



Herald Holdings Limited • Interim Report 2006/07

stock code : 114

## **CORPORATE INFORMATION**

### **EXECUTIVE DIRECTORS**

George Bloch *Chairman*

Cheung Tsang Kay Stan PhD,

Hon LLD, Hon DBA, JP

*Managing Director*

Chang Dong Song

Robert Dorfman

Thong Yeung Sum Michael FCCA, CPA

### **INDEPENDENT NON-EXECUTIVE DIRECTORS**

Tang King Hung ACA, FCCA, ACIS, CPA

David Tai Chong Lie-A-Cheong JP

Yeh Man Chun Kent

### **SECRETARY**

Thong Yeung Sum Michael FCCA, CPA

### **PRINCIPAL BANKERS**

Bank of America, N.A.

The Hong Kong and Shanghai Banking Corporation Limited

Fubon Bank (Hong Kong) Limited

### **AUDITORS**

KPMG

*Certified Public Accountants*

### **SOLICITORS**

Stephenson Harwood & Lo

Richards Butler

Susan Liang & Co.

### **PRINCIPAL OFFICE**

3110, 31/F.

Tower Two, Lippo Centre

89 Queensway

Hong Kong

### **REGISTERED OFFICE**

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

### **PRINCIPAL REGISTRARS**

Butterfield Fund Services

(Bermuda) Limited

Rosebank Centre

14 Bermudiana Road

Pembroke

Bermuda

### **HONG KONG SHARE REGISTRARS**

Tengis Limited

26/F., Tesbury Centre

28 Queen's Road East

Hong Kong

### **COMPANY'S WEBSITE**

<http://www.heraldgroup.com.hk>

## RESULTS

The Board of Directors of Herald Holdings Limited (the "Company") presents the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 September 2006, together with the comparative figures for the corresponding period in 2005, as follows:

### Consolidated Income Statement – Unaudited

For the six months ended 30 September 2006

		<b>Six months ended 30 September</b>	
	<i>Note</i>	<b>2006 HK\$'000</b>	2005 HK\$'000
<b>Turnover</b>	2	<b>744,878</b>	738,468
Cost of sales		<b>(593,273)</b>	(569,693)
Gross profit		<b>151,605</b>	168,775
Other revenue		<b>10,683</b>	5,139
Other net income/(loss)		<b>10,526</b>	(549)
Selling expenses		<b>(26,443)</b>	(27,796)
Administrative expenses		<b>(94,455)</b>	(92,580)
<b>Profit from operations</b>	2	<b>51,916</b>	52,989
Finance costs		<b>(39)</b>	(20)
Share of profit of jointly controlled entity		<b>220</b>	381
<b>Profit before taxation</b>	3	<b>52,097</b>	53,350
Income tax	4	<b>(3,761)</b>	(7,014)
<b>Profit for the period</b>		<b>48,336</b>	46,336
<b>Attributable to:</b>			
Equity shareholders of the Company		<b>47,743</b>	43,326
Minority interests		<b>593</b>	3,010
<b>Profit for the period</b>		<b>48,336</b>	46,336
<b>Interim dividends</b>		<b>18,418</b>	15,348
<b>Interim dividends per share</b>		<b>3 cents</b>	2.5 cents
<b>Earnings per share</b>	5		
– Basic and diluted		<b>7.78 cents</b>	7.06 cents

**Consolidated Balance Sheet – Unaudited**

At 30 September 2006

	Note	As at 30 September 2006 HK\$'000	As at 31 March 2006 HK\$'000
<b>Non-current assets</b>			
Fixed assets	6		
– Investment properties		16,750	16,750
– Other property, plant and equipment		149,268	154,848
– Interests in leasehold land held for own use under operating leases		6,319	6,468
		<b>172,337</b>	178,066
Club membership		1,660	1,660
Interest in jointly controlled entity		1,965	2,150
Other financial assets		2,000	2,000
Deferred tax assets		9,777	5,249
		<b>187,739</b>	189,125
<b>Current assets</b>			
Trading securities		58,218	59,917
Inventories		185,209	140,459
Trade and other receivables	7	308,308	131,657
Current tax recoverable		109	2,932
Cash and cash equivalents		197,803	239,395
		<b>749,647</b>	574,360
<b>Current liabilities</b>			
Trade and other payables	8	262,959	121,003
Current tax payable		6,451	2,728
		<b>269,410</b>	123,731
<b>Net current assets</b>			
		<b>480,237</b>	450,629
<b>Total assets less current liabilities</b>			
		<b>667,976</b>	639,754

**Consolidated Balance Sheet – Unaudited (Continued)***At 30 September 2006*

	<i>Note</i>	<b>As at 30 September 2006 HK\$'000</b>	As at 31 March 2006 HK\$'000
<b>Non-current liabilities</b>			
Deferred tax liabilities		<b>1,948</b>	1,642
Provision for long service payments		<b>2,799</b>	2,799
		<b>4,747</b>	4,441
<b>NET ASSETS</b>			
		<b>663,229</b>	635,313
<b>CAPITAL AND RESERVES</b>			
Share capital	9	<b>47,886</b>	47,886
Reserves		<b>582,639</b>	554,423
<b>Total equity attributable to equity shareholders of the Company</b>			
		<b>630,525</b>	602,309
<b>Minority interests</b>		<b>32,704</b>	33,004
<b>TOTAL EQUITY</b>		<b>663,229</b>	635,313

**Condensed Consolidated Cash Flow Statement – Unaudited***For the six months ended 30 September 2006*

	<b>Six months ended 30 September</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Net cash (outflow)/inflow from operating activities	<b>(22,416)</b>	77,907
Net cash inflow/(outflow) from investing activities	<b>5,267</b>	(51,082)
Net cash outflow from financing activities	<b>(25,490)</b>	(27,647)
Decrease in cash and cash equivalents	<b>(42,639)</b>	(822)
Cash and cash equivalents at 1 April	<b>239,395</b>	223,564
Effect of foreign exchange rates changes	<b>1,047</b>	(387)
Cash and cash equivalents at 30 September	<b>197,803</b>	222,355
<b>Analysis of the balances of cash and cash equivalents</b>		
Cash at bank and in hand	<b>197,803</b>	225,381
Short term bank loan and overdraft	–	(3,026)
	<b>197,803</b>	222,355

**Condensed Consolidated Statement of Changes in Equity – Unaudited***For the six months ended 30 September 2006*

	Attributable to equity shareholders of the Company								
	Share capital	Share premium	Contributed surplus	Exchange reserve	PRC		Total	Minority interests	Total equity
					statutory reserves	Retained profits			
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 April 2006	47,886	25,720	164,062	(637)	6,067	359,211	602,309	33,004	635,313
Exchange difference on consolidation	-	-	-	5,031	-	-	5,031	-	5,031
Transfer between reserves	-	-	-	-	794	(794)	-	-	-
Dividend paid	-	-	(24,558)	-	-	-	(24,558)	(893)	(25,451)
Profit for the period	-	-	-	-	-	47,743	47,743	593	48,336
<b>At 30 September 2006</b>	<b>47,886</b>	<b>25,720</b>	<b>139,504</b>	<b>4,394</b>	<b>6,861</b>	<b>406,160</b>	<b>630,525</b>	<b>32,704</b>	<b>663,229</b>
At 1 April 2005	47,886	25,720	207,037	1,307	5,280	273,708	560,938	28,024	588,962
Exchange difference on consolidation	-	-	-	(438)	-	-	(438)	-	(438)
Dividend paid	-	-	(27,627)	-	-	-	(27,627)	-	(27,627)
Profit for the period	-	-	-	-	-	43,326	43,326	3,010	46,336
At 30 September 2005	47,886	25,720	179,410	869	5,280	317,034	576,199	31,034	607,233

**NOTES:****1. BASIS OF PREPARATION AND ACCOUNTING POLICIES**

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), including compliance with Hong Kong Accounting Standard ("HKAS") 34, Interim financial reporting, issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). It was authorized for issuance on 15 December 2006.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the annual financial statements for the year ended 31 March 2006, except for the adoption of certain new standards, amendments and interpretations issued by the HKICPA, which are effective for accounting periods beginning on or after 1 January 2006. The adoption of the new standards, amendments and interpretations had no material effect on the Group's results of operation and financial position.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgments, estimates and assumption that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The interim financial report is unaudited, but has been reviewed by the audit committee of the Company.

**2. SEGMENT REPORTING**

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.



**Business segments**

The Group comprises the following main business segments:

- Toy and gift products : The manufacture, sale and distribution of toy and gift products.
- Computer heads : The manufacture and sale of computer heads.
- Housewares : The manufacture, sale and distribution of housewares.
- Timepieces : The manufacture, sale and distribution of clocks, watches and electronics products.
- Others : The leasing of properties to generate rental income and other distribution activities.

	Six months ended 30 September 2006						Consolidated HK\$'000
	Toy and gift products HK\$'000	Computer heads HK\$'000	Housewares HK\$'000	Timepieces HK\$'000	Others HK\$'000	Inter-segment elimination HK\$'000	
Revenue from external customers	418,339	76,518	115,659	125,909	8,453	-	744,878
Other revenue from external customers	1,327	-	2,535	510	796	-	5,168
Inter-segment revenue	-	-	-	-	1,489	(1,489)	-
<b>Total</b>	<b>419,666</b>	<b>76,518</b>	<b>118,194</b>	<b>126,419</b>	<b>10,738</b>	<b>(1,489)</b>	<b>750,046</b>
Segment result	19,612	7,299	2,609	6,693	1,142		37,355
Unallocated operating income and expenses							14,561
Profit from operations							51,916
Finance costs							(39)
Share of profit of jointly controlled entity	-	-	220	-	-		220
Income tax							(3,761)
<b>Profit for the period</b>							<b>48,336</b>

Six months ended 30 September 2005 (restated)

	Toy and gift products	Computer heads	Housewares	Timepieces	Others	Inter-segment elimination	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers	394,323	76,241	123,505	128,975	15,424	-	738,468
Other revenue from external customers	880	-	1,428	44	753	-	3,105
Inter-segment revenue	-	-	-	-	1,489	(1,489)	-
<b>Total</b>	<b>395,203</b>	<b>76,241</b>	<b>124,933</b>	<b>129,019</b>	<b>17,666</b>	<b>(1,489)</b>	<b>741,573</b>
Segment result	25,466	9,088	6,067	8,897	3,461		52,979
Unallocated operating income and expenses							10
Profit from operations							52,989
Finance costs							(20)
Share of profit of jointly controlled entity	-	-	381	-	-		381
Income tax							(7,014)
Profit for the period							46,336

### Geographical segments

The Group's business is managed on a worldwide basis, but participates mainly in three principal economic environments. North America is a major market for the toy and gift division, the computer head division and the houseware division. Europe is a major market for the timepiece division and the houseware division and to a lesser extent the toy and gift division and the computer head division. In Asia, the Group's manufacturing activities are carried out in the Mainland China.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers.

	<b>Turnover</b>	
	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Europe		
United Kingdom	<b>259,873</b>	249,438
Other countries	<b>71,232</b>	52,561
North America	<b>336,868</b>	374,653
Asia		
Hong Kong	<b>24,586</b>	32,001
Mainland China	<b>4,450</b>	6,728
Other countries	<b>22,143</b>	7,133
Others	<b>25,726</b>	15,954
	<b>744,878</b>	738,468

### 3. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/ (crediting):

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Interest on borrowings	<b>39</b>	20
Depreciation	<b>13,920</b>	13,249
Amortisation of land lease premium	<b>149</b>	149
Net loss/(gain) on disposal of fixed assets	<b>139</b>	(72)
Net realised and unrealised gains on trading securities	<b>(5,126)</b>	(82)
Staff costs	<b>136,027</b>	122,357
Interest income	<b>(4,036)</b>	(1,999)
Rental income	<b>(1,692)</b>	(1,541)
Dividend income	<b>(1,479)</b>	(35)
Share of jointly controlled entity's taxation	<b>89</b>	108

**4. INCOME TAX**

	<b>Six months ended 30 September</b>	
	<b>2006 HK\$'000</b>	2005 HK\$'000
Hong Kong Profits Tax	<b>7,713</b>	6,652
Taxation outside Hong Kong	<b>329</b>	913
Deferred taxation	<b>(4,281)</b>	(551)
	<b>3,761</b>	7,014

Provision for Hong Kong Profits Tax is calculated at 17.5% (2005: 17.5%) of the estimated assessable profits for the six months ended 30 September 2006. Taxation for subsidiaries outside Hong Kong is charged at the appropriate current rates of taxation ruling in the relevant tax jurisdictions.

**5. EARNINGS PER SHARE**

The calculation of basic earnings per share is based on the profit attributable to the equity shareholders of the Company of HK\$47,743,000 (2005: HK\$43,326,000) and the weighted average number of shares of 613,926,000 (2005: 613,926,000) in issue during the period.

There were no dilutive potential shares in existence during the periods ended 30 September 2006 and 2005, therefore diluted earnings per share are same as the basic earnings per share for both the current and prior periods.

**6. FIXED ASSETS**

The movements of fixed assets of the Group were:

	Investment properties HK\$'000	Other property, plant and equipment HK\$'000	Interests in leasehold land held for own use under operating leases HK\$'000	Total HK\$'000
Net book value as at				
1 April 2006	16,750	154,848	6,468	178,066
Additions	–	7,584	–	7,584
Disposals	–	(223)	–	(223)
Depreciation/amortisation	–	(13,920)	(149)	(14,069)
Exchange adjustments	–	979	–	979
<b>Net book value as at 30 September 2006</b>	<b>16,750</b>	<b>149,268</b>	<b>6,319</b>	<b>172,337</b>

**7. TRADE AND OTHER RECEIVABLES**

Included in trade and other receivables are trade debtors and bills receivable (net of impairment losses for bad and doubtful debts) with the following ageing analysis as of the balance sheet date:

	At 30 September 2006 HK\$'000	At 31 March 2006 HK\$'000
<b>By date of invoice</b>		
Within 1 month	<b>189,024</b>	66,721
Over 1 month but within 3 months	<b>72,434</b>	33,601
Over 3 months	<b>5,011</b>	1,429
Trade debtors and bills receivable	<b>266,469</b>	101,751
Deposits, prepayments and other receivables	<b>41,839</b>	29,906
	<b>308,308</b>	131,657

All of the trade and other receivables are expected to be recovered within one year. The credit terms given to the customers vary and are generally based on the financial strengths of individual customers. In order to effectively manage the credit risks associated with trade receivables, credit evaluations of customers are performed periodically.

**8. TRADE AND OTHER PAYABLES**

Included in trade and other payables are trade creditors and bills payable with the following ageing analysis as of the balance sheet date:

	<b>At 30 September 2006 HK\$'000</b>	At 31 March 2006 HK\$'000
<b>By date of invoice</b>		
Within 1 month	<b>84,009</b>	35,070
Over 1 month but within 3 months	<b>44,438</b>	9,535
Over 3 months	<b>1,832</b>	689
Trade creditors and bills payable	<b>130,279</b>	45,294
Accruals and other payables	<b>132,680</b>	75,709
	<b>262,959</b>	121,003

All of the trade and other payables are expected to be settled within one year.

**9. SHARE CAPITAL**

	<b>Number of shares '000</b>	<b>Amount HK\$'000</b>
<b>Authorised:</b>		
Shares of US\$0.01 each	<b>1,000,000</b>	<b>78,000</b>
<b>Issued and fully paid:</b>		
Shares of US\$0.01 each		
At 1 April 2006 and 30 September 2006	<b>613,926</b>	<b>47,886</b>

**10. COMMITMENTS**

At 30 September 2006, the total future minimum lease payments of the Group under non-cancellable operating leases are payable as follows:

	<b>At 30 September 2006</b>		At 31 March 2006	
	<b>Land and Buildings HK\$'000</b>	<b>Others HK\$'000</b>	Land and Buildings HK\$'000	Others HK\$'000
Within 1 year	<b>5,936</b>	<b>2,137</b>	5,158	1,722
After 1 year but within 5 years	<b>13,714</b>	<b>1,580</b>	10,551	1,206
After 5 years	<b>10,122</b>	<b>–</b>	10,654	–
	<b>29,772</b>	<b>3,717</b>	26,363	2,928

**11. MATERIAL RELATED PARTY TRANSACTIONS****Key management personnel remuneration**

Remuneration for key management personnel, including amounts paid to the Company's directors, is as follows:

	<b>Six months ended</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Short-term employee benefits	<b>10,891</b>	11,726
Post-employment benefits	<b>820</b>	994
	<b>11,711</b>	12,720

**12. COMPARATIVE FIGURES**

Certain comparative figures have been reclassified to conform with the current period's presentation.

## BUSINESS REVIEW

The Group's turnover for the six months to 30 September 2006 amounted to HK\$745 million, representing a slight increase of 0.9% as compared with the corresponding period in the previous year. The profit attributable to shareholders for the same period was HK\$47.7 million, up 10.2% or HK\$4.4 million from the profit of HK\$43.3 million in the same period a year earlier.

The six months under review was a very challenging period for the Group. Due to rising labour and material costs as well as the appreciation of the Renminbi, the gross profit percentage for the period declined by 2.5% to 20.4% from 22.9%. Though the Group's turnover was level with last year, the gross profit for the period fell by 10.2% or HK\$17.2 million from HK\$168.8 million to HK\$151.6 million. For the first half of the fiscal year, the Group's other revenue was HK\$10.7 million and the other net income was HK\$10.5 million. For the same period last year, the Group had other revenue of HK\$5.1 million and other net loss of HK\$0.5 million. The increase of the other revenue was as a result of higher interest rates. The increase in the net income for the period under review was primarily due to better investment gains arising from the Group's listed and unlisted trading securities and a gain of HK\$3.4 million relating to the write back of an investment of a jointly controlled entity which is in voluntary liquidation. The additional profits arising from the other revenue and the net income, which together totaled HK\$16.6 million, made up the decrease of the gross profit as mentioned above and helped the Group to achieve a higher net profit in the six months to 30 September 2006 as compared with the net profit for the same period a year ago.

During the period under review, the turnover of the Toy and Gift Division increased by 6.1% from HK\$394 million to HK\$418 million. The sales of toys related to the "Star Wars" brand as well as other toy categories remained very strong in the first half of the fiscal year. The problems of shortages of labour and electricity supply continue to affect all toy factories in the Pearl River Delta region. Last year, the Dongguan authorities raised the minimum wage by 27.5%. This year, with effect from September 2006, the minimum wage in Dongguan has further been increased by 20% to RMB690 per month. Largely due to the increase in wages, the gross profit percentage of the division for the first six months of the year was reduced by 2% to 17%. Despite these adverse market conditions, the division is pleased to see that it fulfilled on time all shipment schedules of its customers. The operating profit of the division for the period was HK\$19.6 million compared to an operating profit of HK\$25.5 million in the corresponding period in 2005.



The turnover of the Timepiece Division edged downward by 2.3% from HK\$129 million to HK\$126 million. During the period under review the RoHs directive, a new regulation in the EU restricting electrical and electronic equipment that contains certain hazardous substances, came in force. The additional costs incurred to comply with the directive as well as rising wage level forced the division's suppliers to increase their prices. This has reduced the gross profit margin of the division. For the first half of the fiscal year, the division had an operating profit of HK\$6.7 million, down from the first half operating profit of HK\$8.9 million in the prior year.

The business of the Computer Head Division remained stable in the six months ended 30 September 2006. The sales for the first half were HK\$76.5 million which were virtually flat as compared with the same period last year. The business of the computer ferrite heads started to decline. However, the business of the computer thin-film heads grew by 10.8% and made up for the loss of turnover from the ferrite heads. The division had a half-yearly operating profit of HK\$7.3 million, down from HK\$9.1 million in the prior year.

Largely due to the weakness of the UK market, the sales of the Houseware Division decreased by 6.3% from HK\$123.5 million to HK\$115.7 million. The increases of prices of aluminium and stainless steel continued to have a negative impact on the results of the division. On a year-on-year comparison, the operating profit of the division for the first half under review declined from HK\$6.1 million to HK\$2.6 million.

## **FINANCIAL POSITION**

The Group continues to exercise prudence in the management of its working capital. As in the past, the Group maintains a good liquidity position without any long term debt funding. At 30 September 2006 the Group's net cash surplus was HK\$198 million which was lower than the HK\$239 million at 31 March 2006. During the period under review, the Group used HK\$22.4 million to finance its operating activities and HK\$24.6 million to pay the final dividend for the year ended 31 March 2006.

The Group's current assets position as at 30 September 2006 was HK\$750 million compared to HK\$574 million as at 31 March 2006. The trade and other receivables increased to HK\$308 million from HK\$132 million. The Group's current liabilities increased from HK\$124 million to HK\$269 million primarily due to increase in trade and other payables. The increase in trade and other receivables as well as the increase in trade and other payables reflect the seasonality of the Group's sales activities. The Group's trading securities as at 30 September 2006 amounted to HK\$58 million compared to HK\$60 million as at 31 March 2006. Trading securities and bank deposits totalling HK\$64 million (At 31 March 2006: HK\$37 million) are pledged to a bank to secure banking facilities granted to a subsidiary of the Company. The working capital ratio, an indicator of a Company's liquidity represented by the ratio between current assets over current liabilities, was 2.78 compared to 2.69 at 30 September 2005. The quick ratio, another ratio that gauges the financial strength of a Company measured by trade debtors and cash at bank and in hand over the current liabilities, decreased to 1.72 from 1.87 at 30 September 2005.

## **PROSPECTS AND GENERAL OUTLOOK**

The Group has achieved satisfactory results in the first half. As the order positions for the third quarter of the current fiscal year remain very strong, the management expects that turnover for the second half will show some growth. However, the gross profit of the Group will continue to be squeezed by higher wages and higher material costs. Despite these negative factors, the management is confident that the Group will continue to achieve a satisfactory result for the shareholders in the second half of the financial year.

## **CONTINGENT LIABILITIES**

As at 30 September 2006, the Group did not have any significant contingent liabilities.

## **FOREIGN EXCHANGE EXPOSURE**

During the period under review, approximately 23% of the Group's turnover is denominated in sterling. From time to time, the Group enters forward foreign exchange contracts to hedge its foreign exchange exposure.

## **DIVIDENDS**

The Directors have declared an interim dividend of HK3 cents per share (2005: HK2.5 cents). The total amount of dividend payment of HK\$18,418,000 (2005: HK\$15,348,000) was based on the total number of shares in issue as at 14 December 2006 being the latest practicable date prior to the announcement of the interim results. Dividend will be payable on 24 January 2007 to shareholders registered in the Register of Members on 11 January 2007.

## **REGISTER OF MEMBERS**

The Register of Members will be closed from 10 January 2007 to 11 January 2007, both days inclusive. Shareholders should ensure that all transfers accompanied by relevant share certificates are lodged with the Company's Registrars, Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong for registration not later than 4:00 pm on 9 January 2007 in order that they may receive their dividend entitlement.

## **SHARE OPTION SCHEME**

The Company adopted a share option scheme on 18 September 2003. No share options have been granted since its adoption.

Apart from the foregoing, at no time during the six months ended 30 September 2006 was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

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

As at 30 September 2006, the beneficial interests of the directors of the Company and their associates in the shares of the Company, its subsidiaries and other associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 to the Listing Rules, were as follows:

### Interests in issued shares

(Shares of US\$0.01 each of the Company)

Directors	Number of shares				Total	Percentage of total issued shares
	Personal Interests	Interests of spouse	Corporate Interests	Other Interests		
G Bloch	150,000	9,091,500	1,250,000 (Note (i))	–	10,491,500	1.71%
D S Chang	–	21,654,879	–	85,538,356 (Note (ii))	107,193,235	17.46%
S T K Cheung	36,742,808	950,000	–	85,538,356 (Note (ii))	123,231,164	20.07%
R Dorfman	46,470,000	–	–	–	46,470,000	7.57%
M Y S Thong	11,383,308	–	–	–	11,383,308	1.85%

Notes:

- (i) Mr G Bloch and his associates are beneficial shareholders of 100% and 58% of the issued capital of Anglo Tex Limited and Herald International Limited respectively, which owned 1,000,000 shares and 250,000 shares respectively in the Company at 30 September 2006.
- (ii) Dr S T K Cheung and Mr D S Chang are the beneficiaries of a family trust which owned 85,538,356 shares in the Company at 30 September 2006.

As at 30 September 2006, no short positions were recorded in the register required to be kept under section 352 of the SFO.

Apart from the foregoing, none of the directors of the Company or any of their spouses or children under eighteen years of age has interests or short positions in the shares, underlying shares or debentures of the Company, any of its subsidiaries or other associated corporations, 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' AND OTHER PERSON'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES**

Other than the interests disclosed in the section "Directors' interests and short positions in shares, underlying shares and debentures" in respect of directors, the following shareholders were interested in 5% or more of the issued share capital of the Company as at 30 September 2006 according to the register of interests required to be kept by the Company under section 336 of the SFO.

### **Interests in issued shares**

*(Shares of US\$0.01 each of the Company)*

	Note	Number of shares			Total	Percentage of total issued shares
		Personal interests	Interests of spouse	Other interests		
<b>Substantial shareholders</b>						
Chan Him Wee	(i)	21,654,879	–	85,538,356	107,193,235	17.46%
Ng Yiu Chi Eleanor	(ii)	950,000	122,281,164	–	123,231,164	20.07%
Goldfinch Investments Ltd ("GIL")	(iii)	69,728,356	–	–	69,728,356	11.36%
HSBC International Trustee Ltd ("HIT")	(iii)	–	–	85,538,356	85,538,356	13.93%
<b>Other persons</b>						
Sheri Tillman Dorfman	(iv)	–	46,470,000	–	46,470,000	7.57%
Gershon Dorfman		37,605,799	–	–	37,605,799	6.13%
Lydia Dorfman	(v)	–	37,605,799	–	37,605,799	6.13%

*Notes:*

- (i) The entire interests in the shares of 107,193,235 are duplicated by those disclosed under Mr D S Chang, the spouse of Ms Chan Him Wee, in the section "Directors' interests and short positions in shares, underlying shares and debentures".
- (ii) The entire interests in the shares of 123,231,164 are duplicated by those disclosed under Dr S T K Cheung, the spouse of Ms Ng Yiu Chi Eleanor, in the section "Directors' interests and short positions in shares, underlying shares and debentures".
- (iii) GIL is a company owned by a family trust which owned an aggregate of 85,538,356 shares in the Company as at 30 September 2006 as noted in the section "Directors' interests and short positions in shares, underlying shares and debentures", comprising 69,728,356 shares held by GIL and 15,810,000 shares held by the trust itself. HIT, the trustee of the trust, is deemed to be interested in the 85,538,356 shares held by the trust.
- (iv) These interests in shares are duplicated by those disclosed under Mr R Dorfman, the spouse of Mrs Sheri Tillman Dorfman, in the section "Directors' interests and short positions in shares, underlying shares and debentures".
- (v) These interests in shares are duplicated by those beneficially owned by Mr Gershon Dorfman.

As at 30 September 2006, no short positions were recorded in the register required to be kept under section 336 of the SFO.

Apart from the foregoing, no other interests required to be recorded in the register kept under section 336 of the SFO have been notified to the Company.

## **EMPLOYEES**

At 30 September 2006, the number of employees of the Group was 215 (2005: 208) in Hong Kong, 8,982 (2005: 7,975) in the Mainland China and 103 (2005: 107) in Europe. Total staff costs for the period under review amounted to HK\$136,027,000 (2005: HK\$122,357,000). The Group ensures that its employees' remuneration packages are competitive. Employees are rewarded based on their performance and experience and the prevailing industry practice.

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

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

## **AUDIT COMMITTEE**

The audit committee reports to the board of directors and currently comprises three independent non-executive directors, namely Mr Tang King Hung, being the chairman, Mr David Tai Chong Lie-A-Cheong and Mr Yeh Man Chun Kent. The audit committee meets with Group's senior management and external auditors regularly to discuss audit matters. The audit committee also reviews the effectiveness of the internal control systems. The interim report has been reviewed by the audit committee of the Company.

## **REMUNERATION COMMITTEE**

The Company established a remuneration committee on 16 March 2005. The remuneration committee comprises two independent non-executive directors, namely Mr Tang King Hung, being the Chairman, and Mr Yeh Man Chun Kent and one executive director, namely Mr Thong Yeung Sum Michael. The terms of reference of the remuneration committee have been included on the Company's website.

## **CORPORATE GOVERNANCE PRACTICES**

The Company has complied throughout the six months ended 30 September 2006 with the code provisions of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Listing Rules except that the independent non-executive directors are not appointed for a specific term, which deviates from the code provision A.4.1. However, the independent non-executive directors are subject to retirement from office by rotation under the requirements of the Bye-laws of the Company. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CG Code.

## **MODEL CODE**

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standards of the Model Code. Having made specific enquiry of the Company's directors, all directors confirmed that they have complied with the required standards set out in the Model Code and the Company's code of conduct regarding directors' securities transactions.

By Order of the Board  
**George Bloch**  
*Chairman*

Hong Kong, 15 December 2006