



Interim Report 2006

Stock Code: 0978

TONIC 東力實業控股有限公司
Tonic Industries Holdings Limited

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. LING Siu Man, Simon (*Chairman*)
Mr. LIU Hoi Keung, Gary (*CEO*)
Mr. LEE Ka Yue, Peter
Mr. WONG Ki Cheung
Ms. LI Fung Ching, Catherine
Mr. AU Wai Man
Mr. LAM Kwai Wah

Non-executive Directors

Mr. WONG Wai Kwong, David
Mr. PANG Hon Chung*
Mr. CHENG Tsang Wai*
Dr. CHUNG Hing Wah, Paul*

* *Independent*

REGISTERED OFFICE

P.O. Box 309 GT
Ugland House
South Church Street
George Town
Grand Cayman
Cayman Islands
British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit B, 10th Floor
Summit Building
30 Man Yue Street
Hung Hom
Kowloon
Hong Kong

COMPANY SECRETARY

Ms. WONG Pui Shan, Cammy, *FCCA, CPA, ACIS, ACS*

LEGAL ADVISORS

Richards Butler
Gallent Y.T.Ho & Co

AUDITORS

Ernst & Young

AUDIT COMMITTEE

Mr. PANG Hon Chung (*Chairman*)
Mr. WONG Wai Kwong, David
Mr. CHENG Tsang Wai
Dr. CHUNG Hing Wah, Paul

REMUNERATION COMMITTEE

Mr. CHENG Tsang Wai (*Chairman*)
Mr. PANG Hon Chung
Ms. LI Fung Ching, Catherine

EXECUTIVE COMMITTEE

Mr. LING Siu Man, Simon (*Chairman*)
Mr. LIU Hoi Keung, Gary
Mr. WONG Ki Cheung
Ms. LI Fung Ching, Catherine
Mr. AU Wai Man
Mr. LAM Kwai Wah

PRINCIPAL BANKERS

Hang Seng Bank Limited
The Hong Kong and Shanghai Banking
Corporation Limited
China Construction Bank Corporation
The Standard Chartered Bank
(Hong Kong) Limited

SHARE REGISTRARS AND TRANSFER OFFICE

In Hong Kong
Tengis Limited
26/F, Tesbury Centre
28 Queen's Road East
Hong Kong

In Cayman Islands
Butterfield Fund Services (Cayman) Limited
Butterfield House
68 Fort Street
PO Box 705
George Town
Grand Cayman
Cayman Islands
British West Indies

WEBSITES

www.tonic.com.hk
www.irasia.com/listco/hk/tonic

STOCK CODE

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The Board of Directors (the "Directors") of Tonic Industries Holdings Limited (the "Company") is pleased to announce that the unaudited condensed consolidated financial statements of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2006 (the "Period") together with the comparative figures for the previous corresponding period are as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		For six months ended 30 September	
		2006	2005
		Unaudited	Unaudited
		HK\$'000	HK\$'000
	<i>Notes</i>		
Revenue	2	1,578,422	1,232,616
Cost of sales		(1,511,714)	(1,171,134)
Gross profit		66,708	61,482
Other revenue		10,949	5,099
Selling and distribution costs		(4,029)	(4,647)
Administrative expenses		(34,649)	(33,756)
Finance costs		(17,005)	(10,225)
Profit before tax	3	21,974	17,953
Tax	4	(431)	(947)
Net profit for the Period attributable to equity holders of the Company		21,543	17,006
Interim dividend		Nil	Nil
Interim dividend per share		N/A	N/A
Earnings per share attributable to ordinary equity holders of the Company	5		
– Basic		2.3 cents	1.8 cents
– Diluted		N/A	N/A

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	For six months ended 30 September	
	2006 Unaudited HK\$'000	2005 Unaudited HK\$'000
Total equity at 1 April	403,248	415,070
Exchange differences on translation of financial statements of overseas subsidiaries not recognised in the income statement	182	4,774
Net profit for the Period attributable to equity holders of the Company	21,543	17,006
Total equity at 30 September	424,973	436,850

CONDENSED CONSOLIDATED BALANCE SHEET

		30 September 2006 Unaudited HK\$'000	31 March 2006 Audited HK\$'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Fixed assets		627,455	633,120
Prepaid land lease payments		34,965	35,277
Deposits for acquisition of fixed assets		36,607	31,765
Intangible assets		21,465	17,233
Available-for-sale investments		14,219	14,219
Non-current portion of other receivables		5,706	5,706
Non-current portion of loan receivables		188	281
		740,605	737,601
CURRENT ASSETS			
Cash and bank balances		106,166	99,971
Accounts and other receivables	6	421,990	307,203
Inventories		451,671	354,277
Tax recoverable		226	1,700
Equity investments at fair value through profit or loss		6,576	10,380
Prepaid land lease payments		9,521	9,521
		996,150	783,052
CURRENT LIABILITIES			
Accounts and other payables	7	686,033	520,938
Borrowings due within one year		331,521	254,588
Tax payable		3,963	1,310
		1,021,517	776,836
NET CURRENT ASSETS/ (LIABILITIES)			
		(25,367)	6,216
TOTAL ASSETS LESS CURRENT LIABILITIES			
		715,238	743,817
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		166,788	206,239
Net deferred tax liabilities		28,188	29,512
		194,976	235,751
		520,262	508,066
EQUITY			
Share capital	8	95,289	95,289
Reserves	9	424,973	403,248
Proposed dividend		–	9,529
		520,262	508,066

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For six months ended 30 September	
	2006 Unaudited HK\$'000	2005 Unaudited HK\$'000
Net cash inflow from operating activities	38,089	122,705
Net cash outflow from investing activities	(30,512)	(38,303)
Net cash outflow from financing activities	(1,564)	(62,178)
Increase in cash and cash equivalents	6,013	22,224
Cash and cash equivalents at 1 April	99,971	98,353
Effect of foreign exchange rate changes, net	182	739
Cash and cash equivalents at 30 September	106,166	121,316
Represented by cash and bank balances	106,166	121,316

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation and accounting policies

The Directors are responsible for the preparation of the Group's unaudited condensed consolidated interim financial statements. The condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting". The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31 March 2006.

The following new standards, amendments to standards and interpretations which are relevant to the Group's operations are mandatory for the year ending 31 March 2007.

- Amendment to HKAS 19, "Actuarial gains and losses, group plans and disclosures"
- Amendment to HKAS 21, "Net investment in a foreign operation"
- Amendment to HKAS 39, "Cash flow hedge accounting of forecast intragroup transactions"
- Amendment to HKAS 39, "The fair value option"
- Amendment to HKAS 39 and HKFRS4, "Financial guarantee contracts"
- HK(IFRIC)-Int 4, "Determining whether an arrangement contains a lease"

The adoption of new/revised HKAS 19 (Amendment), 21 (Amendment), 39 (Amendment), HKFRS 4 (Amendment) and HK(IFRIC)-Int 4 did not result in substantial changes to the Group's accounting policies.

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2006/07 and have not been early adopted.

- Amendment to HKAS 1, "Capital disclosures", effective for annual periods beginning on or after 1 January 2007
- HKFRS 7, "Financial instruments: Disclosures", effective for annual periods beginning on or after 1 January 2007
- HK(IFRIC)-Int 8, "Scope of HKFRS 2", effective for annual periods beginning on or after 1 May 2006
- HK(IFRIC)-Int 9, "Reassessment of embedded derivatives", effective for annual periods beginning on or after 1 June 2006
- HK(IFRIC)-Int 10, "Interim financial reporting and impairment", effective for annual periods beginning on or after 1 November 2006

2. Segmental Information

The principal activities of the Group are the sale and manufacture of consumer electronic products and components and home appliances products.

The following tables present unaudited revenue for the Group's geographical segments and business segments for the six months ended 30 September.

Geographical segments

	Americas		Europe		Asia Pacific countries		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:								
Sales to external customers	966,581	541,233	343,470	470,873	268,371	220,510	1,578,422	1,232,616

Business segments

	Electronic products and components		Home appliance products		Corporate		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:								
Sales to external customers	1,447,678	1,114,252	130,744	118,364	–	–	1,578,422	1,232,616
Other revenue	2,485	2,227	607	933	–	–	3,092	3,160
Total	1,450,163	1,116,479	131,351	119,297	–	–	1,581,514	1,235,776
Segment results	31,532	26,479	(374)	1,708	(1)	(3)	31,157	28,184
Interest income and unallocated income							7,857	1,939
Unallocated expenses							(35)	(1,945)
Finance costs							(17,005)	(10,225)
Profit before tax							21,974	17,953
Tax							(431)	(947)
Net profit for the Period attributable to equity holders of the Company							21,543	17,006

3. Profit before Tax

	For the six months ended 30 September	
	2006	2005
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Profit before tax is arrived at after charging/(crediting):		
Amortisation of trademarks	131	125
Amortisation of research and development costs	3,495	2,127
Depreciation	32,760	37,372
Interest on borrowings	17,005	10,225
	<hr/>	<hr/>
Gain on disposal of other investments	(2,916)	(307)
Unrealised holding (gains)/losses on other investments	(2,112)	1,721
Interest income	(388)	(155)
	<hr/>	<hr/>

4. Tax

Hong Kong profits tax has been provided at the applicable rate of 17.5% (2005: 17.5%) on the estimated assessable profits arising in Hong Kong during the Period. Taxes on profits assessable in the People's Republic of China ("PRC") have been provided at the rates of tax prevailing in the PRC based on existing legislations, interpretations and practices in respect thereof.

5. Earnings per share

The calculation of basic earnings per share for the Period is based on the net profit for the Period attributable to equity holders of the Company of HK\$21,543,000 (2005: HK\$17,006,000) and the weighted average of 952,889,962 shares (2005: 952,889,962 shares) in issue during the Period.

There is no diluted earnings per share for the Period since the Company has no dilutive potential ordinary share.

6. Accounts and other receivables

Included in accounts and other receivables are accounts receivables of HK\$402,877,000 (31 March 2006: HK\$277,427,000), the aging analysis of which is as follows:

	30 September 2006 Unaudited HK\$'000	31 March 2006 Audited HK\$'000
0 – 30 days	293,254	140,346
31 – 60 days	86,379	36,343
61 – 90 days	18,619	23,814
Over 90 days	4,625	76,924
	<hr/> 402,877 <hr/>	<hr/> 277,427 <hr/>

The Group's sales are on terms of L/C at sight and the others on 60 days to 120 days open account basis.

7. Accounts and other payables

Included in accounts and other payables are accounts payables of HK\$586,768,000 (31 March 2006: HK\$441,887,000), the aging analysis of which is as follows:

	30 September 2006 Unaudited HK\$'000	31 March 2006 Audited HK\$'000
0 – 30 days	179,220	164,073
31 – 60 days	158,152	117,403
61 – 90 days	124,935	42,881
Over 90 days	124,461	117,530
	<hr/> 586,768 <hr/>	<hr/> 441,887 <hr/>

The majority of the Group's purchases are on 90 days to 120 days open account basis.

8. Share capital

	30 September 2006 Unaudited HK\$'000	31 March 2006 Audited HK\$'000
<i>Authorised:</i>		
1,200,000,000 ordinary shares of HK\$0.10 each	120,000	120,000
<i>Issued and fully paid:</i>		
952,889,962 (31 March 2006: 952,889,962) ordinary shares of HK\$0.10 each	95,289	95,289

9. Reserves

	Share premium HK\$'000	Contributed surplus HK\$'000	Exchange fluctuation reserve HK\$'000	Asset revaluation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
Balance at 1 April 2006	59,098	280	(5,240)	91,613	257,497	403,248
Exchange difference on translation of overseas subsidiaries' financial statements	–	–	182	–	–	182
Net profit for the Period	–	–	–	–	21,543	21,543
Balance at 30 September 2006	59,098	280	(5,058)	91,613	279,040	424,973

10. Contingent liabilities

Contingent liabilities in respect of bills discounted with recourse at 30 September 2006 was HK\$1,223,000 (31 March 2006: Nil).

11. Commitments

(a) Capital commitments in respect of fixed assets

	30 September 2006 Unaudited HK\$'000	31 March 2006 Audited HK\$'000
Contracted for but not provided in the financial statements	2,156	4,005
Authorised but not contracted for	—	—
	<u>2,156</u>	<u>4,005</u>

(b) Commitments to buy and sell foreign currencies amounted to HK\$439,949,000 and HK\$85,800,000 respectively (31 March 2006: HK\$526,496,000 and Nil respectively).

12. Related party transactions

The Group did not sell audio and video products and related components during the Period (2005: HK\$7,158,000) to Pioneer Ventures Limited ("PVL"), a wholly-owned subsidiary of EganaGoldpfeil (Holdings) Ltd, which is a substantial shareholder of the Company.

The sales to PVL were made according to the published prices and conditions offered to the other major customers of the Group.

INTERIM DIVIDEND

The Directors have resolved not to declare any interim dividend in respect of the Period (2005: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Prospects

For the six months ended 30 September 2006, the Group achieved a turnover of approximately HK\$1,578 million, representing an increase of 28% over the corresponding period of 2005. EBITDA and profit attributable to shareholders were HK\$75 million and HK\$22 million respectively, representing a 11% and 27% increase over the corresponding period of 2005.

During the Period, the Group registered increased demands for its various products. New features were added to enhance the products developed by the Group in the past few years. Products such as VCR+DVD combo, VCR+DVD/RW combo, digital satellite receivers and cable set top box delivered better profit margins and sales.

Costs of certain materials such as plastics and metal parts stabilised but was still relatively high thus continued to pose pressure on the production cost. The Group's own power generators ensure production is not affected by power shortages, but the cost of powering them was affected by high oil price during the Period. The Group's cost structure also felt the impact of the elevated minimum wage level in Guangdong Province, effective in September 2006. The Group is committed to keeping its cost under control and thus maintaining its competitiveness in the industry.

The Group complies with the European Union's RoHS Directives that came into effect on 1 July 2006, restricting the use of certain hazardous substances in electrical and electronic equipment imported by EU countries. New electrical and electronic equipment containing more than agreed levels of lead, cadmium, mercury, hexavalent chromium, polybrominated biphenyl (PBB) and polybrominated diphenyl ether (PBDE) flame retardants are banned from the EU market. In the advent of the Directives, the Group had implemented procedures and policies and purchased facilities that enable to assure compliance. The Group expects other markets such as the US to impose similar requirements and is ready to meet those standards with all adequate facilities already set up and running.

The United States Federal Communications Commission ("FCC") has adopted the major elements of the Advanced Television System Committee ("ATSC") Digital Television (DTV) Standard. In time, ATSC will replace NTSC, which is an American organisation overseeing analog TV transmissions, and digital TV transmissions is expected to be gradually implemented in the US in 2007. Based on the market responses gauged so far, demands for ATSC products such as digital high definition television (HDTV), standard definition television (SDTV), data broadcasting, and interactive television are expected to rocket in the coming year. The Group will inject more resources into research and development of ATSC products to cope with the anticipated rising demand.

The Group believes that the demand for digital products e.g. LCD-TV, DVD recorders, ATSC and DVB products will be tremendous in coming years and the Group's wide variety of digital products will be able to cater for the rising demand. The Group is committed to improving operational efficiency and cost effectiveness continuously and is optimistic in the business prospects.

Financial review

Demand for the Group's electronic products especially those with advanced features increased during the Period with demand from the American markets standing out. Sales for the Period increased by 28% as compared with those of the last corresponding period. Accordingly, cost of sales also increased against the last corresponding period. Significant sales were recorded between August and October. As a result, the accounts payable, receivable balances and stock balances were all gone up at the Period end.

On 23 March 2006, the Group signed a 3-year term loan facility agreement for HK\$150,000,000 with a syndicate of 7 international and local banks. The loan is on HIBOR basis and repayable by installment starting 18 months after the date of the loan agreement. This syndicated loan was used to fully repay the syndicated loan obtained on 3 December 2003. The balance of approximately HK\$27 million will serve as the Group's working capital. Pursuant to the terms of the loan agreement, Mr. Ling Siu Man, Simon, Chairman of the Group, is required to maintain at least 40% shareholding of the Company, be the single largest shareholder and be actively involved in the management and business of the Group, otherwise it will constitute as a default.

As at 30 September 2006, the Group had total borrowings of approximately HK\$498 million, of which HK\$467 million was bank borrowings and HK\$31 million was for obligations under finance leases. The Group's borrowings are denominated in Hong Kong dollars and bear interest mainly on HIBOR basis. Bank balances and cash on hand, mainly denominated in Hong Kong dollars, amounted to HK\$106 million. Gearing ratio was 75%, calculated based on net borrowings over shareholder funds.

The Group is not exposed to any material currency fluctuation risks, as most of its receivables are in US dollars and its payables are also in US dollars. The Group purchases forward contracts from banks to hedge against confirmed US dollar receipts. In addition, it has Renminbi receipts from domestic sales to off set Renminbi expenses of factories in the PRC. Inflation of the Renminbi has no material impact on the Group in the short run. Except for a few customers to whom the Group offers credit on an open account basis, the Group transacts business with all other customers on letter of credit.

Employee relations

As at 30 September 2006, the Group had 160 Hong Kong and 8,300 PRC employees. Total spending on salaries and wages amounted to approximately HK\$70 million for the Period. Salaries and wages are normally reviewed annually based on staff performance appraisals and market conditions. The Group provides year-end double pay, discretionary bonuses, provident funds, medical insurance and job training to its employees. Staff welfare and benefits are set with reference to prevailing labour laws and practices in Hong Kong and the PRC.

DIRECTORS' INTERESTS IN SHARES

At 30 September 2006, the interests of the directors in the share capital 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 ("Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), were as follows:

a) Long positions in ordinary shares of the Company

Name of director	Nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Ling Siu Man, Simon	Corporate (Note)	476,830,173	50.04
Liu Hoi Keung, Gary	Personal	3,706,000	0.39
Wong Ki Cheung	Personal	1,749,000	0.18
Li Fung Ching, Catherine	Personal	2,142,000	0.22
Pang Hon Chung	Personal	2,000,000	0.21
		486,427,173	51.04

Note: These shares were held by Success Forever Limited, a company incorporated in the British Virgin Islands, the entire issued share capital of which is beneficially owned by Ling Siu Man, Simon.

b) Associated corporation

At 30 September 2006, Mr. Ling Siu Man, Simon personally held 2,850 non-voting deferred shares of HK\$100 each of Tonic Electronics Limited, a subsidiary of the Company.

The interests of the directors in the share options of the Company are separately disclosed under the heading "SHARE OPTION SCHEME" below.

Save as disclosed above, as at 30 September 2006, none of the Directors had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the heading "Directors' Interests in Shares" above and "Share Option Scheme" below, at no time during the Period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Directors or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

Under a Share Option Scheme adopted by the Company on 18 September 1997, the Directors of the Company may, at any time during ten years, grant share options to employees and executive directors of the Group to subscribe for shares of the Company.

The following share options were outstanding under the Share Option Scheme during the Period:

	At 1 April 2006	Number of outstanding share options cancelled during the Period	At 30 September 2006	Date of grant of share options	Exercise period of share options	Exercise price of share options <i>HK\$</i>
Directors						
Ling Siu Man, Simon	15,000,000	–	15,000,000	07-04-00	10-04-00 to 09-04-10	0.467
Liu Hoi Keung, Gary	2,715,000	–	2,715,000	07-04-00	10-04-00 to 09-04-10	0.467
Lee Ka Yue, Peter	2,715,000	–	2,715,000	07-04-00	10-04-00 to 09-04-10	0.467
Wong Ki Cheung	2,715,000	–	2,715,000	07-04-00	10-04-00 to 09-04-10	0.467
Li Fung Ching, Catherine	2,715,000	–	2,715,000	07-04-00	10-04-00 to 09-04-10	0.467
Au Wai Man	2,715,000	–	2,715,000	07-04-00	10-04-00 to 09-04-10	0.467
Lam Kwai Wah	1,650,000	–	1,650,000	07-04-00	10-04-00 to 09-04-10	0.467
	<u>30,225,000</u>	<u>–</u>	<u>30,225,000</u>			
Other employees:						
In aggregate	<u>34,950,000</u>	<u>–</u>	<u>34,950,000</u>	07-04-00	10-04-00 to 09-04-10	0.467
	<u>65,175,000</u>	<u>–</u>	<u>65,175,000</u>			

No theoretical value of share options is disclosed as no share options were granted during the Period.

No options were granted, exercised or lapsed during the Period.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

At 30 September 2006, the following parties having interests of 5% or more of the issued share capital of the Company were recorded in the register of interests kept by the Company pursuant to Section 336 of the SFO:

Name of substantial shareholder	Nature of interests	Number of ordinary shares of the Company	Percentage of the Company's issued share capital (%)
Success Forever Limited (<i>Note 1</i>)	Beneficially owned	476,830,173	50.04
Eco-Haru Mfr. Holdings Limited ("Eco-Haru") (<i>Note 2</i>)	Beneficially owned	181,651,303	19.06
Glorious Concept Limited ("Glorious Concept") (<i>Note 2</i>)	Beneficially owned	12,753,000	1.34
EganaGoldpfeil (Holdings) Limited ("EganaGoldpfeil") (<i>Note 2</i>)	Interests held by a controlled corporation	194,404,303	20.40
Joint Asset International Limited ("Joint Asset") (<i>Note 3</i>)	Interests held by a controlled corporation	194,404,303	20.40
Peninsula International Limited ("Peninsula") (<i>Note 4</i>)	Interests held by a controlled corporation	194,404,303	20.40

Notes:

- (1) The entire issued share capital of Success Forever Limited is beneficially owned by Mr. Ling Siu Man, Simon as disclosed in "Directors' interests in shares" above.
- (2) The entire issued share capital of Eco-Haru and Glorious Concept is beneficially owned by EganaGoldpfeil.
- (3) The issued share capital of EganaGoldpfeil is held as to 33.33% by Joint Asset.
- (4) The issued share capital of Joint Asset is held as to 70% by Peninsula.

Save as disclosed above, as at 30 September 2006, no person, other than the Directors of the Company, whose interests are set out in the section "Directors' interests in shares" above, had registered an interest or short positions in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the Period, neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the unaudited interim financial statements for the Period with management.

CODE OF CORPORATE GOVERNANCE PRACTICES

The Group is committed to ensure a high standard of corporate governance. For the six months ended 30 September 2006, the Group has applied the principles and complied with the requirements set out in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Listing Rules, with a deviation from CG Code A.4.2 in respect of retirement of Directors by rotation at least once every three years. The Group's compliance with the provisions and recommended best practices of the CG Code together with reasons for any deviations are set out in the Corporate Governance Report contained in the Company's 2006 Annual Report issued in July 2006 except the following Code Provision A.2.1 has been changed during the Period.

Code Provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer should be separated and should not be performed by the same individual. With effect from 1 October 2006, Mr. Ling Siu Man, Simon had tendered his resignation as Managing Director of the Company and Mr. Liu Hoi Keung, Gary was appointed as the Chief Executive Officer of the Company. Mr. Ling remains as Chairman of the Board of the Company and continues to be involved in the business development of the Company.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted its code of conduct regarding the Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code as then in force, and after having made specific enquiry to all of the Directors, the Directors are satisfied that the required standard set out in the Model Code and its code of conduct regarding the Directors' securities transactions have been fully complied with, throughout the accounting period covered by the interim report.

SECURITIES TRANSACTIONS BY RELEVANT EMPLOYEES

Under Code Provision A.5.4 of the CG Code, the Directors have established written guidelines on no less exacting terms than the Model Code for relevant employees in respect of their dealings in the Company's securities. "Relevant employee" includes any employee of the Group or a Director or employee of a subsidiary or holding company of the issuer, because of such office or employment, is likely to be in possession of unpublished price sensitive information in relation to the Group and its securities. Having made specific enquiry of all Relevant Employees, the Company confirms that all relevant employees have complied with the written guidelines regarding securities transactions for the Period.

On behalf of the Board
LING Siu Man, Simon
Chairman

Hong Kong, 15 December 2006