

Sun Innovation Holdings Limited

Incorporated in Bermuda with limited liability

Stock Code: 547

Interim Report

2010

CONTENTS

	<i>Page(s)</i>
Condensed Consolidated Income Statement	2
Condensed Consolidated Statement of Comprehensive Income	3
Condensed Consolidated Balance Sheet	4
Condensed Consolidated Statement of Changes in Equity	6
Condensed Consolidated Statement of Cash Flows	8
Notes to the Condensed Consolidated Interim Financial Statements	9
Business Review and Prospect	18
Other Information	23

The Board of Directors of Sun Innovation Holdings Limited (the "Company") presents the unaudited condensed consolidated interim financial statements of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2010 (the "Review Period") together with the comparative figures for the corresponding period in 2009.

CONDENSED CONSOLIDATED INCOME STATEMENT – UNAUDITED

FOR THE SIX MONTHS ENDED 30 JUNE 2010

		For the six months ended 30 June	
		2010	2009
	Notes	HK\$'000	HK\$'000
Turnover	2	6,564	10,888
Cost of sales and services		(2,682)	(3,958)
Gross profit		3,882	6,930
Other income and gains		220	489
Selling and distribution expenses		(306)	(204)
Administrative expenses and other net operating expenses		(19,142)	(26,008)
Finance costs	4	(2,896)	(6,063)
Loss on disposal of subsidiaries, net		–	(11,363)
Fair value loss on derivative component of convertible bond	10	–	(5,517)
Loss before taxation	3	(18,242)	(41,736)
Taxation	5	23	(119)
Loss for the period		(18,219)	(41,855)
Attributable to:			
Owners of the Company		(17,459)	(41,705)
Non-controlling interests		(760)	(150)
		(18,219)	(41,855)
Loss per share for loss attributable to the owners of the Company:	6		
– Basic and diluted		HK\$(0.002)	HK\$(0.03)

The accompanying notes form part of the condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME – UNAUDITED

FOR THE SIX MONTHS ENDED 30 JUNE 2010

	For the six months ended 30 June	
	2010 HK\$'000	2009 HK\$'000
Loss for the period	(18,219)	(41,855)
Other comprehensive income		
Exchange differences arising on translation of foreign operations	(170)	643
Other comprehensive income for the period, net of tax	(170)	643
Total comprehensive income for the period	(18,389)	(41,212)
Total comprehensive income attributable to:		
Owners of the Company	(17,629)	(41,062)
Non-controlling interests	(760)	(150)
	(18,389)	(41,212)

The accompanying notes form part of the condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2010

		Unaudited	Audited
		30 June	31 December
		2010	2009
	Notes	HK\$'000	HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		2,147	1,993
Investment properties		116,000	116,000
Intangible assets	7	–	–
		118,147	117,993
Current assets			
Trade receivables, other receivables and prepayments	8	9,740	6,065
Bank balances and cash		274,093	296,418
		283,833	302,483
Current liabilities			
Trade payables, other payables and accruals	9	5,388	5,916
Bank and other borrowings		3,584	3,380
Tax payable		108	108
		9,080	9,404
Net current assets		274,753	293,079
Total assets less current liabilities		392,900	411,072

CONDENSED CONSOLIDATED BALANCE SHEET *(Continued)*

AS AT 30 JUNE 2010

		Unaudited	Audited
		30 June	31 December
		2010	2009
	Notes	HK\$'000	HK\$'000
Non-current liabilities			
Bank and other borrowings		52,950	54,781
Convertible bonds		36,770	35,596
Deferred tax liabilities		4,367	4,367
		94,087	94,744
Net assets			
		298,813	316,328
EQUITY			
Share capital	11	87,827	87,577
Reserves		210,560	227,565
Equity attributable to owners of the Company		298,387	315,142
Non-controlling interests		426	1,186
Total equity		298,813	316,328

The accompanying notes form part of the condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – UNAUDITED

FOR THE SIX MONTHS ENDED 30 JUNE 2010

	Attributable to owners of the Company										Non-controlling interests	Total equity
	Share capital	Share premium	Warrants reserve	Convertible bonds – equity component	Land and buildings revaluation reserve	Share option reserve	Contributed surplus	Exchange fluctuation reserve	Accumulated losses	Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 1 January 2009	147,004	50,008	2,191	-	7,355	3,487	-	388	(165,372)	45,061	1,951	47,012
Changes in equity for the six months ended 30 June 2009												
Total comprehensive income for the period	-	-	-	-	-	-	-	643	(41,705)	(41,062)	(150)	(41,212)
Release upon lapse of share options	-	-	-	-	-	(50)	-	-	50	-	-	-
Issue of shares on exercise of warrants	7	16	(7)	-	-	-	-	-	-	16	-	16
Release upon lapse of warrants	-	-	(2,184)	-	-	-	-	-	2,184	-	-	-
As at 30 June 2009 and 1 July 2009	147,011	50,024	-	-	7,355	3,437	-	1,031	(204,843)	4,015	1,801	5,816
Changes in equity for the six months ended 31 December 2009												
Total comprehensive income for the period	-	-	-	-	-	-	-	(28)	(20,558)	(20,586)	(615)	(21,201)
Issue of convertible bonds	-	-	-	63,509	-	-	-	-	-	63,509	-	63,509
Direct costs incurred for issue of convertible bonds	-	-	-	(911)	-	-	-	-	-	(911)	-	(911)
Issue of shares on the exercise of warrants	-	-	-	-	-	-	-	-	(1)	(1)	-	(1)
Issue of shares on placement	29,400	11,877	-	-	-	-	-	-	-	41,277	-	41,277
Share premium balance transferred to contributed surplus pursuant to the capital reorganisation	-	(64,146)	-	-	-	-	64,146	-	-	-	-	-
Capital reduction pursuant to the capital reorganisation	(164,941)	-	-	-	-	-	164,941	-	-	-	-	-
Contributed surplus set off against accumulated losses pursuant to the capital reorganisation	-	-	-	-	-	(179,577)	-	179,577	-	-	-	-
Issue of shares upon conversion of convertible bonds	76,107	208,875	-	(54,076)	-	-	-	-	-	230,906	-	230,906
Release upon lapse and surrender of share options	-	-	-	-	-	(3,437)	-	-	3,437	-	-	-
Release of exchange fluctuation reserve upon disposal of a subsidiary	-	-	-	-	-	-	-	(3,067)	-	(3,067)	-	(3,067)
As at 31 December 2009	87,577	206,630	-	8,522	7,355	-	49,510	(2,064)	(42,388)	315,142	1,186	316,328

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – UNAUDITED (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2010

	Attributable to owners of the Company											
	Share capital	Share premium	Warrants reserve	Convertible bonds - equity component	Land and buildings revaluation reserve	Share option reserve	Contributed surplus	Exchange fluctuation reserve	Accumulated losses	Total	Non-controlling interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 1 January 2010	87,577	206,630	-	8,522	7,355	-	49,510	(2,064)	(42,388)	315,142	1,186	316,328
Changes in equity for the six months ended 30 June 2010												
Total comprehensive income for the period	-	-	-	-	-	-	-	(170)	(17,459)	(17,629)	(760)	(18,389)
Issue of shares upon conversion of convertible bonds	250	822	-	(198)	-	-	-	-	-	874	-	874
As at 30 June 2010	87,827	207,452	-	8,324	7,355	-	49,510	(2,234)	(59,847)	298,387	426	298,813

The accompanying notes form part of the condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS – UNAUDITED

FOR THE SIX MONTHS ENDED 30 JUNE 2010

	For the six months ended 30 June	
	2010 HK\$'000	2009 HK\$'000
Net cash used in operating activities	(20,036)	(28,688)
Net cash (used in)/generated from investing activities	(662)	11,490
Net cash (used in)/generated from financing activities	(1,628)	13,199
Decrease in cash and cash equivalents	(22,326)	(3,999)
Cash and cash equivalents at 1 January	296,418	9,000
Effect of foreign exchange rate changes	1	1
Cash and cash equivalents at 30 June	274,093	5,002
Represented by:		
Bank balances and cash	274,093	5,002

The accompanying notes form part of the condensed consolidated interim financial statements.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. Basis of preparation and accounting policies

The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2010 have been prepared in accordance with Hong Kong Accounting Standards (“HKAS”) 34 – “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

The unaudited condensed consolidated interim financial statements have been prepared under the historical cost convention, as modified for investment properties and derivative component of convertible bonds, where applicable, which are at fair value.

The accounting policies and method of computation used in the preparation of the unaudited condensed consolidated interim financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2009.

In the current period, the Group has adopted all the new or revised Hong Kong Financial Reporting Standards (“HKFRSs”) that are relevant to its operations and effective for the current accounting period of the Group. The adoption of these new or revised HKFRSs had no material effect on the financial statements of the Group for both the current and prior reporting periods.

The Group has not early adopted the following new or amended HKFRSs that have been issued but are not yet effective. The directors of the Company anticipate that the application of these HKFRSs will have no material impact on the financial statements of the Group.

	Effective date
HKFRSs (Amendments)	Improvements to HKFRSs 2010 (ii)
HKAS 24 (Revised)	Related Party Disclosures (iii)
HKFRS 9	Financial Instruments (iv)
HK(IFRIC) – Interpretation 14 (Amendments)	Prepayments of a Minimum Funding Requirement (iii)
HK(IFRIC) – Interpretation 19	Extinguishing Financial Liabilities with Equity Instruments (i)

Effective date:

- (i) Annual periods beginning on or after 1 July 2010
- (ii) Annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate
- (iii) Annual periods beginning on or after 1 January 2011
- (iv) Annual periods beginning on or after 1 January 2013

2. Segment information

Reportable segments

The Group was principally engaged in the following business segments during the period:

- (i) property investment;
 - (ii) entertainment media;
 - (iii) trading (previously known as “media shopping”);
 - (iv) telecommunication; and
 - (v) leisure and entertainment events.
- (a) Analyses of the Group’s revenue and results for the period and assets by business segment are as follows:

For the six months ended 30 June

	Property Investment		Entertainment Media		Trading		Telecommunication		Leisure and Entertainment Events		Total	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers	2,366	3,161	2,759	6,305	1,439	55	-	982	-	385	6,564	10,888
Inter-segment revenue	-	-	-	-	-	-	-	-	-	-	-	-
Reportable segment revenue	2,366	3,161	2,759	6,305	1,439	55	-	982	-	385	6,564	10,888
Reportable segment profit/(loss)	1,839	2,329	(4,190)	(161)	135	(1,578)	(1)	(19)	(212)	(3,027)	(2,429)	(2,456)

	Property Investment		Entertainment Media		Trading		Telecommunication		Leisure and Entertainment Events		Total	
	30 June 2010	31 December 2009	30 June 2010	31 December 2009	30 June 2010	31 December 2009	30 June 2010	31 December 2009	30 June 2010	31 December 2009	30 June 2010	31 December 2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Reportable segment assets	117,583	117,116	5,632	9,823	20,743	346	4	5	192	512	144,154	127,802

2. Segment information (Continued)**Reportable segments** (Continued)

(b) Reconciliation of reportable segment profit or loss and assets

	For the six months ended 30 June	
	2010	2009
	HK\$'000	HK\$'000
Loss before taxation		
Reportable segment loss	(2,429)	(2,456)
Other income and gains	220	489
Unallocated corporate expenses	(12,831)	(16,826)
Allowance for doubtful debts	(306)	-
Fair value loss on derivative component of convertible bond	-	(5,517)
Loss on disposal of subsidiaries, net	-	(11,363)
Finance costs	(2,896)	(6,063)
Consolidated loss before taxation	(18,242)	(41,736)
	As at	
	30 June	31 December
	2010	2009
	HK\$'000	HK\$'000
Assets		
Reportable segment assets	144,154	127,802
Unallocated corporate assets	257,826	292,674
Consolidated total assets	401,980	420,476

2. Segment information *(Continued)***Geographic information**

An analysis of the Group's revenue from external customers by geographic location is as follows:

	For the six months ended 30 June	
	2010	2009
	HK\$'000	HK\$'000
Hong Kong	5,125	9,254
Mainland China	1,439	652
United States of America	–	982
	6,564	10,888

3. Loss before taxation

This is arrived at after charging/crediting:

	For the six months ended 30 June	
	2010	2009
	HK\$'000	HK\$'000
<i>Crediting:</i>		
Interest income	118	1
<i>Charging:</i>		
Staff costs (including directors' remuneration)	8,363	12,978
Amortisation of intangible assets included in cost of sales and services	–	196
Depreciation of property, plant and equipment	506	835

4. Finance costs

	For the six months ended 30 June	
	2010	2009
	HK\$'000	HK\$'000
Imputed interest on convertible bonds	2,153	1,074
Interests on:		
Borrowings wholly repayable within five years	173	4,551
Borrowings not wholly repayable within five years	570	438
	2,896	6,063

5. Taxation

Taxation in the unaudited condensed consolidated income statement represents:

	For the six months ended 30 June	
	2010	2009
	HK\$'000	HK\$'000
Current taxation – overseas		
Tax for the period	-	119
Overprovision in respect of prior years	(23)	-
	(23)	119

No provision for Hong Kong profits tax has been made for the period as the Group has no assessable profits arising in Hong Kong (2009: Nil). Taxation on overseas profits has been calculated on the estimated assessable profits for the period at the appropriate current rates of taxation ruling in the countries in which the Company's subsidiaries operate.

6. Loss per share

The calculation of basic loss per share is based on the following data:

	For the six months ended 30 June	
	2010	2009
	HK\$'000	HK\$'000
Loss for the period attributable to owners of the Company for the purpose of basic loss per share	17,459	41,705
	Number of shares	
	2010	2009
Weighted average number of ordinary shares for the purpose of basic loss per share	8,758,380,212	1,470,053,824

As convertible bonds, share options and warrants, where applicable, outstanding during the periods had an anti-dilutive effect on the basic loss per share for both periods, the conversion of the above potential dilutive shares is not assumed in the computation of diluted loss per share. Therefore, the basic and diluted losses per share for the respective periods are equal.

7. Intangible assets

	Cable use rights
	HK\$'000
COST	
As at 1 January 2010	3,627
Exchange fluctuation	14
As at 30 June 2010	3,641
ACCUMULATED AMORTISATION	
As at 1 January 2010	3,627
Exchange fluctuation	14
As at 30 June 2010	3,641
CARRYING AMOUNT	
As at 30 June 2010	-
As at 31 December 2009	-

8. Trade receivables, other receivables and prepayments

The Group normally allows an average credit period of 30 to 90 days to trade customers. Included in the balances are trade receivables and the ageing analysis, net of allowance for doubtful debts, based on the due date, was as follows:

	30 June	31 December
	2010	2009
	HK\$'000	HK\$'000
Current	1,671	733
31 to 60 days	349	463
61 to 90 days	337	347
Over 90 days	566	793
	2,923	2,336
Other receivables and prepayments	6,817	3,729
	9,740	6,065

9. Trade payables, other payables and accruals

	30 June	31 December
	2010	2009
	HK\$'000	HK\$'000
Current	145	142
31 to 60 days	10	204
61 to 90 days	28	74
Over 90 days	671	560
	854	980
Other payables and accruals	4,534	4,936
	5,388	5,916

10. Derivative financial instrument

Derivative financial instrument represented embedded derivative in convertible bond. During the period ended 30 June 2009, there was a significant increase in the share price of the Company, and accordingly, the fair value of the derivative component of the convertible bond increase, resulting in a fair value loss of HK\$5,517,000.

11. Share capital

	Number of ordinary shares	Amount HK\$'000
Ordinary shares of HK\$0.01 each		
Authorised:		
As at 31 December 2009 and 30 June 2010	75,000,000,000	750,000
Issued and fully paid:		
As at 31 December 2009 and 1 January 2010	8,757,685,768	87,577
Issue of shares upon conversion of convertible bonds	25,000,000	250
As at 30 June 2010	8,782,685,768	87,827

12. Related party transactions

During the six months ended 30 June 2010, the Group had the following material related party transactions:

- (a) The Company incurred interest expenses for the subscription bonds issued to Wise Sun Holdings Limited ("Wise Sun"), a substantial shareholder of the Company (Note), of HK\$1,905,000 for current period (2009: Nil).
- (b) In prior year, Wise Sun has granted a credit facility of HK\$60,000,000 to the Company. The loan was unsecured with interest at 5% per annum. The first drawdown was in June 2009 and the total amount drawn by the Group was HK\$43.6 million. It was fully repaid in September 2009. For the period ended 30 June 2009, the Company incurred interest expenses thereon amounted to HK\$68,000.

12. Related party transactions *(Continued)*

- (c) In prior year, Quants Inc. ("Quants"), a former substantial shareholder of the Company (Note), granted a credit facility of HK\$20,000,000 to the Company. The facility bore commercial interest rate and was unsecured. The Company did not use the facility during the period. It was expired on 30 June 2010 and not renewed.
- (d) For the period ended 30 June 2009, a subsidiary of the Company has received management service fee income of approximately HK\$335,000 from a subsidiary of Quants, for the provision of general administrative and corporate services.
- (e) For the period ended 30 June 2009, a subsidiary of the Company received telecommunication revenue of HK\$861,000 from a subsidiary of Quants.

Note:

Quants ceased to be a substantial shareholder of the Company upon the change of shareholding of the Company completed on 8 June 2009. After that, Wise Sun became a new substantial shareholder of the Company holding 38.12% of the issued share capital of the Company as at 30 June 2009, which was further diluted to 29.72% as at 30 June 2010.

13. Capital Commitment

The Group did not have any significant capital commitment as at 30 June 2010 and 31 December 2009.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2010 (2009: Nil).

BUSINESS REVIEW

For the Review Period, the Group recorded an unaudited consolidated turnover of approximately HK\$6,564,000 (2009: HK\$10,888,000). The gross profit for the Review Period was approximately HK\$3,882,000 (2009: HK\$6,930,000). Loss for the period amounted to approximately HK\$18,219,000 (2009: HK\$41,855,000) and the loss attributable to owners of the Company were approximately HK\$17,459,000 (2009: HK\$41,705,000). The total assets of the Group amounted to approximately HK\$401,980,000 as at 30 June 2010 (As at 31 December 2009: HK\$420,476,000).

Property Investment Segment

For the Review Period, the turnover of this Segment was approximately HK\$2,366,000 (2009: HK\$3,161,000). The profit of this Segment amounted to approximately HK\$1,839,000 (2009: HK\$2,329,000). The decrease was mainly due to the disposal of the leasing properties (20 service apartments) in Suzhou, the People's Republic of China ("PRC") in May 2009. The turnover of this Segment represented 36% of the Group's overall turnover during the Review Period.

As at 30 June 2010, since all shops and majority of the car parks of the properties situated at Citicorp Centre in Hong Kong were leased out to third parties, this Segment continued to provide stable rental income for the Group.

Entertainment Media Segment

During the Review Period, the turnover of this Segment decreased to approximately HK\$2,759,000 (2009: HK\$6,305,000) and the loss of this Segment amounted to approximately HK\$4,190,000 (2009: HK\$161,000). Due to continuous severe competition in the mobile entertainment and media businesses and high upgrading rate of advanced mobile technology in the electronic telecommunication and mobile media industries, the turnover of this Segment reduced by 56% when compared to the last corresponding period.

BUSINESS REVIEW *(Continued)***Entertainment Media Segment** *(Continued)*

This Segment was engaged in mobile entertainment business and consisted of certain subsidiaries, including Cellcast (Asia) Limited and Enhanced Life Services Limited. These subsidiaries, with the brands of "Yeah Mobile" and "Ping Pong Boy", continued to provide services in the multi-media advertising, contents and services industries. The advancement of technology and the increase in the number of smartphone users were the recent world trend. The management of Cellcast believed that it would have large demands of high quality contents via mobile apps. This Segment was in the transitional stage to enhance and develop suitable customer-oriented contents and solutions to its valued customers. It pursued to create more value-added contents and technological services to customers by diversifying existing services with more customer-oriented components and features to different customers in Hong Kong, Macau and overseas. The major clients were famous telecommunication companies and renowned consumer brands, including CTM, CSL, PCCW, SmarTone, Hutchison, China Mobile Hong Kong, Yahoo, TVB, Coca Cola, HMV and Samsung, etc.

Trading Segment (Previously known as "Media Shopping Segment")

During the Review Period, despite the down turn of the Guangzhou operation of this Segment which was inactive (2009: turnover was HK\$55,000), the Group developed and expanded the operation of this Segment in Hong Kong by establishing a trading wing between Hong Kong/Mainland China and the United States of America in the metal material trade industry commencing in late April 2010 and recorded a turnover of approximately HK\$1,439,000. Since the Hong Kong trading operation is just commenced in late April 2010, it needs further resources and time for development and therefore, the performance of this Segment may be improved in the second half of 2010. The profit of this Segment amounted to HK\$135,000 (2009: a loss of HK\$1,578,000) during the Review Period.

Telecommunication Segment

During the Review Period, there was no turnover recorded (2009: HK\$982,000) and the loss was HK\$1,000 (2009: HK\$19,000). The loss incurred was because of the termination of services by the customer in Japan in November 2009. This Segment held a cable use right for a cable connected between Japan and Hawaii and can provide maintenance and support services to its bilateral correspondent or any customers in Japan.

BUSINESS REVIEW *(Continued)***Leisure and Entertainment Events Segment**

During the Review Period, the Segment was inactive and did not have record of turnover (2009: HK\$385,000). However, this Segment may continue to explore potential opportunities in entertainment and marketing events industries in future.

CAPITAL

In June 2010, a holder of the convertible bonds of the Company in the principal amount of HK\$1,000,000 had exercised his rights and converted the aforesaid convertible bond into 25,000,000 shares of the Company. Details of the conversion were disclosed in the Company's Monthly Return of Equity Issuer on Movements in Securities for the month ended 30 June 2010.

As at 30 June 2010, the total number of issued shares of the Company was 8,782,685,768 shares and there were outstanding convertible bonds ("CBs") in the principal amount of HK\$42,000,000, among which the holders of the outstanding CBs could exercise the rights and convert into 1,050,000,000 shares of the Company during the conversion period of the CBs.

POST BALANCE SHEET EVENT

In the end of July 2010, the Company obtained the court's order to approve the application of the Company for striking out the only outstanding litigation case. Details of the aforesaid litigation case and the strike out application were disclosed under the Section "Contingent liabilities" below.

LIQUIDITY, FINANCIAL RESOURCES, CHARGES ON GROUP ASSETS AND GEARING RATIO

The Group has diverse sources of financing, including internal funds generated from the Group's business operations, general banking facilities on secured basis, non-bank loans on unsecured basis and non-regular contributions (such as placement of shares or issuance of convertible bonds or financing by shareholder's loans) from the shareholders and other potential investors. The Group continues to adopt conservative funding and treasury policies.

The Group had banking facilities in forms of mortgage loan and instalment loans. These banking facilities were secured by the Group's investment properties with aggregate net book value of HK\$116 million. In addition, the Group and certain subsidiaries provided a bank of cross guarantees totalling HK\$55 million in respect of these banking facilities to be used by the Group and these subsidiaries.

LIQUIDITY, FINANCIAL RESOURCES, CHARGES ON GROUP ASSETS AND GEARING RATIO *(Continued)*

In October 2009, an indirectly-owned subsidiary of the Group had obtained a banking facility amounted to HK\$6 million from a bank in Hong Kong which consisted of a 5-year instalment loan. This facility was granted under the Special Loan Guarantee Scheme of The Government of the Hong Kong Special Administrative Region (the "Government") pursuant to which, the Government had provided 80% guarantee to the bank. A corporate guarantee was provided to the bank by an intermediate subsidiary of the Company which held the aforesaid indirectly-owned subsidiary.

As at 30 June 2010, the Group had banking facilities totally amounted to approximately HK\$56.5 million, among which, short-term bank loans of approximately HK\$3.5 million and long-term bank loans of approximately HK\$53 million, and the cash and bank balances of approximately HK\$274 million. All bank loans were at floating interest rates. All the borrowings were denominated in Hong Kong dollars. The maturity profile of the Group's bank borrowings as at 30 June 2010 was spread over a period of 13 years, with approximately 6% repayable within one year, 27% repayable between two to five years and 67% repayable over five years.

The Group's current assets were approximately HK\$284 million while the current liabilities were approximately HK\$9 million as at 30 June 2010. As at 30 June 2010, the Group's current ratio was 32 (at 31 December 2009: 34).

As at 30 June 2010, the Group's gearing ratio, representing the Group's bank loans, non-bank loans and convertible bonds divided by the equity attributable to owners of the Company was 31% (at 31 December 2009: 30%).

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

The Group's turnover, expenses, assets and liabilities were denominated in Hong Kong dollars ("HKD"), Renminbi ("RMB"), Macau Pataca ("MOP"), United States dollars ("USD") and Japanese Yen ("JPY"). The exchange rates of RMB, MOP and USD against HKD remained relatively stable during the Review Period. Certain expenses of the Group incurred in JPY which had fluctuated in a relatively greater extent in the Review Period. However, the amount of JPY expenses incurred were immaterial, the appreciation of JPY against HKD did not have material adverse effect on the operation of the Group for the Review Period.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

(Continued)

At present the Group does not intend to seek to hedge its exposure to foreign exchange fluctuations involving RMB and JPY. However, the Group will constantly review the economic situation, development of each business Segment and the overall foreign exchange risk profile, and will consider appropriate hedging measures in future when necessary.

CONTINGENT LIABILITIES

As at 30 June 2010, the Company had only one outstanding litigation case. This litigation case was commenced by a bank against a bankrupted third party and joint venture, which had served a third party notice to the Company in 1998, for outstanding balance of overdraft facilities. During the Review Period, the Company had made an application to the court for striking out this dormant litigation case and in the end of July 2010, the court approved the aforesaid application and granted an order, in our favour, to strike out this litigation proceedings.

Save as disclosed above, the Group did not have any material contingent liabilities.

EMPLOYEE OF THE GROUP

The Group has adopted competitive remuneration package for its employees according to their performance. There are also contributions to provident fund schemes, medical subsidies and examination leaves offered to all full-time staff and tax protection scheme may be offered to executive directors.

As at 30 June 2010, the total headcount of the Group was 46.

PROSPECT

In the first half year of 2010, the Group continued its existing businesses under the rationalized structures and operations completed in last year and strived to improve the existing businesses by establishing new income streams in certain business segments.

Following the Group's macro business concept, the Group will continue to rationalize and scale down certain unprofitable and/or dormant business operations when necessary and will continue to actively explore various business opportunities and will diversify the businesses and investments which are beneficial to the valued shareholders and investors of the Company.

SHARE OPTION SCHEME

The Company has adopted its share option scheme on 16 May 2002 (the "Option Scheme"), under which the Company may grant options to any Executive or Non-executive Directors, any executives and employees and those persons who have contributed or will contribute to the Group as incentive schemes and rewards. Apart from the Option Scheme, the Company did not have any other share option scheme.

In the special general meeting of the shareholders of the Company (the "Shareholders") held on 15 April 2010 (the "SGM Date"), the Company obtained the shareholders' approval to refresh the Option Scheme limit to 10% of the Company's issued share capital as at the SGM Date, i.e. 875,768,576 shares.

During the Review Period, the Company did not grant any options to any person and as at 30 June 2010 there was no outstanding options to subscribe for any shares of the Company under the Option Scheme.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 30 June 2010, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are deemed or taken to have under such provisions of the SFO) or which were required pursuant to section 352 of the Securities and Futures Ordinance (the "SFO"), to be entered in the register referred to therein or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") to be notified to the Company and the Stock Exchange were as follows:

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES (Continued)**(a) Ordinary shares of HK\$0.01 each**

Name of Director	Capacity	Total number of shares	Approximate percentage of issued share capital of the Company (%)
Zhou Jian	Held by controlled corporation (Note)	2,610,395,180	29.72

(b) Convertible bonds

Name of Director	Capacity	Outstanding principal amount of convertible bonds	Number of underlying ordinary shares
Zhou Jian	Held by controlled corporation (Note)	HK\$38,000,000	950,000,000

Note: Mr. Zhou Jian held 2,610,395,180 shares and convertible bond in the outstanding principal amount of HK\$38,000,000 (convertible into 950,000,000 shares) of the Company through Wise Sun Holdings Limited, a company wholly owned by Bright Ace Holdings Limited, a company beneficially owned by him.

Save as disclosed above, as at 30 June 2010, none of the Directors and the chief executives of the Company and their respective associates had any interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which had been notified to the Company and the Stock Exchange pursuant to the Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are deemed or taken to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2010, so far as is known to the Directors and the chief executives of the Company, the following persons (other than a Director or chief executive of the Company) had an interest or short position in the shares and underlying shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who are, directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at a general meeting of any member of the Group.

(a) Ordinary shares of HK\$0.01 each

Name of Shareholders	Capacity	Total number of Shares	Approximate percentage of issued share capital of the Company (%)
Wise Sun Holdings Limited	Beneficial owner (Note 1)	2,610,395,180	29.72
Bright Ace Holdings Limited	Held by controlled corporation (Note 1)	2,610,395,180	29.72
Zhou Jian	Held by controlled corporation (Note 1)	2,610,395,180	29.72
Mass Channel Investment Limited	Beneficial owner (Note 2)	1,750,000,000	19.93
Xu Kai	Held by controlled corporation (Note 2)	1,750,000,000	19.93
Fortune Source International Limited	Beneficial owner (Note 3)	1,125,000,000	12.81
Zhang Xiaoqun	Held by controlled corporation (Note 3)	1,125,000,000	12.81

SUBSTANTIAL SHAREHOLDERS *(Continued)***(a) Ordinary shares of HK\$0.01 each** *(Continued)*

Notes:

1. Wise Sun Holdings Limited is wholly owned by Bright Ace Holdings Limited which in turn is wholly owned by Mr. Zhou Jian.
2. Mass Channel Investment Limited is wholly owned by Mr. Xu Kai.
3. Fortune Source International Limited is wholly owned by Mr. Zhang Xiaoqun.

(b) Convertible bonds

Name of Shareholders	Capacity	Maximum number of underlying ordinary shares to be issued at conversion	Approximate percentage of issued share capital of the Company (%)
Wise Sun Holdings Limited	Beneficial owner <i>(Note)</i>	950,000,000	10.82
Bright Ace Holdings Limited	Held by controlled corporation <i>(Note)</i>	950,000,000	10.82
Zhou Jian	Held by controlled corporation <i>(Note)</i>	950,000,000	10.82

Note: Mr. Zhou Jian, Chairman of the Company, held 2,610,395,180 shares of the Company and the convertible bond in the outstanding principal amount of HK\$38,000,000 through Wise Sun Holdings Limited, a company wholly owned by Bright Ace Holdings Limited and beneficially owned by him.

SUBSTANTIAL SHAREHOLDERS *(Continued)*

Save as disclosed above, the Directors and the chief executives of the Company are not aware that there is any person (other than a Director or chief executive of the Company) who, as at 30 June 2010, had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at a general meeting of any other member of the Group.

DISCLOSURE PURSUANT TO PARAGRAPH 13.21 OF CHAPTER 13 OF THE LISTING RULES

A banking facility (the "Facility") with the principal amount of HK\$6 million provided by a bank in Hong Kong for an indirectly-owned subsidiary of the Company (the "Subsidiary") has imposed certain specific performance obligations on the Company, pursuant to which, the Company shall not (i) hold less than 51% of the Subsidiary's equity interests effectively and (ii) hold less than 100% of equity interests in an intermediate wholly-owned subsidiary of the Company which holds the Subsidiary. The bank shall have the right to demand for repayment of all outstanding amounts due by the Subsidiary under the Facility, unless otherwise approved by the bank, if there is any breach of the aforesaid conditions.

The outstanding loan principal of this Facility as at 30 June 2010 amounted to approximately HK\$5.3 million and the last monthly instalment repayment shall be in the year of 2014.

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

The Company has not redeemed any of its listed securities during the Review Period. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's securities during the Review Period.

CORPORATE GOVERNANCE

During the six months ended 30 June 2010, the Company was in compliance with the code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules except for the following:

- (a) The Chairman of the Board of the Company is not subject to retirement by rotation pursuant to Bye-law 87(1) of the Company's Bye-laws;
- (b) The independent non-executive directors were not appointed for a specific term. However, they are subject to retirement by rotation and eligible for re-election at the annual general meeting pursuant to the Company's Bye-laws and the Code. The service contracts of all the independent non-executive directors have a termination notice requirement of one month; and
- (c) The Company had no officer with the title of chief executive officer ("CEO"). The roles and functions of CEO were performed by all the executive directors collectively. The Board will periodically review such arrangement and may adopt appropriate policy in future in light of the development of the Group's businesses.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Board had adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code through the period under review.

AUDIT COMMITTEE

The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal operation and financial reporting matters including a review of the unaudited condensed consolidated interim financial statements for the six months ended 30 June 2010 with the directors.

By Order of the Board

Zhou Jian

Chairman

Hong Kong, 23 August 2010