



Herald Holdings Limited

Interim Report 2005/2006

RESULTS

The Board of Directors of Herald Holdings Limited (the "Company") presents the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2005, together with the comparative figures for the corresponding period in 2004, as follows:

Condensed Consolidated Income Statement – Unaudited

For the six months ended 30 September 2005

		Six months ended 30 September	
	Note	2005 HK\$'000	2004 HK\$'000 (restated)
Turnover	(2)	738,468	680,819
Cost of sales		(569,693)	(528,819)
Gross profit		168,775	152,000
Other revenue		5,139	3,563
Other net (loss)/income		(549)	101
Distribution costs		(27,796)	(25,703)
Administrative expenses		(92,580)	(85,927)
Profit from operations	(2)	52,989	44,034
Finance costs		(20)	(115)
Share of profit of a jointly controlled entity		381	84
Profit before taxation	(3)	53,350	44,003
Income tax	(4)	(7,014)	(9,265)
Profit after taxation		46,336	34,738
Attributable to:			
Equity holders of the Company		43,326	35,660
Minority interests		3,010	(922)
		46,336	34,738
Interim dividends		15,348	12,279
Interim dividends per share		2.5 cents	2 cents
Earnings per share	(5)		
– Basic		7.06 cents	5.81 cents

Condensed Consolidated Balance Sheet – Unaudited
At 30 September 2005

	<i>Note</i>	As at 30 September 2005 HK\$'000	As at 31 March 2005 HK\$'000 (restated)
Non-current assets			
Fixed assets	(6)		
– Investment properties		14,610	16,290
– Other property, plant and equipment		148,071	151,217
Leasehold land and land use rights		6,618	6,704
Interest in jointly controlled entity		1,954	1,804
Other financial assets		57,412	10,624
Deferred tax assets		6,402	6,118
		235,067	192,757
Current assets			
Inventories		151,056	167,794
Trade and other receivables	(7)	220,007	174,421
Current tax recoverable		2,257	824
Cash at bank and in hand		225,381	223,564
		598,701	566,603
Current liabilities			
Trade and other payables	(8)	205,379	156,480
Bank overdraft		3,026	–
Current taxation		14,469	9,867
		222,874	166,347
Net current assets		375,827	400,256
Total assets less current liabilities		610,894	593,013
Non-current liabilities			
Provision for long service payments		(3,022)	(3,072)
Deferred tax liabilities		(639)	(979)
		(3,661)	(4,051)
NET ASSETS		607,233	588,962
CAPITAL AND RESERVES			
Share capital	(9)	47,886	47,886
Reserves		528,313	513,052
Total equity attributable to equity holders of the Company		576,199	560,938
Minority interests		31,034	28,024
TOTAL EQUITY		607,233	588,962

Condensed Consolidated Cash Flow Statement – Unaudited*For the six months ended 30 September 2005*

	Six months ended 30 September	
	2005 HK\$'000	2004 HK\$'000
Net cash inflow/(outflow) from operating activities	77,907	(14,081)
Net cash outflow from investing activities	(51,082)	(10,748)
Net cash outflow from financing activities	(27,647)	(19,672)
Decrease in cash and cash equivalents	(822)	(44,501)
Cash and cash equivalents at 1 April	223,564	172,330
Effect of foreign exchange rates changes	(387)	(451)
Cash and cash equivalents at 30 September	222,355	127,378
Analysis of the balances of cash and cash equivalents		
Cash at bank and in hand	225,381	129,603
Short term bank loan and overdraft	(3,026)	(2,225)
	222,355	127,378

Condensed Consolidated Statement of Changes in Equity – Unaudited
For the six months ended 30 September 2005

	Attributable to equity holders of the Company								Total equity HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	Exchange fluctuation reserve HK\$'000	PRC statutory reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000	Minority interests HK\$'000	
At 1 April 2005	47,886	25,720	207,037	1,307	5,280	273,708	560,938	28,024	588,962
Exchange difference on consolidation	-	-	-	(438)	-	-	(438)	-	(438)
Dividend paid	-	-	(27,627)	-	-	-	(27,627)	-	(27,627)
Profit for the period	-	-	-	-	-	43,326	43,326	3,010	46,336
At 30 September 2005	47,886	25,720	179,410	869	5,280	317,034	576,199	31,034	607,233
At 1 April 2004	47,886	25,720	237,734	(737)	-	182,871	493,474	27,532	521,006
Exchange difference on consolidation	-	-	-	(977)	-	-	(977)	-	(977)
Dividend paid	-	-	(18,418)	-	-	-	(18,418)	(1,137)	(19,555)
Profit for the period	-	-	-	-	-	35,660	35,660	(922)	34,738
At 30 September 2004	47,886	25,720	219,316	(1,714)	-	218,531	509,739	25,473	535,212

NOTES TO CONDENSED INTERIM ACCOUNTS

1. Basis of preparation and accounting policies

These unaudited condensed consolidated interim accounts have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

These condensed interim accounts should be read in conjunction with the annual accounts for the year ended 31 March 2005.

The accounting policies and methods of computation used in the preparation of these condensed interim accounts are consistent with those used in the annual accounts for the year ended 31 March 2005 except that the Group has changed certain of its accounting policies following the adoption of new/revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRS") which are effective for accounting periods commencing on or after 1 January 2005. Certain comparatives figures have been amended as required, in accordance with the relevant requirements and to conform with the current period's presentation. The major and significant effects of the adoption of the new HKFRS on the Group's accounting policies and amounts disclosed in the condensed interim accounts are summarised as follows:

- a) The adoption of HKAS 1 "Presentation of Financial Statements" has affected the presentation of minority interests and share of after-tax results of a jointly controlled entity.
- b) Leasehold land and buildings held for own use (HKAS 17 "Leases")

In prior years, leasehold land and buildings held for own use were stated at cost or valuation less accumulated depreciation and accumulated impairment losses.

With the adoption of HKAS 17 as from 1 April 2005, the leasehold interest in the land held for own use is accounted for as being held under an operating lease where the fair value of the interest in any buildings situated on the leasehold land could be separately identified from the fair value of the leasehold interest in the land at the inception of the lease.

The pre-paid land premiums for acquiring the land leases, or other lease payments, are amortised on a straight line basis over the lease term and the amortization charge for the period is recognised in the income statement immediately. The buildings held for own use which are situated on such land leases continue to be presented as part of "other property, plant and equipment" and are stated at cost less accumulated depreciation and accumulated impairment losses.

The new accounting policies have been adopted retrospectively. As a result of adopting this new policy, the leasehold interest in the land held for own use of HK\$6,618,000 as at 30 September 2005 (As at 31 March 2005: HK\$6,704,000) have been reclassified from "other property, plant and equipment" as "leasehold land and land use rights".

- c) Financial instruments (HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement")

Changes in accounting policies relating to financial instruments are as follows:

In prior years, the accounting policies for certain financial instruments were as follows:

- dated debt securities that the Group has the ability and intention to hold to maturity were classified as "held-to-maturity securities". "Held-to-maturity securities" were stated in the balance sheet at amortised cost less any provisions for diminution in value;
- investments held on a continuing basis for an identifiable long-term purpose were classified as "investment securities" and stated at cost less any provisions for diminution in value; and
- other investments were stated at fair value with changes in fair value recognised in the income statement.

With effect from 1 April 2005, and in accordance with HKAS 39, the following new accounting policies are adopted for the financial instruments mentioned above:

- unlisted debt securities with fixed or determinable payments and not quoted in an active market are non-derivative financial assets and recognised as "loans and receivables". These long term investments are carried at amortised costs and are measured using the effective interest method; and
- all other investments are classified as "financial assets at fair value through profit or loss" and are carried at fair value with changes in fair value recognised in the income statement.

The adoption of these new accounting policies has no significant impact on the Group's financial statements for the six months ended 30 September 2005 and the comparative figures.

2. Segment information

The Group is principally engaged in the manufacture, sale and distribution of toy and gift products, computer heads, housewares and timepieces.

An analysis of the Group's turnover and contribution to operating profit for the period by business segment is as follows:

Business segments:

	2005						
	Toy and gift products HK\$'000	Computer heads HK\$'000	Housewares HK\$'000	Timepieces HK\$'000	Others HK\$'000	Inter- segment elimination HK\$'000	Consolidation HK\$'000
Turnover	394,323	76,241	123,505	128,975	15,424	–	738,468
Other revenue	1,702	222	1,644	180	1,391	–	5,139
Inter-segment revenue	–	–	–	–	1,489	(1,489)	–
Total	396,025	76,463	125,149	129,155	18,304	(1,489)	743,607
Segment result	26,288	9,310	6,283	9,033	3,477	–	54,391
Unallocated operating income and expenses							(1,402)
Profit from operations							52,989
Finance costs							(20)
Share of profit of a jointly controlled entity	–	–	381	–	–	–	381
Income tax							(7,014)
Profit after taxation							46,336

	2004 (restated)						
	Toy and gift products <i>HK\$'000</i>	Computer heads <i>HK\$'000</i>	Housewares <i>HK\$'000</i>	Timepieces <i>HK\$'000</i>	Others <i>HK\$'000</i>	Inter- segment elimination <i>HK\$'000</i>	Consolidation <i>HK\$'000</i>
Turnover	319,022	58,023	106,439	180,494	16,841	–	680,819
Other revenue	1,553	106	892	188	824	–	3,563
Inter-segment revenue	–	–	–	–	1,489	(1,489)	–
Total	320,575	58,129	107,331	180,682	19,154	(1,489)	684,382
Segment result	6,420	2,452	6,340	26,487	3,739	–	45,438
Unallocated operating income and expenses							(1,404)
Profit from operations							44,034
Finance costs							(115)
Share of profit of a jointly controlled entity	–	–	84	–	–	–	84
Income tax							(9,265)
Profit after taxation							34,738

An analysis of the Group's turnover for the period by geographical segment is as follows:

Geographical segments:

	Turnover	
	Six months ended	
	30 September	
	2005	2004
	HK\$'000	HK\$'000
Europe		
United Kingdom	249,438	334,677
Other countries	52,561	60,912
North America	374,653	238,255
Asia		
Hong Kong	32,001	17,280
The PRC	6,728	4,846
Other countries	7,133	9,192
Others	15,954	15,657
	738,468	680,819

3. Profit before taxation

Profit before taxation is arrived at after charging/ (crediting):

	Six months ended	
	30 September	
	2005	2004
	HK\$'000	HK\$'000
		(restated)
Interest on borrowings	20	115
Depreciation	13,249	15,605
Amortisation of leasehold land and land use rights	149	146
Net (gain)/loss on disposal of fixed assets	(72)	143
Net realised and unrealised (gains)/losses on other financial assets	(82)	717
Staff costs	122,357	102,709
Interest income	(1,999)	(695)
Rental income	(1,541)	(1,485)
Share of jointly controlled entity's taxation	108	50

4. Income tax

	Six months ended 30 September	
	2005 HK\$'000	2004 HK\$'000 (restated)
Current tax – Hong Kong Profits Tax	6,652	4,126
Current tax – Overseas	913	4,770
Deferred taxation	(551)	369
	7,014	9,265

Provision for Hong Kong Profits Tax is calculated at 17.5% (2004: 17.5%) of the estimated assessable profits for the six months ended 30 September 2005. Taxation for overseas subsidiaries is similarly charged at the appropriate current rates of taxation ruling in the relevant countries.

5. Earnings per share

The calculation of basic earnings per share is based on the net profit attributable to the equity holders of the Company of HK\$43,326,000 (2004: HK\$35,660,000) and the weighted average number of shares of 613,926,000 (2004: 613,926,000) in issue during the period.

There were no dilutive potential shares in existence during the periods ended 30 September 2005 and 2004, therefore diluted earnings per share is not presented.

6. Fixed assets

The movements of fixed assets of the Group were:

	Investment properties HK\$'000	Other property, plant and equipment HK\$'000
Net book value as at 1 April 2005	16,290	151,217
Additions	–	8,571
Disposals	(1,680)	(170)
Depreciation	–	(13,249)
Exchange difference	–	1,702
Net book value as at 30 September 2005	14,610	148,071

7. Trade and other receivables

Included in trade and other receivables are trade debtors and bills receivable (net of impairment losses) with the following ageing analysis:

	At 30 September 2005 HK\$'000	At 31 March 2005 HK\$'000
By date of invoice		
Within 1 month	141,843	116,347
2 – 3 months	48,648	23,995
Over 3 months	1,304	3,822
Trade debtors and bills receivable	191,795	144,164
Deposits, prepayments and other receivables	28,212	30,257
	220,007	174,421

The credit terms given to the customers vary and are generally based on the financial strengths of individual customers. In order to effectively manage the credit risks associated with trade receivables, credit evaluations of customers are performed periodically.

8. Trade and other payables

Included in trade and other payables are trade creditors and bills payable with the following ageing analysis:

	At 30 September 2005 HK\$'000	At 31 March 2005 HK\$'000
By date of invoice		
Within 1 month	56,298	45,987
2 – 3 months	33,165	12,227
Over 3 months	848	783
Trade creditors and bills payable	90,311	58,997
Accruals and other payables	115,068	97,483
	205,379	156,480

9. Share capital

	Number of shares '000	Amount HK\$'000
<i>Authorised:</i>		
Shares of US\$0.01 each	1,000,000	78,000
<i>Issued and fully paid:</i>		
Shares of US\$0.01 each		
At 1 April 2005 and 30 September 2005	613,926	47,886

10. Commitments

At 30 September 2005, the total future minimum lease payments of the Group under non-cancellable operating leases are payable as follows:

	30 September 2005		31 March 2005	
	Land and Buildings HK\$'000	Others HK\$'000	Land and Buildings HK\$'000	Others HK\$'000
Within 1 year	5,140	2,031	6,203	1,821
After 1 year but within 5 years	10,730	1,735	13,687	1,806
After 5 years	12,036	—	14,248	—
	27,906	3,766	34,138	3,627

BUSINESS REVIEW

The Group's turnover for the six months to 30 September 2005 amounted to HK\$738 million, representing an increase of 8.5% as compared with the corresponding period in the previous year. The profit attributable to shareholders for the same period was HK\$ 43.3 million, up 21.3% from the profit of HK\$35.7 million in the same period a year earlier. The improvements in the Group's turnover and net profit were predominantly due to the better results from the Toy and Gift Division.

During the period under review, the turnover of the Toy and Gift Division increased by 24% from HK\$319 million to HK\$394 million. The increase was, to a large extent, driven by the continued strong sales of toys related to the "Star Wars" brand. Due to a larger volume of sales, the operating profit of the Division increased by more than 3 times to HK\$26.3 million as compared to HK\$6.4 million in the same period in 2004. Like all other factories in the Pearl River Delta, the Division's factories suffered from severe shortages of labour and electricity. In addition, the factories were forced to raise wages of their workers by approximately 28% to 30% as compared to the wage level last year. We are pleased that the Division overcame these difficulties and achieved substantially better results over the first half last year.

Thin-film and ferrite computer tape heads remained the principal products of the Computer Head Division. For the six months ended 30 September 2005, the Division had a turnover of HK\$76 million, an increase of HK\$18 million or 31% from HK\$58 million last year. Sales of the thin-film tape heads increased by 9% while the sales of the ferrite heads doubled. The Division had a half-year operating profit of HK\$9.3 million, compared to HK\$2.5 million in the prior year.

The business of the Houseware Division remained stable in the six months ended 30 September 2005. The half-yearly sales of the Division amounted to HK\$124 million, representing an increase of 17% over the corresponding period last year. Pilot Housewares, the Division's distribution operation in the UK, experienced a tough time and saw a 22% decline in sales in local currency. On the other hand, the Division's business in the USA market recorded a very favourable growth of 53%, which more than made up the loss in sales in the UK. The Division's profit from operations amounted to HK\$6.3 million, slightly lower than the previous year's level.

The UK is the largest market for the Timepiece Division, accounting for approximately 82% of the total sales of the Division in the first six months of the fiscal year. Retail sales in the UK have suffered a decline in 2005. Retailers like Littlewood's Index stores and Allders have either cut down the number of their stores or ceased operations. As some of these retailers were important customers of the Division, the half-yearly sales of the Division decreased by 28% to HK\$129 million as compared to last year. The operating profit was HK\$9 million, down from last year's HK\$26.5 million.

FINANCIAL POSITION

The Group continues to exercise prudence in the management of its working capital. As in the past, the Group maintains a good liquidity position without any long term debt funding. At 30 September 2005 the Group's net cash surplus was HK\$222 million which was slightly lower than the HK\$223 million at 31 March 2005. During the period under review, the Group generated HK\$77.9 million cash flow from its operating activities and used HK\$27.6 million to pay the final dividend for the year ended 31 March 2005 and HK\$46.8 million to purchase other financial assets which included listed shares and equity linked deposits.

The Group's current assets position as at 30 September 2005 was HK\$599 million compared to HK\$567 million as at 31 March 2005. The trade and other receivables increased to HK\$220 million from HK\$174 million. The increases were in line with the growth of the Group's sales activities. The Group's current liabilities increased from HK\$166 million to HK\$223 million primarily due to increase in trade and other payables. The working capital ratio, an indicator of a Company's liquidity represented by the ratio between current assets over current liabilities, was 2.69 compared to 3.41 at 31 March 2005. The quick ratio, another ratio that gauges the financial strength of a Company measured by trade debtors and cash and in hand over the current liabilities, decreased to 1.87 from 2.21 at 31 March 2005.

CONTINGENT LIABILITIES

As at 30 September 2005, the Group did not have any significant contingent liabilities.

FOREIGN EXCHANGE EXPOSURE

During the period under review, approximately 26% of the Group's turnover is denominated in sterling. From time to time, the Group enters forward foreign exchange contracts to hedge its foreign exchange exposure.

PROSPECTS AND GENERAL OUTLOOK

This year, the Group has achieved satisfactory results in the first half. However, the Management foresees that the overall operating conditions in the second half will be less favourable. The order positions of the Group have slowed down in October 2005. The Toy and Gift Division usually performs better in the first half than the second half. Last year was considered to be exceptional due to the strong sales of the "Star Wars" toys. Notwithstanding that there are some positive signs that UK retail sales are gradually improving, the Management believes that the Timepiece Division may not perform in the second half as well as last year. On the other hand, both the businesses of the Computer Head Division and the Houseware Division will remain stable in the second half.

DIVIDENDS

The Directors have declared an interim dividend of HK2.5 cents per share (2004: HK2 cents). The total amount of dividend payment of HK\$15,348,000 was based on the total number of shares in issue as at 15 December 2005 being the latest practicable date prior to the announcement of the interim results. Dividend will be payable on 20 January 2006 to shareholders registered in the Register of Members on 11 January 2006.

REGISTER OF MEMBERS

The Register of Members will be closed from 10 January 2006 to 11 January 2006, both days inclusive. Shareholders should ensure that all transfers accompanied by relevant share certificates are lodged with the Company's Registrars, Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:00 pm on 9 January 2006 in order that they may receive their dividend entitlement. Shareholders should be aware that the Company's Registrars will be relocated to the above address with effect from 3 January 2006 and prior to that date, its address is G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.

SHARE OPTION SCHEME

The company adopted a new share option scheme on 18 September 2003. No share options have been granted since its adoption.

Apart from the foregoing, at no time during the six months ended 30 September 2005 was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 September 2005, the beneficial interests of the directors of the Company and their associates in the shares of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules ("Model Code"), were as follows:

Interests in issued shares

(Shares of US\$0.01 each of the Company)

Directors	Capacity	Personal interests	Number of shares		Other interests	Total	Percentage of total issued shares
			Family interests	Corporate interests			
G Bloch	Beneficial owner, interest of spouse and interests of controlled corporations	150,000	8,091,500	1,250,000 (Note (i))	–	9,491,500	1.55%
D S Chang	Beneficial owner, interest of spouse and founder of a trust	10,040,000	21,654,879	–	75,498,356 (Note (iii))	107,193,235	17.46%
S T K Cheung	Beneficial owner, interest of spouse, interest of controlled corporation and beneficiary of a trust	36,742,808	950,000	50,000 (Note (ii))	75,498,356 (Note (iii))	113,241,164	18.45%
R Dorfman	Beneficial owner	46,470,000	–	–	–	46,470,000	7.57%
M Y S Thong	Beneficial owner	11,383,308	–	–	–	11,383,308	1.85%

Notes:

- (i) Mr G Bloch and his associates are beneficial shareholders of 100% and 58% of the issued capital of Anglo Tex Limited and Herald International Limited respectively, which owned 1,000,000 shares and 250,000 shares respectively in the Company at 30 September 2005.
- (ii) Each of Dr S T K Cheung and his spouse, Ms Ng Yiu Chi Eleanor, is a beneficial shareholders of 50% of the issued capital of Money Plus Enterprises Limited which owned 50,000 shares in the Company at 30 September 2005.
- (iii) Dr S T K Cheung is the beneficiary of a family trust which owned 75,498,356 shares in the Company at 30 September 2005. Mr D S Chang, being the founder of the trust, is also deemed to be interested in these shares.

As at 30 September 2005, no short positions were recorded in the register required to be kept under section 352 of the SFO.

Apart from the foregoing, none of the directors of the Company or any of their spouses or children under eighteen years of age has interests or short positions in the shares, underlying shares or debentures of the Company and any of its subsidiaries, as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

Other than the interests disclosed in the section "Directors' interests and short positions in shares, underlying shares and debentures" in respect of directors, the following shareholders were interested in 5% or more of the issued share capital of the Company as at 30 September 2005 according to the register of interests required to be kept by the Company under section 336 of the SFO.

Interests in issued shares

(Shares of US\$0.01 each of the Company)

Shareholders	Note	Capacity	Number of shares held	Percentage of total issued shares
Chan Him Wee	(i)	Beneficial owner and interest of spouse	107,193,235	17.46%
Ng Yiu Chi Eleanor	(ii)	Beneficial owner, interest of spouse and interest of controlled corporation	112,751,164	18.36%
Sheri Tillman Dorfman	(iii)	Interest of spouse	46,470,000	7.57%
Goldfinch Investments Ltd ("GIL")	(iv)	Beneficial owner	69,728,356	11.36%
HSBC International Trustee Ltd ("HIT")	(iv)	Trustee	75,698,356	12.33%
Gershon Dorfman	(v)	Beneficial owner	37,605,799	6.13%
Lydia Dorfman	(v)	Interest of spouse	37,605,799	6.13%

Notes:

- (i) Ms Chan Him Wee, the spouse of Mr D S Chang, is deemed to be interested in 85,538,356 shares through interests of her spouse. Her entire interests in the shares of 107,193,235 are duplicated by those disclosed under Mr D S Chang in the section "Directors' interests and short positions in shares, underlying shares and debentures".
- (ii) Ms Ng Yiu Chi Eleanor, the spouse of Dr S T K Cheung, is deemed to be interested in 111,751,164 shares through interests of her spouse and 50,000 shares through interests in 50% of the issued capital of Money Plus Enterprise Limited.

- (iii) Mrs Sheri Tillman Dorfman, the spouse of Mr R Dorfman, is deemed to be interested in these shares through interests of her spouse. These interests are duplicated by those disclosed under Mr R Dorfman in the section "Directors' interests and short positions in shares, underlying shares and debentures".
- (iv) GIL is a company owned by a family trust which owned an aggregate of 75,498,356 shares in the Company as at 30 September 2005 as noted in the section "Directors' interests and short positions in shares, underlying shares and debentures", comprising 69,728,356 shares held by GIL and 5,770,000 shares held by the trust itself. HIT, the trustee of the trust, is deemed to be interested in the 75,498,356 shares held by the trust. In addition, HIT had a further interest of 200,000 shares in the Company as at 30 September 2005.
- (v) Mrs Lydia Dorfman is the spouse of Mr. Gershon Dorfman and is deemed to be interested in these shares through interests of spouse.

As at 30 September 2005, no short positions were recorded in the register required to be kept under section 336 of the SFO.

Apart from the foregoing, no other interests required to be recorded in the register kept under section 336 of the SFO have been notified to the Company.

EMPLOYEES

At 30 September 2005, the number of employees of the Group was 208 (2004: 200) in Hong Kong, 7,975 (2004: 6,927) in the People's Republic of China and 107 (2004: 119) in Europe. Total staff costs for the period under review amounted to HK\$122,357,000 (2004: HK\$102,709,000). The Group ensures that its employees' remuneration packages are competitive. Employees are rewarded based on their performance and experience and the prevailing industry practice.

PURCHASE, SALE OR REDEMPTION OF SHARES IN THE COMPANY

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 September 2005.

AUDIT COMMITTEE AND INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Yeh Man Chun Kent has been appointed as an independent non-executive director and a member of the audit committee of the Company with effect from 5 October 2005. The current audit committee comprises three independent non-executive directors, Mr. Tang King Hung, Mr. David Tai Chong Lie-A-Cheong and Mr. Yeh Man Chun Kent and reports to the board of directors. The audit committee meets with group's senior management and external auditors regularly to review the effectiveness of the internal control systems. The interim report has been reviewed by the audit committee of the Company.

REMUNERATION COMMITTEE

The Company established a remuneration committee on 16 March 2005 in accordance with the requirements of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The remuneration committee comprises two independent non-executive directors namely, Mr. Tang King Hung, being the Chairman, Mr. Yeh Man Chun Kent and one executive director namely, Mr. Thong Yeung Sum Michael. The terms of reference of the remuneration committee have been included on the Company's website.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied throughout the six months ended 30 September 2005 with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules except that the independent non-executive directors are not appointed for a specific term but are subject to retirement from office by rotation and re-election at the annual general meeting of the Company in accordance with the Bye-laws of the Company.

MODEL CODE

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standards in the Model Code. Having made specific enquiry of the Company's directors, all directors confirmed that they had complied with the required standard set out in the Model Code and the Company's code of conduct regarding directors' securities transactions during the period.

By Order of the Board
George Bloch
Chairman

Hong Kong, 16 December 2005

As at the date of this report, the Board comprises the following directors:

Executive Directors:

Mr. George Bloch
 Dr. Cheung Tsang Kay Stan PhD, Hon LLD, Hon DBA, JP
 Mr. Chang Dong Song
 Mr. Robert Dorfman
 Mr. Thong Yeung Sum Michael FCCA, CPA

Independent Non-executive Directors:

Mr. Tang King Hung ACA, FCCA, ACIS, CPA
 Mr. David Tai Chong Lie-A-Cheong
 Mr. Yeh Man Chun Kent