



瑞力控股有限公司
Ruilu Holdings Limited

2005

Interim Report



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CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Yu Kam Kee, Lawrence, M.B.E., J.P.
(Chairman)

Mr. Carl Chang (Chief Executive Officer)

Mr. Liao Chongde
(resigned on 1 March 2005)

Mr. Wu Jiahong

Mr. Yu Kam Yuen, Lincoln

Independent Non-executive Directors

Mr. Li Fui Lung, Danny

Mr. Ng Hoi Yue, Herman

Mr. John Paul McLellan

COMPANY SECRETARY

Ms. Ng Yuk Yee, Feona

AUDIT COMMITTEE

Mr. Li Fui Lung, Danny

Mr. Ng Hoi Yue, Herman

Mr. John Paul McLellan

AUDITORS

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited

REGISTERED OFFICE

Clarendon House
Church Street
Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

2nd Floor, Talon Tower
38 Connaught Road West
Hong Kong

HONG KONG BRANCH REGISTRAR AND TRANSFER OFFICE

Tengis Limited
Ground Floor
Bank of East Asia Harbour View Centre
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STOCK CODE

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The Board of Directors of Ruili Holdings Limited (hereinafter referred to as the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (hereinafter collectively referred to as the “Group”) for the six months ended 31 December 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

Turnover for the six months ended 31 December 2004 increased to HK\$52.6 million from HK\$43.4 million for the same period last year. The increase in turnover was mainly attributable to the increase in the sales of multimedia electronic products in the period. Gross profit for the period amounted to HK\$4.9 million, compared with HK\$7.0 million in last year. The drop in gross profit was mainly as a result of aggressive pricing strategy under the fierce competition in the multimedia electronic products market. Net loss for the period was HK\$10.4 million, compared with a net loss of HK\$3.7 million for the same period last year, if the revaluation increase in investment properties of HK\$6.5 million and gain on disposal of non-wholly owned subsidiary of HK\$68.6 million were excluded from the net profit of HK\$71.4 million for the same period last year. Loss per share for the period under review was 3.87 cents.

REVIEW OF OPERATIONS

Subsequent to the disposal of Welback International Investment Limited and its subsidiaries and Ruian Weiye Technology Company Limited in previous years, the Group has diversified its business into system integration and development through the acquisition of 55% equity interest in 深圳銀河通信息技術有限公司 (Shenzhen Yinhetong Information Technology Company Limited) (“SRT”). At the same time, another major trading arm of the Group, Ruian Technology Company Limited has regained a larger customer base than in previous year.

Multimedia Electronic Products

The turnover for multimedia electronic product for the six months period ended 31 December 2004 amounted to HK\$52.3 million, representing a growth of 228% against the same period last year. The significant growth was mainly as a result of increase in demand of multimedia electronic products such as DVD players and digital cameras. However, in order to maintain a satisfactory market share in this highly competitive multimedia electronic products market, more aggressive pricing strategy is inevitable. The gross profit percentage was therefore dropped from 21.5% for the period in the last year to 9.2% for the current period.

Telecommunication & System Integration

Subsequent to the acquisition of SRT in July 2004, the telecommunication and system integration service is provided by this newly acquired company. However, the performance of this business in the period was unsatisfactory. The turnover and gross profit for the period was HK\$230,000 and HK\$78,000 respectively.

FUTURE BUSINESS PROSPECTS AND PLANS

The Group is now engaging in the businesses of selling high technology digital cameras, karaoke combo systems and high definition DVD players.

With the high definition TV, eg Plasma TV and LCD TV becoming more and more popular in household nowadays, high definition DVD player will be a high potential market for the Group. The Group will continue to source for other new products to suit the demand of the customers.

On 7 February 2005, the Group has entered into a sale and purchase agreement for the acquisition of the office on 2nd Floor of Talon Tower, 38 Connaught Road West, Hong Kong at a consideration of HK\$21,878,500. The acquisition was completed on 17 February 2005. The directors believe that by making the acquisition the cash resources of the Group can be better utilized given the gradual recovery of the Hong Kong property market. In addition, the Group will be able to make savings on rental expense.

With the GDP growth of 8.1% in 2004, the economy of Hong Kong was the best since the Asian financial crisis. The values of properties in Hong Kong have also rebounded significantly. Strong global economic growth has been observed in last year. A policy of weak US dollars by US government recently has provided a good opportunity for Hong Kong exporters. However, we will keep alert of fluctuation in global oil price and increase in US interest rates which will affect the global economy.

Subsequent to the placing of shares, the Group has acquired the necessary funding for its working capital and investment requirements. The Group will, on one hand, continue to improve its cost effectiveness and enhance its competitiveness. On the other hand, we will continue to explore new investment opportunities and meanwhile closely monitor its existing investment portfolio to ensure that shareholders' fund will be placed in areas where there are high growth and earning potential.

FINANCIAL REVIEW AND LIQUIDITY

As at 31 December 2004, the Group had net liabilities of HK\$36,000, compared with net liabilities of HK\$6.5 million for the year ended 30 June 2004. The current ratio, representing current assets divided by current liabilities, was 1.03, improved from 0.76 at the last year end date.

As at 31 December 2004, the Group has outstanding liabilities from two loans of approximately of HK\$8.7 million from an independent third party. These loans were unsecured, chargeable with interest rate at 10% per annum. These loans were subsequently converted into 21,732,430 shares of the Company at HK\$0.40 each according to a settlement agreement dated 7 February 2005. Bank loan of RMB5.0 million, obtained by SRT prior to the acquisition by the Group, was also consolidated into the consolidated balance sheet of the Group at the period end.

The gearing ratio, as a ratio of total borrowings over total assets, at 31 December 2004, was substantially improved to 0.34 from 1.06 at the last year end date.

On 12 November 2004, the Company entered into a placing agreement and supplemental agreement with the placing agent in relation to the appointment of the placing agent for the placing of 225,000,000 shares of the Company at HK\$0.40 each. A special general meeting was held on 17 December 2004 when the above placing of new shares was approved. The placing of new shares was completed on 21 January 2005.

As at 31 December 2004, the Group had contingent liabilities of HK\$24 million mainly as a result of a corporate guarantee provided by the Company to a financial institution in respect of banking facilities granted to our former subsidiaries. HK\$5.5 million of the banking facilities were utilized by that former subsidiaries and such amount was subjected to a claim by the financial institution.

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES AND RELATED HEDGES

During the period, the sales of finished goods and purchase of raw material for the Group were mainly denominated in US dollars, Renminbi and Hong Kong dollars. Borrowings in terms of loans and convertible bonds were also denominated in Hong Kong dollars with interest being charged on a fixed rate basis. As the exchange rates of Hong Kong dollars against US dollars and Renminbi were relatively stable during the period, the Group's exposure to fluctuations in exchange rates was minimal.

EMPLOYEE SCHEMES

As at 31 December 2004, there were 47 employees (17 based in Hong Kong and 30 based in PRC) within the Group. The remuneration policy and package of the Group's employees are periodically reviewed and approved by the executive directors. Apart from provident fund scheme, in-house training programmes, medical insurance scheme, discretionary bonuses and share options may also be awarded to employees according to the assessment of individual performance.

MAJOR LITIGATION AND ARBITRATION PROCEEDINGS

The Company and its former subsidiary, P.N. Electronics Ltd. ("PNE"), are in arbitration with North American Foreign Trading Corporation ("NAFT") in respect of a gross receivable of HK\$18 million and related damages from various parties for goods shipped by PNE to NAFT in 1996. The arbitration proceedings were initiated by NAFT against the Company and PNE claiming for alleged damages in New York, U.S.A. The alleged claims had been contested and a counterclaim for the sum of HK\$18 million as well as other damages was made in the proceedings. On 3 March 2005, no further action has been taken by either party and thus it is not possible to predict the outcome with reasonable certainty.

On 13 October 2003, a writ of summons and statement of claim was made by BII Finance Company ("BII Finance") against the Company under a guarantee allegedly given by the Company in favour of BII Finance in respect of certain alleged liabilities of the Company's ex-subsiidiary, Welback Enterprises Limited. The claim is for a sum of approximately HK\$3,583,000 and US\$248,000 (approximately HK\$1,934,000) together with interest and costs. The claim is being disputed by the Company. The Company has joined its former directors, Mr. Lee Chun Kwok ("Mr. Lee") and Mr. Fong Wing Seng ("Mr. Fong"), as third parties to the action. The Company's defence was filed on 1 December 2003. BII Finance has taken out summary judgment proceedings against the Company, Mr. Lee and Mr. Fong which was heard before

the High Court on 2 and 3 November 2004. The hearing has yet to conclude and a further two days have been fixed for the adjourned hearing of BII Finance's application for summary judgment, on 14 and 15 April 2005.

Save as disclosed above, no member of the Group is engaged in any litigation or claims of material importance and no litigation or claims of material importance is known to the Directors to be pending or threatened by or against any member of the Group.

ADDITIONAL INFORMATION REQUIRED BY THE LISTING RULES

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

(i) Shares

As at 31 December 2004, the directors and chief executive had the following interests, all being long position, in the ordinary shares of the Company and its associated corporations as defined in Section 352 of the Securities and Future Ordinance ("SFO").

Name of shareholder	Number of ordinary shares held Personal interest	Approximate shareholding percentage
Yu Kam Kee, Lawrence	33,120,953	11.47%

(ii) Share Options

The Company has a share option scheme under which directors may, at their discretion, grant options to employees, including any directors, of the Company or its subsidiaries to subscribe for shares in the Company, subject to the terms and conditions stipulated. As at 31 December 2004, the outstanding share options granted to a director of the Company were as follows:

Name of director	Exercisable on or after	Exercise price HK\$	Number of shares options		
			Outstanding as at 1 July 2004	Exercised during the period	Outstanding as at 31 December 2004
Wu Jiahong	20 February 2003	0.017	50,000,000	(50,000,000)	-



Save as aforesaid and other than certain nominee shares in subsidiaries held by directors in trust for the Group, as at 31 December 2004, to the knowledge of the Company:

- (i) none of the Directors, or chief executives of the Company had or was deemed to have any interest or short position in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (a) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the Directors and the chief executives are taken or deemed to have under the 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 Rule;
- (ii) none of the directors or chief executives or their spouses or children under 18 had any right to subscribe for the shares, underlying shares or debentures of the Company, or had exercised any right during the six months ended 31 December 2004.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2004, the Company has not been notified of any person (other than directors or chief executive of the Company) who had interest or short positions in the shares or underlying shares of the Company as recorded on the register required to be kept by the Company under Section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 31 December 2004, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied throughout the six months ended 31 December 2004 with the Code of Best Practice set out in Appendix 14 to the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

MODEL CODE

The Company has on 31 December 2004 adopted a model code for securities transaction by Directors on term no less exacting than the required standard set out in Appendix 10 of the Listing Rules.

AUDIT COMMITTEE

The Audit Committee currently comprises three independent non-executive directors of the Company, namely Mr. Li Fui Lung, Danny, Mr. Ng Hoi Yue, Herman and Mr. John Paul McLellan. The Audit Committee and the Group’s external auditors have reviewed with the management on the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters of the Group’s unaudited interim financial statements for the six months ended 31 December 2004.



CONDENSED CONSOLIDATED INCOME STATEMENT

for the six months ended 31 December 2004

		Six months ended	
		31 December	
		2004	2003
		(Unaudited)	(Unaudited)
	<i>Note</i>	HK\$'000	<i>HK\$'000</i>
Turnover	3	52,555	43,368
Cost of sales		(47,665)	(36,382)
Gross profit		4,890	6,986
Other income		43	1,186
Revaluation increase in investment properties		–	6,500
Distribution costs		(1,072)	(504)
Administrative expenses		(14,322)	(9,353)
(Loss)/profit from operations		(10,461)	4,815
Amortisation on goodwill		(393)	(5)
Finance costs		(920)	(1,973)
Gain on disposal of subsidiaries	5	4	68,580
(Loss)/profit before taxation		(11,770)	71,417
Taxation	6	–	–
(Loss)/profit before minority interests		(11,770)	71,417
Minority interests		1,346	–
Net (loss)/profit for the period		(10,424)	71,417
(Loss)/earning per share	8		
– Basic		(3.87 cents)	27.73 cents
– Diluted		N/A	27.64 cents

All of the Company's operations are classed as continuing.

The accompanying notes form an integral part of these financial statements.

CONDENSED CONSOLIDATED BALANCE SHEET

As at 31 December 2004

	31 December 2004 (Unaudited) Note	30 June 2004 (Audited)
	HK\$'000	HK\$'000
Non-current assets		
Intangible assets	9 4,362	80
Property, plant and equipment	10 2,802	1,368
	7,164	1,448
Current assets		
Inventories	3,105	–
Trade and other receivables	11 28,990	5,670
Investment deposits	–	16,100
Time deposits, bank balances and cash	513	1,942
	32,608	23,712
Less: Current liabilities		
Trade and other payables	12 18,396	4,962
Short-term secured bank borrowings	4,717	1,442
Obligations under finance leases due within one year	–	208
Convertible bonds	–	15,938
Short-term borrowings	8,693	8,560
	31,806	31,110
Net current assets/(liabilities)	802	(7,398)
Total assets less current liabilities	7,966	(5,950)
Less: Non-current liabilities		
Obligations under finance leases due after one year	–	504
Minority interests	8,002	–
Net liabilities	(36)	(6,454)



CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)

As at 31 December 2004

		31 December 2004 (Unaudited) HK\$'000	30 June 2004 (Audited) HK\$'000
	<i>Note</i>		
<i>Financed by:</i>			
Share capital	13	115,530	106,141
Reserves		(115,566)	(112,595)
Shareholders' deficits		(36)	(6,454)

Approved by the Board of Directors on 21 March 2005 and signed on its behalf by:

Yu Kam Kee, Lawrence
Chairman and Executive Director

Carl Chang
*Chief Executive Officer and
Executive Director*

The accompanying notes form an integral part of these financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 31 December 2004

	Six months ended	
	31 December	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Total equity as at 1 July	(6,454)	(59,683)
Net (loss)/profit for the period	(10,424)	71,417
Issue of shares pursuant to subscription agreement	–	10,000
Premium arising on issue of shares pursuant to subscription agreement	–	6,224
Issue of shares from exercise of share options	500	–
Premium arising on issue of shares in respect of exercise of share options	350	–
Issue of shares from conversion of convertible bonds	8,889	–
Premium arising on issue of shares in respect of conversion of convertible bonds	7,103	–
Released upon disposal of subsidiaries	–	(12,261)
Total equity as at 31 December	(36)	15,697

The accompanying notes form an integral part of these financial statements.



CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 31 December 2004

	Six months ended	
	31 December	
	2004	2003
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Net cash (outflow)/inflow from operating activities	(6,733)	22,111
Net cash outflow from investing activities	(1,546)	(23,100)
Net cash inflow from financing activities	6,850	4,125
(Decrease)/increase in cash and cash equivalents	(1,429)	3,136
Cash and cash equivalents at beginning of period	1,942	2,639
Cash and cash equivalents at end of period	513	5,775
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	513	5,775

The accompanying notes form an integral part of these financial statements.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

for the six months ended 31 December 2004

1. BASIS OF PREPARATION

The condensed consolidated interim financial statements have been prepared in accordance with Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and Appendix 16 of the Listing Rules.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated interim financial statements have been prepared under the historical cost convention as modified for the revaluation of certain properties.

The accounting policies and method of computation used in the preparation of these condensed consolidated interim financial statements are consistent with those used in the Group's audited financial statements for the year ended 30 June 2004.



3. SEGMENT INFORMATION

(a) Business Segments

The Group is principally engaged in the selling of multimedia electronic products and provision of telecommunication and system integration services. In the last corresponding period, the Group was also engaged in the trading of toys and game products.

	Six months ended 31 December 2004 (Unaudited)				
	Multimedia electronic products HK\$'000	Toys and games products HK\$'000	Telecom- munication and system integration HK\$'000	Others HK\$'000	Consolidated HK\$'000
Revenue from external customers	<u>52,309</u>	<u>—</u>	<u>230</u>	<u>16</u>	<u>52,555</u>
Segment results	<u>4,810</u>	<u>—</u>	<u>78</u>	<u>2</u>	<u>4,890</u>
Interest income and unallocated gains					43
Unallocated corporate expenses					<u>(15,394)</u>
Loss from operations					(10,461)
Amortisation on goodwill					(393)
Finance costs					(920)
Gain on disposal of subsidiary					<u>4</u>
Loss before taxation					(11,770)
Taxation					<u>—</u>
Loss before minority interests					(11,770)
Minority interests					<u>1,346</u>
Loss for the period					<u>(10,424)</u>

3. SEGMENT INFORMATION (CONTINUED)

(a) Business Segments (CONTINUED)

Six months ended 31 December 2003 (Unaudited)

	Multimedia electronic products HK\$'000	Toys and games products HK\$'000	Telecom- munication products HK\$'000	Others HK\$'000	Consolidated HK\$'000
Revenue from external customers	15,950	4,542	21,588	1,288	43,368
Segment results	3,433	978	2,298	277	6,986
Interest income and unallocated gains					1,186
Revaluation increase in investment properties					6,500
Unallocated corporate expenses					(9,857)
Profit from operations					4,815
Amortisation on goodwill					(5)
Finance costs					(1,973)
Gain on disposal of subsidiaries					68,580
Profit before taxation					71,417
Taxation					—
Profit before minority interests					71,417
Minority interests					—
Net profit for the period					71,417

There are no sales or other transactions between the business segments.

Analysis of assets and liabilities by business segments has not been disclosed as most of the Group's assets and liabilities are unallocated.



3. SEGMENT INFORMATION (CONTINUED)

(b) Geographical Segments (CONTINUED)

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers. More than 90% of the Group's assets are located in the region of Hong Kong and Mainland China. Accordingly, analysis of segment assets based on geographical segments has not been disclosed.

	Six months ended 31 December 2004 (Unaudited)				
	North		Japan	Local and	
	America	Europe		others	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers	3,443	5,221	21	43,870	52,555
Segment results	842	964	21	3,063	4,890

	Six months ended 31 December 2003 (Unaudited)				
	North		Japan	Local and	
	America	Europe		others	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers	4,524	2,229	377	36,238	43,368
Segment results	974	480	81	5,451	6,986

There are no sales between the geographical segments.

4. DEPRECIATION

During the period, the following depreciation and amortisation have been charged to the Group's condensed consolidated income statement.

	Six months ended	
	31 December	
	2004	2003
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Depreciation of property, plant and equipment	419	495
Amortisation of intangible assets	393	5
Amortisation of issue costs of convertible bonds	—	3

5. GAIN ON DISPOSAL OF SUBSIDIARIES

	Six months ended	
	31 December	
	2004	2003
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Disposal of net liabilities shared by the Group	46	103,333
Amount due by the subsidiaries	(42)	(47,013)
Asset revaluation reserve released	–	1,460
Capital reserve on consolidation released	–	10,800
	<u>4</u>	<u>68,580</u>
Gain on disposal	<u>4</u>	<u>68,580</u>

6. TAXATION

No provision for Hong Kong and PRC profits tax has been made as there were no assessable profits derived from Hong Kong and PRC for the current and last corresponding periods.

7. INTERIM DIVIDEND

The directors do not recommend the payment of an interim dividend for the current period (2003: Nil).

8. (LOSS)/EARNING PER SHARE

The calculation of basic (loss)/earning per share is based on the following data:

	Six months ended	
	31 December	
	2004	2003
		(Restated)
(Loss)/profit for the period for the purposes of basic (loss)/earning per share (in HK\$'000)	<u>(10,424)</u>	<u>71,471</u>
Weighted average of ordinary shares for the purposes of basic (loss)/earning per share	<u>269,562,795</u>	<u>257,785,169</u>

Pursuant to a resolution passed by the shareholders of the Company at a special general meeting on 17 December 2004, every forty of the authorised, issued and unissued ordinary shares of HK\$0.01 each in the share capital of the Company were consolidated into one share of HK\$0.40 each.



8. (LOSS)/EARNING PER SHARE (CONTINUED)

The weighted average number of ordinary shares in 2003 for the purposes of calculating the basic earning per share have been retrospectively adjusted for the forty-to-one share consolidation which took place in December 2004.

There were no potential dilutive shares in existence for the six months ended 31 December 2004 and, accordingly no diluted loss per share has been presented.

The calculation of diluted earning per ordinary share for the last corresponding share was based on the following data:

	<i>HK\$'000</i>
Earnings for calculation of basic earnings per ordinary share (net profit attributable to ordinary shareholders)	71,417
Effect of dilutive potential ordinary shares	
— interest on convertible bonds	138
	<hr/>
Earnings for calculation of diluted earning per ordinary share	71,555
	<hr/>
	Number of shares
	<i>'000</i>
	(Restated)
Weighted average number of shares used in calculating basic earnings per share	257,785
Effect of dilutive potential ordinary shares	
— Convertible bonds	1,087
	<hr/>
Weighted average number of shares used in calculating diluted earning per ordinary share	258,872
	<hr/>

9. INTANGIBLE ASSETS

The changes in the net book value of intangible assets for the six months ended 31 December 2004 are analysed as follows:

	<i>HK\$'000</i>
At 1 July 2004 (Audited)	80
Goodwill arisen on acquisition of a subsidiary (Note 14)	4,675
Amortisation charged for the period	(393)
	<hr/>
At 31 December 2004 (Unaudited)	4,362
	<hr/>

10. PROPERTY, PLANT AND EQUIPMENT

The changes in the net book value of property, plant and equipment for the six months ended 31 December 2004 are analysed as follows:

	<i>HK\$'000</i>
At 1 July 2004 (Audited)	1,368
Additions to:	
Furniture, fixtures and equipment	174
Additions on acquisition of a subsidiary	2,711
Depreciation charged for the period	(419)
Disposal of fixed assets	(1,032)
	<hr/>
At 31 December 2004 (Unaudited)	2,802
	<hr/>

11. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are trade debtors of approximately HK\$8,212,000 (at 30 June 2004: HK\$2,440,000) with the following aged analysis:

	31 December 2004 (Unaudited) <i>HK\$'000</i>	30 June 2004 (Audited) <i>HK\$'000</i>
Within 90 days	7,151	1,373
Over 90 days	1,061	1,067
	<hr/>	<hr/>
	8,212	2,440
	<hr/>	<hr/>

The Group allows an average credit period of 60-90 days (30 June 2004: 90-180 days) to its trade customers.

12. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payable of approximately HK\$4,596,000 (at 30 June 2004: HK\$2,181,000) with the following aged analysis:

	31 December 2004 (Unaudited) <i>HK\$'000</i>	30 June 2004 (Audited) <i>HK\$'000</i>
Within 90 days	1,784	1,598
Over 90 days	2,812	583
	<hr/>	<hr/>
	4,596	2,181
	<hr/>	<hr/>



13. SHARE CAPITAL

	Number of shares	Nominal value HK\$'000
<i>Authorised:</i>		
At beginning of period		
ordinary shares of HK\$0.01 each	20,000,000,000	200,000
Share consolidation (Note)	(19,500,000,000)	—
	<hr/>	<hr/>
	500,000,000	200,000
Increase in authorised share capital	750,000,000	300,000
	<hr/>	<hr/>
At end of period		
ordinary shares of HK\$0.40 each	1,250,000,000	500,000
	<hr/>	<hr/>
<i>Issued and fully paid:</i>		
At beginning of period		
ordinary shares of HK\$0.01 each	10,614,124,132	106,141
Exercise of share options	50,000,000	500
Conversion of convertible bonds	888,888,888	8,889
	<hr/>	<hr/>
	11,553,013,020	115,530
Share consolidation (Note)	(11,264,187,695)	—
	<hr/>	<hr/>
At end of period		
ordinary shares of HK\$0.40 each	288,825,325	115,530
	<hr/>	<hr/>

At 31 December 2004, no share option (at 30 June 2004: 50,000,000 share options) was outstanding.

Note: Pursuant to a resolution passed by the shareholders of the Company at a special general meeting on 17 December 2004, every forty of the authorised, issued and unissued ordinary shares of HK\$0.01 each in the share capital of the Company were consolidated into one share of HK\$0.40 each.

14. ACQUISITION OF A SUBSIDIARY

	<i>HK\$'000</i>
Cash	(16,100)
Net assets acquired by the Group	11,425
Goodwill (Note 9)	4,675
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On 10 September 2003, Transfer Networks Limited (“TNL”), a wholly-owned subsidiary of the Company, entered into a conditional Investment Agreement (the “Investment Agreement”) with the shareholders of SRT, inter alia, to invest RMB17,000,000 (approximately HK\$16,100,000) in registered share capital of SRT.

On 21 July 2004, all of the conditions were fulfilled and the Investment Agreement was completed. As such, SRT was treated as a direct subsidiary of TNL and an indirect subsidiary of the Company.

15. CONTINGENT LIABILITIES

- (i) The Company and its ex-subsiary, P.N. Electronics Ltd. (“PNE”), are in an arbitration with North American Foreign Trading Corporation (“NAFT”) in respect of a gross receivable of HK\$18 million and related damages from various parties for goods shipped by PNE to NAFT in 1996. The arbitration proceedings was initiated by NAFT against the Company and PNE claiming for alleged damages in New York, USA. The Company has, upon legal advice, vigorously contested the alleged claims and has counterclaimed for the said sum of HK\$18 million as well as other damages in the said proceedings. As this time, the action is in a standstill and thus it is not possible to predict the outcome with reasonable certainty. Provision for the receivable amount of HK\$18 million was made. A provision of approximately HK\$18 million was made in the financial statements for the year ended 30 June 2003.
- (ii) By a Writ and Statement of Claim dated 13 October 2003, BII Finance Company Limited (“BII Finance”) has made a claim against the Company under a guarantee allegedly given by the Company in favour of BII Finance in respect of certain alleged liabilities of the Company’s ex-subsiary, Wellback Enterprises Limited. The claim is for a sum of approximately HK\$3,583,000 and US\$248,000 (equivalent to approximately HK\$1,934,000) together with interest and costs. The claim is being disputed by the Company. The Company has joined its former directors, Mr Lee Chun Kwok and Mr Fong Wing Seng, as third parties to the action. The Company’s Defence was filed on 1 December 2003. BII Finance has now taken out summary judgment proceedings against the Company, Mr. Lee and Mr. Fong which was heard before the High Court on 2 and 3 November 2004. The hearing has yet to conclude and a further two days have been fixed for the adjourned hearing of BII Finance’s application for summary judgment, on 14 and 15 April 2005.



16. SUBSEQUENT EVENTS

The following significant events occurred subsequent to the balance sheet date:

- (a) During the period under review, the Group has contracted to acquire land and building at a consideration of approximately HK\$21.9 million. The transaction was completed on 17 February 2005.
- (b) Pursuant to settlement agreements between the Company and Ms. Tsim Shui Ting ("Ms. Tsim") and Asano (Pte) Limited ("APL") on 7 February 2005 respectively, the Company has agreed to allot and issue 21,732,430 new shares and 2,998,356 new shares, all credited as fully paid, at HK\$0.40 each to Ms Tsim and APL respectively.
- (c) On 12 November 2004, an agreement was entered into between the Company and independent third parties, pursuant to which the independent third parties agreed to subscribe for and the Company agreed to issue 225,000,000 new shares of the Company at a subscription price of HK\$0.40 each. The subscription agreement was completed on 21 January 2005.

17. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current period's presentation.

18. APPROVAL OF INTERIM FINANCIAL REPORT

The interim financial report was approved by the Board of Directors on 21 March 2005.

By Order of the Board
Yu Kam Kee, Lawrence
M.B.E., J.P.
Chairman

Hong Kong, 21 March 2005