



KIN YAT HOLDINGS LIMITED

建溢集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 638)



2006 Interim Report

The Board of Directors (the "Board") is pleased to announce the unaudited consolidated results for Kin Yat Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the six months ended 30 September 2006 together with the comparative figures for the corresponding period in 2005 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited	
		Six months ended	
		30 September	
		2006	2005
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
TURNOVER	2	471,928	531,155
Cost of sales		(391,596)	(421,376)
Gross profit		80,332	109,779
Other income and gains		7,590	6,392
Selling and distribution expenses		(10,178)	(10,377)
Administrative expenses		(35,590)	(31,150)
PROFIT FROM OPERATIONS		42,154	74,644
Finance costs		(299)	(702)
Share of profits and losses of associates		(1,764)	(5,855)
PROFIT BEFORE TAX	3	40,091	68,087
Tax	4	(3,740)	(6,595)
PROFIT FOR THE PERIOD		36,351	61,492
ATTRIBUTABLE TO:			
Equity holders of the Company		33,536	58,295
Minority interests		2,815	3,197
		36,351	61,492
DIVIDENDS	5	8,096	8,096
EARNINGS PER SHARE			
ATTRIBUTABLE TO EQUITY			
HOLDERS OF THE COMPANY	6		
Basic		HK8.28 cents	HK14.40 cents
Diluted		HK8.26 cents	HK14.37 cents

CONDENSED CONSOLIDATED BALANCE SHEET

		Unaudited 30 September 2006 <i>HK\$'000</i>	Audited 31 March 2006 <i>HK\$'000</i>
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment		304,452	298,472
Investment properties		25,800	25,800
Prepaid land lease payments		12,894	13,017
Goodwill		4,650	4,650
Interests in associates		(11,565)	(10,501)
Deferred development costs		7,254	6,623
		<hr/>	<hr/>
Total non-current assets		343,485	338,061
		<hr/>	<hr/>
CURRENT ASSETS			
Inventories		154,573	149,939
Accounts receivable	7	175,513	53,430
Prepayments, deposits and other receivables		19,009	15,893
Time deposits		62,974	86,889
Cash and bank balances		50,446	51,426
		<hr/>	<hr/>
Total current assets		462,515	357,577
		<hr/>	<hr/>
CURRENT LIABILITIES			
Accounts and bills payable, accrued liabilities and other payables	8	168,394	80,225
Interest-bearing bank borrowings	9	9,434	9,434
Tax payable		11,142	8,357
Proposed interim dividend		8,096	–
		<hr/>	<hr/>
Total current liabilities		197,066	98,016
		<hr/>	<hr/>
NET CURRENT ASSETS		265,449	259,561
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		608,934	597,622
		<hr/>	<hr/>

	Unaudited	Audited	+	+	+	+	+
	30 September	31 March	+	+	+	+	+
	2006	2006	+	+	+	+	+
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	+	+	+	+	+
TOTAL ASSETS LESS CURRENT LIABILITIES	608,934	597,622	+	+	+	+	+
NON-CURRENT LIABILITIES			+	+	+	+	+
Deferred tax liabilities	<u>12,672</u>	<u>12,672</u>	+	+	+	+	+
NET ASSETS	<u>596,262</u>	<u>584,950</u>	+	+	+	+	+
EQUITY			+	+	+	+	+
Equity attributable to equity holders of the Company			+	+	+	+	+
Share capital	10 40,482	40,482	+	+	+	+	+
Reserves	536,709	510,819	+	+	+	+	+
Proposed final dividend	<u>–</u>	<u>16,193</u>	+	+	+	+	+
Minority interests	<u>577,191</u>	<u>567,494</u>	+	+	+	+	+
	<u>19,071</u>	<u>17,456</u>	+	+	+	+	+
TOTAL EQUITY	<u>596,262</u>	<u>584,950</u>	+	+	+	+	+

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2006 (Unaudited)

	Attributable to equity holders of the Company									
	Share capital	Reserves						Proposed final dividend	Minority interests	Total equity
		premium account	Share option reserve	Asset revaluation reserve	Contributed surplus	Retained profits	Total reserve			
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 April 2006	40,482	104,441	2,800	17,455	6,150	379,973	510,819	16,193	17,456	584,950
Dividend paid to minority shareholders	-	-	-	-	-	-	-	-	(1,200)	(1,200)
2005/2006 final dividend declared	-	-	-	-	-	-	-	(16,193)	-	(16,193)
Total income and expenses for the period	-	-	-	-	-	33,536	33,536	-	2,815	36,351
Equity-settled share option expenses	-	-	450	-	-	-	450	-	-	450
Interim dividend	-	-	-	-	-	(8,096)	(8,096)	-	-	(8,096)
At 30 September 2006	40,482	104,441	3,250	17,455	6,150	405,413	536,709	-	19,071	596,262

For the six months ended 30 September 2005 (Unaudited)

	Attributable to equity holders of the Company									
	Share capital	Reserves						Proposed final dividend	Minority interests	Total equity
		premium account	Share option reserve	Asset revaluation reserve	Contributed surplus	Retained profits	Total reserve			
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 April 2005	40,482	104,441	-	26,273	6,150	333,748	470,612	10,120	13,769	534,983
Dividend paid to minority shareholders	-	-	-	-	-	-	-	-	(500)	(500)
2004/2005 final dividend declared	-	-	-	-	-	-	-	(10,120)	-	(10,120)
Total income and expenses for the period	-	-	-	-	-	58,295	58,295	-	3,197	61,492
Interim dividend	-	-	-	-	-	(8,096)	(8,096)	-	-	(8,096)
At 30 September 2005	40,482	104,441	-	26,273	6,150	383,947	520,811	-	16,466	577,759

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Unaudited	
	Six months ended	
	30 September	
	2006	2005
	HK\$'000	HK\$'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	5,636	130,200
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(30,531)	(18,411)
NET CASH OUTFLOW FROM FINANCING ACTIVITIES	—	(16,666)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(24,895)	95,123
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	138,315	52,567
CASH AND CASH EQUIVALENTS AT END OF PERIOD	113,420	147,690
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	50,446	33,912
Time deposits with original maturity of less than three months when acquired	62,974	113,778
	113,420	147,690

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" and other relevant HKASs and Interpretations, Hong Kong Financial Reporting Standards (collectively, the "HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). These interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 March 2006.

The accounting policies and methods of computation used in the preparation of these interim financial statements are consistent with those used in the annual financial statements for the year ended 31 March 2006 except that the Group adopted all the new standards, amendments to standards and interpretation ("new/revised HKFRSs") which are effective for accounting periods commencing on 1 January 2006. The adoption of these new/revised HKFRSs did not have material financial impact to the results of the Group.

2. TURNOVER AND SEGMENT INFORMATION

Turnover represents the net invoiced value of goods sold, after allowance for returns and trade discounts but excluding intra-Group transactions.

(a) Business segments

The following table presents revenue and result for the Group's business segments.

	Unaudited six months ended 30 September												
	Toys and related products		Motors		Electrical appliances		Material development		Eliminations		Consolidated		
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Segment revenue:													
Sales to external customers	285,755	366,473	145,609	116,605	22,295	28,179	18,269	19,898	-	-	471,928	531,155	
Inter-segment sales	-	-	3,441	3,663	-	-	-	-	(3,441)	(3,663)	-	-	
Other income and gain	1,919	2,610	2,615	1,791	-	-	9	8	-	-	4,543	4,409	
Total	287,674	369,083	151,665	122,059	22,295	28,179	18,278	19,906	(3,441)	(3,663)	476,471	535,564	
Segment results	14,310	47,142	31,035	28,209	(386)	874	(599)	1,135	-	-	44,360	77,360	
Interest and unallocated gains											3,046	1,983	
Unallocated expenses											(5,252)	(4,699)	
Profit from operations											42,154	74,644	

(b) Geographical segments

The following table presents the Group's geographical segment revenue.

	Unaudited six months ended 30 September												
	United States of America		Europe		Asia		Others		Eliminations		Consolidated		
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Segment revenue:													
Sales to external customers	201,217	221,504	63,905	123,439	170,485	145,399	36,321	40,813	-	-	471,928	531,155	

3. PROFIT BEFORE TAX

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

	Unaudited	
	Six months ended	
	30 September	
	2006	2005
	HK\$'000	HK\$'000
Depreciation and amortisation of prepaid land lease payments	21,207	21,818
Amortisation of deferred development costs	2,837	3,901
Interest income	(1,770)	(799)
	<u><u>22,274</u></u>	<u><u>24,910</u></u>

4. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the applicable rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Unaudited	
	Six months ended	
	30 September	
	2006	2005
	HK\$'000	HK\$'000
Current period provision:		
Hong Kong	3,418	6,289
Elsewhere	322	306
	<u><u>3,740</u></u>	<u><u>6,595</u></u>
Total tax charge for the period	3,740	6,595

There was no significant unprovided deferred tax in respect of the period and as at the balance sheet date (2005: Nil).

5. DIVIDENDS

The directors have declared an interim dividend of HK2 cents per share to shareholders whose name appear on the register of members of the Company on 12 January 2007. The dividend will be paid on 19 January 2007.

	Unaudited	
	Six months ended	
	30 September	
	2006	2005
	HK\$'000	HK\$'000
Interim – HK2 cents (2005: HK2 cent) per ordinary share	<u>8,096</u>	<u>8,096</u>

6. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share amounts is based on the profit for the period attributable to equity holders of the Company of HK\$33,536,000 (2005: HK\$58,295,000) and the weighted average number of 404,820,000 (2005: 404,820,000) ordinary shares in issue during the period.

The calculation of diluted earnings per share amounts is based on the profit for the period attributable to equity holders of the Company of HK\$33,536,000 (2005: HK\$58,295,000) and 406,048,141 (2005: 405,800,975) ordinary shares, being the weighted average number of shares outstanding during the period, adjusted for the effects of the dilutive potential ordinary shares outstanding during the period.

A reconciliation of the weighted average number of shares used in calculating basic and diluted earnings per share is as follows:

	Unaudited	
	Six months ended	
	30 September	
	2006	2005
	HK\$'000	HK\$'000
Weighted average number of ordinary shares used in calculating basic earnings per share	404,820,000	404,820,000
Weighted average number of ordinary shares assumed to have been issued at no consideration on deemed exercise of all options outstanding during the period	<u>1,228,141</u>	<u>980,975</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>406,048,141</u>	<u>405,800,975</u>

7. ACCOUNTS RECEIVABLE

The Group's trading terms with its customers are mainly on credit, except for new customers, where cash on sale, payment in advance or payment by letter of credit is normally required. The credit period is generally for a period of one month, extending up to two months for certain well-established customers. Accounts receivable are non-interest-bearing.

The ageing of the Group's accounts receivable is analysed as follows:

	Unaudited 30 September 2006 <i>HK\$'000</i>	Audited 31 March 2006 <i>HK\$'000</i>
0-30 days	102,478	36,208
31-60 days	41,681	7,382
61-90 days	23,143	4,407
Over 90 days	8,211	5,433
	<hr/>	<hr/>
Total	175,513	53,430
	<hr/> <hr/>	<hr/> <hr/>

The substantial increase in the accounts receivables is owing to the seasonal factor where September (30 September 2005: HK\$141,246,000) is the high season and March (31 March 2005: HK\$68,851,000) is the low season. The Group considered such balances are normal and healthy.

8. ACCOUNTS AND BILLS PAYABLE, ACCRUED LIABILITIES AND OTHER PAYABLES

	Unaudited 30 September 2006 <i>HK\$'000</i>	Audited 31 March 2006 <i>HK\$'000</i>
0-30 days	56,833	31,374
31-60 days	48,699	14,458
61-90 days	25,725	4,422
Over 90 days	7,231	3,500
	<hr/>	<hr/>
Accounts and bills payable	138,488	53,754
Accrued liabilities and other payables	29,906	26,471
	<hr/>	<hr/>
Total	168,394	80,225
	<hr/> <hr/>	<hr/> <hr/>

The accounts and bills payable and other payables are non-interest-bearing and are normally settled within credit terms of two months, extending up to three months.

9. INTEREST-BEARING BANK BORROWINGS

The Group's banking facilities are supported by corporate guarantees given by the Company and certain subsidiaries of the Company. As at 30 September 2006, the Group's borrowing is repayable within one year, bears interest at HIBOR+2% per annum and is denominated in RMB.

10. SHARE CAPITAL

	Unaudited	
	Ordinary shares of HK\$0.10 each	
	Number of	
	shares	HK\$'000
Authorised:		
At 1 April 2006 and 30 September 2006	1,000,000,000	100,000
Issued and fully paid:		
At 1 April 2006 and 30 September 2006	404,820,000	40,482

11. CONTINGENT LIABILITIES

At the balance sheet date, the Company had provided guarantees of HK\$152,285,000 (31 March 2006: HK\$152,285,000) and HK\$41,000,000 (31 March 2006: HK\$41,000,000) in respect of banking facilities granted to certain subsidiaries and associates, of which HK\$9,434,000 (31 March 2006: HK\$9,434,000) and HK\$33,317,000 (31 March 2006: HK\$35,559,000) had been utilised as at the balance sheet date, respectively.

12. POST BALANCE SHEET EVENT

On 9 November 2006, Kin Yat (HK) Holdings Limited ("Kin Yat (HK)"), an indirect wholly-owned subsidiary of the Company, entered into an agreement with Cheng Chor Kit ("Mr. Cheng") (being the chairman, the executive director and the controlling shareholder of the Company), Yang Mu Zhong ("Mr. Yang") and Bright Summit Investment Limited ("Bright Summit") (both being independent third parties) whereby Kin Yat (HK) agreed to acquire 100% interests in Lun Sing Paper Products Company Limited ("Lun Sing"), a company incorporated in Hong Kong with limited liability and held by Mr. Cheng, Mr. Yang and Bright Summit as to 70%, 20% and 10% respectively, at a consideration of HK\$1,398,119, and Mr. Cheng agreed to assign and transfer his rights over the loan amount of HK\$19,230,959 due to Mr. Cheng by Lun Sing to Kin Yat (HK) at a consideration of HK\$19,230,959. Details of the transaction were summarised in a press announcement dated 13 November 2006. This acquisition was approved by the independent shareholders of the Company at a special general meeting held on 15 December 2006 and the completion of the acquisition shall take place within 30 business days from 15 December 2006.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Tuesday, 9 January 2007 to Friday, 12 January 2007 (both days inclusive), during which period no transfer of shares of the Company will be registered. In order to qualify for entitlement to the interim dividend for the six months ended 30 September 2006, all transfers of shares of the Company accompanied by the relevant share certificates and the appropriate transfer forms must be lodged with the Company's Share Registrar in Hong Kong, Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:00 p.m. on Monday, 8 January 2007.

MANAGEMENT DISCUSSION AND ANALYSIS

The six-month period under review remained challenging with the same negative environmental factors such as high materials and labor costs, and shortage of workers, in China still in force. However, the Group is embracing some very encouraging opportunities that will bring positive benefits to the management, staff and shareholders of the Group.

As a result of the more evenly distribution of toys orders throughout the current fiscal year, the reporting period recorded a 11% drop in turnover to approximately HK\$471,928,000 (2005: HK\$531,155,000), compared with an exceptionally robust order quantity in the same period last year, while profit attributable to equity holders of the Company was HK\$33,536,000 (2005: HK\$58,295,000). The core toys and motors divisions contributed 61% and 31% respectively in turnover to the Group during the period in review.

Nevertheless, the Group is optimistic as to the ongoing performance because of the new orders in place, greater vertical integration and other strategic cost cutting measures to produce better yields.

Business Strategy

Proactively, the Group pursues a three-pronged strategy to broaden revenue base and mix on the basis of core business lines. For our toys division, we will continue to strengthen our research and develop capabilities and develop new product lines to cater to the changing market trends. Movie and entertainment related toys will continue to be the mainstream.

The increasing popularity of artificial intelligent robots for household tasks opens up a wealth of opportunities to the Group's electrical appliances sector. Given the strong market demands; we believe the new robot business stream will help bolster the Group's turnover and profitability significantly.

Motor remains an important core division of the Group. Its stable business nature complements the more cyclical toys and appliances division. The challenge at hand is to secure a strong presence in the end-user market to broaden the customer and income base.

While it is crucial to improve our revenue generating capabilities, the Group places equal importance to enhancing productivity and cost efficiency to improve the bottom line. It has been an ongoing task to streamline and improve our workforce and operational procedures and this will continue. To complement the efforts, the Group will invest in more automated and advanced facilities, and implement vertical integration to further increase productivity.

In November 2006, the Group announced the acquisition of a 100% stake in a company, Lun Sing Paper Products Company Limited ("Lun Sing"), that is engaged in manufacturing and trading of carton paper board and paper product in Shaoguan. The Group has been purchasing paper products from Lun Sing and the acquisition will help further minimise the transportation time and cost of, and facilitate the logistics control of, the packing materials in the Group's Shaoguan manufacturing activities. Importantly, this facility will be integrated into the Group's production and provides the Group with a reliable source of paper cartons supply. This is a development that will bear an impact to the Group's bottom line.

Operational Review

Toys

Market conditions for the toys division remained challenging and competitive. Unlike the first half of last year which was highlighted by an exceptional concentration of orders due to clients' schedule of launch of movie-related items, toys orders for the current fiscal year are more evenly distributed throughout. As a result, the division recorded a 22% drop in turnover to HK\$285,755,000 (2005: HK\$366,473,000) in the first half of this financial year, when compared with the bolstered first half last year. The division secured part of the orders in relation to two blockbuster movies. We anticipate that the full year result will better reflect the performance of the division.

One of the Group's major customers has obtained a five-year license from a well-known U.S. entertainment company to develop products based on its globally renowned super hero universe. We are encouraged by this development and the positive impact it will bring to our toys division, as the manufacturer concerned is reputable and highly regarded in the industry.

While new business opportunities are optimistic, the division continues to work hard to deal with adverse environmental factors such as high material prices, shortage of skilled workers and increasing minimum wage rate that will put a tighter squeeze on its profit margin.

One main strategy is to step up the relocation of toys production from Shenzhen to Shaoguan where the production cost is significantly lower. It is the division's goal to increase the production output in Shaoguan, especially when the construction of additional facilities in Shaoguan completes in early 2007.

Another important strategy is to further strengthen the centralization of procurement activities to maximise economy of scale, and to actively seek alternative vendors that can offer better prices.

To further cut cost, the division will continue to improve efficiency and productivity through an enhanced workforce, streamlined operation flow, and more automated processes.

Never complacent, the division will further strengthen its marketing initiatives to broaden its customer profile, enrich its product portfolio with hit entertainment items relating to movies or animated television series, and expand geographical spread to minimise risk exposure for a balanced and stable income base.

Motors

The motors division reported stable turnover growth and performance, despite a challenging market environment beleaguered by increases in copper and steel prices, and shortage in labor. The division has been successful in offsetting some of the negative impact through a strategic shift to focus more on products of higher margin.

The toys industry customers continue to provide core support for the motors division and it remains a significant income source for the Group. The division is also encouraged by both confirmed and trial orders from new non-toys customers that have helped buoy turnover for the first half of the financial year.

The trial orders, when confirmed, will be an impetus to better results in the 2007/08 financial year. The management is very optimistic for the long term development as a balanced product mix takes shape.

Electrical Appliances

This division is set to be one of the growth drivers in the coming financial years as we further diversify our electrical appliances products to artificial intelligent robots with the latest order from iRobot Corporation (“iRobot”). The division looks forward to co-operating further with iRobot to develop more high value-adding home electrical appliances.

Prospects

Looking ahead, the Group is optimistic. Through our dedicated efforts, we have built up a repertoire of positive developments that will bring more business growth and profitability in the years ahead.

Based on orders in hand, management expects turnover from the toys division to demonstrate a rebound in the second half when compared with the same period in the last financial year, and believes in achieving a healthy growth in full-year turnover year on year.

We will continue to broaden our revenue base and product mix on the basis of core business lines, namely a wider range of toys through active research and development, new line of home electrical appliances with iRobot, and more end-user markets for motors.

At the same time, the Group will strive to improve profitability to offset increasing costs through more efficient production processes, enhanced equipment and automation, and higher vertical integration which has been achieved through the acquisition of a paper factory in China. Through continuous enhancement in vertical integration, the Group is able to sustain its cost advantage amidst an adverse environment, placing its products in a more competitive position in the market.

Looking ahead to the remainder of the year, the management believes that the Group will be able to achieve a healthy growth in full-year turnover. For the mid term, we are also optimistic as to the prospects of the 2007/08 financial year as the satisfactory development of our three core business and the synergies from further vertical integration will be better reflected.

Commanding a strong financial position, the Group is well positioned to continue its active pursuit of new investment opportunities, with a view to delivering better returns for shareholders.

LIQUIDITY AND FINANCIAL POSITION

The Group primarily used its internally generated cash flow and banking facilities to finance its operations and business development during the period. The Group adopts a prudent and conservative policy in its financial management. At the end of the financial period, the Group's aggregated time deposits and cash and bank balances amounted to HK\$113 million (31 March 2006: HK\$138 million). In addition, the Group currently maintains aggregate composite banking facilities of approximately HK\$147 million (31 March 2006: HK\$147 million) with various banks, of which HK\$9 million (31 March 2006: HK\$9 million) has been utilised as at 30 September 2006.

The Group continues to enjoy healthy financial position. As at 30 September 2006, the current ratio (current assets divided by current liabilities) was 2.3 times (31 March 2006: 3.6 times) and the gearing ratio (long term liabilities divided by total equity) was 2.1% (31 March 2006: 2.2%).

EMPLOYEES AND REMUNERATION POLICIES

As at 30 September 2006, the Group employed over 10,000 full-time employees, of which approximately 50 were based in Hong Kong with the remainder in China.

The Group remunerates its employees largely in accordance with prevailing industry standards. In Hong Kong, the Group's employee benefits include staff retirement scheme, medical scheme and performance bonus. In China, the Group provides its employees staff welfare and allowances in accordance with prevailing labour law. The Group has also put in place a share option scheme to motivate and reward performing staff. At the discretion of the Board of Directors, the Group's employees will be granted options, the amount of which is determined by performance and rank of individual employees.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 September 2006, the interests of the directors and chief executive of the Company in the shares and underlying shares 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 (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

(A) Shares

Name of director	Long position/ short position	Capacity	No. of shares held	Percentage of the Company's issue share capital
Cheng Chor Kit	Long position	Founder of a trust	276,534,000 (Note)	68.31%
Fung Wah Cheong	Long position	Beneficial owner	3,366,000	0.83%
Wong Kin Chung	Long position	Beneficial owner	3,050,000	0.75%

Note: These shares, amounting to around 68.31% of the total issued share capital of the Company, are held by Resplendent Global Limited ("Resplendent"), a company incorporated in the British Virgin Islands. Padora Global Inc. ("Padora") is the beneficial owner of all the issued share capital of Resplendent. Padora is a company incorporated in the British Virgin Islands and is wholly-owned by Polo Asset Holdings Limited, which is ultimately owned by the trustees of a discretionary trust established by Cheng Chor Kit for his family.

(B) Underlying Shares

Name of director	Long position/ short position	Capacity	No. of share option granted	No. of underlying shares in respect of share option held and approximately percentage of shareholding	Date of shares option granted	Exercise period	Exercise price per share
Cheng Chor Kit	Long position	Beneficial owner	2,000,000	2,000,000 (0.49%)	14/11/2003	14/11/2006- 13/11/2013	HK\$1.592
Wong Kin Chung	Long position	Beneficial owner	312,000	312,000 (0.078%)	14/11/2003	14/11/2006- 13/11/2013	HK\$1.592

Save as disclosed above, none of the directors and chief executive had registered an interest 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 for Securities Transactions by Directors of Listed Issuers.

SHARE OPTION SCHEME

On 20 August 2002, the share option scheme of the Company adopted on 8 April 1997 ceased to operate and a new share option scheme (the "New Scheme") was adopted on the same date to comply with the new requirements of Chapter 17 of the Listing Rules regarding share option schemes of a company. The options granted under the old scheme will remain in force and effect for the periods set out below (the "Old Scheme").

The following share options were outstanding under the New Scheme and the Old Scheme during the period:

	Date of share options granted	Number of share options				Exercise period	Exercise price per share HK\$	Price of Company's shares at grant date of options* HK\$
		At 1 April 2006	Exercised during the period	Lapsed during the period	At 30 September 2006			
The New Scheme								
Directors	14/11/2003	2,734,000	-	(422,000)	2,312,000	14/11/2006-13/11/2013	1.592	1.60
Other employees	14/11/2003	804,000	-	(54,000)	750,000	14/11/2006-13/11/2013	1.592	1.60
		<u>3,538,000</u>	<u>-</u>	<u>(476,000)</u>	<u>3,062,000</u>			
The Old Scheme								
Other employees	6/11/1998	<u>1,760,000</u>	<u>-</u>	<u>-</u>	<u>1,760,000</u>	6/11/1998-5/11/2008	0.3032	0.44

* The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange closing prices on the trading day immediately prior to the date of the grant of the options.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed under the section headed "Directors' interests and short positions in shares and underlying shares" and "Share option scheme", at no time during the period were rights to acquire benefits by means of the acquisition of shares in 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 holding companies, subsidiaries and fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

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

As at 30 September 2006, the following interests of 5% or more of the issued share capital and share options of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Name	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital	Number of share options held
Cheng Chor Kit	Through a controlled corporation	276,534,000 (Note)	68.31%	2,000,000

Note: These shares were held through Resplendent.

This shareholding is duplicated in the section headed "Directors' interests and short positions in shares and underlying shares" disclosed above.

The details of the share options outstanding during the period are separately disclosed in the section headed "Share option scheme" disclosed above.

Saved as disclosed above, no person, other than Cheng Chor Kit, 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

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, the Company has complied with the code provisions as set out in the Code of Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Listing Rules throughout the six months ended 30 September 2006 except for the deviation from provision A.2.1 of the CG Code.

Under the code provision A.2.1, the role of chairman and chief executive officer ("CEO") shall be separated and should not be performed by the same individual. The division of responsibilities between the chairman and CEO should be clearly established and set out in writing. After the resignation of Chui Pak Shing, the CEO, from the Company on 12 April 2006, the roles the chairman and the CEO of the Company are then not separated and performed by the same individual, Cheng Chor Kit. The balance of power and authority is ensured by the operations of the Board which comprises experienced and high caliber individuals who meets regularly to discuss issue affecting operations of the Company. The Board believes that this structure is conducive to strong and consistent leadership, enabling the Company to make and implement decisions promptly and efficiently.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard set out in Appendix 10 of the Listing Rules (the "Model Code"). Having made specific enquiry of the Company's directors, all directors confirmed that they have complied with the required standard set out in the Model Code and the code of conduct regarding securities transactions by directors adopted by the Company throughout the accounting period covered by the interim report.

AUDIT COMMITTEE

The Company has an audit committee with terms of reference revised to align with the provisions of the CG Code as set out in Appendix 14 of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls.

As at the date of this report, the audit committee comprised Sun Kwai Yu, Vivian (Chairman of the committee), Chung Chi Ping, Roy and Wong Chi Wai, Albert, the three independent non-executive directors, and the Chairman of the audit committee has the required appropriate professional financial qualifications and experience.

During the period, the audit committee reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters, including the review of the interim financial report for the six months ended 30 September 2006.

REMUNERATION COMMITTEE

The Company has set up the remuneration committee with a particular responsibility to review the Company's remuneration policy for directors and members of the senior management. The remuneration committee currently comprises Chung Chi Ping, Roy (Chairman of the committee), Wong Chi Wai, Albert and Sun Kwai Yu, Vivian, the non-executive directors of the Company, and Cheng Chor Kit and Fung Wah Cheong, the two executive directors of the Company.

The directors' fees are subject to shareholders' approval at general meetings. Emoluments are determined by the remuneration committee with reference to the employee's duties, responsibilities and performance and the results of the Group.

NOMINATION COMMITTEE

The Nomination Committee was set up on 28 September 2005 with specific terms of reference. The nomination committee currently comprises Wong Chi Wai, Albert (Chairman of the committee), Chung Chi Ping, Roy and Sun Kwai Yu, Vivian, the non-executive directors of the Company, and Cheng Chor Kit and Fung Wah Cheong, the two executive directors of the Company. The nomination committee meets at least once each year.

The nomination committee is responsible for recommending to the Board all new appointments of directors.

On behalf of the Board
Cheng Chor Kit
Chairman

Hong Kong, 18 December 2006