

Mongolia Energy Corporation

interim report 2007

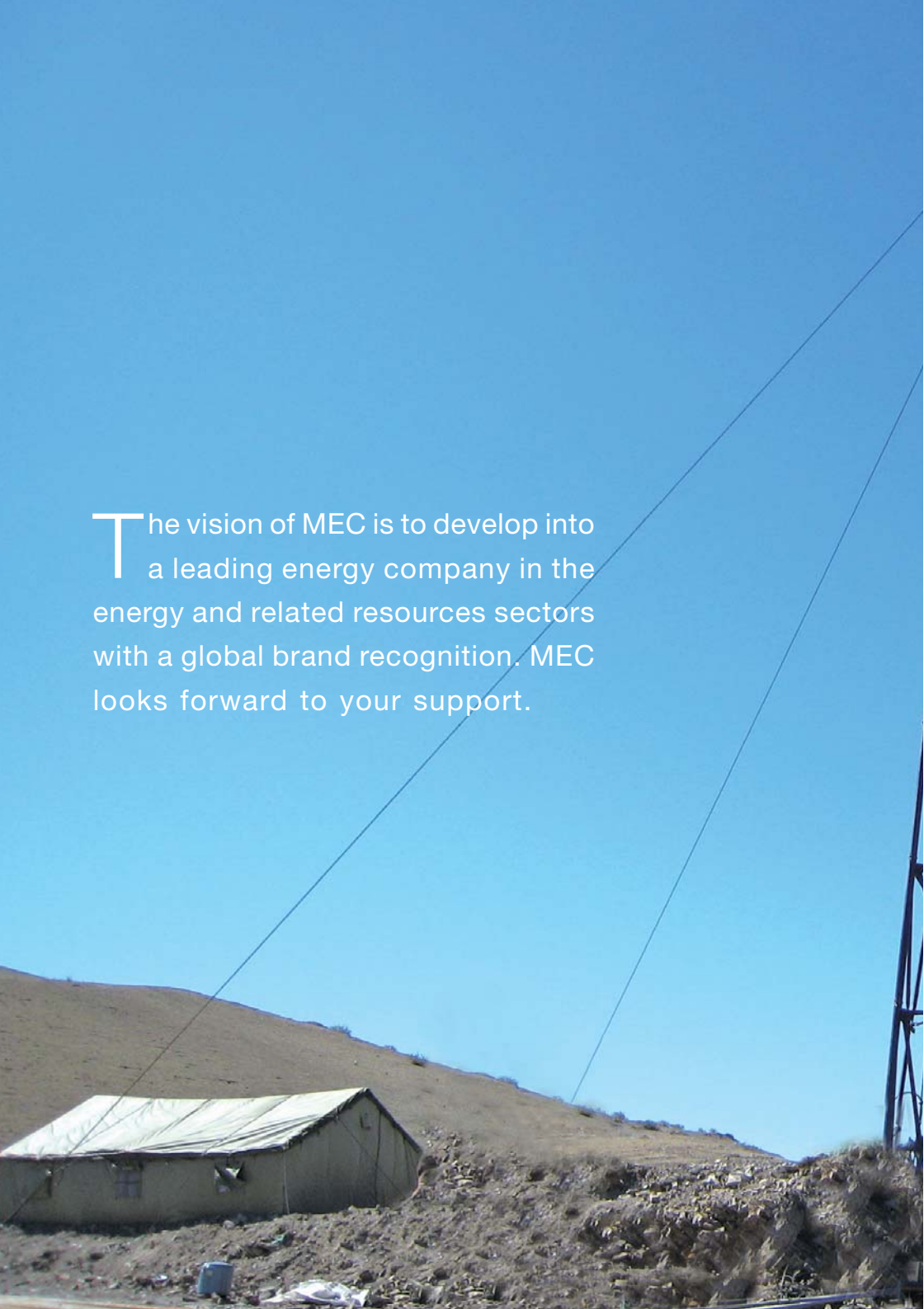
MEC

MONGOLIA ENERGY CORPORATION

蒙古能源有限公司

(Incorporated in Bermuda with limited liability)





The vision of MEC is to develop into a leading energy company in the energy and related resources sectors with a global brand recognition. MEC looks forward to your support.



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chairman's message

Dear Shareholders,

It is my pleasure, as Chairman, to present Mongolia Energy Corporation's ("MEC's") 2007 Interim Report for the six months ended September 30, 2007.

As I have set out in MEC's 2007 Annual Report, this is both a busy as well as exciting time for MEC. It is also a time for MEC to carefully lay down the foundations for MEC's future growth and success.

In this respect, during the past six months:

- Our exploration company explored 5.8 sq. km out of the 340 sq. km of concession areas under our "initial acquisition". They drilled out some 52,000 meters, under 198 holes. This took place over a period of around three and a half months, from the middle of June, 2007 to the beginning of October, 2007.
- Our exploration company certified under a work progress report, that the coal resources at the time stands at around 393 million tonnes of coal resources in November, 2007. Further, there is an indication of coking coal. The exploration data is being analysed and coal being sampled. After the final report is issued, closing of the "initial acquisition" shall follow.
- In the meantime, MEC expanded its concession areas by another 320 sq. km under the "further acquisition". This brings to 660 sq. km of concession areas under the "initial acquisition" and the "further acquisition" comprising exploration and mining concessions.

- MEC has approval from the Mongolian authorities to upgrade an existing road from the mine areas to the border with Xinjiang Province in the People's Republic of China (the "Khushuut Road"). This will be followed by detailed design and engineering study and further approvals prior to the actual upgrading work. The upgrading of the "Khushuut Road" will support MEC's intended 2 to 3 million tonnes mining operations, scheduled to commence within 2008.
- MEC is at the feasibility study stage for building a 2x600MW power plant, which is scheduled to be operational within 2010.
- MEC has broadened its strategic energy focus by acquiring control of certain exploration concessions for oil and gas in western Mongolia and commenced co-operation with CNPC Daqing Petroleum in December 2007.

As the economies of Asia continue to demonstrate robust growth, demand for the energy and natural resources that help power regional economies also continues to grow.

As MEC moves beyond the exploration and evaluation of its concessions into the development and processing of the resources, we are positioned to contribute to, and benefit from, the continued dynamism of the region. Moreover, we expect that as these plans progress, our operations will help playing a role in the development of western Mongolia, which is important to us.

In conclusion, I would like to take this opportunity to thank our Shareholders for their continued support; our business partners for their belief in our vision, and finally, the Board and staff of MEC, for their tireless effort and dedication in helping to build the Company. It is a privilege to work with you.

Simon Lo

Chairman

December 17, 2007

management discussion and analysis

Results Analysis

For the six months ended September 30, 2007, the Group's turnover was HK\$15.4 million (2006: HK\$19.8 million), representing a drop of 22.2% to the comparable period in 2006. Turnover from property investments rose 25.8% to HK\$13.2 million during the period under review, principally as a result of continuing strong demand for retail and office space. Turnover from charter flight services dropped 76.1% to HK\$2.2 million during the period under review because of the frequent internal use of the Group's private jet in business trips. Such business related travel arrangement were appropriate and in the best interest of the Group in terms of efficiency, flexibility and security.

The segment profit of property investments rose 66.6% to HK\$11.0 million (2006: HK\$6.6 million) during the period, principally as a result of continuing strong demand for rental and office space. The segment loss of aircraft charter was around HK\$5.9 million because of declined in chargeable charter time. During the period, the Group's new coal and energy related business was at the exploration and evaluation stages. The Group has established a new operating subsidiary in Mongolia and recruited many professionals such as geologists to focus on the exploration business.

Despite the overall loss in the Group's business segments, the Group during the period earned a one-off gain of HK\$45.4 million and HK\$16.0 million on disposal of listed investments and some non-core investments respectively.

Profit attributable to the shareholders of the Company for the first half of the financial year 2007/2008 was HK\$4.4 million (2006: Loss of HK\$2.7 million).

Business review

During the first six months of the fiscal year, the Group spent much effort on the newly acquired mining business, with focus upon the exploration work.

Following the sanction by the Company's shareholders in April, 2007 of the initial acquisition of around 34,000 hectares (around 1/3rd the size of Hong Kong SAR) of mining and exploration concession areas in western Mongolia, the Group arranged to commence exploration. This was for the initial purpose of demonstrating 300 million tonnes of coal resources to close the initial acquisition. The old Russian estimates are that there are around 2.4 billion tonnes of coal resources, which is subject to exploration.

In June, 2007, the Group, with the help of Team 129 of the China Coal Geology Bureau, as exploration company, John T. Boyd Company, as overall technical advisers, and along with MEC's own in-house team of geologists and mining engineers, commenced exploration work at Khushuut, Khovd Province, western Mongolia. In August, 2007, the Group was provided with the initial work progress report of Team 129 of China Coal Geology Bureau. This stated that there were approximately 340 million tonnes of coal resources with some coking coal characteristics over the explored areas of around 3 sq. km. The final report of over 5.8 sq. km of the concession areas is being prepared for the purpose of closing the initial acquisition on or prior to January 30, 2008.

In July 2007, the Company closed the further acquisition of around 32,000 hectares (around 1/3rd the size of Hong Kong SAR) of exploration concession areas in western Mongolia. This was for coal, ferrous and non-ferrous resources. The old Russian estimates are that there are around 1 to 2 billion tonnes of coal resources, which is subject to exploration.

In August 2007, the Group entered into a joint venture agreement for identifying energy and related projects in Xinjiang, PRC with value of at least HK\$1 billion based on a HK\$12.00 per tonne of coal resources and 3% of international prevailing market price for other resources. The joint venture agreement calls for the project to be identified within 6 months.

In the meantime, the Group continues to look for suitable business partners for its eventual mining business development. In September, the Group entered into a letter of intent with China Ocean Shipping (Group) Company for strategic co-operation in relation to its transportation and logistics needs both within and outside of China for the Group's coal and non-ferrous goods and products.

The Group's investment properties in Bank of America Tower continue to contribute a stable rental income to the Group. The Group disposed of Beaubourg Holdings Inc. in September. The sole asset of Beaubourg Holdings Inc. is an indirect 50% interest in a Gulf Stream G450 model private jet. After the disposal, the Group still wholly owns a G200 private jet for aircraft charter business.

During this period, the Group had disposed of almost all its investment shares in New World Mobile Holdings Limited. The Group will continue to look for suitable investments when they arise.

Future outlook

The Group is at feasibility/planning stage for its initial 2 to 3 million tonnes coal mining operations scheduled for by the end of the second quarter of 2008 and for its 2x600 megawatts power plants scheduled for by the end of the second quarter of 2010. On December 7, 2007, the Group has engaged China Railway No.1 Engineering Group Company Limited to study the feasibility for a railway design and construction in western

Mongolia, to the border of Xinjiang. The Group will also commence further exploration work at Khushuut, Khovd Province, western Mongolia from the end of the first quarter of 2008.

The Group will continue its aircraft charter and management business and property investment. The Group will continue to look for new opportunities and act decisively to create value for its shareholders.

Financial resources

1. Liquidity and financial resources

As at September 30, 2007, the Group's shareholders' fund amounted to HK\$648.6 million (March 31, 2007: HK\$641.3 million) and the net asset value per share was HK\$0.25 (March 31, 2007: HK\$0.25).

The Group's funding was derived from internal resources and corporate financing activities. Total net borrowings of the Group (total borrowings net of bank and cash balances) as at September 30, 2007 amounted to HK\$180.3 million (March 31, 2007: HK\$59.1 million). In respect of the secured bank loan of approximately HK\$197.9 million as at September 30, 2007, it was subject to the usual annual review by the bank. Due to such commercial arrangement, the secured bank loan is classified as current liability in the financial statements. However, it does not represent that the total bank loan amount is required to be repaid within one year from September 30, 2007. Furthermore, the Group has always been able to repay principal balances plus interests on time and the carrying value of the Group's investment properties pledged to secure the bank loan amounted to HK\$350.0 million as at September 30, 2007 is well in excess of the balance of the secured bank loan. Accordingly, the Directors consider that the Group does not face any immediate pressure to repay a large portion of the secured bank loan.

As at September 30, 2007, the cash and bank balances were HK\$357.6 million (March 31, 2007: HK\$67.7 million). Liquidity ratio was around 1.01 (March 31, 2007: 1.80).

2. Gearing ratio

As at September 30, 2007, the gearing ratio of the Group was 0.43 (March 31, 2007: 0.15) which was calculated based on the Group's total borrowings to total assets.

3. Financial risk management

The key operations of the Group are located in Hong Kong, Mainland China and Mongolia. Therefore, the Group's assets and liabilities are mainly denominated in Hong Kong dollar, United States dollar, Renminbi and Mongolia Tugrik. The Group does not conduct any foreign currency hedging activities since no significant exposure to foreign currency risks are expected.

4. Pledge of assets

Investment properties with a carrying amount of HK\$350.0 million (March 31, 2007: HK\$350.0 million) were pledged to a bank as collateral for banking facilities granted to the Group.

The Group's private jet with carrying value amounted to HK\$132.0 million was pledged to an independent third party for a short term loan of principal amount of HK\$200.0 million.

5. Contingent liabilities

The Group has no material contingent liabilities as at September 30, 2007.

Employees

As at September 30, 2007, the Group employed 153 full-time employees in Hong Kong, Mainland China and Mongolia. Remuneration packages are structured to take into account the level and composition of pay and the general market conditions in the respective geographical locations and businesses in which the Group operates. The remuneration policies of the Group are reviewed on periodic basis. Apart from retirement schemes, year-end bonuses and share options are awarded to the employees according to the assessment of individual performance and industry practice. Appropriate training programs are also offered for staff training and development.

condensed consolidated profit and loss account

	Note	Unaudited Six Months ended September 30,	
		2007 HK\$'000	2006 HK\$'000
Turnover	2	15,406	19,790
Other charges		(212)	(8,064)
Staff cost, depreciation and other operating expenses		(58,569)	(27,526)
Reversal of impairment losses of long term receivables		–	11,179
Gain on disposal of other investments		45,462	–
Gain on disposal of subsidiaries		15,954	2,703
Fair value (loss)/gain – financial assets at fair value through profit or loss		(4,907)	7,413
Operating profit	3	13,134	5,495
Finance costs	4	(7,661)	(8,952)
Share of profit of an associated company		–	67
Share of loss of jointly controlled entity		(688)	–
Profit/(loss) before income tax		4,785	(3,390)
Income tax (expense)/credit	5	(393)	673
Profit/(loss) for the period attributable to equity holders of the Company		4,392	(2,717)
Earnings/(loss) per share for profit/(loss) attributable to the equity holders of the Company during the period	6		
– basic (HK cents)		0.17	(0.16)
– diluted (HK cents)		0.17	0.11

condensed consolidated balance sheet

	Note	Unaudited At September 30, 2007 HK\$'000	Audited At March 31, 2007 HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment		235,834	139,897
Investment properties		350,000	350,000
Intangible assets	8	53,928	–
Associated companies	9	40,717	9,246
Jointly controlled entity		–	48,567
Other asset		1,150	1,150
		681,629	548,860
Current assets			
Accounts receivable	11	2,567	2,075
Other receivables, prepayments and deposits		133,546	46,489
Assets held for sale – associated companies		–	52,402
Financial assets at fair value through profit or loss	10	74,864	125,098
Amounts due from related companies		470	445
Tax prepaid		245	–
Cash and cash equivalents		357,559	67,710
		569,251	294,219
Current liabilities			
Accounts payable	12	6,934	7,883
Other payables and accruals		17,946	27,950
Short-term loans	13	537,900	126,800
Tax payable		671	671
		563,451	163,304
Net current assets		5,800	130,915
Total assets less current liabilities		687,429	679,775
Non-current liabilities			
Deferred income tax liabilities		38,774	38,381
Net assets		648,655	641,394
Financed by:			
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	14	52,327	52,327
Reserves		596,271	589,010
		648,598	641,337
Minority interests		57	57
Total equity		648,655	641,394

consolidated statement of changes in equity

as at September 30, 2007

	Unaudited								
	Attributable to equity holders of the Company								
	Share capital	Share Premium	Contributed surplus	Capital Reserves	Share-based		Retained earnings	Minority interests	Total
					compensation reserves	Reserves			
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Balance at April 1, 2006	29,737	158,856	199,594	17,711	1,707	19,464	57	427,126	
Issue of shares									
- Exercise of share options	80	1,211	-	-	(619)	-	-	672	
- Conversion of convertible notes	5,667	44,186	-	(5,474)	-	-	-	44,379	
Loss for the period	-	-	-	-	-	(2,717)	-	(2,717)	
Balance at September 30, 2006	35,484	204,253	199,594	12,237	1,088	16,747	57	469,460	
Balance at April 1, 2007	52,327	345,814	199,594	-	12,289	31,313	57	641,394	
Share-based compensation expenses	-	-	-	-	2,869	-	-	2,869	
Profit for the period	-	-	-	-	-	4,392	-	4,392	
Balance at September 30, 2007	52,327	345,814	199,594	-	15,158	35,705	57	648,655	

condensed consolidated cash flow statement

for the six months ended September 30, 2007

	Unaudited	
	Six Months ended	
	September 30,	
	2007	2006
	HK\$'000	HK\$'000
Net cash (used in)/generated from operating activities	(141,320)	11,761
Net cash generated from/(used in) investing activities	20,069	(58,444)
Net cash generated from/(used in) financing activities	411,100	(24,113)
Increase/(decrease) in cash and cash equivalents	289,849	(70,796)
Cash and cash equivalents at April 1,	67,710	171,485
Cash and cash equivalents at September 30,	357,559	100,689

notes to condensed consolidated financial statements

1 Basis of preparation

These unaudited condensed consolidated interim accounts (the “Interim Accounts”) have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

In preparing the Interim Accounts, the Directors of the Company have given careful consideration to the future liquidity of the Group. As detailed in the Company’s circulars dated March 22, 2007 and June 25, 2007, the Group will acquire certain coal mines in western Mongolia (the “Acquisition”) which is to be settled by (a) the issue of 1,125,000,000 new shares of the Company; (b) convertible bond of HK\$142.5 million of the Company; and (c) loan note of HK\$787.5 million of the Company. Pursuant to special resolutions passed at a special general meeting held on April 18, 2007, the Acquisition, the proposed subscriptions of 1,180,000,000 new shares and the proposed placing of 1,100,000,000 new shares (together the “Transactions”) were approved by the shareholders of the Company. The Transactions are subject to fulfillments of certain conditions and therefore, have not been completed as at the date of this Interim Accounts.

The Directors consider that in preparing the Interim Accounts they have taken into account all information that could reasonably be expected to be available. On this basis, they consider that it is appropriate to prepare the Interim Accounts on a going concern basis. This assumes that the Transactions are successful and a profitable mining operation can be attained in future. The Interim Accounts do not include any adjustments that might be necessary should the Group be unable to operate as a going concern.

The Interim Accounts should be read in conjunction with the annual accounts for the year ended March 31, 2007.

The accounting policies and basis of preparation used in the preparation of the Interim Accounts are consistent with those used in the annual accounts for the year ended March 31, 2007. The Group has also adopted the following new accounting policies for the exploration and evaluation expenditure and development expenditure during the period:

1.1 Exploration and evaluation expenditure

Exploration and evaluation activity involves the search for coal and mineral resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource.

Exploration and evaluation costs related to an area of interest are written off as incurred except they are carried forward as an asset in the balance sheet where the rights of tenure of an area are current and it is considered probable that the costs will be recouped through successful development and exploitation of the area of interest, or alternatively by its sale.

Capitalised costs include costs directly related to exploration and evaluation activities in the relevant area of interest. General and administrative costs are allocated to an exploration or evaluation asset only to the extent that those costs can be related directly to operational activities in the relevant area of interest. License costs paid in connection with a right to explore in an existing exploration area are capitalized and amortised over the term of the permit.

Capitalised exploration and evaluation expenditure is written off where the above conditions are no longer satisfied.

All capitalized exploration and evaluation expenditure is assessed for impairment if facts and circumstances indicate that an impairment may exist.

1.2 Development expenditure

Development expenditure incurred by or on behalf of the Group is accumulated separately for each area of interest in which economically recoverable resources have been identified. Such expenditure comprises cost directly attributable to the construction of a mine and the related infrastructure.

Once a development decision has been taken, the carrying amount of the exploration and evaluation expenditure in respect of the area of interest is aggregated with the development expenditure and classified under non current asset as "development properties".

A development property is reclassified as a "mining property" at the end of the commissioning phase, when the mine is capable of operating in the manner intended by management.

No depreciation is recognized in respect of development properties until they are reclassified as “mining properties”.

Development properties are tested for impairment in accordance with the policy in note 2.7 of the annual accounts for the year ended March 31, 2007.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards (“HKFRS” which term collectively includes HKASs and Interpretations) that are effective for accounting periods beginning on or after January 1, 2007. The adoption of these new and revised HKFRSs has no material impact on the Group’s accounting policies.

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

HKAS 23 (Revised)	Borrowing costs ¹
HKFRS 8	Operating segments ¹
HK (IFRIC) – INT 12	Service concession arrangements ²
HK (IFRIC) – INT 13	Customer loyalty programmes ³
HK (IFRIC) – INT 14	HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction ²

¹ Effective for annual periods beginning on or after January 1, 2009

² Effective for annual periods beginning on or after January 1, 2008

³ Effective for annual periods beginning on or after July 1, 2008

2 Segment information

Primary reporting format – business segments

For the period ended September 30, 2007, the Group operates in three main business segments:

Exploration and evaluation

Property investments

Charter flight services

There are no sales or other transactions between business segments.

	For the six months ended			Total HK\$'000
	September 30, 2007			
	Exploration and evaluation	Property investments	Charter flight services	
	HK\$'000	HK\$'000	HK\$'000	
Turnover	-	13,178	2,228	15,406
Segment results	(10,275)	10,953	(5,936)	(5,258)
Unallocated corporate expenses				(37,905)
Other charges				(212)
Unallocated operating income/(expenses)				
- Gain on disposal of other investments				45,462
- Gain on disposal of subsidiaries				15,954
- Fair value loss - financial assets at fair value through profit or loss				(4,907)
Operating profit				13,134
Finance costs				(7,661)
Share of loss of jointly-controlled entity				(688)
Profit before income tax				4,785
Income tax charge				(393)
Profit for the period				4,392
Depreciation	837	-	3,589	4,426
Unallocated depreciation				743
				5,169
Capital expenditure	100,143	-	-	100,143
Unallocated capital expenditure				963
				101,106

The segment results for the period ended September 30, 2006 are as follows:

	For the six months ended		
	September 30, 2006		
	Property investments HK\$'000	Charter flight services HK\$'000	Total HK\$'000
Turnover	10,473	9,317	19,790
Segment results	6,576	(7,630)	(1,054)
Unallocated corporate expenses			(3,979)
Other charges, net			(8,064)
Unallocated operating income			
- Reversal of impairment losses of long term receivable			11,179
- Fair value gain - financial assets at fair value through profit or loss			7,413
Operating profit			5,495
Finance costs			(8,952)
Share of profit of an associated company			67
Loss before income tax			(3,390)
Income tax credit			673
Loss for the period			(2,717)
Depreciation	-	3,666	3,666
Unallocated depreciation			50
			3,716
Capital expenditure	-	229	229
Unallocated capital expenditure			411
			640

The segment assets and liabilities at September 30, 2007 are as follows:

	Exploration and evaluation	Property investments	Charter flight services	Unallocated	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets	155,755	352,696	175,231	567,198	1,250,880
Liabilities	195	7,031	3,700	591,299	602,225

The segment assets and liabilities at March 31, 2007 are as follows:

	Property investments	Charter flight services	Unallocated	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets	362,099	198,056	282,924	843,079
Liabilities	6,046	2,834	192,805	201,685

Secondary reporting format – geographical segments

The Group's three business segments are operating in three main geographical areas:

Hong Kong:	Property investments and charter flight services
Mainland China:	Exploration and evaluation
Mongolia:	Exploration and evaluation

There are no sales or other transactions between geographical segments.

	For the six months ended September 30,			
	Turnover		Capital expenditure	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Hong Kong	15,406	19,790	963	640
Mainland China	–	–	6,430	–
Mongolia	–	–	93,713	–
	15,406	19,790	101,106	640

	At September 30, 2007 HK\$'000	At March 31, 2007 HK\$'000
Total assets		
Hong Kong	1,055,604	781,950
Mainland China	47,091	61,129
Mongolia	148,185	–
	1,250,880	843,079

3 Operating profit

Operating profit is stated after crediting and charging the following:

	Six months ended September 30,	
	2007 HK\$'000	2006 HK\$'000
Crediting		
Gross rental income and management fee from investment properties	13,178	10,473
Charging		
Depreciation	5,169	3,716
Operating lease rentals in respect of land and buildings	2,804	428
Direct outgoings in respect of investment properties	1,598	3,381
Provision for amounts due from associated companies	2,229	13,291
Staff costs	17,339	5,489

4 Finance costs

	Six months ended September 30,	
	2007 HK\$'000	2006 HK\$'000
Interest expense:		
– short-term bank loan	4,773	3,583
– other short-term loans	2,888	–
– convertible notes wholly repayable within five years	–	5,369
	7,661	8,952

5 Income tax (expense)/credit

Hong Kong profits tax and overseas profits tax have not been provided for as the Group has no estimated assessable profit for the period. (2006: Nil).

The amount of taxation charged to the condensed consolidated profit and loss account represents:

	Six months ended September 30,	
	2007 HK\$'000	2006 HK\$'000
Current income tax	–	–
Deferred income tax (charge)/credit	(393)	673
	(393)	673

6 Earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the profit/(loss) for the period attributable to the equity holders of the Company and the weighted average number of ordinary shares in issue during the period.

The calculation of diluted earnings/(loss) per share is based on profit/(loss) for the period attributable to the equity holders of the Company, interest expense on convertible notes and the weighted average number of ordinary shares in issue during the period, as used in the calculation of basic earnings/(loss) per share and the weighted average number of ordinary shares that would be issued on the conversion of all dilutive potential ordinary shares into ordinary shares.

The calculation of basic and diluted earnings/(loss) per share is based on the following data:

	Six months ended September 30,	
	2007 HK\$'000	2006 HK\$'000
Earnings/(loss)		
Profit/(loss) from operations attributable to the equity holders of the Company, as used in the calculation of basic earnings/(loss) per share	4,392	(2,717)
Interest expense on convertible notes	–	5,369
Adjusted profit attributable to the equity holders of the Company, as used in the calculation of diluted earnings per share	4,392	2,652

	Number of shares	
	Six months ended	
	September 30,	
	2007	2006
	'000	'000
Weighted average number of ordinary shares in issue		
Weighted average number of ordinary shares in issue for basic earnings/(loss) per share	2,616,362	1,654,908
Effect of dilutive potential ordinary shares:		
Convertible notes	–	827,778
Share options	23,777	2,559
Weighted average number of ordinary shares in issue for diluted earnings per share	2,640,139	2,485,245

7 Capital expenditure

	Investment properties	Property, plant and equipments
	HK\$'000	HK\$'000
Cost or valuation		
Net book value as at April 1, 2007	350,000	139,897
Additions	–	101,106
Depreciation	–	(5,169)
Net book value as at September 30, 2007	350,000	235,834
Net book value as at April 1, 2006	385,000	143,992
Additions	–	640
Disposal	–	(179)
Disposal of subsidiaries	–	(957)
Depreciation	–	(3,716)
Net book value as at September 30, 2006	385,000	139,780

The investment properties are located in Hong Kong and are held on leases of between 10 to 50 years.

8 Intangible assets

On July 16, 2007, the Group completed the acquisition of mine areas of around 32,000 hectares under exploration licenses in western Mongolia at a nominal consideration of US\$1.00. Under the acquisition agreement, the Group should pay the seller “pay as demonstrated” resources fees and “pay as used” commercial exploitation payments with details as follows:

(a) *“Pay as demonstrated” resources fees*

Following completion of the acquisition and within 30 days after relevant exploration for the resources, or such part thereof as acceptable to the Group, has determined by the exploration company in accordance with the international standards that there are coal resources, ferrous resources and non-ferrous resources, as the case may be, the Group will pay the seller the resources fees for the relevant coal resources, ferrous resources and non-ferrous resources, as follows:

- (i) Coal resources fees: HK\$2.00 per tonne for the coal resources by way of loan note (with a 3% per annum coupon rate and 5-year maturity) as deferred payment;
- (ii) Ferrous resources fees: 0.5% of the prevailing international market price for the relevant ferrous metal of the quality and type by way of loan note (with a 3% per annum coupon rate and 5-year maturity) as deferred payment; and
- (iii) Non-ferrous resources fees: 0.5% of the prevailing international market price for the relevant non-ferrous metal of the quality and type by way of loan note (with a 3% per annum coupon rate and 5-year maturity) as deferred payment.

(b) *“Pay as used” commercial exploitation payment*

Following exploration and determination by the Group in its sole and absolute discretion to conduct commercial exploitation of the relevant resources or part thereof (coal resources, ferrous resources and non-ferrous resources, as the case may be), the Group shall pay the seller further exploitation payments quarterly in arrears, based on the quality and quantity of the actual resources sold under commercial exploitation for the quarter prior to quarter during which payment is to be made, as follows:

- (i) Coal resources exploitation payments: HK\$10.00 per tonne;

- (ii) Ferrous resources exploitation payments: 2.5% of the prevailing international market price for the relevant ferrous metal of the quality and type or the actual sales price, whichever the lower; and
- (iii) Non-ferrous resources exploitation payments: 2.5% of the prevailing international market price for the relevant non-ferrous metal of the quality and type or the actual sales price, whichever the lower.

The Group also incurred and capitalised certain pre-acquisition exploration and evaluation expenses of approximately HK\$53,928,000 during the period ended September 30, 2007.

9 Associated companies

	At September 30, 2007 HK\$'000	At March 31, 2007 HK\$'000
At beginning of period/year	9,246	–
Investments in associated companies		
– unlisted shares, at cost	31,921	8,729
Share of results	–	67
Amount due from associated companies	1,779	55,827
	42,946	64,623
Less:		
Provision for amount due from associated companies (note)	(2,229)	(2,975)
Transferred to current assets held for sale	–	(52,402)
At the end of the period/year	40,717	9,246

Note: The amounts due from associated companies are unsecured, interest free and repayable on demand.

10 Financial assets at fair value through profit or loss

	At September 30, 2007 HK\$'000	At March 31, 2007 HK\$'000
Current assets		
Equity securities of companies listed in Hong Kong	74,864	125,098

11 Accounts receivable

The Group's credit terms on provision of services range from 30 to 90 days. The ageing analysis of accounts receivable is as follows:

	At September 30, 2007 HK\$'000	At March 31, 2007 HK\$'000
Current to 30 days	276	618
31 to 60 days	350	174
61 to 90 days	176	442
Over 90 days	1,765	841
	2,567	2,075
Denominated in:		
HK\$	487	858
US\$	2,080	1,217

The carrying value of accounts receivable approximates their fair values due to the short term maturity.

12 Accounts payable

The ageing analysis of accounts payable is as follows:

	At September 30, 2007 HK\$'000	At March 31, 2007 HK\$'000
Current to 30 days	3,003	1,848
31 to 60 days	127	720
61 to 90 days	781	374
Over 90 days	3,023	4,941
	6,934	7,883

The carrying value of the accounts payable approximates their fair values due to the short term maturity and are denominated in Hong Kong dollars.

13 Short-term loans

The Group's short-term loans are denominated in Hong Kong dollars and the carrying amounts of these loans approximate their fair values. The short-term loans are analysed as follows:

	Note	At September 30, 2007 HK\$'000	At March 31, 2007 HK\$'000
Bank loan, secured	(a)	197,900	126,800
Other loan, secured	(b)	200,000	-
Other loan, unsecured	(c)	140,000	-
		537,900	126,800

Notes:

- (a) Secured bank loan, which carries interest at 0.65% (As at March 31, 2007: 0.65%) over the Hong Kong Interbank Offered Rate ("HIBOR"), is secured by the Group's investment properties with carrying value amounted to HK\$350 million and a corporate guarantee provided by the Company. A director of the Company has also provided a personal guarantee to the bank to the extent of all outstanding interests in connection with the loan.

- (b) Secured other loan, which carries interest at 1.5% over HIBOR (As at March 31, 2007: Nil), was granted by an independent third party and secured by the Group's private jet with carrying value amounted to HK\$131.5 million. The maturity date of the loan is December 15, 2007.
- (c) Unsecured other loan, carries interest at 1% over HIBOR (As at March 31, 2007: Nil) was granted by Mr. Lo Lin Shing, Simon ("Mr. Lo"), chairman and an executive director of the Company. The maturity date of the loan is July 11, 2008.

14 Share capital

(a) Authorised and issued share capital

	At September 30, 2007 HK\$'000	At March 31, 2007 HK\$'000
Authorised:		
15,000,000,000 ordinary shares of HK\$0.02 each	300,000	300,000
	Number of ordinary shares at HK\$0.02 each	HK\$'000
Issued and fully paid:		
Balance at April 1, 2006	1,486,861,261	29,737
Issue of shares		
– Conversion of convertible notes	1,111,111,102	22,222
– Exercise of share options	18,390,000	368
Balance at March 31, 2007 and September 30, 2007	2,616,362,363	52,327

(b) Share options

Movements of share options granted to directors and qualified participants under the share option schemes of the Company during the period and their weighted average exercise prices are as follows:

	At September 30, 2007		At March 31, 2007	
	Weighted average exercise price per share HK\$	Number of share options	Weighted average exercise price per share HK\$	Number of share options
At beginning of the period/year	0.69	25,763,444	0.1692	15,306,420
Granted	4.62	2,750,000	0.69	30,100,000
Exercised	-	-	0.2924	(18,390,000)
Lapsed/cancelled	4.5832	(504,174)	0.1695	(1,252,976)
At end of the period/year	1.0879	28,009,270	0.69	25,763,444

Share options outstanding at the end of the period have the following exercise period and exercise price:

Date of grant	Exercise price HK\$	Exercise period	Number of shares subject to options	
			At September 30, 2007	At March 31, 2007
1-3-2005	0.1695	1-3-2005 to 28-2-2012	4,670	8,844
15-2-2006	0.1636	15-2-2006 to 16-4-2009	4,600	4,600
08-02-2007	0.69	08-02-2007 to 07-02-2012	25,750,000	25,750,000
23-04-2007	4.62	23-04-2007 to 01-04-2009	2,250,000	-
			28,009,270	25,763,444

The fair values of options granted determined using the Binomial Valuation Model were as follow:

	Date of grant of share option			
	March 1, 2005	February 15, 2006	February 8, 2007	April 23, 2007
Option value (at grant date)	HK\$1,215,000	HK\$32,000	HK\$12,289,000	HK\$3,733,000
Option value (upon completion of the rights issue on March 9, 2005)	HK\$1,919,000	N/A	N/A	N/A
Significant inputs into the valuation model:				
Exercise price (at grant date)	HK\$0.29	HK\$0.1636	HK\$0.69	HK\$4.62
Exercise price (upon completion of the rights issue on March 9, 2005)	HK\$0.1695	N/A	N/A	N/A
Share price at grant date or on March 9, 2005	HK\$0.29	HK\$0.162	HK\$0.69	HK\$4.62
Expected volatility (note)	70%	66%	80%	62.28%
Risk-free interest rate	3.9%	4.2%	4%	3.9%
Expected life of options	7 years	3.17 years	5 years	1.94 years
Expected dividend yield	Nil	Nil	Nil	Nil

Note:

The expected volatility is measured at the standard deviation of expected share price return and is based on statistical analysis of daily share prices over the last 6 months before the respective dates of grant.

15 Commitments

(a) Commitments under operating leases

The Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:–

	At September 30, 2007 HK\$'000	At March 31, 2007 HK\$'000
Not later than one year	8,971	2,142
Later than one year and not later than five years	11,179	3,389
	20,150	5,531

(b) Capital commitment

As at September 30, 2007, the Group had capital commitments contracted for but not provided for in the interim accounts amounted to approximately HK\$278,698,000 (2006: HK\$ Nil). Furthermore, there is capital commitments on “pay as demonstrated” resources fees according to the acquisition agreement for acquisition of mine areas of around 32,000 hectares under exploration licenses in Western Mongolia completed on July 16, 2007 for which will be determined in accordance with the terms of the agreement as set out in note 8.

16 Related party transactions

Golden Infinity Co., Ltd. (“Golden Infinity”), a company incorporated in the British Virgin Islands with limited liability which owns 14.33% of the Company’s shares as at September 30, 2007, is the single largest shareholder of the Company. The remaining 85.67% of the shares are widely held. Golden Infinity is wholly owned by Mr. Lo, chairman and an executive director of the Company. Significant related party transactions, which were carried out in the normal course of the Group’s business are as follows:

(a) Sales of services

	Note	Six months ended	
		September 30,	
		2007	2006
		HK\$'000	HK\$'000
Charter flight service to BAA Jet Management Limited ("BAA Jet"), an associated company	(i)	879	1,584
Related companies:			
- Reimbursement of rental and office administrative expenses from a subsidiary of International Entertainment Corporation ("IEC")	(ii)	26	240
- Interest income from certain subsidiaries of IEC	(iii)	-	249

Notes:

- (i) Service fee was subject to the terms of the contracts entered by the parties involved.
- (ii) The reimbursement of rental expenses from a subsidiary of IEC, a company of which Mr. Lo, chairman and an executive director of the Company, is also an executive director, for sharing the Group's office premises and utilities were calculated in proportion to the office space occupied. Administrative expenses were charged on actual incurred basis taking into account the headcount and/or office space occupied.
- (iii) The interest income was charged on loans granted to certain subsidiaries of IEC at mutually agreed terms.

(b) Purchases of services

	Note	Six months ended	
		September 30,	
		2007	2006
		HK\$'000	HK\$'000
Handling and management fee payable to BAA Jet, an associated company	(i)	12,087	1,094
Related companies:			
Professional fee paid to Taifook Capital Limited ("TFCL")	(ii)	570	-
Interest payable to Mr. Lo	(iii)	1,780	-

Notes:

- (i) Services are negotiated with an associated company on a cost-plus basis, allowing a margin of 10% and/or at fixed agreed term.
- (ii) Professional fee was paid to TFCL, a subsidiary of Taifook Securities Group Limited ("TFSG"), a company of which Mr. Lo is also the deputy chairman and a former substantial shareholder. The professional fee was charged at mutually agreed terms.
- (iii) Interest expenses were charged at 1% over HIBOR.

(c) Key management compensations

	Six months ended	
	September 30,	
	2007	2006
	HK\$'000	HK\$'000
Basic salaries, other allowances and benefits in kind	6,670	1,465
Discretionary bonus	-	-
Share option benefits	2,413	-
Contributions to pension schemes	12	15
	9,095	1,480

(d) *Period-end/year-end balances arising from sales/purchases of goods/services*

		At September 30, 2007 HK\$'000	At March 31, 2007 HK\$'000
	Note		
Receivables from related companies		470	445
Advances to associated companies:			
– BAA Jet	(i)	6,015	6,015
– Moral Known Investments Limited	(ii)	–	18,333
– Crown Frame Properties Limited	(ii)	–	16,500
– Crestbright Investments Ltd.	(iii)	–	17,003

Notes:

(i) Advances to BAA Jet were made for working capital purposes.

(ii) Advances to Moral Known Investments Limited and Crown Frame Properties Limited (formerly known as Crestbright Properties Ltd.) were made for capital injections in property development projects in Mainland China.

(iii) Advances to Crestbright Investments Ltd. were made for capital injection in environmental projects in Mainland China.

17 Subsequent event

On December 5, 2007, the Company announced that a subsidiary of the Company entered into a conditional sale and purchase agreement to dispose of its entire equity interest of 40.1% in BAA Jet, an associated company, at a consideration of approximately HK\$6.0 million. BAA Jet is engaged in the business of aircraft management and provision of charter flight services.

interim dividend

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

directors' interests and short positions

As at September 30, 2007, the interests or short positions of the directors of the Company in the shares and underlying shares 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 by the Company under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the “Model Code”) were as follows:

(a) Long positions in the shares

Name of director	Capacity	Number of shares	Percentage of shareholding
Mr. Lo Lin Shing, Simon	Beneficial owner/ Interest of a controlled corporation/Interest of spouse	1,173,772,301 (Note)	44.86%
Ms. Yvette Ong	Beneficial owner	1,790,000	0.06%
Mr. To Hin Tsun, Gerald	Beneficial owner	3,000,000	0.11%
Mr. Tsui Hing Chuen, William	Beneficial owner	500,000	0.01%
Mr. Lau Wai Piu	Beneficial owner	601,200	0.02%

Note:

Among the 1,173,772,301 shares, 4,960,000 shares represent interest of Mr. Lo on an individual basis; while 1,167,812,301 shares represent interest of Golden Infinity Co., Ltd (“Golden”). The balancing of 1,000,000 shares represents interest of Mrs. Ku Ming Mei, Rouisa (“Mrs. Lo”). Accordingly, Mr. Lo is deemed to be interested in the shares in which Golden and Mrs. Lo are interested by virtue of the SFO. The 1,167,812,301 shares which Golden is interested comprise, 387,812,301 shares held by Golden and 780,000,000 shares which will be issued to Golden upon completion of a subscription agreement dated January 30, 2007 entered into between the Company and Golden.

(b) Long positions in the underlying shares

As at September 30, 2007, none of the directors, chief executives and their respective associates had any interests in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be recorded in the register maintained by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

discloseable interests and short positions of substantial shareholders/other persons under the SFO

The register of interests in shares and short positions maintained under section 336 of the SFO showed that as at September 30, 2007, the Company had been notified of the following interests in shares representing 5% or more of the Company’s issued share capital:

Name	Capacity	Long position in share/underlying shares	Short position in shares/underlying shares	Approximate percentage of the Company's total issued share capital
Mr. Liu Cheng Lin	Interest of a controlled corporation	1,625,000,000 (Note 1)	-	62.10%
Puraway Holdings Limited ("Puraway")	Corporate	1,625,000,000 (Note 1)	-	62.10%
Ku Ming Mei, Rouisa	Beneficial Owner/ Interest of spouse	1,173,772,301 (Note 2)	-	44.86%
Golden Infinity Co., Ltd.	Corporate	1,167,812,301	-	44.63%
Taifook (BVI) Limited	Interest of a controlled corporation	1,100,000,000 (Note 3)	1,100,000,000	42.04%(L) 42.04%(S)
Taifook Finance Company Limited	Interest of a controlled corporation	1,100,000,000 (Note 3)	1,100,000,000	42.04%(L) 42.04%(S)
Taifook Securities Company Limited	Corporate	1,100,000,000 (Note 3)	1,100,000,000	42.04%(L) 42.04%(S)
Taifook Securities Group Limited	Interest of a controlled corporation	1,100,000,000 (Note 3)	1,100,000,000	42.04%(L) 42.04%(S)
The Goldman Sachs Group, Inc.	Corporate	587,065,000	511,500,000	22.44%(L) 19.55%(S)
Mr. Ho Hau Chong, Norman	Beneficiary of a trust	512,675,000 (Note 4)	340,000,000	19.59%(L) 13.00%(S)
Honorway Nominees Limited	Trustee	512,675,000 (Note 4)	340,000,000	19.59%(L) 13.00%(S)

Name	Capacity	Long position in share/underlying shares	Short position in shares/underlying shares	Approximate percentage of the Company's total issued share capital
Dr. Cheng Kar Shun	Interest of a controlled corporation/ Interest of spouse	371,110,000 (Note 5)	-	14.18%
Ms. Ip Mei Hing	Interest of a controlled corporation/ Interest of spouse	371,110,000 (Note 5)	-	14.18%
Dragon Noble Group Limited ("Dragon")	Corporate	321,110,000 (Note 5)	-	12.27%
Mr. Law Ka Keung	Interest of a controlled corporation	341,666,666 (Note 6)	-	13.05%
Keswick Agents Limited ("Keswick")	Corporate	341,666,666 (Note 6)	-	13.05%
Dato' Dr. Cheng Yu Tung	Interest of a controlled corporation	220,000,000 (Note 7)	-	8.40%
Chow Tai Fook Nominee Limited ("CTF")	Corporate	220,000,000 (Note 7)	-	8.40%
Mr. Han Yuanlin	Interest of a controlled corporation	210,493,478 (Note 8)	-	8.04%
Visionary Profits Limited ("Visionary Profits")	Corporate	210,493,478 (Note 8)	-	8.04%
Mr. Ng Chun Ping, Brendan	Interest of a controlled corporation	194,444,442 (Note 9)	-	7.43%
Better Year Investments Limited ("Better Year")	Corporate	194,444,442 (Note 9)	-	7.43%

Notes:-

1. Mr. Liu Cheng Lin is interested in the entire issued share capital of the Puraway. By virtue of the SFO, he is deemed to be interested in the 1,625,000,000 new shares to be issued upon completion of the acquisition agreement dated January 30, 2007 entered into between the Company and, among others, Mr. Liu (the "Acquisition Agreement"). The 1,625,000,000 new shares to be issued to the Puraway represents 1,125,000,000 new shares and 500,000,000 underlying shares which may be issued upon conversion of the 3% convertible bond of the Company with maturity on the third anniversary from the date of the issue of the convertible bond, as part of the consideration deferred under the Acquisition Agreement.
2. Ms. Ku Ming Mei, Rouisa is the spouse of Mr. Lo and accordingly, she is deemed to be interested in 1,173,772,301 shares under the SFO.
3. The shares represent the number of shares agreed to be underwritten by Taifook Securities Company Limited ("Taifook Securities") pursuant to the placement agreement dated January 30, 2007. Taifook Securities Group Limited is interested in the entire issued share capital of Taifook (BVI) Limited. Taifook (BVI) Limited is interested in the entire issued share capital of Taifook Finance Company Limited. Taifook Finance Company Limited is interested in the entire issued share capital of the Taifook Securities. By virtue of the SFO, each of Taifook Securities Group Limited, Taifook (BVI) Limited and Taifook Finance Company Limited is deemed to be interested in the shares Tai Fook Securities is interested in.
4. Honorway Nominees Limited holds the long and short positions in shares/underlying shares in trust for Mr. Ho Hau Chong, Norman.

5. Dr. Cheng Kar Shun is interested in the entire issued share capital of Dragon. By virtue of the SFO, he is deemed to be interested in the 112,500,000 shares held by Dragon and the 200,000,000 new shares to be issued to Dragon upon completion of the subscription agreement dated January 30, 2007, entered into between Dragon and the Company. The 50,000,000 shares are owned by Madam Ip Mei Hing, the spouse of Dr. Cheng Kar Chun.
6. Mr. Law Ka Keung is interested in the entire issued share capital of Keswick. By virtue of the SFO, he is deemed to be interested in the 166,666,666 shares held by Keswick and the 175,000,000 shares which was interested by Keswick as a sub-underwriter of the placing agreement dated January 30, 2007 entered into between Taifook Securities and the Company.
7. Dato' Dr. Cheng Yu Tung is interested in the entire issued share capital of CTF. By virtue of the SFO, he is deemed to be interested in the 20,000,000 shares held by CTF and the 200,000,000 new shares to be issued to CTF upon completion of the subscription agreement dated January 30, 2007 entered into between CTF and the Company by virtue of the SFO.
8. Mr. Han Yuanlin is interested in the entire issued share capital of Visionary Profits. By virtue of the SFO, Mr. Han Yuanlin is deemed to be interested in the 210,493,478 shares held by Visionary Profits.
9. Mr. Ng Chun Ping, Brendan is interested in the entire issued share capital of Better Year. By virtue of the SFO, he is deemed to be interested in the 194,444,442 shares held by Better Year.

Save as disclosed above and those disclosed under “Directors’ interest and short positions”, the Company had not been notified of other interests representing 5% or more of the issued share capital of the Company as at September 30, 2007.

share option scheme

Under the share option scheme adopted by the Company on August 28, 2002 (the “Option Scheme”), options were granted to certain directors, employees and other eligible participants of the Company entitling them to subscribe for shares of HK\$0.02 each in the capital of the Company.

Details of the movement in outstanding share options, which have been granted under the Option Scheme, during the period are as follows:

Name or category of participant	Date of grant	Exercise price HK\$	Exercise period	Vesting period	Number of shares subject to options			
					As at April 1, 2007	Granted during the period (Note)	Cancelled/ Lapsed during the period	As at September 30, 2007
<i>Directors</i>								
Lo Lin Shing, Simon	01-03-2005	0.1695	01-03-2005 to 28-02-2012	01-03-2005 to 31-08-2005	1,157	-	1,157	-
Yvette Ong	01-03-2005	0.1695	01-03-2005 to 28-02-2012	01-03-2005 to 31-08-2005	41	-	41	-
To Hin Tsun, Gerald	01-03-2005	0.1695	01-03-2005 to 28-02-2012	01-03-2005 to 31-08-2005	744	-	744	-
Peter Pun	01-03-2005	0.1695	01-03-2005 to 28-02-2012	01-03-2005 to 31-08-2005	1,116	-	1,116	-
Lau Wai Piu	01-03-2005	0.1695	01-03-2005 to 28-02-2012	01-03-2005 to 31-08-2005	1,116	-	1,116	-
<i>Employees and others in aggregate (including a director of certain subsidiaries)</i>	01-03-2005	0.1695	01-03-2005 to 28-02-2012	01-03-2005 to 31-08-2005	4,670	-	-	4,670
	15-02-2006	0.1636	15-02-2006 to 16-04-2009	N/A	4,600	-	-	4,600
	08-02-2007	0.69	08-02-2007 to 07-02-2012	N/A	25,750,000	-	-	25,750,000
	23-04-2007	4.62	23-04-2007 to 01-04-2009	23-04-2007 to 01-04-2008	-	2,000,000	-	2,000,000
	23-04-2007	4.62	23-04-2007 to 01-04-2009	N/A	-	250,000	-	250,000
	23-04-2007	4.62	23-04-2007 to 22-04-2009	N/A	-	500,000	500,000	-
					25,763,444	2,750,000	504,174	28,009,270

Note:

On April 23, 2007, 2,750,000 share options granted to the employees under the Option Scheme. The closing price of the Company shares on April 20, 2007, (the trading day immediately before the grant of the share options) was 4.60.

purchase, sale or redemption of the company's listed securities

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended September 30, 2007.

corporate governance

The board of directors of the Company (the "Board") recognizes the importance of maintaining a high standard of corporate governance to protect and enhance the benefits of shareholders and has applied the principles of the code provisions of the Code on Corporate Governance Practices contained in Appendix 14 (the "CG Code") of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules").

For the period ended September 30, 2007, the Company has complied with the code provisions of the CG Code with deviations from the code provision A.4.1, A.4.2 and E.1.2 of the CG Code as summarized below:

- i. Under the code provision A.4.1 and A.4.2 of the Code, (a) non-executive directors should be appointed for a specific term and subject to re-election; and (b) all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment, and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

None of the existing non-executive directors of the Company is appointed for a specific term. This constitutes a deviation from code provision A.4.1 of the Code. However, they are subject to the retirement by rotation under the Bye-laws of the Company. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the Code.

- ii. The code provision E.1.2 of the CG Code stipulates that the chairman of the Board should attend the annual general meeting ("AGM") of the Company. The chairman did not attend the 2007 AGM due to an urgent business engagement. An executive director had chaired the 2007 AGM and answered questions from shareholders. The chairman of the Audit and Remuneration Committee was also available to answer questions at the 2007 AGM.

model code for securities transactions by directors

The Company has adopted the Model Code for Securities Transactions by directors of Listed Companies (the “Model Code”) set out in Appendix 10 of the Listing Rules. The Model Code is sent to each director of the Company on his/her initial appointment. One month before the date of the Board meetings to approve the Group’s half-year and annual results, the Company will sent a reminder to all the directors that they cannot deal in the securities and derivatives of the Company until after such results have been published, and that all their dealings must be conducted in accordance with the Model Code. Under the Model Code, directors of the Company are required to notify the chairman and receive a dated written acknowledgement before dealing in the securities and derivatives of the Company, and in the case of the chairman himself, he must notify the designated director and receive a dated written acknowledgement before any dealing. Upon specific enquiry by the Company, all directors of the Company have confirmed in writing that they have complied with the required standards set out in Model Code for the period ended September 30, 2007.

disclosure pursuant to chapter 13 of the listing rules

Financial assistance to affiliated companies

(a) In compliance with Rule 13.16 of Chapter 13 of the Listing Rules, details of the financial assistance given to the following affiliated companies of the Group as at September 30, 2007 which in aggregate has exceeded 8% under the assets ratio as defined under Rule 14.07(1) of Chapter 14 of the Listing Rules are set out below:

Name of affiliated companies	Percentage of Group's attributable interests	Financial Assistance HK\$'000
BAA Jet Management Limited ("BAA Jet") (Note 1)	40.10%	8,575
Cyber China Inc. ("CCI") (Note 2)	50.00%	153,247
		<u>161,822</u>

Notes:

1. The Group has provided shareholder's loan and corporate guarantee on credit facilities granted from a bank and a vendor to BAA Jet. The amount is interest free, unsecured and repayable on demand.
2. The Group has provided shareholder's loan to CCI. The amount is interest free, unsecured and repayable on demand. Such amount was fully provided in previous years.

(b) In compliance with Rule 13.22 of Chapter 13 of the Listing Rules, the unaudited combined balance sheet of these affiliated companies as at September 30, 2007 is disclosed as follows:

ASSETS	HK\$'000
Non-current assets	
Property, plant and equipment	970
Investment in associated companies	<u>324</u>
	<u>1,294</u>
Current assets	
Debtors, prepayments and other deposits	20,579
Cash and bank balances	<u>1,481</u>
	<u>22,060</u>
Current Liabilities	
Creditors, deposits and accruals	(21,036)
Amount due to immediate holding company	<u>(159,280)</u>
	<u>(180,316)</u>
Net current liabilities	<u>(158,256)</u>
Total assets less current liabilities	<u>(156,962)</u>
CAPITAL AND RESERVES	
Share capital	1
Reserves	<u>(156,963)</u>
	<u>(156,962)</u>

audit committee

The audit committee currently comprises Mr. Peter Pun, Mr. Tsui Hing Chuen, William and Mr. Lau Wai Piu (chairman of the committee), the three independent non-executive directors of the Company.

The audit committee has reviewed the unaudited interim accounts of the Group for the six months ended 30 September 2007.

By Order of the Board
Lo Lin Shing, Simon
Chairman

Hong Kong, December 13, 2007

During the period, the Board comprises the following members:

Executive directors

Lo Lin Shing, Simon (*Chairman*)
Yvette Ong

Non-executive director

To Hin Tsun, Gerald

Independent non-executive directors

Peter Pun *OBE, JP*
Tsui Hing Chuen, William, *JP*
Lau Wai Piu