



TA YANG GROUP HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1991)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 31ST JANUARY 2008

INTERIM RESULTS

The Board of Directors (the “Board”) of Ta Yang Group Holdings Limited (the “Company”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 31st January 2008, together with the unaudited comparative figures for the corresponding period in 2007 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 31st January 2008

		Unaudited	
		For the six months ended	
		31st January	
		2008	2007
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	4,5	397,668	285,221
Cost of sales		<u>(266,330)</u>	<u>(182,962)</u>
Gross profit		131,338	102,259
Other revenue		12,752	1,621
Selling and distribution expenses		(13,659)	(11,130)
Administrative expenses		(41,441)	(20,067)
Other (expenses) income		(6,246)	872
Finance costs		(1,279)	(3,810)
Share of result of an associate		<u>565</u>	<u>25</u>
Profit before taxation		82,030	69,770
Income tax expense	6	<u>(2,250)</u>	<u>(1,382)</u>
Profit for the period	7	<u>79,780</u>	<u>68,388</u>
Dividends	8	<u>48,000</u>	<u>80,000</u>
Earnings per share	9		
Basic		<u>HK9.97cents</u>	<u>HK8.55cents</u>
Diluted		<u>HK9.97cents</u>	<u>N/A</u>

CONDENSED CONSOLIDATED BALANCE SHEET

As at 31st January 2008

	Notes	31/1/2008 HK\$'000 (Unaudited)	31/7/2007 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	10	279,986	245,367
Construction in progress		70	1,001
Lease prepayments		12,816	12,177
Deposits for acquisition of subsidiaries	11	23,918	—
Interest in an associate		1,893	1,328
Deferred tax assets		1,102	885
		<u>319,785</u>	<u>260,758</u>
Current assets			
Inventories		136,730	113,705
Trade receivables	12	241,459	207,802
Deposits, prepayments and other receivables		39,205	22,033
Income tax recoverable		1,796	—
Bank balances and cash		531,231	609,255
		<u>950,421</u>	<u>952,795</u>
Current liabilities			
Trade and bills payables	13	52,874	45,678
Other payables and accrued charges		27,050	44,734
Bank borrowings	14	50,000	50,000
Income tax payable		49,755	50,996
		<u>179,679</u>	<u>191,408</u>
Net current assets		<u>770,742</u>	<u>761,387</u>
		<u><u>1,090,527</u></u>	<u><u>1,022,145</u></u>
Capital and reserves			
Share capital	15	80,000	80,000
Reserves		1,010,384	942,002
Total equity		<u>1,090,384</u>	<u>1,022,002</u>
Non-current liabilities			
Deferred tax liabilities		<u>143</u>	<u>143</u>
		<u><u>1,090,527</u></u>	<u><u>1,022,145</u></u>

Notes:

1. GENERAL

The Company was incorporated in the Cayman Islands on 23rd February 2006 in preparing for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Group are principally engaged in manufacturing and sale of silicone rubber related products.

Pursuant to a reorganisation (the "Reorganisation") of the Group, the Company acquired the equity interests of entities under common control and became the holding company of the subsidiaries now comprising the Group. Details of the Reorganisation are set out in the prospectus of the Company dated 28th May 2007 (the "Prospectus").

The shares of the Company were listed on the Stock Exchange on 8th June 2007 (the "Listing Date").

The Group is regarded as a continuing entity resulting from the Reorganisation under common control. Accordingly, the condensed consolidated financial statements of the Group for the period ended 31st January 2007 have been prepared as if the current group structure had been in existence throughout the period presented.

2. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements 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 and the Hong Kong Accounting Standard ("HKAS") No. 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost basis, except for financial instruments, which are measured at fair values.

The condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31st July 2007.

The accounting policies used in the condensed consolidated financial statements for the six months ended 31st January 2008 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st July 2007, except as described below.

In the current interim period, the Group has applied, for the first time, a number of new standards, amendment and interpretations ("new HKFRSs") issued by the HKICPA, which are effective for the current accounting period beginning 1st August 2007. The adoption of these new HKFRSs has had no material effect on how the results and financial position of the Group for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new and revised standards, amendment or interpretations that have been issued but are not yet effective.

Hong Kong Accounting Standard
("HKAS") 1 (Revised)

HKAS 23 (Revised)

HKAS 27 (Revised)

HKFRS 2 (Amendment)

HKFRS 3 (Revised)

HKFRS 8

HK(IFRIC)-Interpretation ("INT") 12

HK(IFRIC)-INT 13

HK(IFRIC)-INT 14

Presentation of Financial Statements¹

Borrowing Costs¹

Consolidated and Separate Financial Statements⁴

Share-based Payment – Vesting Conditions and
Cancellations¹

Business Combination⁴

Operating Segments¹

Service Concession Arrangements²

Customer Loyalty Programmes³

HKAS 19 – The Limit on a Defined Benefit Asset,
Minimum Funding Requirements and their Interaction²

¹ Effective for annual periods beginning on or after 1st January 2009.

² Effective for annual periods beginning on or after 1st January 2008.

³ Effective for annual periods beginning on or after 1st July 2008.

⁴ Effective for annual periods beginning on or after 1st July 2009.

The directors of the Company anticipate that the application of these standards, amendment and interpretations will have no material impact on the results and the financial position of the Group.

4. TURNOVER

The Group is principally engaged in manufacturing and sale of silicone rubber related products. Turnover represents sales value of goods sold to customers net of sales tax and value added tax.

5. SEGMENT INFORMATION

During the period, the Group principally operated in a single business segment: the manufacturing and sale of silicone rubber and related products. Accordingly, no business segment information is presented.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers.

Turnover based on geographical locations

	Six months ended 31st January	
	2008	2007
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
PRC (excluding Hong Kong)	177,111	136,106
Hong Kong	60,381	54,247
Other Asian Countries	108,588	62,812
The Americas	36,482	14,149
Europe	15,106	17,907
	<u>397,668</u>	<u>285,221</u>

An analysis of segment assets and capital expenditure by geographical area in which the assets are located has not been presented as the Group's assets are substantially located in the People's Republic of China ("the PRC").

6. INCOME TAX EXPENSE

	Six months ended 31st January	
	2008	2007
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current tax		
Hong Kong Profits Tax	1,278	2,768
PRC Enterprise Income Tax	1,189	1,621
	<u>2,467</u>	<u>4,389</u>
Deferred taxation		
Current period	(217)	(3,007)
	<u>2,250</u>	<u>1,382</u>

Hong Kong Profits Tax was calculated at 17.5% (2007: 17.5%) on the estimated assessable profit for the period.

Pursuant to the rules and regulations of the Cayman Islands and British Virgin Islands ("BVI"), the Group is not subject to any income tax in the Cayman Islands and BVI.

Ta Yang Group (Macau Commercial Offshore) Limited ("MCO") was incorporated as a commercial offshore entity in Macau and is exempt from Macau Complementary Tax.

Pursuant to the income tax rules and regulations of the PRC, the companies comprising the Group in the PRC are liable to PRC enterprise income tax as follows:

- Dongguan Ta Yang Silicone Rubber Industrial Company Limited is an approved foreign investment product export oriented enterprise during the periods ended 31st January 2007 and 2008 and eligible to a preferential tax rate of 12%.
- Dongguan Tay Yang Rubber Plastic Industrial Company Limited ("Dongguan Tay Yang"), Huzhou Ta Yang Electronic Technology Company Limited ("Huzhou Ta Yang") and Dongguan Tai Yang Rubber Plastic Industrial Company Limited ("Dongguan Tai Yang") are foreign investment enterprises and are entitled to tax concessions whereby the profit for the first two financial years beginning with the first profit-making year is exempted from income tax in the PRC and the profit for each of the subsequent three years is taxed at 50% of the prevailing tax rate.
- Dongguan Tay Yang is entitled to a preferential tax rate of 24%. The first profit-making year of Dongguan Tay Yang is 2005. Accordingly, Dongguan Tay Yang is exempted from PRC income tax from 1st January 2005 to 31st December 2006 and is entitled to a 50% exemption of income tax from 1st January 2007 to 31st December 2009.

- Huzhou Ta Yang is entitled to a preferential tax rate of 26.4%. The first profit-making year of Huzhou Ta Yang is 2004. Accordingly, Huzhou Ta Yang is exempted from PRC income tax from 1st January 2004 to 31st December 2005 and is entitled to a 50% exemption of income tax from 1st January 2006 to 31st December 2008.
- Dongguan Tai Yang is entitled to a preferential tax rate of 24% and it sustained tax losses during the periods ended 31st January 2007 and 2008.

On 16th March 2007, the PRC promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law"). On 6th December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. Pursuant to the New Law and Implementation Regulations, the enterprise income tax for both domestic and foreign-invested enterprises will be unified at 25% effective from 1st January 2008. There will be a transitional period for the PRC subsidiaries that currently entitled to preferential tax treatments granted by the relevant tax authorities. PRC subsidiaries currently subject to an enterprise income tax rate lower than 25% will continue to enjoy the lower tax rate and be gradually transitioned to the new unified rate of 25% within five years after 1st January 2008. The tax rate applicable to the PRC subsidiaries are subject to approval by the tax authority.

7. PROFIT FOR THE PERIOD

Profit for the period has been arrived at after charging (crediting):

	Six months ended 31st January	
	2008	2007
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Amortisation of lease prepayments	139	85
Depreciation	15,124	9,535
Impairment losses on trade receivables	861	130
Exchange loss (gain)	6,246	(872)
Government subsidies income	(218)	(146)
	<u>48,000</u>	<u>80,000</u>

8. DIVIDENDS

	Six months ended 31st January	
	2008	2007
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
2007 final dividend of HK\$0.06 per share (2006: Nil)	48,000	—
Interim dividends declared and paid (<i>Notes 1 and 2</i>)	—	80,000
	<u>48,000</u>	<u>80,000</u>

Notes:

- (1) The interim dividends for the period ended 31st January 2007 represent dividends declared and paid by certain companies now comprising the Group to their then shareholders before they became subsidiaries of the Company.
- (2) The directors of the Company do not recommend the payment of an interim dividend for the six months ended 31st January 2008.

9. EARNINGS PER SHARE

The calculations of the basic and diluted earnings per share for the periods are based on the Group's profit attributable to equity holders of the Company of HK\$79,780,000 (2007: HK\$68,388,000).

The basic earnings per share is based on the weighted average number of 800,000,000 (2007: 800,000,000) ordinary shares in issue during the periods, assuming the Reorganisation had been effective on 1st August 2006.

The diluted earnings per share for the period ended 31st January 2008 was the same as the basic earnings per share because the exercise price of the Company's the share options was higher than the average market price for shares.

No diluted earnings per share for the period ended 31st January 2007 is presented as there were no potential dilutive shares outstanding.

10. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK\$36 million (2007: HK\$48 million) on additions to property, plant and equipment to upgrade its manufacturing capacities and construct new manufacturing plant.

11. DEPOSITS FOR ACQUISITION OF SUBSIDIARIES

Balance as at 31st January 2008 represents deposits paid by a wholly-owned subsidiary of the Company which entered into a sales and purchase agreement on 19th January 2008 with independent third parties in relation to the acquisition of the entire equity interests in four companies for an aggregate consideration of HK\$47,800,000. Those four companies are engaged in properties holding. The unpaid balance as at 31st January 2008 is disclosed as capital commitment of the Group in Note 18.

12. TRADE RECEIVABLES

	31/1/2008 HK\$'000 (Unaudited)	31/7/2007 HK\$'000 (Audited)
Trade receivables		
– from third parties	239,578	204,045
– from an associate	1,881	3,757
	241,459	207,802

The Group's sales are on open account terms. The Group normally grants to its customers credit periods ranging from 30 days to 120 days which are subject to periodic review by the management.

At the balance sheet date, the aging analysis of trade receivables (net of impairment losses) is as follows:

	31/1/2008 HK\$'000 (Unaudited)	31/7/2007 HK\$'000 (Audited)
Current	137,380	88,596
Within 1 to 3 months	78,030	87,235
More than 3 months but less than 12 months	25,786	31,706
More than 12 months	263	265
	241,459	207,802

Included in trade receivables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	31/1/2008 '000 (Unaudited)	31/7/2007 '000 (Audited)
United States dollars	US\$21,398	US\$21,697
Euros	EUR710	EUR1,867
Taiwan dollars	NTD2,370	NTD1,038

13. TRADE AND BILLS PAYABLES

	31/1/2008 HK\$'000 (Unaudited)	31/7/2007 HK\$'000 (Audited)
Trade payables	52,874	44,417
Bills payable	–	1,261
	52,874	45,678

At the balance sheet date, the aging analysis of the trade and bills payables was as follows:

	31/1/2008 HK\$'000 (Unaudited)	31/7/2007 HK\$'000 (Audited)
Due within 1 month or on demand	29,972	16,481
Due after 1 month but within 3 months	14,288	25,719
Due after 3 months but within 6 months	8,103	2,254
Due after 6 months but within 1 year	511	1,224
	<u>52,874</u>	<u>45,678</u>

Included in trade and bills payables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	31/1/2008 '000 (Unaudited)	31/7/2007 '000 (Audited)
United States dollars	<u>US\$2,704</u>	<u>US\$2,178</u>

14. BANK BORROWINGS

	31/1/2008 HK\$'000 (Unaudited)	31/7/2007 HK\$'000 (Audited)
Unsecured bank loan repayable within 1 year	<u>50,000</u>	<u>50,000</u>

At 31st January 2008, the bank loan is repayable within one year and bears interest at a rate of Hong Kong Inter-bank Offered Rate ("HIBOR") plus 0.80% per annum (2007: HIBOR plus 0.65% per annum).

15. SHARE CAPITAL

	Number of Shares	Amount HK\$'000
<i>Ordinary share of HK\$0.1 each</i>		
Authorised:		
At 1st August 2006 (<i>Note 1</i>)	50,000	385
Repurchase of own shares (<i>Note 1</i>)	(50,000)	(385)
Increase in authorised capital (<i>Note 1</i>)	3,900,000	390
Increase in authorised capital (<i>Note 2</i>)	19,996,100,000	1,999,610
At 31st July 2007 and 31st January 2008	<u>20,000,000,000</u>	<u>2,000,000</u>
Issued and fully paid:		
At 1st August 2006 (<i>Note 1</i>)	10,000	77
Repurchase of own shares (<i>Note 1</i>)	(10,000)	(77)
Shares issued on group reorganisation (<i>Note 3</i>)	600,000,000	60,000
Shares issued under placing and public offering (<i>Note 3</i>)	200,000,000	20,000
At 31st July 2007 and 31st January 2008	<u>800,000,000</u>	<u>80,000</u>

Notes:

- (1) The Company was incorporated in the Cayman Islands on 23rd February 2006 with an authorised capital of 50,000 shares of US\$1 each ("US Shares"). Upon incorporation, 10,000 shares of US\$1 each were allotted, issued and fully paid. On 25th September 2006, all the 10,000 issued US Shares were repurchased by the Company and following the repurchase, the authorised but unissued share capital was cancelled. On the same date, the authorised share capital of the Company was changed to HK\$390,000 divided into 3,900,000 shares of HK\$0.1 each and the Company had allotted 1 nil paid share to its then shareholder.
- (2) By written resolutions of the sole shareholder passed on 16th May 2007, the authorised share capital of the Company was increased from HK\$390,000 to HK\$2,000,000,000 by the creation of 19,996,100,000 new shares ranking pari passu in all respects with the then existing issued shares.
- (3) As part of the Reorganisation of the Group, the Company issued 600,000,000 shares to Ta Yang Group Limited ("Ta Yang BVI")'s then existing shareholders to acquire for the entire issued share capital of Ta Yang BVI.

Immediately upon the listing of the Company's shares on the Stock Exchange on 8th June 2007, at 31st July 2007, 800,000,000 shares of the Company had been issued and were fully paid.

16. SHARE OPTION SCHEME

Pursuant to the shareholders' written resolution passed on 16th May 2007, the Company adopted a pre-IPO share option scheme ("the Pre-IPO Option Scheme") whereby the directors and eligible employees of the Company and its subsidiaries were given the rights to subscribe for shares of the Company, the subscription price per share pursuant to the Pre-IPO Option Scheme is HK\$2.20 representing a 37.1% discount to the international offering price.

The total number of shares which may be issued upon the exercise of all options granted under the Pre-IPO Option Scheme is 9,070,000 shares which were fully granted on 16th May 2007. No further options would be granted under the Pre-IPO Option Scheme on or after the Listing Date.

- (a) The terms and conditions of the grants that existed during the period are as follows, whereby all options are settled by physical delivery of shares:

Options granted under the Pre-IPO Option Scheme have a vesting period of one to five years commencing from the Listing Date and the options are exercisable for a period of ten years. The Group has no legal or constructive obligation to repurchase or settle the option in cash.

Vesting conditions	Number of options granted to directors	Number of options granted to employees	Total
1st anniversary of the Listing Date	430,000	1,384,000	1,814,000
2nd anniversary of the Listing Date	430,000	1,384,000	1,814,000
3rd anniversary of the Listing Date	430,000	1,384,000	1,814,000
4th anniversary of the Listing Date	430,000	1,384,000	1,814,000
5th anniversary of the Listing Date	430,000	1,384,000	1,814,000
	<u>2,150,000</u>	<u>6,920,000</u>	<u>9,070,000</u>

- (b) The number and exercise prices of share options are as follows:

	Exercise price	Number of options
Granted on 16th May 2007	HK\$2.20	9,070,000
Lapsed during the period	HK\$2.20	<u>(135,000)</u>
Outstanding at 31st July 2007	HK\$2.20	8,935,000
Lapsed during the period	HK\$2.20	<u>(1,070,000)</u>
Outstanding at 31st January 2008	HK\$2.20	<u>7,865,000</u>

(c) Fair value of share options and assumptions

The fair value of services received in return for the share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on the Black-Scholes Option Pricing model. The contractual life of the share option is used as an input into this model. Expectation of early exercise is incorporated into the valuation model.

Fair value at measurement date	HK\$1.66
Share price	HK\$3.11
Exercise price	HK\$2.20
Expected volatility	56.65%
Option life	10 years
Expected dividends	2.5%
Risk-free interest rate (based on Exchange Fund Notes)	4.1%

17. RELATED PARTY TRANSACTIONS

Other than disclosed elsewhere in the condensed consolidated financial statements, during the period, the Group entered into the following transactions with related parties:

Name of company	Nature of transactions	Six months ended 31st January	
		2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)
SiTY Silcum & Ta Yang International GmbH ("SiTY") (Note 1)	Sales of silicone rubber keypads	3,423	3,302
	Receive tooling charges	54	248
	Receive modification charges	14	104
Ta Yang Silicones of America, LLC ("TSAC") (Note 2)	Sales of goods	<u> — </u>	<u> 8,180 </u>

Notes:

- (1) Before 18th September 2006, 25% equity interest of SiTY were effectively owned by each of Mr. Wu Ih Chen and Mr. Huang Sheng-Shun, directors of the Company respectively. On 18th September 2006, the aggregate of 50% equity interest was assigned to the Group at nil consideration and SiTY became an associate of the Group.
- (2) TSAC was effectively 20% owned by Mr. Wu Ih Chen and 30% owned by Mr. Huang Sheng-Shun, directors of the Company. Mr. Wu Ih Chen and Mr. Huang Sheng-Shun disposed of their interest in TSAC to two independent third parties on 1st November 2006 and TSAC is not considered a related party of the Group thereafter.

18. COMMITMENTS

At balance sheet date, the Group had the following commitments:

- (a) Capital commitments for the acquisition of property, plant and equipment

	31/1/2008 HK\$'000 (Unaudited)	31/7/2007 HK\$'000 (Audited)
Contracted but not provided for	<u>24,521</u>	<u>10,088</u>

- (b) Commitments for the acquisition of subsidiaries

	31/1/2008 HK\$'000 (Unaudited)	31/7/2007 HK\$'000 (Audited)
Contracted but not provided for	<u>23,882</u>	<u>—</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Review

As technology is getting more advanced from days to days, information technology products become part of the people's daily lives; global demand for the 3C products is also in a constant and rapid growth. According to the CAITEC World Report¹ it is expected that the supply of the silicone rubber keypads for (1) consumer electronic devices, (2) mobile phones, (3) personal computers and notebooks and peripheral components will increase by the compound annual growth rate of 10.6%, 12.9% and 17.0%, respectively.

During the period under review, global demand for the 3C products continued to grow. In particular, the significant increase in demand for end-user products such as mobile phones, household electronic devices and information technology products, which resulted from the introduction of new products by manufacturers or market demand for new model grades, triggered the boost in demand for silicone rubber keypads. Amongst all of them, the emerging countries such as China is the main source of momentum for such growth. According to the CAITEC PRC Report¹ there is a mismatch in the supply and demand of silicone runner keypads in the PRC market with the supply deficiency amounted to approximately 267 million pieces of keypads, 400 million pieces of keypads and 611 million pieces of keypads in 2005, 2006 and 2007 respectively, representing great market potential for suppliers of silicone rubber keypads in the PRC.

Business Review

Being one of the leading input device manufacturers in the world and the PRC, the Group continued to record remarkable growth in turnover during the period under review, with an increase of 39% from HK\$285 million of the same period of last year to HK\$398 million of this year. Consumer electronic devices are still the primary business and the largest source of income of the Group, accounting for 51% of the total turnover. The Group also manufactured 6.2 million pieces of silicone protective cover for Wii console handheld devices "Wii Jacket", the turnover of which increased from HK\$155 million in the same period last year to HK\$203 million this year. In addition, the Group actively developed highly value-added products during the period, particularly with focus on expanding the market of mobile phone products, in order to increase the overall income and profit of the Group.

The economies of scale enjoyed by the Group's plants located in Dongguan and Huzhou enable us to achieve production cost efficiency and to sell our products at a more competitive price. For the six months ended 31st January 2008, the aggregate pieces annual production capacity of Dongguan plant and Huzhou plant amounted to approximately 561 million. To satisfy the market demand for 3C products, the Group actively conducted researches on plant expansion, with an aim to increase the capacity for the production of mobile phone keypads and computer and notebook keypads, and further enlarge the development of the Group.

During the period under review, the Group focused on the optimization of customer mix and the development of markets outside the PRC, particularly Japan market to cater to the ever-changing market demands. Meanwhile, the Group continued to optimize its management team, enhance its human resources, reinforce on-the-job training and recruit more professionals, well-preparing the continuous development of the Group.

¹ Chinese Academy of International Trade and Economic Cooperation (the "CAITEC") World Report and CAITEC PRC Report are industry/market research reports analyzing the global and PRC market of silicone rubber keypads respectively, which are jointly prepared by the Chinese Academy of International Trade and Economy Cooperation (中華人民共和國商務部研究院) and Cinsos Consulting Corporation.

Outlook

In 2008, the problems triggered by sub-prime mortgage in the United States have not yet been resolved, resulting in a slowdown of global economy. It is expected that the business environment in the coming years will become difficult. However, the Group has been well-prepared for various challenges. Leverage on its own competitive advantages, coupled with the great market potential still existed for global 3C products, the Group would continue to expand our production of highly value-added products, particularly to expand the silicone rubber keypads business of notebooks and mobile phones, so as to enhance the profitability.

Despite the macro environment is full of challenges, great opportunities still lie in markets like the PRC and Japan. Looking forward, the Group will keep strengthening the development of new technologies and products of silicone rubber to further optimize our product mix of the Group. In 2008, we will consolidate economies of scale of production by acquiring approximately 300 acres of land and constructing plants in Guangdong Province.

Building good strategic relationships with our customers has been crucial to our success. Accordingly, the Group will further increase the market shares of our various products by continued expanding our customer base. In addition, the Group will enhance our research and development capability to enable us to better match the demand of customers, and improve the coordination and extent of our research and development, thus strengthening the leading position of the Group and paving the foundation for our future.

FINANCIAL REVIEW

Turnover

The Group achieved a substantial growth of 39% in terms of turnover for the period as compared with the corresponding period in 2007 and reached approximately HK\$398 million. The Group has benefited from the growing demand from our customers and the launch of several new products during the period. After the accreditation from Nintendo Japan, The Group has become one of their major suppliers of silicone protective cover for their Wii console handheld devices “Wii Jacket” and it contributed approximately 10% of the Group’s turnover.

Gross profit

The gross profit was HK\$131.3 million, an increase of HK\$29.1 million or 28.4% as compared with the corresponding period in 2007. Overall gross profit margin for the period decreased from 35.9% to 33.0%. Despite the robust market demand of the Group’s product, the Group has suffered from the adverse effect of increasing raw material costs and labour costs. As the production plants are located in the PRC, the appreciation of Renminbi (the “RMB”) also adversely affects our profit margin. In addition, some of the new products launched had lower gross profit margin in order to capture the market share. All these factors led the Group’s overall gross profit margin to decrease.

Other revenue

Other revenue increased by HK\$11.1 million or 686.7% to HK\$12.8 million as compared with the corresponding period in 2007. The increase was mainly due to the increase in interest income from the bank deposits.

Selling and distribution expenses

Selling and distribution expenses increased by HK\$2.5 million or 22.7% to HK\$13.7 million as compared with the corresponding period in 2007. The increase was due to larger sales volume. When counted as a percentage of the Group's turnover, the total amount of selling and distribution expenses was 3.4%, 0.5% decreased compared with the corresponding period in 2007.

Administrative expenses

Administrative expenses increased from HK\$20.1 million to HK\$41.4 million as compared with the corresponding period in 2007. When counted as a percentage of the Group's turnover, the total amount of administrative expenses was 10.4%, 3.4% increased compared with the corresponding period in 2007. The increase was a result of the increase in share options expenses of HK\$2.8 million and additional management and administrative costs incurred to support the expansion of business and new production bases.

Profit attributable to equity shareholders

Profit attributable to equity shareholders for the period was HK\$79.8 million, representing an increase of HK\$11.4 million or 16.7% as compared with the corresponding period in 2007.

Liquidity and financial resources

The Group's working capital continued to improve. The Group has net current assets of HK\$771 million (2007:HK\$761 million). The current ratio of the Group was approximately 529%.

As at 31st January 2008, the Group maintained healthy cash level which cash and cash equivalents of HK\$531 million (2007: HK\$609 million). The Group had bank borrowings of HK\$50 million (2007: HK\$50 million). The gearing ratio of the Group decreased to 4.6% from 4.9% as at 31st January 2008. The ratio is computed by dividing total borrowings of HK\$50 million (2007:HK\$50 million) by shareholders' equity of HK\$1,091 million (2007:HK\$1,022 million)

Financial management and treasury policy

The Group adopts a conservative approach for cash management and investment on uncommitted funds. The net proceeds from the international offering (as defined in the Prospectus) have been placed on short-term deposits with authorized financial institutions in Hong Kong.

During the year, the Group's receipts were mainly denominated in US dollars and Hong Kong dollars. Payments were mainly made in US dollars and RMB.

In respect of the RMB, as the Group's production plants are located in the PRC, most of our labour costs, manufacturing overheads, selling and administrative expenses were denominated in RMB. Therefore, the appreciation of RMB will adversely affect the Group's profitability. During the period, the Group has entered into a structured deposit, which is linked to RMB, in order to hedge the RMB exposure. The Group will consider other appropriate measure to deal with the RMB exposure.

USE OF PROCEEDS

The net proceeds raised from the international offering received by the Company was approximately HK\$635 million.

The usage of net proceeds until 31st January 2008 are as follows:–

Particular	Planned amount <i>HK\$ million</i>	Utilised amount <i>HK\$ million</i>
Expansion of production facilities for silicone rubber based products	468	(59)
Upgrade and expansion of upstream production facilities	56	–
Strengthening research and development capabilities	39	(1)
Implementation of resources planning system	22	–
General working capital	50	(50)
Total	<u>635</u>	<u>(110)</u>

The remaining net proceeds have been deposited on short-term basis in licensed financial institutions in Hong Kong.

HUMAN RESOURCES AND REMUNERATION POLICIES

As the Group is committed to expand our production capacity and develop high value-added products such as mobile phone keypads, experienced workers, engineers and professionals are the most important assets to the Group. We offer on-the-job training and encourage staff to attend continuous professional training in order to update their skills and knowledge.

We offer competitive remuneration package including quality staff quarters, trainings, medical, insurance coverage and retirement benefits to all employees in Hong Kong and in the PRC. As at 31st January 2008, the Group employed more than 8,500 employees.

The Group adopted a Pre-IPO Share Option Scheme on 16th May 2007 for the purpose of recognition of employees' contribution before the Listing. As at 31st January 2008, 7,865,000 share options were still outstanding under the Pre-IPO Share Option Scheme, of which 6,035,000 options are held by the employees of the Group. The Company also adopted a Post-IPO Share Option Scheme on 16th May 2007. No option has been granted under the Post-IPO Share Option Scheme.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 31st January 2008 (2007: HK\$80 million).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the six months ended 31st January 2008, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

The Company has complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of The Rules Governing the Listing of Securities on the The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the six months ended 31st January 2008.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules as the code for Directors' securities transactions (the "Model Code"). Having made specific enquiry, all the directors of the Company confirmed their compliance with the required standard set out in the Model Code throughout the six months ended 31st January 2008.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with the Listing Rules. The primary duties of the audit committee of the Company are to review and supervise the financial reporting process and internal control system of the Group, and to review the Company's annual report and half-yearly reports to provide advice and comments thereon to the Board. The audit committee of the Company comprises of Mr. Chuang Hong-Jen, Mr. Yeung Chi Tat and Mr. Hsieh Yu, all of whom are independent non-executive directors of the Company.

The audit committee of the Company has reviewed the unaudited condensed consolidated financial statements of the Group for the six months ended 31st January 2008.

By Order of the Board
Ta Yang Group Holdings Limited
Huang Sheng-Shun
Chairman

Hong Kong, 23rd April 2008

As at the date hereof, the Board has six executive directors, namely Mr. Huang Sheng-Shun, Mr. Wu Ih Chen, Mr. Lin Hung-Ming, Mr. Wong Tak Leung, Mr. Huang Te-Wei and Mr. Kirk Yang and three independent non-executive directors, namely, Mr. Chuang Hong-Jen, Mr. Yeung Chi Tat and Mr. Hsieh Yu.