

## CORPORATE INFORMATION

### BOARD OF DIRECTORS

#### Executive Directors:

Wang An Kang

Zhao Jun

Li Wei

Zhou Jing

#### Independent Non-executive Directors:

Choi Tze Kit, Sammy

Wu Bin

Tam King Ching, Kenny

### COMPANY SECRETARY

Tang Suk Ngao, Raymond

### AUDIT COMMITTEE

Wu Bin

Choi Tze Kit, Sammy

Tam King Ching, Kenny

### REMUNERATION COMMITTEE

Zhao Jun

Li Wei

Choi Tze Kit, Sammy

Wu Bin

Tam King Ching, Kenny

### AUTHORISED REPRESENTATIVES

Tang Suk Ngao, Raymond

Choi Tze Kit, Sammy

### QUALIFIED ACCOUNTANT

Tang Suk Ngao, Raymond

### AUDITORS

CCIF CPA Limited

### LEGAL ADVISERS

Sidley Austin

### REGISTERED OFFICE

Suite 1102, 11/F.,

ICBC Tower

Citibank Plaza

3 Garden Road

Central

Hong Kong

### PRINCIPAL PLACE OF BUSINESS

2/F., Koon Wah Mirror Factory (3rd) Industrial  
Building

5 – 9 Ka Hing Road

Kwai Chung, N.T.

Hong Kong

### SHARE REGISTRAR

Secretaries Limited

Level 25, Three Pacific Place,

1 Queens Road East, Hong Kong

### PRINCIPAL BANKERS

The Hongkong and Shanghai Banking  
Corporation Limited

Bank of China (Hong Kong) Limited

DBS Bank (HK) Ltd



## **INDEPENDENT ACCOUNTANTS' REVIEW REPORT**

**TO THE BOARD OF DIRECTORS OF SWANK INTERNATIONAL MANUFACTURING CO., LIMITED**  
(incorporated in Hong Kong with limited liability)

### **Introduction**

We have been instructed by the Company to review the interim financial report set out on pages 3 to 16.

### **Directors' 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 the 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 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 30 June 2006 except for the evidence available to us was limited with respect to the beneficial title of the Group to certain leasehold land and buildings as at 30 June 2006, because the Group has not obtained land use right certificate and building ownership certificate for certain land use rights and buildings located in the PRC, with net book values of approximately of HK\$21 million.

### **CCIF CPA Limited**

Certified Public Accountants  
Hong Kong, 25 September 2006

### **Choi Man On**

Practicing Certificate Number P02410

The Board of Directors (the "Board") of Swank International Manufacturing Company Limited (the "Company") is pleased to present the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2006 which have been reviewed by the Company's audit committee, with comparative figures as follows:

## CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2006

	Notes	Six months ended 30 June 2006 HK\$'000 (unaudited)	2005 HK\$'000 (unaudited)
<b>Turnover</b>	6	61,468	75,157
Cost of sales		(59,619)	(70,521)
Gross profit		1,849	4,636
Other income		3,226	3,833
Selling and distribution costs		(6,611)	(7,275)
Administrative expenses		(8,998)	(6,527)
Other operating expenses		(5,534)	(817)
<b>Loss from operations</b>	7	(16,068)	(6,150)
Finance costs	8	(6,862)	(6,813)
Waiver of debt and accrued interest under a Loan Restructuring Agreement	9	-	67,662
Share of profits less losses of associates		9,163	2,269
Gain on disposal of land use rights and buildings		3,608	-
Restructuring costs		-	(442)
<b>(Loss)/profit before taxation</b>		(10,159)	56,526
Taxation	10	(476)	-
<b>(Loss)/profit for the period</b>		(10,635)	56,526
Attributable to:			
Shareholders of the Company		(8,390)	59,239
Minority interests		(2,245)	(2,713)
		(10,635)	56,526
<b>Dividends</b>		-	-
<b>(Loss)/earnings per share</b>			
- basic	11	(0.3 cent)	1.9 cent
- diluted		N/A	N/A



## CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2006

	Notes	As at	
		30 June 2006 HK\$'000 (unaudited)	31 December 2005 HK\$'000 (audited and restated)
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		61,684	80,408
Land use rights		–	7,869
Interests in associates		43,366	35,825
		105,050	124,102
<b>Current assets</b>			
Trade receivables	12	35,123	43,762
Bills receivable		830	314
Prepayments, deposits and other receivables		16,740	3,690
Inventories		19,156	22,931
Fixed deposits		18,053	13,092
Cash and bank balances		18,464	17,882
		108,366	101,671
<b>Total assets</b>		213,416	225,773
<b>EQUITY</b>			
Share capital	16	31,249	31,249
Reserves		(25,951)	(53,136)
Shareholders' funds/(deficits)		5,298	(21,887)
Minority interests		(10,233)	36,561
<b>Total equity</b>		(4,935)	14,674
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Amount due to a shareholder, Probest	13	51,621	49,703
Non-current portion of promissory note payable	15	112,285	112,285
Provision for long service payments		176	176
		164,082	162,164

## CONDENSED CONSOLIDATED BALANCE SHEET (continued)

At 30 June 2006

	Notes	As at	
		30 June 2006 HK\$'000 (unaudited)	31 December 2005 HK\$'000 (audited and restated)
<b>Current Liabilities</b>			
Amounts due to associates		4,422	4,014
Amount due to a related company		14,566	11,023
Trade payables	14	6,694	12,590
Accruals and other payables		17,739	15,404
Current portion of promissory note payable	15	10,003	5,059
Tax payable		845	845
		54,269	48,935
<b>Total liabilities</b>		218,351	211,099
<b>Total equity and liabilities</b>		213,416	225,773
<b>Net current assets</b>		54,097	52,736
<b>Total assets less current liabilities</b>		159,147	176,838

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2006

	Attributable to shareholders of the Company										
	Issued capital HK\$'000	Share premium account HK\$'000	Property revaluation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Capital reserve HK\$'000	Special reserve HK\$'000	Share option reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total equity HK\$'000
At 1 January 2006	31,249	723,462	21,043	8,551	8	341,800	-	(1,148,000)	(21,887)	36,561	14,674
Realised property reserve upon disposal of land & building	-	-	(21,043)	-	-	-	-	20,508	(535)	535	-
Realised minority interests upon paying compensation to minority interests	-	-	-	-	-	-	-	36,084	36,084	(45,084)	(9,000)
Recognition of equity-settled share-based payment expenses	-	-	-	-	-	-	26	-	26	-	26
Loss for the period	-	-	-	-	-	-	-	(8,390)	(8,390)	(2,245)	(10,635)
At 30 June 2006	31,249	723,462	-	8,551	8	341,800	26	(1,099,798)	5,298	(10,233)	(4,935)

For the six months ended 30 June 2005

	Attributable to shareholders of the Company										
	Issued capital HK\$'000	Share premium account HK\$'000	Property revaluation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Capital reserve HK\$'000	Special reserve HK\$'000	Share option reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total equity HK\$'000
At 1 January 2005											
- as previously reported	31,249	723,462	21,169	10,419	8	341,800	-	(1,193,459)	(65,352)	45,322	(20,030)
- opening adjustments for the adoption of HKAS17	-	-	(1,248)	-	-	-	-	(479)	(1,727)	(740)	(2,467)
- as restated	31,249	723,462	19,921	10,419	8	341,800	-	(1,193,938)	(67,079)	44,582	(22,497)
Exchange adjustments on translation of foreign subsidiaries	-	-	-	305	-	-	-	-	305	-	305
Realised upon deregistration of a subsidiary	-	-	-	(2,173)	-	-	-	-	(2,173)	(801)	(2,974)
Profit for the period	-	-	-	-	-	-	-	59,239	59,239	(2,713)	56,526
At 30 June 2006	31,249	723,462	19,921	8,551	8	341,800	-	(1,134,699)	(9,708)	41,068	31,360

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2006

	Six months ended 30 June	
	2006 HK\$'000 (unaudited)	2005 HK\$'000 (unaudited)
Net cash used in operations	(2,537)	(10,499)
Net cash generated from/(used in) investing activities	8,080	(906)
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	5,543	(11,405)
Cash and cash equivalents at beginning of period	30,974	38,807
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	36,517	27,402
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	18,464	27,023
Fixed deposits with original maturity less than three months when acquired	18,053	379
	36,517	27,402

## NOTES TO CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2006

### 1 BASIS OF PRESENTATION

The unaudited condensed consolidated interim financial statements have been prepared by the directors with due care on a going concern basis. The validity of the going concern basis for the preparation of the financial statements depends upon future profitable operations of the Group and the adequate funds being available to the Group. The Board is of the opinion that the Group will have sufficient cash resources to carry on its business as a going concern. Accordingly, the financial statements have been prepared on a going concern basis.

### 2 BASIS OF PREPARATION

The unaudited condensed consolidated interim 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 ("Listing Rules") and with the Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

### 3 THE INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The Independent Accountants have reviewed the unaudited interim financial statements for the six months ended 30 June 2006 which does not constitute an audit. On the basis of their review, the Independent Accountants are not aware of any material modifications that should be made, except for the evidence available to them was limited with respect to the beneficial title of the Group to certain leasehold land and buildings as at 30 June 2006, because the Group has not obtained land use right certificate and building ownership certificate for certain land use rights and buildings located in the PRC, with net book values of approximately of HK\$21 million.



#### 4 PRINCIPAL ACCOUNTING POLICIES

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

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

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

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) – Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC) – Int 8	Scope of HKFRS 2
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives

#### 5 SEGMENT INFORMATION

The Group has only one business segment and is the manufacture and sale of optical products. Therefore, no separate analysis of business segment information is prepared as all the information has been disclosed in the unaudited condensed consolidated interim financial statements.

#### 6 TURNOVER

The principal activity of the Group during the period is the design, manufacture and sale of optical products. Turnover represents the net invoiced value of goods sold, net of returns and allowances.

## 7 LOSS FROM OPERATIONS

Loss from operation is arrived at after charging/(crediting):

	Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Amortisation of land use rights	247	247
Depreciation	5,447	6,465
Retrenchment costs	4,100	-
Provision against inventories	1,483	716
Bank interest income	(379)	(89)
Gain on disposal of fixed assets	(722)	-
Exchange losses, net	463	30

## 8 FINANCE COSTS

	Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Interest on loan from a shareholder	1,918	1,364
Interest on promissory note	4,944	5,449
	6,862	6,813

## 9 WAIVER OF DEBT AND ACCRUED INTEREST UNDER A LOAN RESTRUCTURING AGREEMENT

It represented the waiver of the principal and accrued interests up to 3 June 2005 on a promissory note that was due to the former controlling shareholder, Probest Holdings Inc. ("Probest"), upon the completion of a loan restructuring agreement dated 20 January 2005.

## 10 TAXATION

No Hong Kong profits tax has been provided in the financial statements as the companies within the Group have no assessable profits for the period. Overseas taxation is calculated at the rates prevailing in the respective jurisdiction.

The amount of taxation charged to the condensed consolidated income statement represents:

	Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
PRC income tax	476	-

## 11 (LOSS)/EARNINGS PER SHARE

The calculation of basis loss per share is based on the loss attributable to shareholders of the Company for the period of approximately HK\$8,390,000 (2005: net profit of HK\$59,239,000, as restated) and the weighted average of 3,124,862,734 (2005: 3,124,862,734) ordinary shares in issue during the period.

Diluted loss per share during the period ended 30 June 2006 and 30 June 2005 have not been disclosed as no dilutive events existed during these periods.

## 12 TRADE RECEIVABLES

The aged analysis of the Groups trade receivables, based on payment due date and net of provisions, is as follows:

	As at	
	30 June	31 December
	2006	2005
	HK\$'000	HK\$'000
	(unaudited)	(audited)
Current to 30 days	30,490	40,530
31 to 60 days	3,023	1,964
61 to 90 days	653	1,565
More than 90 days	2,478	1,274
	36,644	45,333
Less: Provision for impairment of receivables	(1,521)	(1,571)
	35,123	43,762

The normal credit periods granted by the Group to customers ranges from 30 days to 120 days.

### 13 AMOUNT DUE TO A SHAREHOLDER, PROBEST

The amount due to Probest is unsecured, bearing interest at a rate per annum equivalent to 1% over Hong Kong prime rate and has no fixed repayment terms. In the opinion of the directors of the Company, the amount due to Probest will not be repayable within the next 12 months.

### 14 TRADE PAYABLES

The aged analysis of the Groups trade payables, based on payment due date, is as follows:

	As at	
	30 June 2006 HK\$'000 (unaudited)	31 December 2005 HK\$'000 (audited)
Current to 30 days	4,432	10,028
31 to 60 days	1,209	887
61 to 90 days	374	527
More than 90 days	679	1,148
	<b>6,694</b>	<b>12,590</b>

### 15 PROMISSORY NOTE

	As at	
	30 June 2006 HK\$'000 (unaudited)	31 December 2005 HK\$'000 (audited)
Interest repayable on demand	10,003	5,059
Principal repayable:		
Within 1 year or on demand	–	–
Payable after 1 year but within 2 years	112,285	112,285
Total	<b>122,288</b>	<b>117,344</b>
Amount due to Probest under Promissory Note	122,288	117,344
Portion classified as current liabilities	(10,003)	(5,059)
Non-current portion	<b>112,285</b>	<b>112,285</b>

## 16 ISSUED CAPITAL

	As at	
	30 June 2006 HK\$'000	31 December 2005 HK\$'000
<i>Authorised:</i>		
300,000,000,000 ordinary shares of HK\$0.01 each	3,000,000	3,000,000
<i>Issued and fully paid:</i>		
3,124,862,734 ordinary shares of HK\$0.01 each	31,249	31,249

There was no repurchase of any shares during the period.

## 17 SHARE OPTION SCHEME

The following table shows the movement of the Company's share options during the six month period ended 30 June 2006.

### Employee

Date of share options granted	Outstanding at the beginning of the period	Number of share options granted and fully accepted during the period	Number of share options exercised during the period	Number of share options outstanding at the end of the period	Exercise price (HK\$)	Exercise period
15.12.2005	-	10,000,000	-	10,000,000	0.10	24.2.2008 – 23.8.2011

In assessing the theoretical aggregate value of the share options granted and fully accepted during the period, the Black-Scholes option pricing model which was performed by an independent valuer, Greater China Appraisal Limited, has been used. In current period, an amount of share option expense of HK\$25,800 has been recognised.

## 17 SHARE OPTION SCHEME (continued)

Share options granted and fully accepted during the period ended 30 June 2006:

Date of Grant:	15/12/2005
Vesting Period:	15/12/2005 – 23/2/2008
Exercise Period:	24/2/2008 – 23/8/2011
Exercise Price:	HK\$0.10 per share

	Number of share options granted at 15/12/2005	Share Options value at 15/12/2005 (Note (2)) HK\$	Number of share options at 30/06/2006
Grantee:			
Employee	10,000,000	112,000	10,000,000

Notes:

- (1) The closing price of the Ordinary Shares of the Company immediately before the date on which the options were granted was HK\$0.75.
- (2) According to the Black-Scholes model, the theoretical aggregate value of the options was estimated at HK\$112,000 as at 15 December 2005 (when the options were granted) with the following variables and assumptions:
 

Risk Free Rate	:	4.169%, being the approximate yield of the 4-year Exchange Fund Note traded on 15/12/2005
Expected Volatility	:	24.668%, being the annualised standard deviations of the continuously compounded rates of return on the share prices of three other comparable listed Hong Kong companies with similar business operations
Expected Life of the Options	:	4 years from the date of granting
- (3) Options forfeited, if any, before the expiry of the options will be treated as lapsed options which will be added back to the number of Ordinary Shares available to be issued under the relevant share option scheme.

## 18 RELATED PARTY TRANSACTIONS

As at 30 June 2006, the Group has the following material transactions with related and connected parties during the period:

	Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Sales of finished goods to associates	4,301	4,005
Purchases of raw materials and finished goods from associates	4,095	7,200
Management fee income from associates	214	313
Amount due to a shareholder, Probest	43,558	47,958
Promissory note payable to Probest	112,285	112,285
Loan principal and interest waived by Probest	–	67,662
Interest expense charged by a shareholder, Probest	8,063	6,813
Rental paid to a joint venture partner	1,297	1,415
Amount due to a related party	14,566	1,873
Commission income from a related company	922	46

## 19 CONTINGENT LIABILITIES

At 30 June 2006, the Company and the Group had no material contingent liabilities.

## 20 COMMITMENTS

### (a) Capital commitments

	As at	
	30 June 2006 HK\$'000 (unaudited)	31 December 2005 HK\$'000 (audited)
Capital commitments contracted but not provided for in the condensed financial statements in respect of		
– property, plant and equipment	–	2,819
– capital contribution in a subsidiary	4,250	–
	4,250	2,819

### (b) Operation lease commitments

At 30 June 2006, the Group has commitments for future minimum lease under non-cancellable operating leases in respect of land and buildings which falls due as follows:

	As at	
	30 June 2006 HK\$'000 (unaudited)	31 December 2005 HK\$'000 (audited)
Within one year	3,679	1,424
In the second to the fifth year inclusive	4,047	842
	7,726	2,266

The Group leases certain of its office properties, plants and warehouses under the operating lease arrangements. Leases for office properties, plants and warehouses are negotiated for terms ranging from 1 to 2.5 years.



## INTERIM DIVIDENDS

The Board has resolved that no interim dividend will be declared in respect of the six months ended 30 June 2006 (2005: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### Results and Business Review

The Group reported a net loss of approximately HK\$10.6 million for the six months ended 30 June 2006, compared to a net profit of approximately HK\$56.5 million recorded for the same period last year. For the manufacturing business division, the Group recorded a turnover of approximately HK\$ 61.5 million, representing a decrease of approximately 18.2% compared with last period. Sales orders for the current period were approximately HK\$52.5 million, versus last period of approximately HK\$74.2 million. The gross profit margin decreased from approximately 6.17% for the period of last year to approximately 3.01% for the same period this year due to the decrease in the sales orders that caused the low capacity utilization. For the newly established agency services division set up in June 2005, the Group recorded a revenue of approximately HK\$922,000.

Finance costs for the current period represented the interest on a promissory note and the loan due to a shareholder, Probest. Income of an exceptional nature also included approximately HK\$3.6 million represents a gain on disposal of land use rights and buildings due to a compensation for the requisition of land in the PRC. In relation to this requisition, the Group incurred retrenchment costs of approximately HK\$4.1 million, included in other operating expenses in this period.

Owing to the continue increase demand for lenses, the shared profit before taxation from the Groups 50 percent-owned associate, Dongguan Yueheng Optical Company Limited, was approximately HK\$9.2 million, versus approximately HK\$2.3 million recorded for the same period last year.

### Future Outlook

#### *Phosphorus business*

Further to the introduction of the agency services business in 2005 in relation to the sale of chemicals including phosphorus and other related materials, the Board, with its expertise in the chemical industry, is intending to further diversify into the manufacturing and sale of chemicals to enhance profitabilities.

As the Group intends to further develop and expand its business in the phosphorus industry, the Group has successfully launched in July 2006 its manufacture and sale of phosphoric acid business by engaging in the lease of production facilities in Guangxi in Mainland China. Amongst other things, the Group also entered several agreements to secure the supplies of raw materials and its distribution of its new products. This creates a solid platform for the Group to gain further experience in operating and managing phosphorus business in addition to the trading experience gained from its existing agency business.

## **Future Outlook (continued)**

### ***Phosphorus business (continued)***

The Board has the intention to further strengthen the synergy of vertical integration for the Groups phosphorus business and maintain the Groups competitive edge by lowering overall cost of production. In order to achieve this, the Group is intending to commence in the short term, its own production of yellow phosphorus, the principal raw materials for the production of phosphoric acid, by further leasing certain production facilities in Yunnan in Mainland China.

Given the fact that the Board possesses considerable experience in international trade, in particular, in the phosphorus industry and extensive network, the Board is confident that the Group will gradually establish its presence in the phosphorus industry and eventually build up direct relationships with suppliers and customers and will continue to seek for opportunities to further broaden its income base.

### ***Optical business***

Following the consolidation of the two manufacturing plants into the one in the Dongguan production center, the Group is laying a solid foundation for a well-aligned and re-energized factory with manufacturing capabilities in metal, plastic hand-made and plastic injection molded frames. The Group expects such unification will give the management a renewed focus with a clear direction, also enhance inter-production plants effectiveness and cost efficiency and boost loyalty amongst the staff. The effort to further improve technical capabilities of the production plants will continue. With additional funding into the Group raised by the sold out of the Henggang site, a carefully crafted CAPEX budget would be put together for manufacturing capabilities improvements in the second half of 2006 and 2007.

The Group considers the possibilities of setting up a High Quality Prototype Centre to satisfy the increasingly demanding customers, and thereby improving the ability to produce premium quality hand-made prototypes in a timely manner. In the OEM/ODM business, the Group is proactively weaving out the inactive low-end customers and at the same time rebuilding its client portfolio to include some new mid-to-high end customers. There are encouraging signs as several sizeable brands distributors have begun new product development with Group, in addition that the Group is already the manufacturing partners of some of the most popular brands in the fashion world, which further reinforces the Groups industry positioning. The Original Brand Manufacturing (OBM) approach is also generating some positive responses with customers endorsing the Groups decision to provide all round services from optical cases, accessories to display materials. Such capability adds value to our services and is well received particularly by those mid-size distributors of the branded eyewear.

In the China distribution front, growth of business has been slower than expected as the Group is cautious in extending credit to unproven mainland retailers. This has added a layer of challenge to the business as the practice in China distribution is largely predicated on long payment terms, consigned goods, personal relationship and brand power. The Group will now concentrate such selling effort to the reputable retail chains with an aim to generate a higher volume business at manageable credit risk. The new collection of the Groups proprietary brand "more than..." will be unveiled in November 2006 target to attract regional distributors in and outside China.

### **Liquidity and Financial Review**

The Group mainly finances its day to day operations with internally generated cash flow. As at 30 June 2006, the current ratio of the Group, measured as total current assets to total current liabilities, was approximately 2:1.

During the period, the Group recorded a cash outflow generated from operations of approximately HK\$2.5 million. As at 30 June 2006, the Group recorded an amount of approximately HK\$174.0 million due to Probest.

The Group conducts its business transactions mainly in Hong Kong dollars, US dollars, Euros and Renminbi. The Group did not arrange any forward currency contracts for hedging purposes. Whilst most of the Groups cash is denominated in currencies directly and indirectly linked to the US dollars, the exposure to exchange fluctuation in gains and losses is minimal. The Groups promissory note and the loan due to Probest bear interest at a rate equivalent to 1% over Hong Kong prime rate per annum. The Groups borrowings are mainly denominated in Hong Kong dollars.

The gearing of the Group, measured as total debts to total assets, was approximately 102% as at 30 June 2006, (as compared with approximately 86% of that of the Group as at 31 December 2005).

### **SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS**

During the period, there were no material change on the investment held and also no material acquisition or disposal of any subsidiary and associate of the Group.

### **CAPITAL COMMITMENT, CHARGE ON GROUP ASSETS AND CONTINGENT LIABILITIES**

As at 30 June 2006, the Group has total capital and operating lease commitments amounted to approximately HK\$4,250,000 and HK\$7,726,000 respectively compared to approximately HK\$2,819,000 and HK\$2,266,000 respectively as at 31 December 2005.

As at 30 June 2006, the Group has no charge on the Groups assets and no material contingent liability.

## HUMAN RESOURCES AND SHARE OPTION SCHEME

As at 30 June 2006, the Group had 1,601 employees. The Group's remuneration policy is primarily based on the individual performance and experience of employees, prevailing industry practice and market rates. In addition to the basic salaries, the Group provides staff benefits including medical insurance and contributions to the provident fund. Discretionary bonuses are also available to the Group's employees depending upon the overall performance of the Group. The Group also provides appropriate training programmes for benefits to employees' better personal development and growth.

Pursuant to the Company's share option scheme adopted on 28 May 2002 for a period of 10 years, the Company may offer to any employee of the Group options to subscribe for shares in the Company. As at 30 June 2006, total share option outstanding amounted to 10,000,000 shares held by an employee. No share option was exercised during the period.

## DIRECTORS' INTEREST IN SHARES AND UNDERLYING SHARES

### 1. Interests in the Company

As at the Latest Practicable Date, the interests or short positions of each Director and the Company's chief executive in the shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which (a) were required to be 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 which they are taken or deemed to have under such provision of the SFO); of (b) were required to pursuant to Section 352 of the SFO to be entered in the register referred to therein; or (c) were required to pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") to be notified to the company and the Stock Exchange were as follows:

Directors	Nature of interest	Number of Shares	Approximate Percentage
Mr. Wang An Kang	Corporate	1,878,799,680	60.12%

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executive of the Company were interested, or were deemed to be interested in the long and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Code for Securities Transactions by Directors adopted by the Company to be notified to the Company and the Stock Exchange.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES

The Company had a share option scheme approved on 28 May 2002 under which the directors might grant options to eligible participants to subscribe up to 10% of the nominal amount of the issued share capital of the Company. As at 30 June 2006, the Company has no share options outstanding to any directors of the Company.

Save as disclosed herein, none of the directors or their associates held any interests or short positions in any shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company pursuant to the Model Code.

## SUBSTANTIAL SHAREHOLDERS

### (a) Interest in Shares of the Company

As at the Latest Practicable Date, the following interests of 5% or more in the issued share capital of the Company was recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO.

Name	Number of Shares held	Approximate percentage of the Company's issued share capital
China Time Investment Holdings Limited	1,878,799,680 (note 1)	60
Mr. Wang An Kang ("Mr. Wang")	1,878,799,680 (note 1)	60
Ms. Mu Yucun	1,878,799,680 (note 2)	60
Choi Koon Shum, Jonathan ("Mr. Choi")	188,702,795 (note 3)	6
Kwan Wing Kum, Janice ("Ms Kwan")	188,702,795 (note 3)	6
Lam William Ka Chung ("Mr. Lam")	188,702,795 (note 3)	6
Lam Wong Yuk Sin, Mary ("Mrs. Lam")	188,702,795 (note 3)	6
Kingsway International Holdings Limited ("Kingsway International")	188,702,795 (note 3)	6
Innovation Assets Limited ("Innovation")	188,702,795 (note 3)	6
World Developments Limited ("World Developments")	188,702,795 (note 3)	6
SW Kingsway Capital Holdings Limited ("SW Kingsway")	188,702,795 (note 3)	6
Festival Developments Limited ("Festival Developments")	188,702,795 (note 3)	6

## SUBSTANTIAL SHAREHOLDERS (continued)

### (a) Interest in Shares of the Company (continued)

Notes:

1. Mr. Wang is the sole shareholder of China Time.
2. Ms. Mu Yucun is Mr. Wang's spouse and she is deemed to be interested in Mr. Wang's interest in the Shares.
3. Mr. Choi and his spouse, Ms. Kwan, were deemed to be interested in 188,702,795 ordinary Shares by virtue of their 46% shareholding in Kingsway International. Mr. Lam and his spouse, Mrs. Lam, were deemed to be interested in 188,702,795 ordinary Shares by virtue of their 40% shareholding in Kingsway International. Kingsway International, in turn, held 100% shareholding in Innovation. Innovation, in turn, held 100% shareholding in World Developments. World Developments, in turn, held 74% shareholding in SW Kingsway. SW Kingsway, in turn, held 100% direct shareholding in Festival Developments.

Save as disclosed above, as at the Latest Practicable Date, the Directors are not aware of any person who is, directly or indirectly, interested in 5% or more of the issued share capital of the Company, has short positions on the Shares or underlying Shares, or has any rights to subscribe for Shares in respect of such capital.

## SUBSTANTIAL SHAREHOLDERS (continued)

### (b) Substantial shareholders of other members of the Group

As at the Latest Practicable Date, so far as is known to the directors of the Company, the following are parties, other than a director of the Company, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances in general meetings of any other member of the Group.

Name of Subsidiary	Name of Substantial Shareholders	% of existing issued share capital
Profitown Investment Corporation	Probest Holdings Inc.	30%
Global Original Limited	All Success International Limited	10%
Profit Trend International Limited	Wischance Investments Limited	50%
Shenzhen Henggang Swank Optical Industries Co. Ltd.	Henggang Zheng Stock Investment Co. Ltd.	19%

## PURCHASE, REDEMPTION OR SALE OF SECURITIES

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2006.

## CODE OF CORPORATE GOVERNANCE PRACTICE

Throughout the six months ended 30 June 2006, the Company has complied with the Code of Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules governing the Listing of Securities (the "Listing Rules") on the Stock Exchange of Hong Kong Limited.

## MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules for directors' securities transactions and all its directors have complied with required standard set out in the Model Code throughout the accounting period covered by the interim report.



## DIRECTORS

As at the date hereof, the Board of the Company comprises Messrs. Wang An Kang, Zhao Jun and Li Wei and Ms. Zhou Jing as Executive Directors and Messrs. Choi Tze Kit, Sammy, Wu Bin and Tam King Ching, Kenny as Independent Non-executive Directors.

## REVIEW BY AUDIT COMMITTEE

The 2006 interim report has been reviewed by the Audit Committee which comprises of three independent non-executive directors of the Company. The audit committee was established in accordance with the requirements of the Code, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls.

On behalf of the Board

**Mr. Zhao Jun**

Chairman

Hong Kong, 25 September 2006