



K & P INTERNATIONAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code : 675)

Interim
Report
2010

UNAUDITED INTERIM RESULTS

The Board of Directors (the “Board”) of K & P International Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2010 together with the comparative figures for the previous period. These condensed consolidated interim financial statements have not been audited, but have been reviewed by the Company’s audit committee.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2010

		For the six months ended 30 June	
		2010	2009
		(Unaudited)	(Unaudited)
		HK\$	HK\$
	Notes		
REVENUE	2	191,655,556	146,218,246
Cost of sales		(148,228,686)	(114,798,125)
Gross profit		43,426,870	31,420,121
Other income and gains	3	1,726,829	2,156,807
Selling and distribution costs		(15,862,826)	(15,920,968)
Administrative expenses		(10,836,714)	(13,972,214)
Other expenses		(192,690)	(625,598)
Finance costs	4	(1,080,761)	(1,898,215)
PROFIT BEFORE TAX	5	17,180,708	1,159,933
Income tax expense	6	(2,802,324)	(800,000)
PROFIT FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY		14,378,384	359,933
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	7		
Basic		5.42 cents	0.14 cent
Diluted		5.41 cents	N/A
DIVIDEND PER SHARE	8	Nil	Nil

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2010

	For the six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	HK\$	HK\$
PROFIT FOR THE PERIOD	14,378,384	359,933
OTHER COMPREHENSIVE INCOME		
Exchange differences on translation of foreign operations	(163,327)	254,034
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	14,215,057	613,967

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2010

	Notes	30 June 2010 (Unaudited) HK\$	31 December 2009 (Audited) HK\$
NON-CURRENT ASSETS			
Property, plant and equipment		131,426,002	139,368,094
Prepaid land lease payments		20,585,514	20,829,762
Other intangible assets		6,108,329	8,145,829
Available-for-sale investment		680,000	680,000
Deferred tax assets		1,358,447	1,358,447
Prepaid rent		351,000	468,000
Total non-current assets		160,509,292	170,850,132
CURRENT ASSETS			
Inventories		40,853,686	36,859,295
Prepayments, deposits and other receivables		14,776,192	12,744,645
Trade and bills receivables	9	74,148,232	61,645,865
Cash and cash equivalents		23,398,679	32,405,249
Total current assets		153,176,789	143,655,054
CURRENT LIABILITIES			
Trade payables	10	58,393,227	56,778,707
Accrued liabilities and other payables		26,833,765	24,712,798
Interest-bearing bank and other borrowings		31,667,891	35,936,113
Loan from a director		–	12,000,000
Tax payable		10,433,047	8,151,972
Total current liabilities		127,327,930	137,579,590
NET CURRENT ASSETS		25,848,859	6,075,464
TOTAL ASSETS LESS CURRENT LIABILITIES		186,358,151	176,925,596
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		14,194,226	18,976,727
Deferred tax liabilities		1,083,406	1,083,406
Total non-current liabilities		15,277,632	20,060,133
Net assets		171,080,519	156,865,463
EQUITY			
Issued capital		26,550,480	26,550,480
Reserves		144,530,039	130,314,983
Total equity		171,080,519	156,865,463

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2010

	Issued capital (Unaudited) HK\$	Share premium account (Unaudited) HK\$	Share option reserve (Unaudited) HK\$	Contributed surplus (Unaudited) HK\$	Asset revaluation reserve (Unaudited) HK\$	Exchange fluctuation reserve (Unaudited) HK\$	Retained profits (Unaudited) HK\$	Total equity (Unaudited) HK\$
At 1 January 2010	26,550,480	50,541,281	96,000	660,651	8,932,357	3,916,555	66,168,139	156,865,463
Total comprehensive income for the period	-	-	-	-	-	(163,327)	14,378,384	14,215,057
At 30 June 2010	26,550,480	50,541,281	96,000	660,651	8,932,357	3,753,228	80,546,523	171,080,520
At 1 January 2009	26,550,480	50,541,281	93,960	660,651	8,205,596	4,222,879	63,898,137	154,172,984
Total comprehensive income for the period	-	-	-	-	-	254,034	359,933	613,967
Equity-settled share option arrangement	-	-	2,040	-	-	-	-	2,040
At 30 June 2009	26,550,480	50,541,281	96,000	660,651	8,205,596	4,476,913	64,258,070	154,788,991

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2010

	For the six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	HK\$	HK\$
NET CASH FLOW FROM OPERATING ACTIVITIES	11,658,757	10,404,146
NET CASH FLOW FROM/(USED IN) INVESTING ACTIVITIES	369,454	(2,923,010)
NET CASH FLOW USED IN FINANCING ACTIVITIES	(21,050,724)	(38,477,741)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(9,022,513)	(30,996,605)
Cash and cash equivalents at beginning of period	32,405,249	51,510,355
Effect of foreign exchange rate changes, net	15,943	(17,977)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	23,398,679	20,495,773
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	23,398,679	20,495,773

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES AND BASIS OF PREPARATION

These unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Stock Exchange”) (“Listing Rules”). The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the Group’s audited financial statements for the year ended 31 December 2009, except in relation to the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”, which also include HKASs and Interpretations) that affect the Group and are adopted for the first time for the current period’s financial statements:

HKFRS 1 (Revised)	<i>First-time Adoption of Hong Kong Financial Reporting Standards</i>
HKFRS 1 Amendments	<i>Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters</i>
HKFRS 2 Amendments	<i>Amendments to HKFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions</i>
HKFRS 3 (Revised)	<i>Business Combinations</i>
HKAS 27 (Revised)	<i>Consolidated and Separate Financial Statements</i>
HKAS 39 Amendment	<i>Amendment to HKAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items</i>
HK(IFRIC)-Int 17	<i>Distributions of Non-cash Assets to Owners</i>
Amendments to HKFRS 5 included in <i>Improvements to HKFRSs</i> issued in October 2008	<i>Amendments to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary</i>
HK Interpretation 4 (Revised in December 2009)	<i>Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases</i>

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES AND BASIS OF PREPARATION (Continued)

The adoption of the above HKFRSs has had no material impact on the accounting policies of the Group and the methods of computation in the Group's condensed consolidated financial statements.

2. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has three reportable operating segments as follows:

- (a) the precision parts and components segment comprises the manufacture and sale of precision parts and components comprising keypads, synthetic rubber and plastic components and parts, and liquid crystal displays ("LCDs");
- (b) the consumer electronic products segment comprises the design, manufacture and sale of consumer electronic products comprising time, weather forecasting and other products; and
- (c) the corporate and others segment comprises the Group's property holding activities, together with corporate income and expense items.

Management monitors the results of its operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax from continuing operations. The adjusted profit/(loss) before tax from continuing operations is measured consistently with the Group's profit/(loss) before tax from continuing operations except that bank interest income, finance costs, as well as head office and corporate expenses are excluded from such measurement.

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

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

2. OPERATING SEGMENT INFORMATION (Continued)

For the six months ended 30 June 2010	Precision parts and components (Unaudited) HK\$	Consumer electronic products (Unaudited) HK\$	Corporate and others (Unaudited) HK\$	Total (Unaudited) HK\$
Segment revenue:				
Sales to external customers	129,747,036	61,908,520	–	191,655,556
Intersegment sales	1,395,283	590,644	–	1,985,927
Other income and gains	1,578,961	128,935	229	1,708,125
	132,721,280	62,628,099	229	195,349,608
<i>Reconciliation:</i>				
Elimination of intersegment sales				(1,985,927)
Revenue				193,363,681
Segment results	22,294,224	(4,080,048)	28,589	18,242,765
<i>Reconciliation:</i>				
Bank interest income				18,704
Finance costs				(1,080,761)
Profit before tax				17,180,708
Other segment information:				
Depreciation and amortisation	4,583,883	5,441,860	529,978	10,555,721
Capital expenditure	160,699	154,650	16,300	331,649

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

2. OPERATING SEGMENT INFORMATION (Continued)

For the six months ended 30 June 2009	Precision parts and components (Unaudited) HK\$	Consumer electronic products (Unaudited) HK\$	Corporate and others (Unaudited) HK\$	Total (Unaudited) HK\$
Segment revenue:				
Sales to external customers	95,548,085	50,670,161	–	146,218,246
Intersegment sales	1,180,675	146,880	–	1,327,555
Other income and gains	1,670,309	438,338	21,883	2,130,530
	98,399,069	51,255,379	21,883	149,676,331
<i>Reconciliation:</i>				
Elimination of intersegment sales				(1,327,555)
Revenue				148,348,776
Segment results	9,946,115	(7,804,976)	890,732	3,031,871
<i>Reconciliation:</i>				
Bank interest income				26,277
Finance costs				(1,898,215)
Profit before tax				1,159,933
Other segment information:				
Depreciation and amortisation	5,407,091	6,707,225	461,136	12,575,452
Capital expenditure	585,633	2,324,577	12,800	2,923,010

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

2. OPERATING SEGMENT INFORMATION (Continued)

Geographical information

Revenue from external customers

	For the six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	HK\$	HK\$
Hong Kong	34,768,164	31,733,380
Mainland China	10,867,873	8,762,779
Japan and other Asian countries	25,537,611	24,482,221
North America	15,827,659	11,253,079
Europe	99,602,998	64,632,048
Other countries	5,051,251	5,354,739
	191,655,556	146,218,246

The revenue information above is based on the location of the customers.

Information about a major customer

For the six months ended 30 June 2010, revenue of approximately HK\$46.4 million (six months ended 30 June 2009: HK\$25.6 million), contributing over 10% of the total sales of the Group, was derived from sales by the precision parts and components segment to a single customer.

3. OTHER INCOME AND GAINS

	For the six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	HK\$	HK\$
Bank interest income	18,704	26,277
Tooling charge income	61,034	1,240,873
Fair value gain on a derivative financial instrument		
– transaction not qualifying as a hedge	–	106,627
Gain on disposal of items of property, plant and equipment	701,103	–
Others	945,988	783,030
	1,726,829	2,156,807

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

4. FINANCE COSTS

	For the six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	HK\$	HK\$
Interest on bank loans and overdrafts wholly repayable within five years	1,016,330	1,776,137
Interest on finance leases	64,431	122,078
	1,080,761	1,898,215

5. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	HK\$	HK\$
Depreciation	8,273,971	9,914,952
Amortisation of other intangible assets*	2,037,500	2,416,250
Recognition of prepaid land lease payments	244,250	244,250
Provision for slow-moving inventories*	3,436,166	775,529
Foreign exchange differences, net	214,294	380,605
Product warranties provision	–	81,705
Impairment of trade receivables	192,690	625,598
Fair value gain on a derivative financial instrument		
– transaction not qualifying as a hedge	–	(106,627)
Loss/(gain) on disposal of items of property, plant and equipment	(701,103)	5

* The amortisation of other intangible assets and the provision for slow-moving inventories for the period are included in "Cost of sales" in the consolidated income statement.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

6. INCOME TAX

	For the six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	HK\$	HK\$
Group:		
Current – Hong Kong		
Charge for the period	1,725,000	800,000
Current – Elsewhere		
Charge for the period	1,077,324	–
Total tax charge for the period	2,802,324	800,000

Hong Kong profits tax has been provided at the rate of 16.5% (2009: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

7. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share amounts is based on the profit attributable to ordinary equity holders of the Company for the period of HK\$14,378,384 (six months ended 30 June 2009: HK\$359,933), and on the weighted average of 265,504,800 (six months ended 30 June 2009: 265,504,800) ordinary shares in issue during the period.

The calculation of diluted earnings per share amounts is based on the profit attributable to ordinary equity holders of the Company for the period of HK\$14,378,384. The weighted average number of ordinary shares used in the calculation is the 265,504,800 ordinary shares in issue during the period, as used in the basic earnings per share calculation; and the weighted average of 385,714 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options outstanding during the period.

Diluted earnings per share for the period ended 30 June 2009 has not been shown as the share options outstanding during last period had an anti-dilutive effect on the basic earnings per share for the last period.

8. DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2010 (six months ended 30 June 2009: Nil).

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

9. TRADE AND BILLS RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. Invoices are normally payable within 60 days of issuance, except for certain well-established customers, where the terms are extended from 60 to 90 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control policy to minimise credit risk. Overdue balances are regularly reviewed by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing. Bills receivable discounted with recourse are interest-bearing. The carrying amounts of these balances approximate to their fair values.

An aged analysis of the trade and bills receivables as at the end of the reporting period, based on invoice date and net of provisions, is as follows:

	30 June 2010 (Unaudited) HK\$	31 December 2009 (Audited) HK\$
Within 90 days	68,541,009	54,066,372
Between 91 to 180 days	5,489,913	7,503,268
Over 180 days	117,310	76,225
	<u>74,148,232</u>	<u>61,645,865</u>

10. TRADE PAYABLES

An aged analysis of the trade payables as at the end of the reporting period, based on invoice date, is as follows:

	30 June 2010 (Unaudited) HK\$	31 December 2009 (Audited) HK\$
Within 90 days	50,817,826	44,152,490
Between 91 to 180 days	7,540,722	10,683,462
Over 180 days	34,679	1,942,755
	<u>58,393,227</u>	<u>56,778,707</u>

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

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

11. DERIVATIVE FINANCIAL INSTRUMENT

The derivative financial instrument was a forward currency contract with carrying amount stated at its fair value, and had been expired during last period. This forward currency contract did not meet the criteria for hedge accounting. The change in the fair value of this non-hedging currency derivative, a gain of HK\$106,627, was credited to the income statement for the last period.

12. SHARE OPTION SCHEME

The maximum number of unexercised share options currently permitted to be granted under the existing share option scheme of the Company ("the Scheme") must not in aggregate exceed 30% of the shares of the Company in issue at any time.

As at 30 June 2010, the Company had 1,500,000 share options outstanding under the Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 1,500,000 additional ordinary shares of the Company and additional share capital of HK\$150,000 and share premium of HK\$240,000 (before issue expenses).

At the date of approval of these condensed consolidated interim financial statements, the Company had 1,500,000 share options outstanding under the Scheme, which represented approximately 0.6% of the Company's shares in issue as at that date.

13. RELATED PARTY TRANSACTIONS

- (a) Certain of the Group's banking facilities, of which HK\$45,900,000 (at 31 December 2009: HK\$54,900,000) had been utilised as at the end of the reporting period, were secured by personal guarantees amounting to HK\$110,900,000 (at 31 December 2009: HK\$110,900,000) given by a director of the Company. The director received no consideration for providing these guarantees.
- (b) Compensation of key management personnel of the Group:

	For the six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	HK\$	HK\$
Short term employee benefits	6,386,798	6,080,403
Termination benefits	99,327	103,161
Total compensation paid to key management personnel	6,486,125	6,183,564

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

13. RELATED PARTY TRANSACTIONS (Continued)

- (c) A loan (at 31 December 2009: HK\$12,000,000) was granted by a director of the Company and the director received no interest for providing this loan. During the period, the loan has been fully repaid to the director.

14. CONTINGENT LIABILITIES

- (a) As at 30 June 2010, contingent liabilities not provided for in the financial statements were as follows:–

	30 June 2010 (Unaudited) HK\$	31 December 2009 (Audited) HK\$
Guarantees of banking facilities granted to subsidiaries	<u>179,050,000</u>	<u>179,050,000</u>

- (b) A subsidiary of the Group is currently a defendant in a lawsuit brought by a party alleging that the subsidiary had breached a sales and purchase contract to deliver certain goods. The directors, based on the advice from the Group's external legal counsel, believe that the subsidiary has a reasonably good defence against the allegation and, accordingly, have not provided for any claim arising from the litigation, other than the related legal cost.

15. APPROVAL OF THE FINANCIAL STATEMENTS

These condensed consolidated interim financial statements were approved and authorised for issue by the Board on 27 August 2010.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

For the period ended 30 June 2010, the Group's turnover amounted to HK\$191.7 million, representing a 31.1% increase from the previous period. And, overall gross profit increased from approximately HK\$31.4 million in the previous period to approximately HK\$43.4 million this period. Profit attributable to shareholders was approximately HK\$14.4 million (six months ended 30 June 2009: approximately HK\$0.4 million).

Basic earnings per share for the period ended 30 June 2010 amounted to HK5.42 cents (six months ended 30 June 2009: HK0.14 cent).

Business Review and Future Plan

For the first half of the year, the global economy had shown sign of recovery. Due to the strong demand from the market, the Group's business has been rebounded strongly. Coupled with our success of effective cost control and the increase in sales turnover, our gross profit margin increased by 1.2% to 22.7% as compared with the previous period (six months ended 30 June 2009: 21.5%).

The growth in sales turnover led to the increase in manufacturing overhead cost by 27.3% to HK\$63.3 million. We had been successful in monitoring and controlling the daily expenditures, which led to the reduction in selling and distribution costs by HK\$0.1 million, and the administration expenses by HK\$3.1 million, representing a decrease of 0.4% and 22.4% respectively as compared with the previous period. Due to the effective management of working capital and reduction of capital expenditure, the finance costs had been reduced by HK\$0.8 million, representing a decrease of 43.1% as compared with the previous period.

The sales turnover of the precision parts and components segment increased to HK\$129.7 million, representing an increase of 35.8% as compared with the previous period, because of the rapid growth in the European market. The operating result of this segment had increased by 2.24 times to HK\$22.3 million, as the results of the launch of value-added products, effective control of operating costs and enhancement of production efficiency.

The sales turnover of consumer products segment increased to HK\$61.9 million, representing an increase of 22.2% as compared with the previous period, because of the increase in purchase orders from Europe. The operating loss had been reduced to HK\$4.1 million, which the majority of loss came from the provision of the one-time write-off for the inventory. However, the fierce market competition and the weakened market demand had put the business into a challenging, and uncertain situation.

Despite the fact that the western countries' economy is still filled with uncertainties, the purchase order for the group in the second half of the year has been growing steadily. Nevertheless, we anticipate the challenge on our operating costs as the results of rapid rise in labor wages and material costs. We will continue to control our costs and to manage our risks so as to enhance our profitability. At the same time, we will strengthen our competitiveness by continuing to invest in research and development, and also optimise the automation in our manufacturing and production.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and Financial Resources

The Group generally finances its operations with internally generated cash flow and banking facilities provided by its principal bankers and other financial institutions in Hong Kong and the Mainland China.

The total borrowings from banks and financial institutions include long term loans, finance leases, import and export loans, amounted to approximately HK\$45.9 million as at 30 June 2010, of which HK\$31.7 million is repayable within one year.

The Group's financial position remains healthy. As at 30 June 2010, the aggregate balance of cash and cash equivalents of the Group amounted to approximately HK\$23.4 million.

The Group's borrowings are on a floating rate basis and are mainly denominated in Hong Kong dollars, Renminbi or United States dollars. These match with the principal currencies in which the Group conducts its business. Currently, the Group has Renminbi-denominated loan amounting to approximately RMB18.3 million that are used by the Group's Zhongshan plants for working capital purpose.

The gearing ratio on the basis of total debts to total assets as at 30 June 2010 is 45.5% (at 31 December 2009: 50.1%).

Charge on the Group Assets

As at 30 June 2010, certain of the Group's buildings with a net carrying value of approximately HK\$48,926,000 (at 31 December 2009: HK\$49,500,000) and one of the Group's land with a net book value of approximately HK\$10,239,000 (at 31 December 2009: HK\$10,342,000) were pledged to secure a bank loan to the Group.

Contingent Liabilities

Except for corporate guarantees given to banks and other financial institutions in relation to facilities granted to the subsidiaries, a subsidiary of the Group is currently a defendant in a lawsuit brought by a party alleging that the subsidiary had breached a sales and purchase contract to deliver certain goods. The directors, based on the advice from the Group's external legal counsel, believe that the subsidiary has a reasonably good defence against the allegation and, accordingly, have not provided for any claim arising from the litigation, other than the related legal cost.

MANAGEMENT DISCUSSION AND ANALYSIS

Capital Structure

As at 30 June 2010, the Company had approximately 265.5 million shares in issue with total shareholders' fund of the Group amounting to approximately HK\$171.1 million.

Pursuant to the Scheme, the Board granted share options to certain supplier of services, senior executives, and employees, of the Group. The exercise in full of those share options granted but remaining not exercised would result in the issue of 1.5 million additional shares and proceeds of approximately HK\$0.39 million.

Fund Raising

Other than obtaining additional general banking facilities to finance the Group's trading requirements, we did not have any special fund raising activities during the period ended 30 June 2010.

Employees

As at 30 June 2010, the Group had a total workforce of approximately 2,190 of which approximately 60 were based in Hong Kong, approximately 5 were based overseas and approximately 2,125 were based in the Mainland China.

The Group remunerates its employees largely based on the prevailing industry practice and labor laws. Since December 1996, the Company has adopted a share option scheme for the purpose of providing incentives and rewards to the employees of the Group.

Moreover, under the Mandatory Provident Fund Scheme Ordinance of Hong Kong, the Group has operated a defined contribution Mandatory Provident Fund retirement benefits scheme for all its Hong Kong employees. For the overseas and Mainland China employees, the Group is required to contribute a certain percentage of its payroll costs to the central pension scheme operated by the respective local government.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2010, the interests of the directors in the share capital of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

Long positions in ordinary shares of the Company:

Name of director	Number of shares held, capacity and nature of interest		Total	Percentage of the Company's issued share capital
	Directly beneficially owned	Founder of a discretionary trust		
Lai Pei Wor	7,654,000	97,242,000*	104,896,000	39.51
Chan Yau Wah	7,700,000	–	7,700,000	2.90
	15,354,000	97,242,000	112,596,000	42.41

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

Save as disclosed above, as at 30 June 2010, none of the directors had registered an interest or short position in the shares or underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Directors' interests and short positions in shares and underlying shares" above, at no time during the period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries, a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

The following share options were outstanding under the Scheme of the Company during the period:

Name or category of participant	Number of share options						Date of grant of share options*	Exercise period of share options	Price of the	
	At 1 January 2010	Granted during the period	Exercised during the period	Cancelled during the period	Forfeited/ expired during the period	At 30 June 2010			Exercise price of share options**	Company's shares at grant date of options***
									HK\$	HK\$
Employees other than the directors	1,500,000	-	-	-	-	1,500,000	26.1.2005	1.1.2006 to 31.12.2012	0.260	0.260

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

- * *The vesting period of the share options is from the date of grant until the commencement of the exercise period.*
- ** *The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.*
- *** *The price of the Company's shares disclosed as at the date of grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options.*

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2010, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

Name	Directly beneficially owned	Number of shares held, capacity and nature of interest		Total	Percentage of the Company's issued share capital
		Through spouse or minor children	Beneficiary of a trust		
Chan Yuk Lin (Note a)	–	7,654,000	97,242,000	104,896,000	39.51
Celaya (PTC) Limited (Note b)	–	–	97,242,000	97,242,000	36.63
Trident Corporate Services (B.V.I.) Limited (Note c)	–	–	97,242,000	97,242,000	36.63
Lai Yiu Chun (Note d)	1,866,000	21,450,000	–	23,316,000	8.78
Lam Lin Chu, Winnie (Note d)	23,116,000	200,000	–	23,316,000	8.78

Notes:

- (a) *Ms. Chan Yuk Lin, spouse of Mr. Lai Pei Wor, was deemed to be interested in the shares.*
- (b) *Celaya (PTC) Limited holds 97,242,000 shares in its capacity as trustee of The Lai Family Unit Trust, of which all units are held by Trident Corporate Services (B.V.I.) Limited in its capacity as trustee of The Lai Family Trust, a discretionary trust of which the spouse and issue of Mr. Lai Pei Wor are discretionary objects.*
- (c) *The shares referred to herein relate to the same parcel of shares referred to in note (b) above.*
- (d) *Ms. Lam Lin Chu, Winnie is the wife of Mr. Lai Yiu Chun, who is a brother of Mr. Lai Pei Wor. Both Ms. Lam Lin Chu, Winnie and Mr. Lai Yiu Chun are declaring interests in the same parcel of shares.*

Save as disclosed above, as at 30 June 2010, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries had purchased, redeemed or sold any of the Company's listed securities during the period.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the directors, saved for the deviation discussed below, the Company has complied with all the code provisions of the Code on Corporate Governance Practices, as set out in Appendix 14 of the Listing Rules throughout the accounting period covered by the interim report.

Code Provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual.

The roles of the Chairman and the Chief Executive Officer are not separate and are performed by Mr. Lai Pei Wor. Since the Board will meet regularly to consider major matters affecting the operations of the Company, the Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company and believes that this structure will enable the Company to make and implement decisions promptly and efficiently.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the code of conduct regarding directors' securities transactions as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of Appendix 10 of the Listing Rules. Based on specific enquiry of the Company's directors, all directors have complied with the required standard set out in the Model Code throughout the period.

AUDIT COMMITTEE

The Company has an audit committee which was established in compliance with Rule 3.21 of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee of the Company comprises three independent non-executive directors, namely, Mr. Kung Fan Cheong, Mr. Leung Man Kay and Mr. Li Yuen Kwan, Joseph. The audit committee has reviewed the unaudited interim financial statements for the six months ended 30 June 2010.

On behalf of the Board

Lai Pei Wor

Chairman

Hong Kong, 27 August 2010

As at the date of this report, the Board comprises Messrs. Lai Pei Wor and Chan Yau Wah (being executive directors) and Messrs. Kung Fan Cheong, Leung Man Kay and Li Yuen Kwan, Joseph (being independent non-executive directors).