



# **TOMORROW INTERNATIONAL HOLDINGS LIMITED**

(Incorporated in Bermuda with limited liability)

(Stock Code: 760)



**2010**  
**Interim Report**

The Board of Directors (the “Board”) of Tomorrow International Holdings Limited (the “Company”) presents the unaudited consolidated results of the Company and its subsidiaries (collectively called the “Group”) for the six months ended 30 June 2010 with comparative figures as follows:

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Six months ended 30 June	
		2010 HK\$'000 (unaudited)	2009 HK\$'000 (unaudited)
<b>Continuing operations</b>			
Revenue	4	145,767	135,003
Cost of sales		(121,162)	(110,048)
Gross profit		24,605	24,955
Other revenue and net income	5	7,998	6,712
Distribution costs		(3,138)	(3,143)
Administrative expenses		(34,716)	(35,731)
<b>Loss before income tax</b>	6	<b>(5,251)</b>	(7,207)
Income tax credit	7	564	–
<b>Loss for the period from continuing operations</b>		<b>(4,687)</b>	(7,207)
<b>Discontinued operations</b>			
Profit for the period from discontinued operations	8	–	7,454
<b>(Loss)/profit for the period attributable to owners of the Company</b>		<b>(4,687)</b>	247
<b>Other comprehensive income</b>			
Release of translation reserve upon disposal of subsidiaries		–	147
Fair value changes of available-for-sale financial assets		1,543	1,079
Realisation of change in fair value on disposal of available-for-sale financial assets		(4,358)	–
<b>Other comprehensive income for the period, net of tax</b>		<b>(2,815)</b>	1,079
<b>Total comprehensive income for the period attributable to owners of the Company</b>		<b>(7,502)</b>	1,326

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Continued)

	Notes	Six months ended 30 June	
		2010 HK cents (unaudited)	2009 HK cents (unaudited)
<b>(Loss)/earnings per share</b>	9		
Basic			
From continuing operations		<b>(0.209)</b>	(0.321)
From discontinued operations		<b>-</b>	0.332
		<hr/>	<hr/>
From continuing and discontinued operations		<b>(0.209)</b>	0.011
		<hr/>	<hr/>
Diluted			
From continuing operations		<b>N/A</b>	N/A
From discontinued operations		<b>N/A</b>	N/A
		<hr/>	<hr/>
From continuing and discontinued operations		<b>N/A</b>	N/A
		<hr/>	<hr/>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at	
		30 June	31 December
		2010	2009
Notes		HK\$'000	HK\$'000
		(unaudited)	(audited)
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
		58,350	56,992
		8,926	9,049
		841	937
		–	3,707
	10	–	2,815
		<b>68,117</b>	<b>73,500</b>
<b>Current assets</b>			
		10,966	11,157
		252	252
		44,569	38,929
	11	28,062	31,006
		5,398	6,116
		–	158
		633,544	636,435
		<b>722,791</b>	<b>724,053</b>
<b>Current liabilities</b>			
	12	34,116	31,765
		22,175	22,955
		133	824
		48	48
		<b>56,472</b>	<b>55,592</b>
<b>Net current assets</b>		<b>666,319</b>	<b>668,461</b>
<b>Total assets less current liabilities</b>		<b>734,436</b>	<b>741,961</b>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION** (Continued)

	Notes	As at	
		30 June 2010 HK\$'000 (unaudited)	31 December 2009 HK\$'000 (audited)
<b>Non-current liabilities</b>			
Provision for long service payment		2,160	2,160
Obligation under finance leases		16	39
		<u>2,176</u>	<u>2,199</u>
<b>NET ASSETS</b>		<b><u>732,260</u></b>	<b><u>739,762</u></b>
<b>CAPITAL AND RESERVES</b>			
Issued capital	13	8,991	8,991
Reserves		<u>723,269</u>	<u>730,771</u>
<b>TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY</b>		<b><u>732,260</u></b>	<b><u>739,762</u></b>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2010 (unaudited)

	Attributable to owners of the Company										
	Share capital HK\$'000	Share premium HK\$'000	Currency translation reserve HK\$'000	Capital reserve HK\$'000	Contributed surplus HK\$'000	Capital redemption reserve HK\$'000	Property revaluation reserve HK\$'000	Share based compensation reserve HK\$'000	Fair value reserve for available-for-sale financial assets HK\$'000	Retained profits HK\$'000	Total equity HK\$'000
At 1 January 2010	8,991	365,359	(1,487)	801	283,208	77	11,639	16,966	2,815	51,393	739,762
Total comprehensive income for the period	-	-	-	-	-	-	-	-	(2,815)	(4,687)	(7,502)
At 30 June 2010	8,991	365,359	(1,487)	801	283,208	77	11,639	16,966	-	46,706	732,260

For the six months ended 30 June 2009 (unaudited)

	Attributable to owners of the Company												
	Share capital HK\$'000	Share premium HK\$'000	Currency translation reserve HK\$'000	Capital reserve HK\$'000	Contributed surplus HK\$'000	Capital redemption reserve HK\$'000	Property revaluation reserve HK\$'000	Share based compensation reserve HK\$'000	Fair value reserve for available-for-sale financial assets HK\$'000	Retained profits HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total equity HK\$'000
At 1 January 2009	8,991	365,359	(1,633)	801	283,208	77	4,012	16,966	1,901	59,779	739,461	8,899	748,360
Total comprehensive income for the period	-	-	-	-	-	-	-	-	1,079	247	1,326	-	1,326
Disposal of subsidiaries	-	-	147	-	-	-	-	-	-	-	147	(8,899)	(8,752)
At 30 June 2009	8,991	365,359	(1,486)	801	283,208	77	4,012	16,966	2,980	60,026	740,934	-	740,934

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**

	<b>Six months ended 30 June</b>	
	<b>2010</b>	<b>2009</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
Net cash (used in)/generated from operations	<b>(5,562)</b>	13,671
Net cash generated from/(used in) investing activities	<b>2,694</b>	(1,461)
Net cash used in financing activities	<b>(23)</b>	(46)
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(2,891)</b>	12,164
Cash and cash equivalents at beginning of period	<b>636,435</b>	645,545
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>633,544</b>	657,709

Notes:

## **1 Corporate information**

The principal activity of the Company is investment holding. The Group's principal activities consist of the design, development, manufacture and sale of electronic products, the trading of listed equity investments and commodities and the provision of loan financing.

The Group disposed of its business segment of manufacture and sale of printed circuit boards ("PCBs") on 5 January 2009, and such business segment was classified as discontinued operations for the six months ended 30 June 2009.

## **2 Basis of preparation**

The interim condensed consolidated financial statements for the six months ended 30 June 2010 are unaudited but have been reviewed by the Audit Committee.

The interim condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with the Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's 2009 annual financial statements.

The accounting policies and method of computation adopted in the preparation of the interim condensed consolidated financial statements are consistent with those used in the preparation of the Group's annual financial statements for the year ended 31 December 2009 except as stated in note 3 below.

## **3 Adoption of new and revised Hong Kong Financial Reporting Standards**

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2010.

- HKFRS 3 (revised), 'Business combinations', and consequential amendments to HKAS 27, 'Consolidated and separate financial statements', HKAS 28, 'Investments in associates', and HKAS 31, 'Interests in joint ventures', are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.



The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with HKFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed.

As the Group has adopted HKFRS 3 (revised), it is required to adopt HKAS 27 (revised), 'consolidated and separate financial statements', at the same time. HKAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss.

The new HKFRS has no material impact on how the results and financial positions for the current and prior periods have been prepared or presented. Accordingly, no prior period adjustments is required.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

#### **4 Segment information**

The executive directors of the Company have identified the Group's three products and service lines as operating segments as follows:

- (a) Electronic products segment consists of the manufacture and sale of electronic products;
- (b) Equity and commodity investments segment consists of investments in equity securities and precious metals; and
- (c) Provision of finance segment consists of the provision of loan financing services.

Revenue, which is also the Group's turnover, represents total invoiced value of goods supplied and income from provision of services.

The following is an analysis of the Group's revenue and results by operating segment for the periods under review:

	Electronic products		Equity and commodity investments		Provision of finance		Consolidated	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2010	2009	2010	2009	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenue from external customers								
Reportable segment revenue	<b>145,767</b>	135,003	-	-	-	-	<b>145,767</b>	135,003
Reportable segment profit/(loss)	<b>451</b>	(2,968)	<b>1,087</b>	2,019	<b>(13)</b>	(20)	<b>1,525</b>	(969)
Discontinued operations							-	7,454
Gain on disposal of available-for-sale financial assets							<b>4,333</b>	-
Unallocated income							<b>1,379</b>	2,638
Unallocated expenses							<b>(12,488)</b>	(8,876)
(Loss)/profit from operations activities before taxation							<b>(5,251)</b>	247
Income tax credit							<b>564</b>	-
(Loss)/profit for the period							<b>(4,687)</b>	247

The following is an analysis of the Group's assets by operating segment:

	Electronic products	Equity and commodity investments	Provision of finance	Unallocated	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 30 June 2010 (unaudited)					
Segment assets	<b>145,120</b>	<b>139,293</b>	<b>1,006</b>	<b>505,489</b>	<b>790,908</b>
As at 31 December 2009 (audited)					
Segment assets	146,796	154,829	1,004	494,924	797,553

The following table presents revenue information for the Group's geographical segments.

	<b>Six months ended 30 June</b>	
	<b>2010</b>	<b>2009</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Sales to external customers</b>	<b>(unaudited)</b>	<b>(unaudited)</b>
Europe	<b>15,377</b>	14,500
North America	<b>20,791</b>	20,270
Hong Kong	<b>18,569</b>	19,178
Japan	<b>84,094</b>	69,526
Others	<b>6,936</b>	11,529
	<hr/>	<hr/>
Total	<b>145,767</b>	135,003
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## 5 Other revenue and net income

	<b>Six months ended 30 June</b>	
	<b>2010</b>	<b>2009</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
Bank interest income	<b>1,579</b>	2,912
Gain on disposal of available-for-sale financial assets	<b>4,333</b>	–
Product development income	<b>669</b>	964
Other interest income	<b>–</b>	21
Compensation from vendors	<b>119</b>	69
Realised gain on financial assets at fair value through profit or loss	<b>234</b>	1,928
Unrealised gain on financial assets of fair value through profit or loss	<b>517</b>	354
Unrealised gain on inventory at fair value	<b>558</b>	–
Exchange loss, net	<b>(54)</b>	(355)
Others	<b>43</b>	819
	<hr/>	<hr/>
	<b>7,998</b>	6,712
	<hr/>	<hr/>

## 6 Loss before income tax

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

	Six months ended 30 June	
	2010	2009
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Cost of inventories sold	121,162	110,048
Depreciation	4,709	4,893
Amortisation of deferred product development costs	486	590
Net loss/(gain) on disposal of property, plant and equipment	19	(60)
Provision/(written back) of allowance for inventories	1,900	(1,064)
	<u>1,900</u>	<u>(1,064)</u>

## 7 Income tax credit

	Six months ended 30 June	
	2010	2009
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Current tax		
Hong Kong		
– Tax for the period	89	–
– Overprovision in respect of prior years	(653)	–
	<u>(564)</u>	<u>–</u>
Total income tax credit	<u>(564)</u>	<u>–</u>

Hong Kong Profits Tax has been provided at the rate of 16.5% on the estimated assessable profit arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

No provision has been made for Hong Kong Profits Tax and overseas taxation in 2009 as the Company and its subsidiaries either sustained losses for taxation purposes or have tax losses brought forward from prior years which exceed the estimated assessable profits for the period.

## 8 Discontinued operations

During the year ended 31 December 2008, the Group discontinued the operation of manufacture and sale of PCBs operated by Allied Trade Limited ("ATL") and its subsidiaries (collectively referred to as the "ATL Group").

On 5 January 2009, the Group entered into a sales and purchase agreement with an independent third party, for the disposal of its entire equity interests in ATL Group for a cash consideration of HK\$100,000. The disposal was completed on 5 January 2009.

Gain on discontinued operations in respect of the disposal of subsidiaries is as follow:

	Six months ended 30 June 2009 <i>HK\$'000</i> (unaudited)
Total consideration, satisfied by cash	100
Less: Net liabilities disposed of	
Property, plant and equipment	17,346
Inventories	12,266
Trade receivables	7,202
Prepayment, deposits and other receivables	14,223
Cash and cash equivalents	1,661
Trade payables	(25,750)
Amount due to a related company	(13,563)
Accruals and other payables	(11,626)
Provision for tax	(361)
Minority interest	(8,899)
	<hr/>
	(7,501)
Release of translation reserve upon disposal of subsidiaries	147
	<hr/>
	(7,354)
Gain on discontinued operations	<hr/> <u>7,454</u>

## 9 (Loss)/earnings per share

### Basic loss/earnings per share from continuing and discontinued operations

The calculation of basic loss/earnings per share is based on the loss attributable to owners of the Company of approximately HK\$4,687,000 (2009: Profit of HK\$247,000) and on weighted average of 2,247,682,010 (2009: 2,247,682,010) ordinary shares in issue during the period.

### Basic loss per share from continuing operations

The calculation of basic loss per share for continuing operations is based on the loss attributable to owners of the Company of approximately HK\$4,687,000 (2009: Loss of HK\$7,207,000) and on weighted average of 2,247,682,010 (2009: 2,247,682,010) ordinary shares in issue during the period.

### Basic earnings per share from discontinued operations

The calculation of basic earnings per share for discontinued operations is based on the profit attributable to owners of the Company of HK\$Nil (2009: Profit of HK\$7,454,000) and on weighted average of 2,247,682,010 (2009: 2,247,682,010) ordinary shares in issue during the period.

### Diluted earnings/loss per share from continuing and/or discontinued operations

Diluted earnings/loss per share from continuing and/or discontinued operations for the six months ended 30 June 2010 and 2009 is not presented because the impact of the exercise of the share options is anti-dilutive.

## 10 Available-for-sale financial assets

	As at	
	30 June 2010 HK\$'000 (unaudited)	31 December 2009 HK\$'000 (audited)
Listed equity security in Hong Kong at market value	—	2,815

## 11 Trade and bills receivables

	As at	
	30 June 2010 <i>HK\$'000</i> (unaudited)	31 December 2009 <i>HK\$'000</i> (audited)
Trade receivables	<b>28,380</b>	31,272
Less: Provision for impairment on trade receivables	<b>(318)</b>	(318)
	<hr/>	<hr/>
Trade receivables – net	<b>28,062</b>	30,954
Bill receivables	<b>–</b>	52
	<hr/>	<hr/>
	<b>28,062</b>	31,006
	<hr/>	<hr/>

The aging analysis of the Group's trade receivables is as follows:

	As at	
	30 June 2010 <i>HK\$'000</i> (unaudited)	31 December 2009 <i>HK\$'000</i> (audited)
0 to 90 days	<b>25,493</b>	28,505
91 to 180 days	<b>2,569</b>	2,449
	<hr/>	<hr/>
	<b>28,062</b>	30,954
	<hr/>	<hr/>

The normal credit period granted by the Group to customers ranges from 30 days to 90 days.

## 12 Trade payables

The aging analysis of the Group's trade payables is as follows:

	As at	
	30 June 2010 HK\$'000 (unaudited)	31 December 2009 HK\$'000 (audited)
0 to 90 days	34,053	31,745
91 to 180 days	55	–
181 to 365 days	–	20
Over 365 days	8	–
	<u>34,116</u>	<u>31,765</u>

## 13 Share capital

	As at	
	30 June 2010 HK\$'000 (unaudited)	31 December 2009 HK\$'000 (audited)
Authorised:		
125,000,000,000 ordinary shares of HK\$0.004 each (2009: 125,000,000,000 ordinary shares of HK\$0.004 each)	<u>500,000</u>	<u>500,000</u>
Issued and fully paid:		
2,247,682,010 ordinary shares of HK\$0.004 each (2009: 2,247,682,010 ordinary shares of HK\$0.004 each)	<u>8,991</u>	<u>8,991</u>



#### 14 Capital commitments

	As at	
	30 June 2010 <i>HK\$'000</i> (unaudited)	31 December 2009 <i>HK\$'000</i> (audited)
Capital commitments on property, plant and equipment (contracted but not provided for)	<u>385</u>	<u>554</u>

#### 15 Contingent liabilities

	Company as at	
	30 June 2010 <i>HK\$'000</i> (unaudited)	31 December 2009 <i>HK\$'000</i> (audited)
Guarantee of banking facilities granted to subsidiaries	<u>24,000</u>	<u>24,000</u>

As at 30 June 2010, the directors did not consider it probable that a claim will be made against the Company under any of the guarantees since there was no utilisation for the facilities granted to its subsidiaries.

## **INTERIM DIVIDENDS**

The Board has resolved that no interim dividend is declared in respect of the six months ended 30 June 2010 (2009: Nil).

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **RESULTS AND BUSINESS REVIEW**

Following the trend of global recovery, the turnover of the Group, contributed from the electronic products division, for the six months ended 30 June 2010 increased by 8.0% to HK\$145.8 million as compared with HK\$135.0 million for the same period last year. The loss from continuing operations for the period was HK\$4.7 million (2009: loss of HK\$7.2 million).

Despite the fact of increasing operating cost causing the gross profits margin had decreased from last year's 18.5% to current year's 16.9%, the segmental result of electronic products division could still be turnaround to record a segmental profit of \$451,000 in the first six months, as compared with segmental loss of HK\$3.0 million last period.

The global investment market was still volatile in the first half year of 2010. The equity investment division had still managed to record a profit of HK\$1.1 million in the first six months of 2010 (2009: profit of HK\$2.0 million).

Loan financing business was not active during the period.

### **FUTURE OUTLOOK**

Facing the continuing increasing material and labour cost in China, electronic products division remains to face a tough environment. Since the customers are aware of the rising cost situation, the Company has succeeded in increasing the selling price which will be effective in the second half of 2010. The Company will continue to impose cost saving measures, to explore new markets and to develop new product line to maintain its competitiveness in the market. The Company expects the electronic products division may turnaround in year 2010.

On July 2010, Canton Million Investments Limited, a wholly owned subsidiary of the Company, entered into a conditional sale and purchase agreement to acquire an investment company, which together with its subsidiaries, is principally engaged in real estate development and property investment in the PRC at a consideration of HK\$3,800 million (the "Proposed Acquisition"). The Board believes the Proposed Acquisition to diversify into real estate development and property investment in the PRC will enable the Group to broaden its income source and provide the Group with opportunity to capture the growth potential of the property sector in the PRC. The Board also believes the investment properties held by the target group will generate stable income for the Group and enhance its investment portfolio and profitability in the long run. Given the operating environment for the Group's existing business remains challenging as mentioned, the Board is of the view that the Proposed Acquisition is expected to improve the profitability and facilitate the sustainable development of the Company in the long run.

## **LIQUIDITY AND FINANCIAL REVIEW**

As at 30 June 2010, cash and bank balances (including time deposits) maintained by the Group were HK\$633.5 million, representing a decrease of HK\$2.9 million compared with the position as at 31 December 2009. In addition, the Group had available banking facilities of HK\$24 million. It is believed that the Group has adequate cash resources to meet the normal working capital requirements and all commitments for future development. The gearing of the Group, measured as total debts to total assets, was 7.4% as at 30 June 2010, comparing with 7.2% as at 31 December 2009.

Most of the business transactions conducted by the Group were denominated in Hong Kong Dollars, United States Dollars and Renminbi. As at 30 June 2010, there were no outstanding forward contracts in foreign currency committed by the Group that might involve it in significant foreign exchange risks and exposures.

## **CONTINGENT LIABILITIES**

As at 30 June 2010, the Company had a guarantee given in favour of a bank amounting to HK\$24,000,000 to secure the general banking facilities of a subsidiary. No amount of the facilities was utilised by the subsidiary as at 30 June 2010.

## HUMAN RESOURCES

As at 30 June 2010, the Group employed approximately 1,400 employees, with about 1,349 in the Mainland China and about 51 in Hong Kong. All employees are remunerated based on industry practice and in accordance with the prevailing labour law. In Hong Kong, apart from basic salary, staff benefits include medical insurance, performance related bonuses and mandatory provident fund would be provided by the Group.

## DIRECTORS' INTEREST IN SHARES AND UNDERLYING SHARES

As at 30 June 2010, the interests of the directors in the shares and underlying shares of the Company and its associated corporations as recorded in the register maintained by the Company pursuant to section 352 of the Securities and Futures Ordinance ("SFO") or notified to the Company pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

Name of Director	Nature of interest	Number of shares
Mr. Yau Tak Wah, Paul	Personal	2,000,000
Ms. Louie Mei Po ("Ms. Louie")	Personal	11,785,710
Ms. Wong Shin Ling, Irene ("Ms. Wong")	Personal	13,000,000

On September 2007, each of Ms. Louie and Ms. Wong was granted a share option, which both of them were entitled to subscribe 22,470,000 shares at the option price of HK\$0.296 each. The option period is 25 September 2007 to 24 September 2012.

## SHARE OPTION SCHEME

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the scheme include the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, the Company's shareholders, and any minority shareholder of the Company's subsidiaries. The scheme became effective on 29 May 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The following table shows the movement of the Company's share options for the period of six months ended 30 June 2010.

Participants	Date of grant	Outstanding		Exercise price	Exercise period
		at beginning of the period	at end of the period		
Employees	21 May 2007	49,050,000	– 49,050,000	HK\$0.3	21 May 2007 to 20 May 2012
Employees	25 September 2007	7,410,000	– 7,410,000	HK\$0.296	25 September 2007 to 24 September 2012
Directors	25 September 2007	44,940,000	– 44,940,000	HK\$0.296	25 September 2007 to 24 September 2012

- (a) The closing prices of the ordinary shares of the Company immediately before the date on which the options were granted were HK\$0.3 on 21 May 2007 and HK\$0.275 on 25 September 2007.
- (b) According to the binomial model, the theoretical aggregate value of the options was estimated at HK\$8,485,650 and HK\$8,480,700 as at 21 May 2007 and 25 September 2007 respectively (when the options were granted) with the following variables and assumptions:

Risk Free Rate: 4.164% and 4.102%, being the approximate yield of Exchange Fund Bills and Notes issued by Hong Kong government for the time to maturity of the option as at the valuation date quoted by Hong Kong Monetary Authority.

Expected Volatility: 64.44% and 69.35%, being the average annualised standard deviations of the continuously compounded rates of return on the share prices of two other comparable companies with similar business operations.

Expected Life of the Options: 5 years from the date of granting

Expected Dividend Yield: Nil

Options forfeited, if any, before the expiry of the options will be treated as lapsed options which will be added back to the number of Ordinary Shares available to be issued under the relevant share option scheme.

## SUBSTANTIAL SHAREHOLDERS

As at 30 June 2010, according to the register of interest in shares and short positions required to be kept by the Company under section 336 of the SFO, the Company had been notified that the following shareholder was interested in 5% or more of the share capital of the Company.

Name of Shareholder	Note	Number of Ordinary Shares	Approximate Percentage
Winspark Venture Limited	a	996,509,340	44.33%

Note:

- a. The entire issued share capital of Winspark Venture Limited is beneficially owned by Mr. Chan Yuen Ming.

Save as disclosed above, the directors of the Company are not aware of any person who is, directly or indirectly, interested in 5% or more of the issued share capital of the Company, has short positions in the share or underlying shares or has any rights to subscribe for shares in respect of such capital.

## PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

## DIRECTORS

As at the date of this interim report, the Board comprises of seven directors, of which four are executive directors, namely Mr. Yau Tak Wah, Paul, Ms. Louie Mei Po, Ms. Wong Shin Ling, Irene and Ms. Liu Yee Nee and three independent non-executive directors, namely Mr. Ng Wai Hung, Mr. Cheung Chung Leung, Richard and Mr. Wu Wang Li.

## CORPORATE GOVERNANCE

The Board has been committed to maintaining the high level of corporate governance within the Group in order to enhance the transparency in disclosure of material information. The Board considers such commitment is essential for internal management, financial management and protection of shareholders' interests and believes that maintaining a high standard of corporate governance benefits all shareholders, investors, and its business as a whole. The Company has applied the principles and complied with the requirements of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited, except for the following deviations.

### **CG Code Provision A4.1**

Under the CG Code, non-executive directors should be appointed for a specific term, subject to re-election.

During the period, two independent non-executive directors of the Company, namely Mr. Ng Wai Hung and Mr. Cheung Chung Leung, Richard, were not appointed for any specific fixed term and one independent non-executive director, Mr. Wu Wang Li, was appointed for the term of one year from 27 September 2009. In accordance with the bye-laws of the Company, at each annual general meeting of the Company one third of the directors shall retire from office by rotation. The Board considers that sufficient measures will be taken to ensure the corporate governance practices of the Company are not less exacting than those in the CG Code.

### **CG Code Provision B.1**

Under the CG Code, the issuers shall establish a remuneration committee with specific written terms of reference which deal clearly with its authority and duties.

Currently, there is no remuneration committee in the Board. Meanwhile, the Board conducts an informal assessment of the individual director's contribution. No director decides his or her own remuneration and their remuneration has been relatively stable in the past years.

### **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS**

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as the code of conduct regarding directors' securities transactions. The Company has made specific enquiry of all directors whether the directors have complied with the required standard set out in the Model Code regarding directors' securities transactions and all directors confirmed that they have complied with the Model Code.

### **AUDIT COMMITTEE REVIEW**

The 2010 interim report is unaudited and has been reviewed by the Company's Audit Committee which comprises three independent non-executive directors.

By Order of the Board  
**Yau Tak Wah, Paul**  
*Chairman*

Hong Kong, 20 August 2010