11. Share capital

	No. of ordinary shares	Share capital HK$'000
Ordinary shares of HK$0.10 each		
Authorised:		
At 31 December 2004 and 30 June 2005	1,000,000,000	100,000
Issued and fully paid		
At 31 December 2004 and 30 June 2005	302,100,000	30,210

12. Subsequent events

On 31 August 2005, the Company entered into a loan agreement with a syndicate of banks for a three-year term loan facility amounting to US$16,000,000 to finance the Company's general working capital requirements.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2005 (1.4.2004 to 30.9.2004: nil).

REVIEW AND OUTLOOK

Financial Review

Performance

During the period, the Group obtained a nationwide distribution right for Nokia's new handset model 6021. This together with other four nationwide distribution models, 7610, 3220, 2600 and N-Gage QD, and other provincial distribution models, 3100 and 2300, enabled the group maintain a high and stable turnover and push its sales to a record high for the period. The total number of handsets sold in the first six months of 1,484,000 sets represents an increase of 21% as compared with that of 1,222,000 sets sold in the six months ended 30 September 2004 and maintained the same momentum as in the last quarter of 2004 of total 741,000 sets per quarter. As most of the above models were launched in the second half of 2004, the strong demand from the market is expected to continue throughout the whole year of 2005. The consolidated turnover for the six months ended 30 June 2005 of HK$1,541 million represents an increase of approximately 22% as compared with the six months ended 30 September 2004 while, at the same time, the gross profit increased by HK$3.9 million to HK$54.6 million.

Notwithstanding the launch of a new handset and the satisfactory sales during the period, the Group's overall profit margin decreased to 3.5% during the six months period as compared with that of 4.0% for the six months ended 30 September 2004. The decrease was mainly attributable to the keen competition in the market. Leading telecom and home appliances chain stores in China (some were direct supplied by vendors) were cutting price to enlarge their market shares and clear up inventory. To draw attention, they put low price print advertisements for many hot models like 3100 and 2300 at extremely low prices. Even though they only offered limited quantity as a tactic to attract potential buyers, it affected the channel pricing structure and the margin of those products. More seriously, some chain stores even violated their contracts with vendors via wholesales at their back-door and transshipment to other territories to cash in and clear up their excess inventory arising from their incorrect forecasts. To cope with the above, the Group's management was proactively negotiating with vendors and chains stores to rectify the situation during the period and, as a result, vendors came up with a stricter penalty clause which effectively prevented further price erosion and transshipment from chain stores. Subsequent to the end of July, the situation was basically rectified.

In additions, since the second half of 2004, various domestic manufacturers in China have been facing problems like piling up of inventory, dropping of margin and market shares and shortage of cash. They got no other alternatives but to reduce prices on many of their current models and even some new models. In order to compete and keep up volume and market share, the Group decided to adjust the competing models pricing temporary. However, the situation has been improved and some of the domestic manufacturers has had already out of the industry.

At the same time, it was also the Group's strategy to expand its sales and marketing team to cover smaller cities and counties with an aim to enlarge its geographical coverage down to third and fourth tier cities, to capture higher market share and to deepen market penetration. During the period, the number of customers increased continuously up to 8,000, which successfully built up a firm foundation for our client base. In view of this, the Group will start focusing on increasing its profit margin in the last quarter of 2005 by adopting a more flexible pricing policy and negotiating with suppliers for more favorable terms. This together with the coming high season, the Group expects that the performance as well as the profit margin will improve in the second half year.

On the other hand, the Group continues to explore other possibilities in developing different distribution models with a view to create higher added value for both its customers and suppliers, and hence higher and steady revenue for the Group.

The distribution costs increased from HK$9.8 million for the six months ended 30 September 2004 to HK$17.4 million for the six months ended 30 June 2005 which was mainly due to higher staff costs arising from the increase in number of staffs and transportation costs for increasing geographical coverage and deepening market penetration. The increase in other operating expenses was mainly due to the additional provision for doubtful debts of HK$4.7 million made during the period in accordance with the Group's policies and practices. As a result, the Group reports an interim operating profit of HK$24.3 million for the six months ended 30 June 2005, HK$4.9 million lower than that of the six months ended 30 September 2004 while profit for the period reduced by HK$6.8 million to HK$9.4 million. Nevertheless, the Group has already started to streamline its operation and to review its operating costs and finance costs critically, which should improve its bottom line in the second half of the year accordingly.

Treasury Policies, Liquidity and charge on assets

As at 30 June 2005, the Group's aggregate bank borrowings amounted to approximately HK$478 million, of which HK$380 million is revolving working capital loans denominated in Renminbi to provide flexibility to the Group in response to the changing monthly trading volume. The gearing ratio of the Group, calculated as non-current liabilities to equity attributable to equity holders of the parent was approximately 15%. The total bank deposits and cash balances amounted to approximately HK$289 million, of which HK$200 million has been pledged to banks as securities for Renminbi and Hong Kong dollars short term revolving trade related bank facilities. The interest rates for all the loans are fixed on monthly, bi-monthly, quarterly or semi-annual basis. However, due to the continuous increase in interest rate, the finance costs for the six months ended 30 June 2005 increased by HK$3.2 million to HK$11.8 million. The interest cover is approximately 2.1 times. To cope with the increasing trend in the interest rate, the Group has just arranged a three-year term loan of USD16 million with a lower interest rate than our existing facilities. This will help the Group in reducing higher interest rate Renminbi revolving working capital loans and, hence, to lower the finance costs.

During the period, there was no material change in 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 of Renminbi and Hong Kong dollar is relatively stable, the risk of currency exposure is considered minimal and there is no financial instruments used for hedging purposes.

Working Capital

The amount of inventory as at 30 June 2005 of HK$410 million represents approximately 49 days stock turnover as compare to 38 days stock turnover based on the inventory level of HK$280 million as at 31 December 2004. The increase in inventory as well as stock turnover period is mainly attributable to the increase in turnover and carrying more inventories for the initial startup of taking up new brands and models as well as seasonal factor as June is a slack month as opposite to December which is the peak of the year. Substantially all the inventories are current models of mobile phones and no significant provision for obsolescence is necessary. Besides, any drop in price of the product has no material impact on the financial position of the Group, as it will be covered by pre-arranged price rebates from suppliers.

The amount of trade receivable as at 30 June 2005 of HK$105 million represents approximately 12 days debtor's turnover period as compare to 25 days as at 31 December 2004. The decrease in debtor's turnover period is mainly due to the Group tightening credit control during the slack season to reduce credit risk exposure. The Group continues to adopt a very tight credit control policy and most of the sales are on either cash basis or limited credit period of less than 30 days. During the period, a provision of HK$4.7 million was made on doubtful debts, which represents less than 0.2% of the Group's annual turnover.

Employees

As at 30 June 2005, the Group had a total number of 1,445 employees, which included 1,333 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 was 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 December 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 June 2005.