



**TONIC**

東力實業控股有限公司  
Tonic Industries Holdings Limited

(Stock Code : 0978)

Tonic Industries  
**Tonic Industries**

Tonic Industries  
**Tonic Industries**

Tonic Industries

TONIC INDUSTRIES

Tonic Industries Tonic Industries

Tonic Industries

Tonic Industries

Tonic Industries

Interim Report

**2008**

## **CORPORATE INFORMATION**

### **DIRECTORS**

#### **Executive Directors**

Mr. LING Siu Man, Simon  
*(Chairman & Managing Director)*  
Mr. WONG Ki Cheung  
Ms. LI Fung Ching, Catherine  
Mr. AU Wai Man  
Mr. LAM Kwai Wah

#### **Independent Non-executive Directors**

Mr. PANG Hon Chung  
Mr. CHENG Tsang Wai  
Dr. CHUNG Hing Wah, Paul

### **REGISTERED OFFICE**

P.O. Box 309 GT  
Ugland House  
South Church Street  
George Town  
Grand Cayman  
Cayman Islands  
British West Indies

### **HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS**

Unit B, 10th Floor  
Summit Building  
30 Man Yue Street  
Hung Hom  
Kowloon  
Hong Kong

### **COMPANY SECRETARY**

Ms. WONG Pui Shan, Cammy,  
*FCCA, CPA, ACIS, ACS*

### **LEGAL ADVISOR**

Richards Butler

### **AUDITORS**

Ernst & Young

### **AUDIT COMMITTEE**

Mr. PANG Hon Chung *(Chairman)*  
Mr. CHENG Tsang Wai  
Dr. CHUNG Hing Wah, Paul

### **REMUNERATION COMMITTEE**

Mr. CHENG Tsang Wai *(Chairman)*  
Mr. PANG Hon Chung  
Ms. LI Fung Ching, Catherine

### **EXECUTIVE COMMITTEE**

Mr. LING Siu Man, Simon *(Chairman)*  
Mr. WONG Ki Cheung  
Ms. LI Fung Ching, Catherine  
Mr. AU Wai Man  
Mr. LAM Kwai Wah

### **PRINCIPAL BANKERS**

Hang Seng Bank Limited  
The Hongkong and Shanghai Banking  
Corporation Limited  
China Construction Bank Corporation  
Citic Ka Wah Bank Limited

### **SHARE REGISTRARS AND TRANSFER OFFICE**

In Hong Kong  
Tricor Tengis Limited  
26/F, Tesbury Centre  
28 Queen's Road East  
Hong Kong

In Cayman Islands  
Butterfield Fund Services  
(Cayman) Limited  
Butterfield House  
68 Fort Street  
PO Box 705  
George Town  
Grand Cayman  
Cayman Islands  
British West Indies

### **WEBSITES**

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

### **STOCK CODE**

978

The board of directors (the “Board”) of Tonic Industries Holdings Limited (the “Company”) is pleased to announce that the unaudited condensed consolidated financial statements of the Company and its subsidiaries (the “Group”) for the six months ended 30 September 2008 (the “Period”) together with the comparative figures for the previous corresponding period are as follows:

## CONDENSED CONSOLIDATED INCOME STATEMENT

		<b>For six months ended 30 September</b>	
	<i>Notes</i>	<b>2008 Unaudited HK\$'000</b>	2007 Unaudited HK\$'000
Revenue	2	<b>1,545,706</b>	1,128,319
Cost of sales		<b>(1,455,615)</b>	(1,054,388)
Gross profit		<b>90,091</b>	73,931
Gain on disposal of a property		<b>29,254</b>	326
Other income and gains		<b>221</b>	9,095
Selling and distribution costs		<b>(3,036)</b>	(2,514)
Administrative expenses		<b>(48,444)</b>	(49,044)
Finance costs		<b>(16,654)</b>	(15,850)
Profit before tax	3	<b>51,432</b>	15,944
Tax	4	<b>(650)</b>	(289)
Profit for the Period attributable to equity holders of the Company		<b>50,782</b>	15,655
Interim dividend		<b>Nil</b>	Nil
Interim dividend per share		<b>N/A</b>	N/A
Earnings per share attributable to equity holders of the Company	5		
– Basic		<b>4.8 cents</b>	1.6 cents
– Diluted		<b>N/A</b>	N/A

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company							Total Unaudited HK\$'000
	Share Issued capital Unaudited HK\$'000	premium account Unaudited HK\$'000	Contributed surplus Unaudited HK\$'000	Asset revaluation reserve Unaudited HK\$'000	Exchange fluctuation reserve Unaudited HK\$'000	Retained profits Unaudited HK\$'000	Proposed final dividend Unaudited HK\$'000	
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	
At 1 April 2007	95,289	59,098	280	98,165	7,029	271,980	9,529	541,370
Exchange realignment	-	-	-	-	829	-	-	829
Net profit for the period	-	-	-	-	-	15,655	-	15,655
Final 2007 dividend	-	-	-	-	-	-	(9,529)	(9,529)
At 30 September 2007	<u>95,289</u>	<u>59,098</u>	<u>280</u>	<u>98,165</u>	<u>7,858</u>	<u>287,635</u>	<u>-</u>	<u>548,325</u>
At 1 April 2008	105,789	71,388	280	98,165	8,463	277,665	-	561,750
Exchange realignment	-	-	-	-	5,736	-	-	5,736
Written back on disposal	-	-	-	(1,364)	-	1,554	-	190
Net profit for the period	-	-	-	-	-	50,782	-	50,782
At 30 September 2008	<u>105,789</u>	<u>71,388</u>	<u>280</u>	<u>96,801</u>	<u>14,199</u>	<u>330,001</u>	<u>-</u>	<u>618,458</u>

## CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	30 September 2008 Unaudited HK\$'000	31 March 2008 Audited HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		748,125	736,084
Prepaid land lease payments		41,089	43,279
Intangible assets		21,681	22,716
Non-current portion of an other receivable		2,470	2,470
Deposits for acquisition of items of property, plant and equipment		190	2,399
		<b>813,555</b>	<b>806,948</b>
<b>CURRENT ASSETS</b>			
Inventories		599,324	526,835
Accounts and bills receivables	6	257,872	207,724
Factored accounts receivables	7	234,635	118,451
Current portion of loans receivable		—	93
Prepayments, deposits and other receivables		32,050	21,342
Prepaid land lease payments		1,551	971
Equity investments at fair value through profit or loss		2,880	4,080
Tax recoverable		158	—
Cash and bank balances		53,314	31,031
		<b>1,181,784</b>	<b>910,527</b>
<b>CURRENT LIABILITIES</b>			
Accounts payables	8	637,864	507,856
Accrued liabilities and other payables		42,357	53,143
Interest-bearing bank and other borrowings		312,059	303,183
Bank advances on factored accounts receivables		234,635	118,451
Derivative financial instruments		602	3,325
Tax payable		19,328	18,635
		<b>1,246,845</b>	<b>1,004,593</b>
<b>NET CURRENT LIABILITIES</b>			
		<b>(65,061)</b>	<b>(94,066)</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
		<b>748,494</b>	<b>712,882</b>
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank and other borrowings		75,780	96,686
Net deferred tax liabilities		54,256	54,446
		<b>130,036</b>	<b>151,132</b>
		<b>618,458</b>	<b>561,750</b>
<b>EQUITY</b>			
Equity attributable to equity holders of the Company			
Issued capital	9	105,789	105,789
Reserves		512,669	455,961
		<b>618,458</b>	<b>561,750</b>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	<b>For six months ended 30 September</b>	
	<b>2008</b>	2007
	<b>Unaudited</b>	Unaudited
	<b>HK\$'000</b>	HK\$'000
Net cash inflow from operating activities	<b>28,695</b>	46,660
Net cash inflow/(outflow) from investing activities	<b>7,569</b>	(19,663)
Net cash outflow from financing activities	<b>(12,861)</b>	(64,285)
Increase/(Decrease) in cash and cash equivalents	<b>23,403</b>	(37,288)
Cash and cash equivalents at 1 April	<b>26,732</b>	92,698
Effect of foreign exchange rate changes, net	<b>248</b>	322
Cash and cash equivalents at 30 September	<b>50,383</b>	55,732
Represented by cash and bank balances	<b>50,383</b>	55,732

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

### 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The Board is responsible for the preparation of the Group's unaudited condensed consolidated interim financial statements. These unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting". The accounting policies and basis of preparation adopted in the preparation of these unaudited condensed consolidated interim financial statements are the same as those used in the annual financial statements for the year ended 31 March 2008.

The following amendments to standards and interpretations are effective in these unaudited condensed consolidated interim financial statements:

- HKAS 39 and HKFRS 7 Amendments      Reclassification of Financial Assets
- HK(IFRIC) – Int 12      Service Concession Arrangements
- HK(IFRIC) – Int 14      HKAS 19 – The Limit on a Defined Benefit Asset,  
Minimum Funding Requirements and their Interaction

Adoption of the above amendments to standards and interpretations does not have significant impact on the Group's operating results or financial position.

The Group has not applied any new and revised standards, amendments to standards and interpretations that are not yet effective for the current accounting period. The Group has already commenced an assessment of the impact of these new standards, amendments to standards and interpretations but is not yet in a position to state whether they would significantly impact on its results of operations and financial position.

## 2. SEGMENT INFORMATION

The principal activities of the Group are the sale and manufacture of consumer electronic products and components and home appliance products.

The following tables present unaudited revenue for the Group's geographical segments and business segments for the six months ended 30 September 2008 and 2007 respectively.

### Geographical segments

	Americas		Europe		Asia Pacific countries		Consolidated	
	2008 Unaudited HK\$'000	2007 Unaudited HK\$'000	2008 Unaudited HK\$'000	2007 Unaudited HK\$'000	2008 Unaudited HK\$'000	2007 Unaudited HK\$'000	2008 Unaudited HK\$'000	2007 Unaudited HK\$'000
Segment revenue:								
Sales to external customers	973,340	431,392	218,547	470,235	353,819	226,692	1,545,706	1,128,319

### Business segments

	Electronic products and components		Home appliance products		Corporate		Consolidated	
	2008 Unaudited HK\$'000	2007 Unaudited HK\$'000	2008 Unaudited HK\$'000	2007 Unaudited HK\$'000	2008 Unaudited HK\$'000	2007 Unaudited HK\$'000	2008 Unaudited HK\$'000	2007 Unaudited HK\$'000
Segment revenue:								
Sales to external customers	1,359,266	956,901	186,440	171,418	-	-	1,545,706	1,128,319
Other segment revenue	991	9,911	344	232	-	-	1,335	10,143
Total	1,360,257	966,812	186,784	171,650	-	-	1,547,041	1,138,462
Segment results	40,102	27,736	1,355	9,235	(1)	(3)	41,456	36,968
Interest income and unallocated income							27,846	1,044
Unallocated expenses							(1,216)	(6,218)
Finance costs							(16,654)	(15,850)
Profit before tax							51,432	15,944
Tax							(650)	(289)
Profit for the Period							50,782	15,655

### 3. PROFIT BEFORE TAX

	<b>For the six months ended 30 September</b>	
	<b>2008</b>	2007
	<b>Unaudited</b>	Unaudited
	<b>HK\$'000</b>	HK\$'000
Profit before tax is arrived at after charging/(crediting):		
Amortisation of trademarks	<b>141</b>	139
Amortisation of research and development costs	<b>5,867</b>	5,571
Depreciation	<b>32,991</b>	36,113
Interest on interest-bearing bank borrowings	<b>16,654</b>	15,850
	<hr/>	<hr/>
Gain on disposal of a property	<b>(29,254)</b>	(326)
Fair value loss on equity investments at fair value through profit or loss	<b>1,200</b>	6,192
Interest income	<b>(71)</b>	(739)
	<hr/>	<hr/>

### 4. TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profits arising in Hong Kong during the Period. 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 legislations, interpretations and practices in respect thereof.

### 5. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share for the Period is based on the profit for the Period attributable to equity holders of the Company of HK\$50,782,000 (2007: HK\$15,655,000) and the weighted average of 1,057,889,962 ordinary shares (2007: 952,889,962 shares) in issue during the Period.

There is no diluted earnings per share for the Period since the Company has no dilutive potential ordinary share.

**6. ACCOUNTS AND BILLS RECEIVABLES**

The aged analysis of the Group's accounts and bills receivables as at the balance sheet date is as follows:

	<b>30 September 2008 Unaudited HK\$'000</b>	31 March 2008 Audited HK\$'000
0 – 30 days	<b>144,578</b>	126,393
31 – 60 days	<b>47,489</b>	32,993
61 – 90 days	<b>32,224</b>	16,950
Over 90 days	<b>33,581</b>	31,388
	<hr/> <b>257,872</b> <hr/>	<hr/> 207,724 <hr/>

The Group's trading terms with its customers are mainly on credit. The credit period is generally 30 days, extending up to 90 days for major customers. The Group's accounts and bills receivables are non-interest-bearing and their carrying amounts approximate to their fair values.

**7. FACTORED ACCOUNTS RECEIVABLES**

The aged analysis of the Group's factored accounts receivables as at the balance sheet date is as follows:

	<b>30 September 2008 Unaudited HK\$'000</b>	31 March 2008 Audited HK\$'000
0 – 30 days	<b>79,591</b>	40,172
31 – 60 days	<b>103,896</b>	31,231
61 – 90 days	<b>45,689</b>	36,728
Over 90 days	<b>5,459</b>	10,320
	<hr/> <b>234,635</b> <hr/>	<hr/> 118,451 <hr/>

The maturity date of the factored accounts receivables range from 60 to 90 days. No impairment is made on the factored accounts receivables.

**8. ACCOUNTS PAYABLES**

The aged analysis of the Group's accounts payables as at the balance sheet date is as follows:

	<b>30 September 2008 Unaudited HK\$'000</b>	31 March 2008 Audited HK\$'000
0 – 30 days	<b>141,098</b>	230,043
31 – 60 days	<b>144,029</b>	66,951
61 – 90 days	<b>100,280</b>	67,128
Over 90 days	<b>252,457</b>	143,734
	<hr/> <b>637,864</b> <hr/>	<hr/> 507,856 <hr/>

The Group's accounts payables are non-interest-bearing and are on 30 days to 120 days open account basis. The carrying amounts of the accounts payables approximate to their fair values.

**9. SHARE CAPITAL**

	<b>30 September 2008 Unaudited HK\$'000</b>	31 March 2008 Audited HK\$'000
<i>Authorised:</i>		
3,000,000,000 (31 March 2008: 1,200,000,000) ordinary shares of HK\$0.10 each	<hr/> <b>300,000</b> <hr/>	<hr/> 120,000 <hr/>
<i>Issued and fully paid:</i>		
1,057,889,962 (31 March 2008: 1,057,889,962) ordinary shares of HK\$0.10 each	<hr/> <b>105,789</b> <hr/>	<hr/> 105,789 <hr/>

**10. CONTINGENT LIABILITIES**

On 11 November 2008, Thomson Hong Kong Holdings Limited ("Plaintiff"), a former customer of the Group, filed a writ of summons with the High Court of Hong Kong against the Company and two of its indirect wholly-owned subsidiaries namely, Tonic Digital Products Limited and Tonic Electronics Limited (collectively known as the "Defendants"), in respect of disputes relating, inter alia, goods returned for refund by the Plaintiff, claiming damages in the sum of US\$4,289,664.15 (approximately HK\$33,244,897.16) together with interests. The Defendants are currently preparing their defence. Since the disputes are at preliminary stage, no provision has been made by the Group.

**11. COMMITMENTS**

(a) **Capital commitments in respect of fixed assets**

	<b>30 September 2008 Unaudited HK\$'000</b>	31 March 2008 Audited HK\$'000
Contracted, but not provided for:		
Equipment and tools	<u>177</u>	<u>590</u>

(b) As at 30 September 2008, the Group had outstanding forward currency contracts with an aggregate notional amount of approximately HK\$324 million (31 March 2008: HK\$502 million) to hedge payables denominated in United States dollars.

**12. COMPARATIVE AMOUNTS**

Certain comparative amounts have been reclassified to conform with the presentation and accounting treatment for the Period.

## **INTERIM DIVIDEND**

The Board has resolved not to declare any interim dividend in respect of the Period (2007: Nil).

## **MANAGEMENT DISCUSSION & ANALYSIS**

### **Group Result**

Turnover of the Group for the Period reached approximately HK\$1,546 million, an increase of approximately 37% against the same period last year. EBITDA and profit attributable to shareholders were approximately HK\$107 million and HK\$51 million respectively, representing a 45% and 224% increase when compared with the corresponding period of 2007.

### **Business Review**

The increased turnover was mainly attributable to the rise in demand for satellite receivers and digital/cable set top boxes as a result of the switch from analogue to digital television services worldwide.

During the Period, increase in raw materials prices, labour costs and manufacturing overheads, and high crude oil price and appreciation of the Renminbi continued to pose pressure on the production cost of the Group, squeezing its gross profit.

The substantial increase in net profit for the Period was mainly due to the accounting profit of approximately HK\$29 million from the disposal of a property then occupied by Mr. Ling Siu Man, Simon ("Mr. Ling"), chairman, managing director and controlling shareholder of the Company.

### **Prospects**

Going ahead, the Group expects to continue to benefit from the replacement of analogue mode by digital mode in countries all over the world. It will focus on developing low-cost set top boxes for different countries in anticipation of a surge in demand to prepare for the arrival of digital broadcasting.

In the foreseeable future, with the global financial turmoil slowing down economies, particularly in the United States and Europe, demand for consumer electronics are expected to contract presenting a difficult operating environment to the Group. To counter the drop in demand from the United States and European markets, the Group has diversified sales to the PRC, Asia and South America markets. The Group will continue to implement cost saving measures and closely monitor production costs, with the aim of maintaining competitiveness. It will also keep directing resources into research and development of new high-end consumer electronic products such as advanced version of the blu-ray disc player, IPTV products and high definition set top boxes to meet quality requirement of consumers.

### Liquidity and Financial Resources

As at 30 September 2008, the net asset value of the Group attributable to equity holders amounted to approximately HK\$618 million (31 March 2008: approximately HK\$562 million), including cash and bank balances of approximately HK\$53 million (31 March 2008: approximately HK\$31 million) which were denominated mainly in Hong Kong dollar.

The trade receivable balance as at 30 September 2008 was approximately HK\$493 million (31 March 2008: approximately HK\$326 million), including factored accounts receivables of HK\$235 million (31 March 2008: approximately HK\$118 million). Except for the factored receivables which had credit insurance coverage, all other trade receivables were on letter of credit.

As at 30 September 2008, the Group had aggregate borrowings of approximately HK\$622 million (31 March 2008: approximately HK\$518 million), of which approximately HK\$612 million was bank borrowings and approximately HK\$10 million was for obligations under finance leases. The Group's borrowings are denominated in Hong Kong dollar and bear interest mainly on HIBOR basis. The gearing ratio of the Group, calculated based on net borrowings over shareholders' funds, was 92% (31 March 2008: 87%). The higher gearing ratio was mainly attributed to the increase in bank advances on factored receivables.

Included in the bank borrowings was a 3-year HK\$150 million term loan facility signed on 23 March 2006 with a syndicate of 7 international and local banks repayable by installment starting 18 months after the agreement date. As at 30 September 2008, the outstanding balance of the loan was HK\$37.5 million. Pursuant to the terms of the loan agreement, Mr. Ling, chairman and managing director of the Group, is required to maintain at least 40% shareholding of the Company, be the single largest shareholder and be actively involved in the management and business of the Group, otherwise, the agreement will be considered as default.

The Group is not exposed to any material currency fluctuation risks, as most of its receivables as well as payables are in US dollar. The Group has natural hedges against currency risks and follows the policy of not engaging in speculative activities. In addition, the Group receives Renminbi for domestic sales, which has been sufficient to offset Renminbi expenses of factories in the PRC.

### Litigation

On 11 November 2008, Thomson Hong Kong Holdings Limited ("Plaintiff"), a former customer of the Group, filed a writ of summons with the High Court of Hong Kong against the Company and two of its indirect wholly-owned subsidiaries namely, Tonic Digital Products Limited and Tonic Electronics Limited (collectively known as the "Defendants"), in respect of disputes relating, inter alia, goods returned for refund by the Plaintiff, claiming damages in the sum of US\$4,289,664.15 (approximately HK\$33,244,897.16) together with interest. The Defendants are currently preparing their defence.

On 20 October 2006, Tonic Digital Products Limited commenced legal proceedings against the former customer Senlan Limited ("Senlan") for goods sold and delivered in the sum of US\$456,135 (equivalent to approximately HK\$3,557,853) together with interest. By reason of failure of Senlan to comply with the court order, its defence was struck out by the court and judgment was entered against it on 31 July 2008. According to ruling of the court, Senlan should pay Tonic Digital the sum of US\$456,135 plus interest on such sum at judgment rate for the period between 20 October 2006 and the date of full payment.

### Employee relations

As at 30 September 2008, the Group had approximately 7,000 employees in Hong Kong and the PRC (as at 31 March 2008: 8,200). Staff cost including salaries and wages for the six months ended 30 September 2008 totalled approximately HK\$93 million (six months ended 30 September 2007: approximately HK\$87 million). Employee remuneration packages of the Group are generally structured with reference to market conditions, individual qualifications and performance. In addition to basic salary payment, other benefits offered to employees include contributions to mandatory provident fund, medical insurance and work-related personal accident insurance. Employees may also be granted share options at the discretion of the Board in accordance with the Company's share option scheme.

## DIRECTORS' INTERESTS IN SHARES

At 30 September 2008, the interests of the directors in the share capital of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), were as follows:

### a) Long positions in ordinary shares of the Company

Name of director	Nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Ling Siu Man, Simon	Corporate (Note)	668,492,476	63.19
Wong Ki Cheung	Personal	1,749,000	0.17
Li Fung Ching, Catherine	Personal	2,142,000	0.20
Cheng Tsang Wai	Personal	1,626,000	0.15
		<hr/>	
		674,009,476	<hr/> 63.71

Note: These shares were held by Success Forever Limited, a company incorporated in the British Virgin Islands, the entire issued share capital of which is beneficially owned by Mr. Ling.

### b) Associated corporation

At 30 September 2008, Mr. Ling personally held 3,000 non-voting deferred shares of HK\$100 each of Tonic Electronics Limited, a subsidiary of the Company.

The interests of the directors in the share options of the Company are separately disclosed in the section "Share Option Scheme" below.

Save as disclosed above, as at 30 September 2008, none of the directors had registered an interest or short position in the shares, underlying shares or debentures 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

Apart from as disclosed in the section "Directors' Interests in Shares" above and "Share Option Scheme" below, 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 directors or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding 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

Under a share option scheme adopted by the Company on 18 September 1997 ("Share Option Scheme"), the directors may, at any time during ten years, grant share options to employees and executive directors of the Group to subscribe for shares of the Company.

The following table discloses movements in the Company's share option during the Period:

	Number of outstanding share options			Date of grant of share options	Exercise period of share options	Exercise price of share options HK\$
	At 1 April 2008	lapsed during the Period	At 30 September 2008			
<b>Directors:</b>						
Ling Siu Man, Simon	15,000,000	-	15,000,000	07-04-00	10-04-00 to 09-04-10	0.467
Wong Ki Cheung	2,715,000	-	2,715,000	07-04-00	10-04-00 to 09-04-10	0.467
Li Fung Ching, Catherine	2,715,000	-	2,715,000	07-04-00	10-04-00 to 09-04-10	0.467
Au Wai Man	2,715,000	-	2,715,000	07-04-00	10-04-00 to 09-04-10	0.467
Lam Kwai Wah	1,650,000	-	1,650,000	07-04-00	10-04-00 to 09-04-10	0.467
	<u>24,795,000</u>	<u>-</u>	<u>24,795,000</u>			
<b>Other employees:</b>						
In aggregate	<u>32,025,000</u>	<u>(825,000)</u>	<u>31,200,000</u>	07-04-00	10-04-00 to 09-04-10	0.467
	<u>56,820,000</u>	<u>(825,000)</u>	<u>55,995,000</u>			

No theoretical value of share options is disclosed as no share options were granted during the Period.

No options were granted or exercised during the Period.

## **SUBSTANTIAL SHAREHOLDERS' INTERESTS**

At 30 September 2008, the following parties having interests of 5% or more of the issued share capital of the Company were recorded in the register of interests kept by the Company pursuant to Section 336 of the SFO:

<b>Name of substantial shareholder</b>	<b>Nature of interests</b>	<b>Number of ordinary shares held</b>	<b>Percentage of the Company's issued share capital (%)</b>
Success Forever Limited <i>(Note 1)</i>	Beneficially owned	668,492,476	63.19
CorporActive Fund Limited <i>(Note 2)</i>	Beneficially owned	105,000,000	9.93

*Notes:*

- (1) The entire issued share capital of Success Forever Limited is beneficially owned by Mr. Ling as disclosed in the section "Directors' Interests in Shares" above.
- (2) CorporActive Fund Limited, an investment fund managed by Somerley Limited.

Save as disclosed above, as at 30 September 2008, no person, other than the directors, whose interests are set out in the section "Directors' Interests in Shares" above, had registered an interest or short positions in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

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

## **AUDIT COMMITTEE**

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the unaudited interim financial statements for the Period with the management of the Group.

## **CODE OF CORPORATE GOVERNANCE PRACTICES**

The Group is committed to ensure a high standard of corporate governance. For the six months ended 30 September 2008, the Group has applied the principles and complied with the code provisions ("Code Provisions") set out in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited with the following deviations:

Code Provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. Mr. Ling is the chairman and chief executive officer of the Group. He is responsible for the Group's overall strategic planning, management of the Board's affairs. The Board considers that this structure is more effective and efficient in running the business. The Board believes that Mr. Ling's appointment to the posts of chairman and chief executive officer is beneficial to the business prospects of the Group.

Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election. One of the existing non-executive directors of the Company, Mr. Pang Hon Chung, being an independent non-executive director of the Company, does not have a specific term of appointment. However, non-executive directors are subject to the requirement to retire by rotation at annual general meetings under the Company's Articles of Association accomplishing the same objective as a specific term of appointment.

Code Provision A.4.2 stipulates that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. According to Article 116 of the Articles of Association of the Company, at each annual general meeting, the number nearest to but not less than one-third of the directors (other than the chairman or the managing director or joint managing director) for the time being shall retire from office by rotation, provided that every director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. The Board considers that Mr. Ling, being the chairman and managing director of the Company, should not be subject to retirement by rotation to ensure continuity of leadership and stability for growth of the Company.

The Group's compliance with the provisions and recommended best practices of the CG Code together with reasons for any deviations are set out in the Corporate Governance Report contained in the Company's 2008 Annual Report issued on 18 July 2008.

## **MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS**

The Company has adopted its code of conduct regarding the directors' securities transactions on terms no less exacting than the required standard set out in the Model Code as then in force, and after having made specific enquiry to all of the directors of the Company, the directors are satisfied that the required standard set out in the Model Code and its code of conduct regarding the directors' securities transactions have been fully complied with, throughout the accounting period covered by the interim report.

## **SECURITIES TRANSACTIONS BY RELEVANT EMPLOYEES**

Under Code Provision A.5.4, the Board has established written guidelines on no less exacting terms than the Model Code for relevant employees in respect of their dealings in the Company's securities. "Relevant employee" includes any employee of the Group or a director or employee of a subsidiary or holding company of the issuer, because of such office or employment, is likely to be in possession of unpublished price sensitive information in relation to the Group and its securities. Having made specific enquiry of all Relevant Employees, the Company confirms that all Relevant Employees have complied with the written guidelines regarding securities transactions for the Period.

On behalf of the Board  
**LING Siu Man, Simon**  
*Chairman & Managing Director*

Hong Kong, 19 December 2008