



## **K & P INTERNATIONAL HOLDINGS LIMITED**

*(Incorporated in Bermuda with limited liability)* (Stock Code: 675)

# Interim Report 2007

## 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 2007 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 2007

		For the six months ended 30 June	
		2007	2006
		(Unaudited)	(Unaudited)
	Notes	HK\$	HK\$
REVENUE	2	<b>171,813,947</b>	176,655,551
Cost of sales		<b>(134,780,848)</b>	(141,456,836)
Gross profit		<b>37,033,099</b>	35,198,715
Other income and gains	3	<b>4,228,443</b>	4,259,675
Selling and distribution costs		<b>(18,304,691)</b>	(19,298,247)
Administrative expenses		<b>(18,286,476)</b>	(17,924,377)
Other expenses		<b>(75,970)</b>	(720,612)
Finance costs	4	<b>(2,888,495)</b>	(3,389,348)
PROFIT/(LOSS) BEFORE TAX	5	<b>1,705,910</b>	(1,874,194)
Tax	6	<b>(580,000)</b>	(889,361)
PROFIT/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		<b>1,125,910</b>	(2,763,555)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	7		
Basic		<b>0.42 cents</b>	(1.04) cents
Diluted		<b>0.42 cents</b>	N/A
DIVIDEND PER SHARE	8	<b>Nil</b>	Nil

## CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2007

		<b>30 June 2007 (Unaudited) HK\$</b>	31 December 2006 (Audited) HK\$
	<i>Notes</i>		
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>85,633,152</b>	78,070,224
Prepaid land lease payments		<b>20,695,976</b>	20,747,231
Other intangible assets		<b>10,885,831</b>	10,405,833
Available-for-sale investments		<b>680,000</b>	680,000
Total non-current assets		<b>117,894,959</b>	109,903,288
<b>CURRENT ASSETS</b>			
Inventories		<b>48,137,561</b>	48,073,068
Prepayments, deposits and other receivables		<b>24,606,783</b>	19,084,685
Trade and bills receivables	9	<b>62,707,508</b>	70,267,865
Derivative financial instrument	11	<b>152,153</b>	–
Cash and cash equivalents		<b>37,022,553</b>	41,569,534
Total current assets		<b>172,626,558</b>	178,995,152
<b>CURRENT LIABILITIES</b>			
Trade payables	10	<b>39,523,513</b>	39,181,472
Accrued liabilities and other payables		<b>27,273,156</b>	28,274,501
Derivative financial instrument	11	–	1,444,685
Interest-bearing bank and other borrowings		<b>66,479,234</b>	60,524,148
Tax payable		<b>4,503,893</b>	3,388,279
Total current liabilities		<b>137,779,796</b>	132,813,085
<b>NET CURRENT ASSETS</b>		<b>34,846,762</b>	46,182,067
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>152,741,721</b>	156,085,355
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank and other borrowings		<b>11,421,635</b>	16,522,557
Deferred tax liabilities		<b>2,951,481</b>	2,951,481
Total non-current liabilities		<b>14,373,116</b>	19,474,038
<b>Net assets</b>		<b>138,368,605</b>	136,611,317
<b>EQUITY</b>			
Issued capital		<b>26,550,480</b>	26,550,480
Reserves		<b>111,818,125</b>	110,060,837
<b>Total equity</b>		<b>138,368,605</b>	136,611,317

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2007

	Issued share 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\$	Proposed final dividend (Unaudited) HK\$	Total equity (Unaudited) HK\$
<b>At 1 January 2007</b>	26,550,480	50,541,281	104,777	660,651	4,576,071	(2,727,597)	56,905,654	-	136,611,317
Exchange realignment	-	-	-	-	-	590,180	-	-	590,180
Total income and expense for the period recognised directly in equity	-	-	-	-	-	590,180	-	-	590,180
Profit for the period	-	-	-	-	-	-	1,125,910	-	1,125,910
<b>Total income and expense for the period</b>	-	-	-	-	-	590,180	1,125,910	-	1,716,090
Equity-settled share option arrangements	-	-	41,198	-	-	-	-	-	41,198
<b>At 30 June 2007</b>	<b>26,550,480</b>	<b>50,541,281</b>	<b>145,975</b>	<b>660,651</b>	<b>4,576,071</b>	<b>(2,137,417)</b>	<b>58,031,564</b>	<b>-</b>	<b>138,368,605</b>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

For the six months ended 30 June 2007

	Issued share 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\$	Proposed final dividend (Unaudited) HK\$	Total equity (Unaudited) HK\$
<b>At 1 January 2006</b>	26,550,480	50,541,281	69,285	660,651	3,816,011	(1,250,579)	55,518,694	1,327,524	137,233,347
Exchange realignment	-	-	-	-	-	(1,078,124)	-	-	(1,078,124)
Total income and expense for the period recognised directly in equity	-	-	-	-	-	(1,078,124)	-	-	(1,078,124)
Loss for the period	-	-	-	-	-	-	(2,763,555)	-	(2,763,555)
<b>Total income and expense for the period</b>	-	-	-	-	-	(1,078,124)	(2,763,555)	-	(3,841,679)
Final 2005 dividend declared	-	-	-	-	-	-	-	(1,327,524)	(1,327,524)
Equity-settled share option arrangements	-	-	20,806	-	-	-	-	-	20,806
<b>At 30 June 2006</b>	26,550,480	50,541,281	90,091	660,651	3,816,011	(2,328,703)	52,755,139	-	132,084,950

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2007

	For the six months ended 30 June	
	2007	2006
	(Unaudited) HK\$	(Unaudited) HK\$
NET CASH INFLOW FROM OPERATING ACTIVITIES	<b>15,139,818</b>	15,389,112
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	<b>(20,935,587)</b>	(4,654,715)
NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES	<b>854,164</b>	(25,263,005)
NET DECREASE IN CASH AND CASH EQUIVALENTS	<b>(4,941,605)</b>	(14,528,608)
Cash and cash equivalents at beginning of period	<b>41,569,534</b>	39,699,878
Effect of foreign exchange rate changes, net	<b>394,624</b>	(1,078,124)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<b>37,022,553</b>	24,093,146
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	<b>16,122,900</b>	4,009,016
Time deposits	<b>20,899,653</b>	20,084,130
	<b>37,022,553</b>	24,093,146

## 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. 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 2006, 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:

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 <i>Financial Reporting in Hyperinflationary Economies</i>
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment

The adoption of the above standards 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. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group’s operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group’s business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are 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.

## 2. SEGMENT INFORMATION (Continued)

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

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

### (a) Business segments

The following table presents revenue, loss and certain expenditure information for the Group's business segments for the six months ended 30 June 2007 and 2006.

	Precision parts and components		Consumer electronic products		Corporate and others		Eliminations		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Segment revenue:										
Sales to external customers	89,795,486	99,329,036	82,018,461	77,326,515	-	-	-	-	171,813,947	176,655,551
Intersegment sales	2,417,792	2,534,764	7,722	-	-	-	(2,425,514)	(2,534,764)	-	-
Other revenue and gains	3,412,585	3,451,260	226,451	164,631	1,083	5,661	-	-	3,640,119	3,621,552
<b>Total</b>	<b>95,625,863</b>	<b>105,315,060</b>	<b>82,252,634</b>	<b>77,491,146</b>	<b>1,083</b>	<b>5,661</b>	<b>(2,425,514)</b>	<b>(2,534,764)</b>	<b>175,454,066</b>	<b>180,277,103</b>
Segment results	7,757,655	6,755,932	(3,539,571)	(5,623,711)	(212,003)	(255,190)	-	-	4,006,081	877,031
Interest income									588,324	638,123
Finance costs									(2,888,495)	(3,389,348)
Profit/(Loss) before tax									1,705,910	(1,874,194)
Tax									(580,000)	(889,361)
Profit/(Loss) for the period									1,125,910	(2,763,555)
Other segment information:										
Depreciation and amortisation	6,869,901	7,927,249	5,768,074	3,984,103	501,598	344,436	-	-	13,139,573	12,255,788
Capital expenditure	14,907,076	3,443,077	5,643,028	4,206,932	19,750	38,360	-	-	20,569,854	7,688,369

## 2. SEGMENT INFORMATION (Continued)

### (b) Geographical segments

The following table presents revenue and certain expenditure information for the Group's geographical segments for the six months ended 30 June 2007 and 2006.

	Segment revenue		Other segment information	
	Sales to external customers	Capital expenditure	Capital expenditure	
	2007	2006	2007	2006
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$	HK\$	HK\$	HK\$
Hong Kong	<b>46,780,685</b>	53,690,989	<b>2,990,340</b>	2,800,082
Mainland China	<b>7,323,553</b>	13,738,793	<b>17,492,029</b>	4,852,112
Total in the People's Republic of China ("PRC")	<b>54,104,238</b>	67,429,782	<b>20,482,369</b>	7,652,194
Japan	<b>16,191,181</b>	18,421,717	-	-
Other Asian countries*	<b>7,591,322</b>	4,149,371	-	2,280
Total in Asia	<b>77,886,741</b>	90,000,870	<b>20,482,369</b>	7,654,474
Germany	<b>21,199,394</b>	26,918,066	-	-
Other European countries**	<b>48,702,685</b>	39,071,325	-	-
Total in Europe	<b>69,902,079</b>	65,989,391	-	-
USA	<b>19,388,931</b>	9,227,893	<b>87,485</b>	33,895
Other North American countries***	<b>521,885</b>	2,110,403	-	-
Total in North America	<b>19,910,816</b>	11,338,296	<b>87,485</b>	33,895
Others****	<b>4,114,311</b>	9,326,994	-	-
Consolidated	<b>171,813,947</b>	176,655,551	<b>20,569,854</b>	7,688,369

\* Other Asian countries mainly comprise Taiwan, Singapore, Malaysia, Thailand, Indonesia and Korea.

\*\* Other European countries mainly comprise Italy, the United Kingdom, France, the Netherlands, Austria, Sweden and Spain.

\*\*\* Other North American countries mainly comprise Canada and Mexico.

\*\*\*\* Others mainly comprise South America, Australia and New Zealand.

### 3. OTHER INCOME AND GAINS

	For the six months ended 30 June	
	2007	2006
	(Unaudited)	(Unaudited)
	HK\$	HK\$
Bank interest income	588,324	638,123
Tooling charge income	601,157	882,973
Sale of scrap	934,608	614,501
Sale commissions	–	1,578,071
Subcontracting fee income	–	80,367
Fair value gain on a derivative instrument – transaction not qualifying as a hedge	1,596,838	–
Gain on disposal of fixed assets	150,000	–
Others	357,516	465,640
	<u>4,228,443</u>	<u>4,259,675</u>

### 4. FINANCE COSTS

	For the six months ended 30 June	
	2007	2006
	(Unaudited)	(Unaudited)
	HK\$	HK\$
Interest on bank loans and overdrafts wholly repayable within five years	2,806,066	3,102,603
Interest on finance leases	82,429	286,745
	<u>2,888,495</u>	<u>3,389,348</u>

### 5. PROFIT/(LOSS) BEFORE TAX

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

	For the six months ended 30 June	
	2007	2006
	(Unaudited)	(Unaudited)
	HK\$	HK\$
Depreciation	10,447,658	11,048,288
Amortisation of other intangible assets	2,445,002	1,207,500
Recognition of prepaid land lease payments	246,812	238,607
Foreign exchange differences, net	733,312	1,091,626
	<u>13,872,784</u>	<u>13,585,021</u>

## 6. TAX

	For the six months ended 30 June	
	2007 (Unaudited) HK\$	2006 (Unaudited) HK\$
Group:		
Current – Hong Kong		
Charge for the period	<u>580,000</u>	<u>889,361</u>

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profits arising in Hong Kong during the period.

## 7. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the period of HK\$1,125,910 (2006: loss of HK\$2,763,555), and on the weighted average of 265,504,800 (2006: 265,504,800) ordinary shares in issue during the period.

The calculation of diluted earnings per share is based on the net profit attributable to shareholders for the period of HK\$1,125,910. The weighted average number of ordinary shares used in the calculation is the 265,504,800 (2006: 265,504,800) ordinary shares in issue during the period, as used in the basic earnings per share calculation; and the weighted average of 103,448 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options outstanding during the period.

Diluted loss per share for the period ended 30 June 2006 has not been shown as the share options outstanding during last period had an anti-dilutive effect on the basic loss per share for last period.

## 8. DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2007 (six months ended 30 June 2006: Nil).

## 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 minimize 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.

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

	<b>30 June 2007 (Unaudited) HK\$</b>	31 December 2006 (Audited) HK\$
Within 90 days	<b>55,181,605</b>	59,488,486
Between 91 to 180 days	<b>6,009,977</b>	8,966,591
Over 180 days	<b>1,515,926</b>	1,812,788
	<b>62,707,508</b>	70,267,865

## 10. TRADE PAYABLES

An aged analysis of the trade payables as at the balance sheet date, based on invoice date, is as follows:

	<b>30 June 2007 (Unaudited) HK\$</b>	31 December 2006 (Audited) HK\$
Within 90 days	<b>38,183,784</b>	38,132,629
Between 91 to 180 days	<b>1,299,282</b>	849,474
Over 180 days	<b>40,447</b>	199,369
	<b>39,523,513</b>	39,181,472

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

## 11. DERIVATIVE FINANCIAL INSTRUMENT

The derivative financial instrument is a forward currency contract with carrying amount stated at its fair value.

The Group entered into a forward currency contract to sell US\$15,000,000 or buy US\$45,000,000. The maturity date of this forward currency contract is on 17 January 2008 and there is fifteen expiration dates throughout this contract, of which eight of them had been expired at the balance sheet date. This forward currency contract did not meet the criteria for hedge accounting. The change in the fair value of this non-hedging currency derivative of HK\$1,596,838 was credited to the income statement during the period (2006: nil).

## 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.

At the balance sheet date, the Company had 2,600,000 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 2,600,000 additional ordinary shares of the Company and additional share capital of HK\$260,000 and share premium of HK\$403,400 (before issue expenses).

At the date of approval of these condensed consolidated interim financial statements, the Company had 2,600,000 share options outstanding under the Scheme, which represented approximately 0.98% 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\$76,500,000 (as at 31 December 2006: HK\$74,000,000) had been utilised as at the balance sheet date, were secured by personal guarantees amounting to HK\$109,700,000 (as at 31 December 2006: HK\$124,700,000) given by a director of the Company. The director received no consideration for providing these guarantees.

### 13. RELATED PARTY TRANSACTIONS (Continued)

(b) Compensation of key management personnel of the Group

	For the six months ended 30 June	
	2007	2006
	(Unaudited)	(Unaudited)
	HK\$	HK\$
Short term employee benefits	6,291,752	6,235,998
Post-employment benefits	14,040	–
Termination benefits	118,479	105,002
Share-based payments	9,248	20,806
	<hr/>	<hr/>
Total compensation paid to key management personnel	6,433,519	6,361,806

### 14. CONTINGENT LIABILITIES

	30 June	31 December
	2007	2006
	(Unaudited)	(Audited)
	HK\$	HK\$
Guarantees of banking facilities granted to subsidiaries	181,826,000	171,826,000

### 15. APPROVAL OF THE FINANCIAL STATEMENTS

These condensed consolidated interim financial statements were approved and authorised for issue by the board of directors on 24 September 2007.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Results

For the period ended 30 June 2007, the Group's turnover amounted to HK\$171.8 million, representing a 2.7% decrease from the previous period. However, overall gross profit increased from approximately HK\$35.2 million in the previous period to approximately HK\$37.0 million this period. Profit attributable to shareholders was approximately HK\$1.1 million (2006: loss HK\$2.8 million).

Basic earnings per share for the period ended 30 June 2007 amounted to HK0.42 cents (2006: loss HK1.04 cents) per share.

### Business Review and Future Plan

The sales turnover of the consumer electronic products segment of our Group increased by approximately 6.1% from approximately HK\$77.3 million of last period to approximately HK\$82.0 million this period. The improvement in sales turnover is mainly attributable to increase in sales to both established and new customers, including those in the USA. We are pleased to report that our sales to the North American market has improved further and attained over 75% increase from the corresponding period. With the increase in sales turnover, the operating results of the consumer electronic product segment improved by approximately HK\$2 million from the previous period.

The sales turnover of the precision parts and components segment decreased by approximately 9.6% from approximately HK\$99.3 million of last period to approximately HK\$89.8 million this period. As in previous year, the drop in the sales turnover of this segment is mainly caused by the decrease in demand of the local electronics sector. However, the gross profit margin of this segment has continued its improvement from the last year. As a result, the operating results of this segment has increased by approximately HK\$1 million from the previous period.

Similar to the previous years, we have been facing with escalating production and operating costs. However, we are able to better the Group's overall gross profit margin from approximately 20.0% in the previous period to 21.6% in this period. We will continue our strategy of developing new products with higher gross profit margin, implementing cost control measures and improving the production efficiency so as to maintain our gross profit margin and to enhance the Group's profitability.

We are in the process of streamlining the operation and reorganizing the group structure of the precision parts and components segment. It is expected that the new organization structure would be operating early next year. We anticipate that the new structure will enhance and strengthen our competitive edge in providing "One Stop Shopping" solution to our customers of precision parts and components segment.

## **MANAGEMENT DISCUSSION AND ANALYSIS (Continued)**

### **Business Review and Future Plan (Continued)**

The construction of the new manufacturing facility in Zhongshan, the PRC has progressed in accordance with our plan and is expected to be completed later this year. This new manufacturing facility will be used mainly for the production of precision plastic parts and components and will expand the production capacity so as to provide support for the growth of this segment business.

Regarding the consumer electronics products segment, we have entered into a license agreement with a weather information provider for the European market. The related products for receiving this information have been developed and been launched into the market in the third quarter of this year. We anticipate that this new product line would bring additional revenue to the Group.

### **Liquidity and Financial Resources**

The Group generally finances its operations with internally generated cashflow and banking facilities provided by its principal bankers and other financial institutions in Hong Kong.

The total borrowings from banks and financial institutions include long term loans, finance leases, overdraft, import and export loans, amounted to approximately HK\$77.9 million as at 30 June 2007, of which HK\$66.5 million is repayable within one year.

The Group's financial position remains healthy. At the balance sheet date, the aggregate balance of cash, cash equivalents and deposits of the Group amounted to approximately HK\$37 million.

The Group's borrowings are mainly on a floating rate basis and are mainly denominated in either Hong Kong dollars or United States dollars. These match with the principal currencies in which the Group conducts its business. Therefore, the Group does not have any significant foreign exchange risk.

The gearing ratio on the basis of total debts to total assets as at 30 June 2007 is 52.4% (31 December 2006: 52.7%)

### **Charge on the Group Assets**

There is no charge over the Group's assets as at 30 June 2007.

## **MANAGEMENT DISCUSSION AND ANALYSIS (Continued)**

### **Contingent Liabilities**

Except for corporate guarantee given to banks and other financial institutions in relation to facilities granted to the subsidiaries, the Company has no other contingent liabilities as at the balance sheet date.

### **Capital Structure**

As at 30 June 2007, the Company had approximately 265.5 million shares in issue with total shareholders' fund of the Group amounting to approximately HK\$138 million.

Pursuant to the share option scheme of the Company, the Board of Directors granted share options to certain senior executives, employees, and suppliers of the Group. The exercise in full of those share options granted but remaining not exercised would result in the issue of 2.6 million additional shares and proceeds of approximately HK\$0.7 million.

### **Fund Raising**

Other than obtaining additional general banking facilities to finance the Group's trading requirements, we did not have special fund raising exercise during the period ended 30 June 2007.

### **Employees**

As at 30 June 2007, the Group had a total workforce of approximately 3,200 of which approximately 80 were based in Hong Kong, approximately 15 were based in overseas and approximately 3,105 were based in the PRC.

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 operates a defined contribution Mandatory Provident Fund retirement benefits scheme for all its Hong Kong employees. For overseas and PRC 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

At 30 June 2007, 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 of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, 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	Through controlled corporation		
Lai Pei Wor	6,116,000	97,242,000*	103,358,000	38.93
Chan Yau Wah	7,700,000	–	7,700,000	2.90
Chung Yik Cheung, Raymond	2,652,000	–	2,652,000	1.00
	<u>16,468,000</u>	<u>97,242,000</u>	<u>113,710,000</u>	<u>42.83</u>

\* Details of 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 2007, 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 for Securities Transactions by Directors of Listed Issuers.

## 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 share option 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	Exercise price of share options** HK\$	Price of the Company's shares at grant date of options*** HK\$
	At 1 January 2007	Granted during the period	Exercised during the period	Expired during the period	Forfeited during the period	At 30 June 2007				
Employees other than the directors	2,200,000	-	-	-	(300,000)	1,900,000	26.1.2005	1.1.2006 to 31.12.2012	0.26	0.26
Supplier of goods and services	1,000,000	-	-	-	(300,000)	700,000	9.10.2006	1.4.2007 to 31.12.2012	0.242	0.242
In aggregate	<u>3,200,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(600,000)</u>	<u>2,600,000</u>				

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

- \* The vesting period of the share options is from the date of the 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 the 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 2007, 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	Number of shares held, capacity and nature of interest			Total	Percentage of the Company's issued share capital
	Directly beneficially owned	Through spouse or children	Beneficiary of a trust		
Chan Yuk Lin ( <i>Note a</i> )	–	6,116,000	97,242,000	103,358,000	38.93
Celaya Limited ( <i>Note b</i> )	–	–	97,242,000	97,242,000	36.63
Trident Corporate Services (B.V.I.) Limited ( <i>Note c</i> )	–	–	97,242,000	97,242,000	36.63
Lai Yiu Chun ( <i>Note d</i> )	1,866,000	21,450,000	–	23,316,000	8.78
Lam Lin Chu, Winnie ( <i>Note d</i> )	23,116,000	200,000	–	23,316,000	8.78

Notes:

- Chan Yuk Lin, spouse of Lai Pei Wor, was deemed to be interested in the shares.
- Celaya Limited holds 97,242,000 shares in its capacity as a 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 Lai Pak Hung (son of Lai Pei Wor) and Lai Yee Man (daughter of Lai Pei Wor) and Chan Yuk Lin (wife of Lai Pei Wor) are discretionary objects.
- The shares referred to herein relate to the same parcel of shares referred to in note (b) above.
- Lam Lin Chu, Winnie is the wife of Lai Yiu Chun, who is a brother of Lai Pei Wor. Both Lam Lin Chu, Winnie and Lai Yiu Chun are declaring interests in the same parcel of shares.

Save as disclosed above, as at 30 June 2007, 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 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 the code provisions of the Code of Corporate Governance Practices (the "Code"), as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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 the Listing Rules. Based on specific enquiry of 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 2007.

By Order of the Board  
**Lai Pei Wor**  
*Chairman*

Hong Kong, 24 September 2007