

# Rainbow Brothers Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 33

# 十友 控股有限公司\*

\* For identification purpose only

## Interim Report 2008



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## CORPORATE INFORMATION

### Board of Directors

#### *Executive Directors*

Hui Kwan Wah, Hugo (*Chairman*)

Ng Chi Man (*Vice Chairman and  
Chief Executive Officer*)

Wong Sai Ming

#### *Non-executive Director*

Chan Cheuk Ming

#### *Independent Non-executive Directors*

Cheung Wah Keung

Anthony Espina

Wong Che Keung

### Executive Committee

Hui Kwan Wah, Hugo (*Chairman*)

Ng Chi Man

Wong Sai Ming

### Audit Committee

Anthony Espina (*Chairman*)

Cheung Wah Keung

Wong Che Keung

Chan Cheuk Ming

### Remuneration Committee

Cheung Wah Keung (*Chairman*)

Anthony Espina

Wong Che Keung

Chan Cheuk Ming

### Authorised Representatives

Hui Kwan Wah, Hugo

Ng Chi Man

### Company Secretary and Qualified Accountant

Wu Kwok Choi, Chris

### Registered Office

P.O. Box 309GT

Ugland House

South Church Street

George Town

Grand Cayman

Cayman Islands

### Principal Place of Business in Hong Kong

29/F Paul Y Centre

51 Hung To Road

Kwun Tong

Hong Kong

### Principal Share Registrar and Transfer Office

Butterfield Fund Services (Cayman) Limited

Butterfield House

68 Fort Street

P.O. Box 705

Grand Cayman, KY1-1107

Cayman Islands

### Hong Kong Branch Share Registrar and Transfer Office

Tricor Investor Services Limited

26th Floor, Tesbury Centre

28 Queen's Road East

Wanchai, Hong Kong

### Principal Bankers

Hang Seng Bank Limited

The Hongkong and Shanghai Banking Corporation  
Limited

### Legal Adviser

Tsang, Chan & Woo

12th Floor Grand Building

15-18 Connaught Road Central

Hong Kong

### Auditor

Cheng & Cheng Limited

Certified Public Accountants

10/F., Allied Kajima Building

138 Gloucester Road, Wanchai

Hong Kong

### Stock Code

33 (Listed on the Main Board of The Stock Exchange of  
Hong Kong Limited)

### Website

[www.irasia.com/listco/hk/rainbowbrothers](http://www.irasia.com/listco/hk/rainbowbrothers)

# MANAGEMENT DISCUSSION AND ANALYSIS

(All figures are approximates)

## (A) BUSINESS REVIEW

The collapse of the Lehman Brothers group in mid September 2008 triggered off a global financial tsunami and confidence crisis at the banking sector as well as the investment public in general. Corporations abroad and in Hong Kong failed for various financial and management reasons. Many stories of mis-management, speculation, negligence, and fraud were revealed in the midst of financial and liquidity problems caused by a global credit crunch.

Under such circumstances, confidence in the ability, integrity and conscientiousness of management is of utmost importance. We are pleased to report that the Group has no association with any structured investment products. We have no foreign exchange contracts. We do not speculate in financial instruments. We have no investment in listed shares, bonds or debentures.

As the global financial tsunami heightened, management made further critical reviews of all possible exposures, including possible bank credit cuts, customer credit deterioration, inventory and other asset values, currency exposure and interest rate exposure. Certain operational adjustments were made both with customers and internally. As a result, most letters of credits from customers received were from the Bank of America; major customer open accounts were insured; and net bank borrowings were eliminated to assure all stakeholders of our financial soundness.

At the time of Lehman collapse, our bank borrowings, net of cash and bank balances, stood at around HK\$30.0 million at September 15, 2008. The balance was about the same at September 30, 2008, before being reduced to HK\$25.0 million at October 15, 2008 and further to HK\$15.0 million at October 31, 2008. As at November 15, 2008, we have HK\$15.4 million at bank whereas bank borrowings were only HK\$7.5 million.

This does not mean that we do not take risks. Management does not believe that operating a debt free company would best serve the interest of shareholders. However, in view of the many unpleasant stories in recent months in corporate Hong Kong, it is important for us to demonstrate, at critical moments, our ability to swiftly restore to a net cash position before we move forward to any plans for building our future.

## (B) FINANCIAL REVIEW

During the six months ended September 30, 2008 (the “Current Half Year”), the Group’s turnover was HK\$242.8 million, representing an encouraging growth of 14.6% from the HK\$211.9 million for the six months ended September 30, 2007 (the “Previous Half Year”). The sales to North American market recorded a 12.8% increase from HK\$157.2 million in the Previous Half Year to HK\$177.4 million in the Current Half Year. The sales to Asian market recorded a 30.8%

increase from HK\$35.7 million to HK\$46.7 million. The sales to European market recorded a 56.6% increase from HK\$9.9 million to HK\$15.5 million. The sales to South American and others market dropped by 63.7% from HK\$9.1 million in the Previous Half Year to HK\$3.3 million in the Current Half Year. Such drop was the result of our tightened credit policy. We expect the sales figure will gradually recover as customers get accustomed to it.

The Group's gross profit margin, and hence net profit margin, were negatively affected by the severe rise in raw material prices of paper and plastics, as worldwide petroleum prices surged almost 50% during the period from April 1, 2008 to July 31, 2008. Gross profit during the Current Half Year was HK\$32.4 million, representing a decrease of 13.4% from HK\$37.4 million for the Previous Half Year. Net profit during the Current Half Year was HK\$10.7 million, representing a decrease of 48.6% from HK\$20.8 million for the Previous Half Year. Gross profit margin and net profit margin were 13.3% and 4.4% during the Current Half Year representing a drop of 4.3% and 5.4%, respectively, from 17.6% and 9.8% for the Previous Half Year.

Operating expenses during the Current Half Year was HK\$20.4 million, representing an increase of 53.4% from HK\$13.3 million for the Previous Half Year. This increase was mainly attributable to increases in the staff costs and rental expenses during a booming period in Hong Kong, and additional corporate expenses after the listing of the Company.

#### **(C) LIQUIDITY AND FINANCIAL RESOURCES**

As at September 30, 2008, net current assets were HK\$71.8 million (March 31, 2008: HK\$74.7 million). The Group's current ratio was 1.9 (March 31, 2008: 2.8), base on current assets of HK\$153.2 million and current liabilities of HK\$81.4 million. The gearing ratio, which is total bank borrowings divided by total assets, was 20.1% as at September 30, 2008 (March 31, 2008: 14.6%). In general, the Group's current ratio and gearing ratio were better in March, as the months of July, August and September are our peak shipment seasons.

As at September 30, 2008, the Group had cash and bank balances of HK\$8.3 million (March 31, 2008: HK\$36.9 million) and total bank borrowings of HK\$38.4 million (March 31, 2008: HK\$22.5 million). Both cash and bank balances and bank borrowings were mainly denominated in HK dollar and US dollar. The bank borrowings bore both fixed interest rates and floating interest rates, with interest rates ranging from 2.4% to 3.8%. Such bank borrowings were secured by corporate guarantees from different group companies. As discussed above, the Group repaid most bank borrowings and restored to a net cash position by November 15, 2008.

As at September 30, 2008, the Group had operating lease for office premises with commitments of HK\$10.4 million up to December 2011. Apart from this, the Group had no material capital commitment, material contracts or significant contingent liabilities.

The Group's trade receivables was HK\$112.8 million as at September 30, 2008, representing 122.5% increase from HK\$50.7 million as at March 31, 2008. Almost 80% of the balance as at September 30, 2008 has been settled by November 15, 2008.

**(D) HUMAN RESOURCES**

As at September 30, 2008, the Group employed 77 employees (March 31, 2008: 66). Staff costs including directors' emoluments for the Current Half Year was HK\$11.7 million (2007: HK\$7.6 million). Such costs included basic salaries and benefits. It is the Group's policy to recruit the right person for each position based on the person's qualification and experience. The remuneration of the employees is reviewed each year based on the performance of the individual employee with reference to the prevailing market conditions.

**(E) INTERIM DIVIDEND**

The Board declared an interim dividend of HK2.5 cents per share, HK\$5.0 million in aggregate, for the six months ended September 30, 2008 (2007: Nil).

**(F) CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from December 8, 2008 to December 10, 2008, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with Tricor Investor Services Limited, the Company's branch share registrar in Hong Kong, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30pm on December 5, 2008. The dividend warrants are expected to be sent on or about December 22, 2008.

**(G) USE OF PROCEEDS**

The net proceeds raised from the initial public offering received by the Company were HK\$58.0 million. The usages of net proceeds until September 30, 2008 were as follows:–

Particulars	<b>Planned Amount</b>	<b>Utilised Amount</b>
	<i>HK\$ million</i>	<i>HK\$ million</i>
Repayment of bank borrowings	25.0	28.0
Development of licensing business	10.0	–
Purchase of machineries and equipment	7.0	4.5
Future expansion	10.0	10.0
General working capital	6.0	15.5
	<hr/>	<hr/>
TOTAL	<b>58.0</b>	<b>58.0</b>

For future expansion, the Group has spent slightly over HK\$10.0 million in expanding its product range, by procuring new products from new vendors, to new ranges of glass, wood and metal decoration products. Besides, the Group has not yet concluded any licensing business as negotiation with the originally identified counter party was not successful. Further efforts are being made to identifying such opportunities through other channels. Net proceeds not applied to specific items are temporarily used as general working capital.

## **(H) OUTLOOK**

The dollar market business has performed well in the Current Half Year, so have the Group's major customers and the Group's turnover. In view of the widely expected recession, and our tightened credit policy, it is hard to predict the extent to which our sales in 2009, especially in the U.S. market, will be affected. Nonetheless, we believe that low end products of basic needs like ours in the dollar market business will be less affected.

Our net profits for the 18 months up to September 30, 2008 has initially been weakened by the surge in RMB and later by the sharp jump in raw material prices. The rate of increase in raw material prices, in particular, had been far higher than what we expected. We have succeeded in partly, but not fully, offsetting such impact with product development efforts and new sourcing networks which allowed our increases in selling prices. RMB prices have stabilized in the past few months; raw material prices have begun to drop recently too. The continuance of such trend is critical to the outlook of our results.

In the long run, we still believe in an upward trend for RMB. Therefore, we have set up a new office in Shenzhen with a view to developing new business opportunities in China, thus opening up sources of RMB income to the Group.

The anticipated period of worldwide recession ahead would hit all walks of life - U.S., Europe and Asia alike. However, management believes that every cloud has a silver lining. The forthcoming period of difficult time should be the time for laying seeds for the next boom, especially in China, where the foundation of the economy is least hit by this crisis. As such, the Group will review and reconfigure its expansion plans. With a relatively debt free situation, the Group is well-positioned to take advantage of, and should more actively review, upcoming opportunities if they could help building a brighter foundation for our future.

## DISCLOSURE OF INTEREST

### (A) DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND THE ASSOCIATED CORPORATIONS

As at September 30, 2008, the interests, long positions or short positions of the directors and chief executives of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were recorded in the register required to be kept under Section 352 of the SFO, or which were notified to the Company and the Stock Exchange pursuant to the Model Code (hereafter defined) were as follows:

Interests in the Company:

Name of Director	Capacity/Nature of Interests	Ordinary shares held	Percentage to the issued share capital of the Company
Mr. Hui Kwan Wah, Hugo	Interest of a controlled corporation ( <i>note 1</i> )	150,000,000 (L)	75%
Mr. Ng Chi Man	Interest of a controlled corporation ( <i>note 1</i> )	150,000,000 (L)	75%

*Notes:*

(1) 150,000,000 shares were held by Direct Value Limited, a company owned as to 70% by Mr. Hui Kwan Wah, Hugo and as to 30% by Mr. Ng Chi Man.

(L) Represents long position.

Save as disclosed above, as at September 30, 2008, as far as the Company's directors are aware, none of the Company's directors and chief executives had any other interests, long positions or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.



## (B) SUBSTANTIAL SHAREHOLDERS' INTERESTS

Shares of the Company commenced trading on the main board of the Stock Exchange on November 19, 2007. As far as the Company's directors are aware, as at September 30, 2008, save for the directors' and chief executive's interests as disclosed above, the following persons have an interest or short position in the shares or the underlying shares of the Company which are required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, which were recorded in the register required to be kept under Section 336 of the SFO:

Name	Capacity/Nature of Interests	Ordinary shares held	Percentage to the issued share capital of the Company
Direct Value Limited ( <i>note 1</i> )	Beneficial Owner	150,000,000 (L)	75%
Ms. Cheng Yin Lee, Francie ( <i>note 2</i> )	Interest of spouse	150,000,000 (L)	75%
Ms. Lee Lai Lai ( <i>note 3</i> )	Interest of spouse	150,000,000 (L)	75%

*Notes:*

- 1 150,000,000 ordinary shares were held by Direct Value Limited, a company owned as to 70% by Mr. Hui Kwan Wah, Hugo and as to 30% by Mr. Ng Chi Man. Mr. Hui Kwan Wah, Hugo and Mr. Ng Chi Man are deemed to be interested in 150,000,000 ordinary shares held by Direct Value Limited by virtue of SFO. These shares have been included in the interest disclosure of Mr. Hui Kwan Wah, Hugo and Mr. Ng Chi Man as set out in the section headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company and the Associated Corporations" above.
- 2 Ms. Cheng Yin Lee, Francie is the spouse of Mr. Hui Kwan Wah, Hugo. By virtue of the SFO, Ms. Cheng Yin Lee, Francie is also deemed, as spouse, to be interested in all the shares in which Mr. Hui Kwan Wah, Hugo is deemed to be interested.
- 3 Ms. Lee Lai Lai is the spouse of Mr. Ng Chi Man. By virtue of the SFO, Ms. Lee Lai Lai is also deemed, as spouse, to be interested in all the shares in which Mr. Ng Chi Man is deemed to be interested.

(L) Represents long position.

## **CORPORATE GOVERNANCE AND OTHER INFORMATION**

### **(A) SHARE OPTION SCHEME**

The Company adopted a share option scheme on October 30, 2007, but the Company has not granted any share options.

### **(B) PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY**

Neither the Company nor any of its subsidiaries has purchased, redeemed or cancelled any of the Company's listed securities during the six months ended September 30, 2008.

### **(C) COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES**

For the six months ended September 30, 2008, the Company has complied with the code provisions set out in the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules.

### **(D) MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuer (the "Model Code") set out in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions by the directors. Having made specific enquiries to all directors, all directors have confirmed that they have complied with the required standard set out in the Model Code during the six months ended September 30, 2008.

### **(E) EXECUTIVE COMMITTEE**

The Executive Committee was established on July 15, 2008 and it assists the Board in formulating policies and supervises the management to carry out and implement the policies laid down by the Board. The Executive Committee comprises the Chairman of the Board, namely Mr. Hui Kwan Wah, Hugo (Chairman), and the Chief Executive Officer of the Company, namely Mr. Ng Chi Man and an Executive Director of the Company, namely Mr. Wong Sai Ming.

### **(F) AUDIT COMMITTEE**

The Audit Committee was established on October 30, 2007 and it assists the Board in discharging its responsibilities for corporate governance, financial reporting and corporate control. The Audit Committee comprises three Independent Non-executive Directors, namely Mr. Anthony Espina (Chairman), Mr. Cheung Wah Keung, Mr. Wong Che Keung and a Non-executive Director, namely Mr. Chan Cheuk Ming.

The Audit Committee has reviewed the condensed consolidated financial statements of the Group for the six months ended September 30, 2008. The audit committee has discussed auditing, internal control, the accounting principles and practices adopted by the Group.

**(G) REMUNERATION COMMITTEE**

The Remuneration Committee was established on October 30, 2007 and it assists the Board in approving the remuneration policy for all Directors and senior executives from time to time. The Remuneration Committee comprises three Independent Non-executive Directors, namely Mr. Cheung Wah Keung (Chairman), Mr. Anthony Espina and Mr. Wong Che Keung and a Non-executive Director, namely Mr. Chan Cheuk Ming.

On behalf of the Board  
**Hui Kwan Wah, Hugo**  
*Chairman*

Hong Kong, November 19, 2008

## CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The board of directors (the “Board”) of Rainbow Brothers Holdings Limited (the “Company”) is pleased to present the condensed consolidated interim financial statements of the Company and its subsidiaries (collectively the “Group”) for the six months ended September 30, 2008, together with the comparative figures. These condensed consolidated interim financial statements have been reviewed by the Company’s audit committee, but have not been reviewed by the Company’s auditor.

### CONDENSED CONSOLIDATED INCOME STATEMENT

	<i>Notes</i>	<b>Six months ended September 30,</b>	
		<b>2008</b>	2007
		<b><i>HK\$’000</i></b>	<i>HK\$’000</i>
		<b>(Unaudited)</b>	(Unaudited)
Turnover	4	<b>242,779</b>	211,889
Cost of sales		<u><b>(210,395)</b></u>	<u>(174,507)</u>
Gross profit		<b>32,384</b>	37,382
Other revenue		<b>894</b>	1,229
Operating expenses		<u><b>(20,378)</b></u>	<u>(13,289)</u>
Profit from operations		<b>12,900</b>	25,322
Finance costs	5	<u><b>(438)</b></u>	<u>(1,289)</u>
Profit before taxation	6	<b>12,462</b>	24,033
Taxation	7	<u><b>(1,756)</b></u>	<u>(3,199)</u>
Profit attributable to equity holders of the Company		<u><b>10,706</b></u>	<u>20,834</u>
Dividend	8	<u><b>5,000</b></u>	<u>–</u>
Earnings per share – Basic	9	<u><b>HK5.4 cents</b></u>	<u>HK13.9 cents</u>

## CONDENSED CONSOLIDATED BALANCE SHEET

		As at September 30, 2008	As at March 31, 2008
	<i>Notes</i>	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (Audited)
<b>Non-current assets</b>			
Property, plant and equipment	10	11,265	10,740
Goodwill		<u>26,375</u>	<u>26,375</u>
		<u>37,640</u>	<u>37,115</u>
<b>Current assets</b>			
Inventories		14,913	14,007
Trade receivables	11	112,833	50,737
Prepayments, deposits and other receivables		17,125	14,832
Tax recoverable		24	408
Cash and bank balances		<u>8,349</u>	<u>36,869</u>
		<u>153,244</u>	<u>116,853</u>
<b>Total Assets</b>		<b><u>190,884</u></b>	<b><u>153,968</u></b>
<b>Capital and reserves</b>			
Share capital	14	20,000	20,000
Reserves		<u>88,990</u>	<u>91,284</u>
		<u>108,990</u>	<u>111,284</u>
<b>Non-current liabilities</b>			
Deferred taxation		<u>450</u>	<u>537</u>
<b>Current liabilities</b>			
Trade and bills payable	12	24,555	12,167
Accruals and other payables		8,713	7,468
Bank borrowings – secured	13	38,424	22,512
Dividend payable		<u>9,752</u>	<u>–</u>
		<u>81,444</u>	<u>42,147</u>
<b>Total Equity and Liabilities</b>		<b><u>190,884</u></b>	<b><u>153,968</u></b>
Net current assets		<u>71,800</u>	<u>74,706</u>
Total assets less current liabilities		<u>109,440</u>	<u>111,821</u>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		<u>Share capital</u>	<u>Share premium</u>	<u>Capital reserve</u>	<u>Retained profits</u>	<u>Total</u>
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At April 1, 2007 (Audited)		–	–	–	56,976	56,976
Profit for the period		<u>–</u>	<u>–</u>	<u>–</u>	<u>20,834</u>	<u>20,834</u>
Dividend	8	<u>–</u>	<u>–</u>	<u>–</u>	<u>77,810</u> <u>(30,000)</u>	<u>77,810</u> <u>(30,000)</u>
At September 30, 2007 (Unaudited)		<u>–</u>	<u>–</u>	<u>–</u>	<u>47,810</u>	<u>47,810</u>
At April 1, 2008 (Audited)		20,000	53,768	(15,000)	52,516	111,284
Profit for the period		<u>–</u>	<u>–</u>	<u>–</u>	<u>10,706</u>	<u>10,706</u>
Dividend	8	<u>20,000</u> <u>–</u>	<u>53,768</u> <u>–</u>	<u>(15,000)</u> <u>–</u>	<u>63,222</u> <u>(13,000)</u>	<u>121,990</u> <u>(13,000)</u>
At September 30, 2008 (Unaudited)		<u>20,000</u>	<u>53,768</u>	<u>(15,000)</u>	<u>50,222</u>	<u>108,990</u>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended September 30,	
	<u>2008</u>	<u>2007</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Net cash (outflow)/inflow from operating activities	(37,674)	22,519
Net cash (outflow) from investing activities	(3,072)	(459)
Net cash inflow/(outflow) from financing activities	<u>12,226</u>	<u>(18,925)</u>
Net (decrease)/increase in cash and cash equivalents	(28,520)	3,135
Cash and cash equivalents at beginning of period	<u>36,869</u>	<u>5,898</u>
Cash and cash equivalents at end of period	<u><b>8,349</b></u>	<u><b>9,033</b></u>

### ANALYSIS OF CASH AND CASH EQUIVALENTS

Cash and bank balances	8,349	11,585
Bank overdrafts	<u>—</u>	<u>(2,552)</u>
	<u><b>8,349</b></u>	<u><b>9,033</b></u>

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## 1. GENERAL

The Company was incorporated in the Cayman Islands under the Companies Law (2004 Revision) of the Cayman Islands as an exempted company with limited liability on March 20, 2007.

Its shares were listed on the main board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on November 19, 2007. The address of the registered office and principal place of business of the Company is disclosed in the “Corporate Information” section of the interim report.

The Group’s financial statements are presented in Hong Kong dollar (“HK\$”), which is the functional currency used.

Under a group reorganisation scheme in preparation for the listing of the Company’s shares on the Stock Exchange (the “Group Reorganisation”), the Company has become the holding company of its subsidiaries on October 30, 2007. Details of the Group Reorganisation are set out in the section headed “Corporate reorganisation” in Appendix V to the prospectus dated November 6, 2007 issued by the Company.

The Group is principally engaged in creating and providing party and festivity products to dollar store business operators. Most of the products shipped by the Group are retailed at or below US\$1, or its equivalents.

## 2. BASIS OF PREPARATION

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

## 3. SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated interim financial statements have been prepared on the historical cost convention as modified for the revaluation of certain financial assets and liabilities at fair value. The accounting policies used in these condensed consolidated interim financial statements are consistent with those followed in the Group’s annual audited financial statements for the year ended March 31, 2008.

In the current interim period, the Group has applied, for the first time, the following new interpretation (“new Interpretation”) issued by the HKICPA, which is effective from July 1, 2008.

HK (IFRIC) – INT 13                      Customer Loyalty Programmes

The adoption of this new Interpretation had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognized.



### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Group has not early applied the following new or revised standards, amendments or interpretations that have been issued but are not yet effective. The directors of the Company are in the process of assessing the potential impact of these new or revised standards, amendments or interpretations and so far anticipate that the application of these new or revised standards, amendments or interpretations will have no material financial impact on the results and the financial position of the Group.

HKAS 1 (Revised)	Presentation of Financial Statements <sup>1</sup>
HKAS 23 (Revised)	Borrowing Costs <sup>1</sup>
HKAS 27 (Revised)	Consolidated and Separate Financial Statements <sup>2</sup>
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation <sup>1</sup>
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations <sup>1</sup>
HKFRS 3 (Revised)	Business Combinations <sup>2</sup>
HKFRS 8	Operating Segments <sup>1</sup>
HK (IFRIC) – INT 15	Agreements for the Construction of Real Estate <sup>1</sup>
HK (IFRIC) – INT 16	Hedges of a Net Investment in a Foreign Operation <sup>3</sup>

<sup>1</sup> Effective for annual periods beginning on or after January 1, 2009

<sup>2</sup> Effective for annual periods beginning on or after July 1, 2009

<sup>3</sup> Effective for annual periods beginning on or after October 1, 2008

### 4. TURNOVER

Turnover represents the net amounts received and receivable for sales of goods, less sales returns and discounts for the interim period.

### 5. FINANCE COSTS

	<b>Six months ended September 30,</b>	
	<b>2008</b>	<b>2007</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Interest expense on bank loans, bank overdrafts and other loans repayable within five years	<b>438</b>	1,289

## 6. PROFIT BEFORE TAXATION

	Six months ended September 30, 2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Profit before taxation has been arrived at after charging/(crediting):		
Depreciation	2,555	2,249
Staff costs, including directors' emoluments	11,735	7,624
Write-down of inventories	105	-
Impairment loss on trade receivables	482	-
Interest income	(8)	(291)
	<u>2,555</u>	<u>2,249</u>

## 7. TAXATION

	Six months ended September 30, 2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Hong Kong profits tax		
– Provision for the period	1,843	3,283
– Deferred tax	(87)	(84)
	<u>1,756</u>	<u>3,199</u>

Hong Kong profits tax has been provided at 16.5% (2007: 17.5%) on the estimated assessable profits for the interim period.

## 8. DIVIDEND

The Board declared an interim dividend of HK2.5 cents per share, HK\$5.0 million in aggregate, to shareholders of the Company whose names appear on the register of members on December 8, 2008. It has not been recognized as a liability at the balance sheet date.

During the six months ended September 30, 2008, a dividend of HK6.5 cents per share, HK\$13.0 million in aggregate, was declared to shareholders as the final dividend for the financial year end March 31, 2008. During the six months ended September 30, 2007, HK\$30.0 million was declared to the then shareholders before the listing of the Company.

## 9. EARNINGS PER SHARE

The calculation of basic earnings per share for the interim period is based on the consolidated profit attributable to equity holders of the Company of approximately HK\$10.7 million (2007: HK\$20.8 million) and the weighted average number of shares in issue during the period, which was 200,000,000 shares (2007: 150,000,000 shares). In determining the number of shares in issue, a total of 150,000,000 shares issued in connection with the Group Reorganisation were deemed to have been issued since April 1, 2006. Diluted earnings per share have not been computed because there were no dilutive potential ordinary shares outstanding during the current and previous interim periods.

## 10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended September 30, 2008, the Group incurred approximately HK\$3.1 million (2007: HK\$0.8 million) on acquisition of property, plant and equipment.

## 11. TRADE RECEIVABLES

The Group normally grants credit terms of up to 90 days to its customers, and may from time to time extend such credit periods for extra 30 to 60 days to certain customers. Approximately HK\$88.8 million or 78.7% of the trade receivables as at September 30, 2008 have been settled by November 15, 2008 and HK\$7.5 million or 78.5% of the balance aged over 90 days have been settled.

	<b>As at September 30, 2008</b>	As at March 31, 2008
	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (Audited)
0 to 30 days	39,323	29,288
31 to 60 days	36,160	8,157
61 to 90 days	28,272	8,386
Over 90 days	9,560	4,906
Less: Provision for impairment	(482)	-
	<u>112,833</u>	<u>50,737</u>

The carrying amounts of trade receivables approximate their fair values.

## 12. TRADE AND BILLS PAYABLE

	<b>As at September 30, 2008</b>	As at March 31, 2008
	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (Audited)
0 to 30 days	18,452	9,563
31 to 60 days	3,266	2,266
61 to 90 days	1,517	324
Over 90 days	1,320	14
	<u>24,555</u>	<u>12,167</u>

The carrying amounts of trade and bills payable approximate their fair values.

### 13. BANK BORROWINGS – SECURED

	As at September 30, 2008	As at March 31, 2008
	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (Audited)
Import trade loans	7,653	-
Short-term loans	30,771	22,512
	<u>38,424</u>	<u>22,512</u>

The carrying amounts of bank borrowings approximate their fair values.

The Group's bank borrowings were secured by corporate guarantees from Group companies.

### 14. SHARE CAPITAL

	Number of shares	Amount
Ordinary shares of HK\$0.1 each:		
<b>Authorised:</b>		
As at March 31, 2008 and September 30, 2008	<u>1,000,000,000</u>	<u>HK\$100,000,000</u>
<b>Issued and fully paid:</b>		
As at March 31, 2008 and September 30, 2008	<u>200,000,000</u>	<u>HK\$20,000,000</u>

### 15. SEGMENT INFORMATION

The Group is principally engaged in creating and providing party and festivity products to dollar store business operators in North America, Asia, Europe and South America and others markets. The directors consider there is only one business segment but four geographical segments.

In presenting the following table of turnover by geographical segments, segment revenue is determined based on the geographical location of customers, irrespective of the origin of the goods.

	Six months ended September 30, 2008	2007
	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (Unaudited)
North America	177,362	157,157
Asia	46,667	35,727
Europe	15,494	9,911
South America and others	3,256	9,094
Total turnover	<u>242,779</u>	<u>211,889</u>

## 16. RELATED PARTY TRANSACTIONS

During the interim period, the only significant transactions with related parties are emoluments in the following table.

Emoluments of directors and senior management of the Group:

	<b>Six months ended September 30,</b>	
	<b>2008</b>	<b>2007</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Salaries, allowances and other benefits	<b>5,072</b>	2,768
Contributions to retirement scheme	<b>78</b>	70
	<b>5,150</b>	2,838

During the six month period ended September 30, 2007, there was interest income of HK\$221,000 from a loan to a director, Mr. Ng. The loan was terminated on October 29, 2007. In addition, the Group paid rental expenses of HK\$33,000 to a director, and HK\$114,000 to close family members of another director. As at September 30, 2007, loan to a director was HK\$0.7 million (2008: Nil).

In the opinion of the directors, the above related party transactions were carried out on normal commercial terms and in the ordinary course of the Group's business. All these related party transactions were exempted from reporting, announcement and independent shareholders' approval requirement under the Listing Rules.

## 17. POST BALANCE SHEET EVENT

At a Board meeting held on November 19, 2008, the Board declared an interim dividend of HK2.5 cents per share, HK\$5.0 million in aggregate, to shareholders of the Company whose names appear on the register of members on December 8, 2008.

## 18. APPROVAL OF INTERIM FINANCIAL STATEMENTS

The condensed consolidated interim financial statements were approved by the Board on November 19, 2008.