



Sunlink International Holdings Limited

科浪國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)



2005
Interim Report

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Corporate Information

EXECUTIVE DIRECTORS

Wong Shu Wing (*Chairman*)
Kwan Kim Fai, Stanley
Choi Tat Kai
Lau Kit Hung

INDEPENDENT NON-EXECUTIVE DIRECTORS

Lau Chung Kwan
Yeung Ming Tai
Chang Kin Man

COMPANY SECRETARY

Lee Chak To

PRINCIPAL BANKERS

Shanghai Commercial Bank Ltd.
DBS Bank (Hong Kong) Limited
Standard Chartered Bank (HK) Limited
Bank of China (Hong Kong) Limited

AUDITORS

Deloitte Touche Tohmatsu

REGISTERED OFFICE

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681GT
George Town
Grand Cayman
British West Indies

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1905-07
Tower III, Enterprise Square,
9 Sheung Yuet Road,
Kowloon Bay
Kowloon
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Butterfield International
(Cayman) Ltd
P.O. Box 705
Butterfield House
68 Fort Street
George Town
Grand Cayman
Cayman Islands
British West Indies

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Standard Registrars Limited
Ground Floor
Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

Condensed Consolidated Income Statement

For the six months ended 30 June 2005

| | Notes | Six months ended | |
|-------------------------------------|-------|--------------------------------------|---|
| | | 30.6.2005 HK\$'000 (unaudited) | 30.6.2004 HK\$'000 (restated and unaudited) |
| Revenue | 4 | 293,110 | 225,605 |
| Cost of sales | | (267,520) | (202,069) |
| Gross profit | | 25,590 | 23,536 |
| Other operating income | 5 | 3,591 | 1,590 |
| Selling and distribution costs | | (6,902) | (6,871) |
| General and administrative expenses | | (15,469) | (11,163) |
| Amortization of technology know-how | | (1,365) | (1,365) |
| Finance costs | 6 | (2,430) | (2,294) |
| Profit before taxation | 7 | 3,015 | 3,433 |
| Income tax expenses | 8 | (1,396) | (128) |
| Profit for the period | | 1,619 | 3,305 |
| Attributable to: | | | |
| Equity holders of the parent | | 1,606 | 3,282 |
| Minority interests | | 13 | 23 |
| | | 1,619 | 3,305 |
| Earnings per share | 10 | HK cents | HK cents |
| Basic | | 0.3 | 0.7 |
| Diluted | | 0.3 | N/A |

Condensed Consolidated Balance Sheet

At 30 June 2005

| | Notes | 30.6.2005 HK\$'000 (unaudited) | 31.12.2004 HK\$'000 (restated and audited) |
|--|-------|--------------------------------------|---|
| Non-current assets | | | |
| Investment properties | 11 | 1,950 | 1,950 |
| Property, plant and equipment | 11 | 10,134 | 8,746 |
| Available-for-sale investments | | 3,748 | — |
| Investment in securities | | — | 4,968 |
| Technology know-how | | 1,365 | 2,730 |
| | | 17,197 | 18,394 |
| Current assets | | | |
| Investments held for trading | | 17 | — |
| Investment in securities | | — | 23 |
| Inventories | | 47,624 | 31,433 |
| Debtors, deposits and prepayments | 12 | 142,689 | 119,608 |
| Tax recoverable | | 2,735 | 3,276 |
| Forward contracts financial assets | | 158 | — |
| Pledged bank deposits | | 24,523 | 23,317 |
| Bank balances and cash | | 42,137 | 35,482 |
| | | 259,883 | 213,139 |
| Current liabilities | | | |
| Creditors and accrued charges | 13 | 76,132 | 70,116 |
| Bills payables | | 6,435 | — |
| Taxation | | 2,009 | 1,628 |
| Obligations under a finance lease | | 47 | 45 |
| Trust receipt loans | | 77,375 | 61,870 |
| Short term borrowings — secured | | 30,287 | 12,791 |
| | | 192,285 | 146,450 |
| Net current assets | | 67,598 | 66,689 |
| Total assets less current liabilities | | 84,795 | 85,083 |

Condensed Consolidated Balance Sheet

At 30 June 2005

| | Notes | 30.6.2005 HK\$'000 (unaudited) | 31.12.2004 HK\$'000 (restated and audited) |
|--|-------|---|---|
| Non-current liabilities | | | |
| Obligations under a finance lease | | 55 | 81 |
| Deferred taxation | 14 | 474 | — |
| | | 529 | 81 |
| | | 84,266 | 85,002 |
| Capital and reserves | | | |
| Share capital | 15 | 47,300 | 47,300 |
| Reserves | | 36,179 | 36,909 |
| Equity attributable to equity holders of the parent | | 83,479 | 84,209 |
| Minority interests | | 787 | 793 |
| | | 84,266 | 85,002 |

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2005

| | Attributable to equity holders of parent | | | | | | | | | |
|--|--|---------------------------|-----------------------------|---|--|---------------------------------|---------------------------------|-------------------|-----------------------------------|-------------------|
| | Share capital HK\$'000 | Share premium HK\$'000 | Special reserve HK\$'000 | Investment property reserve HK\$'000 | Investment revaluation reserve HK\$'000 | Exchange reserve HK\$'000 | Retained profits HK\$'000 | Total HK\$'000 | Minority interests HK\$'000 | Total HK\$'000 |
| At 1 January 2004 | 40,000 | 51,043 | (64,907) | — | — | (2) | 42,361 | 68,495 | 747 | 69,242 |
| Exchange differences arising on translation of overseas operations recognised directly in equity | — | — | — | — | — | (7) | — | (7) | — | (7) |
| Profit for the period | — | — | — | — | — | — | 3,282 | 3,282 | 23 | 3,305 |
| Total recognised income and expense for the period | — | — | — | — | — | (7) | 3,282 | 3,275 | 23 | 3,298 |
| Shares issued at premium on placing and subscription | 7,300 | 2,774 | — | — | — | — | — | 10,074 | — | 10,074 |
| Share issue expenses | — | (288) | — | — | — | — | — | (288) | — | (288) |
| At 30 June 2004 | 47,300 | 53,529 | (64,907) | — | — | (9) | 45,643 | 81,556 | 770 | 82,326 |
| Revaluation increase on revaluation of investment property | — | — | — | 136 | — | — | — | 136 | — | 136 |
| Exchange differences arising on translation of overseas operations | — | — | — | — | — | 18 | — | 18 | — | 18 |
| Total income recognised directly in equity | — | — | — | 136 | — | 18 | — | 154 | — | 154 |
| Profit for the period | — | — | — | — | — | — | 2,499 | 2,499 | 23 | 2,522 |
| Total recognised income for the period | — | — | — | 136 | — | 18 | 2,499 | 2,653 | 23 | 2,676 |
| At 31 December 2004 | 47,300 | 53,529 | (64,907) | 136 | — | 9 | 48,142 | 84,209 | 793 | 85,002 |
| At 1 January 2005 | 47,300 | 53,529 | (64,907) | 136 | — | 9 | 48,142 | 84,209 | 793 | 85,002 |
| Effects of changes in accounting policies (see notes 2 and 3) | — | — | — | (136) | — | — | (2,177) | (2,313) | (19) | (2,332) |
| As restated | 47,300 | 53,529 | (64,907) | — | — | 9 | 45,965 | 81,896 | 774 | 82,670 |

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2005

| | Attributable to equity holders of parent | | | | | | | | | |
|---|--|---------------------------|-----------------------------|---|--|---------------------------------|---------------------------------|-------------------|-----------------------------------|-------------------|
| | Share capital HK\$'000 | Share premium HK\$'000 | Special reserve HK\$'000 | Investment property reserve HK\$'000 | Investment revaluation reserve HK\$'000 | Exchange reserve HK\$'000 | Retained profits HK\$'000 | Total HK\$'000 | Minority interests HK\$'000 | Total HK\$'000 |
| Gain arising from fair value changes of available-for-sale investments | — | — | — | — | 34 | — | — | 34 | — | 34 |
| Exchange differences arising on translation of overseas operations | — | — | — | — | — | 2 | — | 2 | — | 2 |
| Net income and expense recognised directly in equity | — | — | — | — | 34 | 2 | — | 36 | — | 36 |
| Release the amount previously adjusted to the retained profits on initial application of HK39 upon disposal of available-for-sale investments | — | — | — | — | — | — | (59) | (59) | — | (59) |
| Profit for the period | — | — | — | — | — | — | 1,606 | 1,606 | 13 | 1,619 |
| Total recognised income and expense for the period | — | — | — | — | 34 | 2 | 1,547 | 1,583 | 13 | 1,596 |
| At 30 June 2005 | 47,300 | 53,529 | (64,907) | — | 34 | 11 | 47,512 | 83,479 | 787 | 84,266 |

Note: Special reserve represents the difference between the paid up capital of the then holding companies of the subsidiaries acquired as a result of the group reorganisation which had been completed on 20 December 2002 and the costs of investments in subsidiaries of the Company.

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2005

| | Six months ended | |
|--|---|--------------------------------------|
| | 30.6.2005 HK\$'000 (unaudited) | 30.6.2004 HK\$'000 (unaudited) |
| Net cash (used in) from operating activities | (23,391) | 33,627 |
| Net cash (used in) from investing activities | (1,026) | 2,092 |
| Net cash from (used in) financing activities: | | |
| Proceeds on issue of shares | — | 10,074 |
| Share issue expenses | — | (288) |
| New bank loans raised | 26,963 | — |
| Repayment of bank loans | (14,712) | (5,670) |
| Repayment of obligation under finance leases | (24) | (23) |
| Increase (decrease) in trust receipt loans | 15,505 | (19,895) |
| Decrease in discounting advances drawn on trade debtors | (232) | — |
| Increase in other bank borrowings | 4,542 | — |
| Decrease in other borrowings | (1,907) | (9,383) |
| | 30,135 | (25,185) |
| Net increase in cash and cash equivalents | 5,718 | 10,534 |
| Cash and cash equivalents at 1 January | 34,019 | 23,592 |
| Effect of change in foreign exchange rate | 2 | (7) |
| Cash and cash equivalents at 30 June | 39,739 | 34,119 |
| ANALYSIS OF THE BALANCE OF CASH AND CASH EQUIVALENTS | | |
| Bank balances and cash | 42,137 | 34,119 |
| Bank overdrafts | (2,398) | — |
| | 39,739 | 34,119 |

Notes to the Condensed Financial Statements

For the six months ended 30 June 2005

1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Company is an exempted company with limited liability in the Cayman Islands under the Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company is an investment holding company.

The condensed 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 and with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at revalued amounts or fair values, as appropriate.

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the annual financial statements of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2004 except as described below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (“HKFRSs”), Hong Kong Accounting Standards (“HKASs”) and Interpretations (hereinafter collectively referred to as “new HKFRSs”) issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. In particular, the presentation of minority interests has been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has results in changes to the Group’s accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented.

Notes to the Condensed Financial Statements

For the six months ended 30 June 2005

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

Business Combinations

In the current period, the Group has applied HKFRS 3, "Business Combinations", which is effective for business combinations for which the agreement date is on or after 1 January 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

Goodwill

In previous periods, goodwill arising on acquisitions prior to 1 January 2001 was held in reserves, and goodwill arising on acquisitions after 1 January 2001 was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. Goodwill previously capitalised on the balance sheet, the Group has discontinued amortising such goodwill from 1 January 2005 onwards and goodwill will be tested for impairment at least annually/in the financial year in which the acquisition takes place. Goodwill arising on acquisitions after 1 January 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. This change has had no effect on the results of both the current and prior period as the goodwill was fully amortised on 31 December 2004.

Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as "negative goodwill")

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognised immediately in profit or loss in the period in which the acquisition takes place. In previous periods, negative goodwill arising on acquisitions prior to 1 January 2001 was held in reserves, and negative goodwill arising on acquisitions after 1 January 2001 was presented as a deduction from assets and released to income based on an analysis of the circumstances from which the balance resulted. This change has had no effect on the results of both the current and prior period as the negative goodwill was fully released on 31 December 2004.

Notes to the Condensed Financial Statements

For the six months ended 30 June 2005

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

Financial Instruments

In the current period, the Group has applied HKAS 32 “Financial Instruments: Disclosure and Presentation” and HKAS 39 “Financial Instruments: Recognition and Measurement”. HKAS 32 requires retrospective application. The application of HKAS 32 has had no material effect on the presentation of financial instruments in the financial statements of the Group. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

By 31 December 2004, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 (“SSAP 24”). Under SSAP 24, investments in debt or equity securities are classified as “investment securities”, “other investments” or “held-to-maturity investments” as appropriate. “Investment securities” are carried at cost less impairment losses (if any) while “other investments” are measured at fair value, with unrealised gains or losses included in the profit or loss. Held-to-maturity investments are carried at amortised cost less impairment losses (if any). From 1 January 2005 onwards, the Group classifies and measures its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as “financial assets at fair value through profit or loss”, “available-for-sale financial assets”, “loans and receivables”, or “held-to-maturity financial assets”. The classification depends on the purpose for which the assets are acquired. “Financial assets at fair value through profit or loss” and “available-for-sale financial assets” are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. “Loans and receivables” and “held-to-maturity financial assets” are measured at amortised cost using the effective interest method.

Notes to the Condensed Financial Statements

For the six months ended 30 June 2005

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

Financial Instruments (Cont'd)

Classification and measurement of financial assets and financial liabilities (Cont'd)

The Group classified and measured its debt and equity securities in accordance with the requirements of HKAS 39. Adjustments to the Group's previous carrying amounts of assets, liabilities and retained profits were made on 1 January 2005 (see note 3 for the financial impact).

Derivatives and hedging

By 31 December 2004, the Group's derivative financial instruments, representing foreign-currency forward contracts, were used to manage the Group's exposure to exchange rate fluctuation. These derivatives were previously recorded off the balance sheet.

From 1 January 2005 onwards, all derivatives that are within the scope of HKAS 39 are required to be carried at fair value at each balance sheet date regardless of whether they are deemed as held for trading or designated as effective hedging instruments. Under HKAS 39, derivatives (including embedded derivatives separately accounted for from the host contracts) are deemed as held-for-trading financial assets or financial liabilities, unless they qualify and are designated as effective hedging instruments. The corresponding adjustments on changes in fair values would depend on whether the derivatives are designated as effective hedging instruments, and if so, the nature of the item being hedged. All derivatives are deemed as held for trading, changes in fair values of such derivatives are recognised in profit or loss for the period in which they arise.

The Group has applied the relevant transitional provisions in HKAS 39, resulting in recognition of a decrease in fair value changes on foreign currency forward contracts, that are deemed as held for trading, as at 1 January 2005 (see note 3 for the financial impact).

Notes to the Condensed Financial Statements

For the six months ended 30 June 2005

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

Financial Instruments (Cont'd)

Derecognition

HKAS 39 provides more rigorous criteria for the derecognition of financial assets than the criteria applied in previous periods. Under HKAS 39, a financial asset is derecognised, when and only when, either the contractual rights to the asset's cash flows expire, or the asset is transferred and the transfer qualifies for derecognition in accordance with HKAS 39. The decision as to whether a transfer qualifies for derecognition is made by applying a combination of risks and rewards and control tests. The Group has applied the relevant transitional provisions and applied the revised accounting policy prospectively for transfers of financial assets on or after 1 January 2005. As a result, the Group's discounted bills with full recourse which were derecognised prior to 1 January 2005 have not been restated. As at 30 June 2005, the Group's discounted bills with full recourse have not been derecognised. Instead, the related borrowings of HK\$4,542,000 have been recognised on the consolidated balance sheet. This change has had no material effect on the results for the current period.

Share-based Payments

In the current period, the Group has applied HKFRS 2 "Share-based Payment" which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors' and employees' share options of the Company determined at the date of grant of the share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1 January 2005. In relation to share options granted before 1 January 2005, the Group has not applied HKFRS 2 to share options granted after 7 November 2002 and had vested before 1 January 2005 in accordance with the relevant transitional provisions. This change has had no effect on the results for the results of both the current and prior period.

Notes to the Condensed Financial Statements

For the six months ended 30 June 2005

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

Owner-occupied Leasehold Interest in Land

In previous periods, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current period, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. The Group has considered that the allocation between the land and buildings elements of the Group's leasehold land and buildings cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment. In previous years, the leasehold land was depreciated over the term of lease and buildings were depreciated over the term of lease or forty years, whichever is shorter. During the period, the management reassessed the useful lives of its leasehold land and buildings with effect from 1 January 2005, the buildings were depreciated over the term of lease to consistent with the leasehold land. The change in depreciation rate does not have a material impact on the depreciation charge for the period.

Notes to the Condensed Financial Statements

For the six months ended 30 June 2005

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

Investment Properties

In the current period, the Group has, for the first time, applied HKAS 40 "Investment Property". The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in the profit or loss for the period in which they arise. In previous periods, investment properties under the predecessor standard were measured at open market values, with revaluation surplus or deficits credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and revaluation subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged.

The Group has applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 from 1 January 2005 onwards. The amount held in investment property revaluation reserve at 1 January 2005 has been transferred to the Group's retained profits.

Notes to the Condensed Financial Statements

For the six months ended 30 June 2005

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

Deferred taxes related to investment properties

In previous periods, deferred tax consequences in respect of revalued investment properties were assessed on the basis of the tax consequence that would follow from recovery of the carrying amount of the properties through sale in accordance with the predecessor Interpretation. In the current period, the Group has applied HKAS Interpretation 21 "Income Taxes — Recovery of Revalued Non-Depreciable Assets" which removes the presumption that the carrying amount of investment properties are to be recovered through sale. Therefore, the deferred tax consequences of the investment properties are now assessed on the basis that reflect the tax consequences that would follow from the manner in which the Group expects to recover the property at each balance sheet date. This change has had no material effect on the results of both the current and prior period.

The Group has not early applied the following new Standards or Interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these Standards or Interpretations will have no material impact on the financial statements of the Group.

| | |
|---------------------|--|
| HKAS 19 (Amendment) | Actuarial Gains and Losses, Group Plans and Disclosures |
| HKAS 39 (Amendment) | Cash Flow Hedge Accounting of Forecast Intragroup Transactions |
| HKAS 39 (Amendment) | The Fair Value Option |
| HKFRS 6 | Exploration for and Evaluation of Mineral Resources |
| HKFRS-Int 4 | Determining whether an Arrangement Contains a Lease |
| HKFRS-Int 5 | Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds |

Notes to the Condensed Financial Statements

For the six months ended 30 June 2005

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described above on the results for the current and prior period are as follows:

| | Six months ended | |
|--|-------------------------|-----------|
| | 30.6.2005 | 30.6.2004 |
| | HK\$'000 | HK\$'000 |
| Gain arising from fair value changes of forward contracts financial assets | 2,308 | — |
| Attributable to: | | |
| Equity holders of the parent | 2,288 | — |
| Minority interests | 20 | — |
| | 2,308 | — |

Analysis of increase in profit for the period by line items presented according to their function.

| | Six months ended | |
|------------------------------------|-------------------------|-----------|
| | 30.6.2005 | 30.6.2004 |
| | HK\$'000 | HK\$'000 |
| Increase in other operating income | 2,308 | — |

Notes to the Condensed Financial Statements

For the six months ended 30 June 2005

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES (CONT'D)

The cumulative effects of the application of the new HKFRSs as at 31 December 2004 and 1 January 2005 are summarised below:

| | As at | | As at | Adjustments on | | As at |
|---|-------------|-------------|-------------|-------------------|------------|------------|
| | 31 December | Effect on | | 1 January 2005 on | As at | |
| | 2004 | changes on | 31 December | adoption of | 1 January | 2005 |
| | (originally | adoption of | 2004 | HKAS | (restated) | |
| | stated) | HKAS 1 | (restated) | 32 & 39 | HKAS 40 | (restated) |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Balance sheet items | | | | | | |
| Available-for-sale investments | — | — | — | 4,786 | — | 4,786 |
| Investment held for trading | — | — | — | 23 | — | 23 |
| Investment in securities | 4,991 | — | 4,991 | (4,991) | — | — |
| Forward contracts financial liabilities | — | — | — | (2,150) | — | (2,150) |
| Total effects on assets and liabilities | 4,991 | — | 4,991 | (2,332) | — | 2,659 |
| Retained profits | 48,142 | — | 48,142 | (2,313) | 136 | 45,965 |
| Investment property reserve | 136 | — | 136 | — | (136) | — |
| Minority interests | — | 793 | 793 | (19) | — | 774 |
| Total effects on equity | 48,278 | 793 | 49,071 | (2,332) | — | 46,739 |
| Minority interest | 793 | (793) | — | — | — | — |

Notes to the Condensed Financial Statements

For the six months ended 30 June 2005

4. REVENUE AND SEGMENT INFORMATION

The Group's primary format for reporting segment information is business segments:

For the six months ended 30 June 2005

| | Distribution of semiconductors HK\$'000 | Development and provision of electronic turnkey device solutions HK\$'000 | Elimination HK\$'000 | Consolidated HK\$'000 |
|-------------------------------|---|--|-------------------------|--------------------------|
| Revenue | | | | |
| External sales | 245,046 | 48,064 | — | 293,110 |
| Inter-segment sales | 108 | 46 | (154) | — |
| Total revenue | 245,154 | 48,110 | (154) | 293,110 |
| Segment results | 4,573 | 684 | — | 5,257 |
| Unallocated corporate revenue | | | | 188 |
| Finance costs | | | | (2,430) |
| Profit before taxation | | | | 3,015 |
| Income tax expenses | | | | (1,396) |
| Profit for the period | | | | 1,619 |

Notes to the Condensed Financial Statements

For the six months ended 30 June 2005

4. REVENUE AND SEGMENT INFORMATION (CONT'D)

For the six months ended 30 June 2004

| | Distribution of semiconductors | Development and provision of electronic turnkey device solutions | Elimination | Consolidated |
|-------------------------------|---|---|--------------------|---------------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Revenue | | | | |
| External sales | 197,291 | 28,314 | — | 225,605 |
| Inter-segment sales | 328 | 3,787 | (4,115) | — |
| Total revenue | 197,619 | 32,101 | (4,115) | 225,605 |
| Segment results | 3,614 | 1,325 | — | 4,939 |
| Unallocated corporate revenue | | | | 788 |
| Finance costs | | | | (2,294) |
| Profit before taxation | | | | 3,433 |
| Income tax expenses | | | | (128) |
| Profit for the period | | | | 3,305 |

Notes to the Condensed Financial Statements

For the six months ended 30 June 2005

5. OTHER OPERATING INCOME

| | Six months ended | |
|---|-------------------------|-----------|
| | 30.6.2005 | 30.6.2004 |
| | HK\$'000 | HK\$'000 |
| Commission income | 96 | 5 |
| Compensation income | 128 | 771 |
| Gain arising from fair value changes of forward contracts financial assets | 2,308 | — |
| Interest income | 188 | 10 |
| Management service income | 16 | 53 |
| Programming income | — | 85 |
| Release of negative goodwill | — | 41 |
| Rental income | 116 | 131 |
| Sample income | 101 | — |
| Sundry income | 638 | 494 |
| | 3,591 | 1,590 |

6. FINANCE COSTS

| | Six months ended | |
|---|-------------------------|-----------|
| | 30.6.2005 | 30.6.2004 |
| | HK\$'000 | HK\$'000 |
| Interest on bank borrowings wholly repayable within five years | 1,986 | 1,521 |
| Interest on other borrowings | 440 | 766 |
| Finance lease charges | 4 | 7 |
| | 2,430 | 2,294 |

Notes to the Condensed Financial Statements

For the six months ended 30 June 2005

7. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging:

| | Six months ended | |
|--|-------------------------|-----------|
| | 30.6.2005 | 30.6.2004 |
| | HK\$'000 | HK\$'000 |
| Amortisation of goodwill included in general and administrative expenses | — | 323 |
| Depreciation and amortisation of property, plant and equipment | 598 | 552 |
| Loss on disposal of property, plant and equipment | — | 2 |

8. INCOME TAX EXPENSES

| | Six months ended | |
|-----------------------------------|-------------------------|-----------|
| | 30.6.2005 | 30.6.2004 |
| | HK\$'000 | HK\$'000 |
| The charge comprises: | | |
| Hong Kong Profits Tax | | |
| Current period | 922 | 188 |
| Deferred taxation | | |
| Current period (<i>note 14</i>) | 474 | (60) |
| | 1,396 | 128 |

Hong Kong Profits Tax is calculated at 17.5% (six months ended 30.6.2004: 17.5%) of the estimated assessable profit for the period.

Notes to the Condensed Financial Statements

For the six months ended 30 June 2005

9. DIVIDEND

The directors do not recommend the payment of any interim dividend for the six months ended 30 June 2005 and 30 June 2004.

10. EARNINGS PER SHARE

The calculations of the basic and diluted earnings per share attributable to the ordinary equity holders of the parent for the six months ended 30 June 2005 and 30 June 2004 are based on the profit for the period attributable to the ordinary equity holders of the parent of HK\$1,606,000 (six months ended 30.6.2004: HK\$3,282,000) and on 473,000,000 shares in issue (six months ended 30.6.2004: weighted average number of shares in issue of 448,000,000).

The computation of diluted earnings per share for the six months ended 30 June 2005 does not assume the exercise of the Company's outstanding share options as the exercise prices of those options are higher than the average market prices of the Company's shares for that period.

No diluted loss per share attributable to the ordinary equity holders of the parent for the six months ended 30 June 2004 has been presented as there were no potential dilutive shares in existence during that period.

11. INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

The directors have considered the market value of the Group's investment properties at 30 June 2005 and estimated the investment properties would not materially differ from that which would be determined using fair values at the balance sheet date. Consequently, no change in fair value has been recognised in the current period.

During the period, the Group acquired additional plant and equipment at costs of HK\$1,986,000 (30.6.2004: HK\$246,000) for its business operation and expansion.

Notes to the Condensed Financial Statements

For the six months ended 30 June 2005

12. DEBTORS, DEPOSITS AND PREPAYMENTS

The Group has a policy of allowing average credit period of 30 to 90 days to its trade customers. For certain customers with long-established relationship and good past settlement histories, a longer credit period may be granted.

An aged analysis of trade debtors is as follows:

| | 30.6.2005 | 31.12.2004 |
|---|------------------|------------|
| | HK\$'000 | HK\$'000 |
| Within 30 days | 62,084 | 38,348 |
| Between 31 to 60 days | 33,598 | 23,793 |
| Over 60 days | 27,120 | 38,555 |
| | 122,802 | 100,696 |
| Other debtors, deposits and prepayments | 19,887 | 18,912 |
| | 142,689 | 119,608 |

Included in trade debtors are amounts of HK\$2,582,000 (31.12.2004: HK\$3,231,000) which have been pledged to certain banks to secure the receivable discounting advance facilities.

Notes to the Condensed Financial Statements

For the six months ended 30 June 2005

13. CREDITORS AND ACCRUED CHARGES

An aged analysis of the trade creditors is as follows:

| | 30.6.2005 | 31.12.2004 |
|-------------------------------------|------------------|------------|
| | HK\$'000 | HK\$'000 |
| Within 30 days | 27,887 | 34,785 |
| Between 31 to 60 days | 13,205 | 7,723 |
| Over 60 days | 12,853 | 2,369 |
| | 53,945 | 44,877 |
| Other creditors and accrued charges | 22,187 | 25,239 |
| | 76,132 | 70,116 |

Included in other creditors and accrued charges are other borrowings which were interest bearing of HK\$11,098,000 as at 30 June 2005 (31.12.2004: HK\$13,005,000).

Notes to the Condensed Financial Statements

For the six months ended 30 June 2005

14. DEFERRED TAXATION

The following are the major deferred tax liabilities (assets) recognised by the Group and movements thereon from 1 January 2005 to 30 June 2005:

| | Accelerated tax depreciation | Tax losses | Total |
|--|---|-----------------------|--------------|
| | HK\$'000 | HK\$'000 | HK\$'000 |
| At 1 January 2004 | 166 | (106) | 60 |
| Credit to the income statement | (60) | — | (60) |
| At June 2004 | 106 | (106) | — |
| Charge (credit) to the income statement | 2 | (2) | — |
| At 31 December 2004 | 108 | (108) | — |
| Charge (credit) to the income statement | 558 | (84) | 474 |
| At 30 June 2005 | 666 | (192) | 474 |

At the balance sheet date, the Group has unused tax losses of HK\$12,739,000 (31.12.2004: HK\$11,822,000) available for offset against future profits. A deferred tax asset of HK\$192,000 (31.12.2004: HK\$108,000) has been recognised in respect of HK\$1,099,000 (31.12.2004: HK\$619,000) of such losses. No deferred tax assets has been recognised in respect of the remaining HK\$11,640,000 (31.12.2004: HK\$11,203,000) due to the unpredictability of future profit streams.

Notes to the Condensed Financial Statements

For the six months ended 30 June 2005

15. SHARE CAPITAL

| | Number of shares | Amount HK'000 |
|---|-----------------------------|--------------------------|
| Ordinary shares of HK\$0.1 each: | | |
| Authorised: | | |
| At 1 January 2004, 31 December 2004 and 30 June 2005 | 1,000,000,000 | 100,000 |
| Issued and fully paid: | | |
| At 1 January 2004 | 400,000,000 | 40,000 |
| Issue of shares upon the placing and subscription | 73,000,000 | 7,300 |
| At 31 December 2004 and 30 June 2005 | 473,000,000 | 47,300 |

The following changes in the share capital of the Company took place during the period from 1 January 2004 to 30 June 2005:

On 20 February 2004, a placing and subscription agreement ("Agreement") was entered into between the Company, Best Eagle International Ltd. ("Best Eagle"), a substantial shareholder of the Company, and an independent placing agent. Pursuant to the Agreement, Best Eagle agreed to place through the placing agent not less than 60,000,000 shares and up to 80,000,000 shares at the price of HK\$0.138 per placing share and Best Eagle would subscribe for the same number of shares sold under the placing at the same price of HK\$0.138 per share. The subscription was completed on 4 March 2005 and a total of 73,000,000 shares have been placed and subscribed.

Notes to the Condensed Financial Statements

For the six months ended 30 June 2005

16. CAPITAL COMMITMENT

At 30 June 2005, the Group has capital commitment of HK\$324,000 representing acquisition of property, plant and equipment authorised but not contracted for. At 31 December 2004, the Group had no capital commitments.

17. PLEDGE OF ASSETS

The Group pledged the following assets to secure general banking facilities at the balance sheet date:

| | 30.6.2005 | 31.12.2004 |
|--------------------------------|------------------|------------|
| | HK\$'000 | HK\$'000 |
| Bank deposits | 24,523 | 23,317 |
| Available-for-sale investments | 3,748 | — |
| Investment in securities | — | 4,968 |
| Investment properties | 1,950 | 1,950 |
| Leasehold land and buildings | 5,874 | 5,948 |
| Trade debtors | 2,582 | 3,231 |
| | 38,677 | 39,414 |

Management Discussion and Analysis

FINANCIAL REVIEW

Results

In the first half of 2005, the Group recorded an increase of approximately 69.8% and 24.2% in turnover comparing with the same period of 2004 for the business of development and provision of electronic turnkey device solutions and distribution of semiconductors respectively. It was mainly attributable to the Group's continuing effort in (i) developing its businesses of system integration in the M2M market ("M2M" includes all the communication products (wire and wireless) between "Mobile to Machine", "Machine to Machine" and "Man to Machine"), especially for "Telemetric" (embedded wireless communication into metering machine) and "Telematics" (embedded wireless communication and location capturing functions into vehicles); (ii) developing new turnkey device solutions for multimedia products including MP3 players, PMP ("Portable Media Player"), etc.. However, the positive effects brought by the abovementioned was diluted by the dropping in profit margin of the business of distribution of semiconductors resulted from the fierce competition in the market of distribution of semiconductors and cost control measures implemented by its customers under the uncertainties of escalating crude oil prices and material costs.

In the first half of 2005, the Group achieved a turnover of approximately HK\$293.1 million (30.6.2004: HK\$225.6 million), an increase of approximately 29.9% comparing with the same period of 2004. Gross profit margin as a whole was approximately 9%, down by approximately 1% point from the same period of 2004. Profit for the period of the Group was approximately HK\$1.6 million (30.6.2004: HK\$3.3 million), a decrease of approximately 51.0% from the same period of the previous year.

Financial Resources and Liquidity

As at 30 June 2005, the Group had cash and bank balances of approximately HK\$42.1 million (31.12.2004: HK\$35.5 million). The Group had total assets of approximately HK\$277.1 million (31.12.2004: HK\$231.5 million) which was financed by current liabilities of approximately HK\$192.2 million (31.12.2004: HK\$146.4 million), minority interests of approximately HK\$0.8 million

Management Discussion and Analysis

(31.12.2004: HK\$0.8 million) and shareholders' equity of approximately HK\$83.5 million (31.12.2004: HK\$84.2 million). The current ratio was approximately 1.4 (31.12.2004: 1.5) and the gearing ratio of the Group was approximately 57.8% (31.12.2004: 47.0%). The gearing ratio has been calculated based on the total borrowings to the sum of total shareholders' equity and total borrowings of the Group.

Total facilities available to the Group from its bankers amounted to approximately HK\$150 million (31.12.2004: HK\$149 million). The management believes that the Group has adequate financial resources for its business requirement for the remaining year as well as its forecast requirement for the coming year.

Treasury policies

The Group generally finances its operations with internally generated resources and banking facilities provided by banks in Hong Kong. The banking facilities are mainly trust receipt loans and invoices finance tenor up to 60 days from the invoice date. The bank interest rates are mainly fixed by reference to either in the Hong Kong Prime rate or the Hong Kong Interbank Borrowing rate for Hong Kong dollar loans.

Charges on assets

Certain bank deposits, available-for-sale investments, trade debtors, investment properties and leasehold land and buildings of the Group were pledged to its bankers to secure certain banking facilities granted to the Group.

FOREIGN CURRENCY FORWARD CONTRACT COMMITMENTS

At 30 June 2005, the Group has entered into certain foreign currency forward contract agreements with banks under these foreign currency forward contract agreements, the Group has committed to purchase US dollars ranged from US\$8,000,000 to US\$16,000,000 (equivalent to HK\$62,400,000 to

Management Discussion and Analysis

HK\$124,800,000), depending on the spot rate on the maturity date and the pre-agreed contract forward rates of respective foreign currency forward contracts.

At 31 December 2004 the Group has committed to purchase US dollars ranged from US\$17,000,000 to US\$34,000,000 (equivalent to HK\$131,708,000 to HK\$263,416,000), depending on the spot rate on the maturity date and the pre-agreed contract forward rates of respective foreign currency forward contracts.

MOVEMENT IN SHARE CAPITAL

On 20 February 2004, a placing and subscription agreement (“Agreement”) was entered into between the Company, Best Eagle International Ltd. (“Best Eagle”), a substantial shareholder of the Company, and an independent placing agent. Pursuant to the Agreement, Best Eagle agreed to place through the placing agent not less than 60,000,000 shares and up to 80,000,000 shares at the price of HK\$0.138 per placing share and Best Eagle would subscribe for the same number of shares sold under the placing at the same price of HK\$0.138 per share. The subscription was completed on 4 March 2004 and a total of 73,000,000 shares have been placed and subscribed. Net proceeds of HK\$10,074,000 was used as general working capital of the Group.

DIVIDEND

The directors do not recommend the payment of any interim dividend for the six months ended 30 June 2005 and 30 June 2004.

BUSINESS REVIEW

During the period under review, the Group noted that the costs for wireless communication in Asia are much cheaper than before, therefore applications of wireless communication become popular and widespread. Due to the shortage of electricity in the PRC which is the “World Factory”, the Group believes that the demand for application of wireless communication in Power Load Management and the business of Logistics is increasing. Therefore, the

Management Discussion and Analysis

Group selected Telematics and Telemetric as its core market segments for its M2M businesses and continues to deploy resources in developing these two segments.

During the first half of 2005, the Group continuously deployed resources on the development of M2M businesses. Though the overall overheads for M2M businesses was increased, the Group made notable achievements in terms of research and development and market development for its M2M businesses, which are:

- (1) “KENJI” 8500 series, the first flagship product range in Telematic business which is an intelligent vehicle device integrating GPRS-based real-time tracking ability and RFID-based personalized car security functionality, was launched in early 2005. This GPRS Car Alarm is specially designed to allow car owners to monitor and control their vehicles through multiple channels, such as web-based tracking application, Interactive Voice Response System (“IVRS”) and SMS. “KENJI” 8600 series has also been launched in the first half of 2005 to cater the increasing demand on fleet management from enterprise market, especially for the Logistics and Transportation industries. Advanced communication capability is built into 8600 series to further extend its functionality on controlling and automating the workflow in the fleet operations.

To complement the development of Telematic device, a series of Mobile Logistics applications have been developed during the first half of 2005. The solution is designed to provide a complete management platform for all collection and delivery processes, the real-time transmission over the GPRS or 3G network empowers the customers to visualize and to manage all field activities. Job dispatching and instant proof-of-delivery is the example of key features to improve customers’ operational efficiency as well as to enhance their service level. Subsequent to the period under review, major players in the logistics industry such as leading flight forwarder and leading cash-in-transit company have committed to adopt our solutions.

Management Discussion and Analysis

- (2) Proprietary solution for Wireless Power Load Management Terminal was developed during the first half of 2005. The Terminal can collect data from the user's power meter and transmit the data via GPRS network to the Power Load Management Network System in order to have real-time recording, monitoring and managing the user's power consumption.
- (3) Due to the Group's continuing efforts in promoting Sony Ericsson's GPRS modules, Sony Ericsson's GPRS modules was approved to be one of approved wireless communication modules for the Tender of Large Customers Power Load Management System Phase II (大客戶電力負荷管理系統第二期工程現場終端技術招標) issued by Guangdong Power Grid Corporation (廣東電網公司). The Group believed that Sony Ericsson's GPRS modules will get over 80% share and will bring nearly HK\$20 million revenue to the Group in the second half of the year.

Apparently, these notable achievements will not immediately contribute to the Group's turnover. However, with strategic alliance, business cooperation and technology development and/or acquisitions, the Group believes M2M businesses can further develop its business relationship with customers by offering them "total wireless solutions" as well as provide alternative sources of revenue in the near future.

For distribution of semiconductors, facing with the fierce competition in the market of semiconductors distribution and cost control measures implemented by its customers under the uncertainties of escalating crude oil prices and material costs, the Group has put much effort to develop new and innovative solutions for semiconductors with higher demand such as semiconductors for MP3 players in order to keep down the adverse effects on its business. For the first half of 2005, the Group's profit margin for distribution of semiconductors has been maintained and recorded an increase of approximately 24.2% in turnover comparing with the same period of 2004.

Management Discussion and Analysis

PROSPECT

In order to match with the sales of “KENJI” 8500 and 8600 series GSM Car alarm, a control centre for vehicle tracking was set up in Shenzhen in August 2005. With the support of control centre, the Group is not only capable of providing terminals and solutions for vehicle tracking, but providing of 24 hours’ fleet management outsourcing service. As a result, the Group believes that there will be recurring revenue from vehicle tracking services in late 2005. Although the Group started this Automatic Vehicle Location System with the functions of locationing and security only, the Group will continue to endeavor in development of relevant valued-added solutions in order to support the transportation management, then in-car information center and lastly built-in vehicle facility before 2008.

Referring to the document named “State of Grid Sales No. 2005 406” issued by State Grid Corporation China (國家電網公司文件 國家電網營銷[2005]406號), on or before 2007, all locations in China with Electricity Transformer over 315KVA are required to install the Power Load Management System in order to have a real time data collection and monitoring for consumption of electricity. Such requirements will be extended to electricity transformer over 100KVA for certain locations with better economy conditions. Therefore, the Group believes that the demand for the Power Load Management System, relevant application softwares and the core components for Wireless Power Load Management Terminal, i.e. wireless communication modules will increase substantially before 2007. Apart from the Group’s efforts in developing this market, the Group will consider forming certain strategic alliances and business cooperation with other parties in order to faster the development.

To improve the shrinking profit margin for the business of semiconductors distribution, a series of strategies will be implemented by the Group. In short to medium term, the Group will reassess the cluster of customers mixed of different profit margins and consider to focus on those customer with relatively high profit margins. More efforts in developing new and innovative solutions for semiconductors, which have higher demand such as multimedia products, will

Management Discussion and Analysis

be critical to the Group's long-term development. In order to increase the synergies with M2M businesses, the Group will put more efforts in getting more distributorship of semiconductors used for production of M2M products.

Nevertheless, the management remains optimistic about the Group's outlook in the second half of 2005. Looking forward into the second half of 2005, though distribution of semiconductors is expected to remain as the main contributor, the Group believes that the M2M businesses will be the strongest growth driver and able to contribute positively to the profitability of the Group towards the end of the financial year.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

EMPLOYEES

As at 30 June 2005, the Group had approximately 160 employees (2004: 144). The Group remunerates its employees based on their performance and the prevailing industry practices. The Board reviews the remuneration policy and package on a periodical basis. Bonus and share options may be awarded to employees based on performance appraisal. These are drives and encouragements for personal performance.

DIRECTORS' INTERESTS IN SECURITIES

As at 30 June 2005, the issued share capital of the Company consisted of ordinary shares and the interests and short positions of the Directors and the Chief Executive of the Company in the shares, and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the Company's register kept under Section 352 of the SFO were as follows:

Management Discussion and Analysis

Interest in the Company's shares

| Name | Capacity, Nature of interest | Number of shares held | | Percentage of the issued share capital of the Company |
|-----------------------|------------------------------------|-----------------------|-------------------|---|
| | | Long position | Short position | |
| Wong Shu Wing | Corporate | 204,000,000 (Note) | — | 43% |
| Kwan Kim Fai, Stanley | Personal | 36,000,000 | — | 8% |

Note: These shares are held by Best Eagle International Ltd., a company incorporated in the British Virgin Islands ("BVI") and wholly owned by Wong Shu Wing.

Other than as disclosed above, none of the directors, or chief executives, nor their associates, had any interests or short positions in any shares of the Company or any of its associated corporations as at 30 June 2005.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the issue of shares of the Company pursuant to the Corporate Reorganisation mentioned above, at no time during the period was the Company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of Directors, or their spouses or children under the age of 18, had right to subscribe for the securities of the Company, or had exercised any such right during the period.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company, its holding company or any its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at 30 June 2005 or at any time during the period then ended.

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SUBSTANTIAL SHAREHOLDERS

As at 30 June 2005, in accordance with the register of the substantial shareholders kept by the Company under Section 336 of the SFO and so far as is known to the Directors, the following persons (other than a Director or Chief Executive of the Company) were interested in the issued capital (including short positions) representing 5% or more of the issued capital:

| Name | Capacity, Nature of interest | Number of shares held | | Percentage of the issued share capital of the Company |
|---|------------------------------------|-----------------------|-------------------|---|
| | | Long position | Short position | |
| Best Eagle International Ltd. (Note 1) | Corporate | 204,000,000 | — | 43% |
| Wong Shu Wing (Note 1) | Personal | 204,000,000 | — | 43% |
| D & M International Ltd. (Note 2) | Corporate | 60,000,000 | — | 13% |
| Leung Yu Ming, Steven (Note 2) | Personal | 60,000,000 | — | 13% |
| Kwan Kim Fai, Stanley | Personal | 36,000,000 | — | 8% |

Notes:

1. The entire issued share capital of Best Eagle International Ltd. is beneficially owned by Mr. Wong Shu Wing. Therefore both Best Eagle International Ltd. and Mr. Wong Shu Wing are deemed to have the duplicate interests in the share capital of the Company under the SFO.
2. The entire issued share capital of D & M International Ltd. is beneficially owned by Mr. Leung Yu Ming, Steven. Therefore both D & M International Ltd. and Mr. Leung Yu Ming, Steven are deemed to have the duplicate interests in the share capital of the Company under the SFO.

Save as disclosed herein, as at 30 June 2005, no other person was recorded in the Company's register kept pursuant to Section 336 of the SFO as having an Interest in the issued capital (including short positions) representing 5% or more of the issued capital.

Save as disclosed herein, the Directors are not aware of any person, other than the persons (including his personal, family and corporate interests) as aforementioned, who had, directly or indirectly, an Interest in the issued capital (including short positions) representing 5% or more of the issued capital as at 30 June 2005.

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COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES OF THE LISTING RULES

None of the directors of the Company is aware of any information that would reasonably indicate that the Company did not meet the applicable code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules for any part of the period from 1 January 2005 to 30 June 2005.

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code of the Listing Rules as the Company's code of conduct regarding securities transactions by directors (the "Code of Conduct") on terms no less exacting than the required standard as set out in Appendix 10 of the Rules Governing the Listing of Securities of the Stock Exchange. Specific enquiry has been made of all directors who have confirmed that they complied with the required standard set out in the Model Code as the Code of Conduct at the applicable times for the period from 1 January 2005 to 30 June 2005.

AUDIT COMMITTEE

The Company has adopted the terms of reference of the Audit Committee in accordance with the requirements of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The Audit Committee has reviewed the Group's unaudited condensed consolidated interim financial statements ended 30 June 2005, but which have been reviewed by the Company's auditor, Deloitte Touche Tohmatsu, in accordance with the Statement of Auditing Standards 700 "Engagements to review Interim Financial Reports" issued by the Hong Kong Institute of Certified Public Accountants.

Management Discussion and Analysis

REMUNERATION COMMITTEE

A Remuneration Committee has been established in accordance with the requirements of the Code on Corporate Governance Practices. The Remuneration Committee comprises three Independent Non-executive Directors and one Executive Director. Mr. Chang, Kin Man an Independent Non-executive Director, is the Chairman of the Committee.

SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 12 February 2003 for the purpose of recognition of the contribution from Directors and eligible employees of the Group, and will expire in February 2013. Under the Scheme, the Board of Directors of the Company may grant options to eligible employees, including Directors of the Company and its subsidiaries, to subscribe for shares in the Company.

Subject to the condition that the total number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes of the Company must not exceed 30% of the shares of the Company in issue from time to time, the total number of shares in respect of which options may granted under the Scheme, when aggregated with any shares subject to any other schemes is not permitted to exceed 10% of the issued share capital of the Company immediately upon the listing of the shares on the Stock Exchange, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual in aggregate in any 12-month period is not permitted to exceed 1% of the shares of the Company in issue, without prior approval from the Company's shareholders.

Options granted must be taken up within 28 days of the date of grant, upon payment of HK\$1 per option. Options may be exercised at any time from the expiry of 6 months from the date of acceptance of the share option to such date as determined by the Board of Directors but in any event not exceeding 10 years. The exercise price is determined by the Directors of the Company, and will not be less than the higher of the average closing price of the shares for the five business days immediately preceding the date of grant or the closing price of the shares on the date of grant.

Management Discussion and Analysis

As at 30 June 2005, details of the share options granted under the Scheme are as follows:

| Date of grant | Exercisable period | Subscription price per share | Granted during the year and balance at 30 June 2005 |
|------------------------------------|------------------------------------|-------------------------------------|--|
| Directors | | | |
| 11 October 2004 | 11 October 2004 to 10 October 2014 | 0.10 | 8,000,000 |
| 11 October 2004 | 11 October 2004 to 10 October 2014 | 0.13 | 3,000,000 |
| | | | 11,000,000 |
| Employees/other participate | | | |
| 11 October 2004 | 11 October 2004 to 10 October 2014 | 0.10 | 5,000,000 |
| 11 October 2004 | 11 October 2004 to 10 October 2014 | 0.13 | 6,708,000 |
| | | | 11,708,000 |

The share options to subscribe 11,000,000 shares in the Company outstanding at 30 June 2005 were granted to the Directors of the Company. Consideration paid for each grant of option was HK\$1.00. No options were exercised and cancelled during the year. No charge was recognised in the income statement in respect of the value of share options granted.

The share options granted are not recognized in the financial statements until they are exercised. The Directors of the Company consider it is not appropriate to disclose the value of the share options granted during the year under the Scheme since any valuation of the share options would be subject to a number of assumptions that would be subjective and uncertain. The Directors of the Company believe that the evaluation of share options based upon speculative assumptions would not be meaningful and would be misleading.

By the Order of the Board
Wong Shu Wing
Chairman

Hong Kong, 28 September 2005