# EVA Precision Industrial Holdings Limited
# 億和精密工業控股有限公司

*(Incorporated with limited liability in the Cayman Islands)*

(Stock Code: 838)

## INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2008

### HIGHLIGHTS

- Turnover increased 23.4% to approximately HK$526,007,000, which was primarily driven by an increase in component orders. As all components are basically produced from mould previously manufactured by the Group, component orders increased during the six months ended 30 June 2008 as there was a significant increase in the number of moulds previously manufactured by the Group during the year ended 31 December 2007.

- Net profit amounted to approximately HK$47,799,000 (For the six months ended 30 June 2007: HK$69,282,000).

- Basic earnings per share decreased 39% to approximately HK6.6 cents (For the six months ended 30 June 2007: HK10.8 cents).

- Net cash generated from operating activities and total net cash inflow (including proceeds from new borrowings) for the period decreased 54.6% and 94.6% to approximately HK$29,926,000 and HK$8,242,000 respectively (For the six months ended 30 June 2007: HK$65,943,000 and HK$153,150,000 respectively).

- Proposed interim dividends amounting to approximately HK$14,236,000, representing HK2 cents per shares (For the six months ended 30 June 2007: HK3 cents per share)

- Capacity expansion on its halfway:

  – Capital expenditure incurred during the six months ended 30 June 2008 amounted to approximately HK$223,238,000.

  – Mould development centre completed to expand mould production capacity, as all components are basically made from moulds and mould production volume has a crucial impact on future component orders.

  – Commitments for capital expenditure contracts signed but not yet incurred as at 30 June 2008 amounted to approximately HK$175,824,000, which are payable by the Group after 30 June 2008.

  – Number of employees increased from 3,596 employees as at 30 June 2007 to 4,490 employees as at 30 June 2008.

- Debt-to-equity ratio as at 30 June 2008 was approximately 34%.

## FINANCIAL RESULTS

The Board of Directors of EVA Precision Industrial Holdings Limited (the "Company") are pleased to announce the unaudited consolidated financial results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2008 together with the comparative figures as follows:

## CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

*For the six months ended 30 June 2008*

| | | **Unaudited** | |
|---|---|---|---|
| | | **Six months ended 30 June** | |
| | | **2008** | 2007 |
| | *Note* | ***HK$'000*** | *HK$'000* |
| Revenue | *4* | **526,007** | 426,196 |
| Cost of goods sold | | **(378,631)** | (287,254) |
| Gross profit | | **147,376** | 138,942 |
| Other gains | *5* | **1,277** | 1,014 |
| Selling and distribution expenses | | **(26,442)** | (21,871) |
| General and administrative expenses | | **(57,792)** | (38,759) |
| Operating profit | *6* | **64,419** | 79,326 |
| Finance income | *7* | **472** | 791 |
| Finance costs | *7* | **(5,017)** | (5,320) |
| Profit before income tax | | **59,874** | 74,797 |
| Income tax expense | *8* | **(12,075)** | (5,515) |
| Profit for the period | | **47,799** | 69,282 |
| Earnings per share | | | |
| expressed in HK cents per share | *9* | | |
| – basic | | **HK6.6 cents** | HK10.8 cents |
| – diluted | | **HK6.5 cents** | HK10.7 cents |
| Dividend | *10* | **14,236** | 21,600 |

## CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

*As at 30 June 2008*

| | Note | Unaudited 30 June 2008 HK$'000 | Audited 31 December 2007 HK$'000 |
|---|---|---|---|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | *11* | **790,839** | 595,456 |
| Leasehold land and land use rights | *11* | **79,878** | 80,314 |
| Prepayments | | **48,115** | 60,195 |
| Other assets | | **1,607** | 1,607 |
| | | **920,439** | 737,572 |
| Current assets | | | |
| Inventories | | **197,486** | 154,198 |
| Trade receivables | *12* | **211,319** | 209,525 |
| Prepayments and deposits | | **17,341** | 11,775 |
| Pledged bank deposits | | **1,137** | 8,437 |
| Cash and cash equivalents | | **141,971** | 133,729 |
| | | **569,254** | 517,664 |
| Current liabilities | | | |
| Trade payables | *13* | **160,612** | 153,730 |
| Accruals and other payables | | **27,476** | 39,622 |
| Bank borrowings | | **96,225** | 32,052 |
| Finance lease liabilities | | **41,890** | 24,607 |
| Current income tax liabilities | | **18,875** | 13,783 |
| | | **345,078** | 263,794 |
| Net current assets | | **224,176** | 253,870 |
| Total assets less current liabilities | | **1,144,615** | 991,442 |
| Non-current liabilities | | | |
| Bank borrowings | | **108,435** | 27,445 |
| Finance lease liabilities | | **75,754** | 33,278 |
| Deferred taxation | | **2,241** | – |
| | | **186,430** | 60,723 |
| Net assets | | **958,185** | 930,719 |
| EQUITY | | | |
| Capital and reserves | | | |
| Share capital | | **72,165** | 72,124 |
| Reserves | | **886,020** | 858,595 |
| Total equity | | **958,185** | 930,719 |

## CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT

*For the six months ended 30 June 2008*

| | Unaudited | |
|---|---|---|
| | Six months ended 30 June | |
| | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* |
| Cash flows from operating activities | | |
| Cash generated from operations | **39,244** | 74,528 |
| Interest received | **472** | 791 |
| Interest paid | **(5,048)** | (5,236) |
| Income tax paid | **(4,742)** | (4,140) |
| Net cash generated from operating activities | **29,926** | 65,943 |
| Cash flows from investing activities | | |
| Purchase of property, plant and equipment | **(83,035)** | (35,340) |
| Purchase of land use rights | **–** | (24,196) |
| Prepayments for land use rights and property, plant and equipment | **(47,469)** | (50,445) |
| Proceeds from sale of property, plant and equipment | **420** | – |
| Purchase of financial assets at fair value through profit or loss | **–** | (2,675) |
| Net cash used in investing activities | **(130,084)** | (112,656) |
| Cash flows from financing activities | | |
| Proceeds from bank borrowings | **217,156** | 236,574 |
| Repayments of bank borrowings | **(71,993)** | (332,773) |
| Repayments of capital element of finance lease liabilities | **(20,249)** | (18,679) |
| Decrease in pledged bank deposits | **7,300** | 26,163 |
| Issue of shares | **–** | 321,600 |
| Share issuance costs | **–** | (11,422) |
| Proceeds from exercise of share options | **710** | – |
| Dividends paid | **(24,524)** | (21,600) |
| Net cash generated from financing activities | **108,400** | 199,863 |
| Net increase in cash and cash equivalents | **8,242** | 153,150 |
| Cash and cash equivalents at beginning of period | **133,729** | 55,990 |
| Cash and cash equivalents at end of period | **141,971** | 209,140 |

*Note:*

## 1 BASIS OF PRESENTATION

The Group is principally engaged in the design and fabrication of metal stamping and plastic injection moulds, and manufacturing of metal stamping and plastic injection components and lathing components.

The Company was incorporated in the Cayman Islands on 12 July 2004 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited since 11 May 2005.

This condensed consolidated interim financial information for the six months ended 30 June 2008 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, 'Interim financial reporting'. The condensed interim financial information should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2007, which have been prepared in accordance with Hong Kong Financial Reporting Standards. This condensed consolidated interim financial information is presented in Hong Kong dollars ("HK$"), unless otherwise stated. It was approved for issue by the Board of Directors on 18 September 2008.

## 2 ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the Group's annual financial statements for the year ended 31 December 2007, as described in the annual financial statements of the Group for that year.

The following new interpretations are mandatory for the first time for the financial year beginning 1 January 2008 but are not currently relevant for the Group:

- HK(IFRIC) – Int 11, "HKFRS 2 – Group and treasury share transactions":
- HK(IFRIC) – Int 12, "Service concession arrangements"; and
- HK(IFRIC) – Int 14, "HKAS 19 – the limit on a defined benefit asset, minimum funding requirements and their interaction"

The following new standards, amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 January 2008 and have not been early adopted:

- HKFRS 8, "Operating segments", effective for annual periods beginning on or after 1 January 2009. HKFRS 8 replaces HKAS 14, "Segment reporting", and requires a "management approach" under which segment information is presented on the same basis as that used for internal reporting purposes. The expected impact is still being assessed in details.
- HKAS 23 (revised), "Borrowing costs", effective for annual periods beginning on or after 1 January 2009. This amendment is not relevant to the Group, as the Group currently applies a policy of capitalising borrowing costs.

- HKFRS 2 (amendment) "Share-based payment", effective for annual periods beginning on or after 1 January 2009. Management is assessing the impact of changes to vesting conditions and cancellations on the Group's share options schemes.

- HKFRS 3 (revised), "Business combinations" and consequential amendments to HKAS 27, "Consolidated and separate financial statements", HKAS 28, "Investments in associates" and HKAS 31, "Interests in joint ventures", effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. Management is assessing the impact of the new requirements regarding consolidation on the Group.

- HKAS 1 (revised), "Presentation of financial statements", effective for annual periods beginning on or after 1 January 2009. Management is in the process of developing proforma accounts under the revised disclosure requirements of this standard.

- HKAS 32 and HKAS 1 (amendments), "Puttable financial instruments and obligations arising on liquidation", effective for annual periods beginning on or after 1 January 2009. This is not relevant to the Group as the Group does not have any puttable instruments.

- HK(IFRIC) – Int 13, "Customer loyalty programmes", effective for annual periods beginning on or after 1 July 2008. This is not relevant to the Group as the Group does not have such programmes.

- HK(IFRIC) – Int 15, "Agreements for the Construction of Real Estate", effective for annual periods beginning on or after 1 January 2009. This is not relevant to the Group as the Group is not involved in construction of real estate.

- HK(IFRIC) – Int 16, "Hedges of a Net Investment in a Foreign Operation", effective for annual periods beginning on or after 1 October 2008. This is not relevant to the Group as the Group does not have such hedges.

## 3 SEGMENT INFORMATION

At 30 June 2008, the Group is organised into two main business segments:

(i) design and fabrication of metal stamping moulds and manufacturing of metal stamping components and lathing components ("Metal stamping"); and

(ii) design and fabrication of plastic injection moulds and manufacturing of plastic injection components ("Plastic injection").

The segment results and other segment items are as follows:

| | Six months ended 30 June | | | | | |
|---|---|---|---|---|---|---|
| | **2008** | | | 2007 | | |
| | **Metal stamping** | **Plastic injection** | **Total** | Metal stamping | Plastic injection | Total |
| | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | *HK$'000* | *HK$'000* | *HK$'000* |
| Total gross segment sales | **394,814** | **153,733** | **548,547** | 362,123 | 67,785 | 429,908 |
| Inter-segment sales | **(20,690)** | **(1,850)** | **(22,540)** | (3,130) | (582) | (3,712) |
| Sales | **374,124** | **151,883** | **526,007** | 358,993 | 67,203 | 426,196 |
| Segment results | **44,692** | **19,727** | **64,419** | 64,579 | 13,898 | 78,477 |
| Unallocated income | | | **–** | | | 849 |
| Finance income | | | **472** | | | 791 |
| Finance costs | | | **(5,017)** | | | (5,320) |
| Profit before income tax | | | **59,874** | | | 74,797 |
| Income tax expense | | | **(12,075)** | | | (5,515) |
| Profit for the period | | | **47,799** | | | 69,282 |
| Depreciation | **19,710** | **7,680** | **27,390** | 18,433 | 5,557 | 23,990 |
| Amortisation | **352** | **84** | **436** | 483 | 39 | 522 |

The segment assets and liabilities are as follows:

| | **As at 30 June 2008** | | | | As at 31 December 2007 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Metal stamping** | **Plastic injection** | **Un-allocated** | **Total** | Metal stamping | Plastic injection | Un-allocated | Total |
| | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Assets** | **1,144,070** | **342,262** | **3,361** | **1,489,693** | 960,671 | 291,715 | 2,850 | 1,255,236 |
| **Liabilities** | **92,774** | **64,679** | **374,055** | **531,508** | 155,138 | 38,147 | 131,232 | 324,517 |
| **Capital expenditure** | **193,098** | **30,140** | **–** | **223,238** | 182,261 | 42,850 | – | 225,111 |

Segment assets consist primarily of property, plant and equipment, leasehold land and land use rights, inventories, trade receivables and operating cash.

Segment liabilities comprise operating liabilities but exclude bank borrowings, finance lease liabilities and income tax liabilities.

Capital expenditure comprises additions to property, plant and equipment, leasehold land and land use rights.

## 4 REVENUE

| | Six months ended 30 June | |
|---|---|---|
| | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* |
| Revenue | | |
| Design and fabrication of metal stamping moulds | **15,920** | 44,544 |
| Manufacturing of metal stamping components | **300,132** | 273,877 |
| Manufacturing of lathing components | **43,434** | 28,099 |
| Design and fabrication of plastic injection moulds | **18,645** | 16,505 |
| Manufacturing of plastic injection components | **131,479** | 50,482 |
| Others* | **16,397** | 12,689 |
| | **526,007** | 426,196 |

* *Others mainly represent sales of scrap materials.*

## 5 OTHER GAINS

| | Six months ended 30 June | |
|---|---|---|
| | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* |
| Fair value gains on financial assets at fair value through profit or loss | **–** | 1,010 |
| Others | **1,277** | 4 |
| | **1,277** | 1,014 |

## 6 OPERATING PROFIT

Operating profit is stated after charging (crediting) the followings:

| | Six months ended 30 June | |
|---|---|---|
| | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* |
| Raw materials and consumables used | **288,523** | 216,572 |
| Production overhead costs (excluding labour and depreciation expenses) | **26,300** | 20,447 |
| Staff costs, including directors' emoluments and share option costs | **74,448** | 55,057 |
| Depreciation of property, plant and equipment | **27,390** | 23,990 |
| Amortisation of leasehold land and land use rights | **436** | 522 |
| Loss on disposal of property, plant and equipment | **45** | – |
| Write-downs of inventories to net realisable value | **1,160** | 758 |
| Provision for doubtful debts | **3,873** | – |
| Net exchange gains | **(1,266)** | (1,211) |

## 7 FINANCE INCOME/COSTS

| | Six months ended 30 June | |
|---|---|---|
| | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* |
| Finance income | | |
| Interest income from bank deposits | **472** | 791 |
| Finance costs | | |
| Interest on: | | |
| Bank borrowings wholly repayable within five years | **2,840** | 2,815 |
| Bank borrowings not wholly repayable within five years | **61** | 110 |
| Finance lease liabilities | **2,116** | 2,395 |
| | **5,017** | 5,320 |

## 8 INCOME TAX EXPENSE

| | Six months ended 30 June | |
|---|---|---|
| | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* |
| Current taxation | | |
| – Hong Kong profits tax | **3,753** | 2,324 |
| – Mainland China enterprise income tax | **6,081** | 3,191 |
| Deferred taxation | | |
| – Mainland China withholding income tax | **2,241** | – |
| | **12,075** | 5,515 |

### (i) Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits for the six months ended 30 June 2008 (2007: 17.5%).

### (ii) Mainland China taxation

The subsidiaries established in Shenzhen, Guangdong Province, Mainland China and Suzhou, Jiangsu Province, Mainland China are subject to Mainland China enterprise income tax at a rate of 18% for the six months ended 30 June 2008 (2007: 15%). Yihe Precision Hardware (Shenzhen) Co., Ltd., Yihe Precision Plastic and Electronic Products (Shenzhen) Co., Ltd. and EVA Precision Industrial (Suzhou) Limited are production enterprises with operating periods of more than ten years and, in accordance with the relevant income tax regulations of Mainland China, are exempted from enterprise income tax for two years starting from the first year of profitable operations after offsetting prior year tax losses, followed by a 50% reduction in enterprise income tax for the next three years. The first profitable year after offsetting prior year tax losses of Yihe Precision Hardware (Shenzhen) Co., Ltd., Yihe Precision Plastic and Electronic Products (Shenzhen) Co., Ltd and EVA Precision Industrial (Suzhou) Limited was 2003, 2006 and 2007, respectively. EVA Precision Industrial (Zhongshan) Limited and Shenzhen EVA Mould Manufacturing Co., Ltd. were established in August 2006 and June 2007, respectively, and had no taxable profits during the period ended 30 June 2008. Under the new Corporate Income Tax Law of Mainland China, dividend distribution out of profit of foreign invested enterprises earned after January 2008 will be subject to corporate withholding income tax at a reduced rate of 5% for certain jurisdiction of foreign investor with tax treaty arrangement.

### (iii) Overseas income taxes

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands and, accordingly, is exempted from the Cayman Islands income tax. The Company's subsidiaries established in the British Virgin Islands are incorporated under the International Business Companies Acts of the British Virgin Islands and, accordingly, are exempted from the British Virgin Islands income tax.

## 9 EARNINGS PER SHARE

**Basic**

| | Six months ended 30 June | |
|---|---|---|
| | **2008** | 2007 |
| Profit for the period (HK$'000) | **47,799** | 69,282 |
| Weighted average number of ordinary shares in issue ('000) | **721,297** | 642,431 |
| Basic earnings per share (HK cents per share) | **6.6** | 10.8 |

**Diluted**

| | Six months ended 30 June | |
|---|---|---|
| | **2008** | 2007 |
| Profit for the period (HK$'000) | **47,799** | 69,282 |
| Weighted average number of ordinary shares in issue for basic earnings per share ('000) | **721,297** | 642,431 |
| Adjustment for share options ('000) | **10,765** | 6,622 |
| Weighted average number of ordinary shares for diluted earnings per share ('000) | **732,062** | 649,053 |
| Diluted earnings per share (HK cents per share) | **6.5** | 10.7 |

## 10 DIVIDENDS

| | Six months ended 30 June | |
|---|---|---|
| | **2008** | 2007 |
| Proposed interim dividend of HK 2.0 cents (2007: HK 3.0 cents) per ordinary share | **14,236** | 21,600 |

## 11 CAPITAL EXPENDITURE

| | Property, plant and equipment | Leasehold land and land use rights |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Six months ended 30 June 2008 | | |
| Opening net book amount at 1 January 2008 | 595,456 | 80,314 |
| Additions | 223,238 | – |
| Disposal | (465) | – |
| Depreciation/amortisation charge *(Note 6)* | (27,390) | (436) |
| Closing net book amount at 30 June 2008 | 790,839 | 79,878 |
| Six months ended 30 June 2007 | | |
| Opening net book amount at 1 January 2007 | 476,794 | 24,160 |
| Additions | 33,856 | 27,123 |
| Depreciation/amortisation charge *(Note 6)* | (23,990) | (522) |
| Closing net book amount at 30 June 2007 | 486,660 | 50,761 |

Certain leasehold land and buildings were secured for the Group's borrowings. Certain property, plant and equipment were secured for the Group's borrowings and finance lease liabilities.

## 12 TRADE RECEIVABLES

The credit period granted by the Group to its customers is generally 30 to 90 days. The aging analysis of the trade receivables is as follows:

| | **As at** | |
|---|---|---|
| | **30 June 2008** | 31 December 2007 |
| | ***HK$'000*** | *HK$'000* |
| 0 to 90 days | **176,687** | 184,087 |
| 91 to 180 days | **30,067** | 23,313 |
| 181 to 365 days | **9,626** | 3,313 |
| | **216,380** | 210,713 |
| Less: Provision for impairment of trade receivables | **(5,061)** | (1,188) |
| | **211,319** | 209,525 |

There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of customers. The carrying amounts of trade receivables approximate their fair values.

During the six months ended 30 June 2008, the Group recorded provision for its trade receivables of HK$3,873,000 (2007: Nil).

## 13 TRADE PAYABLES

The aging analysis of trade payables is as follows:

| | As at | |
|---|---|---|
| | **30 June** | 31 December |
| | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* |
| 0 to 90 days | **148,550** | 141,287 |
| 91 to 180 days | **11,478** | 12,122 |
| 181 to 365 days | **584** | 321 |
| | **160,612** | 153,730 |

The carrying amounts of trade payables approximate their fair values and have a maturity period within 90 days.

## 14 CAPITAL COMMITMENTS

Capital expenditure at the balance sheet date but not yet incurred is as follows:

| | As at | |
|---|---|---|
| | **30 June** | 31 December |
| | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* |
| Contracted but not provided for | | |
| – Construction of buildings | **112,523** | 37,044 |
| – Purchase of plant and machinery | **63,301** | 137,687 |
| | **175,824** | 174,731 |

## MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

During the six months ended 30 June 2008, the Group was principally engaged in (i) the design and fabrication of precision metal stamping and plastic injection moulds; (ii) manufacturing of precision metal stamping and plastic injection components and (iii) lathing of metal components. A review of the Group's operations for the six months ended 30 June 2008 is as follows:

## METAL DIVISION

During the six months ended 30 June 2008, the turnover of the Group's metal division increased by 4.2% to approximately HK$374,124,000 as compared to that of approximately HK$358,993,000 for the six months ended 30 June 2007. During the period, the Group's metal division continued to focus on serving renowned Japanese office automation equipment brand owners including Toshiba, Konica Minolta, Canon, Kyocera Mita, Fuji Xerox, Ricoh, Epson and Brother. Sales to Japanese customers accounted for approximately 84.7% of the Group's total sales for the six months ended 30 June 2008 (For the six months ended 30 June 2007: 84.5%)

As a service provider to reputable international brand owners, management believes that the Group's business is strongly influenced by the characteristics of its major customer group. Management believes that the key characteristics of Japanese and international brand owners, which are currently the Group's major customer group, include (i) a strong emphasis on product quality, in particular for office automation equipment such as copiers, printers and multi functional peripherals whose components require high precision standards to ensure the effective functioning of the equipment; (ii) emphasis on production efficiency to minimise production lead time and just-in-time inventory management and (iii) a strong involvement in the production process of its suppliers to ensure product quality and frequent mutual communications with a view to improving the production efficiency of its suppliers. To meet the stringent requirements of its customers, the Group has been following the Japanese style of management since the early stage of its establishment, which includes the implementation of the Japanese 7S management framework (Strategy; Structure; Systems; Style; Staff; Super-ordinate goals and Skills). Further, to manufacture components with high precision standards for its customers, the Group had invested in high quality equipment and a substantial portion of the Group's production machinery are first-tier equipment produced by international renowned brand names such as Aida, Sodick, Agie, Nomura, Sumitomo and Mitsubishi. The Group also maintains a strong quality control team with a headcount of 333 employees and other engineers and technicians of 636 employees as at 30 June 2008.

Such investment in quality and production management has proven to be beneficial to the Group. During the six months ended 30 June 2008, the sales of the Group's metal division to most of its major Japanese customers continued to increase. Apart from Japanese customers, the remaining 15.3% of sales of the Group was derived from reputable Hong Kong or international companies during the six months ended 30 June 2008. To broaden its customer base, the Group will continue to source new customers. However, it is the policy of the Group to be selective in the sourcing of new customers and management will take into account a number of factors which include the pricing of products and credibility of potential customers in its decision making process.

## PLASTIC DIVISION

The development of plastic division is part of the Group's plan to transform itself from a metal mould and component manufacturer into a vertically integrated one-stop service provider because, while part of the office automation equipment manufactured by its customers are made of metal components, plastic components account for the remaining portion. Management believes that the continuing development of plastic business will not only provide the momentum for the Group's future growth, but also enable the Group to provide a more comprehensive service to its customers and reduce the costs of its customers in logistic and quality control aspects that arise from their current practices to outsource the production of metal and plastic components to different suppliers.

Management believes that the Group's plastic division is in a strong position to deliver continuing business growth because it is the trend for major office automation equipment brand owners to outsource more orders to comprehensive production service providers which are able to cover both metal and plastic components with a view to reducing the production logistic costs and production lead time. During the six months ended 30 June 2008, the Group's plastic division continued to strengthen its foothold in the market. Turnover of the Group's plastic division for the six months ended 30 June 2008 amounted to approximately HK$151,883,000, representing an increase of approximately 126% as compared to that for the six months ended 30 June 2007. Operating profit of the Group's plastic division was approximately HK$19,727,000 for the six months ended 30 June 2008, as compared to an operating profit of approximately HK$13,898,000 for the six months ended 30 June 2007.

## HUMAN RESOURCES

As at 30 June 2008, the total number of employees of the Group was 4,490 employees, representing a growth of 24.9% as compared to 3,596 employees as at 30 June 2007. The increase in headcount was primarily due to the continuous expansion of the Group.

The Group considers its employees, in particular the skilled technicians and production management members, as its core assets since the Group's future success relies on the strengthening of its product quality and management on a continuing basis. Remuneration policy is reviewed regularly, making reference to the prevailing legal framework, market conditions and performance of the Group and individual staff. However, apart from providing attractive remuneration packages, management believes that the creation of a harmonious working environment suitable for the development of employees' potential is also important for attracting and retaining qualified staff for its future success. Various employee activities were organised to inspire the team spirit of the Group's staff, which includes the organisation of company outings and sport activities in which the Group's employees, top management (including executive directors) and customers participated. Substantial resources were also devoted to improve the factory and dormitory environment of the Group with a view to providing an attractive working and living environment for the Group's employees.

## FOREIGN CURRENCY EXPOSURE

A substantial portion of the Group's customers are reputable international brand owners with worldwide distribution networks. At the same time, a majority of the Group's suppliers are international metal and plastic producers designated by the Group's customers. Accordingly, most of the Group's sales and cost of sales are currently made in HK dollars and US dollars and only a portion of its sales and purchases are denominated in Renminbi. During the six months ended 30 June 2008, approximately 37%, 57% and 6% (For the six months ended 30 June 2007: 36%, 56% and 8%) of the Group's sales and approximately 20%, 64% and 16% (For the six months ended 30 June 2007: 23%, 56% and 21%) of the Group's purchases were denominated in Hong Kong dollars, US dollars and Renminbi, respectively.

Management is aware of the potential foreign currency risk that may arise from the continuous appreciation of Renminbi. Although only a small portion of the Group's purchases are denominated in Renminbi currently, the Group had taken actions to manage its foreign currency exposure. In particular, despite the Group's substantial business operations in the Mainland China, all of the Group's borrowings were denominated in Hong Kong dollars instead of Renminbi. Management will evaluate the Group's foreign currency exposure on a continuing basis and take further actions to minimise the Group's exposure whenever necessary.

## FINANCIAL REVIEW

An analysis of the Group's turnover and results by segment is as follows:

| | **Six months ended 30 June** | | | |
|---|---|---|---|---|
| | **2008** | **%** | 2007 | % |
| | ***HK$'000*** | | *HK$'000* | |
| **By business segment** | | | | |
| **Turnover** | | | | |
| Metal division | | | | |
| Design and fabrication of metal stamping moulds | **15,920** | **3.0%** | 44,544 | 10.5% |
| Manufacturing of metal stamping components | **300,132** | **57.1%** | 273,877 | 64.3% |
| Manufacturing of lathing components | **43,434** | **8.3%** | 28,099 | 6.6% |
| Others *(Note 1)* | **14,638** | **2.8%** | 12,473 | 2.9% |
| | **374,124** | | 358,993 | |
| Plastic division | | | | |
| Design and fabrication of plastic injection moulds | **18,645** | **3.5%** | 16,505 | 3.9% |
| Manufacturing of plastic injection components | **131,479** | **25.0%** | 50,482 | 11.8% |
| Others *(Note 1)* | **1,759** | **0.3%** | 216 | – |
| | **151,883** | | 67,203 | |
| Total | **526,007** | | 426,196 | |

*Note 1:* Others mainly represented sales of scrap materials

| | Six months ended 30 June | |
|---|---|---|
| | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* |
| **Segment results** | | |
| Metal division | **44,692** | 64,579 |
| Plastic division | **19,727** | 13,898 |
| Operating profit | **64,419** | 78,477 |
| Finance income | **472** | 791 |
| Finance costs | **(5,017)** | (5,320) |
| Income tax expense | **(12,075)** | (5,515) |
| Unallocated income | **–** | 849 |
| Profit attributable to equity holders of the Company | **47,799** | 69,282 |

## Turnover

*Metal division*

Turnover of the Group's metal division increased by approximately 4.2% from approximately HK$358,993,000 for the six months ended 30 June 2007 to approximately HK$374,124,000 for the six months ended 30 June 2008. With the continuous development of the Group's production management and its reputation among prominent international manufacturers, the Group experienced an increase in sale orders during the six months ended 30 June 2008.

*Plastic division*

A substantial portion of the components inside the office automation equipment are made from plastics. As such, with a view to reducing the additional production logistic costs and excess production lead time that arise from the current practices of outsourcing the production of metal and plastic components to different suppliers, it is a trend for major office automation equipment brand owners to shift more orders to comprehensive production service providers which are able to cover both metal and plastic components within the office automation equipment. As such, the turnover of the Group's plastic division increased significantly from approximately HK$67,203,000 for the six months ended 30 June 2007 to approximately HK$151,883,000 for the six months ended 30 June 2008.

## Gross profit

The Group achieved a gross profit of approximately HK$147,376,000 for the six months ended 30 June 2008, representing an increase of approximately 6.1% as compared to that for the six months ended 30 June 2007. Gross profit margin for the six months ended 30 June 2008 was approximately 28.0%, which decreased as compared to that of approximately 32.6% for the six months ended 30 June 2007. The decrease in gross profit margin was primarily because the Group's revenue from the design and fabrication of metal stamping and plastic injection moulds decreased by approximately 43.4% from approximately HK$61,049,000 for the six months ended 30 June 2007 to approximately HK$34,565,000 for the six months ended 30 June 2008 and its proportion to total turnover decreased from approximately 14.4% for the six months ended 30 June 2007 to approximately 6.5% for the six months ended 30 June 2008. At the same time, with the decrease in revenue from the design and fabrication of metal stamping and plastic injection moulds, the proportion of revenue from manufacturing of metal stamping and plastic injection components and lathing components to total turnover increased from approximately 82.7% for the six months ended 30 June 2007 to approximately 90.4% for the six months ended 30 June 2008. Since the gross profit margin from the manufacture of components is lower than that from the design and fabrication of moulds, the decrease in the proportion of revenue from the design and fabrication of moulds to total turnover had resulted in a decrease in the Group's overall gross profit margin for the six months ended 30 June 2008.

**Segment results**

For the six months ended 30 June 2008, segment result of the Group's metal division amounted to approximately HK$44,692,000, representing a 30.8% decrease as compared to that of approximately HK$64,579,000 for the six months ended 30 June 2007. Operating profit margin of the Group's metal division for the six months ended 30 June 2008 was approximately 11.9%, which decreased as compared to that of approximately 18.0% for the six months ended 30 June 2007. The decrease in operating profit margin of the Group's metal division was mainly because (i) the proportion of revenue from the design and fabrication of metal stamping moulds to total turnover of the Group's metal division decreased from approximately 12.4% for the six months ended 30 June 2007 to approximately 4.3% for the six months ended 30 June 2008. As the gross profit margin from the design and fabrication of metal stamping moulds is higher than that from the manufacture of metal stamping and lathing components, the significant reduction in the proportion of revenue from design and fabrication of metal stamping moulds to total turnover of the Group's metal division had resulted in the decrease in its operating profit margin; (ii) the Group's mould development centre in Shenzhen had been newly completed during the six months ended 30 June 2008, resulting in an initial loss of approximately HK$1,842,000 which was primarily charged to the Group's metal division and (iii) during the six months ended 30 June 2008, the Group's scale and production capacity continued to grow and, in particular, the Group's headcount increased significantly from 3,596 employees as at 30 June 2007 to 4,490 employees as at 30 June 2008, which resulted in an increase in various operating costs during the period.

Segment result of the Group's plastic division for the six months ended 30 June 2008 was approximately HK$19,727,000, which increased by approximately 41.9% as compared to that of approximately HK$13,898,000 for the six months ended 30 June 2007. Operating profit margin of the Group's plastic division for the six months ended 30 June 2008 was approximately 13.0%, which decreased as compared to that of approximately 20.7% for the six months ended 30 June 2007. The reasons for the decrease in operating profit margin of the Group's plastic division were similar to those of the metal division, in particular that the proportion of revenue from design and fabrication of plastic injection moulds to total turnover of the Group's plastic division had decreased from approximately 24.6% for the six months ended 30 June 2007 to approximately 12.3% for the six months ended 30 June 2008, which diluted the overall profit margin of the Group's plastic division during the period.

**Finance costs**

The Group's finance costs for the six months ended 30 June 2008 amounted to approximately HK$5,017,000, which was comparable to that for the six months ended 30 June 2007.

**Income tax expense**

During the six months ended 30 June 2008, income tax expense amounted to approximately HK$12,075,000. Effective tax rate (defined as the percentage of income tax expense as compared to profit before income tax) for the six months ended 30 June 2008 was approximately 20.2%, which increased as compared to that of approximately 7.4% for the six months ended 30 June 2007. During the six months ended 30 June 2007, Yihe Precision Hardware (Shenzhen) Co., Ltd, the principal subsidiary for the Group's metal business in Shenzhen, enjoyed a 50% reduction in enterprise income tax at a rate of 7.5%. However, the tax reduction period expired during the six months ended 30 June 2008 and accordingly Yihe Precision Hardware (Shenzhen) Co., Ltd. was subject to enterprise income tax at a rate of 18% during the period. Yihe Precision Plastic and Electronic Products (Shenzhen) Co., Ltd., the principal subsidiary for the Group's plastic business in Shenzhen, was exempted from PRC enterprise income tax during the six months ended 30 June 2007. The tax exemption period of Yihe Precision Plastic and Electronic Products (Shenzhen) Co., Ltd. expired during the six months ended 30 June 2008 and accordingly it was subject to enterprise income tax at a rate of 9% during the period. Further, in accordance with the new tax rules in Mainland China which became effective during the six months ended 30 June 2008, dividends to be paid by the Group's subsidiaries in Mainland China to their respective overseas holding companies would be subject to withholding tax at a rate of 5%. As such, the Group's overall effective tax rate increased from approximately 7.4% for the six months ended 30 June 2007 to approximately 20.2% for the six months ended 30 June 2008.

**Profit attributable to equity holders of the Company**

During the six months ended 30 June 2008, profit attributable to equity holders of the Company amounted to approximately HK$47,799,000, which decreased by approximately 31.0% as compared to that of approximately HK$69,282,000 for the six months ended 30 June 2007. Net profit margin of the Group for the six months ended 30 June 2008 was approximately 9.1%, which decreased as compared to that of 16.3% for the six months ended 30 June 2007. The reduction in net profit margin of the Group was mainly caused by (i) the change in product mix of the Group and the decrease in the proportion of revenue from design and fabrication of moulds to total turnover which diluted the Group's overall gross profit margin; (ii) the initial loss incurred by the Group's new mould development centre; (iii) the increase in various operating costs following the continuing expansion of the Group's scale and production capacity during the six months ended 30 June 2008; and (iv) the increase in overall effective tax rate of the Group for the six months ended 30 June 2008.

**By geographical location**

| | Six months ended 30 June | |
|---|---|---|
| | **2008** | 2007 |
| | ***HK$'000*** | *HK$'000* |
| **Turnover** | | |
| Shenzhen operations | **445,612** | 380,032 |
| Suzhou operations | **80,395** | 46,164 |
| | **526,007** | 426,196 |
| **Profit attributable to equity holders of the Company** | | |
| Shenzhen operations | **38,120** | 63,018 |
| Suzhou operations | **9,679** | 6,264 |
| | **47,799** | 69,282 |

As indicated on the above, a substantial portion of the Group's turnover for the six months ended 30 June 2008 was still derived from the Group's Shenzhen production plant since the operating history of Suzhou production plant was relatively short as compared to that of the Group's Shenzhen production plant. However, the Suzhou production plant was still able to contribute turnover of approximately HK$80,395,000 and net profit of approximately HK$9,679,000 during the six months ended 30 June 2008, representing approximately 15.3% and 20.2% of the Group's total turnover and net profit respectively during the period.

**LIQUIDITY, FINANCIAL RESOURCES AND RATIOS**

For the six months ended 30 June 2008, the Group recorded net cash generated from operating activities amounting to approximately HK$29,926,000, representing a decrease of approximately 54.6% as compared to that of approximately HK$65,943,000 for the six months ended 30 June 2007. The decrease in net cash generated from operating activities was primarily caused by the reduction in profit of the Group during the six months ended 30 June 2008 and the rise in raw material prices during the period, which resulted in a significant increase in the cost of inventories held by the Group as at 30 June 2008. Net cash used in investing activities, which was primarily related to the purchases of fixed assets and amounted to approximately HK$130,084,000 for six months ended 30 June 2008, increased by approximately 15.5% as compared to that of approximately HK$112,656,000 for the six months ended 30 June 2007 due to the continuous expansion of the Group's scale of operations. In addition, the Group recorded net cash generated from financing activities of approximately HK$108,400,000 during the six months ended 30 June 2008, which was primarily caused by an increase in borrowings during the period.

Bank borrowings as at 30 June 2008 were denominated in Hong Kong dollars with floating interest rates and were used for financing the Group's operations and expansion. Treasury activities are controlled by senior management members with an objective of achieving a balance between the Group's expansion needs and its financial stability. An analysis of the Group's key liquidity and capital adequacy ratios as at 30 June 2008 is as follows:

| | **30 June 2008** | 31 December 2007 |
|---|---|---|
| Inventory turnover days *(Note 1)* | **95** | 87 |
| Debtors' turnover days *(Note 2)* | **74** | 80 |
| Creditors' turnover days *(Note 3)* | **78** | 86 |
| Current ratio *(Note 4)* | **1.65** | 1.96 |
| Debt-to-equity ratio *(Note 5)* | **0.34** | Net cash |

*Note:* –

1. Calculation of inventory turnover days is based on the ending inventories divided by cost of goods sold and multiplied by the number of days during the period/year.

2. Calculation of debtors' turnover is based on the ending balance of trade receivables divided by turnover and multiplied by the number of days during the period/year.

3. Calculation of creditors' turnover is based on the ending balance of trade payables divided by cost of goods sold and multiplied by the number of days during the period/year.

4. Current ratio is calculated based on the Group's total current assets divided by total current liabilities.

5. Debt-to-equity ratio is calculated based on the total balance of bank borrowings and finance lease liabilities divided by shareholders' equity.

**Inventory turnover days**

Substantially all of the Group's Japanese customers have their own designated raw material suppliers. These Japanese customers generally require the Group to purchase raw materials from their designated suppliers for the manufacture of metal and plastic components and delivery and pricing of raw materials are negotiated based on three-way communications among the Group, its customers and suppliers. This practice enables the Group to manage its inventories in an efficient manner despite a continuous increase in its turnover and business scale. The Group's inventory turnover days for the six months ended 30 June 2008 was approximately 95 days, which increased by 8 days as compared to that for the year ended 31 December 2007. The increase was primarily driven by the continuous increase in raw material prices during the six months ended 30 June 2008, which resulted in a significant increase in the cost of inventories held by the Group as at 30 June 2008.

### Debtors' and creditors' turnover days

During the six months ended 30 June 2008, the Group's debtors' turnover days decreased from approximately 80 days for the year ended 31 December 2007 to approximately 74 days owing to the continuous improvement of the Group's cash flow management during the period. Creditors' turnover days for the six months ended 30 June 2008 reduced to approximately 78 days, which was primarily caused by the shortened credit period granted by the suppliers during the period.

### Current ratio and debt-to-equity ratio

During the six months ended 30 June 2008, the Group increased its short-term bank borrowings by approximately 200.2% with a view to providing liquidity for maintaining the continuing operations of the Group. As such, the Group's current ratio reduced from approximately 1.96 as at 31 December 2007 to approximately 1.65 as at 30 June 2008. Total borrowings of the Group (bank borrowings and finance lease liabilities) as at 30 June 2008 increased by approximately 174.6% to approximately HK$322,304,000 and accordingly the Group's debt-to-equity ratio increased to approximately 0.34 as at 30 June 2008.

After 30 June 2008, the Company repurchased a total of 9,860,000 of its own shares on The Stock Exchange of Hong Kong Limited at a price ranging from HK$1.20 to HK$1.70 per share for a total consideration, before expenses, of approximately HK$14,320,000. As a result of the share repurchase, the shareholders' equity and cash balances of the Group reduced by approximately HK$14,320,000 (before relevant expenses) after 30 June 2008.

## CAPITAL EXPENDITURE

Capital expenditure for the six months ended 30 June 2008 amounted to approximately HK$223,238,000 which was primarily related to the establishment of the Group's new mould development centre, a production plant specialising in the manufacture of moulds. The new mould development centre had been completed in early 2008 and is currently under trial production stage.

As at 30 June 2008, the Group had commitments for signed capital expenditure contracts amounting to approximately HK$175,824,000, which are payable by the Group after 30 June 2008. Since 2007, the Group has been constructing the Suzhou production plant (phase 2) and a new production plant in Zhongshan. As such, these commitments for signed capital expenditure contracts were primarily related to the construction fees payable to contractors for completing the remaining construction work for Suzhou production plant (phase 2) and the new production plant in Zhongshan. The Group will take effort to arrange for additional financing from the market with a view to fulfilling these commitments after 30 June 2008.

## CHARGES ON THE GROUP'S ASSETS

As at 30 June 2008, the charges on the Group's assets included (i) pledge of bank deposits of approximately HK$1,137,000 which were pledged in favour of a contractor of construction work as deposits for construction costs; (ii) pledge of leasehold land and buildings located in Hong Kong and equipment located in Suzhou with net book value of approximately HK$8,092,000 and HK$91,060,000, respectively, for securing bank borrowings and (iii) mortgage of equipment under finance lease liabilities with net book value of HK$173,995,000 for securing finance lease liabilities.

## OUTLOOK

During the six months ended 30 June 2008, the Group had continued its plan to transform itself from a metal mould and component manufacturers to a fully integrated one-stop service provider. As part of the Group's expansion plan, the Group's mould development centre was completed and under trial production stage during the six months ended 30 June 2008.

The Group's customers normally require the Group to design and manufacture the relevant moulds prior to the mass production of metal stamping and plastic injection components. Accordingly, the manufacturing capability and quality standards for the production of moulds are crucial determinants for securing large-scale sale orders from customers for the subsequent production of metal stamping and plastic injection components. Further, as all components are basically produced from moulds, the number of moulds manufactured by the Group have a crucial impact on the Group's future component orders. With a view to increasing the Group's production capacity of moulds, the Group established the mould development centre. With an expanded mould production capability, the Group will not only be able to manufacture more moulds for future component orders but an expanded mould production capability can also enable the Group to produce and sell moulds on a standalone basis to customers who retain production plants in overseas countries.

During the six months ended 30 June 2008, the Group's Suzhou production plant continued to expand. The Group's Suzhou production plant primarily focused on serving various Japanese and other multi-national manufacturers located in the Yangtze River Delta Region. With the continuing expansion of the Group's Suzhou production plant, its turnover and profit increased by approximately 74.2% and 54.5% to approximately HK$80,395,000 and HK$9,679,000 respectively during the six months ended 30 June 2008.

Taking into account the huge potentials for the Group's business in the Yangtze River Delta region, the construction of phase two of the Group's Suzhou production plant with a construction area of approximately 59,000 square metres is currently in progress, with completion targeted for 2009.

The Group's existing Shenzhen production plant is located in the eastern bank of the Pearl River Delta region. With a view to better serving the Group's existing customers and developing businesses from new customers located in the western bank of the Pearl River Delta region, the Group is in the process of establishing a new production plant in Zhongshan, Guangdong Province, the PRC. The construction of the new Zhongshan production plant with a construction area of approximately 33,000 square metres had commenced in 2007 and is expected to be completed by the first half of 2009. The establishment of a new production plant in Zhongshan which is in the proximity of the Group's customers located in the western bank of the Pearl River Delta region will not only reduce the transportation costs of the Group and its customers, but can also strengthen the Group's business relationship with its existing customers which will finally translate into larger business volume for the Group.

Currently the Group is primarily serving as a mould and component supplier to reputable Japanese manufacturers engaging in the production of office automation equipment which includes copiers, printers and multifunctional peripherals. Taking into account (i) the Group primarily focused on the production of metal stamping moulds and components previously with other business opportunities relating to the office automation equipment market which include the manufacture of relevant plastic injection components and moulds and the provision of assembly services to office automation equipment brand owners remained relatively unexplored and (ii) outsourcing by Japanese brand owners to non-Japanese suppliers is still fairly new with a majority of the components used by the Group's customers still being manufactured by suppliers with Japanese background, management believes that there are still ample opportunities for the continuous expansion of the Group in the office automation equipment market. However, at the same time, the Group continuously searches for growth opportunities in other industries including the automobile, home appliances and medical equipment markets. However, taking into consideration (i) there are still ample opportunities for the expansion of the Group in the existing office automation equipment market and (ii) the substantial time that may be required for the successful establishment of solid business relationship with reputable brand owners in other industries, management will continue to focus a majority of its resources in the office automation equipment market and expects a substantial portion of its customer orders continues to come from office automation equipment brand owners in near future.

## PURCHASES, SALE AND REDEMPTION OF THE COMPANY'S SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares during the six months ended 30 June 2008.

## DIVIDEND

The Board declared an interim dividend of HK2 cents per ordinary share, totaling HK$14,236,000 for the six months ended 30 June 2008 to eligible shareholders whose names appear on the register of members of the Company on 9 October 2008. The interim dividends will be payable in cash on or about 20 October 2008.

The register of members of the Company will be closed from Monday, 6 October 2008 to Thursday, 9 October 2008, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for the proposed interim dividend for the six months ended 30 June 2008, all transfers of shares of the Company accompanied by the relevant share certificates and transfer forms must be lodged with the Company's share registrar in Hong Kong, namely Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17th floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday, 3 October 2008.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Having made specific enquiry of all directors, all directors confirm that they have complied with the required standards set out in the Model Code during the six months ended 30 June 2008 and up to the date of this report.

## CORPORATE GOVERNANCE

The Company and the directors confirm, to the best of their knowledge, that the Company has compiled with the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited during the six months ended 30 June 2008.

## AUDIT COMMITTEE

The Company has set up an audit committee (the "Committee"), in accordance with the requirements of the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, for the purpose of reviewing and providing supervision on the financial reporting process and internal control system of the Group. The Committee comprises the three independent non-executive directors with Dr. Lui Sun Wing as the chairman. The Committee has reviewed the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters with management including a review of the interim report for the six months ended 30 June 2008.

By order of the Board
**Zhang Hwo Jie**
*Chairman*

Hong Kong, 18 September 2008

*As at the date of this announcement, the Board comprises four executive directors, being Mr. Zhang Hwo Jie (Chairman), Mr. Zhang Jian Hua (Vice-Chairman), Mr. Zhang Yaohua (Chief Executive Officer) and Mr. Nomo Kenshiro and three independent non-executive directors, being Dr. Lui Sun Wing, Mr. Choy Tak Ho and Mr. Leung Tai Chiu.*