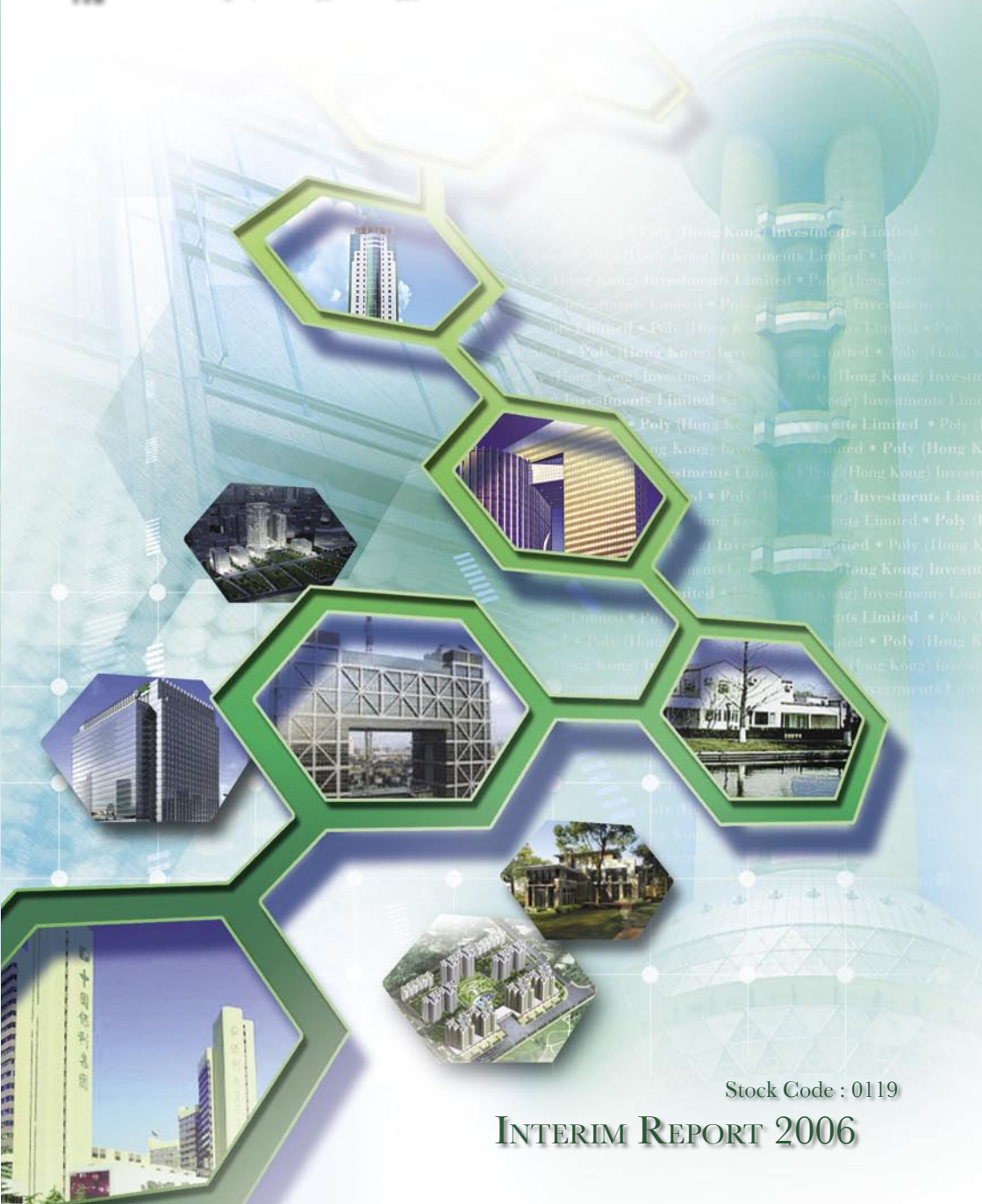




保利(香港)投資有限公司  
Poly (Hong Kong) Investments Limited



Stock Code : 0119

INTERIM REPORT 2006

## INTERIM RESULTS

The directors (the "Directors") of Poly (Hong Kong) Investments Limited (the "Company") hereby announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30th June, 2006 with comparative figures for the six months ended 30th June, 2005 as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 30th June,	
	Notes	2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)
<b>Continuing operations</b>			
Turnover	3	366,122	331,935
Cost of sales		<u>(217,192)</u>	<u>(203,709)</u>
Gross profit		148,930	128,226
Other income		18,541	20,426
Administrative expenses		(98,741)	(108,860)
Amortisation of deferred licencing income		7,692	7,477
Decrease in fair value of investments held-for-trading		(6,566)	–
Unrealised holding loss on investments held for trading		–	40
Surplus arising on revaluation of investment properties		–	10,000
Finance costs		(34,959)	(23,086)
Gain on disposal of a subsidiary		–	2,853
Share of results of associates		(598)	382
Profit before taxation	4	34,299	37,458
Taxation	5	(6,377)	(7,477)
Profit for the period from continuing operations		<u>27,922</u>	<u>29,981</u>
<b>Discontinued operation</b>			
Profit for the period from discontinued operation		–	76,155
Profit for the period		<u>27,922</u>	<u>106,136</u>
Attributable to:			
Equity holders of the parent		16,296	103,587
Minority interests		11,626	2,549
		<u>27,922</u>	<u>106,136</u>
Dividend	6	<u>26,908</u>	<u>26,872</u>
<b>Earnings per share</b>			
From continuing and discontinued operations:			
– Basic		<u>1.8 cents</u>	<u>11.6 cents</u>
– Diluted		<u>1.8 cents</u>	<u>11.4 cents</u>
From continuing operations:			
– Basic		<u>1.8 cents</u>	<u>3.3 cents</u>
– Diluted		<u>1.8 cents</u>	<u>3.3 cents</u>

## CONDENSED CONSOLIDATED BALANCE SHEET

		<b>30th June, 2006</b>	31st December, 2005
	<i>Notes</i>	<b>HK\$'000</b>	HK\$'000
		<b>(Unaudited)</b>	(Audited)
<b>Non-Current Assets</b>			
Investment properties	9	<b>1,356,451</b>	1,357,774
Property, plant and equipment	9	<b>2,213,336</b>	1,981,041
Prepaid lease payments – non-current portion		<b>946,972</b>	976,010
Other intangible asset		<b>65,012</b>	65,012
Interests in associates		<b>168,908</b>	244,297
Deposits paid on acquisition of subsidiaries and associates		<b>425,203</b>	133,658
		<b>5,175,882</b>	4,757,792
<b>Current Assets</b>			
Inventories		<b>27,454</b>	43,390
Trade and other receivables	10	<b>146,851</b>	147,464
Prepaid lease payments – current portion		<b>24,250</b>	24,525
Short-term loan receivables		<b>260,151</b>	262,791
Available-for-sale investments		<b>1,116</b>	1,144
Investments held-for-trading		<b>48,841</b>	64,169
Pledged bank deposits		<b>44,807</b>	21,749
Bank balances, deposits and cash		<b>161,044</b>	274,406
		<b>714,514</b>	839,638
Assets classified as held for sale		<b>74,791</b>	–
		<b>789,305</b>	839,638
<b>Current Liabilities</b>			
Trade and other payables	11	<b>510,860</b>	374,460
Property rental deposits		<b>4,984</b>	4,840
Amounts due to minority shareholders of subsidiaries		<b>66,257</b>	66,955
Taxation		<b>6,842</b>	5,762
Bank borrowings – due within one year	12	<b>655,077</b>	624,317
		<b>1,244,020</b>	1,076,334
Liabilities associated with assets classified as held for sale		<b>40,485</b>	–
		<b>1,284,505</b>	1,076,334
<b>Net Current Liabilities</b>			
		<b>(495,200)</b>	(236,696)
		<b>4,680,682</b>	4,521,096

		<b>30th June, 2006</b>	31st December, 2005
	<i>Notes</i>	<b>HK\$'000</b> <b>(Unaudited)</b>	<i>HK\$'000</i> <i>(Audited)</i>
<b>Capital and Reserves</b>			
Share capital	13	<b>448,465</b>	447,295
Reserves		<b>2,326,343</b>	2,329,202
Equity attributable to equity holders of the parent		<b>2,774,808</b>	2,776,497
Minority interests		<b>802,436</b>	688,258
Total Equity		<b>3,577,244</b>	3,464,755
<b>Non-Current Liabilities</b>			
Bank borrowings – due after one year	12	<b>781,654</b>	575,275
Other borrowings		–	30,290
Loan from a fellow subsidiary		<b>118,560</b>	80,518
Loans from minority shareholders of subsidiaries		–	159,341
Deferred licencing income		<b>23,077</b>	30,770
Deferred tax liabilities		<b>180,147</b>	180,147
		<b>1,103,438</b>	1,056,341
		<b>4,680,682</b>	4,521,096

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

For the six months ended 30th June, 2005

	Attributable to equity holders of the parent												
	Share capital HK\$'000	Share premium HK\$'000	Share option reserve HK\$'000	Hotel properties revaluation reserve HK\$'000	Revaluation reserve HK\$'000	Exchange translation reserve HK\$'000	Capital redemption reserve HK\$'000	PRC statutory reserves HK\$'000	Other capital reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total HK\$'000
At 1st January, 2005													
- As restated	447,699	1,571,672	-	-	71,528	(585)	23,338	6,154	164,137	317,425	2,601,368	221,505	2,822,873
Exchange differences arising on translation of foreign operations	-	-	-	-	-	2,303	-	-	-	-	2,303	2,202	4,505
Net income recognised directly in equity	-	-	-	-	-	2,303	-	-	-	-	2,303	2,202	4,505
Profits for the period	-	-	-	-	-	-	-	-	-	103,587	103,587	2,549	106,136
Total recognised income and expenses for the period	-	-	-	-	-	2,303	-	-	-	103,587	105,890	4,751	110,641
Exercise of share options	175	-	-	-	-	-	-	-	-	-	175	-	175
Premium arising on issue of share	-	84	-	-	-	-	-	-	-	-	84	-	84
Share issue expenses	-	(9)	-	-	-	-	-	-	-	-	(9)	-	(9)
Transfer	-	-	-	-	-	-	-	457	-	(457)	-	-	-
Deem contribution on acquisition of subsidiaries	-	-	-	-	-	-	-	-	49,342	-	49,342	-	49,342
Dividend paid	-	-	-	-	-	-	-	-	-	(26,872)	(26,872)	-	(26,872)
Dividend paid to minority shareholders of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	(7,724)	(7,724)
Acquired on acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	130,651	130,651
Effect of adoption of new accounting policies during the period	-	-	-	-	-	-	-	-	-	-	-	63,515	63,515
<b>At 30th June, 2005</b>	<b>447,874</b>	<b>1,571,747</b>	<b>-</b>	<b>-</b>	<b>71,528</b>	<b>1,718</b>	<b>23,338</b>	<b>6,611</b>	<b>213,479</b>	<b>393,683</b>	<b>2,729,978</b>	<b>412,698</b>	<b>3,142,676</b>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY***For the six months ended 30th June, 2006*

	Attributable to equity holders of the parent											Minority interest HK\$'000	Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Share option reserve HK\$'000	Hotel properties revaluation reserve HK\$'000	Revaluation reserve HK\$'000	Translation reserve HK\$'000	Capital redemption reserve HK\$'000	PRC statutory reserve HK\$'000	Other capital reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000		
At 1st January, 2006	447,295	1,571,740	7,757	46,531	-	29,024	23,917	6,632	279,783	363,818	2,776,497	688,258	3,464,755
Exchange differences arising on translation of foreign operations	-	-	-	-	-	3,961	-	-	-	-	3,961	3,806	7,767
Surplus arising on revaluation	-	-	-	2,256	-	-	-	-	-	-	2,256	461	2,717
Net income recognised directly in equity	-	-	-	2,256	-	3,961	-	-	-	-	6,217	4,267	10,484
Profit for the period	-	-	-	-	-	-	-	-	-	16,296	16,296	11,626	27,922
Total recognised income & expense for the period	-	-	-	2,256	-	3,961	-	-	-	16,296	22,513	15,893	38,406
Exercise of share options	1,170	-	-	-	-	-	-	-	-	-	1,170	-	1,170
Premium arising on issue of shares	-	1,738	-	-	-	-	-	-	-	-	1,738	-	1,738
Share issue expenses	-	(202)	-	-	-	-	-	-	-	-	(202)	-	(202)
Release of share option reserve upon exercise of share options	-	195	(195)	-	-	-	-	-	-	-	0	-	0
Transfer	-	-	-	-	-	-	-	140	-	(140)	0	-	0
Dividend paid	-	-	-	-	-	-	-	-	-	(26,908)	(26,908)	-	(26,908)
Dividends paid to minority shareholders of subsidiaries	-	-	-	-	-	-	-	-	-	-	0	(2,518)	(2,518)
Capital contribution by minority shareholders	-	-	-	-	-	-	-	-	-	-	0	100,803	100,803
At 30th June, 2006	448,465	1,573,471	7,562	48,787	-	32,985	23,917	6,772	279,783	353,066	2,774,808	802,436	3,577,244

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT***For the six months ended 30th June, 2006*

	<b>Six months ended</b>	
	<b>30th June,</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
Net cash from operating activities	<b>244,944</b>	48,981
Net cash used in investing activities	<b>(544,776)</b>	(659,066)
Net cash from financing activities	<b>186,470</b>	503,140
Net decrease in cash and cash equivalents	<b>(113,362)</b>	(106,945)
Cash and cash equivalents at beginning of the period	<b>274,406</b>	440,249
Cash and cash equivalents at end of the period	<b>161,044</b>	333,304
Analysis of the balance of cash and cash equivalents		
Bank balances, deposits and cash	<b>161,044</b>	333,304
	<b>161,044</b>	333,304

Notes:

## 1. Basis of preparation

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard No. 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

## 2. Principal accounting policies

The condensed financial statements have been prepared under the historical cost convention, as modified for certain properties and financial instruments, which are measured at fair value or revalued amounts, as appropriate.

The accounting policies adopted are consistent with those of the consolidated financial statements for the year ended 31st December, 2005 except as described below.

In the current period, the Group has applied, for the first time, a number of new standards, amendments and interpretations issued by the HKICPA (hereinafter collectively referred to as the “new HKFRSs”) that are either effective for accounting periods beginning on or after 1st December, 2005 or 1st January, 2006. The application of the new HKFRSs has had no material effect on how the results for the current or prior accounting periods are prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standards or interpretations that have been issued but are not yet effective. The Group is still not in the position to reasonably estimate the impact that may arise from the application of these standards or interpretations.

HKAS 1 (Amendment)	Capital Disclosures <sup>1</sup>
HKFRS 7	Financial Instruments: Disclosure <sup>2</sup>
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies <sup>2</sup>
HK(IFRIC) – INT 8	Scope of HKFRS 2 <sup>3</sup>
HK(IFRIC) – INT 9	Reassessment of Embedded Derivatives <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1st January, 2007.

<sup>2</sup> Effective for annual periods beginning on or after 1st March, 2006.

<sup>3</sup> Effective for annual periods beginning on or after 1st May, 2006.

<sup>4</sup> Effective for annual periods beginning on or after 1st June, 2006.



## 3. Turnover and segments information

**Business segments**

For the six months period ended 30th June, 2006

	Continuing operations						Discontinued operations		Total HK\$'000
	Supply of electricity and gas HK\$'000	Property investment and management HK\$'000	Hotel and restaurant operations HK\$'000	Manufacturing and media HK\$'000	Financial services HK\$'000	Eliminations HK\$'000	Sub-total HK\$'000	Shipping HK\$'000	
	By principal activity								
REVENUE									
External revenue	180,388	53,045	64,370	42,876	25,443	-	366,122	-	366,122
Inter-segment revenue*	2,528	-	-	-	-	(2,528)	-	-	-
Total revenue	<u>182,916</u>	<u>53,045</u>	<u>64,370</u>	<u>42,876</u>	<u>25,443</u>	<u>(2,528)</u>	<u>366,122</u>	<u>-</u>	<u>366,122</u>
SEGMENT RESULT	<u>31,687</u>	<u>26,486</u>	<u>9,983</u>	<u>254</u>	<u>10,054</u>	<u>-</u>	<u>78,464</u>	<u>-</u>	<u>78,464</u>
Net unallocated expenses							(8,608)	-	(8,608)
Finance costs							(34,959)	-	(34,959)
Share of results of associates	3,227	-	-	(4,523)	698	-	(598)	-	(598)
Profit before taxation							34,299	-	34,299
Taxation							(6,377)	-	(6,377)
Profit for the period							<u>27,922</u>	<u>-</u>	<u>27,922</u>

\* Inter-segment revenue were charged at terms determined and agreed between group companies.

An analysis of the Group's turnover by geographical location of its customers is presented below:

	Hong Kong HK\$'000	The PRC* other than Hong Kong HK\$'000	Total HK\$'000
Revenue	<u>18,624</u>	<u>347,498</u>	<u>366,122</u>

\* The People's Republic of China (the "PRC")

For the six months period ended 30th June, 2005

	Continuing operations						Discontinued operations		Total HK\$'000
	Supply of electricity and gas	Property investment and management	Hotel and restaurant operations	Manufac- turing and media	Financial services	Eliminations	Sub-total	Shipping	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000				
By principal activity									
REVENUE									
External revenue	176,381	49,059	59,282	40,827	6,386	-	331,935	25,304	357,239
Inter-segment revenue*	3,738	120	-	-	-	(3,858)	-	-	-
Total revenue	<u>180,119</u>	<u>49,179</u>	<u>59,282</u>	<u>40,827</u>	<u>6,386</u>	<u>(3,858)</u>	<u>331,935</u>	<u>25,304</u>	<u>357,239</u>
SEGMENT RESULT	<u>23,982</u>	<u>35,972</u>	<u>3,521</u>	<u>(2,266)</u>	<u>6,331</u>		<u>67,540</u>	<u>16,308</u>	<u>83,848</u>
Net unallocated expenses							(10,231)	-	(10,231)
Finance costs							(23,086)	(46)	(23,132)
Gain on disposal of subsidiary	-	-	-	-	-	-	2,853	-	2,853
Share of results of associates	2,241	-	-	(1,229)	(630)	-	382	-	382
Profit before taxation							37,458	16,262	53,720
Taxation							(7,477)	-	(7,477)
Gain on disposal of discontinued operation, net of tax							-	59,893	59,893
Profit for the period							<u>29,981</u>	<u>76,155</u>	<u>106,136</u>

\* Inter-segment revenue were charged at terms determined and agreed between group companies.

An analysis of the Group's turnover by geographical location of its customers is presented below:

	Hong Kong HK\$'000	The PRC other than Hong Kong HK\$'000	Others HK\$'000	Total HK\$'000
Revenue	<u>3,118</u>	<u>328,817</u>	<u>25,304</u>	<u>357,239</u>

Revenue from the Group's discontinuing shipping operations of HK\$25,304,000 was derived principally from Others.

**4. Profit before taxation**

	<b>Six months ended</b>	
	<b>30th June, 2006 HK\$'000</b>	30th June, 2005 HK\$'000
Profit before taxation has been arrived at after charging:		
Amortisation of prepaid lease payments	<b>4,452</b>	3,346
Depreciation and amortisation of property, plant and equipment	<b>37,822</b>	43,514
Share of tax of associates (included in share of results of associates)	<b>516</b>	259

**5. Taxation**

	<b>Six months ended</b>	
	<b>30th June, 2006 HK\$'000</b>	30th June, 2005 HK\$'000

**Continuing operations:**

The charge comprises:

Hong Kong profits tax calculated at 17.5%

(six months period ended 30th June, 2005: 17.5%)

of the estimated assessable profits for the period

PRC income tax

-	-
<b>6,377</b>	7,477

Taxation relating to continuing operations

<b>6,377</b>	7,477
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Hong Kong profits tax has not been provided as the Group has no estimated assessable profits which were earned in or derived from Hong Kong during the period.

PRC income tax is calculated in accordance with the relevant laws and regulations in the PRC.

In the opinion of the directors, income from discontinued operation is not subject to Hong Kong Profit Tax or any other overseas tax for the last period.

## 6. Dividend

	Six months ended	
	30th June, 2006 HK\$'000	30th June, 2005 HK\$'000
2005 final dividend of HK\$0.03 (2004: HK\$0.03) per share	<b>26,908</b>	26,872

The directors have decided not to declare any interim dividend for the six months ended 30th June, 2006 (2005: HK\$0.02, totalling approximately HK\$17,908,000).

## 7. Earnings per share

### *From continuing and discontinued operations*

The calculation of basic and diluted earnings per share for the six months ended 30th June, 2006 is based on the following data:

	Six months ended	
	30th June, 2006 HK\$'000	30th June, 2005 HK\$'000

### **Earnings:**

Profit for the period attributable to equity holders  
of the parent

– Continuing operations	<b>16,296</b>	27,432
– Discontinued operations	–	76,155
	<b>16,296</b>	103,587

	Six months ended	
	30th June, 2006 Number of shares	30th June, 2005 Number of shares

### **Number of shares:**

Weighted average number of ordinary shares for  
the purposes of basic earnings per share

**895,658,233**    895,570,962

Effect of dilutive potential ordinary shares in respect  
of share options

**20,467,219**    10,003,016

Weighted average number of ordinary shares for  
the purposes of diluted earnings per share

**916,125,452**    905,573,978

**8. Transfers to and from reserves**

During the six months period ended 30th June, 2006, the Group's subsidiaries in the PRC appropriate net of minority interests' share of approximately HK\$140,000 out of accumulated profits to the PRC statutory reserves (2005: HK\$457,000).

In addition, HK\$195,000 was released from the share option reserve to the share premium upon exercise of share options during the six months period ended 30th June, 2006 (2005: Nil).

**9. Movements in investment properties and property, plant and equipment**

During the period, the Group disposed certain investment properties with a carrying value of approximately HK\$1.3 million. The Group also increased construction cost of Guangzhou Westin Hotel project of approximately HK\$260 million.

**10. Trade and other receivables**

The Group has a policy of allowing credit periods ranging from 30 days to 90 days to its trade customers. The following is an aged analysis of trade receivables at the balance sheet date:

	<b>30th June, 2006 HK\$'000 (Unaudited)</b>	31st December, 2005 HK\$'000 (Audited)
0 to 30 days	<b>38,860</b>	58,763
31 to 90 days	<b>18,132</b>	16,699
More than 90 days	<b>3,236</b>	3,469
Total trade receivables	<b>60,228</b>	78,931
Receivables on partial disposal of subsidiaries	<b>32,596</b>	33,654
Other receivables	<b>54,027</b>	34,879
	<b>146,851</b>	147,464

**11. Trade and other payables**

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

	<b>30th June, 2006</b>	31st December, 2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(Unaudited)</b>	<b>(Audited)</b>
0 to 30 days	<b>19,122</b>	24,464
31 to 90 days	<b>5,237</b>	4,037
More than 90 days	<b>25,116</b>	18,536
Total trade payables	<b>49,475</b>	47,037
Other payables	<b>461,385</b>	327,423
	<b>510,860</b>	374,460

**12. Bank Borrowings**

During the period, the Group obtained new bank loans of the amount of HK\$593 million. The loans bear interest at market rates. The Group also repaid approximately HK\$355 million during the period. The net proceeds were used to finance the acquisition of interests in subsidiaries, property plant and equipment and for working capital of the Group.

**13. Share capital**

	<b>Number of shares</b>	<b>nominal value</b>
		<i>HK\$'000</i>
Ordinary shares of HK\$0.50 each		
Authorised:		
At 1st January, 2006 and at 30th June, 2006	1,200,000,000	600,000
Issued and fully paid:		
At 1st January, 2006	894,589,200	447,295
Exercise of share options	2,340,000	1,170
At 30th June, 2006	896,929,200	448,465

**14. Contingent liabilities**

At 30th June, 2006, the Company had given guarantees to certain banks in respect of banking facilities granted to certain subsidiaries of the Company and the amount utilised was approximately HK\$179.5 million (31st December, 2005: HK\$80 million).

**15. Capital commitments**

	<b>The Group</b>	
	<b>30th June,</b>	31st December,
	<b>2006</b>	2005
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(Unaudited)</b>	<b>(Audited)</b>
Capital expenditure contracted for but not provided in the financial statements in respect of:		
– acquisition of property, plant and equipment	–	10,958
– acquisition of interests in subsidiaries	<b>456,393</b>	597,351
– acquisition of interests in associates	–	36,679
– addition of construction in progress	<b>82,342</b>	121,277
	<b>538,735</b>	766,265

## 16. Discontinued operation

During the last period, the Group disposed the last motor vessel, "Hai Kang" at a consideration of US\$25,175,000 (equivalent to HK\$196,365,000) and resulted in a gain of approximately HK\$60 million to the Group.

The disposal was completed in April 2005 and the Group's shipping operation was ceased.

The profit of shipping operation for the last period was approximately HK\$16 million and the gain on disposal of shipping operation was approximately HK\$60 million.



## INTERIM DIVIDEND

The Directors have resolved not to declare the payment of an interim dividend for the six months ended 30th June, 2006 (2005: HK\$0.02).

## MANAGEMENT DISCUSSION AND ANALYSIS

### Overall Operating Conditions

For the first half of 2006, the Group's continuing operations recorded a turnover of HK\$366,122,000 (corresponding period in 2005: HK\$331,935,000), representing an increase of 10.3% as compared with the corresponding period last year. Profit attributable to shareholders amounted to HK\$16,296,000 (corresponding period in 2005: HK\$103,587,000), representing a decrease of HK\$87,291,000 as compared with the corresponding period last year. The decrease was mainly attributable to the disposal of vessels and the related operating profit of HK\$76,155,000. There was also an increase in finance costs of HK\$11,873,000 for the year. Basic earnings per share from continuing operations was HK1.8 cents (corresponding period in 2005: HK11.6 cents), while diluted earnings per share was HK1.8 cents (corresponding period in 2005: HK11.4 cents). The board of directors did not recommend the payment of an interim dividend, but would strive to maintain the usual dividend payout ratio for the whole year to ensure the best dividend payout to shareholders when the Group's property business starts reaping.

As at 30th June, 2006, total shareholders' equity of the Group amounted to HK\$2.77 billion (31st December, 2005: HK\$2.77 billion) and net book asset value per share was HK\$3.1 (31st December, 2005: HK\$3.1). The Company has completed the rights issue of rights shares at HK\$1.35 in August, 2006. 448,464,600 shares were newly issued and the Company received approximately HK\$600 million from such rights issue.

## PRINCIPAL BUSINESSES

### I. Review of Property Investment Operations

The Group currently has four main property investment projects which are under continuing operations, namely Poly Plaza, White Rose Hotel, Shanghai Stock Exchange Building and 25/F, Admiralty Centre.

#### 1. *Poly Plaza, Beijing*

The operating income of Poly Plaza as at the end of June, 2006 reached RMB61.64 million. The average occupancy rate for the hotel portion maintained at 75%. The average room rate was RMB640 per day and the average contributions was RMB480 per room. The hotel occupancy rate of Poly Plaza was comparable with other 4-star hotels in Beijing, while the average room rate per day was RMB65 higher. In respect of the office portion, occupancy rate stood at 92%, while average daily rent was US\$0.92 per sq. m.

#### 2. *White Rose Hotel, Wuhan*

The operating income of White Rose Hotel as at the end of June, 2006 reached RMB30.77 million. The average occupancy rate for hotel suites maintained at 74%. The average room rates was RMB420 per day and the contribution was RMB310 per room. The operating results of the hotel were outstanding among other 4-star and 5-star hotels in Wuhan. White Rose Hotel ranked fifth, fourth and fifth respectively in terms of occupancy rate, contribution rate per room and average room rate.

#### 3. *Shanghai Stock Exchange Building*

As at the end of June, 2006, the overall operating performance of the building was satisfactory, with an occupancy rate of 99.5%. Daily rental rate per sq. m. reached US\$0.54 and operating income was RMB25.64 million. Taking into account the larger number of leases to be expired this year and the rising rents, the daily rental rate for new and renewed leases in the first half of the year has increased to US\$0.70-0.80 per sq. m.

#### 4. *25/F, Admiralty Centre Tower 1, Hong Kong*

The 25th floor of Admiralty Centre Tower 1 has a floor area of 20,318 sq. feet, of which 9,438 sq. feet is for self-use and 10,880 sq. feet is for rental purpose. With the overall rising trend in rental rate in Hong Kong, income from the rental elements for the first half of 2006 amounted to HK\$1.79 million, representing an increase of 37% as compared with the corresponding period last year. Occupancy rate reached 100% at the end of June.

## II. Review of Property Development Operations

In the first half of 2006, the Group had a total of 7 property projects under construction. With the exception of two projects – Westin Hotel Guangzhou and Beijing Netcom Building, the remaining 5 projects were investments originally made by Poly Realty. They were subsequently included in the Group's property portfolio upon the acquisition of Poly Realty by the Group in August this year:

### 1. *The Guangzhou Westin Hotel and the Offices Building Project*

The Group owns 51% equity interest in the entire project of the Guangzhou Westin Hotel and the offices thereof, which has a gross floor area of 129,000 sq. m. Its construction works were completed and the installation of glass walls and mechanical facilities and internal decoration works are underway. As scheduled, the office portion will be completed at the end of this year at the earliest and the hotel will commence trial operation during the Spring Trade Fair in the first quarter of 2007.

In addition, the Group entered into a letter of intent with Skyfame Realty (Holdings) Limited on 12th September, 2006 for the disposal of the Group's 51% interest in the project. It is expected that the cash consideration for the proposed disposal was approximately HK\$450 million. If no formal sale and purchase agreement is entered into before 31st December, 2006, the letter of intent will lapse and shall have no effect. The Group's accumulated investment in this project was approximately HK\$320 million.

### 2. *Beijing Netcom Building*

The Group holds 49% preference interests in the Beijing Netcom Building project. The company holding the project disposed of the entire building to China Network Communications Group Corporation in December, 2003. The construction works of the projects was making smooth progress and the foundation works were basically completed as at June, 2006. The internal decoration was close to completion and it is expected that the project can be completed and delivered to the purchaser for use this year. It is also expected that the Group can record a preference dividend of HK\$94,600,000 after the completion of the disposal by the end of 2006.

### 3. *Chongqing Poly Spring Villas*

The project has a site area of 315 acres and is located in a magnificent environment with a natural landscape and historical buildings nearby. The project, in which the Group has 51% interest, is a development of high-end villas together with clubhouses and recreational facilities. The construction of Phase I of the project is in progress and the sales preparation has commenced. It is anticipated that the project will be put to sale in the second half of the year.

4. *Shanghai Poly Square*

Poly Realty owns 90% interest in the land development right of the project by way of public auction in April, 2005. The project, which has a site area of 27,300 sq. m. and a gross floor area of approximately 100,000 sq. m., will involve the construction of a complex of offices, hotel and service apartments. The project is currently obtaining relevant construction permits and will soon commence construction.

5. *Wuhan Poly Bay View*

The residential project, in which the Group has 63% equity interests, has a site area and a gross floor area of 38,711 sq. m. and 106,962 sq. m. respectively. The foundation work has been completed and the superstructure work is underway. The project is scheduled for sale on 29 September, 2006.

6. *Suzhou Poly Elegance Garden*

In December, 2004, the Group acquired the land use right by way of public auction. The Group owns 70% interest in the project. The main structure of the project is completed and the excavation work of foundation pits for the underground garage has commenced. Currently, 75% of the construction work has been completed.

The austerity measures adopted by the PRC government have no impact on the sales of the project. Following such adoption, there was an increase of 1.4% in project sales and the average selling price is approximately RMB6,200 per sq. m. The project comprises 354 residential flats and 12 retail shops, of which 160 flats and 9 shops have been sold. Income from pre-sale amounted to RMB119,270,000.

7. *Chongqing Emerald Valley*

Chongqing Emerald Valley, which is positioned as an upmarket residential development, has a site area of 522,000 sq. m. and a gross floor area of 483,000 sq. m. The project in which the Group holds a 22% interest, is currently for sale. Pre-sale of 180 units with an aggregate area of 25,000 sq. m. have been entered into at a consideration of RMB120 million.

### III. Review of Non-property Operations

#### 1. Co-generations

The Group holds stake in 5 co-generations in Jiangsu Province. In 2006, the rising trend of coal price has slowed down and the overall operations of the co-generations showed improvements. Total operating profit for the 5 co-generations amounted to HK\$32 million in the first half of the year, representing an increase of 32% as compared with HK\$24 million over the corresponding period in 2005.

In addition, the Group entered into an agreement in October, 2005 for the acquisition of a 51% interest in a cogeneration in Jia Xing, Zhejiang Province. It is expected that the acquisition will be completed this year.

#### 2. Other manufacturing operations

Polystar digidisc project: income of Polystar for the first half of 2006 amounted to RMB46.07 million, while profit from domestic operations was RMB2.17 million.

Oils & Grains & port project: operating income for the first half of 2006 amounted to RMB8.22 million, while loss from domestic operations was RMB11.34 million. The oils & grains operation was ceased due to the unfavourable operating environment.

#### 3. Disposal of insurance business: the Group entered into an agreement on 18th May, 2006 for the disposal of the Group's 48% interest in Winterthur Insurance (Asia) Limited at a consideration of HK\$100 million. The transaction was completed in August, 2006 and the disposal profit of HK\$25 million will be recorded in the second half of 2006.

### IV. Land Reserve

In addition to the projects under development, the Group owns six parcels of land in mainland China. The land parcels, with a site area and a gross floor area of approximately 536,000 sq. m. and 1,280,000 sq. m. respectively, are located in Shanghai, Guangzhou, Wuhan and Suzhou and will be developed into residential and commercial properties.

List of the current land reserve:

Region	Project Name	The Group's attributable interest	The Group's attributable gross floor area		
			Land Area 10,000 sq. m.	Floor Area 10,000 sq. m.	10,000 sq. m.
Shanghai	Jinli Apartments residential project	50.1%	14.0	17.9	9.0
Guangzhou	North Tianhe commercial project	51%	7.2	10.2	5.2
Guangzhou	Zhoutouzui residential/ commercial project	49%	10.3	25.6	12.5
Suzhou	Poly Cultural Plaza project	51%	0.9	3.7	1.9
Wuhan	Poly Cultural Plaza project	100%	1.2	13.9	13.9
Wuhan	Hua Xiang Jia Ri project	100%	20.0	56.7	56.7
Total			53.6	128.0	99.2

## FINANCIAL REVIEW

### Liquidity and Capital Structure

As at 30th June, 2006, the shareholders' funds of the Group amounted to HK\$2,774,000,000 (31st December, 2005: HK\$2,776,000,000), while the net asset value per share was HK\$3.1 (31st December, 2005: HK\$3.1). As at 30th June, 2006, the Group's gearing ratio (on the basis of the amount of total liabilities divided by total assets) was 40% (31st December, 2005: 38.1%).

As at 30th June, 2006, the Group had outstanding bank loans of HK\$1,436,731,000. In terms of maturity, the outstanding bank loans can be divided into HK\$655,077,000 (46%) to be repaid within one year, HK\$237,346,000 (16%) to be repaid after one year but within two years, HK\$412,988,000 (29%) to be repaid after two years but within five years and HK\$131,320,000 (9%) to be repaid after five years. In terms of currency denomination, the outstanding bank loans can be divided into HK\$484,731,000 (34%) in Renminbi and HK\$952,000,000 (66%) in Hong Kong dollars.

34% of the bank borrowings of the Group are subject to fixed interest rates and the remaining 66% are subject to floating interest rates. Therefore, under circumstances of interest rates uncertainty or fluctuations or otherwise as appropriate, the Group will consider the use of hedging instruments (including interest rates swaps), in order to manage interest rate risks.

As at 30th June, 2006, the Group had net current liabilities of HK\$495,200,000 and total bank balances of HK\$205,851,000 (31st December, 2005: HK\$236,696,000 and HK\$296,155,000 respectively). Upon completion of rights issues of HK\$600 million in August, 2006 and receiving the proceeds of HK\$100 million on disposal of 48% interests in Winterthur Insurance (Asia) Limited in the same month, and together with the available banking facilities and cash revenue from business operations, it is believed that the Group has sufficient resources to meet the foreseeable working capital demands and capital expenditure.

The monetary assets and liabilities and business transactions of the Group are mainly carried and conducted in Hong Kong dollars, Renminbi and US dollars. The Group maintains a prudent strategy in its foreign exchange risk management, where foreign exchange risks are minimized via balancing the monetary assets versus monetary liabilities, and foreign exchange revenue versus foreign exchange expenditures. Besides as the Hong Kong dollar is pegged to the US dollar, and the exchange rate between Hong Kong dollar and Renminbi also fluctuates slightly, the Group believes that its exposure to foreign exchange risks is not material.

## **Pledge of Assets**

As at 30th June, 2006, bank deposits amounted to HK\$44,807,000 (31st December, 2005: HK\$21,749,000), certain of the Group's investment properties of approximately HK\$411,400,000 (31st December, 2005: approximately HK\$411,400,000), hotel properties, prepaid lease payments, other property, plant and equipment with an aggregate net book value of approximately HK\$2,401,572,000 (31st December, 2005: HK\$1,001,161,000) and shares in certain subsidiaries and an associate were pledged to secure credit facilities granted to the Group.

## **Contingent Liabilities**

As at 30th June, 2006, the Group had given guarantees to certain banks in respect of banking facilities granted to certain subsidiaries of the Company and the amount utilized was approximately HK\$179,520,000 (31st December, 2005: HK\$80,000,000).

## **STAFF**

As at 30th June, 2006, the Group employed about 2,000 staff with remuneration for the year amounted to approximately HK\$35,300,000. The Group provides its staff with various benefits including year-ended double-pay, discretionary bonus, contributory provident fund, share options and medical insurance. Staff training is also provided as and when required.

## **PROSPECTS**

Presently, the Group's property business includes investment properties with a combined gross floor area of 195,000 sq. m., property development projects with a total gross floor area of 1.07 million sq. m. under construction, and a land bank of about 1.28 million sq. m. The Group has huge potential for development.

The management of the Group is still confident in the economic development of the PRC and the prospects of the Group's PRC projects. The Group will continually adopt an active but prudent operating strategy, strengthen its corporate governance, reduce the operating costs in order to further develop its principal business of property development and operations, optimize the business structure, enhance effectiveness and with the acquisition of Poly Properties, a number of property projects will be added to the Group's portfolio and boost income to the Group as they will be developed and sold. The Group will continue to develop investment properties that can contribute stable rentals, and at the same time, develop property projects on rolling basis with an aim of maximizing the return to shareholders.

## SHARE OPTION SCHEME

The Company had adopted a share option scheme (the “Former Scheme”) pursuant to an ordinary resolution passed on 16th June, 1993. Under the Former Scheme, the Directors may, at their discretion, invite all eligible employees (i.e. employee including directors of the Company or any subsidiary as defined in the Former Scheme) to subscribe for shares of HK\$0.50 each (the “Share(s)”) in the Company (“Poly HK Options”) subject to the terms and conditions stipulated therein.

At the annual general meeting of the Company held on 28th May, 2003, ordinary resolutions were passed by the shareholders to adopt a new share option scheme (the “New Scheme”) and terminate the Former Scheme. Although no further options will be granted under the Former Scheme upon adoption of the New Scheme, the provisions of the Former Scheme shall remain in force and all options granted pursuant to the Former Scheme shall continue to be valid and exercisable in accordance with the provisions therein.

The Company considered that it is essential to its continued success that it is able to attract and motivate eligible employees of the right calibre and with the necessary experience to work for the Company. The adoption of the Former Scheme and the New Scheme will enable the Group to provide incentive to the eligible employees of the Group by offering them an opportunity to participate in the growth of the Group.



The following table discloses details of the Company's options under the Former Scheme and the New Scheme held by employees (including directors) and movement in such holdings during the period:

	Option type	Outstanding at 1.1.2006	Granted during the period	Exercised during the period	Cancelled during the period	Lapsed during the period	Outstanding at 30.6.2006
Category 1: Directors							
Wang Jun	1997	6,000,000	-	-	-	-	6,000,000
	1998	4,500,000	-	-	-	-	4,500,000
	2000	5,000,000	-	-	-	-	5,000,000
	2005	8,900,000	-	-	-	-	8,900,000
He Ping	1997	6,000,000	-	-	-	-	6,000,000
	1998	4,500,000	-	-	-	-	4,500,000
	2000	5,000,000	-	-	-	-	5,000,000
	2005	8,900,000	-	-	-	-	8,900,000
Zhang Zhen Gao	1997	3,600,000	-	-	-	-	3,600,000
	1998	2,000,000	-	-	-	-	2,000,000
Chen Hong Sheng	2005	8,000,000	-	-	-	-	8,000,000
Chan Tak Chi, William	2005	300,000	-	-	-	-	300,000
Ip Chun Chung, Robert	2005	300,000	-	-	-	-	300,000
Yao Kang, J.P.	2005	500,000	-	-	-	-	500,000
Lam Tak Shing	2005	300,000	-	-	-	-	300,000
Choy Shu Kwan	2005	300,000	-	-	-	-	300,000
		<u>64,100,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>64,100,000</u>
Category 2: Employees							
Category 2: Employees	1997	4,680,000	-	-	-	-	4,680,000
	1998	2,000,000	-	-	-	-	2,000,000
	2000	3,185,000	-	(120,000)	-	-	3,065,000
	2005	8,000,000	-	(2,220,000)	-	-	5,780,000
		<u>17,865,000</u>	<u>-</u>	<u>(2,340,000)</u>	<u>-</u>	<u>-</u>	<u>15,525,000</u>
Category 3: Others							
Category 3: Others	2000	5,000,000	-	-	-	-	5,000,000
	2005	8,000,000	-	-	-	-	8,000,000
		<u>13,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,000,000</u>
Total all categories		<u>94,965,000</u>	<u>-</u>	<u>(2,340,000)</u>	<u>-</u>	<u>-</u>	<u>92,625,000</u>

Details of specific categories of Poly HK Options are as follows:

Option type	Date of grant	Vesting period	Exercise period	Exercise price HK\$
1997	3.9.1997	3.9.1997 – 2.9.2007	3.9.1998 – 2.9.2007	5.175
1998	5.6.1998	5.6.1998 – 4.6.2008	5.6.1999 – 4.6.2008	1.370
2000	30.11.2000	30.11.2000 – 29.11.2010	30.11.2001 – 29.11.2010	0.740
2005	14.7.2005	14.7.2005 – 13.7.2015	14.7.2005 – 13.7.2015	1.270

## DIRECTORS' INTERESTS IN SECURITIES

At 30th June, 2006, according to 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 Appendix 10 Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange, the interests of the Directors in the underlying Shares of the Company were as follows:

### Long positions

#### Share options

Name of Director	Capacity	Number of the Poly HK Options held (Note 1)				Number of Shares underlying Total
		Granted on 3.9.1997 (Note 2)	Granted on 5.6.1998 (Note 3)	Granted on 30.11.2000 (Note 4)	Granted on 14.7.2005 (Note 5)	
Wang Jun	Beneficial owner	6,000,000	4,500,000	5,000,000	8,900,000	24,400,000
He Ping	Beneficial owner	6,000,000	4,500,000	5,000,000	8,900,000	24,400,000
Zhang Zhen Gao	Beneficial owner	3,600,000	2,000,000	–	–	5,600,000
Chen Hong Sheng	Beneficial owner	–	–	–	8,000,000	8,000,000
Chan Tak Chi, William	Beneficial owner	–	–	–	300,000	300,000
Ip Chun Chung, Robert	Beneficial owner	–	–	–	300,000	300,000
Yao Kang, J.P.	Beneficial owner	–	–	–	500,000	500,000
Lam Tak Shing	Beneficial owner	–	–	–	300,000	300,000
Choy Shu Kwan	Beneficial owner	–	–	–	300,000	300,000

*Notes:*

1. All Poly HK Options were granted to the Directors at a nominal consideration of HK\$1.00 each.
2. These Poly HK Options granted on 3rd September, 1997 are exercisable from 3rd September, 1998 to 2nd September, 2007 (both days inclusive) at an exercise price of HK\$5.175 per Share.
3. These Poly HK Options granted on 5th June, 1998 are exercisable from 5th June, 1999 to 4th June, 2008 (both days inclusive) at an exercise price of HK\$1.37 per Share.
4. These Poly HK Options granted on 30th November, 2000 are exercisable from 30th November, 2001 to 29th November, 2010 (both days inclusive) at an exercise price of HK\$0.74 per Share.
5. These Poly HK Options granted on 14th July, 2005 are exercisable from 14th July, 2005 to 13th July, 2015 (both days exclusive) at an exercise price of HK\$1.27 per Share.

Save as disclosed above, at 30th June, 2006, none of the Directors, chief executives or their associates had any personal, family, corporate or other interests and short positions in the securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which is required to be recorded in the register maintained under Section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code in the Listing Rules and none of the Directors, or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the period.

## SUBSTANTIAL SHAREHOLDERS

At 30th June, 2006, according to the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company:

### Long position

*Ordinary shares of HK\$0.5 each of the Company*

Name of shareholder	Beneficial owner	Number of Shares Held by controlled corporation(s)	Investment Manager	Total number of Shares	Approximate percentage of the issued share capital of the Company (Note 1)
Musical Insight Holdings Limited	44,658,800	–	–	44,658,800	3.32%
Wincall Holding Limited	55,428,000	–	–	55,428,000	4.12%
Congratulations Company Ltd.	169,845,000	–	–	169,845,000	12.62%
Source Holdings Limited	228,398,760	100,086,800 (Note 2)	–	328,485,560	24.42%
Ting Shing Holdings Limited	–	498,330,560 (Note 3)	–	498,330,560	37.04%
Ringo Trading Limited	350,590,494 (Note 4)	498,330,560 (Note 5)	–	848,921,054	63.10%
China Poly Group Corporation	–	848,921,054 (Note 6)	–	848,921,054	63.10%
Chee Ying Cheung	80,952,000	–	–	80,952,000	6.02%
Taifook Securities Company Limited	187,720,082 (Note 7)	–	–	187,720,082	13.95%
Taifook Finance Company Limited	–	187,720,082 (Note 7)	–	187,720,082	13.95%
Tai Fook (BVI) Limited	–	187,720,082 (Note 7)	–	187,720,082	13.95%
Taifook Securities Group Limited	–	187,720,082 (Note 7)	–	187,720,082	13.95%
PMA Capital Management Ltd.	–	–	70,917,000	70,917,000	5.27%

*Notes:*

1. For the purpose of this section, the approximate shareholding percentage is calculated on the basis of 1,345,393,800 Shares in issue immediately after completion of the right issue of the Company as announced on 22nd June, 2006.
2. Source Holdings Limited is deemed by the SFO to be interested in 328,485,560 Shares of the Company as a result of its direct holding of the Shares and indirect holding of the Shares through its wholly-owned subsidiaries, Musical Insight Holdings Limited and Wincall Holding Limited.
3. Ting Shing Holdings Limited is deemed by the SFO to be interested in 498,330,560 Shares as a result of its indirect holding of the Shares through its subsidiaries, Source Holdings Limited and Congratulations Company Ltd.
4. Ringo Trading Limited was beneficially interested in 44,283,476 Shares. It also undertook to take up an aggregate of 271,307,018 rights shares and agreed to sub-underwrite 35,000,000 rights shares in the rights issue of the Company as announced on 22nd June, 2006.
5. Ringo Trading Limited is deemed by the SFO to be interested in 848,921,054 Shares as a result of its direct holding of the Shares and indirect holding of the Shares through its wholly-owned subsidiary, Ting Shing Holdings Limited.
6. China Poly Group Corporation owns 100% of Ringo Trading Limited and is accordingly deemed by the SFO to be interested in the Shares directly and indirectly owned by Ringo Trading Limited.
7. The entire issued share capital of Taifook Securities Company Limited is held by Taifook Finance Company Limited, the entire issued share capital of which is held by Tai Fook (BVI) Limited, a wholly owned subsidiary of Taifook Securities Group Limited. Each of Taifook Finance Company Limited, Tai Fook (BVI) Limited and Taifook Securities Group Limited is deemed to be interested in the Shares in which Taifook Securities Company Limited is interested by virtue of the SFO.

**Short position**

<b>Name of Shareholder</b>	<b>Capacity</b>	<b>Number of Shares</b>	<b>Approximate percentage of the issued share capital of the Company</b> <i>(Note 1)</i>
Taifook Securities Company Limited	Beneficial owner	120,000,000 <i>(Note 2)</i>	8.92%
Taifook Finance Company Limited	Interest of controlled corporations	120,000,000 <i>(Note 2)</i>	8.92%
Tai Fook (BVI) Limited	Interest of controlled corporations	120,000,000 <i>(Note 2)</i>	8.92%
Taifook Securities Group Limited	Interest of controlled corporation	120,000,000 <i>(Note 2)</i>	8.92%

*Notes:*

- For the purpose of this section, the approximate shareholding percentage is calculated on the basis of 1,345,393,800 Shares in issue immediately after completion of the right issue of the Company as announced on 22nd June, 2006.
- The entire issued share capital of Taifook Securities Company Limited is held by Taifook Finance Company Limited, the entire issued share capital of which is held by Tai Fook (BVI) Limited, a wholly owned subsidiary of Taifook Securities Group Limited. Each of Taifook Finance Company Limited, Tai Fook (BVI) Limited and Taifook Securities Group Limited is deemed to be have a short position in Shares by virtue of the SFO.

Save as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 30th June, 2006.

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

During the six months period ended 30th June, 2006, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

**COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES**

The Company has complied throughout the six months ended 30th June, 2006 with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules on the Stock Exchange.

## COMPLIANCE WITH THE MODEL CODE SET OUT IN APPENDIX 10 OF THE LISTING RULES

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in Appendix 10 the Model Code of the Listing Rules. Having made specific enquiry of all Directors, all Directors have complied with the required standard set out in the Model Code and its code of conduct regarding directors' securities transactions.

## AUDIT COMMITTEE

The members of the Audit Committee have reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the unaudited financial statements.

By Order of the Board  
**ZHANG Zhen Gao**  
*Managing Director*

Hong Kong, 25th September, 2006