



Tomorrow International Holdings Limited

(Incorporated in Bermuda with limited liability)

2008

Interim Report

2008

tomorrow

The Board of Directors (the “Board”) of Tomorrow International Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries and associates (collectively called the “Group”) for the six months ended 30 June 2008 with comparative figures as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 30 June	
	Notes	2008 HK\$'000 (unaudited)	2007 HK\$'000 (unaudited)
Turnover	3	235,402	222,848
Cost of sales		(202,603)	(189,467)
Gross profit		32,799	33,381
Other revenue and net income	4	11,628	19,786
Amortization of share-based compensation		—	(8,486)
Selling and distribution costs		(4,894)	(4,972)
Administrative expenses		(45,252)	(43,953)
Loss from operating activities	5	(5,719)	(4,244)
Taxation	6	—	(910)
Loss for the period		(5,719)	(5,154)
Attributable to:			
Shareholders of the Company		(5,719)	(3,632)
Minority interests		—	(1,522)
		(5,719)	(5,154)
Loss per share	7		
Basic		(0.254 cents)	(0.162 cents)
Diluted		N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

		As at	
		30 June 2008 HK\$'000 (unaudited)	31 December 2007 HK\$'000 (audited)
Notes			
ASSETS			
Non-current assets			
	Property, plant and equipment	80,608	87,830
	Leasehold land and land use rights	9,680	9,553
	Amounts due from an associate	151,367	151,367
	Prepaid rental	77	429
	Deferred product development costs	7,395	7,880
8	Available-for-sale financial assets	24,801	46,066
		273,928	303,125
Current assets			
	Properties held for sale	—	5,439
	Prepaid lease payment	—	252
	Inventories	73,339	73,810
9	Accounts receivable	34,387	41,773
	Bills receivable	—	697
	Loans receivable	5,079	11,372
	Interest receivable on loans	380	189
	Prepayments, deposits and other receivables	32,048	34,472
	Cash and cash equivalents	638,709	657,200
		783,942	825,204
LIABILITIES			
Current liabilities			
10	Accounts payables	75,766	74,326
	Other payables and accruals	22,015	19,269
	Amounts due to related parties	10,530	10,530
	Tax payable	8,040	52,054
	Obligation on finance lease	45	45
		116,396	156,224
Net current assets		667,546	668,980
Total assets less current liabilities		941,474	972,105

CONDENSED CONSOLIDATED BALANCE SHEET *(Continued)*

		As at	
		30 June 2008 HK\$'000 (unaudited)	31 December 2007 HK\$'000 (audited)
Notes			
Non-current liabilities			
	Provision for long service payments	570	570
	Obligation on finance lease	109	132
		679	702
NET ASSETS		940,795	971,403
CAPITAL AND RESERVES			
	Issued capital	8,991	8,991
	Reserves	922,905	953,513
	Equity attributable to equity holders of the Company	931,896	962,504
	Minority interests	8,899	8,899
	TOTAL EQUITY	940,795	971,403

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the six months ended 30 June 2008 (unaudited)

	Attributable to shareholders of the Company												
	Share capital	Share premium	Exchange fluctuation reserve	Capital reserve	Contributed surplus	Capital redemption reserve	Property revaluation reserve	Share based compensation reserve	Re-valuation reserve for available-for-sale financial assets	Retained profits	Total	Minority interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2008	8,991	365,359	(1,080)	801	283,208	77	3,813	16,966	44,517	239,852	962,504	8,899	971,403
Increase in fair value of available-for-sale financial assets									(24,211)		(24,211)		(24,211)
Exchange realignment			(678)								(678)		(678)
Net gains/(losses) not recognised in the income statements	8,991	365,359	(1,758)	801	283,208	77	3,813	16,966	20,306	239,852	937,615	8,899	946,514
Net loss for the period										(5,719)	(5,719)		(5,719)
At 30 June 2008	8,991	365,359	(1,758)	801	283,208	77	3,813	16,966	20,306	234,133	931,896	8,899	940,795

For the six months ended 30 June 2007 (unaudited)

	Attributable to shareholders of the Company												
	Share capital	Share premium	Exchange fluctuation reserve	Capital reserve	Contributed surplus	Capital redemption reserve	Property revaluation reserve	Share based compensation reserve	Re-valuation reserve for available-for-sale financial assets	Retained profits	Total	Minority interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2007	8,991	365,359	(1,033)	801	283,208	77	713		21,868	265,790	945,774	8,899	954,673
Increase in fair value of available-for-sale financial assets									59,431		59,431		59,431
Exchange realignment			(834)								(834)		(834)
Net gains/(losses) not recognised in the income statements	8,991	365,359	(1,867)	801	283,208	77	713		81,299	265,790	1,004,371	8,899	1,013,270
Net profit/(loss) for the period								8,486		(3,632)	4,854	(1,522)	3,332
At 30 June 2007	8,991	365,359	(1,867)	801	283,208	77	713	8,486	81,299	262,158	1,009,225	7,377	1,016,602

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 June	
	2008 HK\$'000 (unaudited)	2007 HK\$'000 (unaudited)
Net cash outflow generated from operations	(22,430)	(10,903)
Net cash inflow/(outflow) from investing activities	(2,354)	23,370
Net cash inflow from financing activities	6,293	—
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(18,491)	12,467
Cash and cash equivalents at beginning of period	657,200	619,730
CASH AND CASH EQUIVALENTS AT END OF PERIOD	638,709	632,197

Notes:

1 Corporate information

The principal activity of the Company is investment holding. The Group's principal activities consist of the design, development, manufacture and sale of electronic products, the manufacture and sale of printed circuit boards ("PCBs"), the trading and distribution of electronic components and parts, the trading of listed equity investments and the provision of loan financing. There were no significant changes in the nature of the Group's principal activities during the year.

2 Basis of preparation and accounting policies

The interim condensed consolidated financial statements for the six months ended 30 June 2008 are unaudited but have been reviewed by the Audit Committee.

The interim 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 ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

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

Significant accounting policies

The accounting policies and basis of preparation adopted in the preparation of the interim 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 2007.

In the current period, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2008. The adoption of the new HKFRSs has had no material effect on the results for the current or prior accounting periods are prepared.

The Group has not applied any new standards or interpretation that is not yet effective for the current accounting period. The Group has already commenced an assessment of the impact of these new standards and interpretations but is not yet in a position to state whether they would significantly impact on its results of operations and financial position.

3 Business segment information

For management purposes, the Group is organized into business units based on their products and services, and has five reportable operating segments as follows:

- (a) the electronic products segment consists of the manufacture and sale of electronic products;
- (b) PCBs segment consists of the manufacture and sale of PCBs;
- (c) the electronic components and parts segment consists of the trading and distribution of electronic components and parts;
- (d) the listed equity investments segment consists of the trading of listed equity investments; and
- (e) the provision of finance segment consists of the provision of loan financing services.

Turnover represents the invoiced value of goods sold, net of returns and allowances, the proceeds from sale of listed equity investments and interest income from the provision of loan financing.

The following table presents revenues and results for the Group's business segments.

3 Business segment information (Continued)

(a) Business segment information

	Electronic products		PCBs		Electronic components & parts		Listed equity investments		Provision of finance		Eliminations		Consolidated	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2008 HK\$'000 (unaudited)	2007 HK\$'000 (unaudited)	2008 HK\$'000 (unaudited)	2007 HK\$'000 (unaudited)	2008 HK\$'000 (unaudited)	2007 HK\$'000 (unaudited)	2008 HK\$'000 (unaudited)	2007 HK\$'000 (unaudited)	2008 HK\$'000 (unaudited)	2007 HK\$'000 (unaudited)	2008 HK\$'000 (unaudited)	2007 HK\$'000 (unaudited)	2008 HK\$'000 (unaudited)	2007 HK\$'000 (unaudited)
Segment revenues:														
Sales to external customers	162,827	165,193	49,611	45,863	-	-	22,772	11,682	191	110	-	-	235,401	222,848
Inter-segment sales	-	-	-	-	4,959	6,898	-	-	702	954	(5,661)	(7,852)	-	-
Other revenues	1,685	2,211	1,381	2,658	-	-	16	147	-	-	-	-	3,082	5,016
Total	164,512	167,404	50,992	48,521	4,959	6,898	22,788	11,829	893	1,064	(5,661)	(7,852)	238,483	227,864
Segment results	(2,590)	2,582	(4,608)	(3,460)	(95)	(97)	(1,110)	(1,546)	(311)	(3,153)	202	(1,219)	(8,916)	(6,883)
Interest, dividend income and unallocated gains													9,035	14,842
Loss on disposal of fixed assets													-	(90)
Gain on disposal of a subsidiary													-	-
Gain on closure of a subsidiary													-	27
Amortisation of shared-based compensation													-	(8,486)
Unallocated expenses													(5,838)	(3,644)
Loss from operating activities before taxation													(5,719)	(4,244)
Taxation													0	(310)
Loss for the period													(5,719)	(5,154)

3 Business segment information *(Continued)*

(b) Geographical segments

The following table presents revenue information for the Group's geographical segments.

	Six months ended 30 June	
	2008 HK\$'000 (unaudited)	2007 HK\$'000 (unaudited)
Sales to external customers		
Europe	19,953	20,210
North America	29,148	30,414
Hong Kong	93,657	85,701
Japan	83,375	76,658
Others	9,269	9,865
Consolidated	235,402	222,848

4 Other revenue and net income

	Six months ended 30 June	
	2008 HK\$'000 (unaudited)	2007 HK\$'000 (unaudited)
Bank interest income	8,446	13,514
Compensation from vendors	593	1,320
Dividend income from listed investments	147	—
Exchange gain	25	1,322
Product development income	1,019	1,530
Rental income	435	375
Other interest earned	226	147
Sales of scrap	828	670
Others	(91)	908
	11,628	19,786

5 Loss from operating activities

The Group's loss from operating activities is arrived at after charging/(crediting):

	Six months ended 30 June	
	2008 HK\$'000 (unaudited)	2007 HK\$'000 (unaudited)
Cost of inventories sold	202,603	189,467
Depreciation	9,325	11,278
Amortisation of prepaid rental	352	61
Amortisation of deferred product development costs	1,009	1,005
Amortisation of share-based compensation	—	8,486
Net loss on disposal of investment properties	—	87
Net gain on disposal of listed equity investments	(421)	(1,164)
Net loss on disposal of fixed assets	—	3
Unrealised holding (gain)/loss of listed equity investments	490	(107)
Provision against inventories	—	600
Bank interest income	(8,446)	(13,514)

6 Taxation

No provision has been made for Hong Kong Profits Tax and overseas taxation as the Company and its subsidiaries either sustained losses for taxation purposes or have tax losses brought forward from prior years which exceed the estimated assessable profits for the year.

Hong Kong Profits Tax has been provided at the rate of 17.5% in year 2007 on the estimated assessable profit arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Six months ended 30 June	
	2008 HK\$'000 (unaudited)	2007 HK\$'000 (unaudited)
Group:		
Hong Kong	—	471
Mainland China	—	70
	—	541
Deferred tax	—	369
Total tax charge for the period	—	910

7 Loss per share

The calculation of basic loss per share is based on the loss attributable to shareholders of the Company for the period of HK\$5,719,000 (2007: loss HK\$3,632,000) and the weighted average of 2,247,682,010 (2007: 2,247,682,010) shares in issue during the period.

No diluted loss per share has been presented by the Company for the period as the exercise of the outstanding share options would result a decrease in loss per share.

8 Available-for-sale financial assets

	As at	
	30 June 2008 HK\$'000 (unaudited)	31 December 2007 HK\$'000 (audited)
Listed security		
— Listed equity security in Hong Kong at fair value	23,252	44,517
Unlisted security		
— Unlisted security outside Hong Kong issued by a private issuer at cost (note (a))	1,549	1,549
	24,801	46,066
Market value of listed security	23,252	44,517

Note (a): The above unlisted equity security represents investment in a private company incorporated in Japan. This investment is measured at cost less impairment at balance sheet date, because the range of reasonable fair value estimates is so wide that the directors of the Company are of the opinion that its fair value cannot be measured reliably.

9 Accounts receivables

The aging analysis of the Group's accounts receivables is as follows:

	As at	
	30 June 2008 HK\$'000 (unaudited)	31 December 2007 HK\$'000 (audited)
Current to less than three months	33,158	50,170
Three months to less than six months	58	1,481
Six months to less than one year	928	330
Over one year	17,034	7,266
Provision	51,178 (16,791)	59,247 (17,474)
	34,387	41,773

The normal credit period granted by the Group to customers ranges from 30 days to 120 days.

10 Accounts payables

The aging analysis of the Group's accounts payables is as follows:

	As at	
	30 June 2008 HK\$'000 (unaudited)	31 December 2007 HK\$'000 (audited)
Current to less than three months	61,919	53,544
Three months to less than six months	4,418	5,257
Six months to less than one year	4,670	9,556
Over one year	4,759	5,969
	75,766	74,326

Accounts payables aged less than three months accounts for 82% (2007: 72%) of the total account payables.

11. Share capital

	30 June 2008 HK\$'000 (unaudited)	31 December 2007 HK\$'000 (audited)
Authorised: 125,000,000,000 ordinary shares of HK\$0.004 each (2007: 125,000,000,000 ordinary shares of HK\$0.004 each)	500,000	500,000
Issued and fully paid: 2,247,682,010 ordinary shares of HK\$0.004 each (2007: 2,247,682,010 ordinary shares of HK\$0.004 each)	8,991	8,991

12. Connected and related party transactions

During the period, the Group had the following connected and related party transactions:

Name of related party	Relationship with the Group	Nature of transactions	Amount (received)/paid	
			30 June 2008 HK\$'000 (unaudited)	31 December 2007 HK\$'000 (audited)
Prime Star Industries Limited	Common director of a fellow subsidiary	Sale of PCB's	(39,350)	(71,189)
		Service charge	—	131

In the opinion of the Directors of the Company, the above related party transactions were carried out in the ordinary and usual course of business and terms mutually agreed between the Group and the respective related party.

13. Contingent liabilities

	Company as at	
	30 June 2008 HK\$'000 (unaudited)	31 December 2007 HK\$'000 (audited)
Guarantee of banking facilities granted to subsidiaries	30,000	30,000

As at 30 June 2008, the directors do not consider it probable that a claim will be made against the Company under any of the guarantees. The maximum liability of the Company at 30 June 2008 under the guarantees issued is the outstanding amount of the loan is HK\$7.0 million (2007: HK\$10.0 million) and the facility available to the subsidiary of HK\$30 million (2007: HK\$30 million).

INTERIM DIVIDENDS

The Board has resolved that no interim dividend will be declared in respect of the six months ended 30 June 2008 (2007: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS AND BUSINESS REVIEW

Despite the global economic slowdown, the turnover of the Group for the six months ended 30 June 2008 has slightly increased to HK\$235.4 million as compared with HK\$222.8 million for the same period of last year.

Upon the implementation of the New Labour Contract Law in China from 2008, the rising raw material prices, the continuing appreciation of Renminbi and the stringent environmental regulation in China, the Group faced great pressure in rising operating cost. The Group's loss attributable to equity holders of the Group for the period was HK\$5.7 million (2007: loss HK\$3.6 million).

Turnover of Electronics Product Division for the period under review was HK\$162.8 million (2007: HK\$165.2 million), slightly decreased by 1.5% compared to that of year 2007. However, facing various rising operating cost, the segmental loss was HK\$2.5 million (2007: profit HK\$2.6 million).

Upon consolidating the customer base, despite the fact that the PCB manufacturing industry continued to exhibit keen market competition, the PCB Division increased its turnover by 8% to HK\$49.6 million (2007: HK\$45.9 million). With unfavourable operating environment, the PCB business recorded a loss of HK\$4.6 million (2007: loss HK\$3.4 million).

Turnover of trading of listed equity investments amounted to HK\$22.8 million (2007: HK\$11.7 million), with segmental loss of HK\$1.1 million (2007: loss HK\$1.5 million).

Loan financing business was not active during the period. Segmental loss amounted to HK\$0.3 million (2007: loss HK\$3.2 million).

FUTURE OUTLOOK

The global economic slowdown has clouded all industries, including manufacturing and investment sector. Electronics Product Division will continue to focus on the product development to explore high value products. The management believes that it can leverage on its industrial expertise and experience to diversify its product range so as to enhance competitiveness. In the long run, the direction of emphasizing on profitable customers as well as niche products and market segments will be continued to achieve a healthy and sustainable growth of the Group.

In viewing of the material price inflation, rising labour cost, appreciation of Renminbi, stringent environmental regulations, and reduction of various tax incentives, the Group will continue to impose stringent cost saving measures to defend the margins.

The management believes the current unfavourable economic climate will not last for long and this will provide the Group an opportunity to sharpen our claws.

LIQUIDITY AND FINANCIAL REVIEW

As at 30 June 2008, cash and bank balances (including time deposits) maintained by the Group were HK\$638.7 million, representing a decrease of HK\$18.5 million compared with the position as at 31 December 2007. In addition, the Group had available banking facilities of HK\$30 million. It is believed that the Group has adequate cash resources to meet the normal working capital requirements and all commitments for future development. The gearing of the Group, measured as total debts to total assets, was 10.9% as at 30 June 2008, comparing with 13.9% as at 31 December 2007.

Most of the business transactions conducted by the Group were nominated in Hong Kong Dollars, United States Dollars and Renminbi. As at 30 June 2008, there were no outstanding forward contracts in foreign currency committed by the Group that might involve it in significant foreign exchange risks and exposures.

HUMAN RESOURCES

As at 30 June 2008, the Group employed approximately 2,336 employees, with about 2,268 in the Mainland China and about 68 in Hong Kong. All employees are remunerated based on industry practice and in accordance with the prevailing labour law. In Hong Kong, apart from basic salary, staff benefits include medical insurance, performance related bonuses and mandatory provident fund would be provided by the Group.

DIRECTORS' INTEREST IN SHARES AND UNDERLYING SHARES

As at 30 June 2008, the interests of the directors in the shares and underlying shares of the Company and its associated corporations as recorded in the register maintained by the Company pursuant to section 352 of the Securities and Futures Ordinance ("SFO") or notified to the Company pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

Name of Director	Nature of interest	Number of shares
Mr. Yau Tak Wah, Paul	Personal	2,000,000
Ms. Louie Mei Po ("Ms. Louie")	Personal	11,785,710
Ms. Wong Shin Ling, Irene ("Ms. Wong")	Personal	13,000,000

On September 2007, each of Ms. Louie and Ms. Wong was granted a share option, which both of them were entitled to 22,470,000 shares at the option price of HK\$0.296 each. The option period is 25 September 2007 to 24 September 2012.

SHARE OPTION SCHEME

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the scheme include the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, the Company's shareholders, and any minority shareholder of the Company's subsidiaries. The scheme became effective on 29 May 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The following table shows the movement of the Company's share options for the period of six months ended 30 June 2008.

Participants	Date of grant	Outstanding at beginning of the period	Lapsed during the period	Outstanding at end of the period	Exercise price	Exercise period
Employees	21 May 2007	49,050,000	—	49,050,000	HK\$0.3	21 May 2007 to 20 May 2012
Employees	25 September 2007	7,410,000	—	7,410,000	HK\$0.296	25 September 2007 to 24 September 2012
Directors	25 September 2007	44,940,000	—	44,940,000	HK\$0.296	25 September 2007 to 24 September 2012

- (a) The closing prices of the ordinary shares of the Company immediately before the date on which the options were granted were HK\$0.3 on 21 May 2007 and HK\$0.275 on 25 September 2007.
- (b) According to the binomial model, the theoretical aggregate value of the options was estimated at HK\$8,485,650 and HK\$8,480,700 as at 21 May 2007 and 25 September 2007 respectively (when the options were granted) with the following variables and assumptions:

Risk Free Rate: 4.164% and 4.102%, being the approximate yield of Exchange Fund Bills and Notes issued by Hong Kong government for the time to maturity of the option as at the valuation date quoted by Hong Kong Monetary Authority.

Expected Volatility: 64.44% and 69.35%, being the average annualised standard deviations of the continuously compounded rates of return on the share prices of two other comparable companies with similar business operations

Expected Life of the Options: 5 years from the date of granting

Expected Dividend Yield: Nil

Options forfeited, if any, before the expiry of the options will be treated as lapsed options which will be added back to the number of Ordinary Shares available to be issued under the relevant share options scheme.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2008, according to the register of interest in shares and short positions required to be kept by the Company under section 336 of the SFO, the Company has been notified that the following shareholder was interested in 5% or more of the share capital of the Company.

Name of Shareholder	Note	Number of Ordinary Shares	Approximate Percentage
Winspark Venture Limited	a	1,307,024,340	58.15%
Prime Concept Development Limited	b	140,386,800	6.25%
Hycomm Wireless Limited	b	140,386,800	6.25%

Note:

- a. The entire issued share capital of Winspark Venture Limited is beneficially owned by Mr. Chan Yuen Ming.
- b. Prime Concept Development Limited is a wholly owned subsidiary of Hycomm Wireless Limited, which shares are listed in the main board of The Stock Exchange of Hong Kong Limited.

Save as disclosed above, the directors of the Company are not aware of any person who is, directly or indirectly, interested in 5% or more of the issued share capital of the Company, has short positions in the share or underlying shares or has any rights to subscribe for shares in respect of such capital.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

DIRECTORS

As at the date of this interim report, the Board comprises of seven directors, of which four are executive directors, namely Mr. Yau Tak Wah, Paul, Ms. Louie Mei Po, Ms Wong Shin Ling, Irene and Ms. Liu Yee Nee and three independent non-executive directors, namely Mr. Ng Wai Hung, Mr. Cheung Chung Leung, Richard and Mr. Wu Wang Li.

CORPORATE GOVERNANCE

The Board has been committed to maintaining the high level of corporate governance within the Group in order to enhance the transparency in disclosure of material information. The Board considers such commitment is essential for internal management, financial management and protection of shareholders' interests and believes that maintaining a high standard of corporate governance benefits all shareholders, investors, and its business as a whole. The Company has applied the principles and complied with the requirements of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange of Hong Kong Limited, except for the following deviations.

CG Code Provision A4.1

Under the CG Code, non-executive directors should be appointed for a specific term, subject to re-election.

During the period, two independent non-executive directors of the Company, namely Mr. Ng Wai Hung and Mr. Cheung Chung Leung, Richard, are not appointed for any specific fixed term and one independent non-executive director, Mr. Wu Wang Li, is appointed for the term of one year from 27 September 2007. In accordance with the bye-laws of the Company, at each annual general meeting of the Company one third of the directors shall retire from office by rotation. The Board considers that sufficient measures will be taken to ensure the corporate governance practices of the Company are not less exacting than those in the CG Code.

CG Code Provision B.1

Under the CG Code, the issuers shall establish a remuneration committee with specific written terms of reference which deal clearly with its authority and duties.

Currently, there is no remuneration committee in the Board. Meanwhile, the Board conducts an informal assessment of the individual director's contribution. No director decides his or her own remuneration and their remuneration has been relatively stable in the past years.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as the code of conduct regarding directors' securities transactions. The Company has made specific enquiry of all directors whether the directors have complied with the required standard set out in the Model Code regarding directors' securities transactions and all directors confirmed that they have complied with the Model Code.

AUDIT COMMITTEE REVIEW

The 2008 interim report has been reviewed by the Company's Audit Committee which comprises three independent non-executive directors.

By Order of the Board
Yau Tak Wah, Paul
Chairman

Hong Kong, 19 September, 2008