



## **K & P International Holdings Limited**

(Incorporated in Bermuda with limited liability)  
(Stock Code: 675)

Interim Report **2006**



## UNAUDITED INTERIM RESULTS

The Board of Directors (the "Board") of K & P International Holdings Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2006 together with the comparative figures for the previous period. These condensed consolidated interim financial statements have not been audited, but have been reviewed by the Company's audit committee.

## CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2006

		For the six months ended 30 June 2006 (Unaudited) HK\$	2005 (Unaudited) HK\$
	Notes		
REVENUE	2	<b>176,655,551</b>	172,059,775
Cost of sales		<b>(141,456,836)</b>	(134,095,629)
Gross profit		<b>35,198,715</b>	37,964,146
Other income and gains	3	<b>4,259,675</b>	2,990,745
Selling and distribution costs		<b>(19,298,247)</b>	(17,510,064)
Administrative expenses		<b>(17,924,377)</b>	(17,162,417)
Other expenses		<b>(720,612)</b>	(785,664)
Finance costs	4	<b>(3,389,348)</b>	(2,937,583)
Share of loss of an associate		<b>–</b>	(4,398,020)
LOSS BEFORE TAX	5	<b>(1,874,194)</b>	(1,838,857)
Tax	6	<b>(889,361)</b>	(1,068,000)
LOSS FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS		<b>(2,763,555)</b>	(2,906,857)
LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS	7		
Basic		<b>(1.04) cents</b>	(1.09) cents
Diluted		<b>N/A</b>	N/A
DIVIDEND PER SHARE	8	<b>Nil</b>	0.5 cent

## CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2006

		30 June 2006 (Unaudited) HK\$	31 December 2005 (Audited) HK\$
	Notes		
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		69,254,946	74,756,541
Prepaid land lease payments		20,697,120	20,935,727
Other intangible assets		10,205,000	9,312,500
Available-for-sale investments		680,000	680,000
Total non-current assets		100,837,066	105,684,768
<b>CURRENT ASSETS</b>			
Inventories		60,345,409	49,306,427
Prepayments, deposits and other receivables		22,690,065	17,141,423
Trade and bills receivables	9	65,972,700	87,166,280
Investment at fair value through profit or loss		1,989,000	1,989,000
Pledged time deposits		5,382,142	8,374,121
Cash and cash equivalents		24,093,146	39,699,878
Total current assets		180,472,462	203,677,129
<b>CURRENT LIABILITIES</b>			
Trade payables	10	52,318,101	51,873,868
Accrued liabilities and other payables		27,378,596	27,627,027
Interest-bearing bank and other borrowings		60,416,622	80,081,066
Tax payable		2,331,278	1,495,571
Dividend payable		1,327,524	–
Total current liabilities		143,772,121	161,077,532
<b>NET CURRENT ASSETS</b>		<b>36,700,341</b>	<b>42,599,597</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>137,537,407</b>	<b>148,284,365</b>
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank and other borrowings		1,840,976	7,439,537
Deferred tax liabilities		3,611,481	3,611,481
Total non-current liabilities		5,452,457	11,051,018
Net assets		132,084,950	137,233,347
<b>EQUITY</b>			
Issued capital		26,550,480	26,550,480
Reserves		105,534,470	109,355,343
Proposed final dividend		–	1,327,524
Total equity		132,084,950	137,233,347

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2006

	Issued share capital (Unaudited) HK\$	Share premium account (Unaudited) HK\$	Share option reserve (Unaudited) HK\$	Contributed surplus (Unaudited) HK\$	Asset revaluation reserve (Unaudited) HK\$	Exchange fluctuation reserve (Unaudited) HK\$	Retained profits (Unaudited) HK\$	Proposed final dividend (Unaudited) HK\$	Total equity (Unaudited) HK\$
<b>At 1 January 2006</b>	26,550,480	50,541,281	69,285	660,651	3,816,011	(1,250,579)	55,518,694	1,327,524	137,233,347
Exchange realignment	–	–	–	–	–	(1,078,124)	–	–	(1,078,124)
Total income and expense for the period recognised directly in equity	–	–	–	–	–	(1,078,124)	–	–	(1,078,124)
Loss for the period	–	–	–	–	–	–	(2,763,555)	–	(2,763,555)
<b>Total income and expense for the period</b>	–	–	–	–	–	(1,078,124)	(2,763,555)	–	(3,841,679)
Final 2005 dividend declared	–	–	–	–	–	–	–	(1,327,524)	(1,327,524)
Equity-settled share option arrangements	–	–	20,806	–	–	–	–	–	20,806
<b>At 30 June 2006</b>	26,550,480	50,541,281	90,091	660,651	3,816,011	(2,328,703)	52,755,139	–	132,084,950

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Continued)

For the six months ended 30 June 2006

	Issued share capital (Unaudited) HK\$	Share premium account (Unaudited) HK\$	Share option reserve (Unaudited) HK\$	Contributed surplus (Unaudited) HK\$	Asset revaluation reserve (Unaudited) HK\$	Exchange fluctuation reserve (Unaudited) HK\$	Retained profits (Unaudited) HK\$	Proposed final dividend (Unaudited) HK\$	Total equity (Unaudited) HK\$
<b>At 1 January 2005</b>									
As previously reported	26,550,480	50,541,281	–	660,651	9,205,746	(1,729,403)	39,106,717	2,655,048	126,990,520
Prior year adjustments	–	–	–	–	(5,814,383)	–	5,379,963	–	(434,420)
<b>As restated</b>	26,550,480	50,541,281	–	660,651	3,391,363	(1,729,403)	44,486,680	2,655,048	126,556,100
Exchange realignment	–	–	–	–	–	70,502	–	–	70,502
Total income and expense for the period recognised directly in equity	–	–	–	–	–	70,502	–	–	70,502
Loss for the period	–	–	–	–	–	–	(2,906,857)	–	(2,906,857)
<b>Total income and expense for the period</b>	–	–	–	–	–	70,502	(2,906,857)	–	(2,836,355)
Final 2004 dividend declared	–	–	–	–	–	–	–	(2,655,048)	(2,655,048)
Equity-settled share option arrangements	–	–	31,493	–	–	–	–	–	31,493
Interim 2005 dividend	–	–	–	–	–	–	(1,327,524)	–	(1,327,524)
<b>At 30 June 2005</b>	26,550,480	50,541,281	31,493	660,651	3,391,363	(1,658,901)	40,252,299	–	119,768,666

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2006

	For the six months ended 30 June	
	2006 (Unaudited) HK\$	2005 (Unaudited) HK\$
NET CASH INFLOW / (OUTFLOW) FROM OPERATING ACTIVITIES	<b>15,389,112</b>	(5,634,415)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	<b>(4,654,715)</b>	(17,229,320)
NET CASH INFLOW / (OUTFLOW) FROM FINANCING ACTIVITIES	<b>(25,263,005)</b>	26,766,702
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	<b>(14,528,608)</b>	3,902,967
Cash and cash equivalents at beginning of period	<b>39,699,878</b>	19,117,426
Effect of foreign exchange rate changes, net	<b>(1,078,124)</b>	70,502
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<b>24,093,146</b>	23,090,895
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	<b>4,009,016</b>	15,103,211
Time deposits	<b>20,084,130</b>	8,007,703
	<b>24,093,146</b>	23,110,914
Bank overdrafts	—	(20,019)
	<b>24,093,146</b>	23,090,895

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

### 1. ACCOUNTING POLICIES

These unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the Group's audited financial statements for the year ended 31 December 2005, except in relation to the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs", which also include HKASs and Interpretations) that affect the Group and are adopted for the first time for the current period's financial statements:

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HK (IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

The adoption of the above standards has had no material impact on the accounting policies of the Group and the methods of computation in the Group's condensed consolidated financial statements.

### 2. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

- (a) the precision parts and components segment comprises the manufacture and sale of precision parts and components including keypads, synthetic rubber and plastic components and parts, and liquid crystal displays ("LCDs");
- (b) the consumer electronic products segment comprises the design, manufacture and sale of consumer electronic products including time, weather forecasting and other products; and
- (c) the corporate and others segment comprises the Group's property holding activities, together with corporate income and expense items.

## 2. SEGMENT INFORMATION (Continued)

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Intersegment sales and transfers are transacted with reference to the cost of sales.

### (a) Business segments

The following table presents revenue, loss and certain expenditure information for the Group's business segments for the six months ended 30 June 2006 and 2005.

	Precision parts and components		Consumer electronic products		Corporate and others		Eliminations		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Segment revenue:										
Sales to external customers	99,329,036	108,391,527	77,326,515	63,668,248	-	-	-	-	176,655,551	172,059,775
Intersegment sales	2,534,764	4,570,591	-	-	-	-	(2,534,764)	(4,570,591)	-	-
Other revenue and gains	3,451,260	2,791,036	164,631	89,247	5,661	1,878	-	-	3,621,552	2,882,161
Total	105,315,060	115,753,154	77,491,146	63,757,495	5,661	1,878	(2,534,764)	(4,570,591)	180,277,103	174,941,936
Segment results	6,755,932	9,323,579	(5,623,711)	(3,407,910)	(255,190)	(527,507)			877,031	5,388,162
Interest income									638,123	108,584
Finance costs									(3,389,348)	(2,937,583)
Share of loss of an associate	-	(4,398,020)	-	-	-	-	-	-	-	(4,398,020)
Loss before tax									(1,874,194)	(1,838,857)
Tax									(889,361)	(1,068,000)
Loss for the period									(2,763,555)	(2,906,857)
Other segment information:										
Depreciation and amortisation	7,927,249	8,753,742	3,984,103	3,381,724	344,436	266,087	-	-	12,255,788	12,401,553
Capital expenditure	3,443,077	11,330,798	4,206,932	5,753,400	38,360	79,546	-	-	7,688,369	17,163,744



## 2. SEGMENT INFORMATION (Continued)

### (b) Geographical segments

The following table presents revenue and certain expenditure information for the Group's geographical segments for the six months ended 30 June 2006 and 2005.

	Segment revenue		Other segment information	
	Sales to external customers		Capital expenditure	
	2006	2005	2006	2005
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$	HK\$	HK\$	HK\$
Hong Kong	<b>53,690,989</b>	74,877,959	<b>2,800,082</b>	4,610,897
Mainland China	<b>13,738,793</b>	8,753,259	<b>4,852,112</b>	11,805,038
Total in the People's Republic of China ("PRC")	<b>67,429,782</b>	83,631,218	<b>7,652,194</b>	16,415,935
Japan	<b>18,421,717</b>	14,567,120	–	–
Other Asian countries*	<b>4,149,371</b>	8,851,508	<b>2,280</b>	267,459
Total in Asia	<b>90,000,870</b>	107,049,846	<b>7,654,474</b>	16,683,394
Germany	<b>26,918,066</b>	16,220,342	–	–
Other European countries**	<b>39,071,325</b>	34,039,754	–	–
Total in Europe	<b>65,989,391</b>	50,260,096	–	–
North America	<b>11,338,296</b>	7,636,908	<b>33,895</b>	480,350
Others***	<b>9,326,994</b>	7,112,925	–	–
Consolidated	<b>176,655,551</b>	172,059,775	<b>7,688,369</b>	17,163,744

\* Other Asian countries mainly comprise Taiwan, Singapore, Malaysia, Thailand, Indonesia and Korea.

\*\* Other European countries mainly comprise Italy, the United Kingdom, France, the Netherlands, Austria, Sweden and Spain.

\*\*\* Others mainly comprise South America, Australia and New Zealand.

### 3. OTHER INCOME AND GAINS

	For the six months ended 30 June	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$	HK\$
Bank interest income	638,123	108,584
Tooling charge income	882,973	1,416,690
Sale of scrap	614,501	88,078
Sales commissions	1,578,071	776,528
Subcontracting fee income	80,367	254,800
Others	465,640	346,065
	<b>4,259,675</b>	<b>2,990,745</b>

### 4. FINANCE COSTS

	For the six months ended 30 June	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$	HK\$
Interest expenses on bank loans and overdrafts wholly repayable within five years	3,102,603	2,244,927
Interest on finance leases	286,745	482,694
Interest on convertible loan notes	—	209,962
	<b>3,389,348</b>	<b>2,937,583</b>

### 5. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging:

	For the six months ended 30 June	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$	HK\$
Depreciation	11,048,288	10,988,925
Amortisation of other intangible assets	1,207,500	1,207,500
Recognition of prepaid land lease payments	238,607	205,128
Foreign exchange differences, net	1,091,626	471,942

## 6. TAX

	<b>For the six months ended 30 June</b>	
	<b>2006</b>	2005
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$</b>	HK\$
Group:		
Current – Hong Kong		
Charge for the period	<b>889,361</b>	1,068,000

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

## 7. LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS

The calculation of basic loss per share is based on the loss attributable to shareholders for the period of HK\$2,763,555 (2005: HK\$2,906,857), and on the weighted average of 265,504,800 (2005: 265,504,800) ordinary shares in issue during the period.

Diluted loss per share for the period has not been shown as the share options outstanding during the period had an anti-dilutive effect on the basic loss per share for the period.

Diluted loss per share for the period ended 30 June 2005 has not been shown as the share options and convertible loan notes outstanding during last period had an anti-dilutive effect on the basic loss per share for last period.

## 8. DIVIDEND

At a meeting of the board of directors held on 26 September 2006, the directors resolved not to pay an interim dividend to shareholders (2005: HK0.5 cent per share).

## 9. TRADE AND BILLS RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. Invoices are normally payable within 60 days of issuance, except for certain well-established customers, where the terms are extended from 60 to 90 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control policy to minimise credit risk. Overdue balances are regularly reviewed by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

An aged analysis of the trade and bills receivables as at the balance sheet date, based on invoice date and net of provisions, is as follows:

	<b>30 June 2006 (Unaudited) HK\$</b>	<b>31 December 2005 (Audited) HK\$</b>
Within 90 days	<b>53,285,417</b>	77,627,793
Between 91 to 180 days	<b>9,814,925</b>	7,823,104
Over 180 days	<b>2,872,358</b>	1,715,383
	<b><u>65,972,700</u></b>	<b><u>87,166,280</u></b>

## 10. TRADE PAYABLES

An aged analysis of the trade payables as at the balance sheet date, based on invoice date, is as follows:

	<b>30 June 2006 (Unaudited) HK\$</b>	<b>31 December 2005 (Audited) HK\$</b>
Within 90 days	<b>46,736,498</b>	49,888,727
Between 91 to 180 days	<b>4,633,879</b>	1,947,621
Over 180 days	<b>947,724</b>	37,520
	<b><u>52,318,101</u></b>	<b><u>51,873,868</u></b>

## 11. SHARE OPTION SCHEME

The maximum number of unexercised share options currently permitted to be granted under the existing share option scheme of the Company ("the Scheme") must not in aggregate exceed 30% of the shares of the Company in issue at any time.

At the balance sheet date, the Company had 2,500,000 share options outstanding under the Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 2,500,000 additional ordinary shares of the Company and additional share capital of HK\$250,000 and share premium of HK\$400,000 (before issue expenses).

At the date of approval of these condensed consolidated interim financial statements, the Company had 2,500,000 share options outstanding under the Scheme, which represented approximately 0.94% of the Company's shares in issue as at that date.

## 12. RELATED PARTY TRANSACTIONS

(a) Certain of the Group's banking facilities amounting to HK\$115,912,818 (as at 31 December 2005: HK\$116,612,908), of which HK\$46,089,660 (as at 31 December 2005: HK\$33,002,944) had been utilised as at the balance sheet date, were secured by personal guarantees given by a director of the Company. The director received no consideration for providing these guarantees.

(b) Compensation of key management personnel of the Group:

	<b>For the six months ended 30 June</b>	
	<b>2006</b>	2005
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$</b>	HK\$
Short term employee benefits	<b>6,235,998</b>	6,204,889
Termination benefits	<b>105,002</b>	105,001
Share-based payments	<b>20,806</b>	31,493
	<hr/>	<hr/>
Total compensation paid to key management personnel	<b><u>6,361,806</u></b>	<u>6,341,383</u>

### 13. CONTINGENT LIABILITIES

	<b>30 June 2006 (Unaudited) HK\$</b>	<b>31 December 2005 (Audited) HK\$</b>
Bills discounted with recourse	<b><u>1,933,039</u></b>	<b><u>—</u></b>

### 14. LITIGATION

The United States company (the “Complainant”) that withdrew its complaint in 2005 has filed another patent infringement complaint with the United States District Court against the Company and two of the Company’s subsidiaries during the period. The Complainant claimed that certain features of the Group’s weather forecasting products imported into the United States infringed certain of the Complainant’s patents. The Group has sought legal and licensed patent counsel’s opinions on the patent infringement as claimed by the Complainant and has been advised that the features of the Group’s weather forecasting products do not infringe the patent rights held by the Complainant.

### 15. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified and restated to conform with the current period’s presentation and accounting treatment.

### 16. APPROVAL OF THE FINANCIAL STATEMENTS

These condensed consolidated interim financial statements were approved and authorised for issue by the board of directors on 26 September 2006.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Results

For the period ended 30 June 2006, the Group's turnover reached HK\$176.7 million, representing a 2.7% increase over the previous period. However, overall gross profit decreased from approximately HK\$38.0 million in the previous period to approximately HK\$35.2 million this period. Loss attributable to shareholders was approximately HK\$2.8 million (2005: HK\$2.9 million).

Basic loss per share for the period ended 30 June 2006 amounted to HK1.04 cents (2005: HK1.09 cents) per share.

### Business Review and Future Plan

Despite the electronics sector slowed down during the period under review, the sales turnover of the consumer electronic products segment of our Group increased by approximately 21.5% from approximately HK\$63.7 million of last period to approximately HK\$77.3 million this period. The improvement in sales turnover is mainly attributable to increase in sales to both new and established customers.

On the other hand, the sales turnover of the precision parts and components segment decreased by approximately 8.3% from approximately HK\$108.4 million of last period to approximately HK\$99.3 million this period. The drop in the sales turnover of this segment is partly caused by the slow down in the electronics sector.

In the period under review, we still faced with the challenges of escalated raw material costs, increased workers' wages in the PRC and appreciation of Renminbi. Because of the increases in raw material and production costs, the Group's overall gross profit margin reduced by approximately 10% as compared with prior period. As a result, the segmental results of each of the consumer electronic products and the precision parts and components are not satisfactory as compared with those of the previous period.

In order to improve the Group's performance, we have reviewed the customer portfolio and renegotiated products' price with customers. We have ended certain low end products and developed certain new products to improve gross profit margin. The new products would be launched into the market in the second half of this year. Accordingly, we expect the gross profit margin of the Group in the second half of this year would be better.

In June this year, the USA company (the "Complainant") that filed a patent infringement complaint against our Company and two of the Company's subsidiaries and then subsequently withdrew its complaint in 2005 has filed another patent infringement complaint with the United States District Court against the Company and two of the Company's subsidiaries on the ground as before. The Group has sought legal and licensed patent counsel's opinions on the patent infringement as claimed by the Complainant and been advised that the features of the Group's weather forecasting products do not infringe the patent rights held by the Complainant. We believe that the complaint would be settled within the next twelve months.

## **MANAGEMENT DISCUSSION AND ANALYSIS** (Continued)

### **Business Review and Future Plan** (Continued)

We have planned to construct a new manufacturing facility on the land in Zhongshan, the PRC that we acquired in 2002. The construction is expected to complete by middle of 2007. When the construction is completed, the new manufacturing facility would provide additional production capacity to the precision parts and components segment.

The ERP system that we acquired last year is being tested and will be implemented by the end of this year. Our resources planning, operational efficiency and cost controls are expected to be better and strengthened further with the implementation of the newly acquired system.

The Group's sales to both European and the North American markets in the current period are encouraging and increased by more than 33.5% as compared with prior period. We expect the sales to the above markets would continue in the rising trend and the operating results of the Group would return to profitability in the second half of this year.

### **Liquidity and Financial Resources**

The Group generally finances its operations with internally generated cashflow and banking facilities provided by its principal bankers and other financial institutions in Hong Kong.

The total borrowings from banks and financial institutions include long term loans, finance leases, overdraft, import and export loans, amounted to approximately HK\$62.3 million as at 30 June 2006, of which HK\$60.4 million is repayable within one year.

The Group's financial position remains healthy. At the balance sheet date, the aggregate balance of cash, cash equivalents and pledged time deposits of the Group amounted to approximately HK\$29.5 million.

The Group's borrowings are mainly on a floating rate basis and are mainly denominated in either Hong Kong dollars or United States dollars. These match with the principal currencies in which the Group conducts its business. Therefore, the Group does not have any significant foreign exchange risk.

The gearing ratio on the basis of total debts to total assets as at 30 June 2006 was 53.1% (31 December 2005: 55.6%).

### **Charge on the Group Assets**

Certain bank borrowings are secured by fixed charges over the Group's buildings with aggregate net book value of HK\$14.8 million and bank deposit amounting to approximately HK\$5.4 million.



## **MANAGEMENT DISCUSSION AND ANALYSIS** (Continued)

### **Contingent Liabilities**

Except for corporate guarantee given to banks and other financial institutions in relation to facilities granted to the subsidiaries, the Company has no other contingent liabilities as at the balance sheet date.

### **Capital Structure**

As at 30 June 2006, the Company had approximately 265.5 million shares in issue with total shareholders' fund of the Group amounting to approximately HK\$132.1 million.

Pursuant to the share option scheme of the Company, the Board of Directors granted share options to certain senior executives and employees of the Group. The exercise in full of those share options granted but remaining not exercised would result in the issue of 2.5 million additional shares and proceeds of approximately HK\$0.65 million.

### **Fund Raising**

Other than obtaining additional general banking facilities to finance the Group's trading requirements, we did not have special fund raising exercise during the period ended 30 June 2006.

### **Employees**

As at 30 June 2006, the Group had a total workforce of approximately 3,670 of which approximately 90 were based in Hong Kong, approximately 15 were based in overseas and approximately 3,565 were based in the PRC.

The Group remunerates its employees largely based on the prevailing industry practice and labour laws. Since December 1996, the Company has adopted a share option scheme for the purpose of providing incentives and rewards to the employees of the Group.

Moreover, under the Mandatory Provident Fund Scheme Ordinance of Hong Kong, the Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme for all its Hong Kong employees. For overseas and PRC employees, the Group is required to contribute a certain percentage of its payroll costs to the central pension scheme operated by the respective local government.

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 30 June 2006, the interests of the directors in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

### Long positions in ordinary shares of the Company:

Name of director	Number of shares held, capacity and nature of interest		Total	Percentage of the Company's issued share capital
	Directly beneficially owned	Through controlled corporation		
Lai Pei Wor	3,300,000	97,242,000*	100,542,000	37.87
Chan Yau Wah	7,700,000	–	7,700,000	2.90
Chung Yik Cheung, Raymond	2,652,000	–	2,652,000	1.00
	<u>13,652,000</u>	<u>97,242,000</u>	<u>110,894,000</u>	<u>41.77</u>

\* Details of Lai Pei Wor's other interests are set out in the section headed "Substantial shareholders' and other persons' interest and short positions in shares and underlying shares" below.

Save as disclosed above, as at 30 June 2006, none of the directors had registered an interest or short position in the shares and underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Directors' interests in shares and underlying shares" above, at no time during the period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

## SHARE OPTION SCHEME

The following share options were outstanding during the period:

Name or category of participant	Number of share options					At 30 June 2006	Date of grant of share options *	Exercise period of share options	Exercise price of share options ** HK\$	Price of Company's shares at grant date of options *** HK\$
	At 1 January 2006	Granted during the period	Exercised during the period	Expired during the period	Forfeited during the period					
Employees other than the directors	2,500,000	—	—	—	—	2,500,000	26-1-2005	1.1.2006 to 31-12-2012	0.26	0.26
In aggregate	2,500,000	—	—	—	—	2,500,000				

Notes to the reconciliation of share options outstanding during the period:

\* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

\*\* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

\*\*\* The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options.

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTEREST IN SHARES AND UNDERLYING SHARES

As at 30 June 2006, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

### Long positions:

Name	Number of shares held, capacity and nature of interest				Percentage of the Company's issued share capital
	Directly beneficially owned	Through spouse or minor children	Beneficiary of a trust	Total	
Chan Yuk Lin (Note a)	—	3,300,000	97,242,000	100,542,000	37.87
Celaya Limited (Note b)	—	—	97,242,000	97,242,000	36.63
Trident Corporate Services (B.V.I.) Limited (formerly known as "Ansbacher (BVI) Limited") (Note c)	—	—	97,242,000	97,242,000	36.63
Lai Yiu Chun (Note d)	1,866,000	21,450,000	—	23,316,000	8.78
Lam Lin Chu, Winnie (Note d)	23,116,000	200,000	—	23,316,000	8.78

Notes:

- (a) Chan Yuk Lin, spouse of Lai Pei Wor, was deemed to be interested in the shares.
- (b) Celaya Limited holds 97,242,000 shares in its capacity as trustee of The Lai Family Unit Trust, of which all units are held by Trident Corporate Services (B.V.I.) Limited (formerly known as "Ansbacher (BVI) Limited") in its capacity as trustee of The Lai Family Trust, a discretionary trust of which Lai Pak Hung (son of Lai Pei Wor) and Lai Yee Man (daughter of Lai Pei Wor and under the age of 18) and Chan Yuk Lin (wife of Lai Pei Wor) are discretionary objects.
- (c) The shares referred to herein relate to the same parcel of shares referred to in note (b) above.
- (d) Lam Lin Chu, Winnie is the wife of Lai Yiu Chun, who is a brother of Lai Pei Wor. Both Lam Lin Chu, Winnie and Lai Yiu Chun are declaring interests in the same parcel of shares.

Save as disclosed above, as at 30 June 2006, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

## **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY**

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period.

## **CODE ON CORPORATE GOVERNANCE PRACTICES**

In the opinion of the directors, saved for the deviation discussed below, the Company has complied with the code provisions of the Code of Corporate Governance Practices (the "Code"), as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), throughout the accounting period covered by the interim report.

Code Provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

The roles of the chairman and the chief executive officer are not separate and are performed by Mr. Lai Pei Wor. Since the Board will meet regularly to consider major matters affecting the operations of the Company, the Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company and believes that this structure will enable the Company to make and implement decisions promptly and efficiently.

## **DIRECTORS' SECURITIES TRANSACTIONS**

The Company has adopted the code of conduct regarding directors' securities transactions as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Listing Rules. Based on specific enquiry of the Company's directors, all directors have complied with the required standard set out in the Model Code throughout the period.

## **AUDIT COMMITTEE**

The Company has an audit committee which was established in compliance with Rule 3.21 of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee of the Company comprises three independent non-executive directors, namely, Mr. Kung Fan Cheong, Mr. Leung Man Kay and Mr. Li Yuen Kwan, Joseph. The audit committee has reviewed the unaudited interim financial statements for the six months ended 30 June 2006.

By Order of the Board  
**Lai Pei Wor**  
*Chairman*

Hong Kong, 26 September 2006