INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 September 2004 (2003: nil) .

REVIEW AND OUTLOOK

FINANCIAL REVIEW

Performance

During the period, the Group has obtained nationwide distribution right for two key Nokia's new handset models: 7610 and 3220. The high value model 7610 contributes higher profit margin than other volume drivers. Other significant profit contributing models include Nokia's 3100 and 3300. The total number of handset sold in the first and second quarter is 441,000 and 782,000 sets respectively. The increase in sales volume in the second quarter is attributable to the following sales drivers: Nokia's 3100 and Nokia's 2300. In September, the number of handsets sold exceeded 310,000 sets in anticipation of the National Day's long holidays in China. The total number of handset sold during the first six months totaled 1,222,000 sets representing an increase of 49.7% as compared with 816,000 units sold during the corresponding period in year 2003. The consolidated turnover for the six months ended 30 September 2004 totaled HK$1,265 million representing an increase of 37% as compared with HK$927 million during the corresponding period in year 2003. The exceptional low turnover for the same period last year is due to the adverse impact of SARS. The percentage increase in turnover is lower than the growth in number of handset sold is caused by the low selling price of Nokia's 2300 at less than Rmb 1,000 which accounts for approximately one third of the sales volume. Notwithstanding the launch of new handsets and its satisfactory sales during the second quarter, the Group's overall profit margin decreased to 4.0% during the six months period as compared with 4.4% for the corresponding period in year 2003 because of overall lower margin on products in the first quarter. The distribution cost also increased to HK$9.8 million as compared with HK$6.6 million for the same period last year due to increase in promotional expenses and sales commission relating to new products. Nevertheless, the interim operating profit and the net profit were increased to HK$30.6 million and HK$16.5 million respectively as compared with HK$22.7 million and HK$15.5 million during the same period last year. As a result of decrease in share price of the Group's investment in PacificNet Inc., the Group has booked an unrealized loss of HK$1.5 million during the period as compared to an unrealized gain of HK$2.6 million and a realized gain of HK$0.7 million booked during the corresponding period last year. As at 30 September 2004, the Group still holds 78,217 shares in PacificNet Inc.

Treasury Policies, Liquidity and charge on assets

During the period, the Group has fully settled its syndicated loan of HK$160 million before maturity which was partly refinanced by the arrangement of bilateral loan from existing bankers. The maturity period of such loans extends up to three years from date of borrowings. The amount of long term debts, all denominated in Hong Kong dollars as at 30 September 2004 amounted to HK$69 million and aggregate current portion of bank borrowings amounts to HK$259 million, of which HK$214 million are denominated in Renminbi with the balance denominated in Hong Kong dollars. The gearing ratio of the Group, computed as non-current liabilities over shareholders fund, is approximately 21%. The interest rates for all the loans are fixed on either monthly, bi-monthly, quarterly or semi-annual basis. As at 30 September 2004, the total bank deposits and cash balances amounted to approximately HK$305 million, of which HK$176 million was pledged as securities for Renminbi and Hong Kong dollars short term revolving trade related bank facilities. The Group's cash and deposits are held mainly in Hong Kong dollars, Renminbi and United States dollars. During the period, there is no material change to the Group's funding and treasury policy. As over 90% of the Group's sales and purchases are denominated in Renminbi and the exchange rate between the Hong Kong Dollar and Renminbi is stable, the risk of currency exposure is minimal and there is no financial instruments used for hedging purposes.

Working Capital

The amount of inventory as at 30 September 2004 was HK$133 million, which represents approximately 20 days stock turnover, as compared with 48 days stock turnover based on the inventory level of HK$243 million as at 31 March 2004. The inventory level is significantly reduced because of better than expected sales in September in anticipation of the National Day holidays. Substantially all the inventory is current models of mobile phones and no significant provision for obsolescence is necessary. The amount of trade receivables as at 30 September 2004 was HK$191 million, which represents approximately 28 days debtors' turnover period as compared with 22 days debtors' turnover based on the amount of trade receivables of HK$115 million as at 31 March 2004. The increase is mainly due to the increase of credit sales for September and the increase in number of direct retail customers which apply for credit terms. The Company assesses these direct retail customers on individual basis and carefully monitor their credit limits and risk exposure. The debtor's turnover period is approximately 18 days if it is computed solely based on September's turnover. A provision of HK$1.1 million was made for the period in respect of long overdue trade receivables which represents less than 0.1% of the Group's turnover.

Employees

As at 30 September 2004, the Group has a total number of 723 employees which included 641 marketing representatives and non-contracted promoters in various cities in the PRC. The increase in the number of marketing representatives and promoters during the period is due to the launch of new products and increased sales efforts targeting at third and fourth tier cities. There is no material change in remuneration policy, bonus and share option scheme since 31 March 2004. No option has been granted since the adoption of the current option scheme.

Contingency and Material Acquisition and Disposal

During the period under review, there is no acquisition or disposal of material investment, subsidiary, associates or affiliated company. There is no plan for material investment or purchase of capital assets in the next 12 months. There is no significant contingent liability or capital commitment as at 30 September 2004.

The Board believes that the Group will continue to have sufficient financial resources and funding for its operational requirements.

OPERATIONAL REVIEW

Market Overview

The PRC Mobile Phone and Telecommunications Market

According to the statistics released by the Ministry of Information Industry ("MII") , China recorded more than 320 million subscribers to mobile phone services as at the end of October 2004, equivalent to a penetration rate of 24.8 users per 100 persons. The number of mobile phone users in China increased by approximately 55 million during the 10 months period up to October 2004.

The Chinese government has not yet decided on when to issue 3G licenses and how many would be issued. While 3G technologies such as wideband code division multiple assess ("W-CDMA") and CDMA demonstrated a significant improvement in stability and reliability in field trials and were ready for commercial operations, full scale field trials indicates that time division synchronous code division multiple access ("TD-SCDMA") still performing below standard in transmitting calls among different networks and equipment vendors. Some industry reports expect that TD-SCDMA will be aggressively pushed by the industry in China and will be officially rolled out in October 2005. However, China Mobile, the largest operator of mobile communication services in China, will be very likely to adopt the WCDMA standard. It is believed that all three standards or more will be introduced in China by different operators when the chipsets and handsets for TD-SCDMA phones are ready for commercial launching.

The mobile phones market remains very competitive with over 1,000 models at various price ranges. However, the aggregate market share of all domestic brands has dropped back to slightly below 50% as compared to over 50% market share one year ago. This is partly due to the shortage of components in the market and the over optimistic sales expectation of the domestic brands. Some of the low end GSM phone users were also attracted by the low charge of Xiaolingtone. This leads to excessive channel inventory in domestic brands manufacturers. However, the export of handsets has reached 111 million sets for the first ten months in 2004, two third of which were GSM handsets of Nokia, Motorola and Siemens.

There may be a good chance that the MII will abolish the requirement of handset licenses in China within two years under the roadmap of entering World Trade Organisation. This would lead to an open market for handsets in terms of both production and sales, which could also potentially add to the current handset inventory issue in China.

Business Review

Mobile Phone Distribution

Mobile phone distribution continues to be the Group's major core business for the period, accounting for over 90% of the Group's turnover and operating profit. The Nokia's models 3100 and 2300 account for over 50% and 30% of the Group's sales volume respectively. While these models are targeting the low price segment, the high end models like Nokia's 7610 contribute a relatively higher profit margin. For instance, a music phone Nokia's 3300, currently selling at a retail price of Renminbi 1,800, brings higher profit margin to the Group due to its unique features, compared to other handsets.

The new Nokia's 3220 was launched in September right before the National Day's long holidays which caught the attention of the market for its attractive features. As the Group distributes Nokia's latest models on a nationwide basis, the Group is in a better position to stabilize the prices in all sales channels and react more quickly to the fast changing market environment. Nokia remains as the key supplier and product of the Group during the period. With the introduction of various new Nokia's models in the near future, the Group shall continue to position as key value chain partner for top brand handset manufacturers.

OUTLOOK AND PROSPECTS

Subsequent to the interim period, the Group has obtained nationwide distribution right for the latest Nokia's handset model 2600 and N-Gage QD. Nokia's 2600 is a color display handset with good value for functions selling at retail price of approximately Renminbi 1,200. N-Gage QD is a games oriented GSM handset with multimedia messaging services, FM radio, personal information management, voice recorder and MP3 features that will capture not only the handset market but also the mobile handheld game market in China as well. We are confident that these two models as well as other existing current handset models will continue to provide good profit contribution to the Group during the final quarter ending December 2004. As the Group has changed its year end date to 31 December commencing in the current calendar year, the forthcoming annual results will be based on nine months operation instead of full 12 months.

The management will continue to explore and develop other telecommunications and distribution related business in China that can build on its core competence as a distribution specialist.

DIRECTORS' INTERESTS IN SECURITIES

At 30 September 2004, the interests of the directors and their associates in the share capital of the Company and its associated corporations as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Future Ordinance ("SFO") or as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Name of director	Capacity	Number of ordinary shares held *(Note)*	Percentage of the issued share capital of the Company
Lau Siu Ying	Held by trust	211,500,013	70%

Note:

These shares are held by Future 2000 Limited, a company incorporated in the British Virgin Islands which in turn is held by a trust. The beneficiaries of the discretionary trust include Mr. Lau Siu Ying, his spouse and his children.