北京建設 BPHL

BEIJING PROPERTIES (HOLDINGS) LTD

*(incorporated in Bermuda with limited liability)*

*Stock Code: 925*

# Interim Report 2010

# CONTENTS

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

**Executive Directors**

Mr. LEI Zhengang *(Chairman)*
Mr. QIAN Xu *(Chief Executive Officer)*
Mr. SIU Kin Wai

**Non-Executive Directors**

Mr. LIN Chun Kuei

**Independent Non-Executive Directors**

Mr. GOH Gen Cheung
Mr. MA Chiu Cheung, Andrew
Mr. NG Tang Fai, Ernesto

## AUDIT COMMITTEE

Mr. MA Chiu Cheung, Andrew *(Chairman)*
Mr. GOH Gen Cheung
Mr. NG Tang Fai, Ernesto

## NOMINATION COMMITTEE

Mr. NG Tang Fai, Ernesto *(Chairman)*
Mr. GOH Gen Cheung
Mr. MA Chiu Cheung, Andrew
Mr. QIAN Xu
Mr. LIN Chun Kuei

## REMUNERATION COMMITTEE

Mr. GOH Gen Cheung *(Chairman)*
Mr. MA Chiu Cheung, Andrew
Mr. NG Tang Fai, Ernesto
Mr. QIAN Xu
Mr. LIN Chun Kuei

## COMPANY SECRETARY

Mr. SIU Kin Wai

## AUTHORIZED REPRESENTATIVES

Mr. QIAN Xu
Mr. SIU Kin Wai

## STOCK CODE

925

## REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Room 5706, 57/F.,
Central Plaza,
18 Harbour Road,
Wanchai, Hong Kong
Tel: (852) 2511 6016
Tel: (852) 2598 6905

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

The Bank of Bermuda Limited
Bank of Bermuda Building
6 Front Street, Hamilton HM 11
Bermuda

## SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai. Hong Kong

## AUDITORS

Deloitte Touche Tohmatsu Certified Public Accountants

## WEBSITE

www.bphl.com.hk

## PRINCIPAL BANKERS

Citic Bank International Limited
Bank of Communications, Hong Kong Branch
ChinaTrust Bank (USA)
Shenzhen Ping An Bank（深圳平安銀行）
Agricultural Bank of China（中國農業銀行）

# SUMMARY

### UNAUDITED INTERIM RESULTS

The Board of Directors (the "Board") of Beijing Properties (Holdings) Limited (the "Company") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2010 and the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2010 with the comparative figures for the corresponding period of 2009. The consolidated revenue of the Group for the first half of 2010 amounted to approximately HK$77,023,000, representing a decrease of 9.2% over the corresponding period of last year. Loss attributable to the shareholders of the Company for the first half of 2010 amounted to HK$93,030,000, as compared to the loss of HK$22,266,000 in corresponding period of last year.

# INTERIM DIVIDEND

The Board has resolved not to recommend the payment of an interim dividend for the six months ended 30 June 2010 (six months ended 30 June 2009: Nil).

# BUSINESS OVERVIEW

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial result

For the six months ended 30 June 2010, the Group recorded a consolidated loss attributable to the owner of the Company of HK$93,030,000, as compared to the consolidated loss of HK$22,266,000 recorded in the six months ended 30 June 2009 . The increase in the loss recorded for the current period is mainly attributable to an aggregate of HK$86,533,000 equity-settled share option expenses recognized pursuant to applicable accounting standards. The share options were granted by the Company to its employees, officers, directors and consultants during the current period. If excluding this, the loss of the six months ended 30 June 2010 attributable to the owners of the Company amounted to HK$6,497,000, representing a decrease of HK$15,769,000, or 70.8%, from that of the corresponding period of 2009.

### Business review

The Group's unaudited consolidated revenue of the current period amounted to HK$77,023,000, representing a decrease of HK$7,777,000, or 9.2%, from HK$84,800,000 of the corresponding period of 2009. Due to slow recovery from the financial turmoil, particularly the property market in the United States of America, which is the Group's most significant market, and keen competition in the home, garden and plastic decorative products business (the "home products business"), the business is continuously operating under a severe environment. However, due to better cost control achieved by the Group through outsourcing the manufacturing activities, we achieve a higher gross profit margin of approximately 27.9% of the current period, compared to 16.0% of the corresponding period of 2009.

Since 2009, the Group also strategically positioned itself as a developer in residential, commercial and logistic properties in PRC. In order to achieve the new strategy, the Group had entered into a letter of intent with an independent third party for a proposed hotel development project located in Yuquanshan of Beijing and had completed the acquisition of the 60% interest in Owners' City, a residential property located in Beijing, PRC.

### Prospects

Looking ahead, the Group will continue to seek for possible acquisitions and strategic investment in the property sectors to improve the Group's profitability and prospects. We will also streamline home products business should suitable opportunities arose and the Group will continue our existing principal business in the ordinary course.

# BUSINESS OVERVIEW

## MAJOR EVENTS

**Acquisition of 60% interest in Owners' City**

On 27 January 2010, the Company entered into a conditional agreement with Beijing Holdings Limited ("BHL") a substantive non-controlling shareholder of the Company, to acquire 60% interests in a properties under development for sale in the PRC, namely Owners' City, at a total consideration of RMB92,250,000 (equivalent to approximately HK$104,810,000), of which RMB60,750,000 (equivalent to approximately HK$69,024,000) will be settled by issue and allotment of 83,362,500 new shares of the Company and RMB31,500,000 (equivalent to approximately HK$35,790,000) was settled by cash payment (the "Acquisition").

This Acquisition constituted a connected transaction under the Listing Rules and was approved by the independent shareholders in a special general meeting held on 12 March 2010.

This Acquisition was then completed on 9 July 2010.

**Adoption of new share option scheme**

On 3 March 2010, the Company adopted a new share option scheme to replace the old share option scheme adopted on 18 June 2002 pursuant to a resolution passed in a special general meeting held on 18 March 2010. During the six months ended 30 June 2010, total 305,700,000 share options have been granted to the employees, officers, directors and consultants. Please refer to note 17 to the condensed consolidated interim financial statements for details of the Company's share option scheme and its impact on the financial result for the six months ended 30 June 2010.

**Disposal of Properties**

On 13 April 2010, Lu He Yuansheng Light Industrial Products Company Limited, a wholly-owned subsidiary of the Company, entered into an agreement with an independent third party pursuant to which a factory complex which is located in Yingxia Village, Hekou, Luhe, PRC was sold at a total consideration of RMB13,500,000 (equivalent to approximately HK$15,447,000). A gain of approximately RMB5,318,000 (equivalent to approximately HK$6,086,000) arising from this disposal was recorded in the six months ended 30 June 2010 based on the carrying value of the property of RMB8,182,000 (equivalent to approximately HK$9,361,000).

**Letter of intent in respect of the proposed establishment of joint venture**

On 6 May 2010, the Company entered into a letter of intent with 北京市四季青農工商總公司 for the proposed establishment of a sino-foreign joint venture to engage in the development of a luxury hotel property initially named 玉泉山貴賓館, located in Yuquanshan, Beijing.

**Adoption of Chinese Name as Secondary Name**

Pursuant to a special resolution passed in the annual general meeting held on 17 June 2010, the Company has adopted "北京建設(控股)有限公司" as the secondary name of the Company.

**Subscription and placing of convertible bonds**

On 25 June 2010, (i) the Company and Beijing Enterprises Group (BVI) Company Limited (the "Subscriber"), a connected party entered into a conditional subscription agreement in connection with the issue by the Company of the convertible bonds to the Subscriber with an aggregate principal amount of HK$1,500,000,000, on the terms and conditions set out in the subscription agreement; and (ii) the Company and the placing agent entered into a conditional placing agreement pursuant to which the Company has appointed the placing agent as its exclusive agent for the purpose of the placing and the placing agent has conditionally agreed, on a best effort basis, to procure not fewer than six placees to subscribe in cash for the convertible bonds, at the same terms and conditions of the convertible bonds as subscribed by the Subscriber, with an aggregate principal amount of HK$500,000,000.

The Subscriber is a wholly-owned subsidiary of Beijing Enterprises Group Company Limited, the ultimate substantial non-controlling shareholder of the Company. The transaction with the Subscriber constituted a connected transaction under the Listing Rules and was approved by the independent shareholders in a special general meeting held on 2 September 2010.

## FINANCIAL REVIEW

For the six months ended 30 June 2010, the Group recorded a consolidated loss attributable to the owner of the Company of HK$93,030,000, as compared to the consolidated loss of HK$22,266,000 recorded for the six months ended 30 June 2009. The increase in the loss recorded for the current period is mainly attributable to an aggregate of HK$86,533,000 equity-settled share option expenses recognized pursuant to applicable accounting standards. The share options were granted by the Company to its employees, officers, directors and consultants during the current period. If excluding this, the loss of the current period attributable to the owners of the Company amounted to HK$6,497,000, representing a decrease of HK$15,769,000, or 70.8%, from that of the corresponding period of 2009.

## FINANCIAL AND MANAGEMENT REVIEW

**Financial analysis**

***Selling and Distribution and Administrative expenses***

For the six months ended 30 June 2010, selling and distribution expenses was decreased by HK$3,944,000, or 24.6%, from HK$16,024,000 of the six months ended 30 June 2009 to HK$12,080,000. The decrease in selling and distributing expenses was mainly due to the continuous downsize of our manufacturing operation during the current period in order to minimize the loss arised from it.

As a result of the downscaling home products business, administrative expenses of the Group was decreased by HK$3,095,000, or 11.6%, from HK$26,651,000 of the corresponding period of 2009 to HK$23,556,000 of the current period, if the HK$39,575,000 equity-settled share option expenses recognized pursuant to applicable accounting standards for options granted to employees of the Company was excluded.

***Liquidity, Financial Resources and Finance Costs***

The Group finances the operations of the home products business by internally generated cash flows. As of 30 June 2010, the Group had aggregate available banking facilities of HK$23,274,000 subject to floating rates but none was utilised (31 December 2009: HK$23,265,000 of which HK$10,274,000 was utilised).

The Group's cash and bank balances at 30 June 2010 amounted to HK$574,156,000 (31 December 2009: HK$522,251,000). The cash balances, together with the unutilised banking facilities, will enable the Group to finance both the home products business and the property business at the moment.

As at 30 June 2010, the Group's current ratio and quick ratio were 1,266% (31 December 2009: 913%) and 1,261% (31 December 2009: 909%) respectively. The Group's short-term borrowing of HK$10,274,000 as at 31 December 2009 was fully repaid during the current period. The Group's gearing ratio, which was defined as total borrowing as percentage of total assets, was 2% as at 31 December 2009 and that as of 30 June 2010 was zero.

During the current period, total finance costs incurred by the Group amounted to HK$264,000 (six months ended 30 June 2009: HK$2,367,000). The decrease of finance cost was due to repayment of all outstanding bank borrowings in March 2010.

***Capital Expenditure***

During the current period, the Group spent approximately HK$3,749,000 (six months ended 30 June 2009: HK$14,760,000) as capital expenditure, which included acquisition of furniture, fixtures, equipment and motor vehicles and plant and machinery for the newly established office in Beijing, PRC.

***Foreign Exchange Exposure***

The Group did not engage in any hedging transactions related to foreign currencies during the 2010 Period. Since the Group's major revenue and purchases were denominated in USD, there is a natural hedge to some extent. Part of the purchases and manufacturing overheads were denominated in RMB, and to mitigate the impact of exchange rate fluctuations, the Group will closely assess and monitor the movement of RMB exchange rate, and to consider hedging the relative exposure should the need arise.

***Contingent Liabilities***

As at 30 June 2010 and 31 December 2009, the Group had no significant contingent liability.

***Charges on Assets***

As at 30 June 2010, certain assets of the Group with aggregated carrying value of HK$22,005,000 (31 December 2009: HK$31,940,000) representing property, plant and equipment of HK$1,117,000 (31 December 2009: HK$1,782,000), trade receivables of HK$4,424,000 (31 December 2009: HK$17,279,000) and other assets of HK$16,464,000 (31 December 2009: HK$ 12,000,000) were pledged to secure bank facilities.

## EVENT AFTER THE END OF THE INTERIM PERIOD

Please refer to note 20 to the condensed consolidated interim financial statements.

## EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2010, the Group had a total of 289 (30 June 2009: 660) employees. Total staff cost incurred during the six months ended 30 June 2010 amounted to HK$14,384,000 (six months ended 30 June 2009: HK$18,974,000) (excluding staff cost included in cost of sales, directors' remuneration and equity-settled share option expenses).

The employees are remunerated based on their work performance, professional experiences and prevailing industry practices. The Group's employee remuneration policy and package are periodically reviewed by the management. Apart from pension funds, discretionary bonuses and share options are awarded to certain employees according to the assessment of individual performance.

## APPRECIATION

The Board would like to express its sincere appreciation to the bankers, suppliers, customers, shareholders and staff for their continuing support to the Group.

By order of the Board
**Beijing Properties (Holdings) Limited**
**Lei Zhengang**
*Chairman*

Hong Kong, 30 August 2010

# REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

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**TO THE BOARD OF DIRECTORS OF BEIJING PROPERTIES (HOLDINGS) LIMITED**
北京建設(控股)有限公司
*(incorporated in the Bermuda with limited liability)*

## INTRODUCTION

We have reviewed the interim financial information set out on pages 11 to 30, which comprise the condensed consolidated statement of financial position of Beijing Properties (Holdings) Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") as of 30 June 2010 and the related condensed consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## SCOPE OF REVIEW

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

## CONCLUSION

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

Without qualifying our review conclusion, we draw attention to the fact that the comparative condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six-month period ended 30 June 2009 and the relevant explanatory notes disclosed in the interim financial information have not been reviewed in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong
30 August 2010

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2010

| | Notes | Six months ended 30 June<br>**2010**<br>**(unaudited)**<br>**HK$'000** | <br>2009<br>(unaudited)<br>HK$'000<br>(restated) |
|---|---|---|---|
| Revenue | *3* | **77,023** | 84,800 |
| Cost of sales | | **(55,530)** | (71,272) |
| Gross profit | | **21,493** | 13,528 |
| Other income | *4* | **2,628** | 9,921 |
| Selling and distribution expenses | | **(12,080)** | (16,024) |
| Administrative expenses | *8* | **(63,131)** | (26,651) |
| Other expense | *5* | **(46,958)** | – |
| Other gains and losses | *5* | **5,543** | (559) |
| Finance costs | *6* | **(264)** | (2,367) |
| Loss before taxation | | **(92,769)** | (22,152) |
| Taxation | *7* | **(261)** | (114) |
| Loss for the period | *8* | **(93,030)** | (22,266) |
| **Other comprehensive income for the period** | | | |
| Exchange difference arising on translation of foreign operations | | **137** | 490 |
| Other comprehensive income for the period | | **137** | 490 |
| Total comprehensive loss for the period | | **(92,893)** | (21,776) |
| Loss for the period attributable to owners of the Company | | **(93,030)** | (22,266) |
| Total comprehensive loss attributable to owners of the Company | | **(92,893)** | (21,776) |
| | | **HK cents** | HK cents |
| Loss per share | *10* | | |
| – Basic | | **(2.8)** | (2.2) |
| – Diluted | | **(2.8)** | N/A |

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2010

| | NOTES | At 30 June 2010 (unaudited) HK$'000 | At 31 December 2009 (audited) HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | *11* | **3,843** | 8,782 |
| Prepaid lease payments – non-current portion | *11* | **–** | 3,204 |
| Investment property | *11* | **350** | 350 |
| Loan receivable | | **64,755** | 63,117 |
| Deposit paid for property, plant and equipment | | **–** | 1,459 |
| | | **68,948** | 76,912 |
| **Current assets** | | | |
| Inventories | | **2,776** | 2,433 |
| Loan receivable | | **5,887** | 5,738 |
| Deposit paid for acquisition of assets | *12* | **36,889** | – |
| Trade and other receivables | *13* | **30,492** | 32,804 |
| Financial assets at fair value through profit or loss | *14* | **5,715** | – |
| Amount due from a related company | | **–** | 91 |
| Prepaid lease payments – current portion | *11* | **–** | 74 |
| Tax recoverable | | **76** | 132 |
| Pledged deposits | | **–** | 879 |
| Bank balances and cash | | **574,156** | 522,251 |
| | | **655,991** | 564,402 |
| **Current liabilities** | | | |
| Trade and other payables | *15* | **51,640** | 51,065 |
| Amount due to a related company | | **–** | 455 |
| Bank loans – due within one year | | **–** | 10,274 |
| Tax payables | | **156** | 17 |
| | | **51,796** | 61,811 |
| **Net current assets** | | **604,195** | 502,591 |
| **Total assets less current liabilities** | | **673,143** | 579,503 |
| **Capital and reserves** | | | |
| Share capital | *16* | **343,920** | 323,920 |
| Reserves | | **328,661** | 255,021 |
| **Total equity** | | **672,581** | 578,941 |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | | **562** | 562 |
| | | **673,143** | 579,503 |

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2010

| | Share capital HK$'000 | Share premium HK$'000 | Special reserve HK$'000 *(note a)* | Share options reserve HK$'000 | Warrant reserve HK$'000 | Exchange reserve HK$'000 | Asset revaluation reserve HK$'000 | Statutory reserve HK$'000 *(note b)* | Accumulated losses HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Six months ended 30 June 2010 (unaudited)** | | | | | | | | | | |
| At 1 January 2010 (audited) | **323,920** | **463,436** | **18,528** | **–** | **2,000** | **21,496** | **–** | **20,490** | **(270,929)** | **578,941** |
| Loss for the period | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(93,030)** | **(93,030)** |
| Other comprehensive income for the period, representing exchange difference arising on translation of foreign operations | **–** | **–** | **–** | **–** | **–** | **137** | **–** | **–** | **–** | **137** |
| Total comprehensive income (loss) for the period | **–** | **–** | **–** | **–** | **–** | **137** | **–** | **–** | **(93,030)** | **(92,893)** |
| Issue of shares upon exercise of unlisted warrants *(Note 16)* | **20,000** | **82,000** | **–** | **–** | **(2,000)** | **–** | **–** | **–** | **–** | **100,000** |
| Recognition of equity-settled share based payments *(Note 17)* | **–** | **–** | **–** | **86,533** | **–** | **–** | **–** | **–** | **–** | **86,533** |
| At 30 June 2010 (unaudited) | **343,920** | **545,436** | **18,528** | **86,533** | **–** | **21,633** | **–** | **20,490** | **(363,959)** | **672,581** |
| Six months ended 30 June 2009 (unaudited) | | | | | | | | | | |
| At 1 January 2009 as originally stated (audited) | 99,920 | 172,582 | 18,528 | – | – | 18,489 | 17,997 | 23,786 | (284,602) | 66,700 |
| Restatement *(Note 21)* | – | – | – | – | – | – | 17,573 | – | – | 17,573 |
| At 1 January 2009 as restated | 99,920 | 172,582 | 18,528 | – | – | 18,489 | 35,570 | 23,786 | (284,602) | 84,273 |
| Loss for the period | – | – | – | – | – | – | – | – | (22,266) | (22,266) |
| Other comprehensive income for the period, representing exchange difference arising on translation of foreign operations | – | – | – | – | – | 490 | – | – | – | 490 |
| Total comprehensive income (loss) for the period | – | – | – | – | – | 490 | – | – | (22,266) | (21,776) |
| At 30 June 2009 (unaudited) | 99,920 | 172,582 | 18,528 | – | – | 18,979 | 35,570 | 23,786 | (306,868) | 62,497 |

*Notes:*

a) The Group's special reserve represents the difference between the nominal value of the shares of the subsidiaries acquired over the nominal value of the shares of the Company issued pursuant to the Group's reorganisation in 1997.

b) Pursuant to the relevant laws and regulations in the People's Republic of China ("PRC"), all the Company's PRC subsidiaries are required to transfer 10% of their profit after taxation calculated under PRC accounting rules and regulations to the statutory reserve fund, until the accumulated total of the fund reaches 50% of their registered capital. The transfer to the reserve must be made before distribution of dividends to shareholders. The statutory reserve fund can only be used to offset previous years' losses or to increase the capital of respective companies, provided that the balance after such issue is not less than 25% of its registered capital.

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2010

| | Six months ended 30 June | |
|---|---|---|
| | **2010** | 2009 |
| | **(unaudited)** | (unaudited) |
| | **HK$'000** | HK$'000 |
| **Net cash from (used in) operating activities** | **(44,457)** | 10,399 |
| **Investing activities** | | |
| Purchase of property, plant and equipment | **(3,749)** | (14,760) |
| Proceeds from disposal of property, plant and equipment | **15,482** | 278 |
| Investment in financial assets at fair value through profit or loss | **(5,715)** | – |
| Decrease in pledged deposits | **879** | – |
| Further proceeds on disposal of a subsidiary | **–** | 39,689 |
| Repayment from a related company | **91** | – |
| Interest received | **251** | 10 |
| **Net cash from investing activities** | **7,239** | 25,217 |
| **Financing activities** | | |
| Proceeds from issue of new ordinary shares upon exercise of unlisted warrants | **100,000** | – |
| New bank loans raised | **3,885** | 47,867 |
| Repayment of bank loans | **(14,177)** | (57,856) |
| Repayment of other creditor | **–** | (20,000) |
| Repayment to a related company | **(455)** | – |
| Other borrowing costs paid | **(264)** | (2,367) |
| **Net cash from (used in) financing activities** | **88,989** | (32,356) |
| **Net increase in cash and cash equivalents** | **51,771** | 3,260 |
| **Cash and cash equivalents at the beginning of the period** | **522,251** | 17,311 |
| **Effect of foreign exchange rate changes** | **134** | (275) |
| **Cash and cash equivalents at the end of the period** | **574,156** | 20,296 |
| **Analysis of the balances of cash and cash equivalents** | | |
| Bank balances and cash | **574,156** | 20,296 |

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 1. BASIS OF PREPARATION

The condensed consolidated 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 on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") 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.

## 2. PRINCIPAL ACCOUNTING POLICIES

The Interim Financial Statements have been prepared on the historical cost basis except for the investment property and certain financial instruments, which is measured at fair value, as appropriate.

The accounting policies used in the Interim Financial Statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2009, except as described below.

In the current interim period, the Group has applied, for the first time, a number of new and revised standards, amendments and interpretations ("new or revised HKFRSs") issued by the HKICPA, which are effective for the Group's financial year beginning 1 January 2010.

**Application of new and revised HKFRSs with no impact to financial statements for current or prior periods**

The Group applies HKFRS 3 (Revised) *Business Combinations prospectively* to business combinations for which the acquisition date is on or after 1 January 2010. The requirements in HKAS 27 (Revised) *Consolidated and Separate Financial Statements* in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1 January 2010.

As there was no transaction during the current interim period in which HKFRS 3 (Revised) and HKAS 27 (Revised) are applicable, the application of HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to other HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

Results of the Group in future periods may be affected by future transactions for which HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to the other HKFRSs are applicable.

The application of the other new and revised HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

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

| | |
|---|---|
| HKFRSs (Amendments) | Improvements to HKFRSs 2010[1] |
| HKAS 24 (Revised) | Related Party Disclosures[4] |
| HKAS 32 (Amendment) | Classification of Rights Issues[2] |
| HKFRS 1 (Amendment) | Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[3] |
| HKFRS 9 | Financial Instruments[5] |
| HK (IFRIC) – Int 14 (Amendment) | Prepayments of a Minimum Funding Requirement[4] |
| HK (IFRIC) – Int 19 | Extinguishing Financial Liabilities with Equity Instruments[3] |

1 *Effective for annual periods beginning on or after 1 July 2010 and 1 January 2010, as appropriate*
2 *Effective for annual periods beginning on or after 1 February 2010*
3 *Effective for annual periods beginning on or after 1 July 2010*
4 *Effective for annual periods beginning on or after 1 January 2011*
5 *Effective for annual periods beginning on or after 1 January 2013*

HKFRS 9 *Financial Instruments* introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

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

## 3. REVENUE/SEGMENT INFORMATION

Revenue represents the sales value of goods supplied to customer, after deducting sales related taxes and sales returns, from our design, manufacturing and sales of home, garden and plastic decorative products business.

HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker for the purpose of allocating resources to segments and assessing their performance.

The chief operating decision maker, the Company's Chief Executive Officer and Chief Financial Officer, reviewed the monthly consolidated financial statements prepared in accordance with HKFRSs for the purpose of allocating resources and assessment of the Group's performance. Accordingly, the Company considered that there is only one operating segment with the segment revenue and segment results equal the revenue and loss for the period as reported in the interim financial information.

## 4. OTHER INCOME

| | Six months ended 30 June | |
|---|---|---|
| | **2010** | 2009 |
| | **(unaudited)** | (unaudited) |
| | **HK$'000** | HK$'000 |
| | | (restated) |
| Bank interest income | **251** | 10 |
| Interest income on loan receivable | **1,787** | – |
| Compensation income from demolition work | **–** | 4,385 |
| Reversal of over provision of commission fee payable to suppliers | **–** | 5,397 |
| Others | **590** | 129 |
| | **2,628** | 9,921 |

## 5. OTHER EXPENSE/OTHER GAINS AND LOSSES

Other expense represents the total equity-settled share option expenses for share options granted to various consultants under the share option scheme of the Company adopted on 18 March 2010 during the six months ended 30 June 2010, details as set out in Note 17.

HK$46,958,000 is recognised for share options granted to individual consultants, which include senior management of substantial non-controlling shareholders of the Company, for provision of consultancy services with respect to property business in the PRC of the Group. The amount represents the fair values of share options granted at the grant date as the fair value of the service received cannot be reliably measured.

| | Six months ended 30 June | |
|---|---|---|
| | **2010** | 2009 |
| | **(unaudited)** | (unaudited) |
| | **HK$'000** | HK$'000 |
| | | (restated) |
| Other gains and losses include: | | |
| Gain (loss) on disposal of property, plant and equipment and prepaid lease payments | **5,006** | (343) |
| Reversal of allowance for inventories | **–** | 370 |
| Reversal of impairment on doubtful receivables | **648** | 152 |
| Others | **(111)** | (738) |
| | **5,543** | (559) |

## 6. FINANCE COSTS

| | Six months ended 30 June | |
|---|---|---|
| | **2010** | 2009 |
| | **(unaudited)** | (unaudited) |
| | **HK$'000** | HK$'000 |
| Interests on bank loans wholly repayable: | | |
| Within five years | **264** | 2,240 |
| Over five years | **–** | 127 |
| | **264** | 2,367 |

## 7. TAXATION

| | Six months ended 30 June | |
|---|---|---|
| | **2010** | 2009 |
| | **(unaudited)** | (unaudited) |
| | **HK$'000** | HK$'000 |
| The tax charge comprises: | | |
| Current tax – PRC | **190** | 72 |
| Under provision in prior periods – overseas | **71** | 42 |
| | **261** | 114 |

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both periods. No provision for Hong Kong profits tax has been made as the group entities did not generate any assessable profits arising in Hong Kong during both periods.

PRC Enterprise Income Tax of the Group mainly comprises income tax of the subsidiaries of the Company which are recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used for the six months ended 30 June 2010 is 25% (six months ended 30 June 2009: 25%).

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

## 8. LOSS FOR THE PERIOD

| | Six months ended 30 June | |
|---|---|---|
| | **2010** | 2009 |
| | **(unaudited)** | (unaudited) |
| | **HK$'000** | HK$'000 |
| Loss for the period has been arrived at after charging: | | |
| Depreciation and amortisation: | | |
| – property, plant and equipment | **1,626** | 7,065 |
| – intangible assets | **–** | 115 |
| Release of prepaid lease payments | **26** | 662 |

*Note:* Administrative expenses include equity-settled share option expenses of HK$39,575,000 (six months ended 30 June 2009: Nil) for share options granted to various employees and directors under the share option scheme of the Company adopted on 18 March 2010 during the six months ended 30 June 2010, details as set out in Note 17.

HK$27,196,000 and HK$12,379,000 are recognised for share options granted to employees and directors respectively. The amounts, representing the fair values of share options granted at the respective grant dates, are recognised as expenses at the date of grant as the share options vested immediately.

## 9. DIVIDEND

The board of directors of the Company do not recommend the payment of any dividend for the six months ended 30 June 2010 (six months ended 30 June 2009: Nil).

## 10. LOSS PER SHARE

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

| | Six months ended 30 June | |
|---|---|---|
| | **2010** | 2009 |
| | **(unaudited)** | (unaudited) |
| | **HK$'000** | HK$'000 |
| **Loss** | | |
| Loss for the purposes of basic and diluted loss per share (Loss for the period attributable to owners of the Company) | **(93,030)** | (22,266) |
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purpose of basic loss per share | **3,339,196,000** | 999,196,000 |
| Effect of dilutive potential ordinary shares – share options and warrants | **–** | |
| Weighted average number of ordinary shares for the purpose of diluted loss per share | **3,339,196,000** | |

The calculation of diluted loss per share for the six months ended 30 June 2010 does not assume the exercise of share options and warrants as it would be anti-dilutive.

No diluted loss per share is presented for the six months ended 30 June 2009 as the Group has no dilutive potential ordinary shares as at 30 June 2009.

## 11. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT, PREPAID LEASE PAYMENTS AND INVESTMENT PROPERTY

During the period, the Group disposed of prepaid lease payments, buildings and certain plant and machinery with a carrying amount of approximately HK$10,476,000 for cash proceeds of HK$15,482,000, resulting in a profit on disposal of approximately HK$5,006,000.

The Group's investment property was valued by the directors of the Company with reference to market evidence of transaction prices for similar properties in the same locations and condition at 31 December 2009. The directors of the Company do not consider there was change in fair value of investment property during the six months ended 30 June 2010.

## 12. DEPOSIT PAID FOR ACQUISITION OF ASSETS

On 27 January 2010, the Company entered into a conditional agreement with Beijing Holdings Limited ("BHL"), a substantial non-controlling shareholder of the Company, to acquire 60% interests in a properties under development for sale in the PRC at a total consideration of RMB92,250,000 (equivalent to HK$104,814,000), of which RMB60,750,000 (equivalent to approximately HK$69,024,000) will be settled by issue and allotment of 83,362,500 new shares of the Company and RMB31,500,000 (equivalent to approximately HK$35,790,000) will be settled by cash payment (the "Acquisition").

The balance as at 30 June 2010 represents the cash portion of the consideration paid to BHL and the related cost incurred for the Acquisition during the period. The Acquisition was subsequently completed in July 2010 as set out in Note 20 (a).

## 13. TRADE AND OTHER RECEIVABLES

| | At 30 June 2010 (unaudited) HK$'000 | At 31 December 2009 (audited) HK$'000 |
|---|---|---|
| Trade and bills receivables | **20,392** | 24,268 |
| *Less:* impairment | **(452)** | (644) |
| | **19,940** | 23,624 |
| Deposits | **1,160** | 1,089 |
| Prepayment to suppliers | **1,278** | 406 |
| Other prepayments | **831** | 1,329 |
| PRC value added tax recoverable | **2,102** | 1,509 |
| Other receivables | **5,181** | 4,847 |
| | **30,492** | 32,804 |

The Group allows a credit period of 14 to 60 days to its trade customers, except for certain customers with credit period more than 60 days. The aged analysis of trade and bills receivables, net of impairment, presented on due date basis at the end of the reporting period is as follows:

| | At 30 June 2010 (unaudited) HK$'000 | At 31 December 2009 (audited) HK$'000 |
|---|---|---|
| Within credit period | **19,058** | 23,412 |
| Overdue within: | | |
| – one month | **18** | 95 |
| – 1 to 3 months | **–** | 52 |
| – 3 to 6 months | **–** | 65 |
| – 6 to 9 months | **787** | – |
| – over 9 months | **77** | – |
| | **19,940** | 23,624 |

## 14. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

In April 2010, a subsidiary of the Company entered into an agreement with a PRC bank for investments in an investment fund with initial investment of approximately HK$5,715,000 (equivalent to RMB5,000,000).

The fair values of financial assets at fair value through profit or loss are measured using quoted market value as at 30 June 2010, as provided by the bank. No gain or loss is recognized in profit or loss during current period as the quoted market value is approximate to the initial investment as at 30 June 2010.

## 15. TRADE AND OTHER PAYABLES

| | **At 30 June 2010 (unaudited) HK$'000** | At 31 December 2009 (audited) HK$'000 |
|---|---|---|
| Trade and bills payables aged based in invoice date: | | |
| Within 1 month | **24,729** | 25,987 |
| 1 – 2 months | **933** | 1,233 |
| 2 – 3 months | **242** | 111 |
| More than 3 months | **1,050** | 1,592 |
| | **26,954** | 28,923 |
| Other accrued charges | **24,686** | 22,142 |
| | **51,640** | 51,065 |

The credit period on purchases of goods is 30 to 60 days.

## 16. SHARE CAPITAL

| | Number of shares | Amount |
|---|---|---|
| | | HK$'000 |
| Share of HK$0.10 each | | |
| *Authorised:* | | |
| At beginning and end of the period | 5,000,000,000 | 500,000 |
| *Issued and fully paid:* | | |
| At 1 January 2010 | 3,239,196,000 | 323,920 |
| Issue of shares on exercise of warrants | 200,000,000 | 20,000 |
| At 30 June 2010 | 3,439,196,000 | 343,920 |

On 9 April 2010, the unlisted warrants holders exercised their rights to subscribe for 200,000,000 ordinary shares in the Company at the subscription price of HK$0.5 per share, resulting in the issue of 200,000,000 shares of HK$0.1 each for a total cash consideration of HK$100,000,000.

## 17. SHARE OPTION SCHEME

On 18 March 2010, the Company has adopted new share option scheme to replace the old share option scheme adopted on 18 June 2002. Details of the Company's share option scheme are set out under heading "Share option schemes" in the section of "Discloseable Information" on pages 31 to 32.

The following tables disclose details of the Company's share options held by the employees, directors and consultants and movements in such holdings under the share option scheme during the period:

| | Date of grant | Exercise period | Exercise price | Number of options<br>Outstanding at 1 January 2010 | Granted during the period | Exercise during the period | Outstanding at 30 June 2010 |
|---|---|---|---|---|---|---|---|
| Directors | 8.4.2010 | 8.4.2010 – 7.4.2020 | 0.820 | – | 18,000,000 | – | 18,000,000 |
| | 27.4.2010 | 27.4.2010 – 26.4.2020 | 0.808 | – | 6,000,000 | – | 6,000,000 |
| | 11.5.2010 | 11.5.2010 – 10.5.2020 | 0.820 | – | 5,000,000 | – | 5,000,000 |
| Employees | 8.4.2010 | 8.4.2010 – 7.4.2020 | 0.820 | – | 58,500,000 | – | 58,500,000 |
| | 11.5.2010 | 11.5.2010 – 10.5.2020 | 0.820 | – | 5,200,000 | – | 5,200,000 |
| | 17.6.2010 | 17.6.2010 – 16.6.2020 | 0.820 | – | 1,400,000 | – | 1,400,000 |
| Consultants | 8.4.2010 | 8.4.2010 – 7.4.2020 | 0.820 | – | 208,600,000 | – | 208,600,000 |
| | 11.5.2010 | 11.5.2010 – 10.5.2020 | 0.820 | – | 2,000,000 | – | 2,000,000 |
| | 17.6.2010 | 17.6.2010 – 16.6.2020 | 0.820 | – | 1,000,000 | – | 1,000,000 |
| | | | | – | 305,700,000 | – | 305,700,000 |
| Exercisable at the end of the period | | | | | | | 305,700,000 |

At 30 June 2010, the number of shares in respect of which options had been granted and remained outstanding under the share option scheme was 305,700,000 (30 June 2009: Nil) representing 9% (30 June 2009: Nil) of the shares of the Company in issue as at that date.

In the current period, share options were granted on 8 April, 2010, 27 April, 2010, 11 May, 2010 and 17 June, 2010. The cost of equity-settled transactions is measured by reference to the fair value at the date at which they are granted. The fair values of the options, all vested immediately on the date of grant, are determined at the dates of grant using binomial model ranges from HK$0.1964 to HK$0.4414.

The following assumptions were used to calculate the fair values of share options:

| | **8 April 2010** | **27 April 2010** | **11 May 2010** | **17 June 2010** |
|---|---|---|---|---|
| Share price immediately before the grant date | 0.880 | 0.820 | 0.740 | 0.650 |
| Grant date share price | 0.820 | 0.800 | 0.730 | 0.660 |
| Exercise price | 0.820 | 0.808 | 0.820 | 0.820 |
| Option life | 10 years | 10 years | 10 years | 10 years |
| Expected volatility | 48.156% | 47.838% | 47.852% | 47.890% |
| Dividend yield | 0% | 0% | 0% | 0% |
| Risk-free interest rate | 2.824% | 2.919% | 2.735% | 2.435% |

The fair values of the options have been arrived at on the basis of a valuation carried out on the grant date by Greater China Appraisal Limited, independent qualified professional valuers not connected with the Group and have appropriate qualifications, using binomial model. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. Changes in variables and assumptions may result in changes in the fair value of the options.

The Group recognised the total expense of HK$86,533,000 (six months ended 30 June 2009: Nil) for the six months ended 30 June 2010 in relation to share options granted by the Company.

## 18. CAPITAL COMMITMENTS

| | **At 30 June 2010 (unaudited) HK$'000** | At 31 December 2009 (audited) HK$'000 |
|---|---|---|
| Capital expenditure in respect of acquisition of property, plant and equipment contracted but not provided for | – | 499 |

## 19. RELATED PARTY TRANSACTIONS

**(a) Transactions with related parties**

Apart from the transaction as stated in Note 12, during the six months ended 30 June 2010, the Group entered into an operating lease agreement with BHL to lease office premises in Beijing. Rental expense amounting to approximately HK$444,000 (six months ended 30 June 2009: nil) was charged to profit or loss during the six months ended 30 June 2010.

**(b) Compensation of key management personnel of the Group:**

| | Six months ended 30 June | |
|---|---|---|
| | **2010** | 2009 |
| | **(unaudited)** | (unaudited) |
| | **HK$'000** | HK$'000 |
| Short term employee benefits | **911** | 3,299 |
| Equity-settled share option expenses | **12,379** | – |
| Total compensation paid to key management personnel | **13,290** | 3,299 |

## 20. EVENTS AFTER THE END OF THE INTERIM PERIOD

(a) Subsequent to 30 June 2010, the Group completed the Acquisition (as stated in note 12) and the consideration was fully settled.

(b) On 25 June 2010, (i) the Company and Beijing Enterprises Group (BVI) Company Limited (the "Subscriber"), a connected person, entered into a conditional subscription agreement in connection with the issue by the Company of the convertible bonds to the Subscriber with an aggregate principal amount of HK$1,500,000,000, on the terms and conditions set out in the subscription agreement (please refer to the circular issued by the Company on 16 August 2010 for details); and (ii) the Company and a placing agent entered into a conditional placing agreement pursuant to which the Company has appointed the placing agent as its exclusive agent for the purpose of the placing and the placing agent has conditionally agreed, on a best effort basis, to procure not fewer than six placees, who are independent third parties to the Group, to subscribe in cash for the convertible bonds with an aggregate principal amount of HK$500,000,000 at the same terms and conditions of the convertible bonds subscribed by the Subscriber.

The Subscriber is a wholly-owned subsidiary of Beijing Enterprises Group Company Limited, the ultimate substantial non-controlling shareholder of the Company. The transaction with the Subscriber constitutes a connected transaction under the Listing Rules and is approved by the independent shareholders in a special general meeting held on 2 September 2010.

## 21. COMPARATIVE INFORMATION

As set out in the Group's annual financial statements for the year ended 31 December 2009, the Group had changed its intention to hold certain properties for rental purpose at the end of 2008 and entered into a rental agreement with an independent third party, however, no reclassification of the properties and land portion from property, plant and equipment and prepaid lease payments was made in 2008. Accordingly, adjustment had been made to reclassify the buildings and prepaid lease payments as investment properties as at the end of 2008 and to recognise the difference between the carrying amount and the fair value of that item at the date of transfer amounting to HK$17,573,000 in asset revaluation reserve.

In addition, to conform with the presentation in the Group's annual financial statements for the year ended 31 December 2009, certain items in condensed consolidated statement of comprehensive income for the six months ended 30 June 2009 has been reclassified.

Details of the restatement are provided as follows:

| | Amount original stated HK$'000 | Restatement/ Reclassification HK$'000 | Amount as restated HK$'000 |
|---|---|---|---|
| **Items on condensed consolidated statement of comprehensive income for the six months ended 30 June 2009** | | | |
| Other income/other income and gains, net | 10,443 | (522) | 9,921 |
| Administrative expenses | (26,994) | 343 | (26,651) |
| Other gains and losses | – | (559) | (559) |
| Other operating expenses | (738) | 738 | – |
| **Items on condensed consolidated statement of changes in equity as at 1 January 2009** | | | |
| Assets revaluation reserve | 17,997 | 17,573 | 35,570 |

# DISCLOSEABLE INFORMATION

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 June 2010, the interests and short position of the directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (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:

**Long position in the ordinary shares of the Company:**

| Name of director | Nature of interest | Number of Shares held | Percentage of the Company's issued share capital (%) |
|---|---|---|---|
| Mr. Lin Chun Kuei | Beneficial Owner | 63,051,200 | 1.83 |

**Long position in underlying shares of the Company**

The interests of the directors and chief executive in the share options of the Company are separately disclosed in the section "Share option schemes" below.

Save as disclosed above, as at 30 June 2010, none of the directors or chief executive had registered an interest or a short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## SHARE OPTION SCHEMES

On 18 March 2010, the Company has adopted new share option scheme (the "Scheme") to replace the old share option scheme adopted on 18 June 2002 and, unless otherwise cancelled or amended, the Scheme will remain in force for 10 years from that date. The purpose of the Scheme is to attract and retain the best quality personnel of the Group for the development of the Group's business; to provide additional incentives to employees, officers and directors, contractors, suppliers, advisors and consultants who have contribution to the Group; and to promote the long term financial success of the Company by aligning the interests of option holders to shareholders of the Company. The directors of the Company may, at their discretion, invite employees (including executive directors) and non-executive directors of the Company and any of its subsidiaries, to take up options to subscribe for ordinary shares of the Company at HK$1 per grant of options.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 30% of the total number of ordinary shares of the Company in issue at any time. The total number of ordinary shares of the Company issued and to be issued upon exercise of options (whether exercised or outstanding) in any 12-month period granted to any one person must not exceed 1% of the total number of ordinary shares of the Company in issue.

An option granted under the Scheme is personal to the grantee and shall not be assignable or transferable.

The period during which an option granted under the Scheme may be exercised will be determined by the directors at their discretion, save that no option may be exercised later than 10 years after the grant date. No option may be granted more than 10 years after the date of approval of the Scheme.

The exercise price of the share options is determinable by the Board, but may not be less than the highest of (i) the closing price of the Company's ordinary shares on the Stock Exchange on the date of grant, which must be a trading day; (ii) the average closing price of the Company's ordinary shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the option; and (iii) the nominal value of an ordinary share of the Company.

The following set out the movements in the share options granted under the Scheme during the period ended 30 June 2010:

| | Number of share options | | | |
|---|---|---|---|---|
| **Name or category of participant** | **At 1 January 2010** | **Granted during the period** | **Exercise during the period** | **At 30 June 2010** |
| **Directors:** | | | | |
| Mr. Lei Zhangang | – | 7,000,000 | – | 7,000,000 |
| Mr. Qian Xu | – | 6,000,000 | – | 6,000,000 |
| Mr. Siu Kin Wai | – | 5,000,000 | – | 5,000,000 |
| Mr. Lin Chun Kuei | – | 5,000,000 | – | 5,000,000 |
| Mr. Goh Gen Cheung | – | 2,000,000 | – | 5,000,000 |
| Mr. Ma Chiu Cheung, Andrew | – | 2,000,000 | – | 2,000,000 |
| Mr. Ng Tang Fai, Ernesto | – | 2,000,000 | – | 2,000,000 |
| | – | 29,000,000 | – | 29,000,000 |
| Other employees and consultants: in aggregate | – | 276,700,000 | – | 276,700,000 |
| | – | 305,700,000 | – | 305,700,000 |

## DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the paragraphs "Directors' and chief executive's interests in shares and underlying shares" and "Share option schemes", at no time during the six months ended 30 June 2010 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 30 June 2010, the following interests and short positions of 5% or more of the issued share capital and warrants of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

**Long positions in Shares and Underlying Shares:**

| Name | *Notes* | Number of Shares and Underlying Shares held, capacity and nature of interest: directly beneficially owned | through a controlled corporation | Total | Percentage of the Company's issued share capital |
|---|---|---|---|---|---|
| Brilliant Bright Holdings Limited | *(a)* | 1,350,000,000 | – | 1,350,000,000 | 39.25 |
| Beijing Holdings Limited | *(a)* | – | 1,350,000,000 | 1,350,000,000 | 39.25 |
| Beijing Enterprises Group Company Limited | *(a)* | – | 1,350,000,000 | 1,350,000,000 | 39.25 |
| Thular Limited | *(b)* | 400,000,000 | – | 400,000,000 | 11.63 |
| Kerry Holdings Limited | *(b)* | – | 400,000,000 | 400,000,000 | 11.63 |
| Kerry Group Limited | *(b)* | – | 400,000,000 | 400,000,000 | 11.63 |

*Notes:*

(a) Brilliant Bright Holdings Limited is the beneficial owner of 1,350,000,000 shares of the Company and is the wholly owned subsidiary of Beijing Holdings Limited. Beijing Holdings Limited is in turn wholly owned by Beijing Enterprise Group Company Limited. Beijing Holdings Limited and Beijing Enterprise Group Company Limited are also deemed to be interested in the said shares and underlying shares.

(b) Thular Limited is the beneficial owner of 400,000,000 shares of the Company and is the wholly owned subsidiary of Kerry Holdings Limited. Kenny Holdings Limited is in turn wholly owned by Kerry Group Limited. Kerry Holdings Limited and Kerry Group Limited are also deemed to be interested in the said shares and underlying shares.

Save as disclosed above, as at 30 June 2010, no person, other than the directors of the Company, whose interests are set out in the section "Directors' and chief executive's interests in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

## SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the six months ended 30 June 2010.

# CORPORATE GOVERNANCE REPORT

The Company is committed to ensuring high standard of corporate governance and transparency as the directors believe it would increase efficiencies in the overall operations of the Group such that the Group could become more competitive in markets, enhancing shareholders' value in consequence. During the six months ended 30 June 2010, the Group has adopted various corporate governance practices to ensure an effective internal control system and the proper delegation of authority.

## COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

During the six months ended 30 June 2010, in the opinion of the Board, the Company had complied with all code provisions set out in the Code on Corporate Governance Practices ("CG Code") as set out in Appendix 14 of the Listing Rules, except that, with respect to Code A.4.1, the non-executive directors (all are independent non-executive directors) of the Company have not been appointed for a specific term before 1 May 2010.

Code provision A.4.1 of CG Code stipulates that non-executive directors should be appointed for a specific term, subject to re-election. Before 1 May 2010, two of the three independent non-executive directors of the Company have not been appointed for a specific term but all of them are subject to retirement by rotation and re-election at annual general meeting in accordance with the Bye-laws of the Company. Effective from 1 May 2010, following the service agreements signed between the Company and all independent non-executive directors, all of them have been appointed for a specific term and this code A.4.1 was then complied.

## COMPLIANCE WITH THE MODEL CODE FOR DIRECTORS' SHARE DEALING

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as the code of conduct in respect of securities transactions of the directors. Having made specific enquiry of all directors, the Company has confirmed that all directors have complied with the required standards set out in the Model Code and its code of conduct regarding director's securities transaction during the period.

## AUDIT COMMITTEE

The Audit Committee of the Company was established in accordance with the requirements of the CG Code as set out in Appendix 14 of the Listing Rules. It comprises three independent non-executive directors of the Company to review on matters regarding internal controls and financial reporting of the Group, including review of the unaudited interim results for the six months ended 30 June 2010 and considers that appropriate accounting policies have been adopted in the preparation of relevant results and sufficient disclosures have been made.

In addition, the independent auditor of the Company, Deloitte Touche Tohmatsu, have reviewed the unaudited interim results for the six months ended 30 June 2010 in accordance with Hong Kong Standard on Review Engagements 2410 *"Review of Interim Financial Information Performed by the Independent Auditor of the Entity"* issued by the HKICPA.

## REMUNERATION COMMITTEE

The remuneration committee was established in 2005, which is responsible for formulating and making recommendation to the Board on the Group's policy and structure for all the remunerations of the directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration.

During the six months ended 30 June 2010, the majority of the remuneration committee members are Independent Non-Executive Directors. Members of the remuneration committee are Mr. Goh Gen Cheung (Chairman), Mr. Ma Chiu Cheung, Andrew, Mr. Ng Tang Fai, Ernesto, Mr. Lin Chun Kuei and Mr. Qian Xu.