



**CASH Financial Services Group Limited**

(Stock Code #8122)

2006 2Q Results

1 January to 30 June

**CASH**

FINANCIAL SERVICES GROUP

時富金融服務集團

## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (“STOCK EXCHANGE”)**

**GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.**

**The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.**

*This report, for which the Directors of CASH Financial Services Group Limited (“Company” or “CFSG”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (“GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors of the Company, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief; (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

## Summary

- Strong growth of top line and bottom line
- The trading volume of the Group's securities business increased by 1.4 times, outpacing the market
- Revenues soared 82.7% to HK\$178.9 million
- Recorded a net profit attributable to shareholders of HK\$19.9 million, reaffirming our strategy for product diversification

# Consolidated Income Statement

The unaudited consolidated results of the Company and its subsidiaries ("Group") for the three months and the six months ended 30 June 2006 together with the comparative figures for the last corresponding periods are as follows:

	Notes	Unaudited three months ended 30 June 2006		Unaudited six months ended 30 June 2006	
		HK\$'000	2005 HK\$'000	HK\$'000	2005 HK\$'000
Revenues	(3)	<b>90,481</b>	46,448	<b>178,922</b>	97,928
Other operating income		<b>314</b>	427	<b>588</b>	730
Allowance for bad and doubtful debts		<b>(255)</b>	–	<b>(255)</b>	–
Salaries, commission and related benefits		<b>(36,645)</b>	(24,264)	<b>(81,151)</b>	(50,268)
Other operating and administrative expenses		<b>(29,065)</b>	(13,629)	<b>(48,336)</b>	(27,589)
Depreciation and amortisation		<b>(5,431)</b>	(3,334)	<b>(7,178)</b>	(7,142)
Finance costs		<b>(12,719)</b>	(3,231)	<b>(22,836)</b>	(4,592)
Net (decrease) increase in fair value of listed investments held for trading		<b>(498)</b>	2,551	<b>4,529</b>	2,903
Profit before taxation		<b>6,182</b>	4,968	<b>24,283</b>	11,970
Taxation charge	(5)	<b>(1,470)</b>	(100)	<b>(4,090)</b>	(150)
Profit for the period		<b>4,712</b>	4,868	<b>20,193</b>	11,820
Attributable to:					
Equity holders of the Company		<b>4,593</b>	4,511	<b>19,904</b>	11,208
Minority interests		<b>119</b>	357	<b>289</b>	612
		<b>4,712</b>	4,868	<b>20,193</b>	11,820
Dividend		–	–	–	–
Earnings per share	(6)				
– Basic		<b>0.3 cent</b>	0.6 cent	<b>1.5 cents</b>	1.5 cents
– Diluted		<b>N/A</b>	N/A	<b>N/A</b>	N/A

# Consolidated Balance Sheet

	Notes	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
<b>Non-current assets</b>			
Property and equipment	(7)	13,191	12,218
Goodwill		93,857	4,933
Intangible assets	(8)	37,479	11,062
Other assets		10,776	7,564
Loan receivables	(10)	110	122
Deposits for acquisition		-	56,095
		<b>155,413</b>	<b>91,994</b>
<b>Current assets</b>			
Deferred tax assets		1,390	3,940
Account receivables	(9)	547,364	469,528
Loan receivables	(10)	53,508	38,426
Prepayments, deposits and other receivables		34,591	16,074
Amounts due from fellow subsidiaries		3,060	972
Listed investments held for trading		26,550	42,472
Derivative financial instrument		11	16
Bank deposits under conditions		34,877	17,125
Bank balances – trust and segregated accounts		428,236	352,902
Bank balances (general accounts) and cash		147,617	117,516
		<b>1,277,204</b>	<b>1,058,971</b>
<b>Current liabilities</b>			
Account payables	(11)	615,700	555,565
Accrued liabilities and other payables		49,857	33,939
Deferred revenues		429	-
Taxation payable		2,624	1,084
Obligations under finance leases – amount due within one year		152	150
Bank borrowings		262,455	171,737
Convertible loan note – amount due within one year	(13)	-	30,242
		<b>931,217</b>	<b>792,717</b>
Net current assets		<b>345,987</b>	<b>266,254</b>
Total assets less current liabilities		<b>501,400</b>	<b>358,248</b>

	Notes	<b>30 June 2006 (Unaudited) HK\$'000</b>	31 December 2005 (Audited) HK\$'000
Capital and reserves			
Share capital	(14)	<b>138,105</b>	104,488
Reserves		<b>361,806</b>	252,130
Equity attributable to equity holders of the Company		<b>499,911</b>	356,618
Minority interests		<b>1,407</b>	1,471
Total equity		<b>501,318</b>	358,089
Non-current liabilities			
Obligations under finance leases – amount due after one year		<b>82</b>	159
		<b>501,400</b>	358,248

## Condensed Consolidated Cash Flow Statement

	<b>Unaudited six months ended 30 June 2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Net cash used in operating activities	<b>(66,917)</b>	(37,175)
Net cash used in investing activities	<b>(64,365)</b>	(2,557)
Net cash from financing activities	<b>161,383</b>	66,022
Net increase in cash and cash equivalents	<b>30,101</b>	26,290
Cash and cash equivalents at beginning of period	<b>117,516</b>	71,500
Cash and cash equivalents at end of period	<b>147,617</b>	97,790
Bank balances (general accounts) and cash	<b>147,617</b>	97,790

# Consolidated Statement of Changes in Equity

Unaudited six months ended 30 June 2006

Notes	Attributable to equity holders of the Company									
	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	Convertible loan note equity reserve HK\$'000	Share-based payment reserve HK\$'000	Translation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total HK\$'000
At 1 January 2006	104,488	130,794	173,550	581	883	-	(53,678)	356,618	1,471	358,089
Profit for the period, representing total recognised income for the period	-	-	-	-	-	-	19,904	19,904	289	20,193
Conversion of convertible loan note (a)	6,000	10,508	-	(308)	-	-	-	16,200	-	16,200
Arising from partial repayment of convertible loan note	-	-	-	(273)	-	-	-	(273)	-	(273)
Issue of new shares (a)	27,617	82,781	-	-	-	-	-	110,398	-	110,398
Transaction costs attributable to issue of new shares (a)	-	(3,000)	-	-	-	-	-	(3,000)	-	(3,000)
Dividend paid to minority shareholders	-	-	-	-	-	-	-	-	(353)	(353)
Exchange difference arising from translation of foreign operations	-	-	-	-	-	64	-	64	-	64
At 30 June 2006	138,105	221,083	173,550	-	883	64	(33,774)	499,911	1,407	501,318



Unaudited six months ended 30 June 2005

	Attributable to equity holders of the Company									
	Notes	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	Convertible loan note equity reserve HK\$'000	Share-based payment reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total HK\$'000
At 1 January 2005, as originally stated		75,456	61,956	186,377	-	-	(84,951)	238,838	810	239,648
Effects of changes in accounting policies		-	-	-	771	680	(785)	666	-	666
At 1 January 2005, as restated		75,456	61,956	186,377	771	680	(85,736)	239,504	810	240,314
Profit for the period, representing total recognised income for the period		-	-	-	-	-	11,208	11,208	612	11,820
Amount transferred to set off accumulated losses	(b)	-	-	(12,827)	-	-	12,827	-	-	-
Arising from partial repayment of convertible loan note	(c)	-	-	-	(292)	-	-	(292)	-	(292)
2004 final dividend paid		-	-	-	-	-	(7,546)	(7,546)	-	(7,546)
At 30 June 2005, as restated		75,456	61,956	173,550	479	680	(69,247)	242,874	1,422	244,296

Notes:

- (a) Please refer to the note (14) of share capital for details of the issue of a total number of 336,170,000 new shares of HK\$0.10 each in the Company during the period.
- (b) Pursuant to a minutes of a Directors' meeting held on 30 May 2005, an amount of HK\$12,827,374 was transferred from the contributed surplus account to set off against the accumulated losses of the Company at 31 December 2004 of HK\$5,281,810.
- (c) It refers to the difference between the fair value amount allocated to the liability component of a convertible loan note and the repayment amount of HK\$4,000,000.

Notes:

## **(1) Basis of preparation**

The unaudited consolidated results of the Group have been prepared in accordance with the applicable disclosure requirements of the GEM Listing Rules and the Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

## **(2) Significant accounting policies**

The accounting policies and methods of computation used in the preparation of these accounts are consistent with those used in the annual accounts for the year ended 31 December 2005 except that certain accounting policies have been newly adopted or updated because they become applicable to the current operations of the Group including:

### **Revenue recognition**

Revenues arising from the online game services are recognised on the following basis:

- Online game services income is recognised when the playing units purchased by customers are used in playing the online game. Payments received from the sales of prepaid playing units that have not been used, are recorded as deferred revenues.

### **Intangible assets**

On initial recognition, intangible assets acquired separately or from acquisition of subsidiaries are recognised at cost and at fair value respectively. After initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

Intangible assets with indefinite useful lives are tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

Intangible assets with finite useful lives are tested for impairment when there is an indication that an asset may be impaired.

On the other hand, the Group has not early applied the following new Hong Kong Financial Reporting Standards (“HKFRSs”) and HKFRSs interpretations that have been issued but are not yet effective. The Directors of the Company anticipate that the application of these new HKFRSs and HKFRSs interpretations will have no material impact on the financial position of the Group.

HKAS 1 (Amendment)	Capital disclosure <sup>1</sup>
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures <sup>2</sup>
HKAS 21 (Amendment)	Net investment in a foreign operation <sup>2</sup>
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions <sup>2</sup>
HKAS 39 (Amendment)	The fair value option <sup>2</sup>
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts <sup>2</sup>
HKFRS 6	Exploration for and evaluation of mineral resources <sup>2</sup>
HKFRS 7	Financial instruments: Disclosures <sup>1</sup>
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease <sup>2</sup>
HK(IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds <sup>2</sup>
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market-waste electrical and electronic equipment <sup>3</sup>
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies <sup>4</sup>
HK(IFRIC) – INT 8	Scope of HKFRS 2 <sup>5</sup>
HK(IFRIC) – INT 9	Reassessment of embedded derivatives <sup>6</sup>

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

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

<sup>3</sup> Effective for annual periods beginning on or after 1 December 2005.

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

<sup>5</sup> Effective for annual periods beginning on or after 1 May 2006.

<sup>6</sup> Effective for annual periods beginning on or after 1 June 2006.

### (3) Revenues

	Unaudited three months ended 30 June 2006		Unaudited six months ended 30 June 2006	
	HK\$'000	2005 HK\$'000	HK\$'000	2005 HK\$'000
Fees and commission income	<b>64,079</b>	38,877	<b>133,264</b>	85,835
Interest income	<b>22,232</b>	7,571	<b>39,929</b>	12,093
Online game services income	<b>4,170</b>	–	<b>5,729</b>	–
	<b>90,481</b>	46,448	<b>178,922</b>	97,928

### (4) Business and geographical segments

For management purposes, the Group is currently organised into four (2005: three) main operating divisions, namely, broking, financing, corporate finance and online game services. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Broking	Broking of securities, options, futures and leveraged foreign exchange contracts as well as mutual funds and insurance-linked investment products and their trading services
Financing	Provision of margin financing and money lending services
Corporate finance	Provision of corporate finance services
Online game services	Provision of online game services in the PRC

For the activities of broking, financing and corporate finance, they are based in Hong Kong and both the revenues and contribution of these activities are derived from Hong Kong. On the other hand, the online game services are based in the PRC and both the relevant revenues and contribution are derived from the PRC. Therefore, further geographical segment analysis is not necessary.

## Income statement for the six months ended 30 June 2006

	Broking HK\$'000	Financing HK\$'000	Corporate finance HK\$'000	Online game services HK\$'000	Consolidated HK\$'000
Revenues	134,235	35,501	3,457	5,729	178,922
RESULT					
Segment profit (loss)	40,527	3,454	(2,550)	(14,578)	26,853
Other operating income					588
Net increase in fair value of listed investments held for trading					4,529
Unallocated corporate expenses					(7,687)
Profit before taxation					24,283
Taxation charge					(4,090)
Profit for the period					20,193

## Income statement for the six months ended 30 June 2005

	Broking HK\$'000	Financing HK\$'000	Corporate finance HK\$'000	Consolidated HK\$'000
Revenues	80,983	12,093	4,852	97,928
RESULT				
Segment profit (loss)	15,680	3,876	(2,087)	17,469
Other operating income				730
Net increase in fair value of listed investments held for trading				2,903
Unallocated corporate expenses				(9,132)
Profit before taxation				11,970
Taxation charge				(150)
Profit for the period				11,820

## (5) Taxation charge

	Unaudited three months ended 30 June 2006		Unaudited six months ended 30 June 2006	
	HK\$'000	2005 HK\$'000	HK\$'000	2005 HK\$'000
Current period:				
Hong Kong Profits Tax	<b>1,470</b>	100	<b>1,590</b>	150
Deferred taxation	-	-	<b>2,500</b>	-
	<b>1,470</b>	100	<b>4,090</b>	150

Hong Kong Profits Tax is calculated at 17.5% on the estimated assessable profits for both periods.

No provision for the PRC income tax has been made as the Group did not have any assessable profits during the period.

Part of the deferred tax asset of HK\$2,500,000 has been utilised in current period due to assessable profit was expected to be earned by certain subsidiaries. No other deferred tax asset has been recognised in the financial statements due to the unpredictability of future taxable profit streams.

## (6) Earnings per share

The calculation of basic and diluted earnings per share attributable to the ordinary equity holders of the Company for the three months and the six months ended 30 June 2006 together with the comparative figures for the prior periods are as follows:

	Unaudited three months ended 30 June 2006 HK\$'000		Unaudited six months ended 30 June 2006 HK\$'000	
		2005 HK\$'000		2005 HK\$'000
<b>Profit</b>				
Profit for the purpose of basic and diluted earnings per share	<b>4,593</b>	4,511	<b>19,904</b>	11,208
<b>Number of shares</b>				
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>1,381,051,448</b>	754,556,448	<b>1,361,580,454</b>	754,556,448
Effect of dilutive potential ordinary shares assumed exercise of share options	<b>N/A</b>	N/A	<b>N/A</b>	N/A
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<b>1,381,051,448</b>	754,556,448	<b>1,361,580,454</b>	754,556,448

The effect on the profit in relation to the interest on convertible loan note is no longer exist as there was no outstanding convertible loan note as at 30 June 2006.

The computation of diluted earnings per share does not assume the exercise of the Company's outstanding share options as the exercise prices of those options were higher than the average market price for shares for both periods.

## (7) Property and equipment

During the period, the Group spent approximately HK\$1,741,000 (2005: HK\$395,000) on the acquisitions of property and equipment.

## (8) Intangible assets

	<b>30 June 2006 (Unaudited) HK\$'000</b>	31 December 2005 (Audited) HK\$'000
Trading rights in the exchanges in Hong Kong Club memberships	<b>9,092</b> <b>1,970</b>	9,092 1,970
Carrying value of an online game and related licensing fee and copyrights arising from acquisition of online game business	<b>26,417</b>	–
	<b>37,479</b>	11,062

Intangible assets amounting to HK\$26,417,000 represent the fair value of an online game and related licensing fee and copyrights acquired from the acquisition of the online game business less accumulated amortisation during the period. These intangible assets are recognised and measured at fair values upon acquisition and have been amortised on a straight-line basis over their useful lives, the expected life of this existing game is four years.

## (9) Account receivables

	<b>30 June 2006 (Unaudited) HK\$'000</b>	31 December 2005 (Audited) HK\$'000
Account receivables arising from the business of dealing in securities and equity options:		
Clearing houses, brokers and dealers	<b>27,030</b>	29,894
Cash clients	<b>77,841</b>	94,958
Margin clients	<b>340,381</b>	270,707
Account receivables arising from the business of dealing in futures and options:		
Clearing houses, brokers and dealers	<b>96,664</b>	70,662
Commission receivables from brokerage of mutual funds and insurance-linked investment plans and products	<b>3,686</b>	2,275
Account receivables arising from the business of provision of corporate finance services	<b>1,762</b>	1,032
	<b>547,364</b>	469,528



The settlement terms of account receivables arising from the business of dealing in securities and equity options are two days after trade date, and account receivables arising from the business of dealing in futures and options are one day after trade date.

Except for the loans to margin clients as mentioned below, all the account receivables arising from the business of dealing in securities and equity options aged within 30 days.

Loans to margin clients are secured by clients' pledged securities, repayable on demand and bear interest at commercial rates. No aged analysis is disclosed as in the opinion of Directors, the aged analysis does not give additional value in view of the nature of business of share margin financing.

Included in account receivables from margin clients arising from the business of dealing in securities is an amount due from an entity in which Mr Kwan Pak Hoo Bankee has a beneficial interest and is a Director. Details of the amount due from the entity are as follows:

Name of company	Balance at 30.06.2006 HK\$'000	Balance at 31.12.2005 HK\$'000	Maximum amount outstanding during the period HK\$'000
Cash Guardian Limited ("Cash Guardian")	<b>12,073</b>	11,569	12,073

The above balances are secured by pledged securities and repayable on demand, and bear interest at commercial rates which are similar to the rates offered to other margin clients.

In respect of the commission receivables from brokerage of mutual funds and insurance-linked investment plans and products as well as account receivables arising from the business of provision of corporate finance services, the Group allows a credit period of 30 days. The aged analysis is as follows:

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
0-30 days	<b>3,196</b>	2,373
31-60 days	<b>914</b>	436
61-90 days	<b>43</b>	5
Over 90 days	<b>1,295</b>	493
	<b>5,448</b>	3,307

## (10) Loan receivables

	<b>30 June 2006 (Unaudited) HK\$'000</b>	31 December 2005 (Audited) HK\$'000
Variable-rate loan receivables denominated in Hong Kong dollar, net of provision for bad and doubtful debts	<b>53,618</b>	38,548
Carrying amount analysed for reporting purposes:		
Current assets (receivable within 12 months from the balance sheet date)	<b>53,508</b>	38,426
Non-current assets (receivable after 12 months from the balance sheet date)	<b>110</b>	122
	<b>53,618</b>	38,548

Loan receivables with an aggregate carrying value of approximately HK\$29,210,000 (31 December 2005: HK\$25,756,000) are secured by pledged marketable securities.

The variable-rate loan receivables have contractual maturity dates as follows:

	<b>30 June 2006 (Unaudited) HK\$'000</b>	31 December 2005 (Audited) HK\$'000
Within one year	<b>53,508</b>	38,426
In more than one year but not more than two years	<b>24</b>	23
In more than two years but not more than three years	<b>25</b>	25
In more than three years but not more than four years	<b>27</b>	26
In more than four years but not more than five years	<b>29</b>	28
In more than five years	<b>5</b>	20
	<b>53,618</b>	38,548

The effective interest rates (which are equal to contractual interest rate) on the Group's loan receivables are Prime rate plus a spread. Interest rate term is fixed at the time when entering into loan agreement.

## (11) Account payables

	<b>30 June 2006 (Unaudited) HK\$'000</b>	31 December 2005 (Audited) HK\$'000
Account payables arising from the business of dealing in securities and equity options:		
Cash clients	<b>398,199</b>	347,961
Margin clients	<b>72,537</b>	77,148
Clearing houses, brokers and dealers	<b>749</b>	-
Account payables to clients arising from the business of dealing in futures and options	<b>142,826</b>	127,446
Account payables to clients arising from the business of dealing in leveraged foreign exchange contracts	<b>1,078</b>	3,010
Account payables arising from the business of the online game services	<b>311</b>	-
	<b>615,700</b>	555,565

The settlement terms of account payables arising from the business of dealing in securities are two days after trade date. Except for the amounts payable to margin clients, the age of these balances is within 30 days.

Amounts due to margin clients are repayable on demand.

Account payables to clients arising from the business of dealing in futures, options and leveraged foreign exchange contracts are margin deposits received from clients for their trading of these contracts. The excesses of the outstanding amounts over the required margin deposits stipulated are repayable to clients on demand.

Account payables to vendors arising from the online game services are payment received from the sales of prepaid playing units cards by various distribution vendors that have not been sold to ultimate customers.

No aged analysis for the above account payables is disclosed as in the opinion of Directors, the aged analysis does not give additional value in view of the nature of these business.

## **(12) Financial risk management objectives and policies**

The Group's major financial instruments include equity investments, statutory and other deposits, bank borrowings, account receivables, account payables, convertible loan note and derivative financial instruments. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

### **Market risk**

#### ***Foreign exchange risk***

Foreign exchange risk is the risk of loss due to adverse movements in foreign exchange rate relating to receivables from foreign brokers and foreign currency deposits with banks. To mitigate the foreign currency risk, leveraged foreign exchange contracts are entered into for foreign exchange exposure arising from broking in foreign shares and commodities.

#### ***Equity price risk***

The Group is exposed to equity price risk through its investments in equity securities. The Board of Directors manages the exposure by closely monitoring the portfolio of equity investments.

#### ***Interest rate risk***

Most of the bank borrowings, that are matured within 3 months and are collateralised by margin clients' securities, carry interest at variable rate which can mitigate the cash flow interest rate risk. Certain of the bank borrowings carry fixed-rate interest. To mitigate the fair value interest rate risk, the Group entered into interest rate swap contract to hedge against its exposures to changes in fair values of these borrowings.

### **Credit risk**

The Group's maximum exposure to credit risk in the event of the clients' and foreign brokers' failure to perform their obligations as at 30 June 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the Credit and Risk Management Committee is set up to compile the credit and risk management policies, to approve credit limits and to determine any debt recovery action on those delinquent receivables. In addition, the Group reviews the recoverable amount for each individual account receivables at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regards, the Directors of the Company consider that the Group's credit risk is effectively controlled and significantly reduced.

The Group has no significant concentration of credit risk, with exposure spread over a number of clients and foreign brokers.

## Liquidity risk

As part of ordinary broking activities, the Group is exposed to liquidity risk arising from timing difference between settlement with Clearing House or brokers and clients. To address the risk, treasury team works closely with the settlement division on monitoring the liquidity gap. In addition, for contingency purposes, clean loan facilities are put in place.

### (13) Convertible loan note

The convertible loan note of principal amount of HK\$40,500,000 was issued to Abdulrahman Saad Al-Rashid & Sons Company Limited ("ARTAR"), an independent third party, on 1 September 2004. It bears interest rate of 3% per annum and is matured on 31 December 2006 or any other date mutually agreed between the Group and ARTAR. The Company has the right to repay early part or all of the amount and the accrued interest of the note at any time prior to the maturity date. At 31 December 2005, the outstanding nominal value of the convertible loan note was HK\$30,500,000 which can be convertible into a total number of 112,962,962 shares at the initial conversion price of HK\$0.27 each (subject to adjustment).

On 18 January 2006, ARTAR had partially converted the convertible loan note in the sum of HK\$16,200,000 at the conversion price of HK\$0.27 each for a total of 60,000,000 shares of HK\$0.10 each in the Company. On 1 June 2006 and 28 June 2006, the Company had made early partial repayments of the convertible loan note in the amount of HK\$8,000,000 and HK\$6,300,000 respectively. As at 28 June 2006, the convertible loan note was fully repaid.

### (14) Share capital

	Notes	Number of shares '000	Amount HK\$'000
Ordinary shares of HK\$0.10 each			
Authorised:			
At 1 January 2006 and 30 June 2006		3,000,000	300,000
Issued and fully paid:			
At 1 January 2006		1,044,881	104,488
Issue of placing shares	(a)	155,000	15,500
Issue of subscription shares	(b)	120,000	12,000
Issue of conversion shares	(c)	60,000	6,000
Exercise of share options	(d)	1,170	117
At 30 June 2006		1,381,051	138,105

Notes:

**(a) Issue of placing shares**

Pursuant to the placing agreement dated 15 September 2005, a total of 155,000,000 new shares of HK\$0.10 each were issued to placees at a placing price of HK\$0.40 each on 10 January 2006. The gross proceeds from the placing were HK\$62,000,000. These shares rank pari passu in all respects with other shares in issue.

**(b) Issue of subscription shares**

Pursuant to the subscription agreement dated 15 September 2005, a total of 120,000,000 new shares of HK\$0.10 each were issued to Celestial Investment Group Limited ("CIGL"), the controlling shareholder of the Company, at a subscription price of HK\$0.40 each on 10 January 2006. The gross proceeds from the subscription were HK\$48,000,000. These shares rank pari passu in all respects with other shares in issue.

**(c) Issue of conversion shares**

On 18 January 2006, a total of 60,000,000 new shares of HK\$0.10 each were issued upon partial exercise of conversion right attaching to the convertible loan note issued on 1 September 2004 in the sum of HK\$16,200,000 at the conversion price of HK\$0.27 each. These shares rank pari passu in all respects with other shares in issue.

**(d) Exercise of share options**

On 26 January 2006, 1,170,000 share options were exercised at an exercise price of HK\$0.34 each, resulting in the issue of a total of 1,170,000 new shares of HK\$0.10 each for a total consideration (before expenses) of HK\$397,800. These shares rank pari passu in all respects with other shares in issue.

**(15) Contingent liability**

With regard to the litigation with Pang Po King Carrie ("Pang") as disclosed in the annual report for the year ended 31 December 2005, at the period end date, the Directors do not envisage the claim made by Pang will be held to be valid. The case was in progress and it was still in the discovery stage as at the end of the period. Accordingly, no provision was made in the financial statements. Besides that, the Group has no other material contingent liability outstanding.

## (16) Commitments

### (a) Underwriting commitment

At 30 June 2006, the Group had no underwriting commitment outstanding. The underwriting commitment of HK\$129,120,750 outstanding at 31 December 2005 in respect of the new share public offer under the requirement of a corporate finance business was fully discharged when the deal was completed on 6 January 2006.

### (b) Capital commitment

	<b>30 June 2006 (Unaudited) HK\$'000</b>	31 December 2005 (Audited) HK\$'000
Capital expenditure in respect of the acquisition of subsidiaries contracted for but not provided in the financial statements	-	55,000

The captioned acquisition of subsidiaries was duly passed at the special general meeting by shareholders and independent shareholders of the Company on 20 December 2005. The acquisition was completed on 10 January 2006 upon the completion of all conditions as stated in the share purchase agreement dated 15 September 2005.

## (17) Post balance sheet date event

On 7 July 2006, the Group has entered into a license agreement with a Korean licensor for obtaining the license of a massively multiplayer online role-playing game ("MMORPG") and operating the MMORPG in the PRC. The Group shall pay the recoupable and non-recoupable license fee to the licensor in a total amount of USD3,000,000.

# Dividend

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The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2006 (2005: Nil).

## Review and Outlook

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### Financial Review

For the six months ended 30 June 2006, the Group achieved a net profit attributable to shareholders of HK\$19.9 million as compared with the HK\$11.2 million recorded in the same period last year. The increase in net profit was mainly attributable to the improved performance of the Group's broking business.

The Group recorded revenues of HK\$178.9 million for the period as compared to HK\$97.9 million for the same period last year. The increase was attributable to the significant growth in securities brokerage income due to the continued speculation over appreciation of RMB as well as the continuous boom of initial public offerings (IPO) during the period, especially for mega China-related enterprises.

The Group's total equity amounted to HK\$501.3 million on 30 June 2006 as compared to HK\$358.1 million at end of the previous year. The net increase was due to the growth in retained earnings and the issues of new shares during the period.

On 30 June 2006, our cash and bank balances including trust and segregated accounts totalled HK\$610.7 million as compared to HK\$487.5 million at end of the previous year. The increase in cash and bank balances of the trust and segregated accounts was a result of an increase in clients' deposits as they became more active in trading near the period end. On the other hand, the increase in the cash and bank balances of our house accounts was the result of several fund raising activities during the period. The liquidity ratio on 30 June 2006 remained healthy at 1.4 times, as compared to 1.3 times on 31 December 2005.

Our total bank borrowings on 30 June 2006 were HK\$262.5 million, comprising bank loans of HK\$204.5 million and overdrafts of HK\$58.0 million. The bank borrowings were drawn to fund securities margin financing to our clients. Total bank loans and overdrafts of HK\$207.7 million were collateralised by our margin clients' securities pledged to us in turn by them for the purpose of securing their financing from us. Moreover, cash deposits of HK\$17.5 million were pledged as collaterals for the general overdrafts of HK\$44.9 million. In addition, pursuant to a letter of undertaking provided by the Group to a bank, the Group covenants to maintain deposits of not less than HK\$15.0 million with the bank as a pre-condition for an overdraft facility granted by the bank. To this end, a bank deposit of approximately HK\$16.5 million was held for this purpose. Another deposit of HK\$0.9 million was pledged to secure a general banking facility granted to a subsidiary for a bank guarantee.



Apart from these, largely back-to-back advances, we had no other bank borrowings as at the end of the period as we exercised prudence to ensure that our financial resources would not be in any way strained.

The Company had a convertible loan note in the outstanding nominal value of HK\$30.5 million on 31 December 2005. In January 2006, the noteholder of the convertible loan note partially exercised the right attaching to the convertible loan note in the amount of HK\$16.2 million at the conversion price of HK\$0.27 each to convert into a total number of 60 million new shares of the Company. In June 2006, the Company had made early partial repayments of the convertible loan note in the total amount of HK\$14.3 million. The convertible loan note was fully repaid as at the end of the period. The ratio for our interest bearing borrowings to total equity was 52.4% on 30 June 2006 as compared to 56.4% on 31 December 2005. As the bank borrowings being of a back-to-back nature, our gearing was kept at a conservatively low level.

In September 2005, the Group announced a major transaction for the proposed acquisition of Netfield Technology Limited and its subsidiaries at a consideration of HK\$110 million and several funding raising activities. These transactions were approved and completed in January 2006. Accordingly, 155 million placing shares at a placing price of HK\$0.40 per share and 120 million subscription shares at a subscription price of HK\$0.40 per share were issued to the Group's controlling shareholder and to various independent third parties respectively on 10 January 2006. At 30 June 2006, the Group was holding a portfolio of listed investments with market value of approximately HK\$26.6 million and a profit on such listed investments of HK\$4.5 million was recorded for the period. During the six months ended 30 June 2006, the Group did not make any material acquisitions or disposals nor did we hold any significant investment other than mentioned above. The Group did not have any material capital commitment as at 30 June 2006.

Save as those stated in the post balance sheet date event, we do not have any future plans for material investments, addition of capital assets nor other commitments.

## **Business Review**

Year 2006 began with a strong note: rising investors' confidence and robust economic growth in Hong Kong. The Hong Kong stock market was filled with optimism and excitement in anticipation of continued growth in corporate profits. Signs of sustained high single-digit economic growth in China and continued speculation over RMB appreciation attracted significant capital inflows into Hong Kong, particularly into the China-related shares. During the period, the Hang Seng China Enterprises Index had risen by 27.3%. Notably, the IPO market was hot and most IPO issues were heavily sought after, thanks to investors' optimism and abundance of liquidity. Globally, the continued rise in the prices of crude oil, precious metals and commodities to reach decade-long highs has raised concerns over cost-push inflation and posed threat to global economic growth.

The Group achieved significant progress in the first half of 2006 with an increase in revenues and net profit attributable to shareholders of 82.7% and 77.6%, respectively. The Group recorded revenues of HK\$178.9 million compared to HK\$97.9 million for the same period of last year. A net profit attributable to shareholders of HK\$19.9 million was recorded for the period ended 30 June 2006.

The Hong Kong stock market made a new turnover record in the second quarter on the heels of the trading momentum carried forward from the first quarter. Our market share by turnover remained strong due partly to the general market strength and partly to the efforts we have invested in the past years to improve our delivery channels and execution platforms. These initiatives have enabled us to attract sales talents, profitable customer groups, and new institutional investors.

The Group successfully managed to sustain its profitability and maintained respectable growth through superior execution and steadfast adherence to its product enrichment and revenue diversification strategy. We continue to set as an objective to expand and strengthen our wealth management initiatives and investment banking activities while we enjoy the organic growth of our traditional brokerage operations.

The brokerage business, among other business units, continued to experience the fastest growth in the first half while revenues from other businesses continued to show steady and healthy increases. The business had a double-digit increase in sales force in the first half and will continue this recruiting trend as part of the brokerage expansion plan. The enhanced sales platforms that we put in place to deliver better executions have allowed us to successfully expand our client mix from retail to include institutions.

Our wealth management division, while encountering fierce competition, continued to maintain its share of the revenue contribution during the period under review. To solidify and expand its market share in the increasingly competitive market environment, the division will strengthen cross-selling synergy with the house-served brokerage clients.

The investment banking unit continued to be active in sourcing deals in the PRC mid-cap segment after it helped list Lingbao Gold successfully in the first quarter which has drawn good publicity and attention from the financial services industry. The team is working on finalising a number of transactions initiated earlier this year and is also laying out grounds for the coming months.

The asset management business, which was launched last year, experienced healthy growth in the first half. It continues to focus on growing the client base and assets under management while planning to initiate a discretionary portfolio management service.

Our online game business performed in line with the financial targets as set out in the business plan. In the second quarter, it successfully licensed the multi-player online game in Taiwan after the initial launch of the game in the PRC earlier this year. The number of registered users has now exceeded 6 million and that of concurrent users has reached twenty-two thousand. The subsidiary will continue to focus on expanding licensing into other regions and promoting branch offices in the coming months.

In light of our financial achievements in the last three years, the Group has recently submitted an application for main board listing to raise our corporate profile and broaden our investor base.

The Group is cautiously optimistic about growth in the coming months. There are challenges and factors ahead that could affect the global and local investment sentiments. The management is specifically concerned about high energy and commodity prices, inflationary pressure, additional US interest rate hikes, and impact of a US economic slowdown and China's macro-tightening policy on the rest of the world. While we have been on track with our business plan thus far, we will remain committed to managing our cost structure and our business overall with a sense of discipline as a good business practice. We will continue to diversify our revenue mix through strengthening existing businesses and enriching product types. Our goal is to position CFSG as clients' financial services house of choice that has comprehensive product offerings to meet their diverse financial needs, executes well and values their business relationships.

## Employee Information

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At 30 June 2006, the Group had 328 employees. Our employees were remunerated according to their performance, working experience and market conditions. In addition to basic salaries and Mandatory Provident Fund scheme, we also offered staff benefits including medical schemes, discretionary share options, performance bonus and sales commission. The total amount of remuneration cost of employees of the Group for the period under review was approximately HK\$35.7 million. We continue to organise training to employees in areas such as product knowledge, customer service, selling techniques, team building, interview techniques, communication, presentation, coaching, mentoring and continuous professional training programmes required by regulatory bodies. Meanwhile, we are also liaising with external consultants to conduct team building and orienteering training program.

## Directors' Interests in Securities

As at 30 June 2006, the interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of 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 pursuant to rule 5.46 of the GEM Listing Rules were as follows:

### A. The Company

#### (a) Long positions in the ordinary shares

Name	Capacity	Number of shares		Shareholding (%)
		Personal	Other interest	
Kwan Pak Hoo Bankee	Founder of a discretionary trust	-	679,219,434*	49.18
Law Ping Wah Bernard	Beneficial owner	15,000,000	-	1.09
Wong Kin Yick Kenneth	Beneficial owner	5,600,000	-	0.41
Cheng Man Pan Ben	Beneficial owner	388,000	-	0.03
Cheng Shu Shing Raymond	Beneficial owner	1,100,000	-	0.08
		22,088,000	679,219,434	50.79

- \* The shares were held as to 40,392,000 shares by Cash Guardian and as to 638,827,434 shares by CIGL, a wholly-owned subsidiary of Celestial Asia Securities Holdings Limited ("CASH"). Mr Kwan was deemed to be interested in all these shares as a result of his interests in CASH through Cash Guardian as disclosed in the "Substantial Shareholders" below.

**(b) Long positions in the underlying shares – options under share option schemes**

Name	Date of grant	Exercise period	Exercise price per share (HK\$)	Notes	Number of options		Percentage to issued shares as at 30 June 2006 (%)	
					outstanding as at 1 January 2006	lapsed during the period (Note [2])		
					outstanding as at 30 June 2006			
Kwan Pak Hoo Bankee	6/10/2005	6/10/2005 – 31/10/2006	0.38	(1)	7,800,000	-	7,800,000	0.56
Low Ping Wah Bernard	6/10/2005	6/10/2005 – 31/10/2006	0.38		7,800,000	-	7,800,000	0.56
Wong Kin Yick Kenneth	6/10/2005	6/10/2005 – 31/10/2006	0.38		7,800,000	-	7,800,000	0.56
Cheng Man Pan Ben	2/12/2003	1/6/2004 – 31/5/2006	0.34		650,000	(650,000)	-	-
	6/10/2005	6/10/2005 – 31/10/2006	0.38		7,800,000	-	7,800,000	0.56
Cheng Shu Shing Raymond	6/10/2005	6/10/2005 – 31/10/2006	0.38		1,000,000	-	1,000,000	0.07
Hui Ka Wah Ronnie	6/10/2005	6/10/2005 – 31/10/2006	0.38		1,000,000	-	1,000,000	0.07
Lo Kwok Hung John	6/10/2005	6/10/2005 – 31/10/2006	0.38		1,000,000	-	1,000,000	0.07
Kwok Oi Kuen Joan Elmond	6/10/2005	6/10/2005 – 31/10/2006	0.38	(3)	7,800,000	(7,800,000)	-	-
					42,650,000	(8,450,000)	34,200,000	2.45

Notes:

- (1) Mr Kwan Pak Hoo Bankee is also the substantial shareholder of the Company.
- (2) The options were lapsed during the period due to expiry or cessation of employment of participants with the Group.
- (3) Ms Kwok Oi Kuen Joan Elmond resigned as Director of the Company during the period.
- (4) The options are held by the Directors in the capacity of beneficial owners.
- (5) No option was granted, exercised or cancelled during the period.

(c) **Aggregate long positions in the ordinary shares and the underlying shares**

Name	Number of shares	Number of underlying shares	Aggregate in number	Percentage to issued shares
				as at 30 June 2006 (%)
Kwan Pak Hoo Bankee	679,219,434	7,800,000	687,019,434	49.74
Law Ping Wah Bernard	15,000,000	7,800,000	22,800,000	1.65
Wong Kin Yick Kenneth	5,600,000	7,800,000	13,400,000	0.97
Cheng Man Pan Ben	388,000	7,800,000	8,188,000	0.59
Cheng Shu Shing Raymond	1,100,000	1,000,000	2,100,000	0.15
Hui Ka Wah Ronnie	-	1,000,000	1,000,000	0.07
Lo Kwok Hung John	-	1,000,000	1,000,000	0.07
	701,307,434	34,200,000	735,507,434	53.24

**B. Associated corporations (within the meaning of SFO)**

**1. CASH**

**(a) Long positions in the ordinary shares**

Name	Capacity	Number of shares		Shareholding (%)
		Personal	Other interest	
Kwan Pak Hoo Bankee	Founder of a discretionary trust	-	164,028,376*	37.49
Law Ping Wah Bernard	Beneficial owner	5,096,200	-	1.16
Cheng Man Pan Ben	Beneficial owner	63,500	-	0.01
		5,159,700	164,028,376	38.66

\* The shares were held by Cash Guardian. Mr Kwan was deemed to be interested in all these shares as a result of his interests in Cash Guardian as disclosed in the "Substantial Shareholders" below.

**(b) Aggregate long positions in the ordinary shares and the underlying shares**

Name	Number of shares	Aggregate in number	Percentage to issued shares
			as at 30 June 2006 (%)
Kwan Pak Hoo Bankee	164,028,376	164,028,376	37.49
Law Ping Wah Bernard	5,096,200	5,096,200	1.16
Cheng Man Pan Ben	63,500	63,500	0.01
	<u>169,188,076</u>	<u>169,188,076</u>	<u>38.66</u>

**2. CASH Retail Management Group Limited**

**(a) Long positions in the ordinary shares**

Name	Capacity	Number of shares	Shareholding (%)
		Other interest	
Kwan Pak Hoo Bankee	Founder of a discretionary trust	<u>392,027,587*</u>	<u>35.88</u>

\* The shares were held as to 389,027,587 shares by CIGL and its subsidiaries and as to 3,000,000 shares by Cash Guardian. Mr Kwan was deemed to be interested in all these shares as a result of his interests in CASH through Cash Guardian as disclosed in the "Substantial Shareholders" below.

**(b) Aggregate long positions in the ordinary shares and the underlying shares**

Name	Number of shares	Aggregate in number	Percentage to issued shares
			as at 30 June 2006 (%)
Kwan Pak Hoo Bankee	<u>392,027,587</u>	<u>392,027,587</u>	<u>35.88</u>

Save as disclosed above, as at 30 June 2006, none of the Directors, chief executive or their associates had any personal, family, corporate or other beneficial 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).

# Share Option Scheme

Details of share options to subscribe for shares in the Company granted to participants under the share option scheme of the Company during the six months ended 30 June 2006 were as follows:

Date of grant	Exercise period	Exercise price per share (HK\$)	Note	Number of options			outstanding as at 30 June 2006
				outstanding as at 1 January 2006	lapsed during the period (Note (2))	exercised during the period (Note (3))	
<b>Directors</b>							
2/12/2003	1/6/2004 – 31/5/2006	0.34	(1)	650,000	(650,000)	-	-
6/10/2005	6/10/2005 – 31/10/2006	0.38	(1)	42,000,000	(7,800,000)	-	34,200,000
				42,650,000	(8,450,000)	-	34,200,000
<b>Employees</b>							
2/12/2003	1/6/2004 – 31/5/2006	0.34		4,420,000	(3,250,000)	(1,170,000)	-
6/10/2005	6/10/2005 – 31/10/2006	0.38		33,000,000	-	-	33,000,000
				37,420,000	(3,250,000)	(1,170,000)	33,000,000
				80,070,000	(11,700,000)	(1,170,000)	67,200,000

Notes:

- (1) Details of the options granted to the Directors are set out in the section headed "Directors' Interests in Securities".
- (2) The options were lapsed during the period due to expiry or cessation of employment of participants with the Group.
- (3) On 26 January 2006, 1,170,000 share options were exercised at the exercise price of HK\$0.34 per share. The weighted average closing price of the Company's shares immediately before the date of exercise was HK\$0.42 per share.
- (4) No option was granted or cancelled during the period.



## Substantial Shareholders

As at 30 June 2006, the persons/companies, other than a Director or chief executive of the Company, who had interests or short positions 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	Capacity	Number of shares	Shareholding (%)
Jeffnet Inc (Note (1))	Trustee of a discretionary trust	679,219,434	49.18
Cash Guardian (Note (1))	Interest in a controlled corporation	679,219,434	49.18
CASH (Note (1))	Interest in a controlled corporation	638,827,434	46.26
CIGL (Note (1))	Beneficial owner	638,827,434	46.26
Mr Al-Rashid, Abdulrahman Saad ("Mr Al-Rashid") (Note (2))	Interest in a controlled corporation	152,924,000	11.07
Abdulrahman Saad Al-Rashid & Sons Company Limited ("ARTAR") (Note (2))	Beneficial owner	152,924,000	11.07
Dr Wolfgang Auer von Welsbach (Note (3))	Interest in a controlled corporation	71,502,907	5.18
Auer von Welsbach Privatstiftung (Note (3))	Interest in a controlled corporation	71,502,907	5.18
AvW Beteiligungsverwaltungs GmbH (Note (3))	Interest in a controlled corporation	71,502,907	5.18
AvW Management Beteiligungs AG (Note (3))	Interest in a controlled corporation	71,502,907	5.18
AvW Invest AG (Note (3))	Beneficial owner	71,502,907	5.18

Notes:

- (1) This refers to the same number of 679,219,434 shares which were held as to 638,827,434 shares by CIGL, a wholly-owned subsidiary of CASH, and as to 40,392,000 shares by Cash Guardian (which was 100% beneficially owned by Jeffnet Inc). CASH was owned as to approximately 37.49% by Cash Guardian. Jeffnet Inc held these shares as trustee of The Jeffnet Unit Trust, units of which were held by a discretionary trust established for the benefit of the family members of Mr Kwan Pak Hoo Bankee. Pursuant to the SFO, Mr Kwan, Jeffnet Inc and Cash Guardian were deemed to be interested in all the shares held by CIGL through CASH. The above interest has already been disclosed as other interest of Mr Kwan in the section headed "Directors' Interests in Securities" above.
- (2) This refers to the same number of 152,924,000 shares held by ARTAR. ARTAR was a 45% owned controlled corporation of Mr Al-Rashid. Pursuant to the SFO, Mr Al-Rashid was deemed to be interested in the shares and the underlying shares held by ARTAR.

- (3) This refers to the same number of 71,502,907 shares held by AvW Invest AG, an Austria corporation and was listed on Vienna Stock Exchange, ATX Prime Market. AvW Invest AG was 74% owned by AvW Management Beteiligungs AG, which in turn was 100% owned by AvW Beteiligungsverwaltungs GmbH. AvW Beteiligungsverwaltungs GmbH is 100% owned by Auer von Welsbach Privatstiftung, which was a discretionary trust established in Austria and its founders include Dr Wolfgang Auer von Welsbach. Pursuant to the SFO, Dr Wolfgang Auer von Welsbach, Auer von Welsbach Privatstiftung, AvW Beteiligungsverwaltungs GmbH and AvW Management Beteiligungs AG were deemed to be interested in all the shares held by AvW Invest AG.

Save as disclosed above, as at 30 June 2006, no other parties were recorded in the register required by the SFO to be kept as having an interest of 5% or more or short positions of the issued share capital of the Company.

## Corporate Governance

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During the accounting period from 1 January 2006 to 30 June 2006, the Company had duly complied with the code provisions set out in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 15 of the GEM Listing Rules. The Directors are not aware of any deviations from the CG Code throughout the period under review.

## Compliance with the Model Code

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The Company has adopted a code of conduct regarding securities transactions by Directors as set out in rules 5.48 to 5.67 of the GEM Listing Rules. All Directors have confirmed, following specific enquiry by the Company, that they fully complied with the required standard of dealings set out therein during the accounting period from 1 January 2006 to 30 June 2006.

## Review of Results

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The Group's unaudited consolidated results for the six months ended 30 June 2006 have not been reviewed by the auditors of the Company, but have been reviewed by the Audit Committee of the Company.

## Purchase, Sale or Redemption of the Company's Securities

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

On behalf of the Board  
**Bankee P Kwan**  
Chairman

Hong Kong, 9 August 2006

*As at the date hereof, the executive Directors are Mr Kwan Pak Hoo Bankee, Mr Law Ping Wah Bernard, Mr Wong Kin Yick Kenneth and Mr Cheng Man Pan Ben, and the independent non-executive Directors are Mr Cheng Shu Shing Raymond, Dr Hui Ka Wah Ronnie and Mr Lo Kwok Hung John.*