

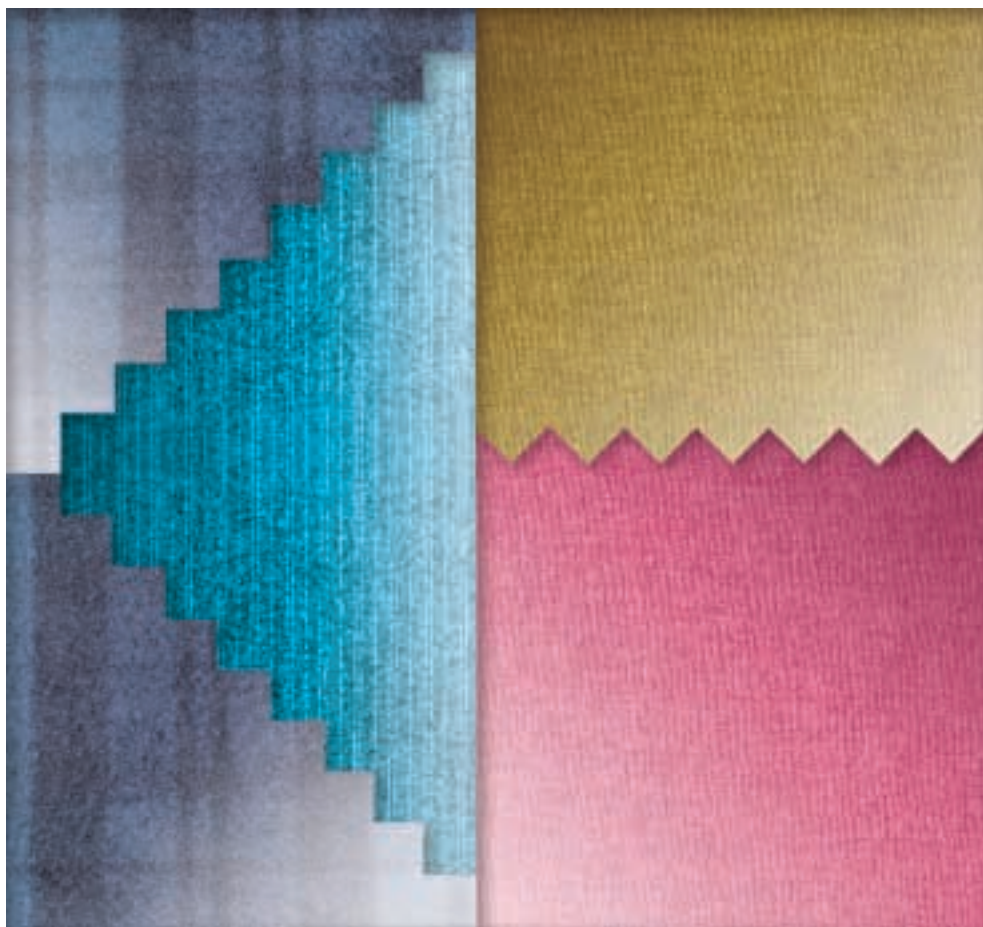


**Kwong Hing International Holdings (Bermuda) Limited**

(Incorporated in Bermuda with limited liability)  
Stock code: 1131

**Interim Report**

# 2006-2007



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## **INDEPENDENT INTERIM REVIEW REPORT**

TO THE BOARD OF DIRECTORS OF  
**KWONG HING INTERNATIONAL HOLDINGS (BERMUDA) LIMITED**  
廣興國際控股有限公司  
(incorporated in Bermuda with limited liability)

### **Introduction**

We have been instructed by the Company to review the interim financial report set out on pages 4 to 15.

### **Respective responsibilities**

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Hong Kong Accounting Standard 34 'Interim Financial Reporting' issued by the Hong Kong Institute of Certified Public Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### **Review work performed**

We conducted our review in accordance with the Statement of Auditing Standards 700 'Engagements to Review Interim Financial Reports' issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

**Review conclusion**

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30th September, 2006.

**Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

21st December, 2006

## RESULTS

The Board of directors (the "Board") of Kwong Hing International Holdings (Bermuda) Limited (the "Company") announces the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30th September, 2006 with comparative figures for the corresponding period as follows. The interim results have been reviewed by the Company's auditors in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants. The interim results have also been reviewed by the Company's audit committee.

### Condensed Consolidated Income Statement

For the six months ended 30th September, 2006

	Notes	Six months ended	
		30.9.2006 HK\$'000 (Unaudited)	30.9.2005 HK\$'000 (Unaudited)
<b>Continuing operation</b>			
Revenue	4	193,138	253,629
Cost of sales		(183,940)	(228,193)
Gross profit		9,198	25,436
Other income		1,488	651
Selling expenses		(4,149)	(5,794)
Administrative expenses		(13,741)	(12,895)
Interest on bank borrowings wholly repayable within five years		(168)	(551)
(Loss) profit before taxation	5	(7,372)	6,847
Income tax credit (expense)	6	31	(68)
(Loss) profit for the period from continuing operation		(7,341)	6,779
<b>Discontinued operation</b>			
Loss for the period from discontinued operation	12	(5,500)	(2,580)
(Loss) profit for the period		(12,841)	4,199
Attributable to:			
Equity holders of the Company		(12,841)	4,346
Minority interests		–	(147)
		(12,841)	4,199
<b>(Loss) earnings per share</b>			
From continuing and discontinued operations:			
– Basic	7	(3.3) HK cents	1.1 HK cents
From continuing operation:			
– Basic	7	(1.9) HK cents	1.8 HK cents

**Condensed Consolidated Balance Sheet**

At 30th September, 2006

	Notes	30.9.2006 HK\$'000 (Unaudited)	31.3.2006 HK\$'000 (Audited)
<b>Non-current assets</b>			
Property, plant and equipment	8	117,582	127,166
Prepaid lease payments		2,070	2,100
Held-to-maturity investments		15,600	15,600
		<u>135,252</u>	<u>144,866</u>
<b>Current assets</b>			
Inventories		120,734	141,356
Trade and other receivables	9	88,386	77,406
Prepaid lease payments		58	58
Held-for-trading investments		3,958	–
Pledged bank deposits		4,000	4,000
Bank balances and cash		65,292	74,409
		<u>282,428</u>	<u>297,229</u>
Assets classified as held for sale		1,938	–
		<u>284,366</u>	<u>297,229</u>
<b>Current liabilities</b>			
Trade and other payables	10	42,720	51,502
Taxation payable		3,388	3,374
Obligations under finance leases – amount due within one year		3,186	3,085
		<u>49,294</u>	<u>57,961</u>
Net current assets		<u>235,072</u>	<u>239,268</u>
		<u>370,324</u>	<u>384,134</u>
<b>Capital and reserves:</b>			
Share capital	11	38,376	38,857
Reserves		329,004	340,717
Equity attributable to equity holders of the parent		<u>367,380</u>	<u>379,574</u>
<b>Non-current liabilities</b>			
Obligations under finance leases – amount due after one year		851	2,467
Deferred tax liabilities		2,093	2,093
		<u>2,944</u>	<u>4,560</u>
		<u>370,324</u>	<u>384,134</u>

**Condensed Consolidated Statement of Changes in Equity**

For the six months ended 30th September, 2006

	Attributable to equity holders of the Company							
	Share capital	Share premium	Contributed surplus	Translation reserve	Retained profits	Total	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st April, 2005	38,857	130,452	122,652	(278)	101,492	393,175	337	393,512
Exchange difference arising on translation of foreign operations recognised directly in equity	-	-	-	1,128	-	1,128	-	1,128
Profit (loss) for the period	-	-	-	-	4,346	4,346	(147)	4,199
Total recognised income (expense) for the period	-	-	-	1,128	4,346	5,474	(147)	5,327
At 30th September, 2005	38,857	130,452	122,652	850	105,838	398,649	190	398,839
Exchange difference arising on translation of foreign operations recognised directly in equity	-	-	-	(67)	-	(67)	-	(67)
Loss for the period	-	-	-	-	(19,008)	(19,008)	(190)	(19,198)
Total recognised expense for the period	-	-	-	(67)	(19,008)	(19,075)	(190)	(19,265)
At 31st March, 2006	<b>38,857</b>	<b>130,452</b>	<b>122,652</b>	<b>783</b>	<b>86,830</b>	<b>379,574</b>	-	<b>379,574</b>
Exchange difference arising on translation of foreign operations recognised directly in equity	-	-	-	1,799	-	1,799	-	1,799
Loss for the period	-	-	-	-	(12,841)	(12,841)	-	(12,841)
Total recognised income (expense) for the period	-	-	-	1,799	(12,841)	(11,042)	-	(11,042)
Shares repurchased	(481)	(671)	-	-	-	(1,152)	-	(1,152)
At 30th September, 2006	<b>38,376</b>	<b>129,781</b>	<b>122,652</b>	<b>2,582</b>	<b>73,989</b>	<b>367,380</b>	-	<b>367,380</b>

**Condensed Consolidated Cash Flow Statement**

For the six months ended 30th September, 2006

	Six months ended	
	30.9.2006 HK\$'000 (Unaudited)	30.9.2005 HK\$'000 (Unaudited)
<b>Net cash from operating activities</b>	<u>2,974</u>	<u>2,315</u>
<b>Net cash used in investing activities:</b>		
Purchase of property, plant and equipment	(7,017)	(3,257)
Proceeds from disposal of property, plant and equipment	983	31
Cash paid for the acquisition of held-for-trading investments	<u>(3,958)</u>	<u>-</u>
	<u>(9,992)</u>	<u>(3,226)</u>
<b>Net cash used in financing activities:</b>		
Cash paid for the repurchased shares	(1,152)	-
Other financing cash flows	<u>(1,515)</u>	<u>(1,344)</u>
	<u>(2,667)</u>	<u>(1,344)</u>
<b>Net decrease in cash and cash equivalents</b>	<b>(9,685)</b>	<b>(2,255)</b>
<b>Cash and cash equivalents at beginning of the period</b>	<b>74,409</b>	<b>38,132</b>
<b>Effect on foreign exchange rate changes</b>	<u>568</u>	<u>(173)</u>
<b>Cash and cash equivalents at end of the period, representing bank balances and cash</b>	<u><u>65,292</u></u>	<u><u>35,704</u></u>

## Notes To The Condensed Consolidated Financial Statements

For the six months ended 30th September, 2006

### 1. Basis of Preparation

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

### 2. Principal Accounting Policies

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the annual financial statements of the Company and its subsidiaries for the year ended 31st March, 2006.

In the current interim period, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRSs") issued by the HKICPA, which are either effective for accounting periods beginning on or after 1st December, 2005, 1st January, 2006 or 1st March, 2006. The adoption of the new HKFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

### 3. Summary of the Effects of the Changes in Accounting Policies

The Group has not early applied the following new standards, 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 the financial position of the Group.

HKAS 1 (Amendment)	Capital Disclosures <sup>1</sup>
HKFRS 7	Financial Instruments: Disclosures <sup>1</sup>
HK(IFRIC)-Int 8	Scope of HKFRS 2 <sup>2</sup>
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives <sup>3</sup>
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment <sup>4</sup>

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

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

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

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

#### 4. Segment Information

##### *Business segments*

For management purpose, the Group is currently engaged in the manufacturing and trading of knitted fabric and dyed yarns. The Group was also involved in the manufacturing and trading of garment products. That operation was discontinued on 16th September, 2006 (see note 12). These activities are the basis on which the Group reports its primary segment information.

Segment information about these activities is presented below:

##### For the six months ended 30th September, 2006

	Continuing operation	Discontinued operation		
	Manufacture and sale of knitted fabric and dyed yarns HK\$'000	Manufacturing and trading of garment products HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
Revenue				
External sales	193,138	4,672	–	197,810
Inter-segment sales	676	–	(676)	–
Total revenue	<u>193,814</u>	<u>4,672</u>	<u>(676)</u>	<u>197,810</u>
Results				
Segment results	<u>(7,491)</u>	<u>(5,759)</u>		<u>(13,250)</u>
Other income	1,488	259		1,747
Unallocated corporate expense	(1,201)	–		(1,201)
Interest on bank borrowings wholly repayable within five years	<u>(168)</u>	–		<u>(168)</u>
Loss before taxation	<u>(7,372)</u>	<u>(5,500)</u>		<u>(12,872)</u>
Income tax credit	31	–		31
Loss for the period	<u>(7,341)</u>	<u>(5,500)</u>		<u>(12,841)</u>

\* Inter-segment sales were charged at terms determined and agreed between the group companies.

## 4. Segment Information (Continued)

*Business segments (Continued)*

For the six months ended 30th September, 2005

	Continuing operation	Discontinued operation		
	Manufacture and sale of knitted fabric and dyed yarns HK\$'000	Manufacturing and trading of garment products HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
Revenue				
External sales	253,629	8,907	–	262,536
Inter-segment sales	4,900	–	(4,900)	–
Total revenue	<u>258,529</u>	<u>8,907</u>	<u>(4,900)</u>	<u>262,536</u>
Results				
Segment results	7,995	(2,595)		5,400
Other income	651	15		666
Unallocated corporate expense	(1,248)	–		(1,248)
Interest on bank borrowings wholly repayable within five years	(551)	–		(551)
Profit (loss) before taxation	6,847	(2,580)		4,267
Income tax expense	(68)	–		(68)
Profit (loss) for the period	<u>6,779</u>	<u>(2,580)</u>		<u>4,199</u>

\* Inter-segment sales were charged at terms determined and agreed between the group companies.

## 5. (Loss) Profit Before Taxation

	Six months ended	
	30.9.2006 HK\$'000	30.9.2005 HK\$'000 (As restated)
(Loss) profit before taxation has been arrived at after charging:		
Cost of inventories recognised	181,280	228,193
Depreciation of property, plant and equipment	12,325	12,893
Amortisation of prepaid lease payments	30	30
Allowance for bad and doubtful debts	470	-
Allowance for damaged inventories (included in cost of sales)	2,660	-
Impairment loss on property, plant and equipment	2,939	-
and after crediting:		
Interest income from banks	967	231
Gain on disposal of property, plant and equipment	353	-

## 6. Income Tax (Credit) Expense

	Six months ended	
	30.9.2006 HK\$'000	30.9.2005 HK\$'000
<b>Continuing operation</b>		
Current tax:		
Hong Kong Profits Tax	27	213
Other jurisdictions	59	233
	86	446
Overprovision in prior years:		
Other jurisdictions	(117)	(378)
	(31)	68

Hong Kong Profits Tax is calculated at the rate of 17.5% of the estimated assessable profit for both periods.

Overseas taxation is calculated at the rates prevailing in the respective jurisdictions.

## 7. (Loss) Earnings Per Share

### From continuing and discontinued operations

The calculation of the basic (loss) earnings per share attributable to the equity holders of the Company is based on the following data:

	Six months ended	
	30.9.2006 HK\$'000	30.9.2005 HK\$'000
(Loss) profit for the period attributable to equity holders of the Company for the purposes of basic (loss) earnings per share	<u>(12,841)</u>	<u>4,346</u>
Weighted average number of ordinary shares for the purposes of basic (loss) earnings per share	<u>385,378,391</u>	<u>388,573,200</u>

No diluted loss (2005: earnings) per share for the six months ended 30th September, 2006 and 2005 has been presented because the exercise price of the Company's options was higher than the average market price per share.

### From continuing operation

The calculation of the basic (loss) earnings per share from continuing operation attributable to the equity holders of the Company is based on the following data:

	Six months ended	
	30.9.2006 HK\$'000	30.9.2005 HK\$'000
(Loss) profit for the period attributable to equity holders of the Company	<u>(12,841)</u>	<u>4,346</u>
Less: Loss for the period from discontinued operation	<u>5,500</u>	<u>2,580</u>
(Loss) profit for the purposes of basic (loss) earnings per share from continuing operation	<u>(7,341)</u>	<u>6,926</u>

The denominators used are the same as those detailed above for basic (loss) earnings per share from continuing and discontinued operations.

No diluted loss (2005: earnings) per share for the six months ended 30th September, 2006 and 2005 has been presented because the exercise price of the Company's options was higher than the average market price per share.

### From discontinued operation

Basic loss per share for discontinued operation is 1.4 HK cents per share (2005: 0.7 HK cents per share) and no diluted loss per share for the discontinued operation for the six months ended 30th September, 2006 and 2005 has been presented because the exercise price of the Company's options was higher than the average market price per share. The denominators used are the same as those detailed above for both basic loss per share.

## 8. Movements in Property, Plant and Equipment

During the period, the Group disposed of certain plant and machinery with a carrying amount of HK\$630,000 for proceeds of HK\$983,000, resulting in a gain on disposal of HK\$353,000.

In addition, the Group spent approximately HK\$7,017,000 on additions to property, plant and equipment to upgrade its production capabilities.

## 9. Trade and other Receivables

The credit terms given to the customers vary from cash on delivery to 120 days and are generally based on the financial strength of individual customers. In order to effectively manage the credit risks associated with the trade receivables, credit evaluation of customers are performed periodically.

Included in trade and other receivables are trade and bills receivables of approximately HK\$81,763,000 (31st March, 2006: HK\$70,240,000). The following is an aged analysis of trade receivables at the balance sheet date:

	30.9.2006 HK\$'000	31.3.2006 HK\$'000
0 – 60 days	50,722	40,931
61 – 90 days	11,091	11,785
91 – 120 days	4,127	5,013
Over 120 days	15,823	12,511
	<u>81,763</u>	<u>70,240</u>

## 10. Trade and other Payables

Included in trade and other payables are trade and bills payables of approximately HK\$30,681,000 (31st March, 2006: HK\$38,214,000). The following is an aged analysis of trade payables at the balance sheet date:

	30.9.2006 HK\$'000	31.3.2006 HK\$'000
0 – 60 days	25,964	29,003
61 – 90 days	2,682	2,751
Over 90 days	2,035	6,460
	<u>30,681</u>	<u>38,214</u>

**11. Share Capital**

	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
At 31st March, 2006 and 30th September, 2006	<u>5,000,000,000</u>	<u>500,000</u>
Issued and fully paid:		
At 1st April, 2006	388,573,200	38,857
Shares repurchased	<u>(4,810,000)</u>	<u>(481)</u>
At 30th September, 2006	<u>383,763,200</u>	<u>38,376</u>

**12. Discontinued Operation**

On 16th September, 2006, the Group decided to discontinue its operation on manufacturing and trading of garments in view of unsatisfactory performance and continuous loss made. The Group has disposed certain property, plant and equipment to an independent party in November 2006.

The results of the garment manufacturing and trading operations for the interim reporting period were as follows:

	Six months ended	
	30.9.2006 HK\$'000	30.9.2005 HK\$'000
Revenue	4,672	8,907
Cost of sales	(5,573)	(9,294)
Other income	259	15
Distribution costs	(38)	(16)
Administrative expenses	(1,881)	(2,192)
Impairment loss on property, plant and equipment	<u>(2,939)</u>	<u>-</u>
Loss for the period	<u>(5,500)</u>	<u>(2,580)</u>

During the period, the garment operation contributed HK\$261,000 to the Group's operating cash outflows.

**12. Discontinued Operation (Continued)**

The major class of assets of the discontinued operation classified as held for sale were as follows:

	30.9.2006 HK\$'000	30.9.2005 HK\$'000
<b>Asset</b>		
Property, plant and equipment	<u>1,938</u>	<u>—</u>

**13. Major Non-cash Transaction**

During the six months ended 30th September, 2005, the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of approximately HK\$2,200,000.

**14. Pledge of Assets**

At 30th September, 2006, certain of the Group's buildings with an aggregate carrying value of approximately HK\$2,277,000 (31st March, 2006: HK\$2,308,000), held-to-maturity investments of HK\$7,800,000 (31st March, 2006: HK\$7,800,000) and bank deposits of approximately HK\$4,000,000 (31st March, 2006: HK\$4,000,000) were pledged to banks as security for general banking facilities granted to the Group.

**15. Capital Commitments**

At 30th September, 2006, the Group had capital expenditure of approximately HK\$90,000 (31st March, 2006: HK\$266,000) in respect of acquisition of property, plant and equipment contracted for but not provided in the financial statements and had no capital expenditure (31st March, 2006: HK\$5,500,000) in respect of property, plant and equipment authorised but not contracted for.

## **INTERIM DIVIDEND**

The directors do not recommend the payment of an interim dividend for the current period.

## **BUSINESS REVIEW**

For the six months ended 30th September, 2006, the Group recorded a turnover of approximately HK\$197,810,000 representing a decrease of 24.7% as compared to same period last year, and gross profit is approximately HK\$8,297,000, representing a decrease of 66.9% as compared to the same period last year. Consequently, the Group recorded a net loss of HK\$12,841,000 for the period.

In 2006, the quota system has been re-instated after mutual agreement by both US and Chinese Governments which has given an adverse impact to the Group's business in the period under review, as US provide a major market to the Group's customers. As a result, the turnover of manufacture and sales of knitted fabric and dyed yarns including inter-segment sales has dropped to approximately HK\$193,814,000 representing a decrease of 25.0% as compared to that of last year. The production costs has increased markedly because of rise in price of dyed material, coal and electricity, and salary and wages in China. Together with a provision of approximately HK\$2,660,000 for some inventories damaged by Typhoon Prapiroon in August, 2006, the Group has recorded a net operating loss of HK\$7,341,000 in this segment. Manufacture and sales of garment sustained a loss of HK\$2,561,000 for the period. In September 2006, the Group decided to discontinue its operation in the segment of manufacture and sales of garment in view of unsatisfactory performance. Certain properties, plants and equipments have been disposed to an independent party, and an impairment loss of approximately HK\$2,939,000 has been recorded.

During the period, management has focused on controlling its operating costs and enhancing its competitive advantage. Under the extreme competitive environment, the Group managed to control other production costs and overhead expenses reasonably well. The Group has also continued its prudent and conservative credit policy towards customers, and has monitored closely its inventory level as well as production requirements. These measures have enabled the Group to maintain a healthy cash level.

During the period under review, the Group has invested approximately HK\$7,017,000 in property, plant and equipment to upgrade its factory and production facilities so as to increase its productivity and to enhance its production quality. Together with the capital investments in previous years, the Group has managed to achieve production at better economies of scale.

## **PROSPECTS**

Looking forward, the high production costs resulting from price increase in dyed material, coal and electricity, and salary and wages in China will continue to affect the Group's performance. The board believes that the business environment in the second half of the year is expected to be highly competitive and more challenging. The Group will continue to take appropriate cost control measures, rationalizing its operations, applying prudent credit policy for its customers and improving product quality in order to achieve improved return for its shareholders.

In the market front, the Group will strive to expand into the Asian and the PRC markets so as to broaden the Group's customer base and to reduce reliance on the US market.

## **LIQUIDITY AND FINANCIAL RESOURCES**

As at 30th September, 2006, the Group's shareholders' equity amounted to HK\$367,380,000, while total bank borrowing amounted to approximately HK\$4,037,000, and cash on hand amounted to approximately HK\$69,292,000. The Group's bank indebtedness to equity ratio is only 0.01, Current ratio is 5.8. The Board believes that the Group's sound and healthy financial position will enable it to finance its operation and explore other business development opportunities.

As at 30th September, 2006, the Group has long-term high graded securities and investments of approximately HK\$15,600,000 of which HK\$7,800,000 has been pledged to bank as securities for general banking facilities granted to the Group.

The Groups' assets and liabilities were principally denominated in Hong Kong dollars, Chinese Renminbi and US dollars. The board is closely monitoring the fluctuation in the exchange rates between them, and believes that there is no substantial exposure in exchange rate risk.

## **PLEDGE OF ASSETS**

At the balance sheet date, certain of the Group's buildings with an aggregate net book value of approximately HK\$2,277,000, held-to-maturity investment of approximately HK7,800,000 and bank deposit of HK\$4,000,000 were pledged to banks as security for general banking facilities granted to the Group.

## STAFF AND REMUNERATION POLICIES

As at 30th September, 2006, the Group had approximately 1,180 employees. The Group mainly determines staff remuneration in accordance with market terms and individual qualifications.

The emoluments of the directors of the Company are decided by the board of directors, as authorised by the shareholders at the annual general meeting having regard to the Group's operating results, individual performance and comparable market statistics.

The Company maintains a share option scheme, pursuant to which, share options are granted to selected eligible participants, with a view to provide incentive to the option holders to participate and contribute the growth of the Group.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES AND UNDERLYING SHARES

At 30th September, 2006, the interests of the directors and the chief executives in the shares and underlying shares of the Company and its associated corporation as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Future Ordinance ("SFO") or as 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, were as follows:

### Long positions

Name of director	Number of ordinary shares		Interest in	Aggregated interest	Percentage of the issued share capital of the Company
	Personal interests	Other interests (note)	underlying shares pursuant to share option		
Ms. Li Mei Lin	–	164,628,000	1,500,000	166,128,000	43.3%
Mr. Li Man Shun	–	164,628,000	–	164,628,000	42.9%
Mr. Fung Chi Ki	–	–	1,933,200	1,933,200	0.5%

Note: Ms. Li Mei Lin and Mr. Li Man Shun beneficially own 30,600 shares and 29,700 shares respectively, in Rayten Limited, representing 34 per cent and 33 per cent respectively, of the issued share capital of Rayten Limited, which in turn owns 164,628,000 shares of HK\$0.10 each in the Company.

## SHARE OPTION SCHEME

The following table discloses movements in the Company's share option scheme during the period:

	Date of grant	Exercisable period	Exercise price per share HK\$	Number of share options	
				At 1.4.2006	At 30.9.2006
<b>Directors</b>					
Ms. Li Mei Lin	17.9.2003	17.9.2003 to 16.9.2006	1.62	1,500,000	1,500,000
Mr. Fung Chi Ki	2.11.2002	2.11.2002 to 1.11.2012	0.51	1,933,200	1,933,200
				<u>3,433,200</u>	<u>3,433,200</u>

## SUBSTANTIAL SHAREHOLDERS

Other than the interests disclosed above in respect of certain directors, the register of substantial shareholders maintained by the Company pursuant to section 336 of SFO discloses no person as having a notifiable interest or short position in the issued capital of the Company as at 30th September, 2006.

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

During the six months ended 30th September, 2006, the Company had purchased 4,810,000 Company's shares on the Stock Exchange, details of which are as follows:

Date of repurchase	Number of Shares repurchased	Purchase price per share	
		Highest price	Lowest price
25 May 2006	230,000	0.231	–
29 May 2006	500,000	0.240	–
1 June 2006	1,800,000	0.241	0.240
2 June 2006	1,280,000	0.240	–
5 June 2006	1,000,000	0.240	–

## **CORPORATE GOVERNANCE**

The Company has complied throughout the six month ended 30th September, 2006 with the code provisions set out in Appendix 14 of the Listing Rules on the Stock Exchange except for the deviation from code provision of A.4.1, pursuant to which, non-executive directors should be appointed for a specific term and subject to re-election. The certain company's independent non-executive directors are not appointed for a specific terms but are subject to retirement by rotation under the Company's Bye-laws, so that every independent non-executive directors shall retire at least once every three years.

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "**Model Code**") as a code of conduct regarding securities transactions by directors. Having made specific enquiry of all Directors (as defined below), all Directors confirmed they have complied with the required standard set out in the Model Code.

The Company had established an audit committee whose terms of reference was formulated in accordance with the requirements of the Stock Exchange its current members comprise of three independent non-executive directors. The Audit Committee's primary responsibilities include reviewing the reporting of financial and other information of shareholders, the system of the internal controls, risk management and the effectiveness and objectivity of the audit process.

By Order of the Board

**Li Man Ching**

*Chairman*

Hong Kong, 21st December, 2006