



CHINA TING GROUP HOLDINGS LIMITED

華鼎集團控股有限公司

Stock Code: 3398

INTERIM REPORT 2006



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Corporate Information

Executive Directors

Mr. TING Man Yi (*Chairman*)
Mr. TING Hung Yi
(*Chief Executive Officer*)
Mr. DING Jianer
Mr. WONG Sin Yung
Mr. CHEUNG Ting Yin, Peter

Independent Non-executive Directors

Dr. CHENG Chi Pang
Mr. WONG Chi Keung
Mr. LEUNG Man Kit

Company Secretary

Mr. WONG Sin Yung *CPA*

Qualified Accountant

Mr. CHENG Ho Lung Raymond *CPA, ACCA*

Authorised Representatives

Mr. TING Hung Yi
Mr. WONG Sin Yung

Audit Committee

Dr. CHENG Chi Pang (*Chairman*)
CPA (Practising), FCCA, ASA, ATiHK
Mr. WONG Chi Keung
FCPA, FCCA, FCPA (Australia), ACIS, ACMA
Mr. LEUNG Man Kit

Nomination Committee

Mr. TING Hung Yi (*Chairman*)
Dr. CHENG Chi Pang
Mr. LEUNG Man Kit

Remuneration Committee

Mr. TING Hung Yi (*Chairman*)
Dr. CHENG Chi Pang
Mr. WONG Chi Keung

Registered Office

Century Yard, Cricket Square
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P.O. Box 2681 GT
George Town, Grand Cayman
British West Indies

Head Office and Principal Place of Business in Hong Kong

28th Floor, Futura Plaza
111–113 How Ming Street
Kwun Tong
Kowloon
Hong Kong

Principal Banker

Nanyang Commercial Bank Limited
151 Des Voeux Road Central,
Hong Kong

Corporate Information

Legal Advisers

Squire, Sanders & Dempsey
40th Floor
Gloucester Tower, The Landmark
11 Pedder Street
Central
Hong Kong

Auditors

PricewaterhouseCoopers
Certified Public Accountants
22nd Floor, Prince's Building
Central
Hong Kong

Compliance Advisers

Kingsway Capital Limited
5th Floor, Hutchison House
10 Harcourt Road
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Hong Kong

Principal Share Registrar

Butterfield Fund Services
(Cayman) Limited
Butterfield House, 68 Fort Street
P.O. Box 705, George Town
Grand Cayman
Cayman Islands
British West Indies

Hong Kong Branch Share Registrar

Computershare Hong Kong Investor
Services Limited
Shops 1712–16, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Condensed Consolidated Income Statement

	Note	Six months ended 30 June	
		2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Turnover	3	922,792	1,021,479
Cost of goods sold		(576,645)	(605,108)
Gross profit		346,147	416,371
Other income	4	16,873	1,164
Other gains — net	5	12,226	7,015
Selling, marketing and distribution costs		(55,360)	(45,354)
Administrative expenses		(64,340)	(83,929)
Operating profit	6	255,546	295,267
Finance costs	7	(1,566)	(4,233)
Share of profit of associates		1,340	6,183
Profit before income tax		255,320	297,217
Income tax expense	8	(34,072)	(48,929)
Profit for the period		221,248	248,288
Attributable to:			
Equity holders of the Company		220,660	240,259
Minority interests		588	8,029
		221,248	248,288
Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in HK cents per share)			
— basic	9	10.69 cents	16.12 cents
— diluted	9	10.64 cents	N/A
Dividends	10	132,160	15,270

Condensed Consolidated Balance Sheet

	Note	As at 30 June 2006 (Unaudited) HK\$'000	As at 31 December 2005 (Audited) HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment	11	253,108	237,783
Investment properties	11	4,940	4,940
Leasehold land and land use rights	11	28,833	36,128
Interest in associates		60,880	59,540
Intangible assets	11	26,127	27,688
Deferred income tax assets		3,817	4,321
		377,705	370,400
Current assets			
Inventories		222,109	218,140
Due from associates		—	1,104
Trade and bills receivable	12	153,656	230,924
Other receivables, deposits and prepayments		46,427	62,643
Tax recoverable		326	2,097
Pledged bank deposits		3,621	1,128
Term deposits with initial term of over three months		425,305	300,000
Cash and cash equivalents		777,868	669,542
		1,629,312	1,485,578
Total assets		2,007,017	1,855,978

Condensed Consolidated Balance Sheet

	Note	As at 30 June 2006 (Unaudited) HK\$'000	As at 31 December 2005 (Audited) HK\$'000
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	13	206,500	199,000
Retained earnings	14	541,988	433,805
Other reserves	14	973,554	807,556
		1,722,042	1,440,361
Minority interests		19,208	13,979
Total equity		1,741,250	1,454,340
LIABILITIES			
Non-current liabilities			
Borrowings		—	4,368
Deferred income tax liabilities		779	779
		779	5,147
Current liabilities			
Trade and bills payable	15	125,867	182,719
Other payables and accruals		71,391	103,486
Borrowings		3,748	59,420
Due to associates		2,999	7,541
Taxation payable		60,983	43,325
		264,988	396,491
Total liabilities		265,767	401,638
Total equity and liabilities		2,007,017	1,855,978
Net current assets		1,364,324	1,089,087
Total assets less current liabilities		1,742,029	1,459,487

Consolidated Statement of Changes in Equity

	(Unaudited)				
	Attributable to the equity holders of the Company			Minority interests	Total equity
	Share capital HK\$'000	Other reserves HK\$'000	Total HK\$'000	HK\$'000	HK\$'000
At 1 January 2005	10,000	430,648	440,648	95,515	536,163
Currency translation differences	—	(3,777)	(3,777)	—	(3,777)
Profit for the period	—	240,259	240,259	8,029	248,288
Total recognised income for the period	—	236,482	236,482	8,029	244,511
Capital contribution to subsidiaries	—	17	17	—	17
Acquisition of a subsidiary	—	—	—	4,818	4,818
Acquisition of additional interest in subsidiaries	—	—	—	1,414	1,414
Dividend	—	(15,270)	(15,270)	(15,551)	(30,821)
At 30 June 2005	10,000	651,877	661,877	94,225	756,102
	(Unaudited)				
	Attributable to the equity holders of the Company			Minority interests	Total equity
	Share capital HK\$'000	Other reserves HK\$'000	Total HK\$'000	HK\$'000	HK\$'000
At 1 January 2006	199,000	1,241,361	1,440,361	13,979	1,454,340
Currency translation differences	—	8,083	8,083	—	8,083
Profit for the period	—	220,660	220,660	588	221,248
Total recognised income for the period	—	228,743	228,743	588	229,331
Issue of shares	7,500	144,375	151,875	—	151,875
Share issuance costs	—	(4,898)	(4,898)	—	(4,898)
Employee share option scheme: — value of employee services	—	951	951	—	951
Contribution from a minority shareholder	—	—	—	4,641	4,641
Dividend relating to 2005	—	(94,990)	(94,990)	—	(94,990)
At 30 June 2006	206,500	1,515,542	1,722,042	19,208	1,741,250

Condensed Consolidated Cash Flow Statement

	Six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Net cash generated from operating activities	245,611	319,551
Net cash used in investing activities	(134,303)	(21,260)
Net cash used in financing activities	(8,052)	(108,985)
Net increase in cash and cash equivalents	103,256	189,306
Cash and cash equivalents at 1 January	669,542	137,936
Exchange gains/(losses) on cash and cash equivalents	5,070	(2,901)
Cash and cash equivalents at 30 June	777,868	324,341
Analysis of balances of cash and cash equivalents		
Cash at bank and in hand	377,239	283,984
Short-term bank deposits	400,629	40,357
	777,868	324,341

Notes to the Condensed Consolidated Financial Information

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

This unaudited condensed consolidated financial information (“Interim Financial Report”) has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” and other relevant Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) as well as the disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”). The Interim Financial Report has not been audited, but has been reviewed by the Group’s audit committee.

This Interim Financial Report should be read in conjunction with the 2005 annual report.

2. EFFECT OF ADOPTING NEW HKFRS

The accounting policies and methods of computation used in the preparation of this Interim Financial Report are consistent with those used in the annual financial statements for the year ended 31 December 2005 except for changes in accounting policies made thereafter in adopting certain new standards, amendments to standards and interpretations which are relevant to the Group’s operations as follows:

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plan and Disclosures
HKAS 21 (Amendment)	Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 and HKFRS 4 (Amendment)	Financial Guarantee Contracts
HKFRS-Int 4	Determining whether an Arrangement contains a Lease
HKFRS-Int 5	Rights to interests arising from Decommissioning, Restoration and Environmental Rehabilitation funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment

Notes to the Condensed Consolidated Financial Information

2. EFFECT OF ADOPTING NEW HKFRS (Continued)

The adoption of the above new/revised HKFRSs, HKASs and interpretations has no material impact on the Group's results.

The Group has not early adopted any new/revised HKFRSs, HKASs and interpretations which have been issued on or before 30 June 2006 but are not effective for the financial year ending on 31 December 2006. The Group is in the process of assessing their impact on the Group's results and operations.

3. SEGMENT INFORMATION

(a) Primary reporting format — business segments

At 30 June 2006, the Group is organised on a worldwide basis into two main business segments:

- (1) Manufacture and sale of garments on an original equipment manufacturing ("OEM") basis; and
- (2) Retailing of branded fashion apparel.

Notes to the Condensed Consolidated Financial Information

3. SEGMENT INFORMATION (Continued)**(a) Primary reporting format — business segments (Continued)**

	Six months ended 30 June 2006 (Unaudited)		
	OEM garment sales HK\$'000	Retailing of branded fashion apparel HK\$'000	Total HK\$'000
Gross segment sales	837,371	88,895	926,266
Elimination of inter-segment sales	(2,383)	(1,091)	(3,474)
Turnover	834,988	87,804	922,792
Other income	16,794	79	16,873
	851,782	87,883	939,665
Segment results	201,802	24,645	226,447
Unallocated gains			29,099
Operating profit			255,546
Finance costs	(1,026)	(540)	(1,566)
Share of profit of associates	1,340	—	1,340
Profit before income tax			255,320
Income tax expense			(34,072)
Profit for the period			221,248

Notes to the Condensed Consolidated Financial Information

3. SEGMENT INFORMATION (Continued)**(a) Primary reporting format — business segments (Continued)**

	Six months ended 30 June 2005 (Unaudited)		
	OEM garment sales HK\$'000	Retailing of branded fashion apparel HK\$'000	Total HK\$'000
Gross segment sales	948,915	82,453	1,031,368
Elimination of inter-segment sales	(9,889)	—	(9,889)
Turnover	939,026	82,453	1,021,479
Other income	1,092	72	1,164
	<u>940,118</u>	<u>82,525</u>	<u>1,022,643</u>
Segment results	287,154	(66)	287,088
Unallocated gains			8,179
Operating profit			295,267
Finance costs	(4,012)	(221)	(4,233)
Share of profit of associates	6,183	—	6,183
Profit before income tax			297,217
Income tax expense			(48,929)
Profit for the period			<u>248,288</u>

Notes to the Condensed Consolidated Financial Information

3. SEGMENT INFORMATION (Continued)**(a) Primary reporting format — business segments (Continued)**

	Six months ended 30 June 2006 (Unaudited)			Six months ended 30 June 2005 (Unaudited)		
	Retailing of		Total	Retailing		Total
	OEM garment sales	branded fashion apparel		OEM garment sales	of branded fashion apparel	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Depreciation	10,624	1,060	11,684	11,098	960	12,058
Amortisation	1,924	17	1,941	2,328	11	2,339
Provision for impairment of receivables	—	154	154	240	1,341	1,581
(Reversal of provision)/ provision for inventory	—	(3,174)	(3,174)	—	21,309	21,309
Capital expenditure	28,131	572	28,703	35,502	1,218	36,720

Notes to the Condensed Consolidated Financial Information

3. SEGMENT INFORMATION (Continued)**(b) Secondary reporting segment — geographical segments**

The Group primarily operates in Hong Kong and the People's Republic of China ("PRC"). Sales are made to overseas customers as well as customers in the PRC.

The Group's sales are mainly made to the customers located in the following geographical areas:

	Six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
North America	721,844	847,404
European Union	34,672	45,823
The PRC (including Hong Kong)	143,846	103,924
Other countries	22,430	24,328
	922,792	1,021,479

The Group's capital expenditure, based on where the assets are located, are located in the following geographical areas:

	Six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
The PRC		
— Mainland China	26,292	36,683
— Hong Kong	2,411	37
	28,703	36,720

Notes to the Condensed Consolidated Financial Information

4. OTHER INCOME

	Six months ended 30 June	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest income	16,663	934
Rental income	210	230
	16,873	1,164

5. OTHER GAINS — NET

	Six months ended 30 June	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Gain on disposal of property, plant and equipment	9,373	—
Fair value gain on investment properties	—	360
Government grants	983	3,299
Exchange gain	368	1,558
Others	1,502	1,798
	12,226	7,015

Notes to the Condensed Consolidated Financial Information

6. OPERATING PROFIT

The following items have been (credited)/charged to the operating profit during the interim period:

	Six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Amortisation of leasehold land and land use rights	380	519
Amortisation of trademark	1,561	1,820
Depreciation of property, plant and equipment	11,684	12,058
Employee benefit expenses	129,614	108,160
(Reversal of provision)/provision for inventory	(3,174)	21,309
Provision for impairment of receivables	154	1,581

7. FINANCE COSTS

	Six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Interest on bank loans and overdrafts	1,566	4,233

Notes to the Condensed Consolidated Financial Information

8. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits for the period. Taxation on profits arising from other jurisdictions has been calculated on the estimated assessable profits for the period at the rates prevailing in the relevant jurisdictions.

	Six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Hong Kong profits tax	19,139	35,410
PRC enterprise income tax	14,391	15,556
Deferred income tax expense/(credit)	542	(2,037)
Income tax expense	34,072	48,929

9. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share for the six months period ended 30 June 2006 are based on the profit attributable to equity holders of the Company for the period of HK\$ 220,660,000 (2005: HK\$240,259,000). The basic earnings per share is based on the weighted average of 2,063,756,906 (2005: 1,490,000,000) shares in issue during the period.

Notes to the Condensed Consolidated Financial Information

9. EARNINGS PER SHARE (Continued)

In determining the weighted average number of ordinary shares in issue for 2005, a total of 1,490,000,000 ordinary shares were deemed to be in issue since 1 January 2005 after taking into consideration of the effect of the group reorganisation and capitalisation issue. The 1,490,000,000 ordinary shares comprised of 100,000,000 shares to be issued pursuant to the group reorganisation, which was completed on 18 November 2005 and 1,390,000,000 shares to be issued pursuant to the capitalisation issue, which were issued by the Company on 18 November 2005 at par value to the then existing shareholders of the Company in proportion to the respective shareholding by the capitalisation of HK\$139,000,000 from the share premium account.

The diluted earnings per share is based on 2,073,301,916 (2005: N/A) shares, which is the weighted average number of shares in issue during the period plus the weighted average number of shares deemed to be issued at no consideration if all outstanding options had been exercised. No disclosure of diluted earnings per share for the six months period ended 30 June 2005 has been made as there were no potential dilutive ordinary shares outstanding.

10. DIVIDENDS

	Six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
2005 final dividend paid	94,990	—
Interim dividend, paid (Note (i))	—	15,270
Declared interim dividend of HK6.4 cents (2005: Nil) per ordinary share (Note (ii))	132,160	—
	132,160	15,270

Notes to the Condensed Consolidated Financial Information

10. DIVIDENDS (Continued)

Notes:

(i) Interim dividend

Dividend for the six months ended 30 June 2005 represented the dividend declared and paid by Zhejiang Huading Group Company Limited to its then shareholders.

(ii) Declared interim dividend

At a meeting held on 7 September 2006, the directors declared a special dividend of 1.0 HK cent per ordinary share in addition to an interim dividend of 5.4 HK cents per ordinary share. These declared dividends are not reflected as dividend payable in the Interim Financial Report.

11. CAPITAL EXPENDITURE

	(Unaudited)					Leasehold land and land use rights
	Goodwill	Trademarks	Total	Investment	Property,	
			intangible assets	properties	plant and equipment	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Opening net book amount as at 1 January 2005	—	29,655	29,655	4,310	274,714	43,622
Acquisition of subsidiaries	1,414	—	1,414	—	5,995	293
Additions	—	—	—	—	26,224	2,794
Exchange differences	—	—	—	—	(931)	(46)
Disposals	—	—	—	—	(9,256)	—
Depreciation/Amortisation charge (Note 6)	—	(1,820)	(1,820)	—	(12,058)	(519)
Fair value gain	—	—	—	360	—	—
Closing net book amount as at 30 June 2005	1,414	27,835	29,249	4,670	284,688	46,144
Opening net book amount as at 1 January 2006	1,414	26,274	27,688	4,940	237,783	36,128
Acquisition of subsidiaries	—	—	—	—	248	—
Additions	—	—	—	—	28,455	—
Exchange differences	—	—	—	—	2,674	339
Disposals	—	—	—	—	(4,368)	(7,254)
Depreciation/Amortisation charge (Note 6)	—	(1,561)	(1,561)	—	(11,684)	(380)
Closing net book amount as at 30 June 2006	1,414	24,713	26,127	4,940	253,108	28,833

Notes to the Condensed Consolidated Financial Information

12. TRADE AND BILLS RECEIVABLE

	As at 30 June 2006 (Unaudited) HK\$'000	As at 31 December 2005 (Audited) HK\$'000
Trade and bills receivable	157,142	235,479
Less: Provision for impairment of receivables	(3,486)	(4,555)
	153,656	230,924

The ageing analysis of trade and bills receivable is as follows:

	As at 30 June 2006 (Unaudited) HK\$'000	As at 31 December 2005 (Audited) HK\$'000
0 to 30 days	81,889	167,341
31 to 60 days	56,108	49,356
61 to 90 days	14,723	11,750
Over 90 days	4,422	7,032
	157,142	235,479

For OEM garment sales, the Group's trade receivables from its customers are generally settled by way of letters of credit or telegraphic transfer with credit periods of less than 90 days. The grant of open account terms without security coverage is generally restricted to large or long-established customers with good repayment history. Sales to these customers comprise a significant proportion of the Group's OEM garment sales. On the other hand, for new customers and existing customers with short trading history, letters of credit issued by these customers are normally demanded for settlement purposes.

Notes to the Condensed Consolidated Financial Information

12. TRADE AND BILLS RECEIVABLE (Continued)

For sales of branded fashion apparel to franchisees, the Group normally requests payments in advance or deposits from such customers, with the remaining balances settled immediately upon delivery of goods. The Group also grants open account terms of 30 credit days to long-established customers with good repayment history.

Retail sales are in cash or by credit cards or collected by department stores on behalf of the Group. The department stores are normally required to settle the proceeds to the Group within 2 months from the date of sale.

Bills receivable are with average maturity dates of within 2 months.

13. SHARE CAPITAL**(a) Authorised and issued capital**

Details of share capital of the Company as at 30 June 2006 are as follows:

	Authorised ordinary shares (Unaudited)		
	Par value	Number of shares	Total
	HK\$	'000	HK\$'000
At 31 December 2005 and			
30 June 2006	0.1	10,000,000	1,000,000

Notes to the Condensed Consolidated Financial Information

13. SHARE CAPITAL (Continued)**(a) Authorised and issued capital (Continued)**

		Issued and fully paid ordinary shares (Unaudited)		
		Number of		
	Note	Par value HK\$	shares '000	Total HK\$'000
At 31 December 2005		0.1	1,990,000	199,000
Issue of shares	(i)	0.1	75,000	7,500
At 30 June 2006		0.1	2,065,000	206,500

Note:

- (i) On 4 January 2006, the Company issued 75,000,000 ordinary shares of HK\$0.10 each at HK\$2.025 per share under an over-allotment arrangement in connection with the listing of the Company's shares on the Stock Exchange of Hong Kong Limited on 15 December 2005 and raised gross proceeds of approximately HK\$151,875,000.

(b) Share option scheme

Pursuant to the Pre-IPO Share Option Deed (the "Pre-IPO Share Option Scheme") entered into by the Company with an employee on 18 November 2005, the employee has been conditionally granted the option prior to 15 December 2005 to subscribe for up to 10,000,000 shares of HK\$0.10 each in the share capital of the Company.

Notes to the Condensed Consolidated Financial Information

13. SHARE CAPITAL (Continued)**(b) Share option scheme (Continued)**

Details of the options granted under the Pre-IPO Share Option Scheme outstanding as at 30 June 2006 and 31 December 2005 are as follows:

	Date of grant	Expiry date	Exercise Price	Number of shares subject to the options	
				30 June 2006 (Unaudited)	31 December 2005 (Audited)
Senior Management	15 December 2005	15 December 2013	HK\$0.10	10,000,000	10,000,000

During the period, no share options were granted, cancelled or exercised. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

14. RESERVES

	(Unaudited)					Total HK\$'000
	Capital reserve HK\$'000	Contributed surplus HK\$'000	Statutory reserves HK\$'000	Exchange reserves HK\$'000	Retained earnings HK\$'000	
At 1 January 2005	32,654	(6,962)	16,533	(956)	389,379	430,648
Currency translation differences	(30)	—	—	(3,747)	—	(3,777)
Capital contribution to subsidiaries	—	17	—	—	—	17
Profit for the period	—	—	—	—	240,259	240,259
Dividend	—	—	—	—	(15,270)	(15,270)
Profit appropriation	—	—	12,058	—	(12,058)	—
At 30 June 2005	32,624	(6,945)	28,591	(4,703)	602,310	651,877

Notes to the Condensed Consolidated Financial Information

14. RESERVES (Continued)

	(Unaudited)							Total HK\$'000
	Share premium HK\$'000	Capital reserve HK\$'000	Contributed surplus HK\$'000	Statutory reserves HK\$'000	Share based compensation reserve HK\$'000	Exchange reserves HK\$'000	Retained earnings HK\$'000	
At 1 January 2006	763,773	7,746	(4,624)	24,971	1,902	13,788	433,805	1,241,361
Currency translation differences	—	(6)	—	—	—	8,089	—	8,083
Profit for the period	—	—	—	—	—	—	220,660	220,660
Issue of shares	144,375	—	—	—	—	—	—	144,375
Share issuance costs	(4,898)	—	—	—	—	—	—	(4,898)
Employee share option scheme: — value of employee services	—	—	—	—	951	—	—	951
Dividend relating to 2005	—	—	—	—	—	—	(94,990)	(94,990)
Profit appropriation	—	—	—	17,487	—	—	(17,487)	—
At 30 June 2006	903,250	7,740	(4,624)	42,458	2,853	21,877	541,988	1,515,542

15. TRADE AND BILLS PAYABLE

The ageing analysis of trade and bills payable is as follows:

	As at 30 June 2006 (Unaudited) HK\$'000	As at 31 December 2005 (Audited) HK\$'000
0 to 30 days	67,374	108,996
31 to 60 days	29,871	49,702
61 to 90 days	8,005	8,359
Over 90 days	20,617	15,662
	125,867	182,719

Notes to the Condensed Consolidated Financial Information

16. COMMITMENTS**(a) Capital commitments**

Capital expenditure contracted for but not yet incurred is as follows:

	As at 30 June 2006 (Unaudited) HK\$'000	As at 31 December 2005 (Audited) HK\$'000
Property, plant and equipment	26,841	10,547

(b) Operating lease commitments

The Group leases various retail outlets, offices, warehouses and plant and equipment under non-cancellable operating lease agreements. The leases have varying terms, escalation claims and renewal rights.

Notes to the Condensed Consolidated Financial Information

16. COMMITMENTS (Continued)**(b) Operating lease commitments (Continued)**

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at 30 June 2006 (Unaudited) HK\$'000	As at 31 December 2005 (Audited) HK\$'000
Land and buildings		
Amounts payable		
— Not later than 1 year	16,200	6,246
— Later than 1 year and not later than 5 years	7,275	4,465
	23,475	10,711
Plant and equipment		
Amounts payable		
— Not later than 1 year	110	132
— Later than 1 year and not later than 5 years	—	44
	110	176
	23,585	10,887

Notes to the Condensed Consolidated Financial Information

17. SIGNIFICANT RELATED PARTY TRANSACTIONS**(a) Transactions with related parties:**

In the opinion of the Directors, the transactions below were conducted in the normal course of business and the pricing of these transactions was determined based on mutual negotiation and agreement between the Group and the related parties.

		Six months ended 30 June	
		2006	2005
		(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
(i)	Transactions with associates of the Group		
	— Purchases of accessories	4,185	4,179
	— Subcontracting charges paid	13,986	18,003
(ii)	Transactions with companies in which the substantial shareholders of a non-wholly owned subsidiary of the Company have equity interest		
	— Purchases of silk fabric	716	1,122

Notes to the Condensed Consolidated Financial Information

17. SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)**(b) Key management compensation**

	Six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Salaries and other short-term employee benefits	5,797	3,112
Share-based payments	951	—
	6,748	3,112

18. EVENTS AFTER THE BALANCE SHEET DATE

On 5 September 2006, Concept Creator Fashion Limited, a wholly-owned subsidiary of the Company, entered into a conditional sale and purchase agreement in respect of a proposed acquisition of 92% of the equity interest of Zhejiang Huading Group Company Limited at a consideration of approximately RMB174.3 million (equivalent to approximately HK\$169.2 million). The proposed acquisition constitutes a connected and discloseable transaction for the Company and will be subject to the approval of the independent shareholders of the Company. The Company issued an announcement on 6 September 2006 on the details of this proposed acquisition.

Independent Review Report



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

INDEPENDENT REVIEW REPORT TO THE BOARD OF DIRECTORS OF CHINA TING GROUP HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have been instructed by the Company to review the interim financial report set out on pages 4 to 28.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Independent Review Report

REVIEW WORK PERFORMED

We conducted our review in accordance with Statement of Auditing Standard 700 “Engagements to Review Interim Financial Reports” issued by the HKICPA. A review consists principally of making enquiries of management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

REVIEW CONCLUSION

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2006.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 7 September 2006

Management Discussion and Analysis

1. BUSINESS REVIEW

Original Equipment Manufacturing (“OEM”) Business

The Group experienced a period of unprecedented increase in the raw silk prices with a record high of approximately RMB330,000 for each tonne. Despite this, the Group have taken all necessary measures to control the production costs and to fully utilize the benefits of the scale of operations, vertically and horizontally. We are pleased seeing that the gross profit margin during the period did not decrease substantially, as compared with the same period in 2005. This demonstrated our strong capability, throughout the period since its establishment, to maximize the profit with good return of investment to the Shareholders. We also made use of the period under review to explore new and quality customers and to strengthen the relationship with the existing customers, so as to pave the foundation for our future business development.

Retail Business

The Group continued to record steady sales growth in the retail business. During the period under review, the Group rationalized some underperformed stores, strengthened the brand image and further expanded the sales network to respond to the keen competition in retail market in China. As at 30 June 2006, the Group’s total number of retail outlets reached 317, representing an increase of 15 when compared with 302 as at 31 December 2005. The 317 retail outlets comprised 167 concessions and four free-standing stores directly operated by the Group and 146 retail outlets operated by franchisees, spanning over 26 provinces and municipalities in China.

Home Textile OEM Business

An increase of approximately 480.6% in the OEM sales of home textile products, achieving HK\$38.9 million, for the period under review, was mainly driven by the strong demand for home textile fabric and accessories, such as pillow cases, bed sheets and duvet covers, from the United States. With the success of the home textile OEM business, we

Management Discussion and Analysis

aim to expand further into the retail business of home textile products in China. The first home textile retail store under the “BURLINGTON HOUSE” brand was opened in July this year and we plan to open 5 additional home textile retail stores by the end of 2006. Going forward, the sales and the profit contribution from home textile OEM and retail businesses will continue to grow and are expected to form an important part of the business of the Group.

2. FINANCIAL REVIEW

During the period under review, the Group’s revenue amounted to approximately HK\$922.8 million, representing a decrease of approximately 9.7% when compared with approximately HK\$1,021.5 million for the same period in the last year. The gross profit margin for the period under review was approximately 37.5%, which is 3.3% lower than 40.8% for the same period in the last year. The net profit attributable to the equity holders of the Company was approximately HK\$220.7 million, representing a decrease of approximately 8.2% when compared with approximately HK\$240.3 for the same period in the last year. Earnings per Share were 10.69 HK cents, representing 5.43 HK cents lower than 16.12 HK cents for the same period in the last year.

Management Discussion and Analysis

OEM Business

During the period under review, the OEM sales (including home textile OEM sales) recorded a decline from approximately HK\$939.0 million for the same period in the last year to approximately HK\$835.0 million for the period under review. A majority of the OEM sales was derived from the sales of silk and silk-blended apparel even though its sales decreased to approximately HK\$431.4 million (the same period of 2005: HK\$613.3 million). The OEM sales analysis by product is as follows:

	January to June 2006		January to June 2005	
	HK\$ million	%	HK\$ million	%
Silk and silk-blended apparel	431.4	51.7	613.3	65.3
Linen and linen-blended apparel	219.5	26.3	113.8	12.1
Other apparel	145.2	17.4	205.2	21.9
Home textile products	38.9	4.6	6.7	0.7
Total	835.0	100.0	939.0	100.0

In terms of geographical distribution, sales to the United States amounted to approximately HK\$721.8 million (the same period of 2005: HK\$847.4 million), which accounted for approximately 86.4% (the same period of 2005: 90.2%) of the OEM sales. Sales to Europe and other markets were approximately HK\$34.7 million (the same period of 2005: HK\$45.8 million) and approximately HK\$78.5 million (the same period of 2005: HK\$45.8 million), respectively.

Management Discussion and Analysis

Retail Business

The increase in the retail revenue was driven by the expansion of our retail network and the improvement in same store sales performance. The retail revenue surged period-on-period by approximately 6.4% to approximately HK\$87.8 million for the period under review. Sales under the “Finity” brand name continued to contribute a majority of the retail revenue, which accounted for approximately 46.2% of total retail revenue. Sales of “Elanie” and “Maxstudio” surged to approximately HK\$11.6 million (the same period of 2005: HK\$8.9 million) and approximately HK\$15.1 million (the same period of 2005: HK\$10.9 million), respectively. The retail revenue analysis by brand name is as follows:

	January to June 2006		January to June 2005	
	HK\$ million	%	HK\$ million	%
In-house brands				
Finity	40.6	46.2	42.1	51.0
Dbni	15.3	17.5	16.6	20.1
Elanie	11.6	13.2	8.9	10.8
Riverstone (Note a)	5.2	5.9	—	—
Licensed brands				
Maxstudio	15.1	17.2	10.9	13.2
Springfield (Note b)	—	—	4.0	4.9
Total	87.8	100.0	82.5	100.0

Notes

(a) The retail business of “Riverstone” commenced in October 2005.

(b) The Group terminated the retail business of “Springfield” in October 2005.

In terms of the retail revenue analysis by sales channel, sales from concessions amounted to approximately HK\$63.4 million (the same period of 2005: HK\$62.2 million), accounting for approximately 72.2% of the total

Management Discussion and Analysis

retail revenue (the same period of 2005: 75.4%). Sales from free-standing stores and franchisees amounted to approximately HK\$3.7 million (the same period of 2005: HK\$2.5 million) and approximately HK\$20.7 million (the same period of 2005: HK\$17.8 million), respectively.

Operations

The Group was affected by the increase in the market prices of raw silk during the period under view. Because of the changing market conditions, the rising price of the principal raw materials and the appreciation of the value of RMB against the US dollar, we enhanced our knowledge on the latest market information through scientific and system study, so as to obtain the most accurate business information, for the purpose of monitoring and controlling the costs of our principal raw materials and streamlining the production process. The purpose of all these arrangements is to strengthen the integration of our production process and monitor the level of production cost, through the increasing use of advanced production facilities and reducing the reliance of labour. All of these have resulted in an overall decrease in the production cost. As a result, the gross profit margin of the OEM business decreased slightly from approximately 38.9% for the same period in 2005 to approximately 34.8% for the period under review. The gross profit margin of the retail business increased from approximately 61.8% for the same period in 2005 to approximately 63.2% for the period under review.

During the period under review, the Group disposed of an investment property in May 2006 and recorded a net gain of HK\$9.4 million, which has been included in the other income.

We managed to maintain effective cost control and to improve operating efficiency. As a result, the selling, marketing and distribution costs and the administrative expenses, as percentages of turnover for the period under review, were only 6.0% (the same period 2005: 4.4%) and 7.0% (the same period 2005: 8.2%), respectively.

Management Discussion and Analysis

The net profit margin (net profit attributable to equity holders as a percentage of turnover) for the period under review was approximately 23.9% which is 0.4% higher than 23.5% in the same period last year.

3. LIQUIDITY AND FINANCIAL RESOURCES

The Group is in sound financial position. Net cash inflow from operations during the period under review amounted to approximately HK\$245.6 million (the same period 2005: HK\$320.0 million). As at 30 June 2006, the cash and cash equivalent was approximately HK\$777.9 million, representing an increase of HK\$107.9 million when compared with approximately HK\$670.0 million as at 31 December 2005. The increase was primarily due to the net proceeds of approximately HK\$146.9 million raised from the over allotment arrangement in connection with the listing of the Company's Shares, the net cash inflow from operations of approximately HK\$245.6 million, the net repayment of bank loan of HK\$60.0 million, the acquisition of fixed assets of approximately HK\$28.7 million, the dividend paid to equity holders of HK\$95.0 million and increase in fixed deposit of HK\$125.3 million.

As at 30 June 2006, the Group had bank borrowings of approximately HK\$3.7 million (31 December 2005: HK\$63.8 million) which was repayable within one year. The debt to equity ratio (total borrowings as a percentage of total equity) was approximately 0.2% (31 December 2005: 4.4%).

4. TREASURY POLICY AND EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

The sales of the Group are mainly denominated in US dollars and Renminbi and the purchase of raw materials is mainly made in Renminbi, US dollars and Hong Kong dollars. As at 30 June 2006, all cash and cash equivalents, and bank borrowings were mainly denominated in US dollars, Renminbi and Hong Kong dollars. Hence, the Group has no significant exposure to foreign exchange risk.

Management Discussion and Analysis

5. CAPITAL EXPENDITURE

During the period under review, the Group invested approximately HK\$28.7 million on acquisition of property, plant and machinery being part of the net proceeds from the initial public offering of the Shares. The Group also used approximately HK\$4.6 million for the expansion of new retail stores in China.

6. CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 30 June 2006.

7. HUMAN RESOURCES

As at 30 June 2006, the Group employed approximately 11,000 employees in China, Hong Kong, the United States and France.

The Group recognizes the importance of good relationship with its employees. The Group has established an incentive bonus scheme for its employees, in which the benefits are based on the performance of the Group and the individual employee, and will be reviewed regularly every year. The Directors believe that a competitive remuneration scheme, a safe and comfortable workplace and appropriate career development opportunities are incentives for employees to excel in their areas of responsibilities.

8. PROSPECTS

We have already received increasing number of silk and silk-blended apparel orders for the second half of 2006 since the raw silk price has returned to approximately RMB230,000 per tonne in May 2006, which reflected the good harvest result in March and April 2006. In view of the production capacity, a new production plant (with an estimated annual production capacity of approximately two million pieces) adjacent to the China Ting Industrial Complex will commence its production in the second half of 2006. The Directors are optimistic about the OEM business in the second half of this year.

Management Discussion and Analysis

In a medium-term prospect, the Group will expand its production capacity by constructing new factories and acquiring advanced plant and machinery to catch up the business opportunity arising from the elimination of all textile-specific safeguard measures against China's export under the WTO from 1 January 2009.

Given a consistent economic growth and modest inflation in China, the Directors are positive on our retail business in China. The Group will continue to strengthen the existing brands in China through a number of initiatives including the opening of flagship stores, the stepping up stores opening in the first and second tier cities, the renovation of retail outlets, the expansion of in-house design teams and the participation in fashion shows and other promotional events. We expect that the number of retail stores will reach approximately 345 by the end of September 2006.

On the other hand, the Group will cautiously seek business opportunities to co-operate with international fashion brands, with the support of existing sale networks, to further expand the retail business in China.

Based on the interim results and the current assessments, we are optimistic on the Group's performance in the second half of this year.

INTERESTS AND/OR SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVE IN THE SHARES, UNDERLYING SHARES OR DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 June 2006, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the “SFO”)) which were notified to the Company and The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have taken under such provisions), or were required, pursuant to section 352 of the SFO, to be entered in the register required to be maintained, or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) set forth in appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) adopted by the Company, to be notified to the Company and the Stock Exchange, were as follows:

(a) Interests in the shares of HK\$0.10 each in the share capital of the Company (the “Shares”)

Name of Director	Capacity	Number of Shares (Note 1)	Approximate percentage of shareholding of the Company
Mr. TING Man Yi	Interest of controlled corporation	1,490,000,000 (Note 1)	72.15%
Mr. TING Hung Yi	Interest of controlled corporation	1,490,000,000 (Note 2)	72.15%
Mr. DING Jianer	Interest of controlled corporation	1,490,000,000 (Note 3)	72.15%
Dr. CHENG Chi Pang	Beneficial owner	200,000	0.010%
Mr. LEUNG Man Kit	Beneficial owner	80,000	0.004%

Other Information

Notes:

1. Longerview Investments Limited ("**Longerview**") is owned as to 41.5% by Firmsuccess Limited ("**Firmsuccess**") which is wholly-owned by Mr. TING Man Yi. Longerview is a controlled corporation (within the meaning of the SFO) of Mr. TING Man Yi. As such, under the SFO, Mr. TING Man Yi is deemed to be interested in the 1,490,000,000 Shares held by Longerview.
2. Longerview is owned as to 40.5% by In Holdings Limited ("**In Holdings**") which is wholly-owned by Mr. TING Hung Yi. Longerview is a controlled corporation (within the meaning of the SFO) of Mr. TING Hung Yi. As such, under the SFO, Mr. TING Hung Yi is deemed to be interested in the 1,490,000,000 Shares held by Longerview.
3. Pursuant to a shareholders' agreement dated 18 November 2005 and entered into between Mr. TING Man Yi, Firmsuccess, Mr. TING Hung Yi, In Holdings, Mr. DING Jianer, Willport Investments Limited ("**Willport**") and Longerview (collectively the "**Controlling Shareholders**"), each of the Controlling Shareholders (other than Longerview) has agreed to enter into pre-emptive arrangements in respect of their shareholding in Longerview. For the purpose of Part XV of the SFO, each of Mr. TING Man Yi, Mr. TING Hung Yi and Mr. DING Jianer is therefore deemed to have effective voting power in respect of the 1,490,000,000 Shares held by Longerview. As such, under the SFO, Mr. DING Jianer is also deemed to be interested in the 1,490,000,000 Shares held by Longerview.

(b) Interests in the shares of associated corporations

Name of Director	Name of associated corporation	Capacity	Total number of ordinary shares	Approximate percentage of shareholding of the associated corporation
Mr. TING Man Yi	Firmsuccess	Beneficial owner	1	100%
	Longerview	Interest of controlled corporation	415 (Note 1)	41.5%
Mr. TING Hung Yi	In Holdings	Beneficial owner	1	100%
	Longerview	Interest of controlled corporation	405 (Note 2)	40.5%
Mr. DING Jianer	Willport	Beneficial owner	1	100%
	Longerview	Interest of controlled corporation	180 (Note 3)	18.0%

Other Information

Notes:

1. The 415 shares in Longerview are held by Firmsuccess, which is wholly-owned by Mr. TING Man Yi.
2. The 405 shares in Longerview are held by In Holdings, which is wholly-owned by Mr. TING Hung Yi.
3. The 180 shares in Longerview are held by Willport, which is wholly-owned by Mr. DING Jianer.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES OR DEBENTURES OF THE COMPANY

So far as the Directors are aware, as at 30 June 2006, the persons, other than Directors and chief executive of the Company, having interests or short positions in the Shares or underlying shares or debentures of the Company, which were required to be entered into the register kept by the Company pursuant to section 336 of the SFO, were as follows:

Name of substantial Shareholder	Capacity	Number of Shares	Approximate percentage of shareholding of the Company
Longerview	Beneficial owner	1,490,000,000	72.15%
Firmsuccess	Interest of controlled corporation	1,490,000,000 (Note 1)	72.15%
In Holdings	Interest of controlled corporation	1,490,000,000 (Note 2)	72.15%
Willport	Interest of controlled corporation	1,490,000,000 (Note 3)	72.15%

Notes:

1. Longerview is owned as to 41.5% by Firmsuccess. As such, Longerview is a controlled corporation (within the meaning of the SFO) of Firmsuccess. Firmsuccess is therefore deemed to be interested in the 1,490,000,000 Shares held by Longerview.

Other Information

2. Longerview is owned as to 40.5% by In Holdings. As such, Longerview is a controlled corporation (within the meaning of the SFO) of In Holdings. In Holdings is therefore deemed to be interested in the 1,490,000,000 Shares held by Longerview.
3. Pursuant to a shareholders' agreement dated 18 November 2005 and entered into between the Controlling Shareholders, each of the Controlling Shareholders (other than Longerview) has agreed to enter into pre-emptive arrangements in respect of their shareholding in Longerview. For the purpose of Part XV of the SFO, each of Firmsuccess, In Holdings and Willport is therefore deemed to have effective voting power in respect of the 1,490,000,000 Shares held by Longerview. As such, Willport is also deemed to be interested in the 1,490,000,000 Shares held by Longerview.

SHARE OPTION SCHEME AND PRE-IPO SHARE OPTION DEED

(a) Share Option Scheme

Pursuant to the written resolutions of the sole Shareholder passed on 18 November 2005, a share option scheme (the **"Share Option Scheme"**) was approved and adopted by the Company.

The purpose of the Share Option Scheme is to allow the Company to grant options to subscribe for Shares (the **"Options"**) to Participants (as defined below) as incentives or rewards for their contribution to the Group.

For the purpose of the Share Option Scheme, Participants include (i) employees of the Company (whether fulltime or part-time) or any of its subsidiaries; and (ii) Directors (whether executive Directors or non-executive Directors or independent non-executive Directors) or any director of its subsidiaries (together, the **"Participants"** and each a **"Participant"**).

The total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company shall not, in aggregate, exceed 199,000,000 Shares (the **"Scheme Mandate Limit"**), unless the Company obtains an approval from the Shareholders as set out below. Options lapsed shall not be counted for the purpose of calculating the Scheme Mandate Limit.

Other Information

The Company may seek approval of the shareholders in general meeting to refresh the Scheme Mandate Limit such that the total number of Shares in respect of which options may be granted under the Share Option Scheme and any other share option schemes of the Company in issue shall not exceed 10% (the “**Refreshed Limit**”) of the issued share capital of the Company as at the date of approval to refresh such limit. Options previously granted under the Share Option Scheme and any other share option schemes (including those outstanding, cancelled, lapsed in accordance with the Share Option Scheme or any other share option schemes or exercised Options) shall not be counted for the purpose of calculating the Refreshed Limit.

Notwithstanding the above, the maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company shall not exceed 30% of the total number of Shares in issue from time to time. No option may be granted under the Share Option Scheme and any other share option schemes of the Company if this will result in the aforesaid 30% limit being exceeded.

The maximum number of Shares issued and to be issued upon exercise of the options granted to each Participant (including both exercised and outstanding options) in any 12-month period up to and including the date of grant of the options shall not exceed 1% of the total number of Shares in issue. Any further grant of Options to a Participant which would result in the Shares issued and to be issued upon exercise of all options granted and to be granted to such Participant under the Share Option Scheme and any other share option schemes of the Company (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the Shares in issue shall be subject to the shareholders' approval in general meeting with such Participant and his associates (as defined in the Listing Rules) abstaining from voting.

An Option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period of not more than 10 years to be notified by the Board to each grantee. Such period shall commence on the

Other Information

date on which an offer of the grant of an Option is accepted or deemed to be accepted in accordance with the terms of the Share Option Scheme and expire on the last day of such period as determined by the Board.

An amount of HK\$1.00 is payable by the Participant to the Company on acceptance of the option offer as consideration for the grant. Unless otherwise determined by the Board and specified in the offer letter to be given to the Participant at the time of the offer of the Option, there is neither any performance target that needs to be achieved by the grantee before an Option can be exercised nor any minimum period for which an Option must be held before it can be exercised.

The subscription price in respect of each Share issued under the Share Option Scheme will be a price determined by the Board and notified to a Participant and will be no less than the highest of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of offer to the Participant, which must be a day on which licensed banks are open for business in Hong Kong and the Stock Exchange is open for business of dealing in securities (a "**Trading Day**"); (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five consecutive Trading Days immediately preceding the date of offer to the Participant; and (iii) the nominal value of a Share.

The Share Option Scheme will remain valid for a period of 10 years commencing on the date on which the Share Option Scheme is conditionally adopted by the written resolutions of the sole Shareholder, after which period no further Options will be granted but in respect of all Options which remain exercisable at the end of such period, the provisions of the Share Option Scheme shall remain in full force and effect.

As at the date of this report, no option has been granted or agreed to be granted by the Company under the Share Option Scheme.

(b) Pre-IPO Share Option Deed

A share option deed was entered into between the Company and Ms. LI Yuet Mui, Xera (“**Ms. LI**”), a senior management staff of the Group, on 18 November 2005 (the “**Pre-IPO Share Option Deed**”), whereby the Company has granted Ms. LI an option to subscribe for certain number of Shares upon and subject to the terms and conditions set forth in the Pre-IPO Share Option Deed.

The purpose of the Pre-IPO Share Option Deed is to provide incentive and reward to Ms. LI for her contribution to the management and business growth of the Group.

The principal terms of the Pre-IPO Share Option Deed, as approved by the written resolutions of the sole Shareholder passed on 18 November 2005, are substantially the same as the terms of the Share Option Scheme except that:

- (i) the subscription price for each Share subject to the option granted under the Pre-IPO Share Option Deed shall be the par value of each Share;
- (ii) the period within which Ms. LI may exercise the option under the Pre-IPO Share Option Deed is eight years from the Listing Date. During the exercise period, Ms. LI can exercise the option in each year no more than one-eighth of the total number of the Option Shares (as defined below) granted, provided that Ms. LI cannot exercise any option granted under the Pre-IPO Share Option Deed during the period of six months immediately after the Listing Date;
- (iii) the total number of the Shares subject to the Pre-IPO Share Option Deed shall be up to 10,000,000 Shares upon full exercise of the option under the Pre-IPO Share Option Deed; and
- (iv) save for the option which has been granted, no further options will be granted under the Pre-IPO Share Option Deed.

Other Information

As at the date of this report, no option has been exercised by Ms. Li to subscribe for shares in the Company.

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2006.

AUDIT COMMITTEE AND REVIEW OF INTERIM FINANCIAL REPORT

The audit committee of the Board has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal controls, and financial reporting matters including the review of the unaudited Interim Financial Report.

In addition, the Group's auditors have carried out a review of the unaudited Interim Financial Report in accordance with the Statement of Auditing Standards 700 "Engagements to Review Interim Financial Reports" issued by the HKICPA.

THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Board is committed to enhancing the corporate governance of the Group, and the Group reviews and updates all such necessary measures in order to promote good corporate governance.

The Company has complied with the applicable code provisions of the Code on Corporate Governance Practices set forth in appendix 14 to the Listing Rules during the period under review.

The Company has adopted the Model Code as the code of conduct regarding securities transactions by the Directors. In the opinion of the Board, the Company has complied with the Model Code and upon specific enquiry, no Director is aware of any non-compliance with the Model Code throughout the period under review.