



# *Fin*Tronics

## 银创控股

FINTRONICS HOLDINGS COMPANY LIMITED

(Incorporated in Bermuda with limited liability)

Stock Code : 706

Interim Report

# 2010

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# Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2010

	Note	Six months ended 30 June	
		2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
<b>Turnover</b>	3	<b>5,665</b>	5,821
Cost of sales		–	–
<b>Gross profit</b>		<b>5,665</b>	5,821
Other income	4	<b>5,659</b>	4,076
Administrative expenses		<b>(43,261)</b>	(31,675)
Other operating expenses		<b>(741)</b>	(15,488)
<b>Loss from operations</b>		<b>(32,678)</b>	(37,266)
Fair value gain on derivative component of convertible bonds	13	<b>435</b>	–
Finance costs		<b>(1,172)</b>	(28)
Loss on conversion of convertible bonds	13	<b>(923)</b>	–
<b>Loss before tax</b>		<b>(34,338)</b>	(37,294)
Income tax credit	5	<b>499</b>	421
<b>Loss for the period</b>	6	<b>(33,839)</b>	(36,873)
<b>Loss per share</b>	8		
Basic (cents)		<b>(1.8)</b>	(2.0)
Diluted (cents)		<b>N/A</b>	N/A
<b>Loss for the period</b>		<b>(33,839)</b>	(36,873)
<b>Other comprehensive income:</b>			
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong		<b>693</b>	494
Change in fair value of available-for-sales financial assets		–	122
<b>Other comprehensive income for the period, net of tax</b>		<b>693</b>	616
<b>Total comprehensive income for the period</b>		<b>(33,146)</b>	(36,257)

The notes on pages 6 to 13 form part of this interim financial report.

# Condensed Consolidated Statement of Financial Position

As at 30 June 2010

	Note	At 30 June 2010 (Unaudited) HK\$'000	At 31 December 2009 (Audited) HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment	9	40,649	46,227
Prepaid land lease payments		–	2,153
Intangible assets		25,463	27,442
Pledged bank deposits		5,000	5,000
		<b>71,112</b>	80,872
<b>Current assets</b>			
Trade and other receivables	10	14,538	10,343
Bank and cash balances		202,655	158,894
		<b>217,193</b>	169,237
<b>Current liabilities</b>			
Trade and other payables	11	8,690	8,555
Bank overdraft, secured	12	–	4,594
Current tax liabilities		–	490
		<b>8,690</b>	13,639
<b>Net current assets</b>			
		<b>208,503</b>	155,598
<b>Total assets less current liabilities</b>			
		<b>279,615</b>	236,470
<b>Non-current liabilities</b>			
Deferred tax liabilities		4,140	4,653
		<b>4,140</b>	4,653
<b>NET ASSETS</b>			
		<b>275,475</b>	231,817
<b>Capital and reserves</b>			
Share capital	14	213,808	184,328
Reserves		61,667	47,489
<b>TOTAL EQUITY</b>			
		<b>275,475</b>	231,817

The notes on pages 6 to 13 form part of this interim financial report.

# Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2010

	(Unaudited)								
	Attributable to owners of the Company								
	Share capital	Share premium	Translation reserve	Property revaluation reserve	Investment revaluation reserve	Warrants reserve	Share option reserve	Accumulated losses	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 2009	184,128	440,649	22,505	11	(213)	592	1,695	(343,916)	305,451
Other comprehensive income									
for the period	-	-	494	-	122	-	-	-	616
Loss for the period	-	-	-	-	-	-	-	(36,873)	(36,873)
At 30 June 2009	184,128	440,649	22,999	11	(91)	592	1,695	(380,789)	269,194
At 1 January 2010	184,328	441,717	22,528	11	-	-	8,518	(425,285)	231,817
Other comprehensive income									
for the period	-	-	693	-	-	-	-	-	693
Conversion of convertible bonds	29,460	47,290	-	-	-	-	-	-	76,750
Exercise of share options	20	74	-	-	-	-	(40)	-	54
Disposal of property	-	-	-	(11)	-	-	-	11	-
Loss for the period	-	-	-	-	-	-	-	(33,839)	(33,839)
At 30 June 2010	213,808	489,081	23,221	-	-	-	8,478	(459,113)	275,475

The notes on pages 6 to 13 form part of this interim financial report.

# Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2010

	Six months ended 30 June	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Net cash used in operating activities	(33,529)	(26,928)
Net cash generated from investing activities	6,099	894
Net cash generated from/(used in) financing activities	70,496	(68,483)
Net increase/(decrease) in cash and cash equivalents	43,066	(94,517)
Effect of foreign exchange rate changes	695	408
Cash and cash equivalents at 1 January	158,894	249,639
Cash and cash equivalents at 30 June	202,655	155,530

The notes on pages 6 to 13 form part of this interim financial report.

# Notes to the Condensed Consolidated Financial Statements

*For the six months ended 30 June 2010*

## 1 BASIS OF PREPARATION

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

The interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2009, which has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

## 2 ACCOUNTING POLICIES

The accounting policies adopted in the unaudited condensed consolidated interim financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2009.

In the current period, the Group has adopted all the new or revised Hong Kong Financial Reporting Standards ("HKFRSs") that are relevant to its operations and effective for the current accounting period of the Group. The adoption of these new or revised HKFRSs had no material effect on the reported results or financial position of the Group for both the current and prior reporting periods.

## 3 SEGMENT INFORMATION

The Group operates one business segment, which is provision of "automatic teller machines" services. No separate segment information is prepared according to IFRS 8 "operating segments".

All operating assets and operations of the Group during the periods ended 30 June 2010 and 2009 were substantially located and carried out in the PRC.

Management has determined the operating segments based on the reports reviewed by the Group's Chief Executive Officer ("CEO") (being the chief operating decision maker) to make strategic decisions about resources allocation and performance assessment.

The Group's CEO assesses the performance of the operating segment based on a measure of earnings before interest, tax, depreciation and amortisation. This measurement basis of segment results excludes the effects of non-recurring expenditures from the operating segment such as loss on disposal of property, plant and equipment and loss on written off of property, plant and equipment.

Bank and cash balances held by the Group are not considered to be segment assets but rather are centrally managed by the Chief Finance Officer ("CFO") in Hong Kong.

## Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

### 4 OTHER INCOME

	Six months ended 30 June	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Gain on disposal of property and prepaid land leases	3,529	–
Gain on disposal of available-for-sale financial asset	–	138
Interest income	1,167	2,563
Net exchange gains	959	564
Reversal of impairment losses on recovery of trade receivables	–	624
Others	4	187
	<b>5,659</b>	<b>4,076</b>

### 5 INCOME TAX CREDIT

No provision for Hong Kong Profits Tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the period (six months ended 30 June 2009: Nil).

The PRC Corporate income tax rate for the subsidiaries in the PRC is 25% (2009: 25%).

	Six months ended 30 June	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
<b>Current tax - PRC Corporate Income Tax</b>		
Tax for the period	(13)	–
<b>Deferred taxation</b>		
Origination and reversal of temporary differences	512	421
	<b>499</b>	<b>421</b>



# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

## 6 LOSS FOR THE PERIOD

Loss for the period has been arrived at after charging/(crediting) the following:

	<b>Six months ended 30 June</b>	
	<b>2010</b> <b>(Unaudited)</b> <b>HK\$'000</b>	2009 (Unaudited) HK\$'000
Additional payment on early repayment of convertible loan (included in administrative expenses)	–	3,120
Amortisation of intangible assets	<b>1,978</b>	2,554
Depreciation	<b>5,691</b>	5,870
Gain on disposal of available-for-sale financial assets	–	(138)
Loss on repayment of convertible loan (included in other operating expenses)	–	15,258
Loss on conversion of convertible bonds	<b>923</b>	–
(Gain)/loss on disposal of property, plant and equipment and prepaid land lease	<b>(3,529)</b>	102
Net foreign exchange gains	<b>(959)</b>	(564)
Reversal of impairment losses on recovery of trade receivables	–	(624)
Staff costs including directors' emoluments	<b>7,087</b>	7,854
Written off of property, plant and equipment (included in other operating expenses)	<b>741</b>	124

## 7 DIVIDEND

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2010 (31 December 2009: Nil).

## **8 LOSS PER SHARE**

### **(a) Basic**

The calculation of basic loss per share for the six months ended 30 June 2010 is based on the loss for the period attributable to owners of the Company of approximately HK\$33,839,000 (six months ended 30 June 2009: loss of HK\$36,873,000) and the weighted average number of ordinary shares of approximately 1,864,606,000 (six months ended 30 June 2009: 1,841,285,000) in issue during the period.

### **(b) Diluted**

The amount of diluted loss per share is not presented as the effects of all potential ordinary shares are anti-dilutive for the six months ended 30 June 2010 and 2009.

## **9 PROPERTY, PLANT AND EQUIPMENT**

For the six months ended 30 June 2010, the Group spent approximately HK\$1,422,000, mainly on leasehold improvement in its PRC office (31 December 2009: HK\$519,000).

During the six months ended 30 June 2010, the Group disposed its land and buildings situated in Hong Kong for a cash consideration of HK\$6,300,000, resulting in a gain of approximately HK\$3,529,000. Items of property, plant and equipment, mainly on ATM's machines, with a net book value of approximately HK\$741,000 were written off by the Group (31 December 2009: HK\$339,000).

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

## 10 TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are trade receivables (net of allowance for impairment losses for bad and doubtful debts) with the following ageing analysis:

	At 30 June 2010 (Unaudited) HK\$'000	At 31 December 2009 (Audited) HK\$'000
Current	831	491
1 to 3 months overdue	546	562
3 months to 12 months	344	239
Total trade receivables	1,721	1,292
Prepayments, deposits and other receivables	12,817	9,051
<b>Total trade and other receivables</b>	<b>14,538</b>	<b>10,343</b>

Credit terms granted by the Group to the customers generally range from 30 days to 150 days. Trade receivables with balances that are more than 6 months overdue are requested to settle all outstanding balances before any further credit is granted.

## 11 TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables with the following ageing analysis:

	At 30 June 2010 (Unaudited) HK\$'000	At 31 December 2009 (Audited) HK\$'000
<i>Note</i>		
Due within 3 months or on demand	405	310
Overdue 3 months to 1 year	47	22
Overdue 1 year	–	1
Total trade payables	452	333
Other payables and accrued expenses	8,041	5,797
Receipts in advance	187	1,870
Amount due to a director (a)	10	555
<b>Total trade and other payables</b>	<b>8,690</b>	<b>8,555</b>

Note:

- (a) The amount due to director, Mr. Sze Wai, Marco, is interest free, unsecured and has no fixed terms of repayment.

For the six months ended 30 June 2010

## 12 BANK FACILITIES

At 30 June 2010, the Group had banking facilities totalling HK\$5,000,000 (31 December 2009: HK\$5,000,000) of which HK\$5,000,000 (31 December 2009: HK\$5,000,000) was secured by a charge over the Group's fixed deposits with bank of HK\$5,000,000 (31 December 2009: HK\$5,000,000). At 30 June 2010, no banking facilities were utilised (31 December 2009: HK\$4,594,000).

## 13 CONVERTIBLE BONDS

On 27 April 2010, the issue and placing of the Convertible Bonds with unlisted Warrants had been successfully completed. On 18 June 2010, all the bondholders exercised the conversion right and converted all the Convertible Bonds at its par value approximately HK\$75.7 million into 294,600,000 new ordinary shares of HK\$0.10 each in the share capital of the Company at a conversion price of HK\$0.257 per conversion share. The net proceeds approximately HK\$74.6 million in aggregate after expenses and commissions, will be used for the Group's general working capital requirements and for future new investments. Up to the date of this report, there is no exercise of the subscription rights attaching to the Warrants at the subscription price of HK\$0.30 per share. Further details of the completion and conversion of the convertible Bonds are set out in the announcements of the Company dated 27 April 2010 and 18 June 2010.

	Note	Derivative assets HK\$'000	Derivative liabilities HK\$'000	Equity component HK\$'000	Liability component HK\$'000	Total HK\$'000
At 27 April 2010	(a)	(7,220)	6,732	17,464	58,736	75,712
Issue cost	(b)	-	-	(143)	(479)	(622)
Interest charged	(c)	-	-	-	1,172	1,172
Fair value (gain)/loss for the period	(d)	(6,883)	6,448			(435)
Conversion		13,180	(13,180)	(17,321)	(59,429)	(76,750)
Loss on conversion		923	-	-	-	923
At 30 June 2010		-	-	-	-	-

### Notes:

- The convertible bonds were recognized initially at fair value using an option pricing model. It contains four components, derivative assets, derivative liabilities, equity component and liability component.
- Issue cost related to the issuance of the convertible bonds was allocated to equity and liability components in proportion to allocation of proceeds.
- The interest charged is calculated by applying an effective interest rate of 14.24 per cent to the liability component from the issuance date to the conversion date (total 52 days).
- Fair value (gain)/loss on derivative component, equal to the difference between the fair value on the conversion date and the issuance date, has been recognised in the consolidated income statement.

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

## 14 SHARE CAPITAL

	Note	At 30 June 2010 (Unaudited)		At 31 December 2009 (Audited)	
		No. of shares HK\$'000	Amount HK\$'000	No. of shares HK\$'000	Amount HK\$'000
Authorised:					
Ordinary shares of HK\$0.1 each		3,000,000	300,000	3,000,000	300,000
Issued and fully paid:					
At beginning of the reporting period		1,843,285	184,328	1,841,285	184,128
Exercise of share options	(a)	200	20	2,000	200
On conversion of convertible bonds	(b)	294,600	29,460	–	–
At end of the reporting period		2,138,085	213,808	1,843,285	184,328

Notes:

- (a) During the period, options to subscribe for 200,000 ordinary shares were exercised. The consideration received was HK\$54,000 of which HK\$20,000 was credited to share capital account and the balance of HK\$34,000 was credited to the share premium account. The amount of HK\$40,000 was transferred from share options reserve account to share premium account upon exercise of share options.
- (b) On 18 June 2010, the holders of Group's convertible bonds exercised their conversion rights and converted the convertible bonds at its par value of HK\$75,712,200 into 294,600,000 new ordinary shares of HK\$0.10 each in the share capital of the Company at a conversion price of HK\$0.257 per conversion share.

For the six months ended 30 June 2010

## 15 LEASE COMMITMENTS

At 30 June 2010, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	<b>At 30 June 2010 (Unaudited) \$'000</b>	At 31 December 2009 (Audited) \$'000
Within one year	<b>4,306</b>	4,887
In the second to fifth years inclusive	<b>3,282</b>	5,282
	<b>7,588</b>	10,169

Operating lease payments represent rentals payable by the Group for its offices and ATM deployment. Leases are negotiated for a range of one to five years and rentals are fixed over the lease terms and do not include contingent rentals.

## 16 CONTINGENT LIABILITIES

There were no significant contingent liabilities as at both 30 June 2010 and 31 December 2009.

## 17 RELATED PARTY TRANSACTIONS

There were no significant related party transactions undertaken by the Group during the six months period.

# Management Discussion and Analysis

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## BUSINESS REVIEW

During the period under review, FinTronics' extensive ATM network has covered first and second-tier cities including Shenzhen, Jinan, Qingdao, Yantai, Linyi, Weihai, Changsha and Nantong, tapping into the increasing consumption power and maintaining a competitive market share. The Group has prepared for continued business expansion, actively negotiating with some potential clients, including banks, China UnionPay and China Yinshang (中國銀商), for potential collaboration opportunities, including the launch of new ATM projects at the appropriate time.

In March 2010, FinTronics attained a new milestone in its business development history by diversifying into the natural resources industry, a sector with great prospects. The Group, via its wholly-owned subsidiary, signed a conditional sale and purchase agreement with Truffle Rich Holdings Limited to acquire its 80% interest in CSJC Gold Mining Company Omchak ("Omchak") at a consideration of US\$300 million.

Omchak and its subsidiaries are engaged in the business of geological exploration and commercial mining of placer gold deposits and hard rock gold deposits located in Russia and own eight gold projects in Russia. According to the Russian Resource Reporting Code, Omchak's projects contain enormous gold reserves and offer huge potential for exploration and exploitation, with an estimated aggregate gold reserve of 1,193,000 ounces (around 37 tonnes) and estimated aggregate gold resources of 6,232,000 ounces (around 194 tonnes). Currently, the Omchak Project is operated by the Russian management team with years of gold mine management and operations experience. To maintain a professional standard of operations and efficient management performance, FinTronics intends to retain the management team of Omchak after the acquisition is completed.

The management believes that the Omchak Project transaction will create a unique development opportunity for the Group to tap the tremendous potential of the gold mining business and natural resources industry. The move also reinforces the Group's business strategy to manage and operate profitable businesses and, ultimately, to boost value to shareholders.

## PROSPECTS

In the second half of 2010, the more intense competition in the ATM cooperation sector is expected to increase operating costs. The demand from commercial banks in many provinces and cities of China for cooperative ATM operation will gradually begin to drop after a few years of rapid growth. Thus, the development scale of the Group's ATM market will rely on the banks' strategic decision related to ATM deployment and the business derived from cooperation in operation of the ATM machines will level off.

Despite the challenging operating environment, the Security Service Management Ordinance promulgated by the PRC Government in January 2010 has helped to enhance the popularity of security services in the market and reduce the trend towards monopolisation of the escort industry. This has created more room for development of cooperation in the ATM operation which was originally subject to higher limitations in filling the ATM machine with bank notes. Looking to the second half of the year, the Group plans to continue its proven business consolidation strategy to counter the intense competition in the market. At the same time, the Group intends to maintain its stringent ATM deployment strategy and steer business development with prudence and pragmatism.

Skyrocketing demand for gold has propelled the price of gold to record heights. The Group's management is positive about the long term prospects of the gold market and the acquisition of Omchak positions FinTronics to participate in the booming natural resources sector. Upon completion of the transaction, this sector is to become one of the core business segments of the Group.

The Group will intensify its focus on the natural resources sector going forward, and evaluate investing in other gold mines globally, including but not limited to those located in Russia and the People's Republic of China. The Group will retain and currently has no intention to divest its existing businesses, having the aim of expanding its profitability base.

## **LIQUIDITY AND FINANCIAL RESOURCES**

As at 30 June 2010, the Group had cash and bank balances HK\$207.7 million (31 December 2009: HK\$159.3 million) of which HK\$5 million (31 December 2009: HK\$5 million) were pledged to banks for facilities granted to the Group.

The Group had no loans and overdrafts as at 30 June 2010 (31 December 2009: HK\$4.6 million). As at 30 June 2010, the total asset value of the Group was HK\$288.3 million (31 December 2009: HK\$250.1 million) whereas the total liabilities was HK\$12.8 million (31 December 2009: HK\$18.3 million). The gearing ratio of the Group, calculated as total liabilities over total assets, was 4.4% (31 December 2009: 7.3%).

As at 30 June 2010, the Group had available aggregate banking facilities of HK\$5 million (31 December 2009: HK\$5 million) of which HK\$5 million (31 December 2009: HK\$0.4 million) has not been utilised.

The Group maintained a net cash (being the total cash and bank balances net of total bank borrowings) to equity ratio of 75.4% (31 December 2009: 68.7%) as at 30 June 2010. With net cash of HK\$207.7 million (31 December 2009: net cash of HK\$159.3 million) as at 30 June 2010, the Group's liquidity position is healthy and the directors of the Company ("Directors") believe that the Group has sufficient financial resources to satisfy its commitments and working capital requirements.

## **CONTINGENT LIABILITIES**

There were no significant contingent liabilities as at both 30 June 2010 and 31 December 2009.

## **EXCHANGE RISK**

As the Group's operations are principally in the PRC and all assets and liabilities are denominated either in Renminbi, HK dollars or US dollars, the Directors believe that the operations of the Group are not subject to significant exchange risk.



# Management Discussion and Analysis

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## **EMPLOYEES, TRAINING AND REMUNERATION POLICIES**

As at 30 June 2010, the Group had approximately 64 (31 December 2009: 67) employees. Employees' costs (including directors' emoluments) amounted to approximately HK\$7,087,000 (six months ended 30 June 2009: HK\$7,854,000) for the period. The Group ensures that the pay levels of its employees are competitive and employees are rewarded on a performance related basis.

The Directors believe that experienced staff, in particular its technicians, are the most valuable assets of the Group. Training programs are provided to technicians, especially new recruits, to ensure their technical proficiency.

The Company operates a share option scheme (the "Scheme") whereby the Board may at their absolute discretion, grant options to employees and Directors of the Company and any of its subsidiaries to subscribe for shares in the Company. The subscription price, exercisable period and the maximum number of options to be granted are determined in accordance with the prescribed terms of the Scheme. During the period, no share options were granted to directors, executives and employees to their contribution to the Group.

# Other Information Provided in Accordance with the Listing Rules

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

As at 30 June 2010, the interests and short positions of the Directors and chief executive of the Company in the shares or underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO") which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were 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 maintained by the Company referred to therein, or which were required, pursuant to Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules"), to be notified to the Company and the Stock Exchange were as follows:

Name	Company	Name of capacity	Number and class of securities <i>(note 1)</i>
Sze Wai, Marco	The Company	Interest of controlled corporation <i>(note 2)</i>	476,129,906 ordinary shares(L)
	The Company	Beneficial owner	7,189,769 ordinary shares(L) <i>(note 3)</i>
Song Jing Sheng	The Company	Beneficial owner	34,000,000 ordinary shares(L)
	The Company	Beneficial owner	3,500,000 ordinary shares(L) <i>(note 3)</i>
Wong Po Yan	The Company	Beneficial owner	2,500,000 ordinary shares(L) <i>(note 3)</i>
Mao Zhenhua	The Company	Beneficial owner	2,500,000 ordinary shares(L) <i>(note 3)</i>
Chong Yiu Kan, Sherman	The Company	Beneficial owner	650,000 ordinary shares(L)
	The Company	Beneficial owner	2,000,000 ordinary shares(L) <i>(note 3)</i>

# Other Information Provided in Accordance with the Listing Rules

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## **DIRECTORS' AND CHIEF EXECUTIVE'S INTEREST AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES** *(Continued)*

Notes:

1. The letter "L" represents the Director's interests in the shares and underlying shares of the Company.
2. These shares were held by Leading Value Industrial Limited and Global Prize Limited, companies wholly owned by Mr. Sze Wai, Marco.
3. These shares were the shares which would be allotted and issued upon exercise in full of the options granted to such Directors under the share option schemes of the Company.

Save as disclosed above, as at 30 June 2010, none of the Directors or chief executive of the Company had any interest and short positions in the shares or underlying shares of the Company or its 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 in which they were 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 maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

## **SHARE OPTION SCHEMES**

Prior to 23 May 2002, the Company operated an option scheme whereby the Board of Directors could, at their absolute discretion, grant options to employees and executive directors of the Company and any of its subsidiaries to subscribe for shares in the Company (the "Old Scheme"). On 23 May 2002, the Old Scheme was terminated and a new share option scheme (the "New Scheme") was adopted, whereby the Board of Directors may, at their absolute discretion, grant options to any eligible employees, non-executive directors, any suppliers and customers of the Company or any of its subsidiaries or any invested entity to subscribe for shares in the Company.

For options granted before 1 September 2001, the exercise price of options was the higher of the nominal value of the shares and 80% of the average closing prices of the shares of the Company on the Stock Exchange for the five trading days immediately preceding the date of offer of the options. For options to be granted after 1 September 2001, the exercise price of the options will be the highest of the nominal value of the shares, the closing price of the shares on the Stock Exchange on the date of offer of the options and the average closing price of the shares on the Stock Exchange for the five trading days immediately preceding the date of offer of the options.

## SHARE OPTION SCHEMES (Continued)

The total number of shares which may be issued upon exercise of all options to be granted under the New Scheme and any other operative share option schemes of the Group may not in aggregate exceed 105,778,000, being 10% of the shares in issue of the Company as at 30 June 2006, the date of which the resolution is passed pursuant to the share option scheme. Background of the Company's share option scheme is set out in its annual report for the financial year ended 31 December 2009.

At 30 June 2010, the Directors and employees of the Company had the following interests in options to subscribe for shares of the Company (market value per share is HK\$0.39 at the balance sheet date) granted at nominal consideration of HK\$1.00 for each lot of share options granted under the share option scheme operated by the Company, each option gives the holder the right to subscribe for one share.

The following share options were outstanding under the share option schemes during the year:

Grantee	Date granted	Exercisable period	Exercise price of options HK\$	Number of share options				
				Outstanding at 1.1.2010	Granted during the year	Exercised during the year	Outstanding at 30.06.2010	
<b>Old Scheme</b>								
<b>Director</b>								
Sze Wai, Marco	14 May 2001	1 Oct 2001 – 2 Jun 2011	0.433	4,689,769	–	–	4,689,769	
<b>Employees</b>								
	14 May 2001	1 Oct 2001 – 2 Jun 2011	0.433	2,344,884	–	–	2,344,884	
<b>New Scheme</b>								
<b>Directors</b>								
Song Jing Sheng	31 Oct 2006	1 May 2007 – 30 Oct 2016	0.250	2,000,000	–	–	2,000,000	
	24 Jun 2009	24 Dec 2009 – 23 Jun 2019	0.270	1,500,000	–	–	1,500,000	
Sze Wai, Marco	31 Oct 2006	1 May 2007 – 30 Oct 2016	0.250	1,000,000	–	–	1,000,000	
	24 Jun 2009	24 Dec 2009 – 23 Jun 2019	0.270	1,500,000	–	–	1,500,000	
Tan Shu Jiang	24 Jun 2009	24 Dec 2009 – 23 Jun 2019	0.270	4,000,000	–	–	4,000,000	

# Other Information Provided in Accordance with the Listing Rules

## SHARE OPTION SCHEMES (Continued)

Grantee	Date granted	Exercisable period	Exercise price of options HK\$	Number of share options			
				Outstanding at 1.1.2010	Granted during the year	Exercised during the year	Outstanding at 30.06.2010
<b>Independent non-executive directors</b>							
Chong Yiu Kan, Sherman	31 Oct 2006	1 May 2007 – 30 Oct 2016	0.250	500,000	-	-	500,000
	24 Jun 2009	24 Dec 2009 – 23 Jun 2019	0.270	1,500,000	-	-	1,500,000
Mao Zhenhua	31 Oct 2006	1 May 2007 – 30 Oct 2016	0.250	1,000,000	-	-	1,000,000
	24 Jun 2009	24 Dec 2009 – 23 Jun 2019	0.270	1,500,000	-	-	1,500,000
Wong Po Yan	31 Oct 2006	1 May 2007 – 30 Oct 2016	0.250	1,000,000	-	-	1,000,000
	24 Jun 2009	24 Dec 2009 – 23 Jun 2019	0.270	1,500,000	-	-	1,500,000
<b>Employees</b>							
	20 Mar 2006	20 Mar 2006 – 19 Mar 2016	0.122	2,000,000	-	-	2,000,000
	04 Oct 2006	4 Apr 2007 – 3 Oct 2016	0.213	1,000,000	-	-	1,000,000
	24 Jun 2009	24 Dec 2009 – 23 Jun 2019	0.270	25,800,000	-	(200,000)	25,600,000
				52,834,653	-	(200,000)	52,634,653

As the Group granted no share options during the year, no share-based compensation costs have been recognized.

The share options are exercisable for a period of ten years commencing from the date of grant and subject to the vesting provisions as follows:

Date granted	Vesting period	Percentage of options vested
14.05.2001	14.05.2001 – 30.09.2001	Nil
	01.10.2001 – 01.01.2002	40%
	02.01.2002 – 01.01.2003	70%
	02.01.2003 – 13.06.2011	100%

**SHARE OPTION SCHEMES** *(Continued)*

<b>Date granted</b>	<b>Vesting period</b>	<b>Percentage of options vested</b>
20.03.2006	20.03.2006 – 19.03.2016	100%
04.10.2006	04.10.2006 – 03.04.2007	Nil
	04.04.2007 – 03.10.2007	50%
	04.10.2007 – 03.10.2016	100%
31.10.2006	31.10.2006 – 30.04.2007	Nil
	01.05.2006 – 31.10.2007	50%
	01.11.2007 – 30.10.2016	100%
24.06.2009	24.06.2009 – 23.12.2009	Nil
	24.12.2009 – 23.06.2019	100%

Apart from the foregoing, at no time during the period was the Company, its holding company, subsidiaries or fellow subsidiaries a party to any arrangements to enable the Company's Directors or chief executive or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company, or any other body corporate.

**SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS WHO ARE REQUIRED TO DISCLOSE THEIR INTERESTS PURSUANT TO PART XV OF THE SFO**

As at 30 June 2010, the following persons and entities, other than a Director or chief executive of the Company, had an interest or a short position in the shares and underlying shares in the Company as recorded in the register required to be kept under section 336 of the SFO:

<b>Name of Shareholder</b>	<b>Number of ordinary Shares</b> <i>(note 1)</i>	<b>Capacity</b>	<b>Approximate percentage of interest</b>
Leading Value Industrial Limited <i>(note 2)</i>	474,869,906 (L)	Beneficial owner	22.21
Global Prize Limited <i>(note 2)</i>	1,260,000 (L)	Beneficial owner	0.06

# Other Information Provided in Accordance with the Listing Rules

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## **SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS WHO ARE REQUIRED TO DISCLOSE THEIR INTERESTS PURSUANT TO PART XV OF THE SFO** *(Continued)*

Notes:

1. The letter "L" represents the entity's interests in the Shares.
2. Leading Value Industrial Limited and Global Prize Limited are companies wholly owned by Sze Wai, Marco, who is an executive Director.

Save as disclosed above, as at 30 June 2010, no person or entity other than a Director or chief executive of the Company, had an interest or a short position in the shares and underlying shares in the Company as recorded in the register required to be kept under section 336 of the SFO.

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

During the six months ended 30 June 2010, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

## **CORPORATE GOVERNANCE**

The Company is committed to the establishment of good corporate governance practices and procedures. The corporate governance principles of the Company emphasise a quality board, sound internal control, and transparency and accountability to all shareholders. The Company has applied the principles and complied with all code provisions and, where applicable, the recommended best practices of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules ("Code on CG Practices") throughout the six months ended 30 June 2010, except for the deviations as mentioned below:

1. The positions of the Chairman of the Board and Chief Executive Officer ("CEO") of the Company are both currently carried on by Mr. Sze Wai, Marco. Although Code Provision A.2.1 provides that the roles of the chairman and chief executive officer should be separated and should not be performed by the same individual, the Board considers that the structure currently operated by the Company does not undermine the balance of power and authority between the Board and the management. The Board members have considerable experience and qualities which they bring to the Company and there is a balanced composition of Executive Directors and Non-executive Directors (including Independent Non-executive Directors). Given the composition of the Board, the Board believes that it is able to ensure that the balance of power between the Board and the management is not impaired. The Board believes that having the same person performing the roles of both Chairman and CEO does provide the Group with strong and consistent leadership and that, operating in this manner allows for more effective and efficient overall strategic planning of the Group. Such arrangement will be subject to review by the Board from time to time.

## **CORPORATE GOVERNANCE** *(Continued)*

2. The independent non-executive directors are not appointed for specific terms but are subject to retirement by rotation in accordance with the Company's Bye Laws. Under Article 111 (A) and (B) of the Articles of Association of the Company, one third of the Board must retire by rotation at each annual general meeting of the Company and, if eligible, offer themselves for re-election.
3. The Chairman of the board should attend the annual general meeting. Mr. Sze Wai, Marco, the Chairman of the Board was unable to attend the Company's annual general meeting which was held on 23 June 2010 as he had an overseas engagement that was important to the Company's business.

## **MODEL CODE OF SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules, as the Code of conduct regarding directors' securities transactions. Having made specific enquiry of all directors, they all confirmed that they have complied with the Model Code throughout the six months ended 30 June 2010.

## **AUDIT COMMITTEE**

The Company has established audit committee with written terms of reference. The primary duties of the audit committee are to review, in draft form, the Company's annual report and accounts, half-year report, and to provide advice and comments thereon to the Board. The audit committee comprises three independent non-executive directors, namely Mr. Wong Po Yan, Mr. Mao Zhenhua and Mr. Chong Yiu Kan, Sherman. Mr. Chong Yiu Kan, Sherman is the chairman of the audit committee. The audit committee has reviewed with the management the accounting principles and practices adopted by the Company and discussed internal controls and financial reporting matters, including a review of the interim report for the six months ended 30 June 2010 with the Directors.



# Other Information Provided in Accordance with the Listing Rules

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## **BOARD OF DIRECTORS**

As at the date hereof, the board of directors of the Company comprises Sze Wai, Marco, Song Jing Sheng and Tan Shu Jiang as executive Directors and Wong Po Yan, Mao Zhenhua and Chong Yiu Kan, Sherman as independent non-executive Directors.

By order of the Board

**Sze Wai, Marco**

*Chairman*

Hong Kong, 24 August 2010