



# NORITY INTERNATIONAL GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 660)

## INTERIM REPORT FOR THE SIX MONTHS ENDED 30TH JUNE 2006

### UNAUDITED INTERIM RESULTS

The Board of Directors (the “Board”) of Nority International Group Limited (the “Company”) announces the unaudited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30th June 2006 together with the comparative figures for the corresponding period in 2005 as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

	<i>Notes</i>	<b>Six months ended 30th June</b>	
		<b>2006</b>	<b>2005</b>
		<b>Unaudited</b>	<b>Unaudited</b>
		<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Turnover</b>	2	<b>76,298</b>	147,649
Cost of sales		<b>(88,546)</b>	(135,353)
Gross (loss)/profit		<b>(12,248)</b>	12,296
Other revenue		<b>394</b>	1,396
Selling expenses		<b>(8,440)</b>	(7,868)
Administrative expenses		<b>(21,570)</b>	(14,254)
Other operating (expenses)/income, net		<b>(407)</b>	535
Finance costs		<b>(4)</b>	(52)
<b>Loss before taxation</b>	2 & 3	<b>(42,275)</b>	(7,947)
Taxation	4	<b>(10,879)</b>	(76)
Loss for the period		<b>(53,154)</b>	(8,023)
Loss attributable to:			
– Equity holders of the Company		<b>(49,982)</b>	(7,850)
– Minority interests		<b>(3,172)</b>	(173)
		<b>(53,154)</b>	(8,023)
Basic loss per share	5	<b>HK(18.62) cents</b>	HK(2.93) cents



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		<b>2006</b>	<b>2005</b>
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		<b>(53,154)</b>	(8,023)
Basic loss per share	5	<b>HK(18.62) cents</b>	HK(2.93) cents

## CONDENSED CONSOLIDATED BALANCE SHEET

	<i>Notes</i>	<b>30th June 2006 Unaudited HK\$'000</b>	31st December 2005 Audited HK\$'000
<b>NON-CURRENT ASSETS</b>			
Prepaid lease payments on land use rights		11,404	11,568
Property, plant and equipment and construction-in-progress		63,929	82,711
Investment properties		16,094	4,197
Available-for-sale investments		222	1,314
Held-to-maturity investments		227	227
Loans and receivables		972	1,646
Deferred tax assets		–	10,656
Total non-current assets		<u>92,848</u>	<u>112,319</u>
<b>CURRENT ASSETS</b>			
Inventories		16,449	40,283
Trade and bills receivables	6	16,597	41,751
Deposits, prepayments and other receivables		1,579	2,475
Prepaid lease payments on land use rights		326	326
Financial assets at fair value through profit or loss		376	396
Tax recoverable		409	409
Frozen bank balances		1,799	3,128
Cash and bank balances		7,167	20,846
Total current assets		<u>44,702</u>	<u>109,614</u>
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	7	16,918	42,135
Accruals and other payables		18,461	21,929
Amount due to a fellow subsidiary		111	–
Tax payable		2,017	2,017
Retirement benefit obligations – current portion		2,250	54
Total current liabilities		<u>39,757</u>	<u>66,135</u>
<b>NET CURRENT ASSETS</b>		<u>4,945</u>	<u>43,479</u>
Total assets less current liabilities		<u>97,793</u>	<u>155,798</u>
<b>NON-CURRENT LIABILITIES</b>			
Retirement benefit obligations – non-current portion		3,969	6,442
Deferred tax liabilities		223	–
Total non-current liabilities		<u>4,192</u>	<u>6,442</u>
<b>NET ASSETS</b>		<u>93,601</u>	<u>149,356</u>
<b>CAPITAL AND RESERVES</b>			
Issued share capital		26,837	26,837
Reserves		65,023	115,106
<b>EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY</b>			
Minority interests		91,860	141,943
<b>TOTAL EQUITY</b>		<u>93,601</u>	<u>149,356</u>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

	Attributable to equity holders of the Company								
	Share Capital <i>HK\$'000</i>	Share Premium <i>HK\$'000</i>	Capital Reserve <i>HK\$'000</i>	Working capital reserve <i>HK\$'000</i>	Exchange translation reserve <i>HK\$'000</i>	Accumu- lated profits <i>HK\$'000</i>	Total <i>HK\$'000</i>	Minority interests <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January 2005	26,837	48,079	(1,000)	1,275	(1,859)	128,194	201,526	7,825	209,351
Impairment loss recognised on goodwill	-	-	1,000	-	-	-	1,000	-	1,000
Loss for the period	-	-	-	-	-	(7,850)	(7,850)	(173)	(8,023)
Exchange difference	-	-	-	-	25	-	25	-	25
At 30 June 2005	<u>26,837</u>	<u>48,079</u>	<u>-</u>	<u>1,275</u>	<u>(1,834)</u>	<u>120,344</u>	<u>194,701</u>	<u>7,652</u>	<u>202,353</u>
At 1st January 2006	26,837	48,079	-	1,275	(9,468)	75,220	141,943	7,413	149,356
Loss for the period	-	-	-	-	-	(49,982)	(49,982)	(3,172)	(53,154)
Dividends paid to a minority shareholder of a subsidiary	-	-	-	-	-	-	-	(2,500)	(2,500)
Exchange difference	-	-	-	-	(101)	-	(101)	-	(101)
At 30th June 2006	<u>26,837</u>	<u>48,079</u>	<u>-</u>	<u>1,275</u>	<u>(9,569)</u>	<u>25,238</u>	<u>91,860</u>	<u>1,741</u>	<u>93,601</u>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30th June	
	2006	2005
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Net cash used in operating activities	(10,553)	(261)
Net cash used in investing activities	(1,956)	(3,346)
Net cash used in financing activities	(2,504)	(52)
	<hr/>	<hr/>
Net decrease in cash and cash equivalents	(15,013)	(3,659)
Cash and cash equivalents at 1st January	23,974	26,189
Effect of changes in exchange rate	5	13
	<hr/>	<hr/>
Cash and cash equivalents at 30th June	<u>8,966</u>	<u>22,543</u>
Analysis of the balances of cash and cash equivalents		
Cash and bank balances	<u>8,966</u>	<u>22,543</u>

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

### 1. PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements have been prepared in accordance with the applicable disclosure requirements set out in Appendix 16 of 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" issued by the Hong Kong Institute of Certified Public Accountants, under the historical cost convention, except for certain properties and financial instruments, which are measured at fair values or revalued amounts, as appropriate.

The condensed consolidated financial statements should be read in conjunction with the annual financial statements for the year ended 31st December 2005.

The accounting policies adopted in the condensed financial statements are consistent with those followed in the preparation of the annual financial statements of the Group for the year ended 31st December 2005.

### 2. SEGMENT INFORMATION

The Group has only one single business segment which is the manufacture and export of athletic and athletic-style leisure footwear, as well as the manufacture of working shoes, safety shoes, golf shoes and other functional shoes. Accordingly, the commented figures represent the segment information for this sole business segment for the period.

An analysis of the Group's revenue and results for the period by geographical segment is as follows:

	<b>Six months ended 30th June</b>			
	<b>2006</b>	<b>Segment</b>	<b>2005</b>	<b>Segment</b>
	<b>Turnover</b>	<b>results</b>	<b>Turnover</b>	<b>results</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
North America	28,770	(4,641)	44,763	2,939
Europe	33,725	(9,557)	79,116	(3,506)
Others	13,803	(6,490)	23,770	4,995
	<u>76,298</u>	<u>(20,688)</u>	<u>147,649</u>	<u>4,428</u>
Other revenue		394		1,396
Other operating (expenses)/income, net		(407)		535
Unallocated expenses		(21,570)		(14,254)
Finance costs		(4)		(52)
Loss before taxation		<u>(42,275)</u>		<u>(7,947)</u>
Taxation		<u>(10,879)</u>		<u>(76)</u>
Loss for the period		<u><u>(53,154)</u></u>		<u><u>(8,023)</u></u>

Sales are based on the country in which the customer is located. There are no sales between geographical segments.

### 3. DEPRECIATION

Loss before taxation for the period is arrived at after charging depreciation of approximately HK\$6,063,000 (six months ended 30th June 2005: HK\$6,773,000) in respect of the Group's property, plant and equipment.

#### 4. TAXATION

No Hong Kong and overseas profits tax has been provided as the Group does not have any assessable profits for the period (six months ended 30th June 2005: Nil).

The amount of taxation charged to the consolidated income statement represents deferred taxation relating to the origination and reversal of temporary differences.

#### 5. BASIC LOSS PER SHARE

The calculation of basic loss per share is based on the Group's loss attributable to equity holders of the Company of approximately HK\$49,982,000 (six months ended 30th June 2005: HK\$7,850,000) and the weighted average number of ordinary shares of 268,372,612 (six months ended 30th June 2005: 268,372,612) in issue during the period.

Diluted loss per share has not been presented as there are no dilutive potential ordinary shares.

#### 6. TRADE AND BILLS RECEIVABLES

The ageing analysis of trade and bills receivables was as follows:

	<b>30th June 2006 HK\$'000</b>	31st December 2005 HK\$'000
0 – 30 days	8,584	30,136
31 – 60 days	1,336	8,901
61 – 90 days	570	1,366
Over 90 days	6,107	1,348
	<u>16,597</u>	<u>41,751</u>

The majority of the Group's turnover is on open account terms with a general credit period of 30 to 90 days.

#### 7. TRADE AND BILLS PAYABLES

The ageing analysis of trade and bills payables was as follows:

	<b>30th June 2006 HK\$'000</b>	31st December 2005 HK\$'000
0 – 30 days	11,886	33,797
31 – 60 days	338	3,826
61 – 90 days	526	944
Over 90 days	4,168	3,568
	<u>16,918</u>	<u>42,135</u>



## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Financial Performance**

Turnover of the Group for the six months ended 30th June 2006 amounted to HK\$76,298,000 (six months ended 30th June 2005: HK\$147,649,000), representing a decrease of approximately 48% over the corresponding period last year. Loss attributable to equity holders of the Company was HK\$49,982,000, as compared to loss of HK\$7,850,000 for the same period last year.

### **Business Review and Prospects**

The Group's core business is the manufacture and export of athletic and athlete-style leisure footwear, as well as the manufacture of working shoes, safety shoes, golf shoes and other functional shoes.

The first half of 2006 was a very difficult period with significant drop in turnover and rising production costs. The decrease in turnover by 48% over the same period last year was mainly due to the loss of some key customers in 2005 and intense market competition. The rising of minimum wages in the Pearl River Delta Region, higher material prices resulting from high oil prices throughout the period and the appreciation of Renminbi against US dollar were factors which magnified the cost pressures on the Group in addition to the loss of scale of economy due to the decrease in production volume. As a result, the Group incurred losses for the first six months of the year.

Upon the acquisition of the Group by South China Industries Limited ("SCI") through Micon Limited during the period, a new management team from SCI has taken control of the Group's operation since May 2006. SCI has been engaged in the footwear business for more than 10 years and the new management team will assist to formulate business plans and strategies for the future business development of the Group. Major business improvement initiatives taken by the management including key accounts management, supply chain and procurement management, manufacturing and efficiency improvement, inventories control and management, other selling, distribution and administrative expenses control and working capital management. In addition, the Group is planning to consolidate a factory in Dongguan, PRC with the Group's other production facilities in order to improve production efficiency and cost effectiveness.

Looking ahead is still full of challenges requiring the Group's great effort and determination. Leveraging on the expertise in the sales team, fulfillment team and supply chain team, the Group will strive to improve productivity and maintain a tight control over operating cost. With better planning and monitoring, management is confident to bring rejuvenation to the Group.

### **Liquidity, Financial Resources and Capital Structure**

The Group has adhered to stringent and prudent financial policies in monitoring and managing its cash resources as well as banking facilities. As at 30th June 2006, the Group had available cash and bank balances of HK\$7,167,000 (2005: HK\$20,846,000). The banking facilities available to the Group is HK\$8,000,000 (2005: HK\$49,000,000). The banking facilities are secured by legal charges over certain land and buildings of the Group with net book value of HK\$5,327,000 (2005: HK\$14,884,000).

Funding of the Group's operations is mainly financed by internal resources. As at 30th June 2006, there were no bank borrowings to the Group (2005: Nil). Accordingly, no gearing ratio is presented.

There is no change in capital structure of the Company during the period.

**Exposure to exchange rate fluctuation**

The directors considered that the Group has no significant exposure to foreign exchange fluctuation. No hedging or other arrangements to reduce the currency risk has been implemented.

**Employees and remuneration policy**

As at 30th June 2006, the Group had a total of approximately 25 employees in its Hong Kong and Taiwan offices and approximately 2,400 workers in its processing bases in Mainland China. Besides offering competitive remuneration packages to the employees, discretionary bonuses may also be granted to the eligible employees based on the Group's and the individual's performance. Staff costs for the period amounted to HK\$22,306,000 (six months ended 30th June 2005: HK\$33,696,000).

**Significant Investment**

For the six months ended 30th June 2006, the Group had not made any significant investment.

**Material acquisitions and disposals of subsidiaries**

There were no material acquisition and disposal of subsidiaries during the six months ended 30th June 2006.

**Pledges of assets, contingent liabilities and commitments**

There was no material change in the Group's pledges of assets, contingent liabilities and commitments as compared to the most recent published annual report.

## OTHER INFORMATION

### INTERIM DIVIDEND

The Board resolved not to declare the payment of an interim dividend for the six months ended 30th June 2006 (six months ended 30th June 2005: Nil).

### DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30th June 2006, the interests and short positions of the directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "SEHK"), were as follows:

#### (1) Long positions in shares of associated corporations

##### (i) South China Holdings Limited ("SCH")

Name of director	Capacity	Number of ordinary shares	Approximate percentage of shareholding
Ms. Cheung Choi Ngor ("Ms. Cheung")	Interests of controlled corporation	487,949,760 (Note a)	26.76%
Mr. Richard Howard Gorges ("Mr. Gorges")	Interests of controlled corporation	487,949,760 (Note a)	26.76%

##### (ii) South China Brokerage Company Limited ("SCB") (Note b)

Name of director	Capacity	Number of ordinary shares	Approximate percentage of shareholding
Mr. Gorges	Beneficial owner	12,174,000	0.24%

##### (iii) South China Financial Credits Limited ("SCFC") (Note c)

Name of director	Capacity	Number of ordinary shares	Approximate percentage of shareholding
Mr. Ng Yuk Fung Peter ("Mr. Ng")	Beneficial owner	250,000	0.59%

## OTHER INFORMATION

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#### (1) Long positions in shares of associated corporations

##### (i) South China Holdings Limited ("SCH")

Name of director	Capacity	Number of ordinary shares	Approximate percentage of shareholding
Ms. Cheung Choi Ngor ("Ms. Cheung")	Interests of controlled corporation	487,949,760 (Note a)	26.76%
Mr. Richard Howard Gorges ("Mr. Gorges")	Interests of controlled corporation	487,949,760 (Note a)	26.76%

##### (ii) South China Brokerage Company Limited ("SCB") (Note b)

Name of director	Capacity	Number of ordinary shares	Approximate percentage of shareholding
Mr. Gorges	Beneficial owner	12,174,000	0.24%

##### (iii) South China Financial Credits Limited ("SCFC") (Note c)

Name of director	Capacity	Number of ordinary shares	Approximate percentage of shareholding
Mr. Ng Yuk Fung Peter ("Mr. Ng")	Beneficial owner	250,000	0.59%

## (2) Interests in underlying shares of SCB

<b>Name of director</b>	<b>Capacity</b>	<b>Number of underlying shares*</b>	<b>Approximate percentage of shareholding</b>
Ms. Cheung	Beneficial owner	30,000,000	0.60%
Mr. Gorges	Beneficial owner	30,000,000	0.60%
Mr. Ng	Beneficial owner	50,000,000	1.00%

\* Represent share options granted to the directors of SCB under the share option scheme of SCB, details of which are as follows:-

<b>Name of director</b>	<b>Date of Grant</b>	<b>Subscription Price</b>	<b>Number of share options granted</b>	<b>Exercise Period</b>
Ms. Cheung	16/03/2006	HK\$0.128	10,000,000	16/03/2007 – 15/03/2009
			10,000,000	16/03/2008 – 15/03/2010
			10,000,000	16/03/2009 – 15/03/2011
Mr. Gorges	16/03/2006	HK\$0.128	10,000,000	16/03/2007 – 15/03/2009
			10,000,000	16/03/2008 – 15/03/2010
			10,000,000	16/03/2009 – 15/03/2011
Mr. Ng	16/03/2006	HK\$0.128	10,000,000	16/03/2007 – 15/03/2009
			10,000,000	16/03/2008 – 15/03/2010
			10,000,000	16/03/2009 – 15/03/2011
	26/04/2006	HK\$0.128	6,666,667	26/04/2007 – 25/04/2009
			6,666,667	26/04/2008 – 25/04/2010
			6,666,666	26/04/2009 – 25/04/2011

Notes:

- Ms. Cheung and Mr. Gorges are considered as parties to an agreement with Mr. Ng Hung Sang to which Section 317 of the SFO applies. Ms. Cheung, Mr. Gorges and Mr. Ng Hung Sang (acting through a controlled corporation which is owned as to 60% by Mr. Ng Hung Sang, 20% by Ms. Cheung and 20% by Mr. Gorges) are deemed to have an interest in 487,949,760 issued ordinary shares of SCH.
- SCH owns an interest of 72.67% in the issued share capital of SCB.
- SCFC is a 97.44% owned subsidiary of SCB.
- All interests disclosed above represent long positions.

Save as disclosed above, as at 30th June 2006, none of the directors or chief executive of the Company had, any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the SEHK.

## **SUBSTANTIAL SHAREHOLDERS**

As at 30th June 2006, other than the interests and short positions of the directors and chief executives of the Company as disclosed above, the following persons had the following interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of Part XV of SFO:

<b>Name of Shareholders</b>	<b>Capacity</b>	<b>Number of ordinary shares</b>	<b>Approximate percentage of shareholding</b>
Mr. Ng Hung Sang	Interests of controlled corporations	255,885,561	95.35%
SCH	Interests of controlled corporations	255,885,561	95.35%
SCI	Interests of controlled corporations	255,885,561	95.35%

Notes:

1. Mr. Ng Hung Sang, through corporations controlled by him, has an interest of 73.72% in the issued share capital of SCH. SCH, through its controlled corporations, owns an interest of 74.79% in the issued share capital of SCI. SCI through Micon Limited, its wholly-owned subsidiary, owns an interest of 95.35% in the issued share capital of the Company, i.e. 255,885,561 ordinary shares of the Company. By virtue of the said interest of Mr. Ng Hung Sang in SCH, the said interest of SCH in SCI and the said interest of SCI in the Company, each of Mr. Ng Hung Sang, SCH and SCI is deemed to be interested in the 255,885,561 ordinary shares of the Company and is taken to have a duty of disclosure under the SFO.
2. All interests disclosed above represent long positions.

Save as disclosed above, as at 30th June 2006, no other interests or short positions in the shares or underlying shares of the Company were recorded in the register kept by the Company pursuant to Section 336 of Part XV of the SFO.

## **INFORMATION ON SHARE OPTIONS**

The Company adopted the Share Option Scheme (the "Scheme") on 10th June 2003. The purpose of the Scheme is to enable the Board to grant share options to full time employees of the Company or its subsidiaries, including directors of any of such companies and any suppliers, consultants, agents and advisers in recognition of their contribution to the Group.

No share option was granted or was outstanding under the Scheme during the six months ended 30th June 2006.

Save as disclosed above, during the period ended 30 June 2006, none of the directors and chief executives of the Company had any interest in, or had been granted, or exercised, any rights to subscribe for shares of the Company or its associated corporations required to be disclosed pursuant to the SFO.

## **CORPORATE GOVERNANCE**

The Company has complied with the Code on Corporate Governance Practices of the Listing Rules during the six months ended 30th June 2006 with the exception that:

## **SUBSTANTIAL SHAREHOLDERS**

As at 30th June 2006, other than the interests and short positions of the directors and chief executives of the Company as disclosed above, the following persons had the following interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of Part XV of SFO:

<b>Name of Shareholders</b>	<b>Capacity</b>	<b>Number of ordinary shares</b>	<b>Approximate percentage of shareholding</b>
Mr. Ng Hung Sang	Interests of controlled corporations	255,885,561	95.35%
SCH	Interests of controlled corporations	255,885,561	95.35%
SCI	Interests of controlled corporations	255,885,561	95.35%

Notes:

1. Mr. Ng Hung Sang, through corporations controlled by him, has an interest of 73.72% in the issued share capital of SCH. SCH, through its controlled corporations, owns an interest of 74.79% in the issued share capital of SCI. SCI through Micon Limited, its wholly-owned subsidiary, owns an interest of 95.35% in the issued share capital of the Company, i.e. 255,885,561 ordinary shares of the Company. By virtue of the said interest of Mr. Ng Hung Sang in SCH, the said interest of SCH in SCI and the said interest of SCI in the Company, each of Mr. Ng Hung Sang, SCH and SCI is deemed to be interested in the 255,885,561 ordinary shares of the Company and is taken to have a duty of disclosure under the SFO.
2. All interests disclosed above represent long positions.

Save as disclosed above, as at 30th June 2006, no other interests or short positions in the shares or underlying shares of the Company were recorded in the register kept by the Company pursuant to Section 336 of Part XV of the SFO.

## **INFORMATION ON SHARE OPTIONS**

The Company adopted the Share Option Scheme (the "Scheme") on 10th June 2003. The purpose of the Scheme is to enable the Board to grant share options to full time employees of the Company or its subsidiaries, including directors of any of such companies and any suppliers, consultants, agents and advisers in recognition of their contribution to the Group.

No share option was granted or was outstanding under the Scheme during the six months ended 30th June 2006.

Save as disclosed above, during the period ended 30 June 2006, none of the directors and chief executives of the Company had any interest in, or had been granted, or exercised, any rights to subscribe for shares of the Company or its associated corporations required to be disclosed pursuant to the SFO.

## **CORPORATE GOVERNANCE**

The Company has complied with the Code on Corporate Governance Practices of the Listing Rules during the six months ended 30th June 2006 with the exception that:

## **SUBSTANTIAL SHAREHOLDERS**

As at 30th June 2006, other than the interests and short positions of the directors and chief executives of the Company as disclosed above, the following persons had the following interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of Part XV of SFO:

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## **CORPORATE GOVERNANCE**

The Company has complied with the Code on Corporate Governance Practices of the Listing Rules during the six months ended 30th June 2006 with the exception that:



1. The Non-Executive Directors are not appointed for a specific term and the Articles of Association of the Company provided that at each annual general meeting, one-third of the directors (other than the Chairman of the Board and the Managing Director of the Company) shall be subject to retirement by rotation. As the Listing Rules require that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years, the Articles of Association of the Company were amended on 30th June 2006 to that effect.
2. All directors appointed to fill a casual vacancy were subject to re-election by shareholders at the next following annual general meeting of the Company pursuant to the Articles of Association of the Company. As the Listing Rules require that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment, the Articles of Association of the Company were amended on 30th June 2006 to that effect.
3. Ms. Cheung is currently the Chairman of the Board (the “Chairman”) and the Chief Executive Officer (the “CEO”) of the Company. The Board does not intend to separate the role between the Chairman and the CEO. The Board believes that it is more effective and efficient for the same person to be acting as the Chairman and the CEO in formulating the Group’s overall strategies and policies and implementing the same to achieve the corporate goals.

### **CODE FOR SECURITIES TRANSACTIONS**

The Company has adopted on 1st June 2005 its own code for securities dealings by directors and relevant employees (the “Code”), on terms no less exacting than those set out in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in the Appendix 10 of the Listing Rules.

All directors have confirmed, following specific enquiry by the Company, their compliance with the required standard set out in the Code throughout the six months ended 30th June 2006.

### **PURCHASE, SALES OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES**

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

### **AUDIT COMMITTEE**

The Company has established an audit committee with written terms of reference, which was superseded by new written terms of reference on 1st June 2005. The primary duties of the audit committee are to review and supervise the financial reporting and internal control systems of the Group. The audit committee comprises three Independent Non-Executive Directors, namely Ms. Li Yuen Yu Alice (Committee Chairman), Mr. Chiu Sin Chun and Ms. Wong Siu Yin Elizabeth.

The audit committee has reviewed with the management the internal control systems and financial reporting matters, including the review of the unaudited condensed interim financial statements of the Group relating to the preparation of the interim report for the six months ended 30th June 2006.

On behalf of the Board  
**Cheung Choi Ngor**  
*Chairman*

Hong Kong, 12th September 2006

*As at the date of this report, the Board comprises (1) Ms. Cheung Choi Ngor, Mr. Richard Howard Gorges, Mr. Ng Yuk Fung, Peter, Mr. Lo Chak Wa and Ms. Cheung Lai Lin, Pealin as Executive Directors; and (2) Ms. Wong Siu Yin Elizabeth, Mr. Chiu Sin Chun and Ms. Li Yuen Yu Alice as Independent Non-Executive Directors.*

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