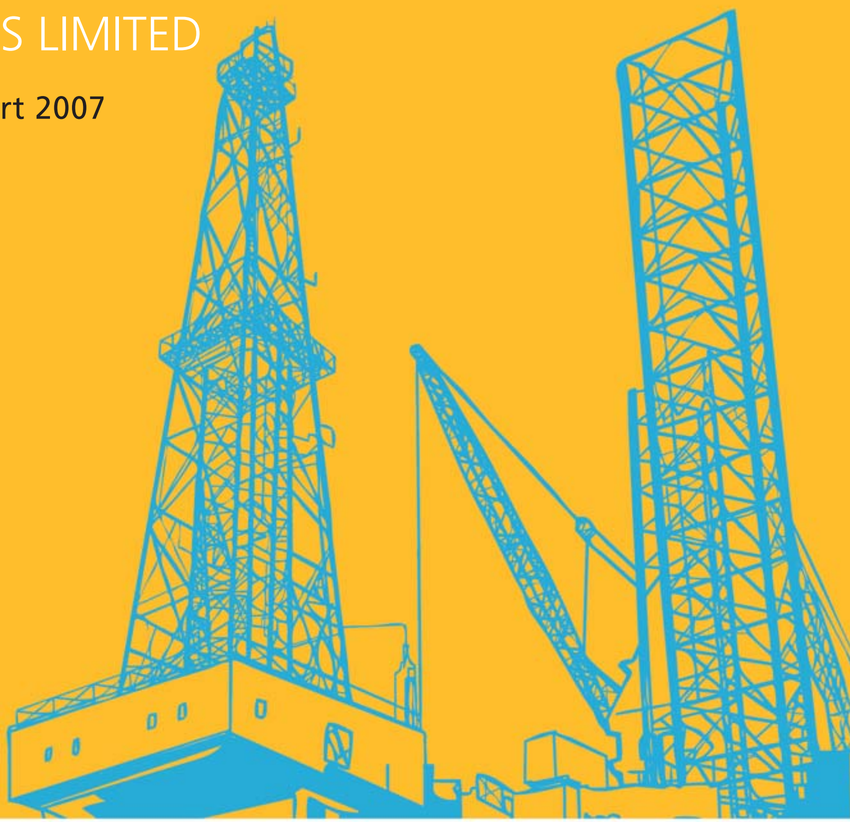
# SOUTH SEA PETROLEUM HOLDINGS LIMITED

## Interim Report 2007

stock code : 76



SSP 南海石油

# Contents

The Board of Directors (the "Board") of South Sea Petroleum Holdings Limited (the "Company") is pleased to announce the unaudited condensed consolidated balance sheet as at 30 June 2007 of the Company and its subsidiaries (the "Group"), the unaudited condensed consolidated income statement, the unaudited condensed consolidated cash flow statement and the unaudited consolidated statement of changes in equity for the six months ended 30 June 2007 as follows:

## CONDENSED CONSOLIDATED INCOME STATEMENT

| | | **Six months ended** | |
|---|---|---|---|
| | | **30 June 2007** | 30 June 2006 |
| | | **Unaudited** | Unaudited |
| | *Notes* | ***US$'000*** | *US$'000* |
| **TURNOVER** | *2* | **22,765** | 22,939 |
| Cost of sales | | **(15,816)** | (15,393) |
| | | **6,949** | 7,546 |
| Other income | | **1,520** | 803 |
| Exploratory dry hole costs | | **(5,283)** | – |
| General and administrative expenses | | **(10,252)** | (11,647) |
| **LOSS FROM OPERATING ACTIVITIES** | *2 & 3* | **(7,066)** | (3,298) |
| Finance costs | | **(114)** | (252) |
| **LOSS BEFORE TAX** | | **(7,180)** | (3,550) |
| Income tax | *4* | **–** | 29 |
| **LOSS AFTER TAX** | | **(7,180)** | (3,521) |
| Attributable to: | | | |
| Equity shareholders of the Company | | **(7,181)** | (3,520) |
| Minority interests | | **1** | (1) |
| | | **(7,180)** | (3,521) |
| **LOSS PER SHARE – BASIC** | | | |
| *(US Cents)* | *5* | **(0.25)** | (0.40) |

# CONDENSED CONSOLIDATED BALANCE SHEET

| | Notes | 30 June 2007 Unaudited US$'000 | 31 December 2006 Audited US$'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Goodwill | | **2,523** | 2,523 |
| Fixed assets | 7 | **76,778** | 33,749 |
| Project advances for exploration | 7 | **21,872** | 13,139 |
| Deferred tax assets | | **633** | 617 |
| | | **101,806** | 50,028 |
| **CURRENT ASSETS** | | | |
| Cash and bank balances | | **52,296** | 3,865 |
| Financial assets at fair value through profit or loss | | **19,060** | 103 |
| Trade receivables | 8 | **11,269** | 4,411 |
| Prepayments, deposits and other receivables | | **5,272** | 13,598 |
| Inventories | | **5,369** | 5,477 |
| Amounts due from related companies | | **15** | 15 |
| | | **93,281** | 27,469 |
| **CURRENT LIABILITIES** | | | |
| Trade payables | 9 | **5,977** | 7,743 |
| Other payables and accrued expenses | | **1,296** | 3,157 |
| Loan from debtors discounted | | **2,829** | – |
| Amounts due to related companies | | **76** | 76 |
| Finance lease-current portion | | **147** | 193 |
| Bank loan-current portion | | **51** | 18 |
| Bank overdraft | | **2,326** | – |
| Government grant received in advance-current portion | | **554** | 894 |
| Taxation | | **103** | 100 |
| | | **13,359** | 12,181 |
| **NET CURRENT ASSETS** | | **79,922** | 15,288 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **181,728** | 65,316 |

| | Notes | **30 June 2007 Unaudited** ***US$'000*** | 31 December 2006 Audited *US$'000* |
|---|---|---|---|
| **NON-CURRENT LIABILITIES** | | | |
| Finance lease | | **51** | 343 |
| Bank loan | | **387** | – |
| Government grant received in advance | | **968** | 865 |
| Provision | | **609** | 664 |
| Convertible debenture | | **9,959** | 1,103 |
| | | **11,974** | 2,975 |
| **NET ASSETS** | | **169,754** | 62,341 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | *10* | **49,723** | 15,659 |
| Revaluation reserve | | **3,706** | 3,615 |
| Special capital reserve | | **12,037** | 12,037 |
| Share premium | | **117,350** | 42,627 |
| Translation reserve | | **8,962** | 7,138 |
| Accumulated losses | | **(26,728)** | (19,547) |
| Funds attributable to equity shareholders of the Company | | **165,050** | 61,529 |
| Minority interests | | **4,704** | 812 |
| | | **169,754** | 62,341 |

# CONDENSED CONSOLIDATED CASH FLOW STATEMENT

| | Six months ended 30 June 2007 Unaudited US$'000 | Six months ended 30 June 2006 Unaudited US$'000 |
|---|---|---|
| **NET CASH USED IN OPERATING ACTIVITIES** | **(4,256)** | (4,168) |
| **NET CASH USED IN INVESTING ACTIVITIES** | **(75,716)** | (13,293) |
| **CASH FLOW FROM FINANCING ACTIVITIES** | **124,405** | 17,843 |
| **INCREASE IN CASH AND CASH EQUIVALENTS** | **44,433** | 382 |
| Cash and cash equivalents at 1 January | **3,865** | 1,871 |
| Effect of exchange rate | **1,672** | 1,551 |
| **CASH AND CASH EQUIVALENTS AT** 30 June | **49,970** | 3,804 |
| **ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS** | | |
| Cash and bank balances | **52,296** | 3,985 |
| Bank overdraft | **(2,326)** | (181) |
| | **49,970** | 3,804 |

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

*For the Six Months Ended 30 June 2007*

*(Expressed in US$'000)*

| | Attributable to equity holders of the Company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Special capital reserve | Translation reserve | Revaluation reserve | Accumulated losses | Total | Minority interests | Total equity |
| At 1.1.2007 | **15,659** | **42,627** | **12,037** | **7,138** | **3,615** | **(19,547)** | **61,529** | **812** | **62,341** |
| Exchange difference | **–** | **–** | **–** | **1,824** | **91** | **–** | **1,915** | **40** | **1,955** |
| Loss for the period | **–** | **–** | **–** | **–** | **–** | **(7,181)** | **(7,181)** | **1** | **(7,180)** |
| Arising on exercise of convertible debenture to subscribe for new shares in the Company | **34,064** | **74,723** | **–** | **–** | **–** | **–** | **108,787** | **–** | **108,787** |
| Contribution from minority shareholders | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **3,851** | **3,851** |
| At 30.6.2007 | **49,723** | **117,350** | **12,037** | **8,962** | **3,706** | **(26,728)** | **165,050** | **4,704** | **169,754** |

| | Attributable to equity holders of the Company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Special capital reserve | Translation reserve | Revaluation reserve | Accumulated losses | Total | Minority interests | Total equity |
| At 1.1.2006 | 6,505 | 24,764 | 12,037 | 3,839 | 3,174 | (12,576) | 37,743 | 867 | 38,610 |
| Arising on exercise of convertible debenture to subscribe for new shares in the Company | 2,400 | 5,279 | – | – | – | – | 7,679 | – | 7,679 |
| Issue of shares | 3,252 | 4,879 | – | – | – | – | 8,131 | – | 8,131 |
| Exchange difference | – | – | – | 2,065 | 237 | – | 2,302 | 95 | 2,397 |
| Loss for the period | – | – | – | – | – | (3,520) | (3,520) | (1) | (3,521) |
| At 30.6.2006 | 12,157 | 34,922 | 12,037 | 5,904 | 3,411 | (16,096) | 52,335 | 961 | 53,296 |

# NOTES TO THE ACCOUNTS

## 1. Basis of preparation and significant accounting policies

These unaudited consolidated interim financial statements of the Group ("Interim Accounts") have been prepared in accordance with Hong Kong Accounting Standard 34, "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The accounting policies of these Interim Accounts are consistent with those used in the annual financial statements for the year ended 31 December 2006.

HKICPA has issued a number of new standards, amendments to standards and interpretations that are effective for accounting periods beginning on or after 1 January 2007. The Group has carried out an assessment of these standards, amendments and interpretations and considered that they have no significant impact on these interim financial statements.

## 2. Turnover and segment information

Turnover represents oil revenue from the sale of crude oil and assembly of electronic components for the contract electronics manufacturer.

An analysis of the Group's turnover and results for the period by business segments is as follows:

*(Expressed in US$'000)*

| | Oil and mining | | Contract electronic manufacturing | | Unallocated | | Total | |
|---|---|---|---|---|---|---|---|---|
| | Six months ended | | | | | | | |
| | **30 June 2007** | 30 June 2006 | **30 June 2007** | 30 June 2006 | **30 June 2007** | 30 June 2006 | **30 June 2007** | 30 June 2006 |
| Revenue from external customers | **4,982** | 2,874 | **17,765** | 19,074 | **18** | 991 | **22,765** | 22,939 |
| Government grant | **–** | – | **278** | 332 | **–** | – | **278** | 332 |
| Realised and unrealised gain on trading securities | **–** | – | **–** | – | **361** | – | **361** | – |
| Other revenues from external customers | **153** | 3 | **619** | 334 | **109** | 135 | **881** | 472 |
| Total | **5,135** | 2,877 | **18,662** | 19,740 | **488** | 1,126 | **24,285** | 23,743 |
| Segment results | **(5,947)** | (1,800) | **181** | 176 | **(1)** | – | **(5,767)** | (1,624) |
| Unallocated income and expenses | | | | | | | **(1,299)** | (1,674) |
| Loss from operating activities | | | | | | | **(7,066)** | (3,298) |
| Finance costs | | | | | | | **(114)** | (252) |
| Income tax | | | | | | | **–** | 29 |
| Loss after tax | | | | | | | **(7,180)** | (3,521) |

## 3. Loss from operating activities

Loss from operating activities is arrived at after charging:

| | Six months ended | |
|---|---|---|
| | **30 June 2007** | 30 June 2006 |
| | **Unaudited** | Unaudited |
| | ***US$'000*** | *US$'000* |
| Depreciation on fixed assets | **544** | 375 |

## 4. Income tax

| | Six months ended | |
|---|---|---|
| | **30 June 2007** | 30 June 2006 |
| | **Unaudited** | Unaudited |
| | ***US$'000*** | *US$'000* |
| Overseas tax charge | **–** | (29) |

Tax in prior period represented deferred tax assets provided in an England subsidiary.

No provision for Hong Kong profits tax has been made as, in the opinion of the Company's directors, the Group did not have any estimated assessable profits in Hong Kong for the period.

## 5. Basic loss per share

The calculation of basic loss per share is based on the net loss attributable to shareholders for the period of US$7,181,000 (2006: US$3,520,000), and the weighted average of 2,890,710,785 (2006: 882,441,319) ordinary shares in issue during the period.

## 6. Dividend

The Directors have decided not to declare any interim dividend for the six months ended 30 June 2007 (2006: Nil).

## 7. Fixed assets

During the six months ended 30 June 2007 the Group acquired approximately US$48,417,000 of fixed assets.

## 8. Trade receivables

| | 30 June 2007 Unaudited US$'000 | 31 December 2006 Audited US$'000 |
|---|---|---|
| Receivable from Pertamina | 2,377 | – |
| Receivable from others | 8,892 | 4,411 |
| | 11,269 | 4,411 |

The receivable from Pertamina, the state-owned oil company of Indonesia, represents a trade receivable balance arising in the normal course of business recovered out of Pertamina's share of incremental crude oil production.

The ageing analysis of the trade receivables is as follows:

| | 30 June 2007 Unaudited US$'000 | 31 December 2006 Audited US$'000 |
|---|---|---|
| 0-30 days | 6,843 | 3,280 |
| 31-60 days | 1,957 | 850 |
| 61-90 days | 1,325 | 263 |
| Over 90 days | 1,144 | 18 |
| | 11,269 | 4,411 |

## 9. Trade payables and notes payable

The ageing analysis of the trade payables and notes payable is as follows:

| | 30 June 2007 Unaudited US$'000 | 31 December 2006 Audited US$'000 |
|---|---|---|
| 0-30 days | 4,518 | 1,839 |
| 31-60 days | 379 | 2,348 |
| 61-90 days | 52 | 852 |
| Over 90 days | 1,028 | 2,704 |
| | 5,977 | 7,743 |

## 10. Share capital

| | **30 June 2007 Unaudited *US$'000*** | 31 December 2006 Audited *US$'000* |
|---|---|---|
| Authorised: | | |
| 14,000,000,000 ordinary shares of US$ 0.01 each | **140,000** | 140,000 |
| Issued and fully paid: | | |
| 4,972,294,399 ordinary shares of US$ 0.01 each (2006: 1,565,888,588 shares of US$ 0.01 each) | **49,723** | 15,659 |

For the six months ended 30 June 2007, 3,406,405,811 ordinary shares were issued by exercising the convertible debentures for an aggregate consideration of US$108,787,000.

## 11. Acquisition of a subsidiary

On 11 June 2007, the Company acquired 66.5% of the issued capital of Chengdu An Xiao Mining Company Limited at a cash consideration of US$133,000.

The details of the unaudited net assets acquired are as follows:

| | *US$'000* |
|---|---|
| Fixed assets | 128 |
| Deposits paid | 251 |
| Other payable | (128) |
| Due to shareholders | (118) |
| Net assets acquired | 133 |
| Satisfied by: | |
| Cash | 133 |

### 12. Capital commitments

At 30 June 2007, capital commitments not provided for are as follows:

| | 30 June 2007 Unaudited *US$'000* | 31 December 2006 Audited *US$'000* |
|---|---|---|
| Contract for | 38,270 | 12,561 |
| Authorised but not contracted for | 3,939 | – |
| | 42,209 | 12,561 |

### 13. Post balance sheet events

On 25 July 2007, Global Select Limited, a wholly owned subsidiary of the Company, entered into a JV Agreement with China Resources Development Co-operation Holdings Limited to set up a joint venture company in Hong Kong.

### 14. Approval of the Interim Accounts

The Board of Directors of the Company approved the Interim Accounts on 20 September 2007.

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

## Overview

For the six months ended 30 June 2007, the Group's turnover was US$22.77 million, a decrease of 0.75% as compared to US$22.94 million for the same period of 2006. The net loss attributable to shareholders was US$7.18 million, or US$0.25 cents per share, as compared to net loss of US$3.52 million, or US$0.40 cents per share, of the prior year. On the balance sheet, the total assets of the Group increased by 151.7% to US$195.09 million at 30 June 2007 from US$77.50 million at 31 December 2006, and the net assets of the Group increased by 172.3% to US$169.75 million at 30 June 2007 from US$62.34 million at 31 December 2006.

## Business Development

The Group has two principal lines of business. The first line of business is to develop, explore and produce crude oil in Asia countries, mostly in Indonesia and the Philippines, and the second line of business is to provide electronic manufacturing services in the United Kingdom.

At present the Group owns two oilfields: Bula Block Oilfield in Indonesia, and Agusan-Davao Basin Oilfield in Davao, the Philippines. Bula Block Oilfield is operated by the Group's wholly owned subsidiary, Kalrez Petroleum (Seram) Limited, under Bula Petroleum Production Sharing Contract ("Bula PSC") that was entered into with BPMIGAS, Department of Petroleum of Indonesia, on 22 May 2000. The Bula PSC will expire in 2019.

Agusan-Davao Basin Oilfield of the Group is operated by South Sea Petroleum (Philippines) Corp., a wholly owned subsidiary of the Group. Under the Service Contract with the Department of Energy, the Republic of Philippines, the Group has been granted a permission to exploit crude oil and natural gas in an area with approximately 7,478 square kilometers at Agusan-Davao Basin of the Philippines. The initial exploitation term is seven years, and follows with a 25-year of production term. The Group is currently conducting seismic surveys and other preparation works on the oilfield. In April 2005, the Group entered into an agreement to acquire 65% of equity interest in PT. Cahaya Batu Raja Blok, an Indonesian company, for US$5.8 million. PT Cahaya Batu Raja Blok owns a Production Contract signed with the Department of Petroleum (BPMIGAS) of the Indonesia government. Pursuant to the Production Contract, PT. Cahaya Batu Raja Blok will explore and develop petroleum and natural gas in Air Komering Block, an area consisting of approximately 4,110 square kilometers located in Southern Sumatra, Indonesia for 30 years ending in 2034. The acquisition has not been completed as of the date of this report.

From 1994 to the end of 2004, the Group had crude oil operations at Limau Oilfields in South Sumatra, Indonesia under an Enhance Oil Recovery Contract ("EOR") with Pertamina, an Indonesia state-owned oil company. The EOR Contract expired on 31 December 2004. The Group has been negotiating with BPMIGAS, Department of Petroleum of Indonesia, for some time in order to renew the Contract or enter into a new contract for the oil production at this Limau Oilfield the Group previously operated. On 16 June 2007, Seaunion Development Limited, a 100% owned subsidiary of the Group, entered into a legally binding Strategic Alliance Agreement with PT Pertamina (Persero), an Indonesian state-owned oil company, to form a strategic alliance for the exploration and/or production of crude oil in Limau Oilfields in form of a 50-50 joint venture company. The initial term for the cooperation is 15 years, which can be extended by mutual agreement subject to evaluation. Currently, the production capacity of the Limau Oilfields is about 7,000 barrels of crude oil a day.

In April 2007, the Group set up a joint venture, Mega Resources International Enterprises Limited, in Hong Kong with two minority investors. Under the JV agreement, the Group will contribute HK$70 million for 70% of equity interest in the joint venture company ("JVC"), and the minority investors will contribute HK$30 million for 30% of equity interest in the JVC. The purpose of the JVC is to acquire 95% of capital stock of a Chinese company, which will acquire exploration and mining rights on a 2.89 square kilometer area in Panzhihua, Sichuan, China. According to technical assessment reports prepared by SRK Consulting, a Europe-based valuer and BMI Appraisals, the mineral deposits and estimated tonnage found on or under the mining area include: copper (2,570,216 tons), graphite (90,376,000 tons), lead-zinc (67,685 tons), sulphur and silver. The gross sales revenue for the above minerals is estimated at RMB18,496,041,400. After deducting all the mining and operating costs, the net market value of such material deposits was appropriately RMB3,347,000,000. This acquisition has been approved by the Company's shareholders at its extraordinary general meeting held on 9 August 2007.

Through Axiom Manufacturing Services Limited, the Group provides electronic manufacturing services to original equipment manufacturers ("OEMs") of telecommunication equipment, computers and related products for business enterprises, video/audio/entertainment products, industrial control equipment, testing and instrumentation products and medical devices. The Group provides its customers with a total solution that includes a full range of services that allow the Group to take its customers' products from initial design through production, test, distribution and after-market support. In many cases, the Group builds and services products that carry the brand names of its customers. Substantially all of the Group's manufacturing services are provided on a turnkey basis, whereby the Group purchases components specified by customers from suppliers, assembles the components on printed circuit boards, perform post-production testing and provides its customers with production process and testing documentation. The Group offers its customers flexible, just-in-time delivery programs allowing product shipments to be closely coordinated with its customers' inventory requirements. The Group also provides manufacturing services on a consignment basis, whereby the Group utilizes components supplied by customers to provide assembly and post-production testing services.

The Group plans to continue making investments in exploiting and developing crude oil and natural gas in Asian countries, including Indonesia and the Philippines. In Bula Block Oilfield in Indonesia, the Group plans to conduct more seismic surveys and drill more oil wells, and increase daily oil production. In Agusan-Davoa Basin Oilfield in the Philippines, the Group intends to conduct more seismic surveys and drill more test wells. The Group also plans to seek opportunities to participate in crude oil trading business.

For the six months ended 30 June 2007, the Group's electronics manufacturing services operations in UK continues to make progress with both revenues and operating profits. Business in current market sectors continues to be relatively strong while activities continue to develop opportunities within military and aerospace sectors – these have already led to approved supplier status with one major multinational defense contractor.

## Subsequent Event

On 25 July 2007, Global Select Limited, a wholly owned subsidiary of the Group, entered into a JV agreement with China Resources Development Co-operation Holdings Limited ("CRDC") to set up a joint venture company in Hong Kong. The purpose of the joint venture is for business opportunities in natural resources industry in China. Under the JV agreement, the Group will contribute US$8.50 million for 85% of equity interest in the joint venture company, and CRDC will contribute US$1.50 million for 15% of equity interest in the joint venture company.

## Results of Operations

For the six months ended 30 June 2007, the Group's turnover decreased by US$0.17 million, or 0.75%, to US$22.77 million from US$22.94 million in the same period of the previous year. During this period, the turnover of the Group's crude oil operation increased by US$2.11 million, and the turnover of the Group's contract electronics manufacturing service line of business decreased by US$1.31 million.

For the six months ended 30 June 2007, the Group's had net loss of US$7.18 million, or US$0.25 cents per share, as compared to net loss of US$3.52 million, or US$0.40 cents per share for the same period of the last year.

## Liquidity and Capital Resources

The Group's operations are primarily funded by cash flows from its operations, and to a certain extent, from issuance of convertible debentures in order to conduct more exploitation activities in Indonesian and the Philippines oilfields.

At 30 June 2007 the Group's cash and cash equivalents were US$49.97 million, as compared to US$3.87 million at 31 December 2006. For the six months ended 30 June 2007, the Group's operating activities used net cash of US$4.26 million. For the same period, the Group's investing activities used US$75.72 million of net cash, primarily attributable to additions to oil properties (US$47.99 million), short-term investments (US$19.10 million), and project advance of US$8.73 million.

For the six months ended 30 June 2007, the Group's financing activities provided net cash of US$124.41 million, largely from proceeds of issuing convertible debenture (US$117.64 million) and contribution from minority investors of US$3.85 million.

On 2 February 2007, the Company contracted to issue convertible debentures for an aggregate amount of HK$40 million nil interest and due 2010. The net proceeds were used to increase production of crude oil in Bula Block Oilfields in Indonesia.

On 28 February 2007, the Company contracted to issue convertible debentures for an aggregate amount of US$100 million nil interest and due 2012. The net proceeds were used in the exploration of crude oil and gas at Agusan-Davao Basin in Davao Province, the Philippines, and to increase production of crude oil at Bula Block Oilfields in Indonesia.

On 14 June 2007, the Company contracted to issue convertible debentures for an aggregate amount of US$200 million nil interest and due 2012. The net proceeds are intended to be used in exploration of Indonesia oilfields, seeking for potential oilfields for acquisition, and for the exploration and mining production in Sichuan, China.

At 30 June 2007, the Group had no contingent liabilities. The Group believes that the cash generated from its operations, proceeds from sale of its ordinary shares, and borrowings from issuance of convertible debentures are adequate to meet its operating expenses and capital expenditure for the next twelve months. However, the Group's continuing operating and investing activities may require it to obtain additional sources of financing. In that case, the Group may seek financing from institutional investors, banks, or other sources of financing. There can be no assurance that any necessary additional financing will be available to the Group at that time.

As of 30 June 2007, there were no off balance sheet arrangements.

## Employees and Remuneration Policies

At 30 June 2007, the Group had a total of approximately 252 full-time employees in Indonesia, the United Kingdom and Hong Kong. The Group believes that its relationship with its employees is satisfactory. From time to time, the Group may also use the services of independent consultants and contractors to perform various professional services.

The remuneration of each employee of the Group is determined on the basis of his or her performance and responsibility.

### Foreign Exchange Exposure

The Group's principal operating subsidiaries earn revenues and incur costs either in US dollars or in British pounds. The Group will continue to monitor the risk of foreign exchange fluctuation on the Group's results of operations, financial conditions and cash flows.

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

At 30 June 2007, the directors and chief executive of the Company held following long positions in the ordinary share of the Company:

| | Number of Ordinary Shares held | | Approximate |
|---|---|---|---|
| | Personal | Corporate | % of |
| Name | Interests | Interests | shareholding |
| Zhou Ling | – | 32,000,000 | 0.64% |

Save as disclosed above, as at the date of this report, none of the directors and executive officers of the Company and their respective associates had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations that were required, pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), to be entered in the register referred to therein or which were required, pursuant to the Model Code contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

As of 30 June 2007, none of the directors of the Company, including their respective associates, are considered to have interests in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group pursuant to the Listing Rules.

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

At 30 June 2007, no person, other than a director or chief executive's interests which are disclosed in the section "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above, had registered an interest, short position, or lending poor in the shares or underlying shares or debentures of the Company that was required to be kept by the Company pursuant to Section 336 of the SFO.

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

During the period under review, the Company, or any of its subsidiaries, has not purchased, sold, or redeemed any of the Company's securities.

## DIVIDENDS

The Directors have decided not to declare any interim dividend for the six months ended 30 June 2007 (2006: Nil).

## COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the all the code provisions as set forth in the Code on Corporate Governance Practices contained in Appendix 14 to the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited throughout the accounting period covered by the interim report.

## COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors by Listed Issuers (the "Model Code") se out in Appendix 10 of the Listing Rules. Upon enquiry by the Company, all directors of the Company have confirmed that they have complied with the required standards set out in the Model Code throughout the six months ended 30 June 2007.

## AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Company and discussed auditing, internal controls and financial reporting matters, including a review of the unaudited Interim Accounts for the six months ended 30 June 2007.

## BOARD OF DIRECTORS

As at the date of this report, the board of directors comprised of Mr. Zhou Ling, Ms. Lee Sin Pyung and Ms. Sit Mei being executive directors, Mr. Lu Ren Jie, Mr. Chai Woon Chew and Mr. Ho Choi Chiu being independent non-executive directors.

On behalf of the Board

**Zhou Ling**
*Chairman*

Hong Kong, 20 September 2007