

2008<sup>INTERIM REPORT</sup> 中期報告  
南海控股有限公司



Nan Hai Corporation Limited  
Stock Code: 680 股份代號: 680

## CORPORATE INFORMATION

### DIRECTORS

#### Executive

Mr. YU Pun Hoi (*Chairman*)

Mr. QIN Tian Xiang

Ms. CHEN Dan

#### Non-executive

Mr. LAM Bing Kwan

#### Independent Non-executive

Mr. HUANG Yaowen

Prof. JIANG Ping

Mr. LAU Yip Leung

### COMPANY SECRETARY

Mr. WATT Ka Po James

### QUALIFIED ACCOUNTANT

Mr. MAG Chiu Fai

### AUDITORS

Grant Thornton

Certified Public Accountants

Hong Kong

### LEGAL ADVISERS

K&L Gates

### BERMUDA LEGAL ADVISERS

Appleby

### HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

39th Floor

New World Tower I

16-18 Queen's Road Central

Hong Kong

### REGISTERED OFFICE

Canon's Court

22 Victoria Street

Hamilton HM 12

Bermuda

### PRINCIPAL REGISTRAR

Butterfield Fund Services (Bermuda) Limited

Rosebank Centre

11 Bermudiana Road

Pembroke HM 08

Bermuda

### HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Abacus Limited

26th Floor, Tesbury Centre

28 Queen's Road East

Wanchai

Hong Kong

### STOCK CODE

680

### PRINCIPAL BANKERS

DBS Bank (Hong Kong) Limited

The Hongkong and Shanghai Banking Corporation Limited

### WEBSITE ADDRESS

<http://www.nanhaicorp.com>

## INTERIM RESULTS

The directors of Nan Hai Corporation Limited (the "Company") hereby announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2008 together with the comparative figures for 2007 as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT – UNAUDITED

For the six months ended 30 June 2008

	Note	For the six months ended 30 June	
		2008 HK\$'000	2007 HK\$'000
<b>Revenue/Turnover</b>	3	<b>227,962</b>	342,548
Cost of sales and services provided		<b>(64,857)</b>	(42,821)
<b>Gross profit</b>		<b>163,105</b>	299,727
Other operating income	4	<b>5,021</b>	5,289
Gain on disposal of a subsidiary	5	<b>48,714</b>	–
Selling and marketing expenses		<b>(127,171)</b>	(109,248)
Administrative expenses		<b>(149,467)</b>	(117,641)
Other operating expenses		<b>(64,014)</b>	(45,751)
Finance costs	6	<b>(19,316)</b>	(23,092)
Share of results of associate(s)		–	–
<b>(Loss)/Profit before income tax</b>	7	<b>(143,128)</b>	9,284
Income tax credit/(expense)	8	<b>9,935</b>	(139)
<b>(Loss)/Profit for the period</b>		<b>(133,193)</b>	9,145
<b>Attributable to:</b>			
Equity holders of the Company		<b>(101,408)</b>	(26,099)
Minority interests		<b>(31,785)</b>	35,244
<b>(Loss)/Profit for the period</b>		<b>(133,193)</b>	9,145
		<b>HK cents</b>	HK cents
<b>Loss per share for loss attributable to the equity holders of the Company during the period</b>	9		
– Basic		<b>(0.148)</b>	(0.038)
– Diluted		<b>N/A</b>	N/A

**CONDENSED CONSOLIDATED BALANCE SHEET**

As at 30 June 2008

	(Unaudited) <b>30 June</b> <b>2008</b>	(Audited) 31 December 2007
Note	<b>HK\$'000</b>	HK\$'000
<b>ASSETS AND LIABILITIES</b>		
<b>Non-current assets</b>		
Property, plant and equipment	<b>150,975</b>	137,426
Prepaid land lease payments under operating leases	<b>58,845</b>	55,915
Interest in an associate	–	–
Deposits	<b>62,819</b>	58,989
Available-for-sale financial assets	<b>324</b>	324
Intangible assets	<b>303,733</b>	298,655
Deferred tax assets	<b>6,816</b>	6,400
	<b>583,512</b>	557,709
<b>Current assets</b>		
Inventories	<b>7,317,658</b>	6,769,600
Financial assets at fair value through profit or loss	<b>6,946</b>	5,048
Trade receivables	10 <b>46,080</b>	86,268
Deposits, prepayments and other receivables	<b>895,231</b>	585,318
Time deposits	<b>227,428</b>	213,561
Cash and cash equivalents	<b>116,340</b>	232,146
	<b>8,609,683</b>	7,891,941
<b>Current liabilities</b>		
Trade payables	11 <b>129,116</b>	136,737
Other payables and accruals	<b>887,155</b>	481,956
Deferred revenue	<b>53,209</b>	50,261
Amount due to a director	<b>165,473</b>	132,461
Amount due to a minority shareholder	<b>12,000</b>	12,000
Amounts due to shareholders	<b>5,006</b>	5,006
Amount due to an associate	<b>5,506</b>	5,507
Provision for tax	<b>69,167</b>	63,401
Bank and other borrowings	12 <b>1,269,466</b>	310,148
Finance lease liabilities	<b>335</b>	335
	<b>2,596,433</b>	1,197,812
<b>Net current assets</b>	<b>6,013,250</b>	6,694,129
<b>Total assets less current liabilities</b>	<b>6,596,762</b>	7,251,838

**CONDENSED CONSOLIDATED BALANCE SHEET** *(continued)*

As at 30 June 2008

		(Unaudited) 30 June 2008	(Audited) 31 December 2007
	Note	HK\$'000	HK\$'000
<b>Non-current liabilities</b>			
Bank and other borrowings	12	<b>945,531</b>	1,587,400
Finance lease liabilities		<b>341</b>	509
Amounts due to shareholders		<b>422,276</b>	407,070
Deferred tax liabilities		<b>226,765</b>	212,977
		<b>1,594,913</b>	2,207,956
<b>Net assets</b>		<b>5,001,849</b>	5,043,882
<b>EQUITY</b>			
<b>Equity attributable to the Company's equity holders</b>			
Share capital	13	<b>686,450</b>	686,450
Reserves		<b>3,399,033</b>	3,402,074
		<b>4,085,483</b>	4,088,524
<b>Minority interests</b>		<b>916,366</b>	955,358
<b>Total equity</b>		<b>5,001,849</b>	5,043,882

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT –  
UNAUDITED**

For the six months ended 30 June 2008

	<b>For the six months ended 30 June</b>	
	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
Net cash used in operating activities	<b>(343,616)</b>	(336,613)
Net cash generated from/(used in) investing activities	<b>26,542</b>	(98,090)
Net cash generated from financing activities	<b>189,359</b>	1,137,216
Net (decrease)/increase in cash and cash equivalents	<b>(127,715)</b>	702,513
Cash and cash equivalents at 1 January	<b>231,876</b>	86,062
Effect of foreign exchange rate changes, on cash held	<b>11,909</b>	12,517
Cash and cash equivalents at 30 June	<b>116,070</b>	801,092
<b>Analysis of balances of cash and cash equivalents</b>		
Cash at banks and in hand	<b>116,340</b>	801,362
Bank overdrafts	<b>(270)</b>	(270)
	<b>116,070</b>	801,092

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – UNAUDITED

For the six months ended 30 June 2008

	Attributable to equity holders of the Company									
	Share capital	Share premium	Capital reserve	General reserve	Share option reserve	Exchange reserve	Retained profits	Total	Minority interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2007	682,090	950,882	1,922,474	9,178	6,496	47,839	358,509	3,977,468	907,325	4,884,793
Exchange difference (Net income recognised directly in equity)	-	-	-	-	-	66,927	-	66,927	16,466	83,393
Profit/(loss) for the period	-	-	-	-	-	-	(26,099)	(26,099)	35,244	9,145
Total recognised income and expenses for the period	-	-	-	-	-	66,927	(26,099)	40,828	51,710	92,538
Issue of ordinary shares upon exercise of share options	1,710	5,128	2,626	-	(2,626)	-	-	6,838	-	6,838
Equity-settled share-based compensation expenses	-	-	-	-	2,403	-	-	2,403	-	2,403
Transfer to general reserve	-	-	-	3,308	-	-	(3,308)	-	-	-
Released on forfeiture of share options	-	-	-	-	(202)	-	202	-	-	-
Released on disposal and dissolution of subsidiaries	-	-	4,374	-	-	(3,076)	-	1,298	-	1,298
At 30 June 2007	683,800	956,010	1,929,474	12,486	6,071	111,690	329,304	4,028,835	959,035	4,987,870
At 1 January 2008	<b>686,450</b>	<b>965,881</b>	<b>1,933,719</b>	<b>16,409</b>	<b>2,283</b>	<b>146,394</b>	<b>337,388</b>	<b>4,088,524</b>	<b>955,358</b>	<b>5,043,882</b>
Exchange difference (Net income recognised directly in equity)	-	-	-	-	-	135,092	-	135,092	(7,207)	127,885
Loss for the period	-	-	-	-	-	-	(101,408)	(101,408)	(31,785)	(133,193)
Total recognised income and expenses for the period	-	-	-	-	-	135,092	(101,408)	33,684	(38,992)	(5,308)
Equity-settled share-based compensation expenses	-	-	-	-	86	-	-	86	-	86
Released on forfeiture of share options	-	-	-	-	(220)	-	220	-	-	-
Realised on disposal of a subsidiary	-	-	-	-	-	(36,811)	-	(36,811)	-	(36,811)
At 30 June 2008	<b>686,450</b>	<b>965,881</b>	<b>1,933,719</b>	<b>16,409</b>	<b>2,149</b>	<b>244,675</b>	<b>236,200</b>	<b>4,085,483</b>	<b>916,366</b>	<b>5,001,849</b>

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2008

### 1. BASIS OF PREPARATION

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

The unaudited condensed consolidated interim financial statements have been reviewed by the audit committee of the Company.

### 2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated interim financial statements have been prepared on the historical cost basis except for financial instruments classified as available-for-sale and at fair value through profit or loss which are stated at fair values.

The accounting policies adopted 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. As described in the annual financial statements for the year ended 31 December 2007, the following new standards and interpretations are mandatory for the financial year ending 31 December 2008:

HK(IFRIC) – Int 11	HKFRS 2: Group and Treasury Share Transactions
HK(IFRIC) – Int 12	Service Concession Arrangements
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The Group has carried out an assessment of these standards and interpretations and considered that they have no significant impact on these interim financial statements.



## 2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

The Group has not early adopted the following standards, amendments to standards 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>3</sup>
HKAS 32 and HKAS 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation <sup>1</sup>
HKFRS 2 (Amendment)	Share-based Payment – Vesting Conditions and Cancellations <sup>1</sup>
HKFRS 3 (Revised)	Business Combinations <sup>3</sup>
HKFRS 8	Operating Segments <sup>1</sup>
HK(IFRIC) – Int 13	Customer Loyalty Programmes <sup>2</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>

### *Notes*

<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 2008

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2009

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

As disclosed in the Group's annual audited financial statements for the year ended 31 December 2007, HKAS 1 (Revised) would affect the presentation of the Group's financial statements.

The directors of the Company are currently assessing the impact of the other standards and interpretations but are not yet in a position to state whether they would have material financial impact on the Group's financial statements.

## 3. SEGMENT INFORMATION

- (a) The following analysis presents the Group's revenue, which is also the Group's turnover, and results for the Group's business segments:

For the six months ended 30 June 2008							
	Financial information services	Corporate IT application services	Property development	Distance learning education services	Other segments	Elimination	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Segment revenue</b>							
– Sales to external customers	11,034	195,647	-	2,467	18,814	-	227,962
– Inter-segment sales	-	-	-	2,388	-	(2,388)	-
	<b>11,034</b>	<b>195,647</b>	<b>-</b>	<b>4,855</b>	<b>18,814</b>	<b>(2,388)</b>	<b>227,962</b>
<b>Segment results</b>	<b>(17,944)</b>	<b>(89,361)</b>	<b>(30,164)</b>	<b>(2,175)</b>	<b>(6,581)</b>	<b>-</b>	<b>(146,225)</b>
Interest income							1,303
Gain on disposal of a subsidiary							48,714
Unallocated corporate expenses							(27,604)
Finance costs							(19,316)
Share of results of an associate							-
<b>Loss before income tax</b>							<b>(143,128)</b>
Income tax credit							9,935
<b>Loss for the period</b>							<b>(133,193)</b>

For the six months ended 30 June 2007							
	Financial information services	Corporate IT application services	Property development	Distance learning education services	Other segments	Elimination	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Segment revenue</b>							
– Sales to external customers	9,155	325,975	-	3,117	4,301	-	342,548
– Inter-segment sales	15,278	-	-	-	-	(15,278)	-
	<b>24,433</b>	<b>325,975</b>	<b>-</b>	<b>3,117</b>	<b>4,301</b>	<b>(15,278)</b>	<b>342,548</b>
<b>Segment results</b>	<b>790</b>	<b>99,395</b>	<b>(10,834)</b>	<b>(4,138)</b>	<b>(2,505)</b>	<b>(15,278)</b>	<b>67,430</b>
Interest income							807
Unallocated corporate expenses							(35,861)
Finance costs							(23,092)
Share of results of associates							-
<b>Profit before income tax</b>							<b>9,284</b>
Income tax expense							(139)
<b>Profit for the period</b>							<b>9,145</b>

**3. SEGMENT INFORMATION** *(continued)*

(b) The following analysis presents the Group's revenue, which is also the Group's turnover, and results for the Group's geographical segments:

	Revenue/Turnover		Segment Profit/(Loss)	
	For the six months ended 30 June		For the six months ended 30 June	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	424	–	(1,609)	3,000
The People's Republic of China ("PRC")	227,538	342,548	(144,616)	64,430
	<b>227,962</b>	342,548	<b>(146,225)</b>	67,430

**4. OTHER OPERATING INCOME**

	For the six months ended 30 June	
	2008	2007
	HK\$'000	HK\$'000
Interest income	1,303	807
Net fair value gain on financial assets at fair value through profit or loss	–	2,974
Sundry income	3,718	1,508
	<b>5,021</b>	5,289

**5. DISPOSAL OF A SUBSIDIARY**

	<b>For the six months ended 30 June</b>	
	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
Net assets disposed of:		
Property, plant and equipment	<b>501</b>	–
Inventories	<b>316,553</b>	–
Amounts due from fellow subsidiaries	<b>68,010</b>	–
Cash and cash equivalents	<b>40</b>	–
Other payables and accruals	<b>(8,636)</b>	–
Amount due to immediate holding company	<b>(112,061)</b>	–
Amount due to a director	<b>(68,670)</b>	–
	<b>195,737</b>	–
Exchange reserve realised on disposal	<b>(36,811)</b>	–
Net gain on disposal of a subsidiary	<b>48,714</b>	–
	<b>207,640</b>	–
Satisfied by:		
Cash	<b>53,390</b>	–
Consideration receivable included in deposits, prepayments and other receivables	<b>154,250</b>	–
	<b>207,640</b>	–

**6. FINANCE COSTS**

	<b>For the six months ended 30 June</b>	
	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
Interest charges on:		
Bank loans and overdrafts wholly repayable		
within five years	<b>91,122</b>	26,151
Other loans wholly repayable within five years	–	241
Other payables	<b>1,521</b>	17,859
Finance charges on finance leases	<b>21</b>	16
Amounts due to shareholders	<b>15,206</b>	15,206
Total interest expenses	<b>107,870</b>	59,473
Less: Amounts directly attributable to properties held for and under development capitalised	<b>(88,554)</b>	(36,381)
	<b>19,316</b>	23,092

## 7. (LOSS)/PROFIT BEFORE INCOME TAX

(Loss)/Profit before income tax is arrived at after charging:

	For the six months ended 30 June	
	2008 HK\$'000	2007 HK\$'000
Amortisation of intangible assets	<b>17,183</b>	10,822
Gross depreciation of property, plant and equipment		
– Owned assets	<b>15,683</b>	8,532
Less: Amounts capitalised in intangible assets	<b>(159)</b>	–
Net depreciation of property, plant and equipment		
– Owned assets	<b>15,524</b>	8,532
Depreciation of property, plant and equipment		
– Leased assets	<b>208</b>	85
Loss on disposal and dissolution of subsidiaries	–	7,685
Operating lease charges on prepaid land lease	<b>640</b>	141

## 8. INCOME TAX (CREDIT)/EXPENSE

	For the six months ended 30 June	
	2008 HK\$'000	2007 HK\$'000
PRC Enterprise Income Tax		
Current tax – tax for the period	<b>27</b>	139
Tax incentives on re-investment	<b>(9,962)</b>	–
	<b>(9,935)</b>	139

No Hong Kong profits tax has been provided in the financial statements as the companies within the Group did not derive any assessable profits in Hong Kong (6 months ended 30 June 2007: Nil).

PRC Enterprise Income Tax (“EIT”) is calculated at the applicable rates in accordance with the relevant laws and regulations in the PRC.

**8. INCOME TAX (CREDIT)/EXPENSE** *(continued)*

Prior to 1 January 2008, EIT has been provided on the estimated assessable profits of the subsidiaries operating in Mainland China at 33%, unless preferential rates are applicable in the cities where the subsidiaries are located. Certain subsidiaries of the Group enjoyed preferential rates because they are wholly-owned foreign enterprises in accordance with the Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises or are located in the Beijing Economic-Technological Development Area.

Pursuant to the tax law passed by the Tenth National People's Congress on 16 March 2007, the new EIT rates for domestic and foreign enterprises in Mainland China are unified at 25% with effective from 1 January 2008. There will be a transitional period for PRC subsidiaries that currently are entitled to preferential tax treatments granted by the relevant tax authorities. PRC subsidiaries currently subject to an enterprise income tax rate lower than 25% may continue to enjoy the lower tax rate and be gradually transitioned to the new unified rate of 25% within five years after 1 January 2008. PRC subsidiaries that were entitled to Tax Holidays for a fixed term may continue to enjoy such treatment until the fixed term expires.

**9. LOSS PER SHARE**

The calculation of basic loss per share is based on the loss attributable to equity holders of the Company for the period of HK\$101,408,000 (6 months ended 30 June 2007: HK\$26,099,000) and on the weighted average number of 68,645,035,794 (6 months ended 30 June 2007: 68,255,698,639) ordinary shares in issue during the period.

Diluted loss per share for the six months ended 30 June 2007 and 30 June 2008 are not presented because the impact of the exercise of the share options is anti-dilutive.

**10. TRADE RECEIVABLES**

Trade receivables are due on presentation of invoices. The aging analysis of trade receivables was as follows:

	<b>30 June</b> <b>2008</b> <b>HK\$'000</b>	31 December 2007 HK\$'000
0–90 days	<b>8,171</b>	14,320
91–180 days	<b>11,152</b>	79,987
181–270 days	<b>21,875</b>	1,669
271–360 days	<b>925</b>	1,226
Over 360 days	<b>29,005</b>	27,626
Trade receivables, gross	<b>71,128</b>	124,828
Less: Provision for impairment of receivables	<b>(25,048)</b>	(38,560)
Trade receivables, net	<b>46,080</b>	86,268

**11. TRADE PAYABLES**

The aging analysis of trade payables was as follows:

	<b>30 June</b> <b>2008</b> <b>HK\$'000</b>	31 December 2007 HK\$'000
0–90 days	<b>61,462</b>	35,516
91–180 days	<b>8,571</b>	9,129
181–270 days	<b>3,955</b>	32,350
271–360 days	<b>40</b>	242
Over 360 days	<b>55,088</b>	59,500
	<b>129,116</b>	136,737

**12. BANK AND OTHER BORROWINGS**

	<b>30 June 2008</b>	31 December 2007
	<b>HK\$'000</b>	HK\$'000
Bank overdrafts	<b>270</b>	270
Bank loans	<b>2,214,727</b>	1,897,278
	<b>2,214,997</b>	1,897,548
Secured	<b>2,214,727</b>	1,897,278
Unsecured	<b>270</b>	270
	<b>2,214,997</b>	1,897,548

At 30 June 2008, the bank and other borrowings of the Group were repayable as follows:

	<b>30 June 2008</b>	31 December 2007
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>1,269,466</b>	310,148
In the second year	<b>710,143</b>	1,131,447
In the third to fifth years	<b>235,388</b>	455,953
Wholly repayable within 5 years	<b>2,214,997</b>	1,897,548
Less: Portion due within one year under current liabilities	<b>(1,269,466)</b>	(310,148)
Portion due over one year under non-current liabilities	<b>945,531</b>	1,587,400



## 13. SHARE CAPITAL

	Number of ordinary shares of HK\$0.01 each	HK\$'000
Authorised:		
At 1 January 2007, 31 December 2007 and <b>30 June 2008</b>	<b>500,000,000,000</b>	<b>5,000,000</b>
Issued and fully paid:		
At 1 January 2007	68,209,035,794	682,090
Issue of ordinary shares upon exercise of share options	436,000,000	4,360
At 31 December 2007 and <b>30 June 2008</b>	<b>68,645,035,794</b>	<b>686,450</b>

## 14. CONTINGENT LIABILITIES

Guarantees given in connection with credit facilities granted to:

	<b>30 June 2008</b>	31 December 2007
	<b>HK\$'000</b>	HK\$'000
Associates (note)	<b>12,016</b>	11,624
Third parties (note)	<b>65,754</b>	65,754
	<b>77,770</b>	77,378

Note: There have been no material developments in respect of pending litigation with Genius Reward Loan since the disclosures in the Group's annual audited financial statements for the year ended 31 December 2007. Due to the pending litigation, the Group cannot ascertain the fair value of the guarantee in respect of the loan borrowed by Genius Reward.

According to the facts disclosed in the Group's annual audited financial statements for the year ended 31 December 2007, the Group also does not have updated information of the outstanding balance of the indebtedness under the ICBC Loan ("ICBC Indebtedness"), therefore the fair value of the guarantee for ICBC Indebtedness cannot be ascertained.

## 15. CAPITAL COMMITMENTS

At 30 June 2008, the Group had outstanding capital commitments as follows:

	<b>30 June 2008</b>	31 December 2007
	<b>HK\$'000</b>	HK\$'000
Contracted but not provided for in respect of:		
– construction in progress	<b>199,487</b>	4,388
– property, plant and equipment	<b>134</b>	134
	<b>199,621</b>	4,522

## 16. CREDIT FACILITIES

At 30 June 2008, the Group's credit facilities were secured by the following:

- (a) charge over prepaid lease payment for leasehold land with a net carrying value of HK\$58,845,000 (31 December 2007: HK\$55,915,000);
- (b) charge over buildings with a net carrying value of approximately HK\$35,337,000 (31 December 2007: HK\$34,055,000);
- (c) charge over certain properties held for and under development for sale with carrying value of HK\$928,126,000 (31 December 2007: HK\$895,135,000);
- (d) deposit paid of HK\$2,274,000 (31 December 2007: Nil);
- (e) personal guarantee given by Mr. Yu Pun Hoi;
- (f) pledge of certain interests in the Company by several shareholders; and
- (g) pledge of 2,346,993,316 (31 December 2007: 2,126,993,316) shares in a subsidiary, Sino-i Technology Limited ("Sino-i"), held by the Company indirectly in favour of certain securities brokers, the total of which represents approximately 18.75% (31 December 2007: 16.99%) of total interest of the Company in Sino-i. The market value of such listed shares as at 30 June 2008 was approximately HK\$161,943,000 (31 December 2007: HK\$244,604,231).

## 17. RELATED PARTY TRANSACTIONS

Directors' fees and remuneration were as follows:

	For the six months ended 30 June	
	2008 HK\$'000	2007 HK\$'000
Directors' fees	360	300
Basic salaries, housing, other allowances and benefits in kind	2,548	1,807
Pension scheme contributions	18	18
Share-based compensations	16	485
	<b>2,942</b>	2,610

Except as disclosed elsewhere in these condensed consolidated interim financial statements, there was no material related party transaction carried out during the period.

## 18. LITIGATIONS

There have been no material changes and developments in respect of pending litigation cases of the Group since the disclosures in the Group's annual audited financial statements for the year ended 31 December 2007.

## INTERIM DIVIDEND

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

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

During the period under review, the Group was principally engaged in property development, and through its listed subsidiary, Sino-i, engaged in corporate IT application services, financial information services, distance learning education services, and culture and media services. Turnover for the period was HK\$228.0 million (6 months ended 30 June 2007: HK\$342.5 million) and a net loss attributable to equity holders of the Company of HK\$101.4 million (6 months ended 30 June 2007: HK\$26.1 million) was recorded. The net asset value of the Group attributable to equity holders amounted to approximately HK\$4,085.5 million, representing a value of HK\$0.06 per share.

### Property Development

During the period under review, there was no turnover from this division (6 months ended 30 June 2007: Nil), and a net segment loss of HK\$30.2 million (6 months ended 30 June 2007: HK\$10.8 million) was recorded. The loss was mainly due to Phase 2 of The Peninsula has yet launched to the market and additional promotion and marketing costs in preparation for the pre-sale of Phase 2 of The Peninsula, scheduled in the second half of 2008.

There are a total of 5 phases for The Peninsula, a large scale property project in Shekou, Shenzhen, China. Subsequent to the extraordinary success in selling of Phase 1 in 2006, Phase 2 of The Peninsula will offer about 2,000 residential units with a total saleable area of approximately 200,000 m<sup>2</sup>. The Peninsula is expected to generate strong cash flow for the Group with the remaining phases in the coming years.

In addition to The Peninsula, the Guangzhou project will be developed into a mega-sized international contemporary commercial and residential community integrating cultural recreations and commercial amenities. Its total gross floor area is approximately 1 million m<sup>2</sup>. The overall planning is undergoing application procedures, and the designing stage for the first phase is in progress. The first phase construction works are expected to commence by the end of 2008, and it is set for pre-sale in 2009.

**MANAGEMENT DISCUSSION AND ANALYSIS** *(continued)***Corporate IT Application Services**

During the period under review, this division recorded a decrease in turnover of 40.0% to HK\$195.6 million (6 months ended 30 June 2007: HK\$326.0 million) and a segment loss of HK\$89.4 million (6 months ended 30 June 2007: segment profit of HK\$99.4 million).

*CE Dongli Technology Group Company Limited ("CE Dongli")*

The drop in revenue and segment profit was mainly due to the change in business strategy on the domain name registration and promotion business and also sharp increase in staff cost. The management anticipates the profit margin from this division will squeeze substantially in the near future, and will negatively affect its growth and customers' relationship in the long run. The management therefore decided to realign our business strategy by shifting away from these withering businesses, which used to constitute a significant portion of this division's turnover. Given the continuous increase in staff cost in China, and commitment to improve the gross margin, the management believes such change in business strategies will significantly benefit CE Dongli in the long run. The management has been closely monitoring the development of this change in business strategy, and already observed improvement in profit margin in the second half of 2008.

As far as our R&D expenditure is concerned, CE Dongli continues to invest to further enhance product development and service capability in this rapidly changing business environment. This investment is regarded as an inevitable tools to equip CE Dongli to maintain its industry leading position. However, CE Dongli will continue to face cost problem before it could achieve better return on such technology investment.

Renminbi appreciation and the government austerity measures continue to take its toll on the financial health of many SMEs in China. The management anticipates this situation will continue in the near future and a market recovery will depend on improvement in inflation and relaxation of credit. However, the high exchange rate of Renminbi will continue to be a negative cloud above this sector.

## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### Corporate IT Application Services *(continued)*

北京新網數碼信息技術有限公司 (*Beijing Xinnet Cyber Information Company Limited*) (“Xinnet”)

It provides basic Internet application services for corporations in China. During the period under review, Xinnet had 32 branches over the country, and had approximately 20,000 distributors. Xinnet was one of the leading providers in hosting services in China.

The operation is healthy but similar to CE Dongli, Xinnet is facing a difficult SME market in China.

### Financial Information Services

During the period under review, this division recorded a turnover of HK\$11.0 million (6 months ended 30 June 2007: HK\$24.4 million) and a segment loss of HK\$17.9 million (6 months ended 30 June 2007: segment profit of HK\$0.8 million). The loss was mainly attributable to the drop in turnover, however, stripping the impact of inter-company sales during the last period, this division posted similar result and operating cost.

北京世華國際金融信息有限公司 (*Beijing Shihua International Financial Information Company Limited*) (“Shihua”) provides real-time and archived financial information, data, pricing, professional research and objective analysis for financial institutions and investors in China. Shihua’s information subscription services and terminals provide a comprehensive financial information platform in China, including distributing information and data on domestic and global economy, futures, bonds, stock, FOREX markets as well as key domestic industries.

Shihua will continue to invest in a prudent manner to promote its new product line, and the Group is confident that the business performance of this division will be improved in the near future, which in turn generate satisfactory return for the Group.

**MANAGEMENT DISCUSSION AND ANALYSIS** *(continued)***Distance Learning Education Services**

During the period under review, this division recorded a turnover of HK\$4.9 million (6 months ended 30 June 2007: HK\$3.1 million) and the segment loss decreased to HK\$2.2 million (6 months ended 30 June 2007: HK\$4.1 million).

北京華夏大地遠程教育網絡服務有限公司 (Beijing Chinese Dadi Distance Education Company Limited) (“Chinese Dadi”) had developed more than 300 e-learning courses for clients. It also established comprehensive and in-depth collaborations with 29 provincial and municipal examination authoritative organizations. Chinese Dadi has more than 940,000 registered on-line education users. The average daily page view of its website reached about 6.0 million times.

This division of business has strived to reduce operating cost mainly through reducing headcounts during the period under review and this cost cutting measure will continue in the second half of 2008. The management targets the cash flow to breakeven in the coming year.

In terms of business strategies, Chinese Dadi will continue to strengthen its market share through cooperation with educational institutes, and has begun to expand its product range from merely sales of online course materials to online interactive learning programs. The management also decided to cut down all technical outsource services since profit from this business is sporadic.

The management is closely monitoring the development of this division of business, and has determined to further improve its performance in the near future.

## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL

The Group continues to adopt prudent funding and treasury policies. As at 30 June 2008, the net asset value of the Group attributable to the equity holders amounted to approximately HK\$4,085.5 million (31 December 2007: HK\$4,088.5 million), including cash and bank balances of approximately HK\$343.8 million (31 December 2007: HK\$445.7 million) (which were denominated mainly in Renminbi and Hong Kong dollars). As at 30 June 2008, the Group's aggregate borrowings including shareholders' loan were HK\$2,637.9 million (31 December 2007: HK\$2,305.5 million), including approximately HK\$423.2 million (31 December 2007: HK\$408.2 million) were bearing interest at fixed rates while approximately HK\$2,214.7 million (31 December 2007: HK\$1,897.3 million) were bearing interest at floating rates. The gearing ratio of the Group, which is net debt divided by the adjusted capital plus net debt, increased from 26.9% as at 31 December 2007 to 31.4% as at 30 June 2008. The increase in gearing ratio was mainly due to increase in bank loans obtained by 深圳南海益田置業有限公司 (Shenzhen Nanhai Yitian Realty Company Limited) for financing construction costs and expenditures of the Phase 2 of The Peninsula.

The Group's contingent liabilities at 30 June 2008 were HK\$77.8 million due to the guarantees given in connection with credit facilities.

### EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATE

The majority of the Group's borrowings and transactions were primarily denominated in Renminbi and Hong Kong dollars. Both the operating expenses and revenues were primarily in Renminbi. It is expected that the exchange rate of Renminbi will continue to appreciate resulting from the continuous strong economic growth in China. The Group's reporting assets, liabilities and profits may be affected by the Renminbi exchange rate. Although the Renminbi exchange risk exposure is not significant during the reviewed period, the Group will keep on reviewing and monitoring the exchange risks between Renminbi and Hong Kong dollars, and may proceed to have some kind of foreign exchange hedging arrangements when appropriate and necessary.



**MANAGEMENT DISCUSSION AND ANALYSIS** *(continued)***EMPLOYEE**

The Group employs and remunerates its employees based on their qualifications, experience and performance. In addition to basic salary payments, other benefits include housing, contributions to mandatory provident fund, group medical insurance, group personal accident insurance and examination leave. Employees are eligible to be granted share options under the Company's share option scheme at the discretion of the board of directors (the "Board"). In general, salary review is conducted annually. As at 30 June 2008, the Group had approximately 7,760 employees (as at 30 June 2007: 8,727 employees). The salaries of and allowances for employees for the six months ended 30 June 2008 were approximately HK\$184.4 million (6 months ended 30 June 2007: HK\$157.8 million).

**PROSPECT**

The sale of Phase 1 of The Peninsula has marked the great success of the Group in property business in China. The Group is confident that the remaining four phases of The Peninsula together with mega-sized Guangzhou project will provide strong cash flow in the years to come.

The property market in China is adversely affected by the credit crunch and slower economic growth. This impact therefore reduces the demand for residential units in general. Property prices were also seen to have a major correction since it surged rapidly in first half of 2007.

Despite this market correction in China, the Group envisages that the property market will remain healthy, and that strong demand for residential properties will continuously be backed by the overall solid economic growth. The foregoing two property projects are expected to bring the Group substantial profit in the next five years.

Meanwhile, the Group will keep on expanding its land reserve in a prudent manner for continuing its property development in the future, for maintaining a long term and stable return.

**MANAGEMENT DISCUSSION AND ANALYSIS** *(continued)***PROSPECT** *(continued)*

Through its listed subsidiary, Sino-i, the Group will continue to focus on the IT application services in China.

CE Dongli, being the flagship of the IT division of the Group, will continue to develop new products and to increase its market share. Application products and services based on its own software solutions will further strengthen its market position in the e-commerce sector.

The China financial market has been growing rapidly. Increasing varieties of financial instruments are expected to be introduced to the market in order to cope with the more mature and sophisticated investors. Shihua sees that demands for contents with more sophisticated and industry specific analysis or reports from the investors are in an increasing rate. In view of this, Shihua is well positioned to capture this expanding market and place itself as a core financial information provider in this industry.

In view of the distance learning education services sector, the service models of Chinese Dadi, and its qualities have been highly recognized by the Chinese government, and Chinese Dadi is highly supported by the government policies and collaboration commitments. The Group believes that distance learning education services division will breakeven soon.

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2008, the interests and short positions of the directors and chief executive of the Company in shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

### The Company

#### (i) Long position in shares in issue

Name of Director	Number of shares of HK\$0.01 each				Approximate percentage holding
	Personal interest	Corporate interest	Family interest	Total interest	
Yu Pun Hoi ("Mr. Yu")	-	32,595,726,203 (Note 1)	69,326,400 (Note 2)	32,665,052,603	47.59%
Chen Dan	32,000,000	-	-	32,000,000	0.05%
Qin Tian Xiang	7,000,000	-	-	7,000,000	0.01%

Notes:

- Out of these 32,595,726,203 shares, 28,853,232,705 shares were collectively held by Mr. Yu through Rosewood Assets Limited, Pippen Limited and First Best Assets Limited, companies wholly owned by him; and 3,742,493,498 shares were held by Macro Resources Limited, a company indirectly held as to 60% by Mr. Yu.
- These 69,326,400 shares were held by Redmap Resources Limited, a company wholly owned by Ms. Kung Ai Ming, the spouse of Mr. Yu.

#### (ii) Long position in underlying shares

Name of Director	Number of underlying shares of HK\$0.01 each*	Nature of interest	Approximate percentage holding
Chen Dan	7,000,000	Personal	0.01%
Qin Tian Xiang	7,000,000	Personal	0.01%

\* Represents underlying shares subject to share options granted to the directors, details of which are as follows:

Grantee	Date of grant	Exercise price per share HK\$	Number of share options granted	Exercisable period
Chen Dan	18-01-2007	0.0714	7,000,000	19-01-2008 to 18-01-2009
Qin Tian Xiang	18-01-2007	0.0714	7,000,000	19-01-2008 to 18-01-2009

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES *(continued)*

### Associated Corporations

As disclosed above, Mr. Yu, together with his family and corporate interests, are entitled to control the exercise of more than one-third of the voting power at general meetings of the Company. As such, Mr. Yu is taken to be interested in the shares that the Company or its controlled corporations hold in the associated corporations of the Company within the meaning of Part XV of the SFO, including interests held by the Company in the shares of Sino-i, a subsidiary of the Company. Sino-i is a company the shares of which are listed on the Stock Exchange and is also an associated corporation of the Company within the meaning of Part XV of the SFO. As at 30 June 2008, the interests of the directors of the Company in shares and underlying shares of Sino-i were as follows:

#### Sino-i

*Long position in shares in issue*

Name of Director	Number of shares of HK\$0.01 each				Total interest	Approximate percentage holding
	Personal interest	Corporate interest	Family interest			
Yu Pun Hoi	-	12,515,795,316 <i>(Note 1)</i>	44,000,000 <i>(Note 2)</i>		12,559,795,316	63.07%

Notes:

- These 12,515,795,316 shares were collectively held by Goalrise Investments Limited, View Power Investments Limited and Wise Advance Investments Limited, all of which are wholly-owned subsidiaries of the Company. Mr. Yu was taken to be interested in these shares by virtue of his controlling interests in shares of the Company.
- These 44,000,000 shares were held by Redmap Resources Limited, a company wholly owned by Ms. Kung Ai Ming, the spouse of Mr. Yu.

Save as disclosed above, as at 30 June 2008, none of the directors and chief executive of the Company had any interests or short positions in shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## SHARE OPTION SCHEME

On 29 August 2002, the Company adopted a share option scheme (the "Scheme"). Under the Scheme, share options may be granted to directors, employees of the Group and those who have contributed or will contribute to the Group at any time within ten years after its adoption at the discretion of the Board.

On 18 January 2007, share options to subscribe for a total of 157,000,000 shares, representing approximately 0.52% of the issued share capital of the Company as at the date of the adoption of the Scheme, were granted to the directors and employees of the Company and subsidiaries at an exercise price of HK\$0.0714 per share. The closing price of share of the Company immediately preceding the date of grant was HK\$0.072.

Movements on the share options during the period are as follows:

Grantee	Date of grant	Exercisable period	Exercise price per share HK\$	Number of share options				Outstanding as at 30 June 2008
				Outstanding as at 1 January 2008	Granted during the period	Exercised during the period	Lapsed during the period	
<b>Directors</b>								
Chen Dan	18-01-2007	19-01-2008 to 18-01-2009	0.0714	7,000,000	-	-	-	7,000,000
Qin Tian Xiang	18-01-2007	19-01-2008 to 18-01-2009	0.0714	7,000,000	-	-	-	7,000,000
<b>Employees</b>								
In aggregate	18-01-2007	19-01-2007 to 18-01-2009	0.0714	17,250,000	-	-	-	17,250,000
		19-01-2008 to 18-01-2009	0.0714	63,100,000	-	-	-	63,100,000
Total				94,350,000	-	-	-	94,350,000

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS

As at 30 June 2008, those persons (other than directors and chief executive of the Company) who had interests and short positions in shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

<b>Name of person holding an interest in shares which has been disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO</b>	<b>Nature of interest</b>	<b>Number of shares in issue subject to long position</b>	<b>Approximate percentage of issued share capital of the Company</b>	<i>Notes</i>
Kung Ai Ming	Family and Corporate interest	32,665,052,603	47.59%	1
Rosewood Assets Limited	Beneficial interest	6,518,000,210	9.50%	3
Pippen Limited	Beneficial interest	14,830,245,497	21.60%	3
Righteous International Limited	Corporate interest	3,742,493,498	5.45%	3
Macro Resources Limited	Beneficial interest	3,742,493,498	5.45%	2 & 3
First Best Assets Limited	Beneficial interest	7,504,986,998	10.93%	3
CITIC Group	Corporate interest Security interest	8,635,691,472 31,512,000	12.58% 0.05%	2
Lim Siew Choon	Corporate interest	10,019,673,777	14.60%	4
Empire Gate Industrial Limited	Beneficial interest	6,714,986,997	9.78%	4
Lee Tat Man	Beneficial interest Security interest	58,800,000 7,700,000,000	0.09% 11.22%	

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS *(continued)*

Notes:

1. Ms. Kung Ai Ming is the spouse of Mr. Yu and was taken to be interested in those shares in which Mr. Yu and herself (together with their respective corporate interests) held an interest.
2. CITIC Group was indirectly interested in 8,667,203,472 shares, of which interests in 31,512,000 shares were held through its interest in CITIC Capital Holdings Limited and interests in the remaining 8,635,691,472 shares were held by its wholly-owned subsidiary, Staverley Assets Ltd., and its 40% owned company, Macro Resources Limited.
3. Rosewood Assets Limited, Pippen Limited, Righteous International Limited and First Best Assets Limited are companies wholly owned by Mr. Yu and Macro Resources Limited is held as to 60% by Righteous International Limited. Their interests in shares are disclosed as the corporate interests of Mr. Yu above. Interest held by Macro Resources Limited was included as the interest of Righteous International Limited.
4. Empire Gate Industrial Limited is wholly owned by Mr. Lim Siew Choon. Its interest in shares was included as interest held by Mr. Lim Siew Choon.

Save as disclosed above, as at 30 June 2008, no person (other than directors and chief executive of the Company) had notified to the Company any interests or short positions in shares or underlying shares of the Company which was required to be recorded in the register kept by the Company under Section 336 of the SFO.

## PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2008.

## CORPORATE GOVERNANCE

In the opinion of the Board, the Company has complied with the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2008, except for the deviations mentioned below:

Code Provision A.2.1 stipulated that the roles of chairman and chief executive officer ("CEO") should be separated and should not be performed by the same individual.

## **CORPORATE GOVERNANCE** *(continued)*

The Company has not appointed a CEO. The role of CEO is also performed by Mr. Yu Pun Hoi who is the chairman of the Company. The Board believes that vesting the roles of both chairman and CEO in the same person provides the Company with strong and consistent leadership, and allows for effective and efficient planning and implementation of business decisions and strategies.

Code Provision A.4.1 stipulated that non-executive directors should be appointed for a specific term subject to re-election.

The non-executive directors of the Company are not appointed for a specific term. However, all non-executive directors are subject to the retirement and rotation requirements in accordance with the Company's Bye-Laws. As such, the Board considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CG Code.

Code Provision A.4.2 stipulated that every director including those appointed for a specific term should be subject to retirement by rotation at least once every three years.

According to Bye-law 99, every Director, including those appointed for a specific term, shall (save for any executive Chairman or Managing director) be subject to retirement by rotation at the annual general meeting at least once every three years. In the opinion of the Board, stability and continuation are key factors to the successful implementation of business plans. The Board believes that it is beneficial to the Group that there is continuity in the role of the chairman and, therefore, the Board is of the view that the chairman should be exempted from this arrangement at the present time.

## **MODEL CODE FOR SECURITIES TRANSACTIONS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. Specific enquiries have been made to all the directors and the directors have confirmed that they have complied with the Model Code throughout the six months ended 30 June 2008.



## AUDIT COMMITTEE

The Audit Committee comprises all the independent non-executive directors of the Company, namely Mr. Huang Yaowen, Prof. Jiang Ping and Mr. Lau Yip Leung. The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group, the unaudited interim results for the six months ended 30 June 2008, and discussed the financial control, internal control and risk management systems.

By order of the Board

**Yu Pun Hoi**

*Chairman*

Hong Kong, 23 September 2008

