



**KIN YAT HOLDINGS LIMITED**  
**建溢集團有限公司**

website: <http://www.kinyat.com.hk>

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 638)**

# INTERIM REPORT

for the six months ended 30 September 2011

The Board of Directors (the "Board") would like to report the unaudited condensed consolidated results for Kin Yat Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the six months ended 30 September 2011 together with the comparative figures for the corresponding period in 2010. This interim financial report has not been audited, but has been reviewed by the Company's audit committee.

## CONDENSED CONSOLIDATED INCOME STATEMENT

		<b>Unaudited for the six months ended 30 September</b>	
		<b>2011</b>	2010
	<i>Notes</i>	<b>HK\$'000</b>	<i>HK\$'000</i>
<b>REVENUE</b>	3	<b>888,977</b>	966,726
Cost of sales		<b>(814,771)</b>	(792,133)
Gross profit		<b>74,206</b>	174,593
Other income and gains, net	3	<b>9,277</b>	15,706
Selling and distribution expenses		<b>(22,475)</b>	(26,343)
Administrative expenses		<b>(77,587)</b>	(69,206)
Finance costs		<b>(1,928)</b>	(399)
Share of profits and losses of an associate		-	(127)
<b>(LOSS)/PROFIT BEFORE TAX</b>	4	<b>(18,507)</b>	94,224
Income tax expense	5	<b>(5,206)</b>	(16,315)
<b>(LOSS)/PROFIT FOR THE PERIOD</b>		<b>(23,713)</b>	77,909
<b>Attributable to:</b>			
Owners of the Company		<b>(21,087)</b>	79,988
Non-controlling interests		<b>(2,626)</b>	(2,079)
		<b>(23,713)</b>	77,909
<b>(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY</b>	7		
Basic		<b>HK(5.04) cents</b>	HK19.13 cents
Diluted		<b>HK(5.03) cents</b>	HK19.10 cents

Details of the dividends are disclosed in note 6 to the condensed consolidated financial statements.

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited for the six months ended 30 September	
	2011 HK\$'000	2010 HK\$'000
<b>(LOSS)/PROFIT FOR THE PERIOD</b>	<b><u>(23,713)</u></b>	<b><u>77,909</u></b>
<b>OTHER COMPREHENSIVE INCOME FOR THE PERIOD</b>		
Exchange differences on translation of foreign operations	<u>–</u>	<u>24</u>
<b>TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD</b>	<b><u>(23,713)</u></b>	<b><u>77,933</u></b>
<b>Attributable to:</b>		
Owners of the Company	<b><u>(21,087)</u></b>	80,004
Non-controlling interests	<b><u>(2,626)</u></b>	<u>(2,071)</u>
	<b><u>(23,713)</u></b>	<b><u>77,933</u></b>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<b>Unaudited</b>	Audited
	<b>30 September</b>	31 March
	<b>2011</b>	2011
<i>Notes</i>	<b><i>HK\$'000</i></b>	<b><i>HK\$'000</i></b>
<b>NON-CURRENT ASSETS</b>		
Property, plant and equipment	<b>660,092</b>	618,610
Investment properties	<b>42,169</b>	42,169
Prepaid land lease payments	<b>21,997</b>	14,147
Goodwill	<b>4,650</b>	4,650
Exploration rights and assets	<b>17,499</b>	–
Interests in associates	<b>(4,966)</b>	(7,439)
Deferred development costs	<b>8,049</b>	6,470
Deposits	<b>17,470</b>	38,735
	<hr/>	<hr/>
Total non-current assets	<b>766,960</b>	717,342
<b>CURRENT ASSETS</b>		
Inventories	<b>359,330</b>	357,577
Accounts receivable	<b>253,670</b>	185,742
Prepayments and deposits	<b>120,612</b>	84,838
Financial assets at fair value through profit or loss	<b>13,527</b>	17,193
Time deposits	<b>53,176</b>	86,803
Cash and bank balances	<b>163,978</b>	127,724
	<hr/>	<hr/>
Total current assets	<b>964,293</b>	859,877
<b>CURRENT LIABILITIES</b>		
Accounts and bills payable, accrued liabilities and other payables	<b>319,258</b>	332,405
Interest-bearing bank borrowings	<b>195,261</b>	171,419
Tax payable	<b>17,284</b>	23,294
Amounts due to non-controlling shareholders	<b>17,450</b>	–
	<hr/>	<hr/>
Total current liabilities	<b>549,253</b>	527,118
<b>NET CURRENT ASSETS</b>	<b>415,040</b>	332,759
	<hr/>	<hr/>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	<b>1,182,000</b>	1,050,101

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(continued)

		Unaudited 30 September 2011 <i>Notes</i> <i>HK\$'000</i>	Audited 31 March 2011 <i>HK\$'000</i>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>1,182,000</b>	1,050,101
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liabilities		<b>13,930</b>	14,334
Interest-bearing bank borrowings	11	<b>174,423</b>	–
Total non-current liabilities		<b>188,353</b>	14,334
<b>NET ASSETS</b>		<b>993,647</b>	1,035,767
<b>EQUITY</b>			
<b>Equity attributable to owners of the Company</b>			
Issued share capital	12	<b>41,875</b>	41,875
Reserves		<b>963,029</b>	1,002,535
		<b>1,004,904</b>	1,044,410
<b>Non-controlling interests</b>		<b>(11,257)</b>	(8,643)
<b>TOTAL EQUITY</b>		<b>993,647</b>	1,035,767

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

### For the six months ended 30 September 2011 (Unaudited)

	Attributable to owners of the Company											
	Issued share capital	Share premium account	Share option reserve	Asset revaluation reserve	Exchange fluctuation reserve	Reserves				Total reserves	Non- controlling interests	Total equity
						Contributed surplus	Other reserve	Retained profits	Total reserves			
<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	
At 1 April 2011	41,875	124,530	5,194	42,537	83,011	6,150	(8,940)	750,053	1,002,535	(8,643)	1,035,767	
Loss for the period	-	-	-	-	-	-	-	(21,087)	(21,087)	(2,626)	(23,713)	
Total comprehensive loss for the period	-	-	-	-	-	-	-	(21,087)	(21,087)	(2,626)	(23,713)	
Final 2011 dividend paid (note 6)	-	-	-	-	-	-	-	(18,844)	(18,844)	-	(18,844)	
Equity-settled share option expense	-	-	425	-	-	-	-	-	425	-	425	
Capital injection from non-controlling interests	-	-	-	-	-	-	-	-	-	12	12	
<b>At 30 September 2011</b>	<b>41,875</b>	<b>124,530</b>	<b>5,619</b>	<b>42,537</b>	<b>83,011</b>	<b>6,150</b>	<b>(8,940)</b>	<b>710,122</b>	<b>963,029</b>	<b>(11,257)</b>	<b>993,647</b>	
At 1 April 2010	41,785	123,015	3,058	28,706	50,518	6,150	(8,904)	688,017	890,560	(4,764)	927,581	
Exchange differences on translation of foreign operations	-	-	-	-	16	-	-	-	16	8	24	
Profit for the period	-	-	-	-	-	-	-	79,988	79,988	(2,079)	77,909	
Total comprehensive income/(loss) for the period	-	-	-	-	16	-	-	79,988	80,004	(2,071)	77,933	
Final 2010 dividend paid (note 6)	-	-	-	-	-	-	-	(33,501)	(33,501)	-	(33,501)	
Acquisition of non-controlling interests	-	-	-	-	-	-	(416)	-	(416)	416	-	
Equity-settled share option expense	-	-	351	-	-	-	-	-	351	-	351	
Issue of shares	90	1,193	-	-	-	-	-	-	1,193	-	1,283	
At 30 September 2010	41,875	124,208	3,409	28,706	50,534	6,150	(9,320)	734,504	938,191	(6,419)	973,647	

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited for the six months ended 30 September	
	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>NET CASH FLOWS USED IN OPERATING ACTIVITIES</b>	<b>(84,695)</b>	(79,542)
<b>NET CASH FLOWS USED IN INVESTING ACTIVITIES</b>	<b>(110,942)</b>	(42,397)
<b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>198,264</b>	26,256
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>2,627</b>	(95,683)
Cash and cash equivalents at beginning of period	<b>214,527</b>	360,020
Effect of foreign exchange rate changes, net	–	24
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>217,154</b>	264,361
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	<b>163,978</b>	264,361
Non-pledged time deposits	<b>53,176</b>	–
	<b>217,154</b>	264,361

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

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

The condensed consolidated interim financial statements have been prepared under the historical cost convention, except for leasehold land and buildings, investment properties and financial assets at fair value through profit or loss which have been measured at fair value, as appropriate. The accounting policies adopted in the preparation of the condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2011 except as described by below. In the current period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations ("new HKFRSs") issued by HKICPA which are effective for the Group's financial year beginning on 1 April 2011.

HKFRS 1 Amendment	Amendment to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time-Adopters</i>
HKAS 24 (Revised)	<i>Related Party Disclosures</i>
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 <i>Prepayments of a Minimum Funding Requirement</i>
HK(IFRIC)-Int 19	<i>Extinguishing Financial Liabilities with Equity Instruments</i>
<i>Improvements to HKFRSs 2010</i>	Amendments to a number of HKFRSs

The adoption of the new HKFRSs had no material effect on the results and financial position for the current or prior accounting periods which have been prepared and presented. Accordingly, no prior period adjustment has been recognised.



## 2. SEGMENT INFORMATION

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

- (a) the electrical and electronic products segment consists of the manufacture and sale of electrical appliances, electronic toys and related products;
- (b) the motors segment consists of the manufacture and sale of motors;
- (c) the resources development segment consists of the manufacture and sale of materials primarily for use in liquid crystal display and mine exploration; and
- (d) other manufacturing activities segment consists of the manufacture and sale of feature plush, wooden toys and encoder film.

Management monitors the operating results of the Group's business units separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects, as explained in the table below, is measured differently from operating profit or loss in the condensed consolidated financial statements.

Group financing (including finance costs and finance revenue) and income taxes are managed on a group basis and are not allocated to operating segments.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to the third parties at the then prevailing market prices.

## 2. SEGMENT INFORMATION (continued)

### (a) Operating segments

The following table presents revenue and result for the Group's operating segments for the six months ended 30 September 2011 and 2010.

	Unaudited for the six months ended 30 September											
	Electrical and electronic products		Motors		Resources development		Other manufacturing activities		Eliminations		Consolidated	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
	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:												
Revenue from external customers	534,025	626,620	302,673	306,153	4,351	3,998	47,928	29,955	-	-	888,977	966,726
Intersegment sales	1,165	1,406	8,382	31,937	-	-	824	-	(10,371)	(33,343)	-	-
Other income and gains, net	2,991	4,022	9,467	8,739	4	45	162	494	-	-	12,624	13,300
<b>Total</b>	<b>538,181</b>	<b>632,048</b>	<b>320,522</b>	<b>346,829</b>	<b>4,355</b>	<b>4,043</b>	<b>48,914</b>	<b>30,449</b>	<b>(10,371)</b>	<b>(33,343)</b>	<b>901,601</b>	<b>980,026</b>
Segment results	43,541	102,967	(26,467)	5,858	(21,691)	(10,125)	510	1,599	-	-	(4,107)	100,299
Interest and unallocated gains											3,192	2,405
Unallocated expenses											(15,664)	(7,954)
Finance costs											(1,928)	(399)
Share of profits and losses of an associate											-	(127)
(Loss)/Profit before tax											(18,507)	94,224

### (b) Geographical information

	Unaudited for the six months ended 30 September											
	United States of America		Europe		Asia		Others		Consolidated			
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
Segment revenue:												
Revenue from external customers	218,014	287,087	199,899	223,276	397,316	377,152	73,748	79,211	888,977	966,726		

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

### 3. REVENUE, OTHER INCOME AND GAINS, NET

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts but excluding intra-group transactions. An analysis of revenue, other income and gains, net is as follows:

	<b>Unaudited</b>	
	<b>for the six months ended</b>	
	<b>30 September</b>	
	<b>2011</b>	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Revenue</b>		
Manufacture and sale of:		
Electrical and electronic products	<b>534,025</b>	626,620
Motors	<b>302,673</b>	306,153
Materials from resources development	<b>4,351</b>	3,998
Other manufacturing activities	<b>47,928</b>	29,955
	<u><b>888,977</b></u>	<u>966,726</u>
<b>Other income and gains, net</b>		
Bank interest income	<b>1,138</b>	548
Gross rental income	<b>2,802</b>	2,765
Sale of scrap materials	<b>10,592</b>	9,861
Fair value loss on financial assets at fair value through profit and loss, net	<b>(6,538)</b>	–
Others	<b>1,283</b>	2,532
	<u><b>9,277</b></u>	<u>15,706</u>

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

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

	<b>Unaudited for the six months ended 30 September</b>	
	<b>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
Depreciation	<b>39,526</b>	35,839
Amortisation of prepaid land lease payments	<b>224</b>	176
Amortisation of deferred development costs	<b>2,676</b>	2,500
Loss on disposal of items of property, plant and equipment, net	<b>17</b>	794
Fair value loss on financial assets at fair value through profit and loss, net	<b>6,538</b>	–
Bank interest income	<b>(1,138)</b>	(548)
	<u><u>          </u></u>	<u><u>          </u></u>

#### 5. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2010: 16.5%) 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.

Pursuant to the Enterprise Income Tax Law (the "New PRC Tax Law") of the PRC being effective on 1 January 2008, the PRC income tax rate is unified to 25% for all enterprises. Under an implementation guidance note of the New PRC Tax Law, enterprises established before the publication of the New PRC Tax Law were entitled to preferential treatments of a reduced corporate income tax rate (the "CIT rate") granted by the relevant tax authorities. The new CIT rate would be gradually increased from the preferential rate to 25% within 5 years after the effective date of the New PRC Tax Law on 1 January 2008. Enterprises that are currently entitled to exemptions or reductions from the standard income tax rate for a fixed term may continue to enjoy such treatment until the fixed term expires.

## 5. INCOME TAX *(continued)*

	<b>Unaudited</b>	
	<b>for the six months ended</b>	
	<b>30 September</b>	
	<b>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
Current period provision:		
Hong Kong	<b>3,446</b>	9,086
Elsewhere	<b>2,164</b>	7,007
Deferred	<b>(404)</b>	222
	<u>          </u>	<u>          </u>
Total tax charge for the period	<u><b>5,206</b></u>	<u>16,315</u>

## 6. DIVIDENDS

	<b>Unaudited</b>	
	<b>for the six months ended</b>	
	<b>30 September</b>	
	<b>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
<b>Dividends paid during the period</b>		
Final in respect of the financial year ended 31 March 2011 – HK4.5 cents per ordinary share (2010: final dividend of HK8 cents per ordinary share, in respect of the financial year ended 31 March 2010)	<u><b>18,844</b></u>	<u>33,501</u>
<b>Proposed interim dividend</b>		
Interim – Nil (2010: HK4.5 cents per ordinary share)	<u>          </u>	<u>18,844</u>

The directors resolve not to pay an interim dividend for the six months ended 30 September 2011.

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

The calculation of basic (loss)/earnings per share amount is based on the loss for the period attributable to equity holders of the Company of HK\$21,087,000 (2010: a profit of HK\$79,988,000) and the weighted average of 418,748,000 (2010: 418,059,475) ordinary shares in issue during the period.

The calculation of the diluted (loss)/earnings per share amount is based on the loss for the period attributable to equity holders of the Company of HK\$21,087,000 (2010: a profit of HK\$79,988,000) and 418,866,434 (2010: 418,787,897) ordinary shares, being the 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 ordinary shares used in calculating basic and diluted (loss)/earnings per share is as follows:

	<b>Unaudited for the six months ended 30 September 2011</b>		2010
Weighted average number of ordinary shares used in calculating basic (loss)/earnings per share	<b>418,748,000</b>		418,059,475
Weighted average number of ordinary shares assumed to have been issued at no consideration on deemed exercise of all options outstanding during the period	<b>118,434</b>		728,422
Weighted average number of ordinary shares used in calculating diluted (loss)/earnings per share	<b><u>418,866,434</u></b>		<u>418,787,897</u>

## 8. ACCOUNTS RECEIVABLE

The Group's trading terms with its customers are mainly on credit, except for new customers, where cash on sale or payment in advance is normally required. The credit period is generally for a period of one month, extending up to two months for certain well-established customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has imposed tightened credit control to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's accounts receivable mainly relate to recognised and creditworthy customers, there is no significant credit risk. Accounts receivable are non-interest-bearing.

## 8. ACCOUNTS RECEIVABLE *(continued)*

An aged analysis of the Group's accounts receivable as at the end of the reporting period, based on the invoice date, is as follows:

	<b>Unaudited 30 September 2011 HK\$'000</b>	Audited 31 March 2011 HK\$'000
0-30 days	<b>155,197</b>	135,636
31-60 days	<b>73,453</b>	31,383
61-90 days	<b>17,858</b>	15,194
Over 90 days	<b>8,010</b>	4,382
	<b>254,518</b>	186,595
Less: Impairment allowance	<b>(848)</b>	(853)
	<b>253,670</b>	185,742

The substantial increase in the accounts receivables is owing to the seasonal factor where September (30 September 2010: HK\$278,886,000) is the high season and March (31 March 2010: HK\$132,932,000) is the low season. The Group considered such balances are normal and healthy.

## 9. PREPAYMENTS AND DEPOSITS

	<b>Unaudited 30 September 2011 HK\$'000</b>	Audited 31 March 2011 HK\$'000
Deposits for mining projects	<b>17,470</b>	35,120
Deposits for land lease payment	–	3,615
Prepayments	<b>118,566</b>	82,502
Other deposits	<b>1,599</b>	1,977
Prepaid land lease payments	<b>447</b>	359
	<b>138,082</b>	123,573
Less: Current portion	<b>(120,612)</b>	(84,838)
Non-current portion	<b>17,470</b>	38,735

## 10. ACCOUNTS AND BILLS PAYABLE, ACCRUED LIABILITIES AND OTHER PAYABLES

An ageing of the Group's accounts and bills payable as at the end of the reporting period, based on the invoice date, and the balance of accrued liabilities and other payables are as follow:

	<b>Unaudited 30 September 2011 HK\$'000</b>	Audited 31 March 2011 HK\$'000
0-30 days	<b>60,198</b>	106,611
31-60 days	<b>63,440</b>	41,846
61-90 days	<b>29,043</b>	22,136
Over 90 days	<b>10,049</b>	9,190
	<hr/>	<hr/>
Accounts and bills payable	<b>162,730</b>	179,783
Accrued liabilities	<b>129,275</b>	123,282
Other payables	<b>27,253</b>	29,340
	<hr/>	<hr/>
	<b>319,258</b>	332,405
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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.

As at 30 September 2011, included in other payables, an amount of RMB5,200,000 (approximately HK\$6,265,000) (31 March 2011: RMB5,200,000 (approximately HK\$6,265,000)), was received in respect of subsidies from the Department of Information Industry of Guangdong Province, the PRC, for the research and development costs incurred by the Group for its resources development project.



## 11. INTEREST-BEARING BANK BORROWINGS

	<i>Notes</i>	<b>Unaudited 30 September 2011 HK\$'000</b>	Audited 31 March 2011 HK\$'000
<b>Current</b>			
Bank loan – unsecured	<i>(i)</i>	<b>147,809</b>	171,419
Bank loan – unsecured	<i>(ii)</i>	<b>47,452</b>	–
		<b><u>195,261</u></b>	<b><u>171,419</u></b>
<b>Non-current</b>			
Bank loan – unsecured	<i>(ii)</i>	<b>174,423</b>	–
		<b><u>369,684</u></b>	<b><u>171,419</u></b>

- (i) Unsecured bank loans carry interest at Hong Kong Interbank Offered Rate (“HIBOR”) plus a spread, ranging from 1% to 2.5% (31 March 2011: 1%) per annum and are repayable on demand.
- (ii) Unsecured bank loans carry interest at HIBOR plus a spread, ranging from 1% to 2% per annum and are repayable by instalments over a period from one to five years.

The Group’s banking facilities are supported by corporate guarantees given by the Company and certain subsidiaries of the Company.

All bank borrowings are in Hong Kong dollars.

## 12. SHARE CAPITAL

	<b>Unaudited 30 September 2011 HK\$'000</b>	Audited 31 March 2011 HK\$'000
Authorised:		
1,000,000,000 ordinary shares of HK\$0.10 each	<u><b>100,000</b></u>	<u>100,000</u>
Issued and fully paid:		
418,748,000 (31 March 2011: 418,748,000) ordinary shares of HK\$0.10 each	<u><b>41,875</b></u>	<u>41,875</u>

## 13. COMMITMENTS

- (i) At the end of the reporting period, the Group had contracted for capital commitments in respect of wholly-owned enterprises in the PRC amounting to HK\$50,602,000 (31 March 2011: HK\$94,190,000).
- (ii) At the end of the reporting period, the Group had contracted for capital commitments in respect of the acquisition of property, plant and equipment of approximately HK\$35,754,000 (31 March 2011: HK\$50,426,000) and did not have any contracted for capital commitment in respect of land use right (31 March 2011: HK\$4,549,000).
- (iii) At the end of the reporting period, the Group had contracted for capital commitments in respect of the investment in mining projects of approximately HK\$25,904,000 (31 March 2011: HK\$25,904,000).

The Company did not have any other significant commitments at the end of the reporting period (31 March 2011: Nil).

## 14. CONTINGENT LIABILITIES

At the end of the reporting period, the Company had provided guarantees of HK\$260,000,000 (31 March 2011: HK\$202,000,000) in respect of banking facilities granted to certain of its subsidiaries, of which HK\$147,809,000 (31 March 2011: HK\$132,877,000) had been utilised as at the end of the reporting period.

At 31 March 2011, the Company had provided guarantees of HK\$14,500,000 in respect of banking facilities granted to certain of its associates, of which HK\$2,740,000 had been utilised as at 31 March 2011.

## MANAGEMENT DISCUSSION AND ANALYSIS

The Group's business is built on a multi-pillar platform comprising four major segments, including the three research-and-development-based manufacturing disciplines of electrical and electronic products, motors and other manufacturing activities, as well as the resources development operations as an additional source of growth momentum.

The year ending 31 March 2012 ("FY2012") has started unsatisfactorily for our manufacturing businesses, which have been affected by the continued weakness in the major export markets, particularly when the world economy is vulnerable amidst the unconventional quantitative easing policy and the lingering sovereign debt crisis in certain developed countries. Going through a very challenging period, we experienced the combined forces of restrained demand and inflationary pressures on production costs. The Group hence reported a loss attributable to owners of the Company of HK\$21,087,000 during the six months ended 30 September 2011 ("1H FY2012"), the first loss on record, compared with an attributable profit of HK\$79,988,000 for the six months ended 30 September 2010 ("1H FY2011").

The loss was mainly attributable to the decline in the Group's overall gross profit margin, arising primarily from a decrease in the contribution from the manufacturing businesses amidst a decrease in their segment turnover coupled with an increase in operating costs as a result of the appreciation of the Renminbi, rising raw material prices and the increase in statutory minimum wages in the People's Republic of China (the "PRC") during the period. At the same time, continued investments in strategic growth initiatives with respect to our materials and natural resources development businesses, which were in their investment mode, have resulted in higher operating expenses being incurred for the Group.

Despite the challenges presented by the market and the operating environment, our solid business fundamentals and balance sheet strengths have positioned the Group well to manage through the short-term difficulties. Furthermore, we are seeing the benefits from our ongoing initiatives to build and manage a diverse business and manufacturing platform. The Board is confident that our resilient business will provide strong competitive leverage for the Group.

During 1H FY2012, the Group's turnover decreased 8% year on year to HK\$888,977,000 (1H FY2011: HK\$966,726,000) as the electrical and electronic products segment experienced order contractions in the midst of weak market sentiments. The total turnover was accounted for by the segmental external turnover of:

- HK\$534,025,000 from the electrical and electronic products segment, contributing to 60.1% of the Group's consolidated turnover for 1H FY2012 (1H FY2011: HK\$626,620,000, 64.8%);
- HK\$302,673,000 from the motors segment, accounting for 34.0% of the total (1H FY2011: HK\$306,153,000, 31.7%);
- HK\$47,928,000 from the other manufacturing activities, or 5.4% of the total (1H FY2011: HK\$29,955,000, 3.1%); and
- HK\$4,351,000 from the resources development segment, representing 0.5% of the total (1H FY2011: HK\$3,998,000, 0.4%).

During 1H FY2012, the electrical and electronic products segment and other manufacturing activities reported segment profits of HK\$43,541,000 (1H FY2011: HK\$102,967,000) and HK\$510,000 (1H FY2011: HK\$1,599,000), respectively, while the motors segment incurred a segment loss of HK\$26,467,000 (1H FY2011: profit of \$5,858,000). The resources development business recorded a segment loss of HK\$21,691,000 during 1H FY2012 (1H FY2011: loss of HK\$10,125,000) mainly due to expenses incurred for exploration activities and related investments.

With a sound financial position and a portfolio of robust businesses which are well placed over the medium-to-long-term, we are confident that the Group is well-positioned to rebound from the short-term adversities.

## OPERATIONAL REVIEW

### Electrical and Electronic Products Business Segment

The segment is engaged in the development, design and manufacture of (i) electronic and electrical toys; (ii) electrical appliances with a niche in artificial intelligence (AI) products; and (iii) small home electrical appliances.

Segment external turnover decreased 14.8% to HK\$534,025,000 (1H FY2011: HK\$626,620,000) with the easing of orders for the AI vacuum-cleaning robots and a decline in the sales of toy items. The segment recorded a lower contribution to profit of HK\$43,541,000 (1H FY2011: HK\$102,967,000) due to the impact of the surges in labour wages and material costs, aggravated by the appreciation of the Renminbi. This caused the segment's profit margin to decline year on year.

As a PRC-based manufacturer, the Group is facing challenges on a number of fronts and is using a number of strategies to respond.

Continuing to adapt our business to changing market conditions, the segment started during the period to produce nursery consumer products which are less vulnerable to economic cycles. The segment will continue to diversify its product line into new areas, including consumer electronic products in the sports sector and certain household products such as heating pads, in order to better utilise its existing production facilities.

In line with the expansion of the product offerings, efforts have been expended on the further broadening of the segments customer base.

On the cost front, management has continued to maintain stringent control over the operating expenses and has taken steps to restructure the headcount. These efforts, supplemented by the streamlining of the production lines, are expected to exert a positive impact on the Group's cost efficiency.

A new model of robotic vacuum cleaner was launched during the first half of FY2012. With enhanced functions, the new model has become a strong addition to the collection of popular home robots, receiving a welcoming market response. The segment is confident about the order book for this new product as its marketing rollout is stepped up further in the second half.

As emerging macroeconomic and structural issues continue to pose threats to the mainland manufacturing sector, driving out less well-established counterparts, the Group has stood out amongst its competitors as a reliable manufacturer that consistently delivers quality and value.

Our reliable track record as a supplier of choice for many multinational brands will support our new business development initiatives going forward. We are confident that as the macroeconomic environment recovers, the Group is better equipped and financially prepared to take advantage of longer-term market trends and new business opportunities, and is likely to emerge as a winner in our field.

The second half of FY2012 will continue to be challenged by macro difficulties. The segment will remain committed to maintaining a stable performance in order to fulfill its long-term financial goals of bringing steady cash flow for the Group.

### **Motors Business Segment**

The motors segment develops, designs and manufactures a wide range of micro-electric motors and related products, ranging from direct-current (“DC”), alternating-current (“AC”) motors and brushless motors to motor encoder systems.

During 1H FY2012, segment external turnover remained stable at HK\$302,673,000 (1H FY2011: HK\$306,153,000) on the back of a broadened client base. The segment recorded an interim loss of HK\$26,467,000 (1H FY2011: profit of HK\$5,858,000) for the first time.

The segment faced multiple challenges during the period: intensified competition putting a strain on selling prices, escalating labour and material costs eroding profit margin, and the appreciation of the Renminbi adding to the cost pressure.

In an attempt to counteract the tough operational environment, the segment took several actions during the first half, including putting more efforts into enhancing the efficiency of production lines and upgrading automation. The product mix has been further broadened to incorporate more higher value-added items. Furthermore, plans were underway to consolidate the segment’s facilities as part of its cost reduction initiatives.

In the context of the current economic conditions, the segment's sales have exhibited resilience on the back of a broad customer base covering toy, personal care, precision instrument and automotive sector clients. To further its research and development capability, the segment also plans to establish a new research and development center in Shenzhen and recruit more engineers to its team. After years of consistent effort, certain first-tier players in the automotive and precision instrument sectors have responded positively to our products.

The sales performance of the segment also demonstrates that the segment's business is built and managed for the long term. Equipped with both DC and AC motor production capabilities, and complete with one-stop capacity for moulds, components and parts, and micro-motor encoder systems, the segment is competitively positioned to improve its performance as its business evolves in response to macro trends.

Our outlook for the long-term prospects of the motors business remains positive. Business development efforts backed by research and development into new end-user applications will be sustained to support the segment's long-term business growth.

### **Other Manufacturing Activities**

This is a relatively small business segment specialising in the development, design, manufacture and sales of a range of feature plush, wooden and educational toys, both on an original equipment manufacturing basis and under the Group's house brand as well as encoder film manufacturing business in Malaysia.

The segment's external turnover increased during 1H FY2012 by 60.0% year on year to HK\$47,928,000 (1H FY2011: HK\$29,955,000) with segment profit decreasing 68.1% to HK\$510,000 (1H FY2011: HK\$1,599,000).

The economic downturn has had more severe impact on the toy-focused feature plush and wooden product business line. The wooden product line has embarked on efforts to engage more non-toy clients with deliveries of these new wooden items beginning during the period and expected to continue into the second half.

The Malaysia factory continued to operate on a small scale with marketing efforts expedited to actively solicit new business and to ensure that its revenue goals are achieved.

## Resources Development Business Segment

The resources development business segment continued to serve as the strategic platform for the Group to achieve long-term growth and returns, and also as an important part of our long-term strategy to build stability into our revenue base.

During the period under review, the segment was engaged in (i) materials development business – the development, manufacture and sale of Indium Tin Oxide (“ITO”) Targets; and (ii) natural resources development business with respect to non-ferrous metals.

The segment was still in its investment mode, with resources being put into the expansion of ITO Target capability and capacity, as well as continued investments in strategic growth initiatives with respect to the natural resources development business. These activities have inevitably led to higher operating expenses as compared with the previous corresponding period.

The segment’s external turnover in 1H FY2012 recorded an 8.8% year-on-year increase to HK\$4,351,000 (1H FY2011: HK\$3,998,000) and a loss of HK\$21,691,000 (1H FY2011: loss of HK\$10,125,000).

We are pleased to report solid moves on the segment’s geographical diversification from the PRC – the rollout of natural resources business activities in the Lao People’s Democratic Republic (“Lao PDR”). The segment has strived to expedite the process of obtaining exploitation licences for the existing mines, exploitation projects are targeted to commence as soon as practicable, bringing in earnings contributions to the Group. The segment is also looking at opportunities diligently in an effort to add new projects to its portfolio in order to increase overall prospective mineral reserves and also contributions to the Group.

While we are building up a foundation for this segment, the management of the Company remains confident about the prospects of the segment and its potential for contributing to the Group’s revenue and profitability in the near future.



### **Materials Development Business**

The setting up of the tailor-made new ITO Powder and Target production lines at the new facilities built within the Group's Shaoguan production base has been largely completed, with all major equipment installed during the period under review. Equipped with advanced and improved designs and production technologies, the new facilities have enabled the Group to become one of the first large-scale manufacturers in the PRC with capabilities in high standard Function Material Targets and nano-films, fulfilling a currently unsatisfied need in the market. The new production lines commenced sintering process tests and trial run in November 2011, achieving encouraging results.

In line with the ramping up of production scale, the business has taken steps to strengthen its sales team so as to solicit new business for its more advanced product offerings, both from overseas and in the PRC. The sales force will form part of the business's effort to build its home-grown team aiming at providing holistic solutions incorporating technology, sales and after-sales services, empowered to implement and support critical missions in the ITO Target field. The sales team has started assessing and engaging potential customers to kick-start the sample product testing process.

Collaborations have also been ongoing with academia, including a university in Hong Kong, in the area of material science in an effort to keep us abreast of the latest industry developments. Efforts are also consistently put into perfecting the ever-improving quality and standards of our products.

Having achieved technological breakthroughs and with proprietary new production lines tested pending full commissioning around the beginning of the next financial year, the business is set for a new phase of high growth in the near term.

### **Natural Resources Development Business**

During the period under review, the business was engaged mainly in exploration activities in the polymetallic ore mines in Xian City and the Shaoguan City, the PRC. The Group is also pleased to report positive results with the expansion of its natural resources development business into Lao PDR, the first diversification move of this business outside the PRC.

## **Exploration**

During the period under review, geological exploration works were undertaken in an exploration area of 27 square kilometres (the “Jinshi Exploration Area”) in relation to the lead and zinc polymetallic ore mine located in Jiangjuncha, Lantian County, Xian City, Shaanxi Province, the PRC (the “Xian Polymetallic Mine”) and an area of 18 square kilometres (the “Wengyuan Exploration Area”) in relation to a lead, zinc and iron ore mine located in Xin Jiang Town, Wengyuan County, Shaoguan City, Guangdong Province, the PRC (the “Wengyuan Polymetallic Mine”).

As a result of the exploration work carried out in three additional locations in the Jinshi Exploration Area, we have obtained an ample amount of geological information and leads so far as the required work for renewal of the exploration licence is concerned. Going forward, exploration work will be invested in, in tandem with the progress of obtaining the exploitation licence with respect to the Jinshi Exploration Area.

The acquisition of the Wengyuan Polymetallic Mine was completed in July 2011, and the Group has since successfully devised an exploration plan thereto after thorough investigations. Given that sufficient exploration works have been carried out in the Wengyuan Polymetallic Mine before the acquisition, the Group will focus its efforts on obtaining exploitation rights for an area of 5 square kilometres within the Wengyuan Exploration Area.

Plans to diversify the mining portfolio moved smoothly forward following the first advance into Lao PDR. Through a 70%-owned subsidiary, Ordovician Mining (Hong Kong) Limited (“OMHK”), the Group entered into a prospecting and exploration agreement (“P&E Agreement”) with the Government of Lao PDR on 3 November 2011 for an adjusted tenement area of 324 square kilometres in Saiyabouly Province (the “Saiyabouly Tenement Area”) in the country. Pursuant to the P&E Agreement, OMHK has been granted, inter alia, the sole rights to search for, prospect and explore for copper and iron and their respective associated minerals in the Saiyabouly Tenement Area.

The Saiyabouly Tenement Area currently has limited geological information available. However, based on the results of the geological investigation carried out by our in-house expert geological team with respect to outcropping and mineralisation therein, we were satisfied with the potential of the project. Following the P&E Agreement, OMHK will submit all required documentations to the Government of Lao PDR in order to obtain the relevant exploration licence. OMHK expects to commence prospecting work in the Saiyabouly Tenement Area in due course to assess the type and amount of minerals associated therein.

Together with the existing exploration projects in Xian and Wengyuan, the PRC, the addition of the project in Lao PDR has increased our portfolio of exploration projects to cover total tenement areas of 369 square kilometres associated with, inter alia, copper, iron, lead, zinc and silver.

Given the current sizeable area of exploration projects on hand, the Group's emphasis will be skewed towards projects in more advanced geological development stages in order to accelerate the development of the business and contributions from the mining projects.

### ***Exploitation***

Management resources have been focused on preparation works in relation to the obtaining of the relevant exploitation licences for an area of 2.2 square kilometres (exclusive of the Jinshi Exploration Area) for the Xian Polymetallic Mine and 5 square kilometres within the Wengyuan Exploration Area for the Wengyuan Polymetallic Mine.

The obtaining of these exploitation licences for both projects has been progressing at a moderate pace so far. Nevertheless, the progress with respect to the obtaining of the exploitation licences for the Xian Polymetallic Mine is in a more advanced stage. With more information and requirements fed back, we are determined to fulfill all necessary requirements to obtain the licences as soon as practicable.

### ***Ore Processing***

The acquisition of the ore processing plant near the Xian Polymetallic Mine is pending on the obtaining of the proper licence by the vendor from the relevant regulatory authorities in the PRC. Given the moderate progress of the vendor in obtaining the required licence for its 250 metric tonnes per day facilities, we have worked on alternative ore processing arrangements for Xian Polymetallic Mine to assure appropriate processing support.

The total iron ore processing capability of the Wengyuan Polymetallic Mine is around 500 metric tonnes per day. The Group plans to upgrade the facilities in an effort to enhance their efficiency to support the expected mining activities there in the coming future.

Feasibility studies have been in their final stage in relation to the establishment by the Group, as a majority shareholder, of an independent antimony ore processing plant with a capacity of 300 metric tonnes per day in Dushan County, Guizhou Province, the PRC. The independent ore processing plant is the first step in various operations along the value chain of natural resources development with respect to antimony in Guizhou. The Group expects to finalize the negotiations and arrangements with the relevant parties in due course.

### ***Refining and Downstream Processing***

The feasibility studies, negotiations and arrangements with the relevant parties with respect to the owning of a majority equity interest by the Group in a smelting plant with an annual capacity of producing 2,000 to 3,000 metric tonnes of ingots and the establishment of a medium-sized downstream processing plant in Dushan County, Guizhou Province, the PRC, are progressing as planned.

The Group will progress diligently in achieving the aim of capturing the value-adding prospects of different key sectors in the natural resources industry, including but not limited to prospecting, exploration, exploitation, ore processing, refining and downstream processing.

## OUTLOOK

The continued fallout from the ongoing financial turmoil and the economic downturn have weighed on the Group's performance and put our management capabilities to the test. However, despite facing a weaker outlook, our financial strength and operations are in good shape. We are competitively positioned in the face of severe headwinds from the financial turmoil.

Our manufacturing segments will continue to be an important part of the Group. As a leading industry player, we will continue to leverage our core competencies, including economies of scale, a diverse production platform, and our quality and technical lead, to operate effectively in a macro environment shaped by lean demand and keen competition. Most importantly, we are a company with over three decades of user-oriented innovation. The Board has confidence in the ongoing development of our manufacturing businesses.

The Group's financial resilience amidst global market changes and operational challenges demonstrates the success of our diverse business strategy. Our expansion into non-manufacturing businesses, including materials and natural resources development activities, has exhibited initial results as solid foundations have been laid down for the various operations.

We will continue to execute our defined strategy to grow our ITO Target business. As such, we will capitalise on our technical know-how by setting up completely new production lines with advanced technological standards to meet the expected robust demand. On natural resources development, we will continue to develop the existing projects, while putting future development emphasis on brownfield projects expected to make a contribution to the Group in the short-to-medium term.

We hold strong confidence in the promising prospects of the non-manufacturing segment as a future growth driver for the Group.

In closing, we are most thankful to our shareholders, the dedicated management and staff team, our clients and all our business partners. With your support, we will emerge from the current difficult economic times as an even stronger company.

## 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 reporting period, the Group's aggregated time deposits and cash and bank balances amounted to HK\$217 million (31 March 2011: HK\$215 million). In addition, the Group currently maintains aggregate composite banking facilities of approximately HK\$451 million (31 March 2011: HK\$210 million) with various banks, of which HK\$370 million (31 March 2011: HK\$171 million) has been utilised as at 30 September 2011.

The Group continues to maintain healthy financial position. At 30 September 2011, the current ratio (current assets divided by current liabilities) was 1.8 times (31 March 2011: 1.6 times) and the gearing ratio (total interest-bearing bank borrowings divided by total equity) was 37.2% (31 March 2011: 16.5%).

## EMPLOYEES AND REMUNERATION POLICIES

As at 30 September 2011, the Group employed over 11,000 full-time employees, of which less than 100 of them were stationed in Hong Kong headquarters with the remaining working in PRC and Malaysia.

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 PRC, the Group provides its employee's 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 staff with outstanding performance. At the discretion of the Board, the Group's employees will be granted the options, of which the number of options granted is determined by individual performance and level of responsibilities.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 September 2011, 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 (the "Model Code"), were as follows:

### (A) Shares

Name of director	Long position/ short position	Capacity	Number of ordinary shares held	Approximate percentage of the Company's issue share capital
Mr. Cheng Chor Kit	Long position	Founder of a trust	274,712,000	65.60
			<i>(Note)</i>	
		Beneficial owner	3,300,000	0.79
		Interest held by spouse	1,200,000	0.29
Mr. Fung Wah Cheong, Vincent	Long position	Beneficial owner	6,900,000	1.65

*Note:* These shares 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 Mr. Cheng Chor Kit for his family.

## (B) Underlying Shares

Name of director	Long position/ short position	Capacity	Number of underlying shares in respect of share options held and approximate percentage of shareholding	Date of share options granted	Exercise period	Exercise price per share
Mr. Fung Wah Cheong, Vincent	Long position	Beneficial owner	500,000 (0.12%)	23/7/2009	1/8/2010- 22/7/2019	HK\$1.426
Mr. Liu Tat Luen	Long position	Beneficial owner	2,000,000 (0.48%)	4/1/2010	4/1/2013- 3/1/2020	HK\$2.102
Mr. Chui Pak Shing	Long position	Beneficial owner	1,000,000 (0.24%)	29/3/2011	29/3/2014- 28/3/2021	HK\$2.792
Prof. Chung Chi Ping, Roy JP	Long position	Beneficial owner	650,000 (0.16%)	29/3/2011	29/3/2011- 28/3/2021	HK\$2.792
Mr. Wong Chi Wai	Long position	Beneficial owner	300,000 (0.07%)	29/3/2011	29/3/2011- 28/3/2021	HK\$2.792
Ms. Sun Kwai Yu	Long position	Beneficial owner	300,000 (0.07%)	29/3/2011	29/3/2011- 28/3/2021	HK\$2.792

Save as disclosed above, as at 30 September 2011, none of the Directors and Chief Executive of the Company 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.

## SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, any person or entity that provides research, development or other technological support to the Group, the Company's shareholders and any non-controlling interest in the Company's subsidiaries. The Scheme became effective on 20 August 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.



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

	Date of share options granted	Number of share options				At 30 September 2011	Exercise period	Exercise price per share HK\$	Price of Company's shares at grant date of options* HK\$
		At 1 April 2011	Granted during the period	Exercised during the period	Lapsed during the period				
<b>Directors</b>									
Mr. Fung Wah Cheong, Vincent	23/7/2009	500,000	-	-	-	500,000	1/8/2010-22/7/2019	1.426	1.40
Mr. Liu Tat Luen	4/1/2010	2,000,000	-	-	-	2,000,000	4/1/2013-3/1/2020	2.102	2.06
Mr. Chui Pak Shing	29/3/2011	1,000,000	-	-	-	1,000,000	29/3/2014-28/3/2021	2.792	2.77
Prof. Chung Chi Ping, Roy JP	29/3/2011	650,000	-	-	-	650,000	29/3/2011-28/3/2021	2.792	2.77
Mr. Wong Chi Wai	29/3/2011	300,000	-	-	-	300,000	29/3/2011-28/3/2021	2.792	2.77
Ms. Sun Kwai Yu	29/3/2011	300,000	-	-	-	300,000	29/3/2011-28/3/2021	2.792	2.77
<b>Other employees</b>									
In aggregate	14/11/2003	382,000	-	-	-	382,000	14/11/2006-13/11/2013	1.592	1.60
	4/10/2006	220,000	-	-	-	220,000	4/10/2009-3/10/2016	1.03	1.03
	14/3/2008	500,000	-	-	-	500,000	14/3/2009-13/3/2018	1.99	1.99
	19/10/2009	500,000	-	-	-	500,000	19/10/2012-18/10/2019	1.55	1.55
	29/3/2011	650,000	-	-	-	650,000	29/3/2011-28/3/2021	2.792	2.77
		<u>7,002,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,002,000</u>			

\* 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' and Chief Executive's interests and short positions in shares and underlying shares" and "Share option scheme" above, at no time during the six months ended 30 September 2011 period were rights to acquire benefits by means of the acquisition of shares in 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, or any of its holding companies, subsidiaries or 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

At 30 September 2011, 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 of interest and nature	Number of ordinary shares held	Approximate percentage of the Company's issued share capital	Number of share options held
Mr. Cheng Chor Kit	Through a controlled corporation, beneficial owner and interest held by spouse	279,212,000 (Notes 1, 2 and 4)	66.68	–
Hallgain Management Limited ("Hallgain")	Through a controlled corporation	28,762,000 (Note 3)	6.87	–

*Note 1:* Among these share, 274,712,000 shares were held through Resplendent and 1,200,000 shares were held by the spouse of Mr. Cheng Chor Kit.

*Note 2:* The spouse of Mr. Cheng Chor Kit is deemed to be interested in these ordinary shares in which Mr. Cheng Chor Kit is deemed or taken to be interested for the purpose of the SFO.

*Note 3:* These shares were held by Kingboard Investment Limited ("KIL"). Jamplan (BVI) Limited ("Jamplan") is the beneficial owner of all the issued share capital of KIL while Jamplan is wholly-owned by Kingboard Chemical Holdings Limited ("KCHL"), which is owned as to approximately 31.69% of the entire issued share capital of KCHL by Hallgain.

*Note 4:* This refers to the same shareholding of Mr. Cheng Chor Kit mentioned in the section headed "Directors' and Chief Executive's interests and short positions in shares and underlying shares" 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, as at 30 September 2011, no person, other than Mr. Cheng Chor Kit, whose interests are set out in the section "Directors' and Chief Executive's 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.

## **INTERIM DIVIDEND**

The Board does not recommend the payment of any interim dividend for the six months ended 30 September 2011 (30 September 2010: HK4.5 cents per ordinary share).

## **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.

## **BANKING FACILITIES WITH COVENANTS RELATING TO SPECIFIC PERFORMANCE OF CONTROLLING SHAREHOLDER**

In accordance with the requirements under rule 13.21 of the Listing Rules, the directors of the Company report below details of loan facilities, which existed during the period ended 30 September 2011 and included conditions relating to specific performance of the controlling shareholder of the Company:

As disclosed in the Company's announcement dated 17 May 2011, the Company as the borrower, executed:

- (i) a facility letter issued by The Hongkong and Shanghai Banking Corporation Limited as lender whereby a term loan facility of HK\$100,000,000 (the "Loan I") is made available to the Company for a term of 60 months; and
- (ii) a facility letter issued by Hang Seng Bank Limited as lender whereby a term loan facility of HK\$100,000,000 (the "Loan II") is made available to the Company for a term of 42 months.

Each of the Loan I and Loan II imposes, inter alia, a condition that Mr. Cheng Chor Kit, the controlling shareholder of the Company, and the discretionary trust set up by him for the benefit of his family collectively shall beneficially or directly maintain a shareholding of not less than 50% of the issued share capital of the Company. A breach of the above mentioned condition will constitute an event of default under the relevant facility letter. Upon the occurrence of such event, each of the Loan I and Loan II shall become immediately due and repayable on demand.

### **CODE ON CORPORATE GOVERNANCE PRACTICES**

In the opinion of the Board, the Company has complied with the code provisions as set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 to the Listing Rules throughout the six months ended 30 September 2011 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 separate 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. The roles of the chairman and the CEO of the Company are not separated and performed by the same individual, Mr. 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.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as its own code on terms no less exacting than the required standard set out in the Model Code regarding securities transactions by the directors. 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 throughout the six months ended 30 September 2011.

## AUDIT COMMITTEE

The Company has established an audit committee and its members comprised Ms. Sun Kwai Yu (Chairperson of the committee), Prof. Chung Chi Ping, Roy *JP* and Mr. Wong Chi Wai, the three independent non-executive directors, and the Chairperson of the audit committee has the required appropriate professional financial qualifications and experience.

The audit committee of the Company has 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 unaudited condensed consolidated financial statements for the six months ended 30 September 2011.

## BOARD OF DIRECTORS

As at the date of this report, the Board consists of four executive directors, namely Mr. Cheng Chor Kit, Mr. Fung Wah Cheong, Vincent, Mr. Liu Tat Luen and Mr. Chui Pak Shing, and three independent non-executive directors, namely Prof. Chung Chi Ping, Roy *JP*, Mr. Wong Chi Wai and Ms. Sun Kwai Yu.

By order of the Board

**Cheng Chor Kit**

*Chairman and Chief Executive Officer*

Hong Kong, 29 November 2011