



## K & P INTERNATIONAL HOLDINGS LIMITED

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

Interim  
Report  
**2008**

## 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 2008 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 2008*

	Notes	For the six months ended 30 June 2008 (Unaudited) HK\$	2007 (Unaudited) HK\$
REVENUE	2	184,619,595	171,813,947
Cost of sales		(152,942,393)	(134,780,848)
Gross profit		31,677,202	37,033,099
Other income and gains	3	3,017,811	4,228,443
Selling and distribution costs		(21,080,644)	(18,304,691)
Administrative expenses		(18,695,902)	(18,286,476)
Other expenses		(1,118,772)	(75,970)
Finance costs	4	(2,557,098)	(2,888,495)
PROFIT/(LOSS) BEFORE TAX	5	(8,757,403)	1,705,910
Tax	6	(850,000)	(580,000)
PROFIT/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		(9,607,403)	1,125,910
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	7		
Basic		(3.62) cents	0.42 cents
Diluted		(3.62) cents	0.42 cents
DIVIDEND PER SHARE	8	Nil	Nil

## CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2008

		30 June 2008 (Unaudited) HK\$	31 December 2007 (Audited) HK\$
	Notes		
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		151,209,748	108,003,007
Prepaid land lease payments		21,688,802	20,840,531
Other intangible assets		10,808,329	10,578,329
Available-for-sale investment		680,000	680,000
<b>Total non-current assets</b>		<b>184,386,879</b>	<b>140,101,867</b>
<b>CURRENT ASSETS</b>			
Inventories		54,718,129	48,387,597
Prepayments, deposits and other receivables		21,734,462	24,918,465
Trade and bills receivables	9	91,721,870	87,627,217
Derivative financial instrument	11	–	34,962
Cash and cash equivalents		14,471,515	32,843,997
<b>Total current assets</b>		<b>182,645,976</b>	<b>193,812,238</b>
<b>CURRENT LIABILITIES</b>			
Trade payables	10	61,578,801	44,759,641
Accrued liabilities and other payables		52,718,570	41,600,441
Derivative financial instrument	11	265,461	–
Interest-bearing bank and other borrowings		94,029,002	81,161,641
Tax payable		4,493,723	2,990,224
Provision for product warranties		103,810	527,210
<b>Total current liabilities</b>		<b>213,189,367</b>	<b>171,039,157</b>

## CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2008

	30 June 2008 (Unaudited) HK\$	31 December 2007 (Audited) HK\$
Notes		
NET CURRENT ASSETS/(LIABILITIES)	(30,543,391)	22,773,081
TOTAL ASSETS LESS CURRENT LIABILITIES	153,843,488	162,874,948
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	10,675,993	16,482,316
Deferred tax liability	1,308,449	1,308,449
Total non-current liabilities	11,984,442	17,790,765
Net assets	141,859,046	145,084,183
EQUITY		
Issued capital	26,550,480	26,550,480
Reserves	115,308,566	118,533,703
Total equity	141,859,046	145,084,183

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2008

	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\$	Total equity (Unaudited) HK\$
<b>At 1 January 2008</b>	26,550,480	50,541,281	117,118	660,651	6,466,509	(2,716,749)	63,464,893	145,084,183
Exchange realignment	-	-	-	-	-	6,374,045	-	6,374,045
Total income and expense for the period recognised directly in equity	-	-	-	-	-	6,374,045	-	6,374,045
Loss for the period	-	-	-	-	-	-	(9,607,403)	(9,607,403)
<b>Total income and expense for the period</b>	-	-	-	-	-	6,374,045	(9,607,403)	(3,233,358)
Equity-settled share option arrangement	-	-	8,221	-	-	-	-	8,221
<b>At 30 June 2008</b>	<b>26,550,480</b>	<b>50,541,281</b>	<b>125,339</b>	<b>660,651</b>	<b>6,466,509</b>	<b>3,657,296</b>	<b>53,857,490</b>	<b>141,859,046</b>
<b>At 1 January 2007</b>	26,550,480	50,541,281	104,777	660,651	4,576,071	(2,727,597)	56,905,654	136,611,317
Exchange realignment	-	-	-	-	-	590,180	-	590,180
Total income and expense for the period recognised directly in equity	-	-	-	-	-	590,180	-	590,180
Profit for the period	-	-	-	-	-	-	1,125,910	1,125,910
<b>Total income and expense for the period</b>	-	-	-	-	-	590,180	1,125,910	1,716,090
Equity-settled share option arrangement	-	-	41,198	-	-	-	-	41,198
<b>At 30 June 2007</b>	<b>26,550,480</b>	<b>50,541,281</b>	<b>145,975</b>	<b>660,651</b>	<b>4,576,071</b>	<b>(2,137,417)</b>	<b>58,031,564</b>	<b>138,368,605</b>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2008

	For the six months ended 30 June	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$	HK\$
NET CASH INFLOW FROM OPERATING ACTIVITIES	1,098,452	15,139,818
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(27,658,939)	(20,935,587)
NET CASH INFLOW FROM FINANCING ACTIVITIES	10,444,863	854,164
NET DECREASE IN CASH AND CASH EQUIVALENTS	(16,115,624)	(4,941,605)
Cash and cash equivalents at beginning of period	30,209,559	41,569,534
Effect of foreign exchange rate changes, net	377,580	394,624
CASH AND CASH EQUIVALENTS AT END OF PERIOD	14,471,515	37,022,553
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	14,471,515	16,122,900
Time deposits	–	20,899,653
	14,471,515	37,022,553

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## 1. ACCOUNTING POLICIES AND BASIS OF PREPARATION

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 "Listing Rules"). 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 2007, 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:

HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of the above standards and interpretations 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 comprising 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 comprising time, weather forecasting and other products; and

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

### 2. SEGMENT INFORMATION (Continued)

- (c) the corporate and others segment comprises the Group's property holding activities, together with corporate income and expense items.

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

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

#### (a) Business segments

The following table presents revenue, profit/(loss) and certain expenditure information for the Group's business segments for the six months ended 30 June 2008 and 2007.

	Precision parts and components		Consumer electronic products		Corporate and others		Eliminations		Consolidated	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	(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	117,484,789	89,795,486	67,134,806	82,018,461	-	-	-	-	184,619,595	171,813,947
Intersegment sales	1,238,366	2,417,792	546	7,722	-	-	(1,238,912)	(2,425,514)	-	-
Other income and gains	2,774,180	3,412,585	140,305	226,451	1,279	1,083	-	-	2,915,764	3,640,119
Total	121,497,335	95,625,863	67,275,657	82,252,634	1,279	1,083	(1,238,912)	(2,425,514)	187,535,359	175,454,066
Segment results	8,992,205	7,757,655	(14,089,506)	(3,539,571)	(1,205,051)	(212,003)			(6,302,352)	4,006,081
Bank interest income									102,047	588,324
Finance costs									(2,557,098)	(2,888,495)
Profit/(loss) before tax									(8,757,403)	1,705,910
Tax									(650,000)	(580,000)
Profit/(loss) for the period									(9,407,403)	1,125,910
Other segment information:										
Depreciation and amortisation	5,443,931	6,869,901	7,276,118	5,768,074	510,057	501,598	-	-	13,230,106	13,139,573
Capital expenditure	28,978,125	14,907,076	21,994,930	5,643,028	78,640	19,750	-	-	51,051,695	20,569,854



## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

### 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 2008 and 2007.

	Segment revenue		Other segment information	
	Sales to external customers		Capital expenditure	
	2008	2007	2008	2007
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$	HK\$	HK\$	HK\$
Hong Kong	44,376,098	46,780,685	5,788,920	2,990,340
Mainland China	11,810,396	7,323,553	45,252,944	17,492,029
Total in the People's Republic of China ("PRC")	56,186,494	54,104,238	51,041,864	20,482,369
Japan	6,065,518	16,191,181	–	–
Other Asian countries*	15,983,751	7,591,322	9,831	–
Total in Asia	78,235,763	77,886,741	51,051,695	20,482,369
Austria	24,247,510	11,330,954	–	–
Germany	23,479,194	21,199,394	–	–
Other European countries**	30,146,797	37,371,731	–	–
Total in Europe	77,873,501	69,902,079	–	–
USA	19,125,769	19,388,931	–	87,485
Other North American countries***	1,609,220	521,885	–	–
Total in North America	20,734,989	19,910,816	–	87,485
Others****	7,775,342	4,114,311	–	–
Consolidated	184,619,595	171,813,947	51,051,695	20,569,854

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

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

\*\*\* Other North American countries mainly comprise Canada and Mexico.

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

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

### 3. OTHER INCOME AND GAINS

	For the six months ended 30 June	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$	HK\$
Bank interest income	102,047	588,324
Tooling charge income	1,405,149	601,157
Sale of scrap	234,515	934,608
Fair value gain on a derivative financial instrument – transaction not qualifying as a hedge	–	1,596,838
Gain on disposal of items of property, plant and equipment	517,928	150,000
Others	758,172	357,516
	<b>3,017,811</b>	<b>4,228,443</b>

### 4. FINANCE COSTS

	For the six months ended 30 June	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$	HK\$
Interest on bank loans and overdrafts wholly repayable within five years	2,487,783	2,806,066
Interest on finance leases	69,315	82,429
	<b>2,557,098</b>	<b>2,888,495</b>

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

### 5. PROFIT/(LOSS) BEFORE TAX

The Group's profit/(loss) before tax is arrived at after charging/(crediting):

	For the six months ended 30 June	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$	HK\$
Depreciation	10,832,282	10,447,658
Amortisation of other intangible assets	2,170,000	2,445,002
Recognition of prepaid land lease payments	227,824	246,812
Foreign exchange differences, net	35,735	733,312
Product warranties provision	149,347	143,598
Impairment of trade receivables	818,349	75,970
Fair value loss/(gain) on a derivative financial instrument		
– transaction not qualifying as a hedge	300,423	(1,596,838)
Gain on disposal of items of property, plant and equipment	(517,928)	(150,000)

### 6. TAX

	For the six months ended 30 June	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$	HK\$
Group:		
Current – Hong Kong		
Charge for the period	850,000	580,000

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profits arising in Hong Kong during the period.

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

### 7. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic loss per share is based on the net loss attributable to shareholders for the period of HK\$9,607,403 (2007: profit of HK\$1,125,910), and on the weighted average of 265,504,800 (2007: 265,504,800) ordinary shares in issue during the period.

The calculation of diluted loss per share is based on the net loss attributable to shareholders for the period of HK\$9,607,403. The weighted average number of ordinary shares used in the calculation is the 265,504,800 (2007: 265,504,800) ordinary shares in issue during the period, as used in the basic loss per share calculation; and the weighted average of 46,296 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options outstanding during the period.

### 8. DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2008 (six months ended 30 June 2007: Nil).

### 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 minimize 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:

	30 June 2008 (Unaudited) HK\$	31 December 2007 (Audited) HK\$
Within 90 days	76,209,441	79,343,504
Between 91 to 180 days	11,047,473	6,690,952
Over 180 days	4,464,956	1,592,761
	<b>91,721,870</b>	<b>87,627,217</b>

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

### 10. TRADE PAYABLES

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

	30 June 2008 (Unaudited) HK\$	31 December 2007 (Audited) HK\$
Within 90 days	49,163,326	42,263,060
Between 91 to 180 days	11,446,873	2,434,994
Over 180 days	968,602	61,587
	<b>61,578,801</b>	<b>44,759,641</b>

The trade payables are non-interest-bearing and are normally settled on terms varying from 60 to 120 days.

### 11. DERIVATIVE FINANCIAL INSTRUMENT

The derivative financial instrument is a forward currency contract with carrying amount stated at its fair value.

The Group entered into a forward currency contract to sell US\$15,000,000 or buy US\$45,000,000. The maturity date of this forward currency contract is on 22 June 2009 and there is fifteen expiration dates throughout this contract, of which three of them had been expired at the balance sheet date. This forward currency contract did not meet the criteria for hedge accounting. The change in the fair value of this non-hedging currency derivative of loss of HK\$300,423 was charged to the income statement during the period (2007: profit of HK\$1,596,838).

### 12. 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 2,600,000 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 2,600,000 additional ordinary shares of the Company and additional share capital of HK\$260,000 and share premium of HK\$403,400 (before issue expenses).

At the date of approval of these condensed consolidated interim financial statements, the Company had 2,600,000 share options outstanding under the Scheme, which represented approximately 0.98% of the Company's shares in issue as at that date.

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

### 13. RELATED PARTY TRANSACTIONS

(a) Certain of the Group's banking facilities, of which HK\$102,000,000 (as at 31 December 2007: HK\$94,000,000) had been utilised as at the balance sheet date, were secured by personal guarantees amounting to HK\$124,400,000 (as at 31 December 2007: HK\$203,225,200) 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

	For the six months ended 30 June	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$	HK\$
Short term employee benefits	6,674,941	6,291,752
Post-employment benefits	14,040	14,040
Termination benefits	126,011	118,479
Share-based payments	8,221	9,248
Total compensation paid to key management personnel	6,823,213	6,433,519

### 14. CONTINGENT LIABILITIES

	30 June 2008	31 December 2007
	(Unaudited)	(Audited)
	HK\$	HK\$
Guarantees of banking facilities granted to subsidiaries	190,850,000	190,850,000

### 15. APPROVAL OF THE FINANCIAL STATEMENTS

These condensed consolidated interim financial statements were approved and authorised for issue by the Board on 24 September 2008.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Results

For the period ended 30 June 2008, the Group's turnover amounted to HK\$184.6 million, representing a 7.5% increase from the previous period. However, overall gross profit decreased from approximately HK\$37.0 million in the previous period to approximately HK\$31.7 million this period. Loss attributable to shareholders was approximately HK\$9.6 million (2007: profit of HK\$1.1 million).

Basic loss per share for the period ended 30 June 2008 amounted to HK3.62 cents (2007: earnings per share HK0.42 cents).

### Business Review and Future Plan

This financial period has been another challenging one for many Hong Kong manufactures like us. Those unfavorable factors including appreciation of Renminbi, rising of raw material costs and labor wages, the economic recession in the United States of America and other countries are still affecting our operations and operating costs adversely. As a result, though we achieved an increase in overall sales turnover from last period, our gross profit margin decreased by approximately 4.4%.

The sales turnover of the consumer electronic products segment decreased from approximately HK\$82.0 million of last period to approximately HK\$67.1 million this period, representing a decrease of 18.1%. The drop in sales turnover of this segment is mainly attributable to the economic slowdown of certain markets for this segment products and delay in the launching of some newly developed products. With the decrease in sales turnover, the operating results of the consumer electronic product segment decreased by approximately HK\$10.5 million from the previous period.

In the second quarter of this financial period, we relocated the manufacturing facility of the consumer electronic products segment to a new factory premises. We anticipate that the new production plant would enable the consumer electronic products segment to improve its production efficiency, its production capability as well as to provide a wider-range of products and services to its customers.

In the previous financial year, we have streamlined the operation and reorganized the group structure of the precision parts and components segment, and invested in the set up of a new manufacturing facility for this segment in order to enhance and strength the Group's competitive edge in providing "One Stop Shopping" solution to our customers. The new manufacturing facility in Zhongshan, the PRC has commenced operations since the beginning of this financial period. We are pleased to report that these action plans have brought us positive results. The sales turnover of this segment increased from approximately HK\$89.8 million of last period to approximately HK\$117.5 million this period, representing an increase of 30.8%. The improvement in the sales turnover of this segment is mainly attributed to the increase sales to overseas market. The operating results of this segment have also increased by approximately HK\$1.2 million from the previous period.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review and Future Plan (Continued)

Similar to the previous years, we have been facing with escalating production and operating costs. As a result, starting from June this financial year, we have been negotiating with our customers for increasing our product selling price so as to cover the respective increased production costs. We would like to report that most of our customers have accepted our price increase requests. On the other hand, we will continue our strategy of developing new products with higher gross profit margin, implementing cost control measures and improving the production efficiency so as to maintain our gross profit margin and to improve the Group's profitability.

During the period, we have successfully completed the upgrading of our manufacturing facility for each of the consumer electronic products segment and the precision parts and components segment. We believe that the existing manufacturing facilities will provide a strong support to our business growth plan and hence anticipate that there will be no major capital expenditures in the next financial year.

### Liquidity and Financial Resources

The Group generally finances its operations with internally generated cash flow 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\$104.7 million as at 30 June 2008, of which HK\$94.0 million is repayable within one year. The Group's borrowings are 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 2008 is 61.3% (31 December 2007: 56.6%).



## **MANAGEMENT DISCUSSION AND ANALYSIS**

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

There is no charge over the Group's assets as at 30 June 2008.

### **Contingent Liabilities**

Except for corporate guarantees 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 2008, the Company had approximately 265.5 million shares in issue with total shareholders' fund of the Group amounting to approximately HK\$142.0 million.

Pursuant to the Scheme, the Board granted share options to certain supplier of services, 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 2.6 million additional shares and proceeds of approximately HK\$0.7 million.

### **Fund Raising**

Other than obtaining additional general banking facilities to finance the Group's trading requirements, we did not have any special fund raising exercise during the period ended 30 June 2008.

### **Employees**

As at 30 June 2008, the Group had a total workforce of approximately 3,100 of which approximately 80 were based in Hong Kong, approximately 15 were based overseas and approximately 3,005 were based in the PRC.

The Group remunerates its employees largely based on the prevailing industry practice and labor 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 2008, the interests of the directors in the share capital 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	6,936,000	97,242,000*	104,178,000	39.24
Chan Yau Wah	7,700,000	–	7,700,000	2.90
Chung Yik Cheung, Raymond	2,652,000	–	2,652,000	1.00
	17,288,000	97,242,000	114,530,000	43.14

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

Save as disclosed above, as at 30 June 2008, none of the directors had registered an interest or short position in the shares or 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 and short positions 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 under the Scheme of the Company during the period:

Name or category of participant	Number of share options					At 30 June 2008	Date of grant of share options*	Exercise period of share options	Exercise price of share options**	Price of the Company's shares at grant date of options***
	At 1 January 2008	Granted during the period	Exercised during the period	Expired during the period	Forfeited during the period					
									HK\$	HK\$
Employees other than the directors	1,900,000	-	-	-	-	1,900,000	26.1.2005	1.1.2006 to 31.12.2012	0.260	0.260
Supplier of goods and services	700,000	-	-	-	-	700,000	9.10.2006	1.4.2008 to 31.12.2012	0.242	0.242
In aggregate	2,600,000	-	-	-	-	2,600,000				

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

- \* The vesting period of the share options is from the date of 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 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' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2008, 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			Total	Percentage of the Company's issued share capital
	Directly beneficially owned	Through spouse or minor children	Beneficiary of a trust		
Chan Yuk Lin (Note a)	–	6,936,000	97,242,000	104,178,000	39.24
Celaya Limited (Note b)	–	–	97,242,000	97,242,000	36.63
Trident Corporate Services (B.V.I.) 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 in its capacity as trustee of The Lai Family Trust, a discretionary trust of which the spouse and issue of Lai Pei Wor are discretionary objects. On 30 July 2008, Celaya Limited has changed its name to Celaya (PTC) Limited for compliance with the Financial Services (Exemptions) Regulations 2007 of the British Virgin Islands.
- (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 2008, 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 on Corporate Governance Practices (the "Code"), as set out in Appendix 14 of 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 of the Listing Rules. Based on specific enquiry of 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 2008.

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

Hong Kong, 24 September 2008