SINO GOLF HOLDINGS LIMITED
順龍控股有限公司

(Incorporated in Bermuda with limited liability)
(Stock Code: 361)

INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2006

INTERIM RESULTS

The Board of Directors (the "Board") of Sino Golf Holdings Limited (the "Company") hereby announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2006 which have been reviewed by the Company's audit committee, together with the comparative figures for the six months ended 30 June 2005 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT
For the six months ended 30 June 2006

		For the six months ended 30 June	
		2006	2005
		(unaudited)	(unaudited)
	Notes	***HK$'000***	*HK$'000*
Revenue	*3*	**282,114**	173,820
Cost of sales		**(202,355)**	(118,095)
Gross profit		**79,759**	55,725
Other income and gains	*4*	**788**	5,690
Selling and distribution costs		**(13,799)**	(6,037)
Administrative expenses		**(26,913)**	(26,904)
Other expenses		**(6,450)**	(4,784)
Finance costs	*5*	**(9,226)**	(4,216)
PROFIT BEFORE TAX	*6*	**24,159**	19,474
Tax	*7*	**(958)**	(1,562)
PROFIT FOR THE PERIOD		**23,201**	17,912
ATTRIBUTABLE TO:			
Equity holders of the parent		**23,261**	18,613
Minority interests		**(60)**	(701)
		23,201	17,912
EARNINGS PER SHARE	*8*		
Basic		**HK7.70 cents**	HK6.16 cents
DIVIDEND PER SHARE	*9*	**HK3.30 cents**	HK3.00 cents

CONDENSED CONSOLIDATED BALANCE SHEET

30 June 2006

	Notes	30 June 2006 (unaudited) HK$'000	31 December 2005 (audited) HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**145,138**	140,379
Prepaid land lease payments		**20,656**	20,736
Goodwill		**25,723**	25,723
Total non-current assets		**191,517**	186,838
CURRENT ASSETS			
Inventories		**134,526**	123,970
Prepaid land lease payments		**459**	459
Trade and bills receivable	*10*	**33,601**	27,099
Prepayments, deposits and other receivables		**49,893**	35,052
Derivative financial instruments		**–**	172
Tax recoverable		**–**	559
Cash and cash equivalents		**74,617**	79,141
Total current assets		**293,096**	266,452
CURRENT LIABILITIES			
Trade and bills payables	*11*	**62,259**	45,644
Other payables and accruals		**36,168**	42,387
Tax payables		**2,812**	–
Finance lease payable		**39**	84
Interest-bearing bank borrowings		**139,280**	138,776
Total current liabilities		**240,558**	226,891
NET CURRENT ASSETS		**52,538**	39,561
TOTAL ASSETS LESS CURRENT LIABILITIES		**244,055**	226,399
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		**44,600**	36,950
Deferred tax liabilities		**3,459**	3,459
Total non-current liabilities		**48,059**	40,409
NET ASSETS		**195,996**	185,990
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	*12*	**30,220**	30,220
Reserves		**153,115**	141,010
Proposed dividend		**9,973**	12,088
		193,308	183,318
Minority interests		**2,688**	2,672
TOTAL EQUITY		**195,996**	185,990

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. Basis of Preparation and Accounting Policies

The unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The accounting policies adopted in the preparation of these unaudited condensed consolidated interim financial statements are consistent with those used in the preparation of the Group's audited financial statements for the year ended 31 December 2005 except as described below.

In the current period, the Group has applied, for the first time, the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs", which also include HKASs and Interpretations issued by the HKICPA) that affect the Group and are effective for accounting periods beginning on or after 1 January 2006.

HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

There was no material impact on the unaudited condensed consolidated financial statements arising from the application of the above-mentioned HKFRSs.

2. Segment Information

The following tables present revenue and results by business and geographical segments for the six months ended 30 June 2006.

A. Business segments

	Golf equipment For the six months ended 30 June		Golf bag For the six months ended 30 June		Eliminations For the six months ended 30 June		Consolidated For the six months ended 30 June	
	2006 (unaudited) *HK$'000*	2005 (unaudited) *HK$'000*	**2006 (unaudited) *HK$'000***	2005 (unaudited) *HK$'000*	**2006 (unaudited) *HK$'000***	2005 (unaudited) *HK$'000*	**2006 (unaudited) *HK$'000***	2005 (unaudited) *HK$'000*
Segment revenue:								
Sales to external customers	**233,910**	140,453	**46,765**	30,019	**–**	–	**280,675**	170,472
Rental income	**159**	260	**826**	750	**–**	–	**985**	1,010
Testing income	**8**	1,771	**–**	–	**–**	–	**8**	1,771
Toolings charges	**446**	567	**–**	–	**–**	–	**446**	567
Intersegment revenue	**108**	3,913	**8,677**	3,407	**(8,785)**	(7,320)	**–**	–
Other income and gains	**331**	5,421	**–**	40	**–**	–	**331**	5,461
Total	**234,962**	152,385	**56,268**	34,216	**(8,785)**	(7,320)	**282,445**	179,281
Segment results	**30,255**	26,406	**2,673**	(2,945)			**32,928**	23,461
Interest income							**457**	229
Finance costs							**(9,226)**	(4,216)
Profit before tax							**24,159**	19,474
Tax							**(958)**	(1,562)
Profit for the period							**23,201**	17,912

B. Geographical segments

	For the six months ended 30 June	
	2006	2005
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Segment revenue: sales to external customers		
North America	**209,698**	125,083
Europe	**10,174**	13,146
Asia (excluding Japan)	**27,612**	13,579
Japan	**32,907**	14,094
Others	**284**	4,570
	280,675	170,472

3. Revenue

Revenue represents the invoiced value of goods sold net of trade discounts and goods returns, which is also Group's turnover, and rental income, testing income and tooling charges earned during the period.

An analysis of revenue is as follows:

	For the six months ended 30 June	
	2006	2005
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Revenue		
Turnover:		
Sales of goods	**280,675**	170,472
Rental income	**985**	1,010
Testing income	**8**	1,771
Tooling charges	**446**	567
	282,114	173,820

4. Other Income and Gains

	For the six months ended 30 June	
	2006	2005
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Interest income	**457**	229
Handling charges	**–**	1,182
Gain on disposal of a subsidiary	**–**	2,581
Others	**331**	1,698
	788	5,690

5. Finance Costs

	For the six months ended 30 June	
	2006	2005
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Changes in fair value of interest rate swap contracts	**–**	(2,093)
Interest expenses on:		
Bank loans	**7,501**	5,291
Finance leases	**2**	2
Bank charges	**1,723**	1,016
Total finance costs	**9,226**	4,216

6. Profit Before Tax

The Group's profit before tax was determined after charging/(crediting) the following:

	For the six months ended 30 June	
	2006	2005
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Amortisation of prepaid land lease payments	**81**	81
Depreciation	**6,930**	8,882
Loss on disposal of property, plant and equipment	**–**	281
Interest income	**(457)**	(229)

7. Tax

Hong Kong profits tax has been provided at the rate of 17.5% (six months ended 30 June 2005: 17.5%) on the estimated assessable profits 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.

	For the six months ended 30 June	
	2006	2005
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Provision for the period:		
Current – Hong Kong profits tax	**958**	1,562

8. Earnings per Share

The calculation of basic earnings per share for the period is based on the profit attributable to equity holders of the parent of approximately HK$23,261,000 (six months ended 30 June 2005: HK$18,613,000) and the weighted average number of 302,200,000 (six months ended 30 June 2005: 302,200,000) ordinary shares in issue during the period.

The diluted earnings per share amounts for the six months ended 30 June 2006 and 2005 have not been shown as there was no dilutive effect on the basic earnings per share amounts for these periods. The outstanding share options of the Company would not result in the issue of ordinary shares for less than the fair values as their exercise price was above the average market price of the Company's shares during these periods.

9. Dividend per Share

At a meeting of the board of directors held on 15 September 2006, the directors resolved to pay an interim dividend of HK3.30 cents per ordinary share to shareholders (six months ended 30 June 2005: HK3.00 cents).

10. Trade and Bills Receivable

An aged analysis of the Group's trade and bills receivable as at the balance sheet date, based on the date of recognition of sale and net of provision for impairment, is as follows:

	30 June 2006 (unaudited) *HK$'000*	31 December 2005 (audited) *HK$'000*
Within 3 months	**25,568**	18,407
4 to 6 months	**2,213**	2,169
7 to 12 months	**1,939**	3,187
Over 1 year	**3,881**	3,336
	33,601	27,099

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period granted by the Group is generally between 30 to 90 days from the date of recognition of sale.

Included in the Group's trade and bills receivable as at the balance sheet date is an amount of approximately HK$278,000 (31 December 2005: HK$528,000) due from Nikko Bussan Co., Ltd. ("Nikko Bussan (Japan)") arising from transactions carried out in the ordinary course of business of the Group. Takanori Matsuura, a director of the Company, has beneficial interest in Nikko Bussan (Japan). The balance with Nikko Bussan (Japan) is unsecured, interest-free and is repayable within similar credit periods offered by the Group to its major customers.

11. Trade and Bills Payable

An aged analysis of the Group's trade and bills payable as at the balance sheet date, based on the date of receipt of the goods purchased, is as follows:

	30 June 2006 (unaudited) *HK$'000*	31 December 2005 (audited) *HK$'000*
Within 3 months	**50,879**	40,419
4 to 6 months	**9,703**	3,379
7 to 12 months	**1,412**	1,307
Over 1 year	**265**	539
	62,259	45,644

12. Share Capital

	30 June 2006 (unaudited) *HK$'000*	31 December 2005 (audited) *HK$'000*
Authorised:		
1,000,000,000 ordinary shares of HK$0.1 each	**100,000**	100,000
Issued and fully paid:		
302,200,000 ordinary shares of HK$0.1 each	**30,220**	30,220

INTERIM DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Board declares an interim dividend of HK3.30 cents per ordinary share for the six months ended 30 June 2006 payable to the shareholders whose names appear on the Register of Members of the Company at the close of business on Thursday, 12 October 2006. The Register of Members will be closed from Wednesday, 11 October 2006 to Thursday, 12 October 2006, both days inclusive, during which period no transfer of shares will be registered. To qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 10 October 2006. The dividend will be paid on or around Friday, 27 October 2006.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Overview

The successful enhancement of customer portfolio during 2005 laid the foundation for the remarkable growth in sales achieved in the current period. Though materials price hikes have posed some threat on the profit margin, the Group has managed to mitigate the impact by uplifting productivity and incorporating, to the extent feasible, the cost increase into new model prices. Besides, the establishment of businesses with big names also helps strengthen our industry status and provides further opportunity for business expansion.

Overall, the Group's performance for the first half of 2006 has shown a satisfactory rebound from that of the preceding comparative period. The improved performance for the period was a result of the increased orders from major customers whose products were well received in the market. This achievement was partly attributable to the Group's active participation in clients' product development process and our capability to prioritize customers' needs with the provision of value added services. The Group's strategy to persistently invest in research and development has enhanced our competitive advantage and helped generate extra revenue.

Financial Results

Consolidated revenue for the six months ended 30 June 2006 surged more than 62% to approximately HK$282,114,000 compared to that of the corresponding period last year. Profit attributable to equity holders of the parent increased by about 25% to approximately HK$23,261,000 from HK$18,613,000 of the comparative preceding period. Earnings per share for the period were HK7.70 cents (2005: HK 6.16 cents).

As a result of the substantial increase in sales, gross profit for the first half of 2006 increased by 43% to approximately HK$79,759,000 compared to that of the corresponding period last year. Notwithstanding the measures adopted by the Group to effectively combat the impact of materials cost increase, the gross profit margin for the first six months of 2006 declined to 28.3% from 32.1% of the comparative preceding period. This was mainly attributable to the increase in direct components purchases that carried only minimal margins in finished products, as well as the application of similar gross profit amount against enlarged sales value due to increase in sales prices.

Other income and gains for the period decreased to approximately HK$788,000 from HK$5,690,000 of the comparative preceding period mainly due to a drop in handling charge income and the non-recurring gain on disposal of a subsidiary recorded in the last comparative period.

Selling and distribution costs for the period soared to approximately HK$13,799,000 from HK$6,037,000 of the comparative preceding period primarily due to additional commissions incurred against the increased sales. Administrative expenses however remained relatively stable during the period. On the other hand, finance costs for the period increased to approximately HK$9,226,000 from HK$4,216,000 of the last comparative period mainly due to increase in both the interest rates and the amount of trade finance utilized.

Overall, profit attributable to equity holders of the parent for the period improved by about 25% to approximately HK$23,261,000 compared to that of the corresponding preceding period.

Golf Equipment Business

The golf equipment segment continued to constitute the main source and accounted for approximately 83.1% of the Group's revenue for the period. Sales of golf equipment during the first six months of 2006 amounted to approximately HK$233,910,000, representing a 66.5% increase over that of the comparative preceding period. Of the total golf equipment sales, golf clubs sales accounted for about 75.9% while component sales consisting of club heads, shafts and accessories represented the remaining 24.1%. There has been no material fluctuation in the product mix percentages throughout the years.

During the period, sales of hybrid iron sets launched by the Group's largest customer in the United States continued to prosper. The Group has benefited from its business success and sales to this customer more than doubled the amount of the comparative preceding period, representing approximately 63.3% of the segment sales or 52.7% of the Group's turnover for the current period. Thanks to successful product design and marketing programs, sales to a number of other customers also demonstrated significant growth during the period. Turnover from the top five golf club clients aggregated to approximately HK$205,638,000, which accounted for about 87.9% of the segment sales or 73.2% of the Group's turnover for the period. With the enhancement of customer portfolio, it is anticipated that the golf equipment segment will continue to develop and grow healthily. The Group has been in regular contact with certain big names to explore new business opportunities. Upon realization of the sales programs with these big names, our customer base is expected to be further broadened to provide extra impetus for sustained growth.

Irrespective that the Group conducts its business through a relatively small number of key customers, we have implemented adequate procedures to safeguard recoverability of the trade debts. Shipments to major customers are insured or factored on non-recourse basis to minimize bad debt risks. Besides, any material delay in payments or non-payments by customers with terms were immediately reported to management for further action. As reported in the 2005 annual report, Huffy Corporation, one of the Group's customers, had its restructuring plan approved at the creditors' meeting and confirmed by the U.S. bankruptcy court in late 2005. Pursuant to Huffy's restructuring plan, the Group will receive a proportionate share of (i) a US$9 million promissory note which carries interest at 10% p.a. and (ii) the class B common stock of US$14 million. Taking into account the amount of provision made in 2004 against the debts owed by Huffy Corporation, it was considered that no material provision would further be necessary.

During the period, prices for materials such as graphite further went up and its supply had become even more volatile in the early part of 2006. To ensure uninterrupted production, the Group had to undertake more direct purchase of graphite shafts to supplement any shortfall in the graphite sheet supply. The need to rely more on direct components purchase like graphite shafts had inevitably limited the gross margins of some models. Other materials prices such as titanium have somewhat stabilized during the period. To combat the impact of materials price hikes, the Group pursued to selectively stock up inventories of crucial materials to help stabilize costs and sustain product margins.

Supported by a strong rebound in sales revenue, the golf equipment segment generated a segmental profit of approximately HK$30.3 million during the period, representing an increase of about 14.8% compared to that of the comparative preceding period. Giving regard to the current order book status, the management maintains a cautious but confident view that the golf equipment segment should perform reasonably well in the second half of 2006.

Golf Bags Business

Revenue of the golf bag segment accounted for approximately 16.9% of the Group's revenue for the period. Sales of golf bags and accessories for the first half of 2006 amounted to approximately HK$46,765,000, representing an increase of 55.8% over that of the corresponding preceding period. The significant surge in revenue followed the stepping up of productivity of the new golf bag facility and the resumption of business volume foregone during the previous comparative period. During the period, sales to the largest customer nearly quadrupled that of the corresponding preceding period and accounted for about 56.8% of the segment sales or 9.5% of the Group's turnover for the period. Turnover from the top five golf bag clients aggregated to approximately HK$35,130,000, representing about 75.1% of the segment sales or 12.5% of the Group's turnover for the period. The Japan line products continued to dominate by taking up approximately 65% of the segment sales. It is the strategy of the Group to direct further effort to expand the Japan line products that carry higher average gross margins.

On the other hand, the new SOE compliant golf bag facility has successfully brought additional business to the Group and helped enhanced our competitive advantage over most competitors. Our Group enjoys high reputation in the golf bag industry in which it has been a dominant player serving substantially all the major brand names in the market. The management anticipates that the golf bags business will continue to grow at an uninterrupted pace.

Benefited from the rapid growth of the Japan line products, the golf bags segment recorded a segmental profit of approximately HK$2.7 million during the first half of 2006 in contrast to a segmental loss of approximately HK$2.9 million for the comparative preceding period. Major material prices for golf bag production had somewhat stabilized during the period while the energy and overhead costs remained high. To combat the pressure of erosion of profitability due to escalating production costs, the Japan line products that offer higher margins will remain the focus of the segment's future expansion. Taking into account the current order book status, the management feels confident that the golf bag segment will perform reasonably well in the second half of 2006.

Geographical Segments

The Group's geographical spread remained relatively stable. Same as prior periods, North America constitutes the largest geographical segment from which approximately 74.7% of the Group's turnover for the period was generated. Other geographical regions including Japan, Europe and other countries accounted for 11.7%; 3.6% and 10% of the Group's total turnover respectively.

As a percentage to the Group's turnover, the North American market remained the core market with sales to this region increasing slightly from 73.3% of the comparative preceding period to 74.7% for the current period. Consequential on the efforts diverted to develop the Japan market, sales to Japan also increased to represent 11.7% of the Group's turnover from 8.3% of the last comparative period. During the period, sales to the geographical regions covering "Europe and others countries" dropped, in terms of percentage to the Group's turnover, from 18.4% of the last comparative period to 13.6%. Despite the decline in its percentage revenue contribution, the monetary amount of sales to "Europe and others countries" increased by approximately HK$6,775,000 over that of the comparative preceding period.

In monetary perspective, sales to the North American market increased by about 67.6% over that of the comparative preceding period to approximately HK$209,698,000, which comprised mainly golf clubs and component sales with a minor portion of golf bag sales. On the contrary, sales to the Japan market consisted mostly of golf bags and amounted to approximately HK$32,907,000 representing an increase of over 1.3 times the amount for the corresponding preceding period. Sales to other geographical regions including Europe and other countries increased by 21.6% to approximately HK$38,070,000.

It is the Group's strategy to strengthen its position in the North American market that generates the majority of our Group's revenue and profitability. Besides, additional efforts will be expended to further penetrate the Japan market to tap its huge opportunities, while management attention will still be directed to continue develop the geographical regions of Europe and other countries.

Prospects

Despite facing an environment of ever-increasing competition and customers' demand, the golf industry possesses solid foundation to sustain its on-going developments. It has been the Group's mission to provide premium one-stop services to its customers with value added options. It is also our Group's objective to continually expand our capability to play a leading role in the golf sector. The successful enhancements of customer portfolio and product quality are signs that we are progressing towards our goals.

To cope with the growing needs of customers, the Group has engaged in constructing a new advanced golf club facility in Shandong Province, the P.R.C. which is targeted for completion towards the end of the year. At 30 June 2006, total investments in this project aggregated to approximately HK$46.6 million, comprising a land premium of approximately HK$14.8 million and construction payments of approximately HK$31.8 million. Further costs to completion are estimated at about HK$18 million and will be financed by internal funding. The new golf club facility will be a milestone of the Group's development, reaffirming our capability to undertake business with the big names and our leading role in the golf industry. Motivated by the satisfactory progress of existing business, our Group has been actively liaising with some first tier brand names for business opportunities. There are clear indications of their interests to explore potential co-operations with the Group. Considering the competitive advantages of our Group, the management feels confident of adding new big names to the Group's golf club portfolio in the foreseeable future.

On the other hand, the SOE compliant status of the golf bag facility has provided us with the platform necessary for doing business with the major brand names. Currently, our Group takes golf bag orders from substantially all the big names in the market. In particular, the potential for the Japan line products is considered huge, as there are only few manufacturers that are SOE compliant and are recognized as qualified suppliers by the top brands. In order to ease the production burden arising from the increased demand for golf bags, the Group has rented additional spaces of approximately 12,000 square meters nearby its existing facility to provide extra production capacity and to eliminate the need for subcontracting out works.

To sustain long-term growth, the Group is devoted to continually enhance its competitiveness with emphasis on continued development in materials innovations, design capability and customer services. The North American market and the Japanese market represent the two key geographical regions to which the Group diverts most of its resources. Supported by a strong position in the golf bag sector of the Japanese market, our Group is committed to further explore and develop the golf equipment business in the Japanese market. On the other hand, with the synergies which are derivable from the golf club sales network, the Group is also engaged to divert more resources to actively develop the golf bags business in the North American market. The actual performance of the Group is however dependent on the extent of realization of business plans and targets envisaged, as well as the outcome of market operations and changes that may occur from time to time.

Liquidity and Financial Resources
The Group pursues prudent principles to set polices for the management of its funds. Our Group generally relies on internally generated funds and banking facilities to finance its operations. To limit the exposure to various financial risks, the Group has established effective policies and guidelines to help monitor and confine those risks within acceptable ranges.

At 30 June 2006, cash and cash equivalents, which were mostly denominated in United States dollars and Hong Kong dollars, amounted to approximately HK$74.6 million (31 December 2005: HK$79.1 million) The cash level decreased mainly because funds have been appropriated as planned for the construction of the new golf club facility. Besides, the Group also selectively stocked up inventory items to stabilize costs and ensure uninterrupted production. The inventory level thus increased by about HK$10.6 million to approximately HK$134.5 million as at 30 June 2006.

Borrowings of the Group are mostly denominated in currencies of Hong Kong dollars and United States dollars and carry interest on HIBOR or LIBOR plus basis. Borrowings (excluding finance lease payables) as at 30 June 2006 aggregated to approximately HK$183.9 million (31 December 2005: HK$175.8 million), of which approximately HK$139.3 million (31 December 2005: HK$138.8 million) comprising import and export loans of about HK$73.1 million (31 December 2005: HK$26.6 million) and term loans of about HK$66.2 million (31 December 2005: HK$112.2 million) is repayable within one year. The level of borrowings escalated mainly due to higher utilization of import and export facilities to finance the increased business volume. Gearing ratio as at 30 June 2006, defined as total bank borrowings and finance lease payable less cash and cash equivalents of approximately HK$109.3 million divided by shareholders' equity of approximately HK$196.0 million, was 55.8% (31 December 2005: 51.9%). The gearing ratio increased as a result of the increase in net bank borrowings.

As at 30 June 2006, the net asset value of the Group was approximately HK$196.0 million (31 December 2005: HK$186.0). Current and quick ratios stayed at 1.22 (31 December 2005: 1.17) and 0.66 (31 December 2005: 0.63) respectively. There has been no material fluctuation in both ratios, which are considered to be at reasonable levels.

POST BALANCE SHEET EVENTS

(1) Subsequent to the balance sheet date in August 2006, the Company granted a total of 4,000,000 share options to a director and a business consultant of the Company pursuant to the Company's share option scheme. The share options will be vested upon the commencement of the exercise period and are exercisable by the grantees from the date of grant until 31 July 2008 both days inclusive at an initial exercise price of HK$0.70 per ordinary share, which is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital. The closing price of the Company's shares immediately before the grant date was HK$0.68 per ordinary share.

(2) With much regret, Mr. Takanori Matsuura, one of the founders of the Group and an executive director of the Company, passed away on 13 August 2006. No appointment has been made to fill the vacancy left over by Mr. Matsuura.

(3) On 21 August 2006, the Company announced that Ms. Choi Ying, Kammy had tendered her resignation notice as company secretary and qualified accountant of the Company and financial controller of the Group for personal reasons. With effect from 25 August 2006, Mr. Co Man Kwong, Rochester has been appointed to take up the vacancy of the company secretary and qualified accountant of the Company. Besides, Mr. Mak Yat Ho, Humphrey, the deputy financial controller of the Group, has been assigned to take up responsibilities of Ms. Choi as financial controller of the Group temporarily until the new appointment of financial controller of the Group.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

The Group has limited exposure to exchange rates fluctuations as most of the business transactions were conducted in the currency of the United States dollars, Hong Kong dollars and Renminbi, all of which remained relatively stable during the period.

EMPLOYEE AND REMUNERATION POLICIES

At 30 June 2006, the Group employed a total of over 3,200 employees in Hong Kong, the PRC and the United States. It is the Group's policy to maintain harmonious relations with its employees through provision of competitive remuneration packages and training programs. The employees were remunerated based on their performance, experience and expertise as well as industrial practices. The remuneration packages are reviewed annually and discretionary bonuses may be awarded to employees in accordance with the assessment of individual performance.

AUDIT COMMITTEE

The audit committee of the Company was established in compliance with Rule 3.21 of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls.

The audit committee comprises three independent non-executive directors of the Company, namely Ms. Chiu Lai Kuen, Susanna, (the committee's chairman), Mr. Choy Tak Ho, and Mr. Tse Ying Man. The audit committee has reviewed the Company's unaudited condensed consolidated interim financial statements for the six months ended 30 June 2006.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as the Company's code of conduct for dealings in securities of the Company by the directors. Upon specific enquiry, all directors of the Company have confirmed that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2006.

REMUNERATION COMMITTEE

The Company established a remuneration committee with written terms of reference pursuant to the provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules. The committee comprises three independent non-executive directors, namely Mr. Tse Ying Man, Mr. Choy Tak Ho and Ms. Chiu Lai Kuen, Susanna and two executive directors, namely Mr. Chu Chun Man, Augustine and Mr. Chu Yuk Man, Simon. Mr. Tse Ying Man is the chairman of the remuneration committee. The remuneration committee is principally responsible for formulating and making recommendation to the Board on the Group's policy and structure for all remuneration of the directors of the Company and senior management of the Group.

CORPORATE GOVERNANCE

The Company has complied with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2006 except the following deviations:

1. Mr. Chu Chun Man, Augustine, who acts as the chairman of the Company, is also responsible for overseeing the general operations of the Group. The Company does not at present have any office with the title "Chief Executive Officer". The Board believes that vesting the roles of both Chairman and Chief Executive Officer in the same person provides the Company with strong and consistent leadership and allows for effective and efficient planning and implementation of business decisions and strategies.

   The Board considers that the current structure of vesting the roles of Chairman and Chief Executive Officer in the same person will not impair the balance of power and authority between the Board and the management of the Company.

2. The Independent Non-Executive Directors ("INEDs") have not been appointed for any specific terms as they are subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Company's Bye Laws. It is the intention of the Board to establish specific terms of appointment on or before the next annual general meeting.

ACKNOWLEDGEMENT

I would like to take this opportunity to extend my thanks and appreciation to our colleagues on the Board, the management and all staff and employees of the Group for their commitments, hard work and loyalty throughout the period.

DISCLOSE OF INTERIM INFORMATION ON THE WEBSITE OF THE STOCK EXCHANGE

The interim information of the Group containing all the information required by the Appendix 16 of the Listing Rules will be despatched to the shareholders of the Company and published on the website of the Stock Exchange in due course.

By order of the Board
Chu Chun Man, Augustine
Chairman

Hong Kong, 15 September 2006

As at the date hereof, the board of directors of the Company comprises 6 directors, of which 3 are Executive Directors, namely Mr. CHU Chun Man, Augustine, Mr. CHU Yuk Man, Simon and Mr. CHANG Hua Jung, and the rest of 3 are Independent Non-Executive Directors, namely Mr. CHOY Tak Ho, Ms. CHIU Lai Kuen, Susanna and Mr. TSE Ying Man.

Please also refer to the published version of this announcement in The Standard.