



**TERN PROPERTIES COMPANY LIMITED**

STOCK CODE: 277

**INTERIM REPORT 2006/2007**

The Board of Directors of Tern Properties Company Limited (the “Company”) announces that the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 September 2006, together with the comparative figures for the corresponding period in the previous year are as follows:

## CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2006

		<b>Six months ended</b>	
		<b>30 September</b>	
	<i>Notes</i>	<b>2006</b>	2005
		<b>HK\$'000</b>	HK\$'000
		<b>(Unaudited)</b>	(Unaudited)
Turnover		<b>30,633</b>	77,193
Cost of disposal of financial assets at fair value through profit or loss		<b>(7,927)</b>	(58,772)
Property expenses		<b>(1,283)</b>	(1,065)
Unrealised gain on financial assets at fair value through profit or loss		<b>63</b>	548
		<hr/>	<hr/>
Gross profit		<b>21,486</b>	17,904
Interest income		<b>1,175</b>	2,125
Other operating income		<b>444</b>	312
Administrative expenses		<b>(8,015)</b>	(6,874)
		<hr/>	<hr/>
Profit from operations	4	<b>15,090</b>	13,467
Finance costs		<b>(3,805)</b>	(2,416)
Share of results of associates		<b>2,646</b>	3,671
		<hr/>	<hr/>
Profit before taxation		<b>13,931</b>	14,722
Taxation	5	<b>(1,573)</b>	(1,274)
		<hr/>	<hr/>
Profit for the period		<b>12,358</b>	13,448
		<hr/>	<hr/>
Dividend	6	<b>4,617</b>	4,617
		<hr/>	<hr/>
Earnings per share	7	<b>HK4.01 cents</b>	HK4.37 cents
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## CONDENSED CONSOLIDATED BALANCE SHEET

At 30 September 2006

	Notes	30 September 2006 HK\$'000 (Unaudited)	31 March 2006 HK\$'000 (Audited)
<b>Non-current assets</b>			
Investment properties	8	1,126,389	1,090,665
Property, plant and equipment		5,068	3,057
Leasehold premiums for land		15,984	16,031
Interests in associates		275,316	275,670
Club debentures		2,160	2,160
		1,424,917	1,387,583
<b>Current assets</b>			
Trade and other receivables	9	2,583	19,564
Deposit for acquisition of investment properties		1,229	4,122
Financial assets at fair value through profit or loss		29,993	29,939
Leasehold premiums for land – current portion		93	93
Bank balances and cash		17,876	23,897
		51,774	77,615
<b>Current liabilities</b>			
Trade and other payables	10	5,615	5,600
Rental deposits from tenants		12,141	11,411
Tax liabilities		2,826	2,118
Secured bank loans – due within one year		210	209
		20,792	19,338
<b>Net current assets</b>		30,982	58,277
<b>Non-current liabilities</b>			
Deferred tax liabilities		9,998	9,400
Secured bank loans – due after one year		173,562	169,399
		183,560	178,799
		1,272,339	1,267,061
<b>Capital and reserves</b>			
Share capital	11	153,906	153,906
Reserves		1,118,433	1,113,155
		1,272,339	1,267,061

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY***For the six months ended 30 September 2006*

(Unaudited)

	<b>Share capital</b>	<b>Share premium account</b>	<b>Capital redemption reserve</b>	<b>Dividend reserve</b>	<b>Accumulated profits</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 April 2005	153,906	72,818	2,662	6,156	912,412	1,147,954
Profit for the period	–	–	–	–	13,448	13,448
Dividends declared	–	–	–	4,617	(4,617)	–
Dividends paid	–	–	–	(6,156)	–	(6,156)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 30 September 2005	<u>153,906</u>	<u>72,818</u>	<u>2,662</u>	<u>4,617</u>	<u>921,243</u>	<u>1,155,246</u>
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 1 April 2006	153,906	72,818	2,662	7,080	1,030,595	1,267,061
Profit for the period	–	–	–	–	12,358	12,358
Dividends declared	–	–	–	4,617	(4,617)	–
Dividends paid	–	–	–	(7,080)	–	(7,080)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 30 September 2006	<u>153,906</u>	<u>72,818</u>	<u>2,662</u>	<u>4,617</u>	<u>1,038,336</u>	<u>1,272,339</u>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 September 2006

	Six month ended 30 September	
	2006	2005
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net cash from operating activities	37,009	9,944
Net cash (used in) from investing activities	(36,046)	25,767
Net cash used in financing activities	(6,984)	(34,826)
	<hr/>	<hr/>
Net (decrease) increase in cash and cash equivalents	(6,021)	885
Cash and cash equivalents at beginning of the period	23,897	12,511
	<hr/>	<hr/>
Cash and cash equivalents at end of the period	17,876	13,396
	<hr/> <hr/>	<hr/> <hr/>
Analysis of the balances of cash and cash equivalents:		
Bank balances and cash	1,776	1,363
Bank deposits	16,100	12,033
	<hr/>	<hr/>
	17,876	13,396
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## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 September 2006

### 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 the Hong Kong Accounting Standard (“HKAS”) 34 “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants.

### 2. SIGNIFICANT ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain investment properties and investments in financial assets.

The accounting policies adopted are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 March 2006 except that the Group has changed certain of its accounting policies following its adoption of the new/revised Hong Kong Financial Reporting Standards (“HKFRS”) and HKAS (collectively referred to as “New HKFRSs”) which have become effective for accounting periods commencing on or after 1 January 2006. The applicable New HKFRSs adopted in this interim financial statements are set out below:

HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures
HKAS 21 (Amendment)	Net investment in a foreign operation
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions
HKAS 39 (Amendment)	The fair value option
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease

The adoption of the above new HKFRSs did not have any material effect on how the results of operations and financial position of the Group are prepared and presented.

The Group has not early applied the following new standards, amendments and interpretations that have been issued but are not yet effective. The Directors of the Company anticipate that the application of these standards, amendments or interpretations will have no material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital Disclosures <sup>1</sup>
HKFRS 7	Financial Instruments: Disclosure <sup>1</sup>
HK(IFRIC) – INT 8	Scope of HKFRS 2 <sup>4</sup>
HK(IFRIC) – INT 9	Reassessment of Embedded Derivatives <sup>3</sup>
HK(IFRIC) – INT 10	Interim financial reporting and impairment <sup>2</sup>

<sup>1</sup> Effective for accounting periods beginning on or after 1 January 2007.

<sup>2</sup> Effective for accounting periods beginning on or after 1 November 2006.

<sup>3</sup> Effective for accounting periods beginning on or after 1 June 2006

<sup>4</sup> Effective for accounting periods beginning on or after 1 May 2006.

### 3. SEGMENT INFORMATION

#### Business segment

For management purposes, the Group is currently organised into two operating divisions – property leasing and securities investment. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below:

#### *For the six months ended 30 September 2006*

	Property leasing <i>HK\$'000</i>	Securities investment <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Turnover	<u>22,710</u>	<u>7,923</u>	<u>30,633</u>
Segment result	<u>14,058</u>	<u>1,032</u>	<u>15,090</u>
Profit from operations			15,090
Finance costs			(3,805)
Share of results of associates	<u>3,044</u>	<u>(398)</u>	<u>2,646</u>
Profit before taxation			13,931
Taxation			(1,573)
Profit for the period			<u>12,358</u>

#### *For the six months ended 30 September 2005*

	Property leasing <i>HK\$'000</i>	Securities investment <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Turnover	<u>17,676</u>	<u>59,517</u>	<u>77,193</u>
Segment result	<u>10,122</u>	<u>3,345</u>	<u>13,467</u>
Profit from operations			13,467
Finance costs			(2,416)
Share of results of associates	<u>3,065</u>	<u>606</u>	<u>3,671</u>
Profit before taxation			14,722
Taxation			(1,274)
Profit for the period			<u>13,448</u>

#### 4. PROFIT FROM OPERATIONS

Profit from operations has been arrived at after charging:

	Six months ended	
	30 September	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Auditors' remuneration	125	130
Depreciation	550	390
Amortisation on leasehold premiums for land	46	46
Staff costs (including Directors' remuneration)	3,357	3,307
Mandatory provident fund contributions	43	43
	<hr/>	<hr/>
Total staff costs	3,400	3,350
and after crediting:		
Exchange gain	653	279
Dividend income	–	240
(Loss) gain on disposal of financial assets at fair value through profit or loss	(4)	506
Gross rental income from investment properties	22,710	17,676
Less:		
Direct operating expenses from investment properties that generated rental income	(1,098)	(893)
Direct operating expenses from investment properties that did not generate rental income	(185)	(172)
	<hr/>	<hr/>
Net rental income	<u>21,427</u>	<u>16,611</u>



## 5. TAXATION

	Six months ended 30 September	
	2006	2005
	HK\$'000	HK\$'000
The charge comprises:		
Company and subsidiaries		
Hong Kong Profits Tax		
Current period	975	732
Deferred tax		
Current period	598	542
	<u>1,573</u>	<u>1,274</u>

Hong Kong Profits Tax is calculated at 17.5% (2005: 17.5%) of the estimated assessable profit for the period.

## 6. DIVIDEND

On 28 July 2006, a dividend of HK2.3 cents per share was paid to shareholders as the final dividend for 2006.

The Board of Directors has declared an interim dividend of HK1.5 cents (2005: HK1.5 cents) per share amounting to HK\$4,617,000 payable on 10 January 2007 to the shareholders whose names appear on the Register of Members on 2 January 2007.

## 7. EARNINGS PER SHARE

The calculation of the earnings per share is based on the profit for the period of HK\$12,358,000 (2005: HK\$13,448,000) and on 307,812,522 (2005: 307,812,522) ordinary shares in issue during the period.

No diluted earnings per share had been presented as there were no dilutive potential shares in issue in either period.

## 8. INVESTMENT PROPERTIES

The investment properties of the Group were not revalued at 30 September 2006 by independent valuers. The directors considered that the carrying amount of the Group's investment properties did not differ significantly from those which would be determined using fair values at the balance sheet date. Consequently, no increase or decrease in fair value of investment properties has been recognised in the current period.

During the period, the Group acquired investment properties amounted to HK\$34,804,000.

## 9. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables was rental receivable in advance of HK\$667,000 (31 March 2006: HK\$506,000) with defined credit policy. The rental income is billed in advance each month. Immediate settlement is expected upon receipt of billing by the tenants.

All the rentals receivable at the balance sheet date had an aging of less than 90 days.

The directors consider that the carrying amount of trade and other receivables approximates their fair value.

## 10. TRADE AND OTHER PAYABLES

Included in trade and other payables was rental receipt in advance of HK\$889,000 (31 March 2006: HK\$600,000).

All the rental receipts in advance at the balance sheet date had an aging of less than 90 days.

The directors consider that the carrying amount of trade and other payables approximates their fair value.

## 11. SHARE CAPITAL

	Number of ordinary shares of HK\$0.5 each		Nominal value	
	30 September 2006	31 March 2006	30 September 2006 <i>HK\$'000</i>	31 March 2006 <i>HK\$'000</i>
<b>THE COMPANY</b>				
Authorised	<u>400,000,000</u>	<u>400,000,000</u>	<u>200,000</u>	<u>200,000</u>
Issued and fully paid	<u>307,812,522</u>	<u>307,812,522</u>	<u>153,906</u>	<u>153,906</u>

There were no movements in the share capital of the Company for the six months ended 30 September 2006.

## 12. RELATED PARTY TRANSACTIONS

During the period, the Group received office rental income of HK\$150,000 (2005: HK\$150,000) from an associate of the Company, Win Easy Development Limited.

## 13. CAPITAL COMMITMENTS

At the balance sheet date, the Group has capital commitment of HK\$6,441,000 for the acquisition of investment properties.

## 14. POST BALANCE SHEET EVENT

On 3 November 2006, the Group entered into a provisional sale and purchase agreement to purchase an investment property for a total consideration of HK\$182,000,000. The completion of the acquisition is expected to take place on 30 January 2007. The property is a 15-storey commercial building which has a total gross area of 28,316 square feet with the basement floor, ground floor, first and second floors for retail shops and the other floors for office units.

## 15. COMPARATIVES FIGURES

Certain comparatives figures have been reclassified to conform with the presentation of the current period.

## INTERIM DIVIDEND

The Board of Directors has declared an interim dividend for the six months ended 30 September 2006 of HK1.5 cents (2005: HK1.5 cents) per share payable on 10 January 2007 to the shareholders whose names appear on the Register of Members on 2 January 2007.

## CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Tuesday, 2 January 2007 to Thursday, 4 January 2007, both days inclusive, during which period no transfer of shares will be registered by the Company. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Registrars, Computershare Hong Kong Investor Services Limited, Shop No. 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:00 p.m. on Friday, 29 December 2006.

## BUSINESS REVIEW AND PROSPECT

The Group's gross rental income including its share from an associate for the six months ended 30 September 2006 amounted to HK\$28.2 million, an increase of 22.9% from the same period of last year. The Group's profit for the period amounted to HK\$12.4 million, a decrease of 8.1% from the same period of last year. An interim dividend of HK1.5 cents per share was declared, the same as that of the corresponding period of last year.

During the period, the Group recorded a strong growth in the rental income due to the upward revision of rental rates across the Group's shops and office properties upon renewal of leases. The Group's rental portfolio continued to achieve a high average occupancy rate of 98.5% during the period.

During the period, the Group's interest income generated from the investments in debt securities including its share from an associate amounted to HK\$1.7 million, a decrease of 40.3% from the same period of last year. The Group continued to reduce its investment in debt securities during the period.

The Group entered into an agreement to acquire a 15-storey commercial building situated at 184 Nathan Road, Tsim Sha Tsui for a cash consideration of HK\$182 million in November 2006. The property has a gross floor area of 28,316 square feet and generates a monthly rental income of HK\$584,000. The acquisition is expected to complete in January 2007.

The central government has imposed various administrative measures to cool off specific property and industrial investments recently. Therefore the mainland economy is expected to continue its growth in a healthier pace. Meanwhile, interest rate in the United States has peaked and international oil price is retreating to a more sustainable level. The global economy will continue to develop properly and the local economy is expected to maintain its growth next year.

In the local commercial property market, the capital and rental values of shops in prime location will continue to command a premium while those of office properties will have a more moderate growth. The recent retreat of local interest rate from the peak will also enable the residential property market to develop properly next year. The Group's rental income will continue to increase in the coming year upon the renewal of leases for the investment properties and the purchase of the commercial building at 184 Nathan Road.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Operation

During the period, the Group continued to hold quality commercial properties for rental income and invest in debt securities for interest income purposes. The Group's turnover for the six months ended 30 September 2006 amounted to HK\$30.6 million (2005: HK\$77.2 million), a decrease of 60.3% from the same period of last year. The decrease was due to less trading of securities partially offset by higher rental income during the period.

The Group's gross rental income for the six months ended 30 September 2006 amounted to HK\$22.7 million (2005: HK\$17.7 million), an increase of 28.5% from the same period of last year. The increase was due to the significant upward revision of rental rates for the Group's commercial properties especially street shops during the period. The Group's share of gross rental income from an associate amounted to HK\$5.5 million (2005: HK\$5.3 million), an increase of 4.2% from the same period of last year.

The Group's turnover of securities investment for the six months ended 30 September 2006 amounted to HK\$7.9 million (2005: HK\$59.5 million), a decrease of 86.7% from the same period of last year. The decrease in turnover was due to the decrease of the Group's investments in debt securities since 2005. At 30 September 2006, the Group held a total of HK\$30.0 million (31 March 2006: HK\$29.9 million) in investments in debt securities, almost unchanged from the previous year-end.

### Results

The Group's profit for the six months ended 30 September 2006 amounted to HK\$12.4 million (2005: HK\$13.4 million), a decrease of 8.1% from the same period of last year. The decrease was due to lower interest income generated from investments in debt securities, lower profit contribution from an associate, higher interest expense and administrative expense partially offset by higher rental income during the period. The Group's share of results of associates after taxation amounted to HK\$2.6 million (2005: HK\$3.7 million), a decrease of 27.9% from the same period of last year. The decrease was due to the losses generated on sale of investments in debt securities during the period.

Earnings per share for the six months ended 30 September 2006 were HK4.01 cents (2005: HK4.37 cents), a decrease of 0.36 cent from the same period of last year. The declared interim dividend was HK1.5 cents per share, the same as that of the corresponding period of last year.

## **Bank Borrowings and Finance Costs**

At 30 September 2006, the Group's banking facilities amounting HK\$320.2 million (31 March 2006: HK\$312.2 million) were secured by its investment properties with an aggregate carrying value amounting HK\$866.8 million (31 March 2006: HK\$845.6 million). At 30 September 2006, these facilities were utilised to the extent of HK\$173.8 million (31 March 2006: HK\$169.6 million).

At 30 September 2006, the total amount of outstanding bank borrowings net of bank deposits, bank balances and cash of HK\$17.9 million were HK\$155.9 million (31 March 2006: HK\$145.7 million), an increase of HK\$10.2 million from the previous year-end. The increase in bank borrowings was due to bank financing for the purchase of investment properties during the period. The gearing ratio, which is the ratio of net bank borrowings to shareholders' funds, remained at a low level of 12.3% (31 March 2006: 11.5%).

Of the total bank borrowings at 30 September 2006, 0.1% are repayable within one year, 97.3% are repayable after one year but within five years and 2.6% are repayable after five years.

The Group's finance costs for the six months ended 30 September 2006 were HK\$3.8 million (2005: HK\$2.4 million), an increase of 57.5% from the same period of last year. The increase was due to more bank borrowings during the period and higher market interest rate as compared to the prior period.

## **Shareholders' Funds**

At 30 September 2006, the Group's shareholders' funds amounted to HK\$1,272.3 million (31 March 2006: HK\$1,267.1 million), representing an increase of HK\$5.3 million from the previous year-end. The net asset value per share was HK\$4.13 (31 March 2006: HK\$4.12).

At 30 September 2006, the Group had no significant exposure to foreign exchange rate fluctuations.

## **Employees and Remuneration Policy**

At 30 September 2006, the total number of staff of the Group was 11 (2005: 11). The total staff costs including Directors' emoluments amounted to HK\$3.4 million (2005: HK\$3.3 million). The Group reviews staff remuneration annually. The review is based on individual performance and merit.

## DIRECTORS' INTERESTS

At 30 September 2006, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers were as follows:

Name of Director	Capacity	Nature of interests	Number of shares held	Aggregate long position	Percentage of aggregate long position in shares to the issued share capital
Chan Hoi Sow	Beneficial Owner	Personal Interest	2,036,000	172,338,896	55.99
	Interest of Controlled Corporation ( <i>Note</i> )	Corporate Interest	170,302,896		
Chan Yan Tin, Andrew	Beneficial Owner	Personal Interest	792,000	792,000	0.26
Chan Siu Keung, Leonard	–	–	–	–	0.00
Wong Wellington	–	–	–	–	0.00
Chan Kwok Wai	–	–	–	–	0.00
Tse Lai Han, Henry	–	–	–	–	0.00

*Note:* Mr. Chan Hoi Sow had a 100% interest in Beyers Investments Limited which, through its wholly owned subsidiary, Noranger Company Limited, held 144,480,000 shares of the Company. He also had a 100% interest in Evergrade Investments Limited which held 25,822,896 shares of the Company. Accordingly, Mr. Chan Hoi Sow and his spouse, Madame Chan Loo Kuo Pin, were deemed to have interests in 170,302,896 ordinary shares of the Company.

Other than as disclosed above, none of the Directors had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as defined in the SFO and none of the Directors nor their spouses or children under the age of 18 had any right to subscribe for the equity or debt securities of the Company as at 30 September 2006 or had been granted or exercised any such right during the period.

## SUBSTANTIAL SHAREHOLDERS

At 30 September 2006, the interests and short positions of persons, other than the Directors or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Name of substantial shareholder	Capacity	Nature of interests	Number of shares held	Aggregate long position	Percentage of aggregate long position in shares to the issued share capital
Chan Loo Kuo Pin	Interest of Spouse (Note 1)	Family Interest	172,338,896	172,338,896	55.99
Noranger Company Limited	Beneficial Owner (Note 2)	Corporate Interest	144,480,000	144,480,000	46.94
Beyers Investments Limited	Interest of Controlled Corporation (Note 2)	Corporate Interest	144,480,000	144,480,000	46.94
Evergrade Investments Limited	Beneficial Owner (Note 3)	Corporate Interest	25,822,896	25,822,896	8.39
Edward Kew	Beneficial Owner (Note 4)	Personal Interest	5,461,200	25,968,494	8.44
	Interest of Spouse (Note 4)	Family Interest	8,856,494		
	Interest of Controlled Corporation (Note 4)	Corporate Interest	11,650,800		
Kew Youn Lunn	Beneficial Owner (Note 5)	Personal Interest	2,380,800	25,968,494	8.44
	Interest of Spouse (Note 5)	Family Interest	5,461,200		
	Interest of Controlled Corporation (Note 5)	Corporate Interest	18,126,494		

*Notes:*

1. The interest is in fact the same block of shares already disclosed under the personal and corporate interests of her husband, Mr. Chan Hoi Sow as disclosed in the section headed "DIRECTORS' INTERESTS".
2. The two references to 144,480,000 shares relate to same block of shares in the Company. These shares are held by Noranger Company Limited which is wholly owned by Beyers Investments Limited which in turn is wholly owned by Mr. Chan Hoi Sow and accordingly form part of the block of shares already disclosed under the corporate interests of Mr. Chan Hoi Sow as disclosed in the section headed "DIRECTORS' INTERESTS".
3. These shares are held by Evergrade Investments Limited which is wholly owned by Mr. Chan Hoi Sow and accordingly form part of the block of shares already disclosed under the corporate interests of Mr. Chan Hoi Sow as disclosed in the section headed "DIRECTORS' INTERESTS".
4. These interests in aggregate are in fact the same block of shares disclosed under the interests of Madame Kew Youn Lunn, the wife of Mr. Edward Kew.
5. These interests in aggregate are in fact the same block of shares disclosed under the interests of Mr. Edward Kew, the husband of Madame Kew Youn Lunn.

Other than as disclosed above, there was no person, other than a Director of the Company, who as at 30 September 2006, had an interest or a short position in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares during the six months ended 30 September 2006.

## **AUDIT COMMITTEE**

The Audit Committee has reviewed with management the accounting policies and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited interim accounts for the six months ended 30 September 2006 with the Directors.

The members of the Audit Committee comprise Mr. Wong Wellington, Mr. Chan Kwok Wai and Mr. Tse Lai Han, Henry.

## **CORPORATE GOVERNANCE**

During the six months ended 30 September 2006, the Company has complied with the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") except the following deviations:

1. Code Provision A.2.1 stipulates that the roles of the chairman and the chief executive officer should be separate and should not be performed by the same individual. Mr. Chan Hoi Sow has been performing the duties of both the chairman and the chief executive officer since the establishment of the Company. The Board considers that the current management structure ensures consistent leadership and optimal efficiency for the operation of the Company. As half of the Board comprises Independent Non-Executive Directors who are professional lawyer, accountant and engineer respectively, the balance of power and authority between the Board and the management will not be compromised.



- Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election. None of the Independent Non-Executive Directors of the Company is appointed for a specific term. However, one-third of all the Directors are subject to retirement from office by rotation at the annual general meeting in accordance with Article 103 of the Articles of Association of the Company. The term of appointment of all the Directors is the period up to their retirement by rotation.

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors of the Company. All Directors, after specific enquiries by the Company, confirmed that they have complied with the required standard set out in the Model Code during the six months ended 30 September 2006.

## **DIRECTORS**

As at the date of this report, the Board of Directors of the Company comprises six Directors, of which three are Executive Directors, namely Mr. Chan Hoi Sow, Mr. Chan Yan Tin, Andrew and Mr. Chan Siu Keung, Leonard and three are Independent Non-Executive Directors, namely Mr. Wong Wellington, Mr. Chan Kwok Wai and Mr. Tse Lai Han, Henry.

By Order of the Board  
**Chan Hoi Sow**  
*Chairman*

Hong Kong, 8 December 2006