

SYMPHONY HOLDINGS LIMITED

INCORPORATED IN BERMUDA WITH LIMITED LIABILITY

(Stock Code: 1223)

INTERIM REPORT 2006



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CORPORATE INFORMATION

Directors

Mr. Li Kwok Lung Alfred Ronald
(*Chairman*)
Mr. Sze Sun Sun Tony (*Deputy Chairman
and Managing Director*)
Mr. Chang Tsung Yuan
(*Deputy Chairman*)
Mr. Ku Edward Y
Mr. Chan Lu Min
Dr. Ho Ting Seng
Mr. Li I Nan*
Mr. Chan Ting Chuen*
Mr. Cheng Kar Shing*
Mr. Feng Lei Ming*
Mr. Ho Shing Chak*

non-executive director

* *independent non-executive director*

Company Secretary

Ms. Chow So Ying Anna

Auditors

Deloitte Touche Tohmatsu
Certified Public Accountants
35/F One Pacific Place
88 Queensway
Hong Kong

Solicitors

Richards Butler
20th Floor, Alexandra House
16-20 Chater Road
Central, Hong Kong

Registered Office

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Head Office and Principal Place of Business in Hong Kong

10th Floor, Island Place Tower
510 King's Road, North Point
Hong Kong

Principal Bankers

Calyon
Citibank, N.A.
DBS Bank (Hong Kong) Limited
The Hongkong and Shanghai Banking
Corporation Limited

Principal Share Registrar and Transfer Office

The Bank of Bermuda Limited
6 Front Street
Hamilton HM11
Bermuda

Hong Kong Branch Share Registrar and Transfer Office

Tengis Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong

Website

<http://www.symphonyholdings.com>

Stock Code

1223

MANAGEMENT DISCUSSION AND ANALYSIS

Review of Operations

Although sales and profit margin remain generally robust for the six months ended 30 June 2006, the Group experienced credit problem with one customer which is undergoing financial restructuring. This customer accounted for more than 10% of our factory order volume in 2005. As a result, sales for the six months under review declined 6% overall, despite healthy growth of the manufacturing business with other customers. The Group has ceased to supply this defaulting customer, and is now conducting a review of its credit control policy and practice. A provision of \$40 million has been made, so that operating income for the first half of 2006 declined by 56.6%. During the same period, an associate company received a capital payment as consideration of a buy-out of its China distributorship. After taking into account the amount accruing to the Group, profit attributable to equity holders for the first half of 2006 increased 16.0%.

As expected, cost escalation continued in many areas. All manufacturers face raw material price increases globally, as a direct result of run away oil and commodity prices. Additionally, labour cost in the Pearl River Delta area continued its upward trend. The Group is maintaining its policy of tight cost control, as well as diversifying into other manufacturing regions to maintain its low cost advantage. This year, the Group set up its first production facility in Vietnam, with four production lines to service the existing customers as well as to position ourselves to service other more cost-conscious customers. Despite fierce competition, we are proud to be able to maintain a gross profit margin of 22.6%.

Recently, an associate company was offered and agreed to a buy-out of its China distributorship, in return for a capital compensation in cash, to be paid in stages. In the first six months of 2006, the Company has recognised a gain of HK\$93 million from this. The remaining gain will be recognised in the second half of 2006 and 2007.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Outlook

The outlook of the footwear manufacturing industry remains challenging, as it has been for several years. The industry will continue to face cost escalation and the EU anti-dumping ruling remains unresolved. We have been and will remain competitive through working closely with our key customers and maintaining tight control over cost. The new production facility in Vietnam represents our first venture into another low cost country and we expect it to maintain a low cost structure to better serve our customers. As it has done in the past, the Group is confident that it will be able to report robust sales and profits. However, due to the credit problem with one defaulting customer, as mentioned above, we expect the results will be moderated for the full year.

The Group seeks to invest in related businesses in the China market. We are planning to invest in retail assets in China to take advantage of the sustained retailing boom, as China's domestic economy and private sector consumption continues to grow at a rapid pace compared to the rest of the world.

Segment Information

Sales to North America had constituted approximately 67% (2005: 67%) of the Group's total turnover; Europe accounted for 17% (2005: 21%) of sales, and the remaining 16% (2005: 12%) sales were shared between Asia, Africa, Australia, Latin America and the Middle East.

Liquidity and Capital Resources

As at 30 June 2006, the Group had cash and bank balance of HK\$592.0 million (31 December 2005: HK\$740.4 million). The Group was offered banking facilities amounting to HK\$117.0 million, of which none has been utilised, indicating a zero gearing ratio on the basis of total borrowings over shareholders' fund.

There is currently no charge on group assets and the Group does not have any significant exposure to foreign currency fluctuation.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Staff

The total number of employees as at 30 June 2006 has not changed materially compared to that of the last financial year. Employee cost (excluding directors' emoluments) amounted to approximately HK\$170.7 million (2005: HK\$179.0 million). In addition to competitive remuneration packages, discretionary bonuses and employee options are awarded to eligible staff based on the Group's performance and individual merits.

Our staff's well-being is one of the Group's top priorities. The Group will continue to improve and ensure that our staff members are provided with a safe and pleasant working and living environment.

The Group will continue to honour its commitment on international environment and human rights standards.

INTERIM RESULTS

The board of directors (the "Board") of Symphony Holdings Limited (the "Company") is pleased to announce the unaudited condensed interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2006 together with comparative figures for the corresponding period in 2005 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2006

		For the six months ended 30 June	
	<i>Notes</i>	2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)
Turnover	3	997,819	1,061,270
Cost of sales		(772,386)	(802,938)
Gross profit		225,433	258,332
Other income		19,284	16,326
Distribution costs		(51,015)	(41,309)
Administrative expenses		(81,384)	(71,137)
Other expenses		(46,081)	(9,353)
Surplus on revaluation of buildings		197	81
Share of results of jointly controlled entities	9	84,960	(9,045)
Finance costs		-	(24)
Profit before taxation	4	151,394	143,871
Taxation	5	(10,354)	(16,173)
Profit for the period		141,040	127,698
Attributable to:			
Equity holders of the parent		136,889	117,972
Minority interests		4,151	9,726
		141,040	127,698
Dividends	6	121,523	79,906
Earnings per share	7		
Basic		HK8.2 cents	HK10.5 cents
Diluted		N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2006

		At	At
		30 June	31 December
		2006	2005
	<i>Notes</i>	HK\$'000	<i>HK\$'000</i>
		(Unaudited)	(Audited)
Non-current assets			
Property, plant and equipment	8	253,037	241,416
Investment properties	8	75,000	75,000
Prepaid lease payments		58,692	59,171
Goodwill		57,477	57,477
Interests in jointly controlled entities	9	366,219	199,763
Available-for-sale investments		11,133	11,110
Deferred tax assets		6,552	5,534
		828,110	649,471
Current assets			
Inventories		219,183	251,086
Amounts due from jointly controlled entities		2,008	2,182
Promissory notes receivables	10	–	25,009
Trade and other receivables	11	307,807	226,102
Prepaid lease payments		1,428	1,428
Bank balances and cash		591,954	740,442
		1,122,380	1,246,249
Land classified as held for sale		–	19,731
		1,122,380	1,265,980

CONDENSED CONSOLIDATED BALANCE SHEET (continued)

As at 30 June 2006

		At	At
		30 June	31 December
		2006	2005
	<i>Notes</i>	HK\$'000	<i>HK\$'000</i>
		(Unaudited)	(Audited)
Current liabilities			
Trade and other payables	12	436,816	421,349
Amount due to a jointly controlled entity		589	11,252
Tax payable		47,905	40,061
		485,310	472,662
Net current assets		637,070	793,318
Total assets less current liabilities		1,465,180	1,442,789
Non-current liabilities			
Deferred tax liabilities		8,220	7,628
		1,456,960	1,435,161
Capital and reserves			
Share capital	13	416,176	416,176
Reserves		1,006,363	988,715
Equity attributable to equity holders of the parent		1,422,539	1,404,891
Minority interests		34,421	30,270
		1,456,960	1,435,161

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2006

	Attributable to equity holders of the parent									
	Share capital	Share premium	Properties revaluation reserve	Translation reserve	Investment revaluation reserve	Other reserve (Note)	Retained profits	Total	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2005 (audited)	277,451	82,044	2,189	4,810	-	-	548,235	914,729	26,473	941,202
Exchange difference arising from translation of foreign operation	-	-	-	(568)	-	-	-	(568)	-	(568)
Share of reserve of a jointly controlled entity	-	-	-	62	-	-	-	62	-	62
Net expenses recognised directly in equity	-	-	-	(506)	-	-	-	(506)	-	(506)
Profit for the period	-	-	-	-	-	-	117,972	117,972	9,726	127,698
Total recognised income and expenses for the period	-	-	-	(506)	-	-	117,972	117,466	9,726	127,192
Dividends paid	-	-	-	-	-	-	(79,906)	(79,906)	-	(79,906)
At 30 June 2005 (unaudited)	277,451	82,044	2,189	4,304	-	-	586,301	952,289	36,199	988,488
Exchange difference arising from translation of foreign operation	-	-	-	5,323	-	-	-	5,323	-	5,323
Share of reserves of jointly controlled entities	-	-	-	125	-	296	-	421	-	421
Surplus arising from revaluation of buildings	-	-	5,217	-	-	-	-	5,217	-	5,217
Deferred tax liability arising from revaluation of buildings	-	-	(1,326)	-	-	-	-	(1,326)	-	(1,326)
Net income recognised directly in equity	-	-	3,891	5,448	-	296	-	9,635	-	9,635
Profit for the period	-	-	-	-	-	-	97,978	97,978	10,071	108,049
Total recognised income for the period	-	-	3,891	5,448	-	296	97,978	107,613	10,071	117,684

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(continued)

For the six months ended 30 June 2006

	Attributable to equity holders of the parent									
	Share capital	Share premium	Properties revaluation reserve	Translation reserve	Investment revaluation reserve	Other reserve (Note)	Retained profits	Total	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Dividends paid	-	-	-	-	-	-	-	-	(16,000)	(16,000)
Issue of shares on rights issue	138,725	210,863	-	-	-	-	-	349,588	-	349,588
Transaction costs attributable to rights issue	-	(4,599)	-	-	-	-	-	(4,599)	-	(4,599)
At 31 December 2005 (audited)	416,176	288,308	6,080	9,752	-	296	684,279	1,404,891	30,270	1,435,161
Exchange difference arising from translation of foreign operation	-	-	-	2,051	23	-	-	2,074	-	2,074
Share of reserves of jointly controlled entities	-	-	-	37	-	171	-	208	-	208
Net income recognised directly in equity	-	-	-	2,088	23	171	-	2,282	-	2,282
Profit for the period	-	-	-	-	-	-	136,889	136,889	4,151	141,040
Total recognised income for the period	-	-	-	2,088	23	171	136,889	139,171	4,151	143,322
Dividends paid	-	-	-	-	-	-	(121,523)	(121,523)	-	(121,523)
At 30 June 2006 (unaudited)	416,176	288,308	6,080	11,840	23	467	699,645	1,422,539	34,421	1,456,960

Note: Other reserve of the Group represents statutory reserve appropriated from the profit after tax of the subsidiary of a jointly controlled entity registered in the People's Republic of China ("PRC"), other than Hong Kong under the PRC laws and regulations.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2006

	For the six months ended 30 June	
	2006	2005
	HK\$'000	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Net cash from operating activities	64,416	136,893
Net cash used in investing activities		
Purchase of property, plant and equipment	(28,647)	(16,025)
Purchase of interest in a jointly controlled entity	(81,438)	–
Other investing cash flows	18,212	11,664
	(91,873)	(4,361)
Net cash used in financing activities	(121,523)	(2,230)
Net (decrease) increase in cash and cash equivalents	(148,980)	130,302
Cash and cash equivalents as at 1 January	740,442	282,534
Effect of change in foreign exchange rate	492	(565)
Cash and cash equivalents as at 30 June, representing bank balances and cash	591,954	412,271

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2006

1. BASIS OF PREPARATION

The 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 of Hong Kong Limited (the "Listing Rules") and with the Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2005, except as described below.

In the current interim period, the Group has applied, for the first time, a number of new standards, amendments and interpretations (the "new HKFRSs") issued by the HKICPA, which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs had no material effect on how the results 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 standards, amendments or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital disclosures ¹
HKFRS 7	Financial instruments: disclosures ¹
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies ²
HK(IFRIC) – INT 8	Scope of HKFRS 2 ³
HK(IFRIC) – INT 9	Reassessment of embedded derivatives ⁴

¹ Effective for annual periods beginning on or after 1 January 2007

² Effective for annual periods beginning on or after 1 March 2006

³ Effective for annual periods beginning on or after 1 May 2006

⁴ Effective for annual periods beginning on or after 1 June 2006

3. SEGMENT INFORMATION

Business Segments

No business segment analysis is presented as less than 10% of the Group's turnover and contribution to results are contributed by activities other than the manufacturing and marketing of footwear products.

Geographical Segments

An analysis of the Group's turnover and contribution to operating results by geographical segments, irrespective of the origin of the goods, is presented below.

	For the six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
<u>TURNOVER</u>		
United States of America	607,916	670,429
Canada	56,322	39,454
Europe	167,761	222,484
Asia	100,897	63,157
Others	64,923	65,746
	997,819	1,061,270
	<hr/> 997,819 <hr/>	<hr/> 1,061,270 <hr/>
	For the six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
<u>RESULTS</u>		
United States of America	52,168	111,830
Canada	5,967	6,581
Europe	14,362	37,111
Asia	12,309	11,191
Others	4,864	10,966
	89,670	177,679
Unallocated corporate expenses	(23,236)	(24,739)
Share of results of jointly controlled entities	84,960	(9,045)
Finance costs	-	(24)
	<hr/> 151,394 <hr/>	<hr/> 143,871 <hr/>
Profit before taxation	151,394	143,871
Taxation	(10,354)	(16,173)
	<hr/> 141,040 <hr/>	<hr/> 127,698 <hr/>
Profit for the period	141,040	127,698

4. PROFIT BEFORE TAXATION

	For the six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
Profit before taxation has been arrived at after charging (crediting):		
Cost of inventories recognised as expenses	772,386	802,938
Depreciation and amortisation	18,403	15,970
Allowance for:		
Bad and doubtful debts for trade debtors	20,411	7,570
Promissory notes receivables	24,295	-
Amortisation of prepaid lease payments	601	207
Research and development expenses	30,459	33,071
Interest income from:		
Bank deposits	(14,911)	(3,954)
Available-for-sale investments	(171)	(317)
Trade debtors	-	(4,704)
Loans to a jointly controlled entity	(2,288)	(1,816)
Promissory notes	-	(740)
Dividend income from available-for-sale investments	(33)	(37)
	<u> </u>	<u> </u>

5. TAXATION

	For the six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
Current tax:		
Hong Kong	1,340	3,440
Other jurisdictions	9,450	12,953
	<u>10,790</u>	<u>16,393</u>
Deferred tax:		
Current period	(436)	(220)
	<u>(436)</u>	<u>(220)</u>
Taxation attributable to the Company and its subsidiaries	<u>10,354</u>	<u>16,173</u>

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for the six months ended 30 June 2005 and 2006.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

6. DIVIDENDS

During the period ended 30 June 2006, a dividend of HK\$0.073 per ordinary share which amounted to HK\$121,523,000 was paid to shareholders as the final dividend for the year ended 31 December 2005.

During the period ended 30 June 2005, a dividend of HK\$0.072 per ordinary share which amounted to HK\$79,906,000 was paid to shareholders as the final dividend for the year ended 31 December 2004.

The Board has determined the payment of HK\$0.03 (2005: HK\$ Nil) per ordinary share to shareholders, whose names appear in the register of members on 9 October 2006, as the interim dividend.

7. EARNINGS PER SHARE

The calculation of the basic earnings per share for the period is based on the following data:

	For the six months ended 30 June	
	2006	2005
Profit for the period attributable to equity holders of the parent and earnings for the purposes of basic earnings per share	<u>HK\$136,889,000</u>	<u>HK\$117,972,000</u>
Number of/weighted average number of ordinary shares for the purposes of basic earnings per share	<u>1,664,704,773</u>	<u>1,109,803,182</u>

No diluted earnings per share has been presented because the exercise price of the Company's options was higher than the average market price for shares during both periods.

8. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

During the period, the Group acquired property, plant and equipment at a cost of HK\$28,647,000 (2005: HK\$16,025,000).

The Group's buildings were revalued by the directors on 30 June 2006. The revaluation resulted in a surplus amounting to approximately HK\$197,000 which has been credited directly to the condensed consolidated income statement.

As at 30 June 2006, the directors have also considered the carrying amount of the Group's investment properties at revalued amounts and have concluded that their fair value on that date did not differ significantly from their carrying amounts on 31 December 2005.

9. MOVEMENTS IN INTERESTS IN JOINTLY CONTROLLED ENTITIES

During the period, the Group further invested an amount of US\$10,500,000, equivalent to approximately HK\$81,438,000 as capital contribution to a jointly controlled entity.

On 28 June 2006, the board of directors of New Point Industrial Limited ("New Point"), a non-wholly owned subsidiary of a jointly controlled entity of the Group, approved and entered into an agreement (the "Agreement") to terminate a joint venture agreement, license agreement and distribution agreement in relation to products of a global brand in PRC. As a result of this termination, a compensation was payable to New Point. As at 30 June 2006, a profit of US\$12 million (equivalent to HK\$93 million) was recorded as share of results of jointly controlled entities in the condensed consolidated income statement, which represented the unconditional amount pursuant to the Agreement shared by the Group. Subject to completion, a further compensation income of US\$10 million (equivalent to HK\$78 million) will be recognised by New Point.

10. PROMISSORY NOTES RECEIVABLES

The promissory notes receivables were unsecured, interest-bearing at 9% to 10% per annum.

In view of the distressed financial position of the debtor, the directors have resolved to make a full provision against the promissory notes receivables.

11. TRADE AND OTHER RECEIVABLES

The Group allows a credit period ranging from 60 days to 90 days to its trade customers.

Included in trade and other receivables are trade receivables of HK\$253,581,000 (31 December 2005: HK\$194,411,000) and an aged analysis is as follows:

	30.6.2006	31.12.2005
	HK\$'000	HK\$'000
0 to 30 days	160,868	137,813
31 to 60 days	63,134	41,933
61 to 90 days	33,407	16,200
Over 90 days	38,283	20,165
	295,692	216,111
Less: Allowances for bad and doubtful debts	(42,111)	(21,700)
	253,581	194,411

12. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$254,485,000 (31 December 2005: HK\$225,615,000) and an aged analysis is as follows:

	30.6.2006 HK\$'000	31.12.2005 <i>HK\$'000</i>
0 to 30 days	89,873	87,200
31 to 60 days	77,157	76,343
61 to 90 days	29,893	21,363
Over 90 days	57,562	40,709
	<u>254,485</u>	<u>225,615</u>

13. SHARE CAPITAL

	Number of shares ('000)	Amount HK\$'000
Ordinary shares of HK\$0.25 each		
Authorised:		
As at 31 December 2005 and 30 June 2006	<u>8,000,000</u>	<u>2,000,000</u>
Issued and fully paid:		
As at 31 December 2005 and 30 June 2006	<u>1,664,705</u>	<u>416,176</u>

14. OPERATING LEASE COMMITMENTS*The Group as lessee*

Minimum lease payments paid under operating lease for land and buildings during the period was HK\$10,896,000 (six months ended 30 June 2005: HK\$9,896,000).

As at the balance sheet date, the Group had commitments for future minimum lease payments in respect of land and buildings under non-cancellable operating lease which fall due as follows:

	30.6.2006 HK\$'000	31.12.2005 <i>HK\$'000</i>
Within one year	20,452	15,799
In the second to fifth year inclusive	37,161	47,996
	<u>57,613</u>	<u>63,795</u>

Operating lease payments represent rentals payable by the Group for certain of its land and buildings. Leases are negotiated and rentals are fixed for terms ranging from two to five years.

14. OPERATING LEASE COMMITMENTS (continued)*The Group as lessor*

Property rental income earned during the period was approximately HK\$1,074,000 (six months ended 30 June 2005: HK\$915,000). Certain of the Group's properties are held for rental purposes and generate rental yields of 3% (six months ended 30 June 2005: 3%) on an ongoing basis. The properties held for rental purposes have committed tenants for the next one to two years.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	30.6.2006 HK\$'000	31.12.2005 HK\$'000
Within one year	2,378	1,313
In the second to fifth year inclusive	3,258	514
	<u>5,636</u>	<u>1,827</u>

15. CAPITAL COMMITMENTS

As at 30 June 2006, the Group had commitments of approximately HK\$3,460,000 (31 December 2005: HK\$3,761,000) for capital expenditure contracted for but not provided in the financial statements in respect of the acquisition of property, plant and equipment.

16. RELATED PARTY TRANSACTIONS*(a) Transactions with a jointly controlled entity*

During the period, the Group entered into transactions with Smart Shine Industries Limited ("Smart Shine") and its subsidiaries. Smart Shine is a jointly controlled entity of the Group. These transactions are:

	For the six months ended 30 June	
	2006 HK\$'000	2005 HK\$'000
Management fee income	497	874
Sale of goods	-	9,450
Interests received	<u>2,288</u>	<u>1,816</u>

In addition, as at 31 December 2004, the Company had provided banking facilities in respect of revolving stand-by letters of credit amounting to HK\$30,000,000 to a subsidiary of Smart Shine. The extent of such facilities utilised as at 31 December 2004 amounted to HK\$16,000,000. The subsidiary of the jointly controlled entity provided a collateral in the form of cash amounting to HK\$16,000,000 to secure the banking facilities granted to it. The facilities and the collateral were released during the year ended 31 December 2005.

16. RELATED PARTY TRANSACTIONS (continued)*(b) Compensation of key management personnel*

The remuneration of directors and key management executives during the period is as follows:

	For the six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
Short-term benefits	<u>4,601</u>	<u>4,131</u>

The remuneration of directors and key executives is determined by the Remuneration Committee having regard to the performance of individuals and market trends.

17. POST BALANCE SHEET EVENT

On 2 August 2006, the Company granted 166,050,000 share options to eligible participants under the share option scheme adopted at the special general meeting of the Company held on 22 October 2001 (the "2001 Scheme"). Up to the date of this report, the directors of the Company are in the process of determining the financial impact of share options granted.

DIRECTORS' DISCLOSURE OF INTERESTS

As at 30 June 2006, the interests and short positions of the directors and chief executives of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), (a) which were required to be notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the directors or the chief executives were taken or deemed to have under such provisions of the SFO); or (b) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules were as follows:

Long Positions in Shares

Ordinary shares of HK\$0.25 each of the Company:

Name of director	Notes	Number of ordinary shares			Percentage of the issued share capital of the Company
		Held by Beneficial owner	Held by controlled corporation	Total	
Mr. Chan Ting Chuen	1	–	874,700,772	874,700,772	52.54%
Mr. Sze Sun Sun Tony	1	–	841,101,000	841,101,000	50.53%
Mr. Li Kwok Lung Alfred Ronald	2	11,640,000	16,799,886	28,439,886	1.71%

DIRECTORS' DISCLOSURE OF INTERESTS (continued)

Long Positions in Shares (continued)

Notes:

1. Well Success Investment Limited ("Well Success") had a direct interest in 841,101,000 shares of the Company.

First Dynamic International Limited ("First Dynamic") held more than one-third of the issued share capital of Well Success. Royal Pacific Limited ("Royal Pacific") held more than one-third of the issued share capital of First Dynamic and had a direct interest in 33,599,772 shares of the Company. Mr. Chan Ting Chuen was interested in the entire issued share capital of Royal Pacific and was deemed to be interested in 874,700,772 shares of the Company.

Alexon International Limited ("Alexon") held more than one-third of the issued share capital of First Dynamic. Mr. Sze Sun Sun Tony was interested in the entire issued share capital of Alexon and was deemed to be interested in 841,101,000 shares of the Company.

2. Ever Growing Assets Limited ("Ever Growing") had a direct interest in 16,799,886 shares of the Company. Mr. Li Kwok Lung Alfred Ronald held the entire issued share capital of Ever Growing and was deemed to be interested in 16,799,886 shares of the Company.

Short Position in Shares

Save as disclosed above, none of the director, chief executive nor their associate had any interest or short position in any share, underlying share or debenture of the Company or any of its associated corporations as at 30 June 2006.

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that, as at 30 June 2006, the following substantial shareholders had notified the Company of relevant interests and short positions in the issued share capital of the Company.

Long Position in Shares

Ordinary shares of HK\$0.25 each of the Company:

Name of shareholder	Notes	Capacity	Number of issued ordinary shares held			Percentage of the issued share capital of the Company
			Direct interests	Deemed interests	Total interests	
Well Success	1	Beneficial owner	841,101,000	–	841,101,000	50.53%
First Dynamic	1	Held by controlled corporation	–	841,101,000	841,101,000	50.53%
Alexon	1	Held by controlled corporation	–	841,101,000	841,101,000	50.53%
Royal Pacific	1	Beneficial owner and held by controlled corporation	33,599,772	841,101,000	874,700,772	52.54%
Frensham Investments Limited ("Frensham")	2	Beneficial owner and held by controlled corporation	83,999,430	841,101,000	925,100,430	55.57%
Pou Yuen Industrial (Holdings) Limited ("Pou Yuen")	2	Held by controlled corporation	–	925,100,430	925,100,430	55.57%
Yue Yuen Industrial Limited ("Yue Yuen Industrial")	2	Held by controlled corporation	–	925,100,430	925,100,430	55.57%
Pou Hing Industrial Company Limited ("Pou Hing")	2	Held by controlled corporation	–	925,100,430	925,100,430	55.57%

SUBSTANTIAL SHAREHOLDERS (continued)**Long Position in Shares** (continued)

Name of shareholder	Notes	Capacity	Number of issued ordinary shares held			Percentage of the issued share capital of the Company
			Direct interests	Deemed interests	Total interests	
Yue Yuen Industrial (Holdings) Limited ("Yue Yuen")	2	Held by controlled corporation	-	925,100,430	925,100,430	55.57%
Wealthplus Holdings Limited ("Wealthplus")	2	Held by controlled corporation	-	925,100,430	925,100,430	55.57%
Pou Chen Corporation ("Pou Chen")	2	Held by controlled corporation	-	925,100,430	925,100,430	55.57%
Madam Lau Yuk Wah	3	Held by spouse	-	841,101,000	841,101,000	50.53%
Madam Ng Shuk Fong	3	Held by spouse	-	874,700,772	874,700,772	52.54%

Short Positions in Shares

Save as disclosed above, the Company has not been notified of any other relevant interest or short position in the issued share capital of the Company as at 30 June 2006.

Notes:

- Well Success was directly interested in 841,101,000 shares of the Company.

First Dynamic held more than one-third of the issued share capital of Well Success. Royal Pacific and Alexon each held more than one-third of the issued share capital of First Dynamic.

Accordingly, Well Success, First Dynamic, Royal Pacific and Alexon were deemed to be interested in 841,101,000 shares of the Company.

SUBSTANTIAL SHAREHOLDERS (continued)

Notes: (continued)

2. Frensham had a direct interest in 83,999,430 shares of the Company and held more than one-third of the issued share capital of Well Success. Frensham was a wholly-owned subsidiary of Pou Yuen which in turn was a wholly-owned subsidiary of Yue Yuen Industrial. Yue Yuen Industrial was a wholly-owned subsidiary of Pou Hing which in turn was a wholly-owned subsidiary of Yue Yuen. Wealthplus, a wholly-owned subsidiary of Pou Chen, held over one-third of the interests in Yue Yuen.

Accordingly, Frensham was deemed to be interested in 841,101,000 shares of the Company and Pou Yuen, Yue Yuen Industrial, Pou Hing, Yue Yuen, Wealthplus and Pou Chen (collectively "Pou Chen Group") were deemed to be interested in 841,101,000 shares of the Company. The Pou Chen Group was therefore interested in an aggregate 925,100,430 shares of the Company.

3. Madam Lau Yuk Wah is the wife of Mr. Sze Sun Sun Tony and was deemed to be interested in 841,101,000 shares of the Company. Madam Ng Shuk Fong is the wife of Mr. Chan Ting Chuen and was deemed to be interested in 874,700,772 shares of the Company.

SHARE OPTION SCHEME

Details of the directors' interests in the Share Option Scheme are set out on page 27.

Outstanding Share Options

Pursuant to an ordinary resolution passed at a special general meeting of the Company on 22 October 2001, the 2001 Scheme was adopted by the Company. The 2001 Scheme replaced the share option scheme adopted on 9 February 1995 (as amended on 9 December 1997) (the "1997 Scheme"). After the adoption of the 2001 Scheme, no further option can be granted under the 1997 Scheme. No share option of the 1997 Scheme was outstanding as at 31 December 2003.

The Company operates the 2001 Scheme for the purpose of providing eligible participants with the opportunity to acquire proprietary interests in the Company and to encourage participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole. All directors, full-time employees and any other persons who, in the sole discretion of the board of directors, have contributed or will contribute to the Group are eligible to participate in the 2001 Scheme.

SHARE OPTION SCHEME (continued)**Outstanding Share Options** (continued)

Shares which may be issued upon exercise of all options to be granted under the 2001 Scheme or any other share option scheme adopted by the Company must not in aggregate exceed 10% of the shares of the Company in issue on the date of adoption.

The Company may renew this 10% limit with shareholders' approval provided that each such renewal may not exceed 10% of the shares in the Company in issue as at the date of the shareholders' approval.

The total number of shares of the Company which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2001 Scheme or any other share option scheme adopted by the Company must not exceed 30% of the shares in issue from time to time.

Unless approved by shareholders of the Company, the total number of shares of the Company issued and to be issued upon the exercise of the options granted to each participant (including both exercised and unexercised options) under the 2001 Scheme or any other share option scheme adopted by the Company in any 12-month period must not exceed 1% of the shares of the Company in issue.

The period within which the options must be exercised will be specified by the Company at the time of grant. This period must expire no later than 10 years from the date of grant of the options. At the time of grant of the options, the Company may specify a minimum period for which an option must be held before it can be exercised. The offer of a grant of share options may be accepted within 14 days from the date on which the letter containing the offer is delivered to that participant and the amount payable on acceptance of an option is HK\$1.00.

SHARE OPTION SCHEME (continued)

Outstanding Share Options (continued)

The subscription price for the shares of the Company to be issued upon exercise of the options shall be no less than the higher of (i) the closing price of the shares of the Company as stated in the daily quotations sheets issued by the Stock Exchange on the date of grant; (ii) the average closing price of the shares of the Company as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share of the Company on the date of grant. The subscription price will be established by the Board at the time the option is offered to the participants.

No option may be granted under the 2001 Scheme after the date of the tenth anniversary of the adoption of the 2001 Scheme.

As at 31 December 2003, no share option of the 1997 Scheme and 2001 Scheme was outstanding. During the year ended 31 December 2003, there was no option granted under the 1997 Scheme and the 2001 Scheme.

On 12 May 2004, the shareholders of the Company approved the bonus issue of one share for every ten shares held. As a result, the exercise price of the outstanding options and the number of shares subject to the outstanding options were adjusted from HK\$2.10 each to HK\$1.91 each and 68,928,000 shares to 75,820,042 shares.

As at 31 December 2004, an aggregate of 549,994 share options lapsed and the total number of outstanding options became 75,270,048 shares. On 2 February 2006, options to subscribe for an aggregate of 75,270,048 shares of the Company granted pursuant to the 2001 Scheme lapsed.

On 2 August 2006, the Company granted 166,050,000 share options to eligible participants at an exercise price of HK\$1.032 pursuant to the 2001 Scheme.

SHARE OPTION SCHEME (continued)**Outstanding Share Options** (continued)

Details are as follows:

Category	Date of grant	Exercisable period	Exercise price per share	Outstanding at 01.01.2006	Outstanding at 30.06.2006	Outstanding at 18.09.2006
<i>Category I: Directors</i>						
Chan Lu Min	9 January 2004	7 February 2004 – 6 February 2006	HK\$1.910	10,449,896	-	-
	2 August 2006	1 September 2006 – 31 August 2009	HK\$1.032	-	-	5,000,000
Chan Ting Chuen	2 August 2006	1 September 2006 – 31 August 2009	HK\$1.032	-	-	5,000,000
Chang Tsung Yuan	9 January 2004	7 February 2004 – 6 February 2006	HK\$1.910	9,679,903	-	-
	2 August 2006	1 September 2006 – 31 August 2009	HK\$1.032	-	-	16,500,000
Cheng Kar Shing	9 January 2004	7 February 2004 – 6 February 2006	HK\$1.910	329,997	-	-
	2 August 2006	1 September 2006 – 31 August 2009	HK\$1.032	-	-	500,000
Feng Lei Ming	9 January 2004	7 February 2004 – 6 February 2006	HK\$1.910	329,997	-	-
	2 August 2006	1 September 2006 – 31 August 2009	HK\$1.032	-	-	600,000
Ho Shing Chak	2 August 2006	1 September 2006 – 31 August 2009	HK\$1.032	-	-	500,000
Ho Ting Seng	2 August 2006	1 September 2006 – 31 August 2009	HK\$1.032	-	-	10,000,000
Ku Edward Y	2 August 2006	1 September 2006 – 31 August 2009	HK\$1.032	-	-	16,500,000
Li I Nan	2 August 2006	1 September 2006 – 31 August 2009	HK\$1.032	-	-	16,500,000
Li Kwok Lung Alfred Ronald	9 January 2004	7 February 2004 – 6 February 2006	HK\$1.910	5,499,945	-	-
	2 August 2006	1 September 2006 – 31 August 2009	HK\$1.032	-	-	10,000,000
Sze Sun Sun Tony	9 January 2004	7 February 2004 – 6 February 2006	HK\$1.910	6,599,934	-	-
	2 August 2006	1 September 2006 – 31 August 2009	HK\$1.032	-	-	16,500,000
				<u>32,889,672</u>	<u>-</u>	<u>97,600,000</u>
<i>Category II: Employees</i>						
	9 January 2004	7 February 2004 – 6 February 2006	HK\$1.910	42,380,376	-	-
<i>Employees & Consultants</i>	2 August 2006	1 September 2006 – 31 August 2009	HK\$1.032	-	-	68,450,000
				<u>42,380,376</u>	<u>-</u>	<u>68,450,000</u>

Generally, the options may be exercised in different tranches within the exercisable period.

INTERIM DIVIDEND

The Board has decided that an interim dividend of HK\$0.03 per ordinary share be paid to the shareholders for the period under review. The dividend will be payable to the shareholders on Monday, 23 October 2006.

Closure of Register of Members

The register of members of the Company will be closed from Monday, 9 October 2006 to Friday, 13 October 2006, both days inclusive, during which no transfer of shares will be effected.

In order to qualify for the interim dividend mentioned above, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch of share registrar in Hong Kong, Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4.00 pm on Friday, 6 October 2006.

CORPORATE GOVERNANCE PRACTICES

Code on Corporate Governance Practices

According to the previous Bye-law 87 of the Company, the Chairman and the Managing Director of the Company are not subject to retirement by rotation. At the annual general meeting held on 24 May 2006, the Bye-law 87 has been amended to comply with Code A.4.2.

In the opinion of the Board, the Company has complied with the code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules during the six months ended 30 June 2006 except for the following:

Code Provision A.4.1

Code C.4.1 specifies that non-executive directors should be appointed for a specific term and are subject to re-election.

CORPORATE GOVERNANCE PRACTICES (continued)**Code on Corporate Governance Practices** (continued)

Directors of the Company were not appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meeting in accordance with Bye-law 87 of the Company.

Code Provision C.3.4

Code C.3.4 specifies that the terms of reference of the Audit Committee are required to be available on request and included on the issuer's website.

The terms of reference of the Audit Committee are currently under review and have yet to be posted on the Company's website.

Code Provision E.1.2

Code E.1.2 stipulates that the Chairman of the Board should attend the annual general meeting.

The Chairman of the Company was not able to attend the annual general meeting held on 24 May 2006. However, Mr. Sze Sun Sun Tony, Deputy Chairman and the Managing Director of the Company took the chair pursuant to the Bye-law of the Company.

Appointment/Resignation of Directors

At the annual general meeting of the Company held on 24 May 2006, Mr. Ku Edward Y, Mr. Cheng Kar Shing and Mr. Feng Lei Ming retired as directors of the Company and offered themselves for re-election.

As from 24 May 2006 and up to the date of this report, the directors of the Company are:

Executive Directors

Mr. Li Kwok Lung Alfred Ronald (*Chairman*)
 Mr. Sze Sun Sun Tony
 (*Deputy Chairman and Managing Director*)
 Mr. Chang Tsung Yuan (*Deputy Chairman*)
 Mr. Ku Edward Y
 Mr. Chan Lu Min
 Dr. Ho Ting Seng

Non-executive Directors

Mr. Li I Nan
 Mr. Chan Ting Chuen

Independent Non-executive Directors

Mr. Cheng Kar Shing
 Mr. Feng Lei Ming
 Mr. Ho Shing Chak

CORPORATE GOVERNANCE PRACTICES (continued)

Audit Committee

The Audit Committee currently comprises of three independent non-executive directors and one non-executive director of the Company as members. The function of the Audit Committee is to assist the Board in fulfilling its duties by reviewing and supervising the Company's financial reporting process and internal controls. The Audit Committee has reviewed the unaudited interim results for the six months ended 30 June 2006.

Remuneration Committee

On 29 December 2005, the Company established a Remuneration Committee with specific terms of reference. The Remuneration Committee comprises three independent non-executive directors namely Mr. Cheng Kar Shing, Mr. Feng Lei Ming and Mr. Ho Shing Chak.

Purchase, Sale or Redemption of Shares

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period under review.

APPRECIATION

The Board would like to thank our customers, suppliers and shareholders for their support and confidence in the Group.

On behalf of the Board
Li Kwok Lung Alfred Ronald
Chairman

Hong Kong, 18 September 2006