



# YU MING INVESTMENTS LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 666)

## 2006 INTERIM RESULTS

### RESULTS

The Board of Directors of Yu Ming Investments Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30th June, 2006 as follows:

### Condensed Consolidated Income Statement

		Unaudited Six months ended 30th June,	
	Notes	2006 HK\$	2005 HK\$
Revenue	3	53,978,550	9,248,818
Other income			
Sundry income		3,260,554	566,168
		<u>57,239,104</u>	<u>9,814,986</u>
Expenses			
Management fee expenses		6,832,130	5,247,830
Other operating expenses		15,878,012	2,033,804
Net exchange (gain)/loss		(12,271)	1,269,659
		<u>22,697,871</u>	<u>8,551,293</u>
		34,541,233	1,263,693
Gains on disposal/redemption of available-for-sale financial assets		6,687,266	12,319,533
Fair value gain/(loss) on financial assets at fair value through profit or loss		5,703,750	(1,638,000)
Fair value gain on investment properties		3,254,111	—

		<b>Unaudited</b>	
		<b>Six months ended</b>	
		<b>30th June,</b>	
		<b>2006</b>	<b>2005</b>
	<i>Notes</i>	<i>HK\$</i>	<i>HK\$</i>
<b>Operating profit</b>		<b>50,186,360</b>	11,945,226
Finance costs	4	<b>(17,326,051)</b>	(501,485)
Share of results of:			
associates		<b>(1,688,011)</b>	176,904,411
jointly controlled entities		<b>945,542</b>	–
<b>Profit before income tax</b>	5	<b>32,117,840</b>	188,348,152
Income tax expense	6	<b>(1,303,811)</b>	(65,000)
<b>Profit for the period</b>		<b><u>30,814,029</u></b>	<b><u>188,283,152</u></b>
Attributable to:			
– Equity holders of the Company		<b>21,518,252</b>	188,283,152
– Minority interests		<b>9,295,777</b>	–
Profit for the period		<b><u>30,814,029</u></b>	<b><u>188,283,152</u></b>
<b>Earnings per share</b>			
– <b>Basis</b> ( <i>in cents</i> )	7	<b><u>1.27</u></b>	<b><u>11.13</u></b>
<b>Dividends</b>		<b><u>–</u></b>	<b><u>–</u></b>

## Condensed Consolidated Balance Sheet

		Unaudited 30th June, 2006 HK\$	Audited 31st December, 2005 HK\$
	<i>Notes</i>		
<b>Non-current assets</b>			
Investment properties		1,325,000,000	1,020,113,993
Long term deposit		–	31,478,562
Interests in associates		10,238,258	11,926,269
Interests in jointly-controlled entities		799,460	40,000
Available-for-sale financial assets		644,574,333	688,332,547
		<u>1,980,612,051</u>	<u>1,751,891,371</u>
<b>Current assets</b>			
Trade and other receivables and deposits paid	8	23,698,679	20,223,755
Available-for-sale financial assets		6,000,000	4,412,500
Financial assets at fair value through profit or loss		13,572,000	7,868,250
Pledged bank fixed deposits		9,387,035	16,813,031
Cash and cash equivalents		67,169,950	5,511,805
		<u>119,827,664</u>	<u>54,829,341</u>
<b>Current liabilities</b>			
Other payables, accrued expenses and deposits received	9	14,064,053	11,551,275
Amount due to a related company		300,000	308,891
Borrowings		41,219,609	10,496,176
Taxation payable		25,834,380	26,832,724
		<u>81,418,042</u>	<u>49,189,066</u>
<b>Net current assets</b>		<u><u>38,409,622</u></u>	<u><u>5,640,275</u></u>

	<b>Unaudited</b>	Audited
	<b>30th June,</b>	31st December,
	<b>2006</b>	2005
<i>Notes</i>	<b>HK\$</b>	<b>HK\$</b>
<b>Total assets less current liabilities</b>	<b>2,019,021,673</b>	1,757,531,646
<b>Non-current liabilities</b>		
Borrowings	742,241,132	475,054,574
Loans from minority interests	146,993,480	157,391,656
Rental deposits received	5,024,220	5,470,038
Deferred tax liabilities	67,801,161	66,878,763
	<b>962,059,993</b>	704,795,031
<b>Net assets</b>	<b><u>1,056,961,680</u></b>	<b><u>1,052,736,615</u></b>
<b>Equity</b>		
Equity attributable to the equity holders of the Company		
Share capital	169,117,199	169,117,199
Reserves	726,260,574	697,507,846
Proposed dividend	–	33,823,440
	<b>895,377,773</b>	900,448,485
Minority interests	<b>161,583,907</b>	152,288,130
<b>Total equity</b>	<b><u>1,056,961,680</u></b>	<b><u>1,052,736,615</u></b>

# Condensed Consolidated Statement of Changes in Equity

For the six months ended 30th June, 2006

Unaudited

Equity attributable to equity holders of the Company

	Share capital HK\$	Share premium HK\$	Capital redemption reserve HK\$	Capital contribution reserve HK\$	Investment revaluation reserve HK\$	Proposed dividend HK\$	Retained earnings HK\$	Minority Interests HK\$	Total HK\$
1st January, 2006	169,117,199	311,582,062	4,031,600	366,772	14,904,808	33,823,440	366,622,604	152,288,130	1,052,736,615
Realisation of revaluation deficit of available-for-sale financial assets on disposal	-	-	-	-	(3,089,222)	-	-	-	(3,089,222)
Fair value gain on available-for-sale financial assets	-	-	-	-	10,323,698	-	-	-	10,323,698
Net income recognised directly in equity	-	-	-	-	7,234,476	-	-	-	7,234,476
Profit for the period	-	-	-	-	-	-	21,518,252	9,295,777	30,814,029
2005 final dividend paid	-	-	-	-	-	(33,823,440)	-	-	(33,823,440)
Total recognised income and expense for the period	-	-	-	-	7,234,476	(33,823,440)	21,518,252	9,295,777	4,225,065
At 30th June, 2006	169,117,199	311,582,062	4,031,600	366,772	22,139,284	-	388,140,856	161,583,907	1,056,961,680

Unaudited  
Equity attributable to equity holders of the Company

	Share capital <i>HK\$</i>	Share premium <i>HK\$</i>	Capital redemption reserve <i>HK\$</i>	Capital contribution reserve <i>HK\$</i>	Investment revaluation reserve <i>HK\$</i>	Proposed dividend <i>HK\$</i>	Retained earnings <i>HK\$</i>	Minority Interests <i>HK\$</i>	Total <i>HK\$</i>
1st January, 2005	169,117,199	311,582,062	4,031,600	-	21,009,678	-	255,784,299	-	761,524,838
Fair value loss on available-for-sale financial assets	-	-	-	-	(25,670,408)	-	-	-	(25,670,408)
Net expense recognised directly in equity	-	-	-	-	(25,670,408)	-	-	-	(25,670,408)
Profit for the period	-	-	-	-	-	-	188,283,152	-	188,283,152
Total recognised income and expense for the period	-	-	-	-	(25,670,408)	-	188,283,152	-	162,612,744
At 30th June, 2005	169,117,199	311,582,062	4,031,600	-	(4,660,730)	-	444,067,451	-	924,137,582

## Notes to the condensed consolidated financial statements

### 1. Basis of preparation

The unaudited condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting”, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

### 2. Summary of significant accounting policies

The unaudited condensed consolidated financial statements have been prepared under the historical cost basis except for certain investment properties and financial instruments, which are measured at fair values, as appropriate.

The accounting policies adopted in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st December, 2005 except as described below.

In the current interim period, the Group has adopted, for the first time, a number of new standards, amendments and interpretations (hereafter collectively referred to as the "new HKFRSs") issued by the HKICPA, which are effective for accounting periods beginning on or after 1st December, 2005 or 1st January, 2006.

The adoption of these new HKFRSs has had no material effect on how the results of operations and financial position of the Group are prepared and presented.

The Group has not early adopted the following new HKFRSs that have been issued but are not yet effective. The Group is in the process of assessing the potential impact of these new HKFRSs but not yet in a position to determine whether these new HKFRSs will have a significant impact on how its results of operations and financial position are prepared and presented. These new HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

HKAS 1 (Amendment)	Presentation of financial statements: Capital disclosures <sup>1</sup>
HKFRS 7	Financial instruments: Disclosures <sup>1</sup>
HK(IFRIC)-INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies <sup>2</sup>
HK(IFRIC)-INT 8	Scope of HKFRS 2 <sup>3</sup>
HK(IFRIC)-INT 9	Reassessment of embedded derivatives <sup>4</sup>

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

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

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

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

Comparative figures have been reclassified to conform with the current period's presentation.

### 3. Revenue

The principal activities of the Group include the investments in listed and unlisted securities and properties.

	<b>Unaudited</b>	
	<b>Six months ended</b>	
	<b>30th June,</b>	
	<b>2006</b>	<b>2005</b>
	<b>HK\$</b>	<b>HK\$</b>
Interest income from available-for-sale financial assets	<b>2,889,241</b>	6,946,261
Interest income from financial assets at fair value through profit or loss	<b>58,500</b>	58,500
Interest income from bank deposits	<b>1,263,319</b>	1,791,782
Dividend income		
– listed investments	–	452,275
– unlisted investments	<b>22,587,337</b>	–
Rental Income	<b>27,180,153</b>	–
	<b><u>53,978,550</u></b>	<b><u>9,248,818</u></b>



## Segment information

*By business segment for the period ended 30th June, 2006 and 2005*

	Property investment		Other investment		Consolidated	
	2006	2005	2006	2005	2006	2005
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Revenue	<u>27,180,153</u>	<u>-</u>	<u>26,798,397</u>	<u>9,248,818</u>	<u>53,978,550</u>	<u>9,248,818</u>
Segment result	<u>26,305,268</u>	<u>-</u>	<u>23,881,092</u>	<u>11,945,226</u>	<u>50,186,360</u>	<u>11,945,226</u>
Finance costs	<u>(15,486,895)</u>	<u>-</u>	<u>(1,839,156)</u>	<u>(501,485)</u>	<u>(17,326,051)</u>	<u>(501,485)</u>
Share of results of						
– associates	<u>-</u>	<u>176,904,411</u>	<u>(1,688,011)</u>	<u>-</u>	<u>(1,688,011)</u>	<u>176,904,411</u>
– jointly controlled entities	<u>-</u>	<u>-</u>	<u>945,542</u>	<u>-</u>	<u>945,542</u>	<u>-</u>
Profit before income tax	<u>10,818,373</u>	<u>176,904,411</u>	<u>21,299,467</u>	<u>11,443,741</u>	<u>32,117,840</u>	<u>188,348,152</u>
Income tax expenses	<u>(1,303,811)</u>	<u>-</u>	<u>-</u>	<u>(65,000)</u>	<u>(1,303,811)</u>	<u>(65,000)</u>
Profit for the period	<u>9,514,562</u>	<u>176,904,411</u>	<u>21,299,467</u>	<u>11,378,741</u>	<u>30,814,029</u>	<u>188,283,152</u>
Segment assets	<u>1,327,071,000</u>	<u>1,062,755,207</u>	<u>762,330,997</u>	<u>731,999,236</u>	<u>2,089,401,997</u>	<u>1,794,754,443</u>
Interests in associates	<u>-</u>	<u>-</u>	<u>10,238,258</u>	<u>11,926,269</u>	<u>10,238,258</u>	<u>11,926,269</u>
Interests in jointly controlled entities	<u>-</u>	<u>-</u>	<u>799,460</u>	<u>40,000</u>	<u>799,460</u>	<u>40,000</u>
Total assets	<u>1,327,071,000</u>	<u>1,062,755,207</u>	<u>773,368,715</u>	<u>743,965,505</u>	<u>2,100,439,715</u>	<u>1,806,720,712</u>
Segment liabilities	<u>817,184,206</u>	<u>587,226,792</u>	<u>226,293,829</u>	<u>166,757,305</u>	<u>1,043,478,035</u>	<u>753,984,097</u>

**4. Finance costs**

	<b>Unaudited</b>	
	<b>Six months ended</b>	
	<b>30th June,</b>	
	<b>2006</b>	<b>2005</b>
	<b>HK\$</b>	<b>HK\$</b>
Interest on bank borrowings wholly repayable within five years	<b>17,125,697</b>	–
Interest on other borrowings	<b>200,354</b>	501,485
	<b><u>17,326,051</u></b>	<b><u>501,485</u></b>

**5. Profit before income tax**

	<b>Unaudited</b>	
	<b>Six months ended</b>	
	<b>30th June,</b>	
	<b>2006</b>	<b>2005</b>
	<b>HK\$</b>	<b>HK\$</b>
Profit before income tax is arrived at after charging:		
Staff cost (excluding directors' emoluments)	<b><u>114,000</u></b>	<b><u>114,000</u></b>

## 6. Income tax expense

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits for the period.

	<b>Unaudited</b>	
	<b>Six months ended</b>	
	<b>30th June,</b>	
	<b>2006</b>	<b>2005</b>
	<b>HK\$</b>	<b>HK\$</b>
Current tax		
Tax for the period	381,413	–
Under provisions in prior years	–	65,000
	<hr/>	<hr/>
	381,413	65,000
Deferred tax		
Current period	922,398	–
	<hr/>	<hr/>
	<b><u>1,303,811</u></b>	<b><u>65,000</u></b>

## 7. Earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity holders of the Company of HK\$21,518,252 (2005: HK\$188,283,152) and on 1,691,171,989 (2005: 1,691,171,989) ordinary shares in issue during the period.

No diluted earnings per share is presented as the Group had no dilutive potential ordinary shares.

## 8. Trade and other receivables and deposits paid

	<b>Unaudited</b>	<b>Audited</b>
	<b>30th June,</b>	<b>31st December,</b>
	<b>2006</b>	<b>2005</b>
	<b>HK\$</b>	<b>HK\$</b>
Trade receivables	506,158	512,501
Other receivables and deposits paid	23,192,521	19,711,254
	<hr/>	<hr/>
	<b><u>23,698,679</u></b>	<b><u>20,223,755</u></b>

The Group maintains defined credit policies. The following is an aged analysis of trade receivables at the balance sheet date:

	<b>Unaudited</b> <b>30th June,</b> <b>2006</b> <i>HK\$</i>	Audited 31st December, 2005 <i>HK\$</i>
0 – 30 days	<b>317,770</b>	471,324
31 – 60 days	<b>83,837</b>	29,621
Over 60 days	<b>104,551</b>	11,556
	<u><b>506,158</b></u>	<u>512,501</u>

#### 9. Other payables, accrued expenses and deposits received

	<b>Unaudited</b> <b>30th June,</b> <b>2006</b> <i>HK\$</i>	Audited 31st December, 2005 <i>HK\$</i>
Other payables and accrued expenses	<b>3,775,877</b>	2,682,483
Rental deposits received	<b>10,288,176</b>	8,868,792
	<u><b>14,064,053</b></u>	<u>11,551,275</u>

## INTERIM DIVIDEND

The directors have resolved not to declare an interim dividend for the period (2005: Nil), but will reconsider dividend payment again after the financial year end.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Operation Overview

The Group's business is investment in properties, private equity and securities. The Group's portfolio comprises high to low risk investments. The diversification aims to smoothen out the overall risk of the portfolio.

As at the end of the first half of 2006, the Group's major investments are as follows:

<b>Investments</b>	<b>Description</b>
AsiaWorld-Expo	The largest exhibition facility in Hong Kong
Retail Properties	Retail shops in Mongkok and Causeway Bay, the prime retail location in Kowloon and Hong Kong respectively
Grand China Air Co., Ltd. ("Grand China")	The single largest shareholder of Hainan Airlines, the No. 4 aviation group in the People's Republic of China (the "PRC"), and a strategic shareholder holding 45% interest in CR Airways Limited ("CR Airways"), the third passenger airline in Hong Kong flying to cities in the PRC and Southern Asia
Debts and Equities	A portfolio of debts and equities
Oriental Cashmere Limited ("OCL")	A cashmere knitwear manufacturer

During the first half of 2006, the Group completed the acquisition of the retail properties in Causeway Bay, and made advanced progress to convert it into a shopping mall. Retail shops at Argyle Centre had a moderate growth in rental rate. Both our investments in tradable equity and high-yield bonds reported profits. As AsiaWorld-Expo officially commenced operation in January 2006, the Group started amortizing its investment over the remaining project period, and accruing its entitlement to the preference share dividend during the first half of 2006. CR Airways introduced a major airline in the PRC as a strategic shareholder, who helped accelerate the fleet expansion into bigger aircraft - Boeing 737-800. OCL reported a small loss in the first half in a typically low season for cashmere.

The net profit of the Group for the first half of 2006 was lower than that of 2005, due mainly to the absence of profit from property revaluation.

## **Investment Review**

As at 30th June, 2006, the Group's major investments were in AsiaWorld-Expo, Argyle Centre (retail shops in Mongkok), Timeplus (the new shopping mall in Causeway Bay), Ginza Plaza (retail shops in Mongkok), Grand China, OCL (a cashmere manufacturer in the PRC), high-yield bonds and equity securities.

### *AsiaWorld-Expo*

The Group owns 60% interests in a private sector consortium ("JVP") that owns 13.5% interests in AsiaWorld-Expo, a 66,000 sqm permanent exhibition center located at the Hong Kong International Airport, with a capacity of expanding into a 100,000 sqm exhibition facility. The other shareholders of JVP are the Hong Kong Government and the Airport Authority. The Group also owns 40% interests in the operator of AsiaWorld-Expo.

AsiaWorld-Expo is a column-free structure under one roof, with a dedicated Mass Transit Railway station – the "AsiaWorld-Expo Station". The facility was officially opened in December 2005. Bookings are well into 2009, with revenue exceeding the budget originally planned at the time of our initial investment. There were more than 50 events up to the financial year ending 31st March, 2007. Its world-class specifications attracted a number of major international exhibitions to relocate to Hong Kong :

1. International Telecommunication Union's (ITU) Telecom World annual convention, the world's biggest telecom show, will be held in December 2006. ITU has been traditionally held in Geneva before.
2. Asian Aerospace, Asia Pacific's foremost aerospace exhibition, has selected AsiaWorld-Expo as its venue for September 2007. Asian Aerospace has been traditionally held in Singapore before.
3. China Sourcing Fairs, a full house exhibition held previously in Shanghai, moved to our centre in April, attracting:
  - Electronics and components: over 1,700 exhibitors and 26,000 buyers;
  - Fashion accessories: over 500 exhibitors and 11,000 buyers; and

- Gifts and home products and international hardware: over 3,600 booths and 30,000 buyers.

The fairs showcase the latest products from quality suppliers from China, Hong Kong and the rest of Asia.

In addition to exhibition, a world-class entertainment hall (named AsiaWorld-Arena) is purpose-built for concert and entertainment events which can house up to 13,500 spectators. A number of acclaimed local and international artists, such as Chan Po Chu, Oasis, Jamie Cullum, Coldplay and The Black Eyed Peas, already performed in the Arena.

The Group's investment in AsiaWorld-Expo is in the form of preference shares, which entitle the Group to a preferred dividend on a cumulative basis, the payment of which depends on the cashflow of the project. The Group recorded in the accounts the preference share dividend accrued for the six months ended 30th June, 2006. The preference share dividend is a contractual obligation of Hong Kong IEC Limited, the holding company of AsiaWorld-Expo.

### *Retail Properties*

The Group focuses its property investment on retail space on prime locations only. In 2005 the Group added two properties to its portfolio, with completion in November 2005 and February 2006.

#### **Properties**

Argyle Centre, Mongkok

#### **Status**

The Group owns 153 shops in Argyle Centre (over 34,000 sqft), with a virtually full occupancy rate and a steady growth in rental income.

Ginza Plaza, Mongkok

The Group acquired over 14,000 sqft of retail space in Ginza Plaza in November 2005, with a full occupancy rate.

Timeplus,  
Causeway Bay

The Group completed acquisition of the property in February 2006. The property, previously occupied by a famous restaurant, is being converted into a shopping mall, scheduled for opening in mid-November 2006. Leasing is in progress.



### *High-Yield Bonds*

Having returned to an environment with relatively high interest rate, with The Federal Rate of the United States having spiraled from 3.5% per annum in August 2005 to 5.25% per annum in August 2006, the high-yield bond market becomes less attractive to us than it was in the past. The Group has been winding down its position in high-yield bonds in the first half of 2006. We sold 15 bonds and are cautiously reviewing the remaining few in our portfolio.

### *Grand China*

The Company has swapped its entire interest in CR Airways for new shares in Grand China. The largest shareholders of Grand China are based in the Hainan Province and a fund managed by George Soros. Grand China is the single largest shareholder of Hainan Airlines, the fourth largest aviation group in the PRC listed on the Shanghai Stock Exchange.

After the share swap, Grand China has become a 45% shareholder of CR Airways. The introduction of Grand China as a strategic shareholder of CR Airways enables CR Airways to employ the resources and expertise of Hainan Airlines to expand its network and business and to build up cooperation with Hainan Airlines. It is now flying Sanya and Haikou under a code-share arrangement with Hainan Airlines.

With a view to lower average operating costs and to serve longer haul routes, CR Airways is decommissioning the Bombardier CRJ series aircrafts, and is now dry leasing one Boeing 737-800 aircrafts from Hainan Airlines. The second dry leased Boeing 737-800 aircraft is expected to be delivered by end of August.

To ride on the potential captured by the synergy with Hainan Airlines, the Group has subscribed a new HK\$5 million convertible debentures of CR Airways with an option to subscribe a further of HK\$45 million convertible debentures. The management is still assessing the performance of CR Airways and is yet to decide whether to exercise the option.

CR Airways continues to run at an operating loss. Its scheduled destinations include Sanya, Haikou, Guilin, Kunming and Changsha. It is also designated the right to fly scheduled flights to Wenzhou, Meixian and Tianjin. Outside the PRC, it is also flying scheduled flights to Laoag (Philippines) and chartered services to Clark and Subic Bay (Philippines).



It is also licensed to fly to 30 PRC cities and 8 Southeast Asian cities. Once the licensed routes are designated, the potential PRC market will increase to cover a population of more than 250 million within the catchment area.

### *Oriental Cashmere Limited*

Since the chaos resulting from the lifting of the textile quota system in 2005, profit of OCL fell significantly. The first half of 2006 remains competitive for OCL, which in any event was the low season for cashmere business. A loss of HK\$6.8 million was reported, compared to the gain of HK\$2.7 million in the first half of 2005.

### **Prospects**

With the increase in retail space in prime locations, the Group expects to increase both rental income and value of its properties.

AsiaWorld-Expo is particularly suited to large-scale events. We are confident that the forthcoming International Telecommunication Union's (ITU) Telecom World annual convention and Asian Aerospace will be successful.

### **Financial Position**

As at 30th June, 2006, borrowing amounted to HK\$783 million.

### **Foreign Exchange Exposure**

As at 30th June, 2006, most of the Group's investments are based in Hong Kong dollar and United States dollar and are therefore not exposed to significant foreign currency risks. The Group's investments in Euro denominated debt securities are closely hedged against currency exposure.

### **Guarantee**

The Company has given a guarantee to a bank to secure the outstanding indebtedness due by a subsidiary, for an amount attributable to the Group's equity interests. The amount of outstanding indebtedness due by a subsidiary to this bank as at 30th June, 2006 was approximately HK\$705 million (at 30th June, 2005: approximately HK\$145 million).

The Company has given a guarantee to a financial institution to secure borrowing facilities available to a wholly-owned subsidiary in the amount not exceeding US\$15 million. The outstanding indebtedness as at 30th June, 2006 was approximately Euro 0.8 million (at 30th June, 2005: approximately Euro 3 million).

## **Staff Costs**

The Group's total staff costs for the period under review amounted to HK\$114,000 (First half of 2005 : HK\$114,000).

## **AUDIT COMMITTEE**

The Company has established an audit committee in accordance with rule 3.21 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a general review of the unaudited interim financial results for the six months ended 30th June, 2006. In carrying out this review, the audit committee has obtained explanations from management. At the request of the directors, the Group's external auditors have carried out a review of the unaudited interim financial review in accordance with the Statement of Auditing Standards 700 issued by the HKICPA.

## **SUMMARY OF AUDITORS' INDEPENDENT REVIEW REPORT**

The auditors' independent review report on the Group's financial statements for the six months period ended 30th June, 2006 contained a modified opinion because of the limitation of the scope of their review. The following is an extract of the auditors' review report:

"The scope of our review was limited in respect of the acquisition cost of the equity interests in Grand China Air Company Limited ("Grand China Air") recorded as available-for-sale financial asset at a carrying value of HK\$190,190,000 as at 30th June, 2006, which was considered by the directors as its fair value at date of initial recognition and its carrying value as at 30th June, 2006. As detailed in the interim financial report, the official registration procedures of the issuance of the shares of Grand China Air to the Group are still in progress as of the date of this report. However, we are unable to obtain sufficient financial information nor any sufficient evidence relating to the acquisition cost of equity interests in Grand China Air to satisfy ourselves that this amount is properly classified as available-for-sale financial assets and properly recognised under the measurement and recognition principles in accordance with Hong Kong Accounting Standard No. 39 "Financial Instruments: Recognition and Measurement". In addition, we are unable to obtain sufficient evidence in order to determine whether its carrying value is fairly stated as at 30th June, 2006.

The scope of our review was also limited in respect of a preference share dividend income of HK\$22,587,377 for the six months ended 30th June, 2006 and a corresponding dividend receivable of HK\$22,587,377 as at 30th June, 2006 recorded by the Group. No sufficient evidence has been made available to us for the assessment of the timing and amount of distribution of the dividend. As a result, we are unable to determine whether the dividend income for the six months ended 30th June, 2006 and the dividend receivable as at 30th June, 2006 are fairly stated.

### **INABILITY TO REACH A REVIEW CONCLUSION**

Because of the significance of the possible effect of the limitation in evidence available to us, we are unable to reach a review conclusion as to whether material modifications should be made to the interim financial report for the six months ended 30th June, 2006.”

### **PURCHASE, SALE OR REDEMPTION OF LISTED SHARES**

The Company has not redeemed any of its shares during the period. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company’s shares during the period.

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

The Company has met with the code provisions of the Code on Corporate Governance Practices, as set out in Appendix 14 of the Listing Rules, during the accounting period covered by the interim report.

### **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by the directors. Having made specific enquiry of all directors, the Company confirmed that all directors have complied with the required standard set out in the Model Code during the period.

By order of the Board  
**Peter Lee Yip Wah**  
*Secretary*

Hong Kong, 28th August, 2006

*As at the date of this announcement, the Board comprises eight directors of which Mr. Tony Fung Wing Cheung, Mr. Peter Fung Yiu Fai and Mr. Warren Lee Wa Lun as executive directors; Mr. Lee Seng Hui and Mr. Peter Lee Yip Wah as non-executive directors; Mr. Ambrose So Shu Fai, Mr. Alexander Chow Yu Chun and Mr. Albert Ho as independent non-executive directors.*

Please also refer to the published version of this announcement in The Standard.