Excluding the one-time losses that were attributed from the termination of this acquisition, Golife's net loss attributable to shareholders was HK\$2.74 million. Golife believes the Life of Circle brand has enormous long-term potential and it is a matter of time for the brand to reach the critical mass. Despite Golife's unsuccessful acquisition of French-brand Solola, Golife will continue to seek and identify unique international accessory and apparel brands with character, market potential and longevity to form distribution, product development and equity partnerships.

MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER'S STATEMENT

BUSINESS REVIEW (Continued)

Financial Services

First Credit Limited

First Credit Limited ("First Credit") is a wholly owned subsidiary of First Holdings Consortium Limited, which the Group holds 12% equity interest. The principal business activities include mortgage loan, SME business loan, securities mortgage and project financing as well as personal loan. In additions, First Credit has developed a strong branch network throughout Hong Kong. First Credit has reported the first half of 2008 with approximately turnover of HK\$22 million and net profit of HK\$11 million. First Credit will continue to improve in customer service quality and business development, as well as the vast customer base and merchant networks that have been built up rapidly, will provide First Credit with a strong driving force to grow in credit and mortgage business market.

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 30th June, 2008, the Group had cash and bank balances, and deposits held at financial institutions amounting to HK\$58.09 million (2007: HK\$93.58 million). Basically, the Group's funding policy is to finance the business operations with internally generated cash and bank facilities. As at 30th June, 2008, the Group had total borrowings of HK\$23.38 million (2007: HK\$26.65 million) of which HK\$6.17 million (2007: HK\$9.01 million) was payable within one year and the remaining was payable after one year and was fully secured. The Group's borrowings were denominated in Hong Kong dollar, Japanese Yen and United States dollar. Interest rates were in line with the best lending rates either at prime or based on the Hong Kong Inter-bank Offer Rate. The Group did not have any financial instruments used for hedging purpose.

MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER'S STATEMENT

FINANCIAL REVIEW (Continued)

Gearing Ratio and Current Ratio

The Group's gearing ratio (total bank and other loans to shareholders' equity) as at 30th June, 2008 dropped to 6.65% (2007: 8.20%). While the Group's current ratio (current assets to current liabilities) as at 30th June, 2008 has been maintained at a healthy level of 7.31 (2007: 7.55). The Group continues to implement prudent financing policy to reduce short-term borrowing as much as possible in order to ensure that the Group will not be affected by short-term uncertainties and exchange rate fluctuation.

Capital Structure

In January 2008, 968,348 share options out of a total 2,118,348 granted in 2005 and 2006 were exercised.

On 2nd February, 2008, ordinary resolutions were duly passed at the extraordinary general meeting of the Company in relation to the acquisition of the advertising and development of background music equipment businesses from Allied Wealth Holdings Limited (the "Allied Wealth") by the Company through a wholly-owned subsidiary, Golden Star Investment Limited (the "Golden Star") and the issue and allotment of the 20,000,000 new shares of the Company to the Allied Wealth as part of the consideration payable under the sale and purchase agreement dated 2nd January, 2008.

In the 2008 annual general meeting held on 30th May, 2008, shareholders of the Company approved the issue of bonus shares by way of capitalization of the sum of HK\$1,514,189.43 from the share premium account that based on 151,418,943 ordinary shares of HK\$0.01 each issued by the Company, one bonus share to be issued for every one ordinary share each held by such shareholders on 30th May, 2008.

MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER'S STATEMENT

FINANCIAL REVIEW (Continued)

Capital Structure (Continued)

During the Period, due to the exercise of share option, issue of consideration shares and bonus shares, the total issued share capital of the Company increased from 130,450,595 shares to 302,837,886 shares.

	Number of shares
At 1st January, 2008	130,450,595
Exercise of share option	968,348
Issue of consideration shares	20,000,000
Issue of bonus shares	151,418,943
	<hr/>
At 30th June, 2008	302,837,886
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Pledge of Assets

As at 30th June, 2008, certain assets of the Group with an aggregate carrying value of approximately HK\$64.2 million (2007: HK\$61.8 million) were pledge to secure loans facilities utilized by the Group.

Exposure on Foreign Exchange Fluctuations

The Group had no significant exposure to foreign exchange fluctuation during the Period.

MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER'S STATEMENT

FINANCIAL REVIEW (Continued)

Contingent Liabilities and Commitments

Contingent Liabilities

As at 30th June, 2008, the Group had no contingent liabilities (2007: Nil).

Capital Commitments

	30th June, 2008	31st December, 2007
	HK\$ million	HK\$ million
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of approximately 20.02% equity interest in Beijing Kailan Aviation Technology Co., Ltd.	36.28	40.66

Material Acquisitions and Disposals of Subsidiaries and Associated Companies

On 2nd January, 2008, Golden Star, Allied Wealth, Mr. Sin Kwok Lam and the Company entered into a conditional sale and purchase agreement. Pursuant to which Golden Star has conditionally agreed to acquire and Allied Wealth has conditionally agreed to sell the entire issued share capital of Wealth Trend at an aggregate consideration of HK\$40,000,000. After that, the Company entitled to the entire issued capital of Wealth Trend, which in turn holds 65% equity interest of GMR, a sino-foreign equity joint venture established in the PRC.

INTERIM DIVIDEND

The directors do not recommend the payment of an interim dividend for the six months ended 30th June, 2008 (2007: Nil).

MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER'S STATEMENT

EMPLOYEE

As at 30th June, 2008, the Group had approximately 330 employees in Hong Kong and the PRC (2007: 500 employees) with majority of these employees employed in the PRC. Employees are remunerated in accordance with nature of the job and market conditions. Staff incentive bonus and discretionary employee share options would be granted to reward and motivate those well performed employees.

PROSPECTS

The US economic environment is expected to remain sluggish, being affected by the credit market crisis and current unfavorable economic climate, the global financial markets may be adversely affected.

Despite tightened monetary policy in China, the growing economy in Mainland China remains a booster to Hong Kong investors. Business opportunities for certain niche markets remain opened for the various sectors. With a view of China's growth in the long term, the Group will assess new potential investments as they may arise, prudently exploring opportunities in the region.

INTERIM RESULTS

The board of directors (the "Board") of Far East Holdings International Limited (the "Company") herein present their unaudited condensed consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30th June, 2008 together with comparative amounts. The interim financial report has not been audited, but has been reviewed by the Company's Audit Committee.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June, 2008

	Notes	Unaudited six months ended 30th June,	
		2008 HK\$'000	2007 HK\$'000
Gross proceeds	3	49,223	39,248
Sale of goods	3	12,280	14,914
Property rental income	3	809	764
Cost of sales		(12,331)	(14,743)
Gross profit		758	935
Dividend income from available-for-sale investment		83	71
Dividend income from held-for-trading investments		500	455
(Decrease) increase in fair value of held-for-trading investments		(7,156)	6,673
Other income		842	949
Selling and distribution costs		(1,448)	(74)
Administrative expenses		(8,651)	(6,962)
Finance costs		(808)	(498)
Gain on disposal of available-for-sale investments		-	609
Imputed interest on debt component of convertible note		-	196
Gain on conversion of convertible notes		-	3,660
Increase in fair value of investment properties		1,815	11,151
Gain on disposal of interest in an associate	11	-	28,148
Net gain (loss) on deemed disposal of an associate	11	648	(8,774)
Share of results of associates	11	7,724	2,115
(Loss) profit before taxation	4	(5,693)	38,654
Taxation charge	5	(31)	(315)
(Loss) profit for the period		(5,724)	38,339

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June, 2008

	<i>Notes</i>	Unaudited six months ended 30th June,	
		2008 HK\$'000	2007 HK\$'000
Attributable to:			
Equity holders of the Company		(4,682)	38,272
Minority interests		(1,042)	67
		(5,724)	38,339
Dividend, paid	6	(3,028)	–
		HK cents	HK cents
(Loss) earnings per share			
Basic	7	(3.2)	35.0
Diluted	7	(6.4)	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th June, 2008

	<i>Notes</i>	30/6/2008 (unaudited) HK\$'000	31/12/2007 (audited) HK\$'000
NON-CURRENT ASSETS			
Investment properties	8	26,045	24,230
Property, plant and equipment		15,820	15,916
Prepaid lease payments	9	23,946	24,203
Intangible assets		6,762	–
Goodwill	10	36,822	–
Interests in associates	11	124,957	103,344
Available-for-sale investments	12	36,105	38,852
Other non-current assets		7,103	5,271
		277,560	211,816
CURRENT ASSETS			
Prepaid lease payments	9	659	653
Held-for-trading investments		40,105	43,038
Inventories		8,138	6,515
Trade and other receivables	13	16,474	1,123
Prepayment		6,833	–
Amount due from a director		–	22,103
Amount due from an associate		640	640
Amount due from a minority shareholder		3,777	2,320
Amounts due from related companies		4,793	4,487
Tax prepaid		152	121
Deposits held at financial institutions		9,261	10,890
Bank balances and cash		48,831	82,686
		139,663	174,576
CURRENT LIABILITIES			
Trade and other payables	14	9,382	10,598
Amounts due to directors		1,548	1,476
Amount due to a minority shareholder		297	297
Amounts due to related companies		1,574	1,594
Bank and other loans			
– due within one year	15	6,165	9,015
Obligations under a finance lease			
– due within one year	16	145	136
		19,111	23,116
NET CURRENT ASSETS			
		120,552	151,460
		398,112	363,276

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th June, 2008

		30/6/2008	31/12/2007
		(unaudited)	(audited)
	<i>Notes</i>	HK\$'000	HK\$'000
CAPITAL AND RESERVES			
Share capital	17	3,028	1,304
Reserves		351,283	326,794
		<hr/>	<hr/>
Equity attributable to equity holders of the Company		354,311	328,098
Minority interests		26,246	17,108
		<hr/>	<hr/>
		380,557	345,206
		<hr/>	<hr/>
NON-CURRENT LIABILITIES			
Bank and other loans			
– due after one year	15	17,212	17,633
Obligations under a finance lease			
– due after one year	16	39	114
Deferred taxation		304	323
		<hr/>	<hr/>
		17,555	18,070
		<hr/>	<hr/>
		398,112	363,276
		<hr/> <hr/>	<hr/> <hr/>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2008 (unaudited)

	Attributable to equity holders of the Company								Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Exchange reserve HK\$'000	Investment revaluation reserve HK\$'000	Share option reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000	Minority interests HK\$'000	
At 1st January, 2008	1,304	137,894	15,345	514	1,051	171,990	328,098	17,108	345,206
Loss on fair value change of available-for-sale investments	-	-	-	(10,691)	-	-	(10,691)	-	(10,691)
Exchange differences arising on translation of overseas operations	-	-	1,747	-	-	-	1,747	1,972	3,719
Share of post-acquisition reserve movement of an associate during the period	-	-	9,777	-	-	-	9,777	-	9,777
Net income (loss) recognised directly in equity	-	-	11,524	(10,691)	-	-	833	1,972	2,805
Loss for the period	-	-	-	-	-	(4,682)	(4,682)	(1,042)	(5,724)
Total recognised income and expense for the period	-	-	11,524	(10,691)	-	(4,682)	(3,849)	930	(2,919)
Issue of new shares upon exercise of shares options	10	1,633	-	-	(484)	-	1,159	-	1,159
Issue of new shares on investment agreement	200	31,800	-	-	-	-	32,000	-	32,000
Acquisition of subsidiary	-	-	-	-	-	-	-	8,208	8,208
Bonus shares issued	1,514	(1,514)	-	-	-	-	-	-	-
Transaction costs attributable to issue of new shares	-	(69)	-	-	-	-	(69)	-	(69)
Dividend paid	-	-	-	-	-	(3,028)	(3,028)	-	(3,028)
At 30th June, 2008	3,028	169,744	26,869	(10,177)	567	164,280	354,311	26,246	380,557

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2007 (unaudited)

	Attributable to equity holders of the Company								
	Share capital HK\$'000	Share premium HK\$'000	Exchange reserve HK\$'000	Investment revaluation reserve HK\$'000	Share option reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total HK\$'000
At 1st January, 2007	1,095	109,643	3,074	125	6,433	68,706	189,076	16,477	205,553
Increase in fair value change of available-for-sale investments	-	-	-	12,650	-	-	12,650	-	12,650
Exchange differences arising on translation of overseas operations	-	-	4,987	-	-	-	4,987	306	5,293
Share of post-acquisition reserve movement of an associate during the period	-	-	(2,415)	-	-	-	(2,415)	-	(2,415)
Net income recognised directly in equity	-	-	2,572	12,650	-	-	15,222	306	15,528
Profit for the period	-	-	-	-	-	38,272	38,272	67	38,339
Total recognised income and expense for the period	-	-	2,572	12,650	-	38,272	53,494	373	53,867
Recognition of equity – settled share based payments	-	-	-	-	514	-	514	-	514
At 30th June, 2007	1,095	109,643	5,646	12,775	6,947	106,978	243,084	16,850	259,934

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June, 2008

	Unaudited six months ended 30th June,	
	2008	2007
	HK\$'000	HK\$'000
Net cash used in operating activities	(19,488)	(14,085)
Net cash used in investing activities	(9,369)	(22,626)
Net cash (used in) from financing activities	(6,303)	17,417
Net decrease in cash and cash equivalents	(35,160)	(19,294)
Cash and cash equivalents at beginning of period	82,686	40,527
Effect of foreign exchange rate changes	1,305	471
Cash and cash equivalents at end of period represented by bank balances and cash	48,831	21,704

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30th June, 2008

1. BASIS OF PREPARATION

The unaudited condensed consolidated interim 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”) and 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 should be read in conjunction with the 2007 annual financial statements.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The accounting policies used in the unaudited condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31st December, 2007 except as described below:

In 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 is effective for accounting periods beginning on or after 1st January, 2008. The adoption of the new HKFRSs has had no material effect on how the results and financial position of the Group for the current and prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30th June, 2008

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

HKAS 1 (Revised)	Presentation of Financial Statements ¹
HKAS 23 (Revised)	Borrowing Costs ¹
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ²
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation ¹
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations ¹
HKFRS 3 (Revised)	Business Combinations ²
HKFRS 8	Operating Segments ¹
HK(IFRIC) – INT 12	Service Concession Arrangements ³
HK(IFRIC) – INT 13	Customer Loyalty Programmes ⁴
HK(IFRIC) – INT 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction ³
HK(IFRIC) – INT 15	Agreements for the Construction of Real Estate ¹
HK(IFRIC) – INT 16	Hedges of a Net Investment in a Foreign Operation ⁵

¹ Effective for annual periods beginning on or after 1st January, 2009.

² Effective for annual periods beginning on or after 1st July, 2009.

³ Effective for annual periods beginning on or after 1st January, 2008.

⁴ Effective for annual periods beginning on or after 1st July, 2008.

⁵ Effective for annual periods beginning on or after 1st October, 2008.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30th June, 2008

3. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

	Continuing operations							
	Securities investment and trading		Property development and investment		Industrial and background music distribution services		Consolidated	
	2008	2007	2008	2007	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	Unaudited six months ended 30th June,							
Gross proceeds	<u>36,134</u>	<u>23,570</u>	<u>809</u>	<u>764</u>	<u>12,280</u>	<u>14,914</u>	<u>49,223</u>	<u>39,248</u>
Revenue	<u>-</u>	<u>-</u>	<u>809</u>	<u>764</u>	<u>12,280</u>	<u>14,914</u>	<u>13,089</u>	<u>15,678</u>
RESULTS								
Segment results	<u>(11,683)</u>	<u>6,358</u>	<u>1,832</u>	<u>10,117</u>	<u>(3,881)</u>	<u>1,044</u>	<u>(13,732)</u>	<u>17,519</u>
Other income							<u>842</u>	<u>949</u>
Finance costs							<u>(808)</u>	<u>(498)</u>
Unallocated expenses							<u>(367)</u>	<u>(805)</u>
Gain on disposal of interest in an associate							<u>-</u>	<u>28,148</u>
Net gain (loss) on deemed disposal of an associate							<u>648</u>	<u>(8,774)</u>
Share of results of associates							<u>7,724</u>	<u>2,115</u>
(Loss) profit before taxation							<u>(5,693)</u>	<u>38,654</u>
Taxation charge							<u>(31)</u>	<u>(315)</u>
(Loss) profit for the period							<u>(5,724)</u>	<u>38,339</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30th June, 2008

3. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Geographical segments

The Group's operations are located in Hong Kong, the People's Republic of China (the "PRC") and Japan.

The following table provides an analysis of the Group's sales by geographical market based on location of customers, irrespective of the origin of goods/services:

	Sales revenue by geographical market Unaudited six months ended 30th June,	
	2008 HK\$'000	2007 HK\$'000
Hong Kong	3,838	3,744
The PRC	1,357	331
Japan	7,894	11,603
	13,089	15,678

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30th June, 2008

4. (LOSS) PROFIT BEFORE TAXATION

	Unaudited six months ended 30th June,	
	2008	2007
	HK\$'000	HK\$'000
<hr/>		
(Loss) profit before taxation has been arrived at after charging (crediting):		
Amortisation of prepaid lease payments	329	41
Auditor's remuneration	600	301
Cost of inventories recognised as expense	12,322	13,797
Depreciation	1,256	1,467
Directors' remuneration and other staff costs, including retirement benefits schemes contributions of approximately HK\$951,195 (2007: HK\$764,500)	5,890	5,500
Exchange loss (gain), net	437	(94)
Operating lease payment in respect of rented premises	835	168
Share of tax of associates (included in share of results of associates)	760	972
and after crediting:		
Dividend income from available-for-sale Investment	83	71
Rental income from investment properties, less outgoings of HK\$9,181 (2007: HK\$16,881)	799	748
	<u>799</u>	<u>748</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30th June, 2008

5. TAXATION CHARGE

Unaudited six months
ended 30th June,
2008 2007
HK\$'000 HK\$'000

The taxation charge comprises:

PRC enterprise income tax:

Current period	(49)	(18)
	(49)	(18)
Deferred taxation	18	(297)
	(31)	(315)

PRC enterprise income tax is calculated at a rate of 25% (six months ended 30th June, 2007: 24%). Where the export sales of the relevant entity exceeds a certain percentage, that entity will entitle to enjoy a concession tax rate of 12%.

On 16th March, 2007, the PRC 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 6th 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 24% to 25% for the subsidiary operating in the PRC from 1st January, 2008.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30th June, 2008

6. DIVIDEND

The directors do not recommend the payment of any interim dividend for the six months ended 30th June, 2008 (six months ended 30th June, 2007: Nil).

7. (LOSS) EARNINGS PER SHARE

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

	Unaudited six months ended 30th June,	
	2008	2007
	HK\$'000	HK\$'000
(Loss) earnings		
(Loss) earnings for the purpose of basic and diluted (loss) earnings per share		
(Loss) profit for the period attributable to equity holders of the Company	(4,682)	38,272
Effect of dilutive potential shares of associates based on dilution of their earnings per share	(4,641)	–
(Loss) earnings for the purpose of diluted (loss) earnings per share	(9,323)	38,272

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30th June, 2008

7. (LOSS) EARNINGS PER SHARE (Continued)

	2008	2007
Number of shares		
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	144,298,955	109,450,595
Effect of dilutive potential ordinary shares on share options	1,688,396	–
Weighted average number of ordinary shares for the purpose of diluted (loss) earnings per share	145,987,351	109,450,595

No adjustment has been made for the potential ordinary shares of the associate as the effect in 2007 is anti-dilutive.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30th June, 2008

8. INVESTMENT PROPERTIES

	THE GROUP	
	30/6/2008	31/12/2007
	(unaudited)	(audited)
	HK\$'000	HK\$'000
<hr/>		
AT VALUATION		
At beginning of period/year	24,230	41,040
Disposals during the period/year	–	(27,299)
Increase in fair value recognised in income statement	1,815	10,489
	<hr/>	<hr/>
At end of period/year	26,045	24,230
	<hr/> <hr/>	<hr/> <hr/>

The carrying value of investment properties shown above comprises:

	THE GROUP	
	30/6/2008	31/12/2007
	(unaudited)	(audited)
	HK\$'000	HK\$'000
<hr/>		
Land in Hong Kong		
Medium – term lease	20,545	18,730
Land outside Hong Kong		
Medium – term lease	5,500	5,500
	<hr/>	<hr/>
At end of period/year	26,045	24,230
	<hr/> <hr/>	<hr/> <hr/>

All of the Group's and the Company's investment properties including both land and building elements are situated in the Hong Kong and Macau held under medium-term leases.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30th June, 2008

8. INVESTMENT PROPERTIES (Continued)

The investment properties were fair valued at 30th June, 2008 and 31st December, 2007 by DTZ Debenham Tie Leung Limited, an independent firm of valuers not connected with the Group. DTZ Debenham Tie Leung Limited is member of the Institute of Valuers, and have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation of HK\$12,000,000 (31st December, 2007: HK\$11,000,000) and HK\$14,045,000 (31st December, 2007: HK\$13,230,000), was arrived at by considering the capitalised income to be derived from properties and by reference to market evidence of the transaction prices for similar properties, respectively.

The investment properties of the Group and the Company includes amount of HK\$5,645,000 and HK\$5,645,000 at 30th June, 2008 (31st December, 2007: HK\$5,180,000 and HK\$5,180,000) respectively, the title of which has not been transferred to the Group and the Company and is still registered in the name of the vendor companies which are controlled by certain directors as trustee for the Company.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30th June, 2008

9. PREPAID LEASE PAYMENTS

THE GROUP

30/6/2008	31/12/2007
(unaudited)	(audited)
HK\$'000	HK\$'000

The prepaid lease payments comprise the following leasehold land held under medium-term leases:

Land in Hong Kong	23,366	23,647
Land in the PRC	1,239	1,209
	24,605	24,856

Analysed for reporting purposes as:

Current	659	653
Non-current	23,946	24,203
	24,605	24,856

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30th June, 2008

10. GOODWILL

During the period, goodwill arose mainly from the acquisition of a subsidiary Wealth Trend Investment Limited which in turn holds 65% equity interest of 北京金音源管理科技有限公司 in the PRC.

	THE GROUP	
	30/6/2008	31/12/2007
	(unaudited)	(audited)
	HK\$'000	HK\$'000
Cost		
Arising on acquisition of a subsidiary	36,822	–

11. INTERESTS IN ASSOCIATES

	THE GROUP	
	30/6/2008	31/12/2007
	(unaudited)	(audited)
	HK\$'000	HK\$'000
Cost of investment in associates		
Listed in Hong Kong	13,950	12,671
Unlisted in Hong Kong	3,142	152
Share of post-acquisition reserves of associates, net of dividends received		
Listed in Hong Kong	109,343	90,521
Unlisted in Hong Kong	(1,478)	–
	124,957	103,344
Market value of listed associate	147,022	182,588

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30th June, 2008

11. INTERESTS IN ASSOCIATES (Continued)

Particulars of associates of the Group at 30th June, 2008 and 31st December, 2007 are as follows:

Name of associate	Place of incorporation/ operation	Proportion of nominal value of issued ordinary share held by the Group		Principal activity
		2008	2007	
Chinasoft International Limited ("Chinasoft")	Cayman Islands/ PRC	13.10%	13.18%	Provision of information technology services
Vigor Capital Limited	Hong Kong/ Hong Kong	19.00%	19.00%	Inactive
北京金瑞高華科技有限公司	PRC/ PRC	45.00%	–	Provision of information technology services

In April, 2008, Chinasoft allotted and issued 8,790,313 new shares to Sino Speed International Limited as the portion of consideration shares of HK\$1.5453333 each, by the way of consideration shares of approximately HK\$13,583,963 for the acquisition of 100% interest in Japan Powerwise Co., Ltd.*.

During the period/year, Chinasoft has issued a total of 3,650,000 (31st December, 2007: 19,933,500) shares for the exercise of share options.

During the period/year, the Group has further acquired 850,000 (31st December, 2007: 330,000) shares of Chinasoft.

* for identification purpose only.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30th June, 2008

11. INTERESTS IN ASSOCIATES (Continued)

The Group's shareholding in Chinasoft has decreased from 13.18% to 13.10%, resulting in a cumulative gain on deemed disposal of HK\$648,000 (six months ended 30th June, 2007: a cumulative loss on deemed disposal of HK\$8,774,000).

The directors of the Group believe that the Group is able to exert significant influence over Chinasoft as the Group has nominated Mr. Duncan Chiu as a director of Chinasoft who also participates in the financial and operating decisions of Chinasoft.

The summarised financial information in respect of the Group's associates is set out below:

	Listed associate 30/6/2008 (unaudited) HK\$'000	Unlisted associates 30/6/2008 (unaudited) HK\$'000	Listed associate 31/12/2007 (audited) HK\$'000	Unlisted associates 31/12/2007 (audited) HK\$'000
Total assets	1,541,853	4,981	1,457,631	152
Total liabilities	(675,612)	(976)	(628,715)	–
Net assets	866,241	4,005	828,916	152
Group's share of net assets of associates	123,292	1,665	103,192	152

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30th June, 2008

11. INTERESTS IN ASSOCIATES (Continued)

	Unaudited six months ended 30th June			
	Listed associate	Unlisted associates	Listed associate	Unlisted associates
	2008 HK\$'000	2008 HK\$'000	2007 HK\$'000	2007 HK\$'000
Revenue	496,640	–	327,957	–
Profit (loss) for the period	70,055	(2,047)	14,880	–
Group's share of profit (loss) of associates for the period	<u>9,202</u>	<u>(1,478)</u>	<u>2,115</u>	<u>–</u>

12. AVAILABLE-FOR-SALE INVESTMENTS

The available-for-sale investments of the Group at the reporting date comprise:

	THE GROUP	
	30/6/2008 (unaudited) HK\$'000	31/12/2007 (audited) HK\$'000
	Equity securities listed in Hong Kong	14,272
Unlisted equity securities in Hong Kong	15,000	15,000
Unlisted equity securities in the PRC	6,833	–
	<u>36,105</u>	<u>38,852</u>
Fair value of listed equity securities	<u>14,272</u>	<u>23,852</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30th June, 2008

12. AVAILABLE-FOR-SALE INVESTMENTS (Continued)

The above unlisted investments represent investments in unlisted equity securities in Hong Kong and the PRC issued by an unlisted entities incorporated in the Hong Kong, which operate in the money lending industry in the Hong Kong and the aviation technology industry in the PRC.

This investment is measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that the fair value cannot be measured reliably.

13. TRADE AND OTHER RECEIVABLES

For sales of goods, the Group has a policy of allowing a credit period of 30 days to its trade customers. Rentals receivable from tenants and service income from customers are payable on presentation of invoices. The aged analysis of trade receivable is as follows:

	THE GROUP	
	30/6/2008 (unaudited) HK\$'000	31/12/2007 (audited) HK\$'000
0 – 30 days	2,653	–
31- 60 days	–	601
61 – 90 days	30	–
Over 90 days	67	26
Total trade receivables	2,750	627
Other receivables	13,724	496
	16,474	1,123

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30th June, 2008

13. TRADE AND OTHER RECEIVABLES (Continued)

The carrying amount of trade receivables are past due at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. No allowance for doubtful debts are provided and any uncollectible debts are written off directly.

14. TRADE AND OTHER PAYABLES

The aged analysis of trade payables is as follows:

	THE GROUP	
	30/6/2008	31/12/2007
	(unaudited)	(audited)
	HK\$'000	HK\$'000
0 – 30 days	110	180
61 – 90 days	41	–
Over 90 days	83	52
Total trade payables	234	232
Other payables	9,148	10,366
	9,382	10,598

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30th June, 2008

15. BANK AND OTHER LOANS

	THE GROUP	
	30/6/2008	31/12/2007
	(unaudited)	(audited)
	HK\$'000	HK\$'000
<hr/>		
Bank and other loans comprise:		
Secured		
Bank loans	17,990	18,365
Other loans	5,387	8,283
	<hr/>	<hr/>
	23,377	26,648
	<hr/> <hr/>	<hr/> <hr/>
Carrying amount repayable:		
On demand or within one year	6,165	9,015
More than one year,		
but not exceeding two years	797	753
More than two years,		
but not exceeding five years	2,507	2,392
More than five years	13,908	14,488
	<hr/>	<hr/>
	23,377	26,648
Less: amounts due within one year		
shown under current liabilities	(6,165)	(9,015)
	<hr/>	<hr/>
Amount due after one year	17,212	17,633
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30th June, 2008

15. BANK AND OTHER LOANS (Continued)

During the period/year, the bank loans that are denominated in Hong Kong Dollars bear effective interest rates at 3.1% (31st December, 2007: 3.1%) per annum below Hong Kong Prime Lending Rate per annum. The proceeds were used to finance the acquisition of leasehold land and building in Hong Kong and the bank loans are secured by the related asset.

During the period/year, the other loans that are denominated in YEN bear floating interest rates at 1.075% (31st December, 2007: 0.94%) per annum.

The Group's and the Company's borrowings that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	YEN Loan
	'000
At 30th June, 2008	HK\$5,387
At 31st December, 2007	HK\$8,283

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30th June, 2008

16. OBLIGATIONS UNDER A FINANCE LEASE

Minimum lease payments		Present value of minimum lease payments	
30/6/2008	31/12/2007	30/6/2008	31/12/2007
(unaudited)	(audited)	(unaudited)	(audited)
HK\$'000	HK\$'000	HK\$'000	HK\$'000

THE GROUP AND THE COMPANY

Amounts payable under finance lease:

Within one year	160	160	145	136
In the second to fifth year inclusive	40	120	39	114
	200	280	184	250
Less: Future finance charges	(16)	(30)	-	-
Present value of lease obligations	184	250	184	250
Less: Amount due within one year shown under current liabilities			(145)	(136)
Amount due after one year			39	114

The obligations under a finance lease are secured by the Company's motor vehicle. The term of the lease is four years (31st December, 2007: four years). Interest rates are fixed at 7% per annum (31st December, 2007: 7% per annum). No arrangements have been entered into for contingent rental payments.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30th June, 2008

17. SHARE CAPITAL

Details of the share capital of the Company are as follows:

Number of Shares		Share Capital	
30/6/2008 (in thousand)	31/12/2007 (in thousand)	30/6/2008 HK\$'000	31/12/2007 HK\$'000

Ordinary shares of HK\$0.01 each:

Authorised:

At beginning and end of period/year	70,000,000	70,000,000	700,000	700,000
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Issued and fully paid:

At beginning of period/year	130,451	109,451	1,304	1,094
Issue of shares on placing agreement	-	21,000	-	210
Issue of shares upon exercise of share options	968	-	10	-
Issue of shares on investment agreement	20,000	-	200	-
Issue of bonus shares	151,419	-	1,514	-
At end of period/year	302,838	130,451	3,028	1,304

During the period, 468,348 and 500,000 (31st December, 2007: Nil) shares of HK\$0.01 each in the Company were issued upon the exercise of share option at the exercise prices of HK\$1.153 and HK\$1.2182 per share respectively.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30th June, 2008

17. SHARE CAPITAL (Continued)

Pursuant to an ordinary resolution passed at annual general meeting on 12th February, 2008, 20,000,000 new ordinary shares of the Company of HK\$1.6 per each were allotted and issued as a total consideration shares of HK\$32,000,000 to Allied Wealth Holdings Limited (“Allied Wealth”) on 19th February, 2008, for acquisition of the entire issued share capital of Wealth Trend Investment Limited, which in turn holds 65% equity interest of 北京金音源管理科技有限公司 in the PRC.

Pursuant to an ordinary resolution passed at annual general meeting on 30th May, 2008, 151,418,943 ordinary shares were issued and allotted on 10th June, 2008 as fully paid up by way of one for one bonus issue (“Bonus Issue”) in respect of which an amount of HK\$1,514,189 was applied to the credit of the share premium account.

The new ordinary shares rank *pari passu* with the existing shares in all respect.

Details of the Company’s issue of shares upon exercise of share options, issue of shares on investment agreement and issue of bonus shares are set out in circulars of the Company dated 9th January, 2008 and 30th April, 2008, respectively.

18. SHARE OPTION SCHEME

The Company’s share option scheme (the “Scheme”), was adopted pursuant to a resolution passed on 23rd May, 2006 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 22nd May, 2016 and 22nd May, 2017. At 30th June, 2008, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 2,300,000 (31st December, 2007: 2,118,348) of the shares of the Company in issue at that date.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30th June, 2008

18. SHARE OPTION SCHEME (Continued)

During the period, 468,348 and 500,000 (31st December, 2007: Nil) shares of HK\$0.01 each in the Company were issued upon exercise of share option at the exercise prices of HK\$1.153 and HK\$1.2182 per share respectively.

Pursuant to the bonus issue during the period, the exercise price and number of the share options outstanding balance as at 10th June, 2008 were adjusted accordingly from HK\$1.2182 to 0.6091 and from 1,150,000 to 2,300,000 respectively.

Details of the share options outstanding at 30th June, 2008, as adjusted for the effect of bonus issue, are as follows:

Capacity of grantee	Grant date	Adjusted exercise price HK\$	Exercisable period (both days inclusive)	Number of Share Options				
				Balance at 1.1.2008	Exercise during the period	Balance before bonus issue	Adjustment for bonus issue	Balance at 30.6.2008
Employees	21/7/2005	1.1530	21/7/2005 – 20/7/2015	468,348	(468,348)	-	-	-
	21/4/2006	0.6091	23/5/2006 – 22/5/2016	825,000	(495,000)	330,000	330,000	660,000
	21/4/2006	0.6091	23/5/2007 – 22/5/2017	825,000	(5,000)	820,000	820,000	1,640,000
				<u>2,118,348</u>	<u>(968,348)</u>	<u>1,150,000</u>	<u>1,150,000</u>	<u>2,300,000</u>

No shares options were forfeited or expired during the period.

The Group did not recognise any expenses during the period and recognised the total expense of HK\$514,266 for six months ended 30th June, 2007 in relation to equity-settled share-based payment transactions.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30th June, 2008

19. PLEDGE OF ASSETS

At the reporting date:

- (a) margin trading facilities in respect of securities transactions to the extent of approximately HK\$9.7 million (31st December, 2007: HK\$11.9 million), of which HK\$5.3 million (31st December, 2007: HK\$8.3 million) had been utilised after considering deposits held by financial institutions, were secured by the listed investments of the Group and the Company of approximately HK\$19.4 million (31st December, 2007: HK\$23.7 million) and HK\$19.4 million (31st December, 2007: HK\$23.7 million), respectively;
- (b) overdraft and revolving loan facilities to the extent of approximately HK\$17.2 million (31st December, 2007: HK\$17.1 million), of which nil (31st December, 2007: Nil) had been utilised in both period/year, were secured by time deposits held by the Company of approximately 4.6 million (31st December, 2007: Nil) and by a floating charge over certain properties of the Company of approximately HK\$12.9 million (31st December, 2007: HK\$10.5 million); and
- (c) bank loan facilities to the extent of approximately HK\$18 million (31st December, 2007: HK\$18.9 million), of which 18 million (31st December, 2007: 18.9 million) had been utilised, were secured by the Group's leasehold land and building in Hong Kong with an aggregate carrying value of approximately HK\$27.3 million (31st December, 2007: 27.6 million).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30th June, 2008

20. OPERATING LEASE ARRANGEMENTS

The Group as lessor

Property rental income earned during the period was HK\$809,000 (six months ended 30th June, 2007: HK\$764,000). The properties held have committed tenants for the next two years.

At the reporting date, the Group had contracted with tenants for the future minimum lease payments under non-cancellable operating leases which fall due as follows:

	30/6/2008 (unaudited) HK\$'000	31/12/2007 (audited) HK\$'000
Within one year	726	726
In the second to fifth year inclusive	573	936
	<u>1,299</u>	<u>1,662</u>

The Group and the Company as lessee

At the reporting date, the Group and the Company had commitments for the future minimum lease payments under non-cancellable operating leases which fall due as follows:

	30/6/2008 (unaudited) HK\$'000	31/12/2007 (audited) HK\$'000
Within one year	932	253
In the second to fifth year inclusive	223	53
	<u>1,155</u>	<u>306</u>

Operating lease payments represent rentals payable by the Group to a company controlled by certain directors of the Company and by a subsidiary to a third party for the use of its office premises. Leases are negotiation for a term of two years.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30th June, 2008

21. COMMITMENTS

During 2008 and 2007, Jubilee Star Limited ("Jubilee Star"), a subsidiary of the Group and China Aviation Supplies Import and Export Group Corporation* ("China Aviation") entered into conditional agreements for the transformation of Beijing Kailan Aviation Technology Co., Ltd. ("Beijing Kailan") into an equity joint venture through capital injection. Based on the revised agreement, Jubilee Star agreed to contribute RMB38 million into Beijing Kailan. Upon the fulfillment of conditions set out in the revised joint venture agreement, Jubilee Star and China Aviation will own 20.02% and 79.98% equity interest in Beijing Kailan respectively.

Save as above, no other commitment contracted but not provided; or approved but not contracted for in the financial statements.

* Unofficial English translation of the official name in Chinese.

ADDITIONAL INFORMATION REQUIRED UNDER THE LISTING RULES

DIRECTORS' INTERESTS IN SHARES

As at the 30th June, 2008, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or were required, pursuant to Section 352 of the SFO, to be entered in the register of the Company referred to therein or were required, pursuant to Part XV of the SFO or the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company:

(i) Long positions of Directors' interests in shares:

Name of director	Number of ordinary shares of the Company held				Percentage of
	Personal interests	Family interests	Corporate interests	Total interests	issued share capital of the Company
Deacon Te Ken Chiu, J.P.	20,848,664	4,175,160 ⁽¹⁾	1,869,366	26,893,190	8.88%
Tan Sri Dato' David Chiu	3,740,000	–	12,337,600 ⁽²⁾	16,077,600	5.31%
Ms. Margaret Chiu	2,200,000	–	–	2,200,000	0.73%
Mr. Dennis Chiu	7,040,088	–	4,400,000 ⁽³⁾	11,440,088	3.78%
Mr. Daniel Tat Jung Chiu	4,840,000	–	22,880,088 ⁽⁴⁾	27,720,088	9.15%
Mr. Derek Chiu	88,440	–	–	88,440	0.03%
Mr. Desmond Chiu	4,000	–	–	4,000	0.00%
Mr. Duncan Chiu	57,579,092	–	–	57,579,092	19.01%

ADDITIONAL INFORMATION REQUIRED UNDER THE LISTING RULES

DIRECTORS' INTERESTS IN SHARES (Continued)

(i) Long positions of Directors' interests in shares: (Continued)

Notes:

- (1) These shares are held by Madam Ching Lan Ju Chiu, wife of Deacon Te Ken Chiu, J.P.
- (2) These shares are held by Rocket High Investments Limited, a company wholly-owned by Tan Sri Dato' David Chiu.
- (3) These shares are held by Cape York Investments Limited ("Cape York"), a company owned by Mr. Dennis Chiu and Mr. Daniel Tat Jung Chiu equally.
- (4) Of the 22,880,088 shares, 4,400,000 shares are held by Cape York, and the remaining 18,480,088 shares are held by Gorich Holdings Limited, a company wholly-owned by Mr. Daniel Tat Jung Chiu.

(ii) Directors' interests in share options of the Company

As at 30th June, 2008, the interests of the Directors or chief executive of the Company, and their respective associates, in the underlying shares of the Company which may be issued pursuant to exercise of the share options granted to the Directors pursuant to the Company's share option scheme were as follows:

Category of Grantee	Number of Shares Options				Exercise price HK\$	Date of grant	Exercisable period <i>(Both days inclusive)</i>
	Outstanding as at 1/1/2008	Exercised during the period	Adjusted for bonus issue	Outstanding as at 30/6/2008			
Aggregate for employees	468,348	468,348	-	-	1.1530	21/7/2005	21/7/2005-20/7/2015
	825,000	495,000	330,000	660,000	0.6091	21/4/2006	23/5/2006-22/5/2016
	825,000	5,000	820,000	1,640,000	0.6091	21/4/2006	23/5/2007-22/5/2017
	2,118,348	968,348	1,150,000	2,300,000			

ADDITIONAL INFORMATION REQUIRED UNDER THE LISTING RULES

DIRECTORS' INTERESTS IN SHARES (Continued)

(ii) Directors' interests in share options of the Company (Continued)

On 10th June, 2008, 151,418,943 Bonus Shares were issued to the Shareholders of the Company. Pursuant to the terms of the Share Option Scheme and the formula as recommended by the Stock Exchange in its letter dated 5th September, 2005 regarding the interpretation of Rule 17.03(13) of the Listing Rules, the exercise price of outstanding share option shall be adjusted to HK\$0.6091 per Share and the outstanding share option was 2,300,000 shares upon issue of the Bonus Shares and shall be effective retroactively on 10th June, 2008, being the date of issue of the Bonus Shares.

Notes:

- (1) At the 2005 annual general meeting of the Company held on 23rd May, 2005, a share option scheme (the "Option Scheme") of the Company was adopted by the shareholders of the Company. As at 30th June, 2008, there are options relating to 2,300,000 shares granted by the Company pursuant to the Option Scheme which are valid and outstanding.
- (2) 968,348 shares options were exercised during the period.
- (3) No share options were granted, lapsed and cancelled during the period.

Save as disclosed above, at 30th June, 2008, none of the Directors or chief executive of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions which he was taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listing Companies in the Listing Rules, to be notified to the Company and the Stock Exchange.

ADDITIONAL INFORMATION REQUIRED UNDER THE LISTING RULES

SUBSTANTIAL SHAREHOLDERS

At 30th June, 2008, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that, other than the interests disclosed above in respect of certain Directors under the section headed “Directors’ Interests in Shares”, the following shareholders had notified the Company of any interest, directly or indirectly, in 5% or more of the issued share capital of the Company:

Name of Substantial Shareholder	Capacity	Percentage of	
		Number of Ordinary shares held	issued share capital of the Company
Madam Ju Ching Lan ⁽¹⁾	Beneficial owner and spouse	26,893,190	8.88%
Gorich Holdings Limited (“Gorich”) ⁽²⁾	Beneficial owner	18,480,088	6.10%
Max Point Holdings Limited (“Max Point”) ⁽³⁾	Beneficial owner	15,528,480	5.13%
Mr. Chan Wai Ki ⁽³⁾	Corporation	15,528,480	5.13%
Mr. Sin Kwok Lam ⁽⁴⁾	Beneficial owner and Corporation	41,866,000	13.82%
Allied Wealth Holdings Limited (“Allied Wealth”) ⁽⁴⁾	Beneficial owner	40,000,000	13.21%

Notes:

- (1) Of the 26,893,190 shares, 22,718,030 shares are held by Mr. Deacon Chiu. Madam Ju Ching Lan is the spouse of Mr. Deacon Chiu. The interests of Mr. Deacon Chiu in the Company is stated under the section headed “Director’s Interests” above.
- (2) Gorich is wholly-owned by Mr. Daniel Tat Jung Chiu. The interests of Mr. Daniel Tat Jung Chiu in the Company is stated under the section headed “Directors’ Interests” above.
- (3) The entire share capital of Max Point is beneficially owned by Mr. Chan Wai Ki.
- (4) Of the 41,866,000 shares, 40,000,000 shares are held by Allied Wealth, a company wholly-owned by Mr. Sin Kwok Lam.
- (5) All interests disclosed above represent long positions in the ordinary shares of the Company.

ADDITIONAL INFORMATION REQUIRED UNDER THE LISTING RULES

SUBSTANTIAL SHAREHOLDERS (Continued)

Save as disclosed above, the Company has not been notified of any other interests or short positions representing 5% or more of the Company's issued share capital at 30th June, 2008.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

CORPORATE GOVERNANCE

The Company has complied with Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules throughout the six months ended 30th June, 2008, with deviation from code provision A.4.1 of the Code in respect of the service term and rotation of Directors.

None of the existing non-executive directors of the Company is appointed for a specific term. This constitutes a deviation from code provision A.4.1 of the Code. However, all non-executive directors of the Company are subject to the retirement by rotation and re-election at each annual general meeting under Articles 79 and 80 of the Company. As such, 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.

AUDIT COMMITTEE

The audit committee of the Company comprised of one non-executive director and three independent non-executive directors namely, Mr. Derek Chiu, Dr. Lee G. Lam, Mr. Hing Wah Yim and Mr. Eugene Yun Hang Wang respectively.

The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of the Group's unaudited interim results for the six months ended 30th June, 2008.

ADDITIONAL INFORMATION REQUIRED UNDER THE LISTING RULES

REMUNERATION COMMITTEE

The Company had established a remuneration committee with written terms of reference pursuant to the provisions set out in the Code. The remuneration committee comprised two independent non-executive directors, namely Dr. Lee G. Lam, Mr. Eugene Yun Hang Wang and the managing director, Mr. Duncan Chiu of the Company. The remuneration committee is principally responsible for formulation and making recommendation to the board on the Group's policy and structure for all remuneration of directors and senior management.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules. Upon enquiry by the Company, all directors of the Company have confirmed that they have complied with the required standards set out in the Model Code throughout the six months ended 30th June, 2008.

On behalf of the Board

DUNCAN CHIU

Managing Director and Chief Executive Officer

Hong Kong, 22nd September, 2008