



Herald Holdings Limited

stock code : 114

Interim Report 2008/09

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Cheung Tsang Kay Stan PhD,
Hon LLD, Hon DBA, JP *Chairman*
Robert Dorfman *Vice Chairman*
Thong Yeung Sum Michael FCCA, CPA
Managing Director
George Bloch
Chang Dong Song

INDEPENDENT NON-EXECUTIVE DIRECTORS

Tang King Hung ACA, FCCA, ACIS, CPA
David Tai Chong Lie-A-Cheong JP
Yeh Man Chun Kent

SECRETARY

Shum Kam Hung ACIS, 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

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

Tricor 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 2008, together with the comparative figures for the corresponding period in 2007, as follows:

Consolidated Income Statement – Unaudited

For the six months ended 30 September 2008

		Six months ended 30 September	
		2008	2007
		HK\$'000	HK\$'000
	Note		
Turnover	2	979,034	824,143
Cost of sales		(767,889)	(637,802)
Gross profit		211,145	186,341
Other revenue		11,522	13,603
Other net (loss)/income		(11,157)	2,263
Selling expenses		(26,898)	(28,591)
Administrative expenses		(124,647)	(105,539)
Valuation losses on investment properties		(1,700)	–
Profit from operations	2	58,265	68,077
Finance costs		(24)	(645)
Share of profit of jointly controlled entity		134	283
Profit before taxation	3	58,375	67,715
Income tax	4	(13,009)	(9,985)
Profit for the period		45,366	57,730
Attributable to:			
Equity shareholders of the Company		47,735	57,994
Minority interests		(2,369)	(264)
Profit for the period		45,366	57,730
Interim dividends		18,153	18,228
Interim dividends per share		3 cents	3 cents
Earnings per share	5		
– Basic and diluted		7.87 cents	9.54 cents

Consolidated Balance Sheet – Unaudited*At 30 September 2008*

	<i>Note</i>	As at 30 September 2008 HK\$'000	As at 31 March 2008 HK\$'000
Non-current assets			
Fixed assets	6		
– Property, plant and equipment		192,969	187,984
– Investment properties		33,240	34,940
– Interests in leasehold land held for own use under operating leases		5,866	6,007
		232,075	228,931
Club membership		1,990	1,990
Interest in jointly controlled entity		2,208	2,345
Other financial assets		4,680	4,680
Deferred tax assets		5,284	4,879
		246,237	242,825
Current assets			
Trading securities		118,556	68,929
Inventories		200,285	173,443
Trade and other receivables	7	322,555	204,247
Current tax recoverable		1,444	1,444
Pledged bank balances		66,378	107,220
Cash and cash equivalents		142,044	191,774
		851,262	747,057
Current liabilities			
Trade and other payables	8	272,973	183,787
Current tax payable		21,619	10,331
		294,592	194,118
Net current assets		556,670	552,939
Total assets less current liabilities		802,907	795,764

Consolidated Balance Sheet – Unaudited (Continued)*At 30 September 2008*

	As at 30 September 2008 HK\$'000	As at 31 March 2008 HK\$'000
<i>Note</i>		
Non-current liabilities		
Deferred tax liabilities	150	386
Provision for long service payments	2,414	2,528
	2,564	2,914
NET ASSETS	800,343	792,850
CAPITAL AND RESERVES		
Share capital	47,272	47,349
Reserves	727,640	716,391
Total equity attributable to equity shareholders of the Company	774,912	763,740
Minority interests	25,431	29,110
TOTAL EQUITY	800,343	792,850

Condensed Consolidated Cash Flow Statement – Unaudited*For the six months ended 30 September 2008*

	Six months ended 30 September	
	2008	2007
	HK\$'000	HK\$'000
Net cash inflow from operating activities	11,083	21,679
Net cash outflow from investing activities	(30,312)	(22,023)
Net cash outflow from financing activities	(32,935)	(28,816)
Decrease in cash and cash equivalents	(52,164)	(29,160)
Cash and cash equivalents at 1 April	191,774	203,163
Effect of foreign exchange rates changes	2,434	(448)
Cash and cash equivalents at 30 September	142,044	173,555

Condensed Consolidated Statement of Changes in Equity – Unaudited
For the six months ended 30 September 2008

	Attributable to equity shareholders of the Company								
	Share capital	Share premium	Contributed surplus	Exchange reserve	PRC statutory reserve	Retained profits	Total	Minority interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2008	47,349	21,152	75,532	25,363	7,163	587,181	763,740	29,110	792,850
Exchange difference on consolidation	-	-	-	(5,430)	-	-	(5,430)	469	(4,961)
Transfer between reserves	-	-	-	-	424	(424)	-	-	-
Purchase of own shares:									
– par value paid	(77)	-	-	-	-	-	(77)	-	(77)
– premium paid	-	(720)	-	-	-	-	(720)	-	(720)
Dividend paid	-	-	(30,336)	-	-	-	(30,336)	(1,779)	(32,115)
Profit for the period	-	-	-	-	-	47,735	47,735	(2,369)	45,366
At 30 September 2008	47,272	20,432	45,196	19,933	7,587	634,492	774,912	25,431	800,343

Condensed Consolidated Statement of Changes in Equity – Unaudited (Continued)*For the six months ended 30 September 2008*

	Attributable to equity shareholders of the Company								
	Share capital	Share premium	Contributed surplus	Exchange reserve	PRC statutory reserve	Retained profits	Total	Minority interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2007	47,392	21,620	121,102	12,049	6,976	469,422	678,561	30,097	708,658
Exchange difference on consolidation	-	-	-	6,456	-	-	6,456	243	6,699
Transfer between reserves	-	-	-	-	238	(238)	-	-	-
Dividend paid	-	-	(27,342)	-	-	-	(27,342)	(829)	(28,171)
Profit for the period	-	-	-	-	-	57,994	57,994	(264)	57,730
At 30 September 2007	47,392	21,620	93,760	18,505	7,214	527,178	715,669	29,247	744,916

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

The 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 34, Interim financial reporting, issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). It was authorised for issuance on 12 December 2008.

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 2008.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Interpretations that are first effective or available for early adoption for the current accounting period of the Group. There have been no significant changes to the accounting policies applied in the interim financial report as a result of these developments. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

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

2. SEGMENT INFORMATION

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.
Investments	:	The investment in equity securities, structured products and managed funds.
Others	:	The leasing of properties to generate rental income and other distribution activities.

	Six months ended 30 September 2008							Consolidated HK\$'000
	Toy and gift products HK\$'000	Computer heads HK\$'000	Housewares HK\$'000	Timepieces HK\$'000	Investments HK\$'000	Others HK\$'000	Inter-segment elimination HK\$'000	
Revenue from external customers	659,499	92,400	81,108	140,552	-	5,475	-	979,034
Other revenue from external customers	2,111	-	2,889	817	4,353	888	-	11,058
Inter-segment revenue	-	-	-	-	-	1,489	(1,489)	-
Total	661,610	92,400	83,997	141,369	4,353	7,852	(1,489)	990,092
Segment result	58,371	5,348	(11,350)	17,159	(4,522)	544	-	65,550
Unallocated operating income and expenses	-	-	-	-	-	-	-	(7,285)
Profit from operations	-	-	-	-	-	-	-	58,265
Finance costs	-	-	-	-	-	-	-	(24)
Share of profit of jointly controlled entity	-	-	134	-	-	-	-	134
Income tax	-	-	-	-	-	-	-	(13,009)
Profit for the period	-	-	134	-	-	-	-	45,366

	Six months ended 30 September 2007							Consolidated HK\$'000
	Toy and gift products HK\$'000	Computer heads HK\$'000	Housewares HK\$'000	Timepieces HK\$'000	Investments HK\$'000	Others HK\$'000	Inter-segment elimination HK\$'000	
Revenue from external customers	477,266	78,528	97,011	161,196	-	10,142	-	824,143
Other revenue from external customers	1,213	-	3,496	473	3,807	881	-	9,870
Inter-segment revenue	-	-	-	-	-	1,489	(1,489)	-
Total	478,479	78,528	100,507	161,669	3,807	12,512	(1,489)	834,013
Segment result	25,289	5,472	4,082	18,017	9,195	3,631	-	65,686
Unallocated operating income and expenses	-	-	-	-	-	-	-	2,391
Profit from operations	-	-	-	-	-	-	-	68,077
Finance costs	-	-	-	-	-	-	-	(645)
Share of profit of jointly controlled entity	-	-	283	-	-	-	-	283
Income tax	-	-	-	-	-	-	-	(9,985)
Profit for the period	-	-	283	-	-	-	-	57,730

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.

	Turnover	
	Six months ended	
	30 September	
	2008	2007
	HK\$'000	HK\$'000
Europe		
United Kingdom	254,297	283,938
Other countries	106,178	76,100
North America	493,503	385,800
Asia		
Hong Kong	54,712	29,835
Mainland China	4,639	3,720
Other countries	25,337	11,347
Others	40,368	33,403
	979,034	824,143

3. PROFIT BEFORE TAXATION

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

	Six months ended 30 September	
	2008	2007
	HK\$'000	HK\$'000
Interest on borrowings	24	645
Depreciation	13,834	14,195
Amortisation of land lease premium	163	155
Net loss on disposal of fixed assets	21	–
Net realised and unrealised losses/(gains) on trading securities	8,005	(5,497)
Staff costs	206,663	159,927
Interest income		
– trading securities	(1,558)	(2,936)
– deposits with banks	(1,328)	(3,734)
Rental income	(2,109)	(1,802)
Dividend income	(1,868)	(871)
Share of jointly controlled entity's taxation	55	91

4. INCOME TAX

	Six months ended 30 September	
	2008	2007
	HK\$'000	HK\$'000
Hong Kong Profits Tax	13,417	9,215
Taxation outside Hong Kong	475	2,051
Deferred taxation	(883)	(1,281)
	13,009	9,985

Provision for Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) of the estimated assessable profits for the six months ended 30 September 2008. 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 equity shareholders of the Company of HK\$47,735,000 (2007: HK\$57,994,000) and the weighted average number of shares of 606,792,000 (2007: 607,591,000) in issue during the period.

There were no dilutive potential shares in existence during the periods ended 30 September 2008 and 2007, therefore diluted earnings per share is the 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 during the period are:

	Property, plant and equipment	Investment properties	Interests in leasehold land held for own use under- operating leases	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Net book value as at 1 April 2008	187,984	34,940	6,007	228,931
Additions	18,597	–	–	18,597
Disposals	(24)	–	–	(24)
Fair value adjustment	–	(1,700)	–	(1,700)
Depreciation/amortisation	(13,834)	–	(163)	(13,997)
Exchange adjustments	246	–	22	268
Net book value as at 30 September 2008	192,969	33,240	5,866	232,075

7. TRADE AND OTHER RECEIVABLES

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

	At 30 September 2008 HK\$'000	At 31 March 2008 HK\$'000
Current	157,462	98,193
Less than 1 month past due	87,657	40,809
1 to 3 months past due	21,237	17,502
More than 3 months but less than 12 months past due	1,930	412
Trade debtors and bills receivable	268,286	156,916
Deposits, prepayments and other receivables	46,250	41,686
Derivative financial instruments	8,019	5,645
	322,555	204,247

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:

	At 30 September 2008 HK\$'000	At 31 March 2008 HK\$'000
By date of invoice		
Within 1 month	61,593	46,349
Over 1 month but within 3 months	46,199	13,583
Over 3 months	786	1,193
Trade creditors and bills payable	108,578	61,125
Accruals and other payables	163,097	120,082
Derivative financial instruments	1,298	2,580
	272,973	183,787

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

9. SHARE CAPITAL

	Number of shares '000	Amount HK\$'000
Authorised:		
Shares of US\$0.01 each	1,000,000	78,000
Issued and fully paid:		
At 1 April 2008	607,036	47,349
Shares repurchased and cancelled	(985)	(77)
At 30 September 2008	606,051	47,272

10. COMMITMENTS

At 30 September 2008, the total future minimum lease payments of the Group under non-cancellable operating leases are payable as follows:

	At 30 September 2008		At 31 March 2008	
	Land and buildings HK\$'000	Others HK\$'000	Land and buildings HK\$'000	Others HK\$'000
Within 1 year	5,716	2,498	7,063	2,690
After 1 year but within 5 years	11,215	1,883	11,451	2,827
After 5 years	4,922	-	6,597	-
	21,853	4,381	25,111	5,517

11. MATERIAL RELATED PARTY TRANSACTIONS**(a) Key management personnel remuneration**

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

	Six months ended 30 September	
	2008 HK\$'000	2007 HK\$'000
Short-term employee benefits	13,680	12,395
Post-employment benefits	794	820
	14,474	13,215

- (b)** On 26 March 2007, Herald Group Limited ("HGL"), a direct wholly-owned subsidiary of the Company, entered into a loan agreement with Mr Richard Tibber ("Mr Tibber") pursuant to which HGL should advance an unsecured loan of GBP500,000 to Mr Tibber which bears an interest of 1.25% per annum over the base rate of Bank of England. The loan is available in three drawings and repayable on the second anniversary of the date of the loan agreement. Mr Tibber is a director of Zeon Limited, an indirect wholly-owned subsidiary of the Company.

The movement of the amount due from Mr Tibber during the period is as follows:

	Loan balance	Interest receivable	Total
	GBP	GBP	GBP
At 1 April 2008	150,000	14,419	164,419
Repayment	(50,000)	–	(50,000)
Interest income	–	4,958	4,958
At 30 September 2008	100,000	19,377	119,377

12. POST BALANCE SHEET EVENT

In November 2008, a well-known retailer in the United Kingdom went into administration. The Group's exposure to default risk of this customer at the end of November 2008 was approximately HK\$17.2 million, comprising accounts receivable of HK\$10.2 million and inventories of HK\$7 million, of which HK\$6.7 million was covered by a provision for bad debts specifically made in the accounts for the six months ended 30 September 2008.

BUSINESS REVIEW

The Group's turnover for the six months to 30 September 2008 amounted to HK\$979 million, representing an increase of HK\$155 million or 18.8% as compared with the corresponding period in the previous year. The increase in the Group's turnover came from the Toy and Gift Division and, to a lesser extent, the Computer Head Division. The profit attributable to shareholders for the same period was HK\$47.7 million, down HK\$10.3 million or 17.8% from the profit of HK\$58 million in the same period a year earlier. The decrease in the net profit was primarily due to an operating loss of HK\$11.4 million in the Houseware Division and net realised and unrealised losses of HK\$8 million on trading securities.

In the first half of the fiscal year, the turnover of the Toy and Gift Division increased by HK\$182 million or 38.2% from HK\$477 million to HK\$659 million. The increase was due to the strong sales of toys related to a popular movie and other toy products. Because of a larger volume of sales, the operating profit of the division increased by HK\$33.1 million or 130.8% from HK\$25.3 million to HK\$58.4 million. The problem of rising material and labour costs continued to put pressure on the division. Despite these negative factors, the division managed to remain competitive and maintain its profit margin for the period. Moreover, the division was able to fulfill the shipping requirements of its customer orders even with a surge of sales volume in the second quarter of the fiscal year. In September 2008, the management decided to wind up a joint venture factory in Shenzhen due to rising costs to run a factory in the area. The joint venture is now in the process of liquidation.

Driven by the strong sales of motor actuator assemblies, the turnover of the Computer Head Division for the six months ended 30 September 2008 increased by HK\$13 million or 16.5% to HK\$92 million when compared with the sales of HK\$79 million in the same period last year. The operating profit of the division slightly decreased to HK\$5.3 million due to higher operating expenses. The division planned to move its existing factory in Nan Shan, Zhuhai to the newly acquired premises in Nan Pin, Zhuhai in December 2008.

The difficult market conditions that affected the Houseware Division in the previous year continued to exist in the period under review. The sales of the division in the first half of the fiscal year were HK\$81 million, representing a decrease of 16.5% from the sales of HK\$97 million in the corresponding period last year. In comparison with an operating profit of HK\$4.1 million in the first half of the previous year, the division recorded a half-yearly operating loss of HK\$11.4 million for the current period. The loss of the division was attributable to higher material and labour costs and a provision for bad debts of HK\$6.7 million in relation to a customer which went into administration as disclosed under the "Post Balance Sheet Event" in notes to the accounts.

The turnover of the Timepiece Division for the six months ended 30 September 2008 decreased by 12.4% from HK\$161 million to HK\$141 million as compared with the same period last year. In contrast, the half-yearly operating profit of the division decreased by only 4.4% from HK\$18 million to HK\$17.2 million as the division was able to increase its profit margin through a different product mix.

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 2008 the Group's net cash surplus was HK\$208 million which was lower than the HK\$299 million at 31 March 2008. During the period under review, the Group used HK\$30 million to finance investing activities and HK\$30.3 million to pay the final dividend for the year ended 31 March 2008.

The Group's current assets position as at 30 September 2008 was HK\$851 million compared to HK\$747 million as at 31 March 2008. The trade and other receivables increased to HK\$323 million from HK\$204 million. The Group's current liabilities increased from HK\$194 million to HK\$295 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 2008 amounted to HK\$119 million compared to HK\$69 million as at 31 March 2008. Trading securities and bank deposits totalling HK\$185 million (At 31 March 2008: HK\$176 million) are pledged to banks 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 2.89 compared to 3.17 at 30 September 2007. The quick ratio, another ratio that gauges the short-term liquidity of a Company measured by trade receivables, and cash and cash equivalents over the current liabilities, decreased to 1.39 from 1.67 at 30 September 2007.

PROSPECTS AND GENERAL OUTLOOK

The global economy has been badly hurt by the recent financial tsunami, with the United Kingdom already in a recession and the United States on the brink of a recession. The global retail markets are weak due to the bad sentiments of consumers hobbled by job losses and sinking home values. It is generally believed that there might be a drop in retail sales during the coming Christmas. However, it is difficult to predict how it might affect the Group's results for the fiscal year.

In October 2008, the value of sterling and other major currencies fell significantly against the US dollar. The value of sterling against the US dollar fell 23% to 1.5346 at the end of November 2008 as compared with that of 1.9853 at 31 March 2008. The Group's sales to the United Kingdom constituted approximately 26% of the Group's turnover in the six months ended 30 September 2008. A decline in the value of sterling will negatively affect the Group's results for the second half of the fiscal year and thereafter.

The financial tsunami has also brought about global stock market volatility. The Hang Seng Index dropped 23% to close at 13,888 at the end of November 2008 from two months ago. As a consequence of the battered stock market, the Group suffered a loss of approximately HK\$19 million for its investments in trading securities in the same period. As at 30 November 2008, the Group's investments in trading securities, which included certain listed equity securities, unlisted equity/currency linked notes and managed funds, amounted to HK\$76 million.

In addition, we are mindful that further bankruptcies or receiverships among our customers are a possibility and we are monitoring credit risk with diligence.

Despite the above-mentioned concerns, the Group has a strong balance sheet with no bank borrowings. While it is anticipated that the Group's sales might decrease in 2009, the overall order positions at the end of November 2008 were better than those at the same time in the previous year. Meanwhile, the management is confident that the Group will weather the market difficulties in 2009.

CONTINGENT LIABILITIES

As at 30 September 2008, the Group did not have any significant contingent liabilities.

FOREIGN EXCHANGE EXPOSURE

During the period under review, approximately 16% 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 (2007: HK3 cents). The total amount of dividend payment of HK\$18,153,000 (2007: HK\$18,228,000) was based on the total number of shares in issue as at 11 December 2008 being the latest practicable date prior to the announcement of the interim results. Dividend will be payable on 19 January 2009 to shareholders registered in the Register of Members on 9 January 2009.

REGISTER OF MEMBERS

The Register of Members will be closed from 8 January 2009 to 9 January 2009, both days inclusive. Shareholders should ensure that all transfers accompanied by relevant share certificates are lodged with the Company's Registrars, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong for registration not later than 4:00 pm on 7 January 2009 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 2008 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 2008, the beneficial interests of the directors of the Company and their associates in the shares of the Company, its subsidiaries and other associated corporations (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 set out in Appendix 10 to the Listing Rules ("Model Code"), 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	10,391,500	1,250,000 (Note (i))	–	11,791,500	1.95%
D S Chang	–	21,654,879	–	85,538,356 (Note (ii))	107,193,235	17.69%
S T K Cheung	1,897,500	950,000	–	120,993,664 (Notes (ii) & (iii))	123,841,164	20.43%
R Dorfman	46,470,000	–	–	–	46,470,000	7.67%
M Y S Thong	12,383,308	–	–	–	12,383,308	2.04%

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.
- (ii) Dr S T K Cheung and Mr D S Chang are the beneficiaries of a family trust which owned 85,538,356 shares.
- (iii) Dr S T K Cheung is the beneficiary of a separate family trust which owned 35,455,308 shares.

Apart from the foregoing, none of the directors of the Company, 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 2008 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	Corporate interests	Other Interests		
Substantial shareholders							
Chan Him Wee	(i)	21,654,879	85,538,356	–	–	107,193,235	17.69%
Ng Yiu Chi Eleanor	(ii)	950,000	122,891,164	–	–	123,841,164	20.43%
Goldfinch Investments Ltd ("GIL")	(iii)	69,728,356	–	–	–	69,728,356	11.51%
HSBC International Trustee Ltd ("HIT")	(iii)	–	–	–	120,993,664	120,993,664	19.96%
Other persons							
Sheri Tillman Dorfman	(iv)	–	46,470,000	–	–	46,470,000	7.67%
Gershon Dorfman		37,740,799	–	–	–	37,740,799	6.23%
Lydia Dorfman	(v)	–	37,740,799	–	–	37,740,799	6.23%
Moral Excel Holdings Ltd ("MEH")	(iii)	35,455,308	–	–	–	35,455,308	5.85%

	Note	Number of Shares				Total	Percentage of total issued shares
		Personal interests	Interests of spouse	Corporate interests	Other Interests		
Allianz SE ("ASE")	(vi)	-	-	48,825,000	-	48,825,000	8.06%
Dresdner Bank Aktiengesellschaft ("DBA")	(vi)	-	-	48,825,000	-	48,825,000	8.06%
Veer Palthe Voute NV ("VPV")	(vi)	-	-	-	48,825,000	48,825,000	8.06%

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 123,841,164 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 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. MEH is another company owned by a separate family trust which owned 35,455,308 shares. HIT, the trustee of these trusts, is deemed to be interested in the 120,993,664 shares held by these trusts.
- (iv) These 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.
- (vi) These interests were held by VPV, an investment manager. DBA, being the holding company of VPV and ASE which in turn owned 81.10% of DBA were both deemed to have the interests.

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

As at 30 September 2008, the number of employees of the Group was 234 (2007: 222) in Hong Kong, 10,802 (2007: 9,291) in the Mainland China and 114 (2007: 102) in Europe. Total staff costs for the period under review amounted to HK\$206,663,000 (2007: HK\$159,927,000). 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

During the six months ended 30 September 2008, the Company repurchased a total of 985,000 of its own shares on the Stock Exchange at an aggregate consideration of HK\$794,250 before expenses, all of which were then cancelled. The premium paid and the expenses directly attributable to the repurchase were charged against share premium in accordance with the Bermuda Companies Act 1981. Details of the shares repurchased are as follows:

Month of repurchase	Number of shares repurchased	Highest price paid per share HK\$	Lowest price paid per share HK\$	Total paid HK\$
June 2008	315,000	0.93	0.90	287,250
September 2008	<u>670,000</u>	0.80	0.73	<u>507,000</u>
	<u>985,000</u>			<u>794,250</u>

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 the 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 of the Group has been reviewed by the audit committee of the Company.

REMUNERATION COMMITTEE

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

The Company has complied throughout the six months ended 30 September 2008 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
Cheung Tsang Kay Stan
Chairman

Hong Kong, 12 December 2008