

STARLITE

升岡國際有限公司 **STARLIGHT INTERNATIONAL HOLDINGS LTD.**
(Incorporated in Bermuda with Limited Liability)

STARLITE

INTERIM REPORT

2005/2006



CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors:

Lau Sak Hong, Philip
Lau Sak Kai, Anthony
Lau Sak Yuk, Andy

Non-executive Director:

Hon Sheung Tin, Peter

Independent Non-executive Directors:

Ho Hau Chong, Norman
Chan Chak Chung
Chuck Winston Calptor

SECRETARY

Peter Lee Yip Wah

QUALIFIED ACCOUNTANT

Chan Po Chung, Norman

AUDITORS

Deloitte Touche Tohmatsu

AUDIT COMMITTEE

Ho Hau Chong, Norman
Hon Sheung Tin, Peter
Chan Chak Chung

REMUNERATION COMMITTEE

Hon Sheung Tin, Peter
Chan Chak Chung
Winston Calptor Chuck

PRINCIPAL BANKERS

The Hongkong and
Shanghai Banking Corporation
Standard Chartered Bank
Hang Seng Bank Limited
Belgian Bank

SOLICITORS

Vincent T K Cheung, Yap & Co.

SHARE REGISTRARS AND

TRANSFER OFFICE IN HONG KONG

Secretaries Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong
Tel: (852) 2580 1888

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

PRINCIPAL OFFICE

5th Floor, Shing Dao Industrial Building
232 Aberdeen Main Road
Hong Kong
Tel: (852) 2554 6303
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STOCK CODE

The Stock Exchange of Hong Kong Limited:
485

INTERIM RESULTS

The Board of Directors of Starlight International Holdings Limited (the “Company”) is pleased to announce the unaudited condensed consolidated interim financial statement of the Company and its subsidiaries (the “Group”) for the period ended 30 September 2005 together with the comparative figures for 2004 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2005

| | <i>Notes</i> | 01.04.2005 to 30.09.2005 HK\$'000 (unaudited) | 01.04.2004 to 30.09.2004 HK\$'000 (unaudited) |
|--------------------------------------|--------------|--|---|
| Turnover | 3 | 836,532 | 909,567 |
| Cost of sales | | (721,129) | (797,884) |
| Gross profit | | 115,403 | 111,683 |
| Other income | 4 | 13,508 | 915 |
| Distribution costs | | (33,282) | (31,514) |
| Administration expenses | | (39,235) | (34,847) |
| Share of losses of associates | | (3) | (123) |
| Finance costs | | (2,144) | (1,121) |
| Profit before taxation | | 54,247 | 44,993 |
| Taxation | 6 | (2,751) | (2,408) |
| Net profit for the period | | 51,496 | 42,585 |
| Attribution to: | | | |
| Shareholders of the Company | | 51,029 | 42,163 |
| Minority interests | | 467 | 422 |
| | | 51,496 | 42,585 |
| Earnings per share | | | |
| – Basic | 7 | 6.72 cents | 5.52 cents |
| – Diluted | 7 | 6.45 cents | 5.40 cents |
| Interim Dividends per share | 8 | 3.00 cents | 2.00 cents |

CONDENSED CONSOLIDATED BALANCE SHEET

AT 30 SEPTEMBER 2005

| | <i>Notes</i> | At 30.9.2005 HK\$'000 (unaudited) | At 31.3.2005 <i>HK\$'000</i> (audited and restated) |
|---|--------------|---|---|
| ASSETS AND LIABILITIES | | | |
| Non-current assets | | | |
| Investment properties | | 61,100 | 61,100 |
| Property, plant and equipment | 9 | 293,258 | 292,063 |
| Prepaid lease payments | | 4,947 | 5,000 |
| Product development costs | | 1,473 | 1,646 |
| Goodwill | | 9,149 | 9,149 |
| Interest in associates | | 1,777 | 1,780 |
| Investments in securities | | – | 24,134 |
| Available for sale investments | | 24,134 | – |
| | | 395,838 | 394,872 |
| Current assets | | | |
| Inventories | | 391,533 | 303,770 |
| Properties for sale | | 1,453 | 1,453 |
| Debtors, deposits and prepayments | 10 | 493,387 | 178,738 |
| Prepaid lease payments | | 93 | 94 |
| Amounts due from associates | | 2,940 | 2,919 |
| Taxation recoverable | | 2,142 | 2,665 |
| Investment in securities | | – | 33,737 |
| Financial assets at fair value through profit and loss | | 31,629 | – |
| Bank balances and cash | | 96,469 | 57,551 |
| | | 1,019,646 | 580,927 |
| Current liabilities | | | |
| Creditors and accrued charges | 11 | 376,920 | 176,290 |
| Amount due to an associate | | 2,809 | 2,809 |
| Taxation payable | | 1,991 | 546 |
| Borrowings – amount due within one year | | 312,635 | 110,153 |
| | | 694,355 | 289,798 |
| Net current assets | | 325,291 | 291,129 |
| Total assets less current liabilities | | 721,129 | 686,001 |

| | At 30.9.2005 HK\$'000 (unaudited) | At 31.3.2005 HK\$'000 (audited and restated) |
|--|--|--|
| CAPITAL AND RESERVES | | |
| Share capital | 303,289 | 305,043 |
| Share premium and reserves | 412,346 | 376,751 |
| | <hr/> | <hr/> |
| Equity attributable to shareholders | 715,635 | 681,794 |
| Minority interest | 2,020 | 1,553 |
| | <hr/> | <hr/> |
| Total Equity | 717,655 | 683,347 |
| Non-current liabilities | | |
| Deferred taxation | 3,474 | 2,654 |
| | <hr/> | <hr/> |
| | 721,129 | 686,001 |
| | <hr/> | <hr/> |

CONDENSED STATEMENT OF CHANGES IN EQUITY

| | Share capital <i>HK\$'000</i> | Share premium <i>HK\$'000</i> | Merger reserve <i>HK\$'000</i> | Negative goodwill <i>HK\$'000</i> | Goodwill reserve <i>HK\$'000</i> | Other property revaluation reserve <i>HK\$'000</i> | Translation reserve <i>HK\$'000</i> | Capital redemption reserve <i>HK\$'000</i> | Accumulated profits <i>HK\$'000</i> | Minority interest <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|---|-------------------------------------|-------------------------------------|--------------------------------------|---|--|--|---|---|---|---|--------------------------|
| The Group | | | | | | | | | | | |
| At 31 March 2004 | 302,888 | 83,782 | 37,138 | 11,571 | (3,688) | 1,682 | 5,818 | 46,985 | 182,792 | - | 668,968 |
| Exchange difference arising on translation of operation outside Hong Kong not recognised in consolidated income statement | - | - | - | - | - | - | 347 | - | - | - | 347 |
| Issue of shares upon exercise of share options | 2,982 | - | - | - | - | - | - | - | - | - | 2,982 |
| Repurchase of shares | (487) | - | - | - | - | - | - | - | - | - | (487) |
| Capital redemption reserves arising from repurchase of shares | - | - | - | - | - | - | - | 487 | (487) | - | - |
| Premium on repurchase of shares | - | - | - | - | - | - | - | - | (477) | - | (477) |
| Net profit for the period | - | - | - | - | - | - | - | - | 42,163 | - | 42,163 |
| Dividend paid | - | - | - | - | - | - | - | - | (26,764) | - | (26,764) |
| At 30 September 2004 | 305,383 | 83,782 | 37,138 | 11,571 | (3,688) | 1,682 | 6,165 | 47,472 | 197,227 | - | 686,732 |
| Exchange difference arising on translation of operation outside Hong Kong not recognised in consolidated income statement | - | - | - | - | - | - | 3,601 | - | - | - | 3,601 |
| Repurchase of shares | (340) | - | - | - | - | - | - | - | - | - | (340) |
| Capital redemption reserves arising from repurchase of shares | - | - | - | - | - | - | - | 340 | (340) | - | - |
| Premium on repurchase of shares | - | - | - | - | - | - | - | - | (345) | - | (345) |
| Minority shareholders' share of changes in reserves | - | - | - | - | - | - | 360 | - | - | - | 360 |
| Net profit for the period | - | - | - | - | - | - | - | - | 8,385 | - | 8,385 |
| Dividend paid | - | - | - | - | - | - | - | - | (15,269) | - | (15,269) |
| At 31 March 2005 as originally stated | 305,043 | 83,782 | 37,138 | 11,571 | (3,688) | 1,682 | 10,126 | 47,812 | 189,658 | - | 683,124 |
| Effects of changes in accounting policies | - | - | - | - | - | - | - | - | (1,330) | 1,553 | 223 |
| At 31 March 2005 restated | 305,043 | 83,782 | 37,138 | 11,571 | (3,688) | 1,682 | 10,126 | 47,812 | 188,328 | 1,553 | 683,347 |
| Effects of changes in accounting policies | - | - | - | (11,571) | - | - | - | - | 10,751 | - | (820) |
| At 1 April 2005 | 305,043 | 83,782 | 37,138 | - | 3,688 | 1,682 | 10,126 | 47,812 | 199,079 | 1,553 | 682,527 |
| Repurchase of shares | (1,754) | - | - | - | - | - | - | - | - | - | (1,754) |
| Exchange difference arising on translation of operation outside Hong Kong not recognised in consolidated income statement | - | - | - | - | - | - | 1,499 | - | - | - | 1,499 |
| Capital redemption reserve arising from repurchase of shares | - | - | - | - | - | - | - | 1,754 | (1,754) | - | - |
| Premium on repurchase of shares | - | - | - | - | - | - | - | - | (942) | - | (942) |
| Profit for the period | - | - | - | - | - | - | - | - | 51,029 | 467 | 51,496 |
| Dividend paid | - | - | - | - | - | - | - | - | (15,171) | - | (15,171) |
| At 30 September 2005 | 303,289 | 83,782 | 37,138 | - | (3,688) | 1,682 | 11,625 | 49,566 | 232,241 | 2,020 | 717,655 |

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2005

| | Six months ended | |
|--|-------------------------|-----------------|
| | 30.9.2005 | 30.9.2004 |
| | HK\$'000 | <i>HK\$'000</i> |
| | (unaudited) | (unaudited) |
| Net Cash (used in) generated from Operating Activities | (124,215) | 66,447 |
| Net Cash used in Investing Activities | (21,482) | (45,291) |
| Net Cash inflow/(outflow) from Financing Activities | 184,615 | (20,420) |
| Net Increase in Cash and Cash Equivalents | 38,918 | 736 |
| Cash and Cash Equivalents at 1 April | 57,551 | 61,275 |
| Cash and Cash Equivalents at 30 September | 96,469 | 62,011 |
| Analysis of balances of cash and cash equivalents | | |
| Bank balances and cash | 92,270 | 64,509 |
| Bank overdrafts | (801) | (2,498) |
| | 96,469 | 62,011 |

NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

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 (the “Listing Rules”) on the Stock Exchange of Hong Kong Limited (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. SIGNIFICANT ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of investment properties and investments in securities which are measured at fair value.

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 March 2005 except as described below.

The following new and revised Hong Kong Financial Reporting Standards which also include Hong Kong Accounting Standards and Interpretations (collectively referred to as the new “HKFRSs”) that affect the Group and are adopted for the first time for the current period’s financial statements:

| | |
|---------|---|
| HKAS 1 | Presentation of Financial Statements |
| HKAS 2 | Inventories |
| HKAS 8 | Accounting Policies, Changes in Accounting Estimates and Errors |
| HKAS 12 | Income Taxes |
| HKAS 16 | Property, Plant and Equipment |
| HKAS 17 | Leases |
| HKAS 18 | Revenue |
| HKAS 19 | Employee Benefits |
| HKAS 21 | The Effects of Changes in Foreign Exchange Rates |
| HKAS 23 | Borrowing Costs |
| HKAS 24 | Related Party Disclosures |
| HKAS 27 | Consolidated and Separate Financial Statements |
| HKAS 28 | Investments in Associates |
| HKAS 32 | Financial Instruments Disclosure and Presentation |
| HKAS 33 | Earnings per Share |
| HKAS 36 | Impairment of Assets |
| HKAS 38 | Intangible Assets |
| HKAS 39 | Financial Instruments: Recognition and Measurement |
| HKFRS 2 | Share-Based Payment |
| HKFRS 3 | Business Combinations |

The adoption of HKASs 1, 2, 8, 12, 16, 18, 19, 21, 23, 24, 27, 28, 33 and 38 has had no material impact on the accounting policies of the Group and the methods of computation in the Groups' condensed consolidated financial statements. The impact of adopting the other HKFRSs is summarized as follows:

(a) *Business combinations*

In 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 summarized below:

(i) Goodwill

In previous periods, goodwill arising on acquisitions was capitalized and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. Goodwill previously recognized in reserves continues to be held in reserves and will be transferred to the accumulated profits of the Group at the time when the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired. With respect to goodwill previously capitalized on the balance sheet, the Group has discontinued amortising such goodwill from 1 April 2005 onwards and goodwill will be tested for impairment at least annually. Goodwill arising on acquisitions after 1 April 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortization of goodwill has been charged in the current period. Comparative figures for 2004 have not been restated.

(ii) 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 recognized immediately in profit and loss in the period which the acquisition takes place. In previous periods, negative goodwill arising on acquisitions prior to 1 April 2001 was held in reserves, and negative goodwill arising on acquisition after 1 April 2001 was presented as a deduction from assets and released to income based on an analysis of the circumstances from which the balance resulted. In accordance with the relevant transitional provisions in HKFRS 3, the Group has derecognized all negative goodwill at 1 April 2005 which was previously held in reserves, with a corresponding increase to accumulated profits.

(b) *Share-based payments*

In the current period, the Group has applied HKFRS 2 "Share-based payments" which requires an expense to be recognized 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 recognize the financial effect of these share options until they were exercised. The Group has not applied HKFRS 2 to share options that were granted after 12 September 2002 and had vested before 1 January 2005 in accordance with the relevant transitional provisions. However, the application of HKFRS 2 did not have any financial impact to the Group.

(c) *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. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit to recognize, derecognize or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarized below:

(i) 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 March 2005, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of the Statement of Standard Accounting Practice 24 “Accounting for investments in securities” (“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 April 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 and 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 and loss” and “available-for-sale financial assets” are carried at fair value, with changes in fair values recognised in profit and loss and equity respectively except for unquoted equity investments for which fair values cannot be measured reliably, such investments are stated at cost less impairment. “Loans and receivables” and “held-to-maturity financial assets” are measured at amortised cost using the effective interest method.

On 1 April 2005, the Group classified and measured its debt and equity securities in accordance with the requirements of HKAS 39. As a result of the adoption of HKAS 39, the Group has redesignated “Investments in securities” recorded in the consolidated balance sheet at 1 April 2005 amounting to HK\$24,134,000 as “available-for-sale investments” and HK\$33,737,000 as “financial assets at fair value through profit and loss”.

(ii) Financial assets and financial liabilities other than debt and equity securities

From 1 April 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as “financial assets at fair value through profit and loss”, “available-for-sale financial assets”, “loans and receivables” or “held-to-maturity financial assets”. Financial liabilities are generally classified as “financial liabilities at fair value through profit and loss” or “financial liabilities other than financial liabilities at fair value through profit and loss (other financial liabilities)”. “Other financial liabilities” are carried at amortised cost using the effective interest method.

(iii) Derivatives and hedging

From 1 April 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. For derivatives that are deemed as held for trading, changes in fair values of such derivatives are recognised in the profit or loss for the period in which they arise. However, the application of HKAS 39 did not have any significant financial impact to the Group.

(d) *Owner-occupied leasehold interest in land*

The adoption of HKAS 17 has resulted in a change in the accounting policy relating to leasehold land and buildings held for own use. In prior years, the leasehold land and buildings held for own use were accounted for as fixed assets and carried at revalued amounts less any subsequent accumulated depreciation and impairment losses. Revaluation surplus or deficit was dealt with in the property revaluation reserve. 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. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interest in land are reclassified to prepaid lease payments under Land lease payments, which are carried at cost and amortised over the lease term. This change in accounting policy has been applied retrospectively. Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment.

The new accounting policies have been adopted retrospectively, with the opening balances of retained earnings and the property revaluation reserve and the comparative information adjusted for the amounts relating to prior periods as disclosed in the condensed consolidated statement of changes in equity in the interim report for the six months from 1 April 2005 to 30 September 2005. Consequently, the fixed assets on 31 March 2005 was reduced by HK\$5,094,000. The impact on the Group's current or prior period's operating results are immaterial.

(e) *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 recognized directly in the profit or loss for the period in which they arise. In previous periods, investment properties under the predecessor SSAP 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 retrospectively but this did not have any financial impact to the Group.

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 INT-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. In the absence of any specific transitional provisions in HKAS INT-21, this change in accounting policy has been applied retrospectively. Comparative figures have been restated.

**SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES OF
THE NEW HKFRSs AS AT 31 MARCH 2005 AND 1 APRIL 2005**

| | As at 31 March 2005 (originally stated) | Adjustments | As at 31 March 2005 (restated) | Adjustments | As at 1 April 2005 (restated) |
|---|---|-------------|--------------------------------------|-------------|-------------------------------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Property, plant and equipment | 297,157 | (5,094) | 292,063 | - | 292,063 |
| Prepaid lease payments | - | 5,000 | 5,000 | - | 5,000 |
| Investment in securities | 24,134 | - | 24,134 | (24,134) | - |
| Available for sale investments | - | - | - | 24,134 | 24,134 |
| Investment in securities | 33,737 | - | 33,737 | (33,737) | - |
| Prepaid lease payments – current | - | 94 | 94 | - | 94 |
| Financial assets at fair value through profit and loss | - | - | - | 33,737 | 33,737 |
| Deferred tax liabilities | (1,324) | (1,330) | (2,654) | (820) | (3,474) |
| Negative goodwill | (11,571) | - | (11,571) | 11,571 | - |
| Accumulated profits | (189,658) | 1,330 | (188,328) | (10,751) | (199,079) |

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-Int 4 | Determining whether an Arrangement Contains a Lease |
| HKFRS-Int 5 | Right to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds |

3. SEGMENT INFORMATION

Business segments

The Group is currently organised into three operating divisions – design, manufacture and sale of electronic products, securities trading and property development. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Six months ended 30 September 2005

| | Design, manufacture and sale of electronic products HK\$'000 | Securities trading HK\$'000 | Property development HK\$'000 | Consolidated HK\$'000 |
|--------------------------------|---|--|--|----------------------------------|
| TURNOVER | 826,208 | 10,324 | - | 836,532 |
| SEGMENT RESULT | 55,958 | 1,088 | (143) | 56,903 |
| Interest income | | | | 236 |
| Unallocated corporate expenses | | | | (745) |
| Share of loss of associates | | | | (3) |
| Finance costs | | | | (2,144) |
| Profit before tax | | | | 54,247 |
| Taxation | | | | (2,751) |
| Profit for the period | | | | 51,496 |

3. SEGMENT INFORMATION (cont'd)

Six months ended 30 September 2004

| | Design, manufacture and sale of electronic products <i>HK\$'000</i> | Securities trading <i>HK\$'000</i> | Property development <i>HK\$'000</i> | Consolidated <i>HK\$'000</i> |
|--------------------------------|--|--|--|---------------------------------|
| REVENUE | <u>894,588</u> | <u>12,336</u> | <u>2,643</u> | <u>909,567</u> |
| SEGMENT RESULT | <u>52,546</u> | <u>(6,227)</u> | <u>309</u> | 46,628 |
| Interest income | | | | 210 |
| Unallocated corporate expenses | | | | (601) |
| Share of loss of associates | | | | (123) |
| Finance costs | | | | <u>(1,121)</u> |
| Profit before tax | | | | 44,993 |
| Taxation | | | | <u>(2,408)</u> |
| Profit for the period | | | | <u>42,585</u> |

4. OTHER INCOME

| | Six months ended | |
|---|-------------------------|------------------------|
| | 30 September | |
| | 2005 | 2004 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Other income includes the follows: | | |
| Loss on disposal of fixed assets | (2,468) | – |
| Unrealised holding (loss) gain on investments | 758 | (6,674) |
| Amortisation of goodwill arising on acquisition of subsidiaries | – | (829) |
| Impairment loss recognised in respect of investment securities | (52) | – |

5. DEPRECIATION AND AMORTISATION

During the period, depreciation and amortization of approximately HK\$18,504,000 (HK\$21,996,000 for the six months ended 30 September 2004) was charged to the consolidated income statement in respect of the Group's property, plant and equipment and product development costs.

6. TAXATION

| | Six months ended | |
|---|-------------------------|------------------------|
| | 30 September | |
| | 2005 | 2004 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| The charge comprises: | | |
| Hong Kong Profits Tax | | |
| Current | 1,505 | 1,050 |
| Under provision in prior years | <u>–</u> | <u>144</u> |
| | 1,505 | 1,194 |
| Taxation in other jurisdictions | 1,246 | 1,214 |
| Deferred taxation | <u>–</u> | <u>–</u> |
| Taxation attributable to the Company and its subsidiaries | <u>2,751</u> | <u>2,408</u> |

Hong Kong Profits Tax is calculated at 17.5% (2004: 17.5%) of the estimated assessable profit for the period.

Taxation in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

7. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is computed based on the following data:

| | Six months ended | |
|--|-------------------------|-----------------------|
| | 30 September | |
| | 2005 | 2004 |
| Net profit for the period and profit for the purpose of basic and diluted earnings per share | HK\$51,029,000 | HK\$42,163,000 |
| Weighted average number of shares for the purpose of basic earnings per share | 759,626,011 | 762,589,440 |
| Effect of dilutive potential ordinary shares for the purpose of dilutive earnings per share – Share option | 31,767,657 | 17,919,380 |
| Weighted average number of ordinary shares for the purpose of dilutive earnings per share | 791,393,668 | 780,508,820 |

8. INTERIM DIVIDEND

The directors have determined that an interim dividend of HK3.00 cents per share for the year ending 31 March 2006 (Year ended 31 March 2005: HK2.00 cents) should be paid to the shareholders of the Company whose names appear in the register of members on 19 January 2006.

9. PROPERTY, PLANT AND EQUIPMENT

| | Six months ended | |
|---|-------------------------|-----------------|
| | 30 September | |
| | 2005 | 2004 |
| | HK\$'000 | HK\$'000 |
| Net book value at beginning of year | 297,157 | 286,330 |
| Transfer to prepaid lease payments on reclassifications | (5,094) | – |
| Currency realignment | 2 | (16) |
| Additions | 28,020 | 45,608 |
| Disposal | (42,306) | (1,730) |
| Depreciation | (18,331) | (21,996) |
| Depreciation write back on disposal | 33,810 | – |
| | 293,258 | 308,196 |

10. DEBTORS, DEPOSITS AND PREPAYMENTS

At 30 September 2005, debtors, deposits and prepayments included trade debtors of HK\$455,560,000 (31 March 2005: HK\$148,270,000). The Group credit periods of up to 90 days, depending on the products sold, to its trade customers. The following is an aged analysis of accounts receivable at the reporting date:

| | 30/9/2005 | 31/3/2005 |
|--------------|--------------------|------------------|
| | (unaudited) | (audited) |
| | HK\$'000 | HK\$'000 |
| 0 - 30 days | 314,349 | 78,296 |
| 31 - 60 days | 81,977 | 11,015 |
| 61 - 90 days | 20,217 | 23,688 |
| Over 90 days | 39,017 | 35,271 |
| | 455,560 | 148,270 |

11. CREDITORS AND ACCRUED CHARGES

At 30 September 2005, creditors and accrued charges included trade creditors of HK\$339,810,000 (31 March 2005: HK\$141,037,000). The aged analysis of trade creditors at the balance date is as follows:

| | 30/9/2005 (unaudited) HK\$'000 | 31/3/2005 (audited) HK\$'000 |
|--------------|---|------------------------------------|
| 0 - 30 days | 152,154 | 48,124 |
| 31 - 60 days | 90,284 | 21,475 |
| 61 - 90 days | 56,819 | 17,184 |
| Over 90 days | 40,553 | 54,254 |
| | 339,810 | 141,037 |

12. SHARE CAPITAL

| | Number of shares | Issued and fully paid share capital HK\$'000 |
|--|-----------------------------------|---|
| Balance at 1st April 2005 | 762,608,114 | 305,043 |
| Issue of shares upon exercise of share options | – | – |
| Repurchase of shares | (4,385,000) | (1,754) |
| Balance at 30th September 2005 | 758,223,114 | 303,289 |

The Company repurchased its own shares on the Stock Exchange as follows:

| Month | Number of Shares | Price per share | | Aggregate Consideration HK\$ |
|----------------|-----------------------------------|------------------------------|-------------------------------|---|
| | | Lowest HK\$ | Highest HK\$ | |
| April 2005 | 385,000 | 0.67 | 0.68 | 260,450 |
| May 2005 | 417,500 | 0.68 | 0.69 | 284,175 |
| June 2005 | 700,000 | 0.68 | 0.70 | 483,000 |
| August 2005 | 1,082,500 | 0.58 | 0.58 | 627,850 |
| September 2005 | 1,800,000 | 0.56 | 0.59 | 1,040,000 |
| | 4,385,000 | | | 2,695,475 |

The above shares were cancelled upon repurchase and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. The premium on repurchase was debited to capital reserve. An amount equivalent to the nominal value of the shares cancelled was transferred from accumulated profits to the capital redemption reserve.

13. CAPITAL COMMITMENTS

| | 30/9/2005 HK\$'000 | 31/3/2005 HK\$'000 |
|---|-------------------------------------|-----------------------|
| Capital expenditure contracted for but not provided in the financial statements | | |
| – property, plant and equipment | <u>3,345</u> | <u>6,310</u> |

At the balance sheet date, the Company did not have any capital commitments.

14. CONTINGENT LIABILITIES

| | 30/9/2005 HK\$'000 | 31/3/2005 HK\$'000 |
|--------------------------------|-------------------------------------|-----------------------|
| Bills discounted with recourse | <u>-</u> | <u>1,350</u> |

15. RELATED PARTY TRANSACTIONS

There were no significant related party transactions undertaken by the Group at any time during the six-months period.

INTERIM DIVIDEND

The Directors have declared an interim dividend of HK3.00 cents per share for the year ending 31 March 2006 (Year ended 31 March 2005: HK2.00 cents) to shareholders on the register of members on 19 January 2006. Dividend warrants will be sent to the shareholders on or about 26 January 2006.

CLOSING OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 16 January 2006 to Thursday, 19 January 2006, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the entitlement of the interim dividend, all outstanding transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Share Registrars, Secretaries Limited not later than 4:00 p.m. on Friday, 13 January 2006. The address is G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong until 31 December 2005 and will be changed to 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong on 3 January 2006.

BUSINESS REVIEW

For the half of the financial year ended 30 September 2005, the Group's turnover was HK\$836,532,000. This represents a decrease in turnover from 2004 of 8%. The reason for this is attributable to several extraordinary factors which in the Company's view does not represent trend. Notwithstanding a decrease in turnover the Group enjoyed increased profitability from changes made by management resulting in increased profits over the same period last year. Currently, profits attributable to shareholders have increased by 21% to approximately HK\$51,029,000 compared to HK\$42,163,000 in the same period in 2004.

Electronics Division

Turnover in the Electronics Division for the first quarter ended 30 June 2005, decreased along with a general decline in demand for consumer electronics in the US market. Demand in the market significantly improved in the 2nd quarter of the financial year, leading to an increase in sales of the Group's products corresponding to an increase in turnover for the period. During these cycles the Group made a decision to shift product focus away from low margin products and OEM sales and the elimination of product lines that were of marginal profit. Accordingly, the Group's sales of these products decreased directly resulting in lower overall turnover. In addition, the Group focused on investment in designing new, higher margin products, the sales of which had increased during the period. Replacing low margin product lines with new higher margin products is anticipated to strengthen revenue growth in the next successive periods and beyond. Despite the decrease in the Group's turnover during the first half year of the financial year, profits attributable to shareholders increased 21% over the same periods last year. This justifies the Group's strategy to phase out under performing product lines.

In addition, the Group has focused its resources on the design and development of ODM based business which bears a higher profit margin. During the period, the Group secured ODM orders from notable brand holders and the Group focused its efforts to design and develop products to satisfy them. Sales and profit margins on ODM orders prove to be more than satisfactory. The Group has also pursued a plan to design its own branded products and offer them in channels currently under development.

The Electronics Division is also enjoying improved production efficiency as a result of increased automation of manufacturing processes, and through a strengthening of cost controls leading to greater efficiency, productivity and profitability.

For the 6 months ended 30 September 2005, the net profit margin strongly improved to 6.10% as compared to 3.07% for the year ended 31 March 2005 and 4.64% for the half year ended 30 September 2004.

Securities Trading

No active transactions recorded during the period.

Property Development

No transaction recorded during the period.

PROSPECTS

New products developed by the Group, have received favourable response from the market. These new products include portable DVDs have achieved satisfactory sales volumes at better profit margins. The Group has also started the design and development of 15 inch, 20 inch, 26 inch and 32 inch LCD TVs and 15 inches, 20 inches LCD TV/DVD combo. To meet anticipated strong demand from the market in the next financial year, the Group has embarked on an expansion program to add 150,000 square feet of factory space at its existing plant in Panyu and to re-open 100,000 square feet of factory space in Shenzhen. The expansion in production facilities in conjunction with an increase in production efficiency should lead to an increase in Group's productivity in the 2005 – 2006 financial year. In addition, the Group has negotiated to purchase a new factory site of approximately 286,000 square feet directly adjacent to the existing production facilities in Panyu. Cost of the new site is approximately RMB11 million. The Group anticipates building a new factory on the site of about 300,000 square feet to meet the anticipated demands of business for the 2007 – 2008 financial year. The current backlog orders received by the Group is strong and barring unforeseeable events, the turnover for the second half of the Groups' financial year should increase at current profit margin levels.

FINANCIAL POSITION

Liquidity and Financial Resources

The financial position of the Group remained stable. As at 30 September 2005 cash and deposits and marketable securities amounted to approximately HK\$128 million, as compared to approximately HK\$91 million at 31 March 2005.

Interest expenses for the period increased to approximately HK\$2.14 million as compared to same period in last year of approximately HK\$1.12 million, with an interest coverage of about 24 times for the period.

Gearing ratio, calculated as total borrowings to shareholders' fund was 0.97 (31 March 2005: 0.43), and net bank borrowings as a percentage to Shareholders' fund was 0.30 for the period (31 March 2005: 0.08). Current ratio calculated as current assets to current liabilities was 1.47 (31 March 2005: 2.00).

Liquidity and Financial Resources (cont'd)

Gearing ratio as at 30 September 2005 was relatively high which was mainly attributable to the increase of short term bank borrowings. Sales for the first quarter of the financial year decreased substantially as compared to the same period last year. Sales recovered strongly during the second quarter of the financial year, especially during September, 2005, and bank borrowings were mainly used to finance the receivable of about HK\$456 million as at 30 September 2005, out of which about HK\$314 million was less than 30 days. Financial position was greatly improved when the sales proceeds were received in November, 2005.

Financing and Capital Structure

The Group finance its operations by a combination of retained earnings and bank borrowings.

As at 30 September 2005 total banking facilities granted to the Group amounted to HK\$628 million of which HK\$312 million were utilized. All bank borrowings are denominated in Hong Kong dollars or US dollars at prevailing market interest rate.

Group's transactions were mostly denominated in US dollars and Hong Kong dollars. The exposure to exchange risk was minimal.

Pledge of Assets

At 30 September 2005, the Group pledged certain assets and securities with carrying value of HK\$109,469,000 (Year ended 31 March 2005: HK\$64,565,000) to secure the general credit facilities and the margin accounts with brokers.

Contingent Liabilities

As at 30 September 2005 the Company has contingent liabilities in relation to guarantees amounting to approximately HK\$628 million given to banks and other financial institutions to secure credit facilities granted to certain subsidiaries.

STAFF

As at 30 September 2005, the Group had a total staff of 6,012 of which 5,870 were employed in the PRC for the Group's manufacturing and distribution business.

The Group provides employee benefits such as staff insurance, retirement scheme, discretionary bonus and share option scheme and also provides in-house training programmes and external training sponsorship.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the period, the Company repurchased its shares on the Stock Exchange as follows:

| Month | Number of shares | Price per share | | Aggregate consideration HK\$ |
|----------------|------------------|-----------------|-----------------|---------------------------------|
| | | Lowest HK\$ | Highest HK\$ | |
| April 2005 | 385,000 | 0.67 | 0.68 | 260,450 |
| May 2005 | 417,500 | 0.68 | 0.69 | 284,175 |
| June 2005 | 700,000 | 0.68 | 0.70 | 483,000 |
| August 2005 | 1,082,500 | 0.58 | 0.58 | 627,850 |
| September 2005 | 1,800,000 | 0.56 | 0.59 | 1,040,000 |
| | <u>4,385,000</u> | | | <u>2,695,475</u> |

The above shares were cancelled upon repurchase and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. The premium on repurchase was debited to accumulated profits. An amount equivalent to the nominal value of the shares cancelled was transferred from accumulated profits to the capital redemption reserve.

DIRECTORS' INTEREST AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at 30 September 2005, the interests and short positions of the directors and chief executives in the shares of the Company and associated corporations, as defined in Part XV of Securities and Futures Ordinance (the "SFO") and as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by the Directors of Listed Companies, were as follows:

| | Number of shares of the Company held | | | Total | % of total |
|---|--------------------------------------|---------------------------------|-----------------|-------------|---------------------------------------|
| | Personal Interest | Corporate Interest | Other Interest | | Issued Shares as at 30 September 2005 |
| <i>Executive directors:</i> | | | | | |
| Lau Sak Hong, Philip | 67,054,072 | 3,018,090 (a) 10,100,415 (b) | 168,114,050 (c) | 248,286,627 | 32.75% |
| Lau Sak Kai, Anthony | 37,265,929 | 3,018,090 (a) 10,100,415 (b) | – | 50,384,434 | 6.65% |
| Lau Sak Yuk, Andy | 35,059,107 | 3,018,090 (a) 10,100,415 (b) | – | 48,177,612 | 6.35% |
| <i>Non-executive director:</i> | | | | | |
| Hon Sheung Tin, Peter | 194,645 | – | – | 194,645 | 0.03% |
| <i>Independent non-executive directors:</i> | | | | | |
| Ho Hau Chong, Norman | – | – | – | – | – |
| Chuck Winston Calptor | 770,000 | – | – | 770,000 | 0.10% |
| Chan Chak Chung | – | – | – | – | – |

Notes:

- (a) These shares are held through K.K. Nominees Limited, a company which is beneficially owned by Lau Sak Hong, Philip, Lau Sak Kai, Anthony, and Lau Sak Yuk, Andy (hereinafter collectively with other family members referred to as the "Lau family"). Accordingly, Lau family is deemed to be interested in the shares held by K.K. Nominees Limited.
- (b) These shares are held through Wincard Management Services Limited, a company which is beneficially owned by the Lau family. Accordingly, Lau family is deemed to be interested in the shares held by Wincard Management Services Limited.

- (c) These shares are beneficially owned directly or indirectly by Philip Lau Holding Corporation, a company beneficially owned by a discretionary trust, the discretionary objects of which include Lau Sak Hong, Philip and his associate. Accordingly, Lau Sak Hong, Philip is deemed to be interested in the shares held by Philip Lau Holding Corporation.

Save as disclosed above and other than certain nominee shares in subsidiaries held by directors in trust for the Company or its subsidiaries, no director held any interest in the securities of the Company or any of its associated corporations as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company pursuant to the Model Code for Securities Transactions by the Directors of Listed Companies.

DIRECTORS' RIGHT TO ACQUIRE SHARES

Under the Company's share option scheme which was approved and adopted at the special general meeting of the Company held on 12 September 2002 for a period of 5 years, the directors might grant options to any eligible employees of the Group, including directors, of the Company and its subsidiaries to subscribe for shares in the Company. Options granted are exercisable within a period of five years commencing from the date of grant of the options.

Movements of the options granted pursuant to the Scheme during the period ended 30 September 2005 are as follows:

| Name of grantee | Date of grant | Exercise price HK\$ | Number of option shares outstanding at 1.4.2005 | Number of shares lapsed/ cancelled during the period | Number of option shares granted during the period | Number of option shares exercised during the period | Number of option shares outstanding at 30.9.2005 |
|-----------------|---------------|------------------------|---|--|---|---|--|
| Employees | 2.5.2003 | 0.40 | 4,700,500 | - | - | - | 4,700,500 |
| | 10.10.2003 | 0.86 | 15,144,000 | - | - | - | 15,144,000 |
| | 24.8.2004 | 0.808 | 3,000,000 | - | - | - | 3,000,000 |
| | 2.11.2004 | 0.814 | 2,650,000 | - | - | - | 2,650,000 |
| | 7.2.2005 | 0.67 | 1,500,000 | - | - | - | 1,500,000 |
| | | | <u>26,994,500</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>26,994,500</u> |

Notes:

- (1) The above options were granted for an exercise period of five years from the date of grant of the options.
- (2) No option was granted, exercise, lapsed or cancelled during the period.

Save as aforesaid, at no time during the period was the Company or any of its subsidiaries a party to any arrangement to enable a director of the Company to acquire benefits by means of the acquisition of shares in the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2005, the following persons, other than the interest disclosed above in respect of the directors, interest in 5% or more in the shares and underlying shares of the Company have been notified to the Company and recorded in the register of substantial shareholders' interest in shares and short positions required to be kept under section 336 of Part XV of the SFO:

| Name of Shareholders | Number of Ordinary Shares in which interested | % of total issued shares as at 30 September 2005 |
|-------------------------------|--|---|
| Lee Yu Chiang (<i>Note</i>) | 42,140,878 | 5.56% |

Note:

Lee Yu Chiang hold the interest as person having a security interest in shares.

Save as mentioned above and in section of "Directors' Interests in Securities", as at 30 September 2005, the register maintained by the Company pursuant to section 336 of the SFO recorded no other interests or short positions in shares of the Company.

CORPORATE GOVERNANCE

The Company has met the code provisions of the Code on Corporate Governance Practices ("the Code") as set out in the Appendix 14 of the Listing Rules during the six months period ended 30 September 2005 except Code provision C.2 on internal control (which will be implemented for accounting period commencing on or after 1 July 2005) and the following:

- (1) Pursuant to Code provision A.2.1, the roles of chairman and chief executive officer of an issuer should be separated and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing. Mr. Lau Sak Hong, Philip is currently the chairman and managing director of the Group. Having considered the current business operation and the size of the Group, the Board is of the view that Mr. Lau Sak Hong, Philip acting as both the chairman of the Board and the managing director of the Group is acceptable and in the best interest of the Group. The Board will review this situation periodically.
- (2) Pursuant to Code provision A.4.2, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. At the annual general meeting of the Company held on 15 September 2005, in accordance with the then existing bye-laws of the Company, some of the directors are not subject to retirement by rotation at least once every three years. The Company at the said annual general meeting amended its bye-laws to provide that every director of the Company (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. Accordingly, at annual general meeting of the Company in 2006, all the directors will be subjected to retirement by rotation at least once every three years.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules, as the code of conduct regarding directors' securities transactions. Having made specific enquiry of all directors, they all confirmed that they have complied with the Model Code throughout the six months period ended 30 September 2005.

AUDIT COMMITTEE

The Company has established an audit committee comprising Messrs. Peter Hon Sheung Tin, Norman Ho Hau Chong and Chan Chak Chung. Terms of reference of the audit committee have been updated in compliance with the Code. The audit committee together with the management of the Company has reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including review of the interim report for the six months ended 30 September 2005.

By Order of the Board
Lau Sak Hong, Philip
Chairman

Hong Kong, 20 December 2005