

06

INTERIM REPORT
中期報告



GLOBAL TECH (HOLDINGS) LIMITED
耀科國際(控股)有限公司
(STOCK CODE 股份代號: 143)



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The Board of Directors (the "Board") of Global Tech (Holdings) Limited (the "Company") announces the unaudited condensed consolidated accounts of the Company and its subsidiaries (the "Group") for the six months ended 31st March, 2006 (the "Period"). The condensed consolidated income statement, condensed consolidated cash flow statement and condensed consolidated statement of changes in equity of the Group for the Period, and condensed consolidated balance sheet of the Group as at 31st March, 2006, along with selected explanatory notes, are set out as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

| | | Unaudited Six months ended 31st March | |
|--|------|--|--------------------------------|
| | Note | 2006 HK\$'000 | 2005 HK\$'000 (restated) |
| Turnover | 3 | 382,072 | 666,889 |
| Cost of sales | | (366,246) | (633,651) |
| Gross profit | | 15,826 | 33,238 |
| Other revenues | 3 | 3,056 | 808 |
| Selling and distribution expenses | | (8,134) | (7,604) |
| Administrative expenses | | (34,465) | (47,330) |
| Other operating expenses | | (2,221) | (12,401) |
| Operating loss | 4 | (25,938) | (33,289) |
| Finance costs | | (9) | (32) |
| Loss before taxation | | (25,947) | (33,321) |
| Taxation | 5 | (154) | (461) |
| Loss attributable to equity holders of the Company | | (26,101) | (33,782) |
| Dividends | 6 | – | – |
| Basic loss per share | 7 | (HK\$0.005) | (HK\$0.007) |
| Fully diluted loss per share | 7 | (HK\$0.005) | (HK\$0.007) |

CONDENSED CONSOLIDATED BALANCE SHEET

| | Note | Unaudited 31st March, 2006 HK\$'000 | Audited 30th September, 2005 HK\$'000 (restated) |
|---|------|--|--|
| Non-current assets | | | |
| Fixed assets | | 4,948 | 5,925 |
| Leasehold land | | 8,210 | 8,340 |
| Club debentures | | – | 12,301 |
| Available-for-sale financial assets | 8 | 60,129 | – |
| Current assets | | | |
| Inventories | | 78,710 | 39,030 |
| Trade receivables | 9 | 149,442 | 175,435 |
| Deposits, prepayments and other receivables | | 121,440 | 126,518 |
| Cash and bank balances | | 171,896 | 261,827 |
| | | 521,488 | 602,810 |
| Current liabilities | | | |
| Trade payables | 10 | 73,607 | 73,067 |
| Other payables and accrued charges | | 19,813 | 30,026 |
| Taxation | | 119,096 | 119,357 |
| Current portion of long-term liabilities | 11 | 37 | 35 |
| | | 212,553 | 222,485 |
| Net current assets | | 308,935 | 380,325 |
| Total assets less current liabilities | | 382,222 | 406,891 |
| Share capital | | | |
| Reserves | 12 | 51,659 | 51,659 |
| | | 330,161 | 354,810 |
| Equity | | 381,820 | 406,469 |
| Long-term liabilities | 11 | 62 | 82 |
| Deferred tax | | 340 | 340 |
| | | 382,222 | 406,891 |

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

| | Unaudited | |
|--|-------------------------|------------|
| | Six months ended | |
| | 31st March | |
| | 2006 | 2005 |
| | HK\$'000 | HK\$'000 |
| | | (restated) |
| Net cash (outflow) / inflow from operating activities | (47,992) | 82,049 |
| Net cash outflow from investing activities | (42,317) | (331) |
| Net cash outflow from financing activities | (17) | (15) |
| Net (decrease) / increase in cash and cash equivalents | (90,326) | 81,703 |
| Cash and cash equivalents at 1st October | 261,827 | 118,071 |
| Effect of foreign exchange rate changes | 395 | 1,428 |
| Cash and cash equivalents at 31st March | 171,896 | 201,202 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Share capital | Share premium | Capital reserve | Capital redemption reserve | Investment revaluation reserve | Fixed assets revaluation reserve | Exchange difference reserve | Retained earnings/ (Accumulated loss) | Total |
|--|---------------|----------------|-----------------|----------------------------|--------------------------------|----------------------------------|-----------------------------|---------------------------------------|----------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Unaudited six months ended 31st March, 2006 | | | | | | | | | |
| At 1st October, 2005, as previously reported | 51,659 | 457,804 | 2,450 | 160 | - | 2,461 | 5,040 | (110,868) | 408,706 |
| Effect of changes in accounting policies | - | - | - | - | - | (2,461) | - | 222 | (2,239) |
| At 1st October, 2005, as restated | 51,659 | 457,804 | 2,450 | 160 | - | - | 5,040 | (110,644) | 406,469 |
| Exchange differences | - | - | - | - | - | - | (582) | - | (582) |
| Revaluation | - | - | - | - | 2,034 | - | - | - | 2,034 |
| Loss for the Period | - | - | - | - | - | - | - | (26,101) | (26,101) |
| At 31st March, 2006 | 51,659 | 457,804 | 2,450 | 160 | 2,034 | - | 4,458 | (136,745) | 381,820 |
| Unaudited six months ended 31st March, 2005 | | | | | | | | | |
| At 1st October, 2004, as previously reported | 51,659 | 457,804 | 2,450 | 160 | - | - | 4,620 | 13,303 | 529,996 |
| Effect of changes in accounting policies | - | - | - | - | - | - | - | 545 | 545 |
| At 1st October, 2004, as restated | 51,659 | 457,804 | 2,450 | 160 | - | - | 4,620 | 13,848 | 530,541 |
| Exchange differences | - | - | - | - | - | - | 110 | - | 110 |
| Loss for the Period | - | - | - | - | - | - | - | (33,782) | (33,782) |
| At 31st March, 2005, as restated | 51,659 | 457,804 | 2,450 | 160 | - | - | 4,730 | (19,934) | 496,869 |

NOTES TO THE CONDENSED CONSOLIDATED ACCOUNTS

1 BASIS OF PREPARATION

These unaudited condensed consolidated accounts have been prepared in accordance with the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

These unaudited condensed consolidated accounts should be read in conjunction with the accounts for the year ended 30th September, 2005.

The accounting policies and methods of computation used in the preparation of these unaudited condensed consolidated accounts are consistent with those used in the accounts for the year ended 30th September, 2005 except that the Group has changed certain of its accounting policies following its adoption of new / revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards and Interpretations (hereafter collectively referred to as "new HKFRS") which are effective for accounting periods commencing on or after 1st January, 2005.

2 PRINCIPAL ACCOUNTING POLICIES

Effect of adopting new HKFRS

In the current period, the Group has adopted the new HKFRS below, which are relevant to its operation. The 2005 comparatives have been restated as required, in accordance with the relevant requirements:

| | |
|---------|---|
| HKAS 1 | Presentation of Financial Statements |
| HKAS 2 | Inventories |
| HKAS 7 | Cash Flow Statements |
| HKAS 8 | Accounting Policies, Changes in Accounting Estimates and Errors |
| HKAS 10 | Events after the Balance Sheet Date |
| HKAS 12 | Income Taxes |
| HKAS 14 | Segment Reporting |
| 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 |

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Effect of adopting new HKFRS (continued)

| | |
|-------------|--|
| HKAS 32 | Financial Instruments: Disclosure and Presentation |
| HKAS 33 | Earnings Per Share |
| HKAS 34 | Interim Financial Reporting |
| HKAS 36 | Impairment of Assets |
| HKAS 37 | Provisions, Contingent Liabilities and Contingent Assets |
| HKAS 39 | Financial Instruments: Recognition and Measurement |
| HKFRS 2 | Share-based Payment |
| HK-Int 4 | Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases |
| HKAS-Int 15 | Operating Leases – Incentives |

The adoption of the above new HKFRS has the following impact on the Group's accounting policies:

- (a) HKAS 1, 2, 7, 8, 10, 12, 14, 16, 18, 19, 23, 24, 27, 33, 34, 36, 37, HK-Int 4 and HKAS-Int 15 had no material effect on the Group's accounting policies.
- (b) HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. Entities have the same functional currency as the presentation currency for respective entities accounts.
- (c) **HKAS 17 Leases**

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land. Where the land and building elements of a lease of land and building held for own use can be reliably separated in proportion to the relative fair values at the inception of the lease, the land element is accounted for as an operating lease. In previous periods, owner-occupied leasehold land and buildings were included in fixed assets at valuation less accumulated depreciation and accumulated impairment losses. The increase in fair value was credit to revaluation reserve. Decrease was first set off against increase on earlier valuations in respect of the same property, and was thereafter expensed in the income statement. As from 1st October, 2005, prepaid land premium for land lease payment are expensed in the income statement on a straight line basis over the period of the lease or where there is impairment, the impairment is expensed in the income statement.

As from 1st October 2005, the buildings are also stated at cost less accumulated depreciation and impairment loss, rather than at fair values, to be consistent with the new policy required to be adopted for the land element.

The application of the new policy has increased the opening retained earnings for the year ended 30th September 2005 by approximately HK\$545,000. The effect on 2006 condensed consolidated accounts is summarised in note 2(f).

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Effect of adopting new HKFRS (continued)

(d) HKAS 32 Financial Instruments: Disclosure and Presentation HKAS 39 Financial Instruments: Recognition and Measurement

The adoption of HKAS 32 and HKAS 39 has resulted in a change in the accounting policy relating to the change in the classification of financial assets at fair value through profit or loss and available-for-sale financial assets. It has resulted in the recognition of derivative financial instruments at fair value and the change in the recognition and measurement of hedging activities. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date. Realised and unrealised gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale financial assets are recognised in equity. When securities classified as available-for-sale financial assets are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains or losses from available-for-sale financial assets.

In previous periods, the Group's club debentures were held at fair value. Upon the adoption of HKAS 32 and HKAS 39, they are classified as available-for-sale financial assets. The application of both HKAS 32 and HKAS 39 have no material effect on the presentation, recognition and measurement of financial assets and liabilities of the Group.

(e) HKFRS 2 Share-based Payment

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. With effect from 1st October, 2005, the Group recognises the fair value of share options granted as an expense in the income statement over the vesting period with a corresponding increase being recognised in an option reserve. The related option reserve is transferred to share capital and share premium, together with the exercise price, when the option holder exercises its rights.

As transitional provision set out in HKFRS 2, the cost of share options granted after 7th November, 2002 and had not yet vested on 1st October, 2005 shall expense retrospectively in the income statement of the respective periods. The Group has taken the advantages of the transitional provision under which all of the Company's outstanding share options granted after 7th November, 2002 were all vested at the date of granting the share options. As a result, the adoption of HKFRS 2 does not have material impact on the Group's financial position for the six months ended 31st March, 2006.

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Effect of adopting new HKFRS (continued)

(f) Summary of the change in accounting policies

All changes in the accounting policies have been made in accordance with the transitional provisions in the respective standards. All standards adopted by the Group require retrospective application other than the following standards:

- HKAS 16 – the initial measurement of an item of property, plant and equipment acquired in an exchange of assets transactions is accounted at fair value prospectively only to future transactions; and
- HKAS 39 – does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis.

Effect of changes in the accounting policies and estimates on 2006 condensed consolidated balance sheet is as follows:–

| | Unaudited | | | |
|----------------------------|---------------------|----------------------------------|-------------------------|----------------------------------|
| | 31st March, 2006 | | 30th September, 2005 | |
| | HKAS 17 HK\$'000 | HKAS 32 & HKAS 39 HK\$'000 | HKAS 17 HK\$'000 | HKAS 32 & HKAS 39 HK\$'000 |
| Decrease in fixed assets | (11,560) | – | (11,207) | – |
| Increase in leasehold land | 8,210 | – | 8,340 | – |
| Decrease in deferred tax | (630) | – | (630) | – |
| Decrease in reserves | (2,258) | – | (2,239) | – |

2 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

Effect of adopting new HKFRS (continued)

(f) Summary of the change in accounting policies (continued)

Effect of changes in accounting policies and estimates on 2006 condensed consolidated income statement is as follows:–

| | Unaudited | | | |
|--|----------------------------------|----------------------------------|---------------------|----------------------------------|
| | Six months ended 31st March 2006 | | 2005 | |
| | HKAS 17 HK\$'000 | HKAS 32 & HKAS 39 HK\$'000 | HKAS 17 HK\$'000 | HKAS 32 & HKAS 39 HK\$'000 |
| Decrease in other revenues | – | – | (690) | – |
| Increase in administrative expenses | (19) | – | (47) | – |
| Total increase in loss attributable to equity holders of the Company | (19) | – | (737) | – |
| Increase in basic loss per share | HK(0.0004) cents | – | HK(0.0143) cents | – |
| Increase in diluted loss per share | HK(0.0004) cents | – | HK(0.0143) cents | – |

3 TURNOVER, REVENUES AND SEGMENT INFORMATION

The Company is engaged in investment holding and its subsidiaries are principally engaged in trading of telecommunication products. Revenues recognised during the Period are as follows:

| | Unaudited Six months ended 31st March | |
|-------------------------|--|------------------------|
| | 2006 | 2005 |
| | HK\$'000 | HK\$'000 (restated) |
| Turnover | | |
| Sales of goods | 378,434 | 659,494 |
| Other operations income | 3,638 | 7,395 |
| | 382,072 | 666,889 |
| Other revenues | | |
| Interest income | 3,056 | 295 |
| Others | – | 513 |
| | 3,056 | 808 |
| Total revenues | 385,128 | 667,697 |

Primary reporting format – business segments

The Group is principally engaged in trading of telecommunication products. Other operations of the Group mainly comprise provision of repair services for telecommunication products.

The Group's inter-segment transactions mainly consist of provision of repair services for telecommunication products between different business segments. The transactions were entered into on similar terms as those contracted with independent third parties and were eliminated on consolidation.

3 TURNOVER, REVENUES AND SEGMENT INFORMATION (CONTINUED)

Primary reporting format – business segments (continued)

| | Trading of telecommunication products | Other operations | Inter- segment elimination | Total |
|--|---|------------------------|----------------------------------|-------------------------|
| | Unaudited HK\$'000 | six months HK\$'000 | ended 31st HK\$'000 | March, 2006 HK\$'000 |
| Turnover from external customers | 377,910 | 4,162 | – | 382,072 |
| Inter-segment turnover | – | 976 | (976) | – |
| Total turnover | <u>377,910</u> | <u>5,138</u> | <u>(976)</u> | <u>382,072</u> |
| Segment results | <u>(25,824)</u> | <u>(114)</u> | | <u>(25,938)</u> |
| Finance costs | | | | <u>(9)</u> |
| Loss before taxation | | | | <u>(25,947)</u> |
| Taxation | | | | <u>(154)</u> |
| Loss attributable to equity holders of the Company | | | | <u>(26,101)</u> |

3 TURNOVER, REVENUES AND SEGMENT INFORMATION (CONTINUED)

Primary reporting format – business segments (continued)

| | Trading of telecommunication products | Other operations | Inter- segment elimination | Total |
|--|--|---------------------|----------------------------------|-----------------|
| | Unaudited six months ended 31st March, 2005 (restated) | | | |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Turnover from external customers | 654,284 | 12,605 | – | 666,889 |
| Inter-segment turnover | – | 2,776 | (2,776) | – |
| Total turnover | <u>654,284</u> | <u>15,381</u> | <u>(2,776)</u> | <u>666,889</u> |
| Segment results | <u>(31,553)</u> | <u>(1,736)</u> | | (33,289) |
| Finance costs | | | | <u>(32)</u> |
| Loss before taxation | | | | (33,321) |
| Taxation | | | | <u>(461)</u> |
| Loss attributable to equity holders of the Company | | | | <u>(33,782)</u> |

4 OPERATING LOSS

Unaudited
Six months ended
31st March

| | 2006 | 2005 |
|--|----------|------------------------|
| | HK\$'000 | HK\$'000 (restated) |

Operating loss is stated after crediting and charging the following:

Crediting

| | | |
|--|--------------|-------|
| Gain on disposal of financial assets at fair value through profit or loss | 863 | – |
| Net exchange gain | 2,160 | 4,717 |

Charging

| | | |
|--|----------------|----------|
| Amortisation of leasehold land | 130 | 130 |
| Cost of trading inventories sold | 344,621 | 621,160 |
| Depreciation of fixed assets | 1,079 | 1,695 |
| Impairment losses on trade receivables | 2,950 | 16,865 |
| Impairment losses recognised in fixed assets | 343 | – |
| Loss on disposal of fixed assets | – | 82 |
| Operating lease on land and buildings | 4,896 | 6,712 |
| Provision for slow moving and net realisable values of inventories / (written back) | 11,694 | (11,062) |
| Retirement benefit costs (including directors' retirement benefit costs) | 866 | 310 |
| Staff costs (including directors' emoluments) | 19,531 | 27,767 |

5 TAXATION

The amount of taxation charged to the condensed consolidated income statement represents:

| | Unaudited | |
|---|-------------------------|------------|
| | Six months ended | |
| | 31st March | |
| | 2006 | 2005 |
| | HK\$'000 | HK\$'000 |
| | | (restated) |
| Current tax | | |
| Hong Kong profits tax (note (i)) | 154 | 461 |
| Overseas taxation (note (ii)) | – | – |
| | 154 | 461 |
| Deferred tax | | |
| Current period | – | – |
| | – | – |
| Taxation attributable to the Company and its subsidiaries | 154 | 461 |

Note:

- (i) Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits.
- (ii) No overseas taxation has been provided for the Period.

6 DIVIDENDS

The Board has resolved not to declare any interim dividend for the Period (2005: Nil).

7 LOSS PER SHARE

The calculations of basic and fully diluted loss per share are based on the consolidated loss attributable to equity holders of the Company of approximately HK\$26,101,000 (2005, as restated: HK\$33,782,000) for the Period.

The basic loss per share is based on 5,165,973,933 (2005: 5,165,973,933) ordinary shares in issue during the Period.

The computations of fully diluted loss per share for the six months ended 31st March, 2006 and 2005 have not assumed the exercise of the Company's share options since the exercise prices were higher than the average market price of the Company's shares for the respective periods.

8 AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | Unaudited 31st March, 2006 HK\$'000 | Audited 30th September, 2005 HK\$'000 |
|--|--|--|
| Unlisted club debentures, at fair value | 12,301 | – |
| Equity securities listed in Hong Kong, at fair value | 47,828 | – |
| | 60,129 | – |

9 TRADE RECEIVABLES

As at 31st March, 2006, the aging analysis of the trade receivables (net of impairment loss) is as follows:

| | Unaudited 31st March, 2006 HK\$'000 | Audited 30th September, 2005 HK\$'000 |
|---|--|--|
| Current | 144,259 | 163,409 |
| One to three months overdue | 4,570 | 9,262 |
| More than three months but less than twelve months overdue | 523 | 2,729 |
| Over twelve months overdue | 90 | 35 |
| | 149,442 | 175,435 |

The credit terms granted to the Group's customers vary and are generally the results of negotiations between the Group and individual customers.

10 TRADE PAYABLES

As at 31st March, 2006, all trade payables of the Group were due within one month or on demand.

11 LONG-TERM LIABILITIES

As at 31st March, 2006, the Group's finance lease liabilities were repayable as follows:

| | Unaudited 31st March, 2006 HK\$'000 | Audited 30th September, 2005 HK\$'000 |
|---|--|--|
| Within one year | 49 | 49 |
| In the second year | 49 | 49 |
| In the third to fifth year | 20 | 44 |
| Less: future finance charges | <u>(19)</u> | <u>(25)</u> |
| Total long-term liabilities | 99 | 117 |
| Less : current portion of long-term liabilities | <u>(37)</u> | <u>(35)</u> |
| | <u>62</u> | <u>82</u> |

12 SHARE CAPITAL

| | Authorised Ordinary shares of HK\$0.01 each | |
|---|--|-----------------|
| | No. of shares '000 | HK\$'000 |
| At 1st October, 2005 and 31st March, 2006 (Unaudited) | <u>20,000,000</u> | <u>200,000</u> |

| | Issued and fully paid Ordinary shares of HK\$0.01 each | |
|---|---|-----------------|
| | No. of shares '000 | HK\$'000 |
| At 1st October, 2005 and 31st March, 2006 (Unaudited) | <u>5,165,974</u> | <u>51,659</u> |

13 CONTINGENT LIABILITIES

There had been no material change in contingent liabilities of the Group since 30th September, 2005.

14 OPERATING LEASE COMMITMENTS

As at 31st March, 2006, the Group had future aggregate minimum lease payments under non-cancellable operating lease as follows:

| | Unaudited 31st March, 2006 HK\$'000 | Audited 30th September, 2005 HK\$'000 |
|---|--|--|
| Not later than one year | 13,276 | 8,190 |
| Later than one year and not later than five years | 17,749 | 3,329 |
| | 31,025 | 11,519 |

15 COMPARATIVE FIGURES

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



BUSINESS REVIEW AND OUTLOOK

For the six months ended 31st March, 2006, the Group recorded a turnover of approximately HK\$382 million (2005: HK\$667 million), a decline of approximately 43% compared with the same period last year. The decline was mainly attributed to the scaling down of the Group's handset distribution operation in Taiwan and the continuous price pressure. Despite keen competition in the market, gross profit margin was reduced slightly to approximately 4.14% from 4.98% of the same period last year, while the net loss was trimmed to approximately HK\$26 million from the previous HK\$34 million.

Hong Kong has exhibited considerable resilience in maintaining its unique position on the cutting-edge of the latest mobile telecommunication technologies and applications. Macau follows closely in Hong Kong's footsteps due to its geographical proximity. Sophisticated and price-sensitive consumers in these markets are better educated and prepared to test and accept new technologies, better handset designs, applications and user interfaces; whilst manufacturers and network operators are happy to launch new models here because the user experience can be tracked and referred to in fine-tuning strategies for other markets.

Introduction of third-generation ("3G") mobile communications in Hong Kong has entered its third year with more and more new services being rolled out by operators. As with other new services, 3G applications mean a relatively steep learning curve for the market, and 3G operators' promotion strategies have prompted people to look more closely at the relevance of these services to their daily lives. Most subscribers still use their new 3G handsets, generally purchased at promotional prices from network operators, to handle existing second-generation ("2G") communications and applications. However the Group believes that further improvement in services, better 3G applications and competitive pricing will stimulate further growth in this market.

The Group adheres to its belief in the future of 3G services in enhancing and bringing more vigor to users' lives. These challenges are emerging in the market. After launching its first 3G mobile phone in Hong Kong in September last year, the Group further tested the market with the introduction of another 3G mobile phone during the Period. The Group will proactively explore further business opportunities associated with 3G technologies by ensuring that new, competitively priced models are introduced in pace with market needs and preferences.

The Group has been working closely with its major suppliers to prepare new models, which meet fast-changing customer preferences, for launch in a timely fashion during the second half of this financial year. During the Period, there have been some delays in the shipment timetable of certain new models, inflicting minor disruptions to the business schedule. The Group has looked into measures with its suppliers to improve the delivery schedule and to minimise future disruptions.



Financial Review

The Group's inventory increased to approximately HK\$92 million as at 31st March, 2006 from approximately HK\$43 million as at 30th September, 2005 to support the launch of several new models during the Period. The Group's stock provision stood at approximately HK\$13 million (30th September, 2005: HK\$4 million).

The Group's net trade receivable slightly reduced to approximately HK\$149 million as at 31st March, 2006 (30th September, 2005: HK\$175 million). Impairment loss of approximately HK\$3 million had been made for the Period (2005: HK\$17 million).

As at 31st March, 2006, the Group's total cash and bank deposits amounted to approximately HK\$172 million (30th September, 2005: HK\$262 million). The decline in cash balance was mainly due to a well-planned build-up of the Group's inventory and an increase in investment in financial assets. These moves reduced the Group's liquid ratio and current ratio to approximately 2.08 (30th September, 2005: 2.53), and 2.45 (30th September, 2005: 2.71) respectively.

The Group generally finances its operations with internally generated resources and trade finance arrangements. As at 31st March, 2006, the Group maintained no banking facility (30th September, 2005: Nil), and there had been no charge against any of the Group's assets (30th September, 2005: Nil). The gearing ratio remained fairly stable at approximately 0.02% (30th September, 2005: 0.02%). As in previous years, the Group will continue to adopt a conservative cash management policy.

The Group conducts its core business transactions mainly in Hong Kong and United States dollar currencies. The greater part of this cash and bank balances are in either Hong Kong or United States dollar currencies, hence the Hong Kong dollar peg presents a natural hedge against currency fluctuations under normal trading circumstances.

Prospects and Planning for the Future

Over the last few years, the 2G market has experienced a brief period of consolidation during which smaller third-tier players were either absorbed or marginalised by stronger peers who, through intensive research and development, had identified the right way forward in terms of product design and application development. The stronger players have demonstrated the capability of meeting large fast-turnaround orders from network operators who need to capture narrow windows of opportunity that emerge from time to time as they interact with users in developing newer and trendier applications. Helped by high mobile-phone penetration in this region, the Group believes that with concerted effort from its manufacturing, network and distribution partners, it will be able to compete with other market players and hopefully, secure a strong position among the dominant players who have survived market consolidation.

The Group adheres to its belief that 3G will ultimately have a highly positive impact on handset distributors as well as manufacturers and network operators in terms of unit sales and bandwidth usage. The issue is how well the participants equip themselves to respond to the ever-changing market landscape and to rapidly evolving customer preferences.

Over the last few years, the market has already faced the first major challenge of this millennium: the launch of handsets with colour LCD screens and digital camera functions. The Group believes that the magnitude of the migration to 3G and to digital-video handsets will pose a challenge similar to the migration from analogue to digital networks some twenty years ago. Although 3G will bring undoubted benefits to customers, the Group still needs to be very careful in adapting to rapid changes in the market.

Meanwhile, the Group will continue to make enhancements in its supply-chain management, as well as operational streamlining, to better equip itself to embrace change and meet future challenges.

Employee Information

As at 31st March, 2006, the Group employed a workforce of 87 (2005: 113). The staff costs of the Group, including salaries and bonuses, was approximately HK\$20 million (2005: HK\$28 million).

The remuneration policy of the Group is to ensure the fairness and completeness of total remuneration in order to both motivate and retain existing employees as well as attract potential employees. The remuneration packages mainly include salary payments, medical subsidies and discretionary bonuses awarded on a performance basis. The Group provides pension schemes for employees as part of their staff benefits.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the period under review.

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31st March, 2006, the following Directors and chief executive of the Company had the following interests in long positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 352 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO"):

(a) Ordinary shares

| Name of Director | Number of shares held as at 31st March, 2006 | Approximate percentage of shareholding | Capacity in which interests are held |
|----------------------------------|---|---|---|
| Mr. CHEUNG Wing Yin, Vigny Wiley | 10,000,000 | 0.19% | Beneficial owner |
| Mr. SUNG Yee Keung, Ricky | 72,913,303* | 1.41% | Beneficial owner |
| Mr. WAN Kwok Cheong | 11,000,000 | 0.21% | Beneficial owner |

* These shares include 250,000 shares which were jointly owned by Ms. SUNG Mei Ling, the sister of Mr. SUNG Yee Keung, Ricky.

(b) Share options

| Name of Director | Date of grant | Number of options held as at 1st October, 2005 and 31st March, 2006 | Exercise price per share HK\$ | Exercise period | Capacity in which interests are held |
|-----------------------|------------------|---|-------------------------------|----------------------------------|--------------------------------------|
| Mr. SY Ethan, Timothy | 26th April, 1999 | 100,000,000 | 0.150 | 25th May, 1999 to 24th May, 2009 | Beneficial owner |

The above share options are unlisted cash settled options granted pursuant to a share option scheme adopted by the Company on 16th March, 1999 (the "Old Scheme"), details of which are set out in the section below under the heading "Share Option Schemes". Upon exercise of the share options in accordance with the Old Scheme, ordinary shares of HK\$0.01 each in the share capital of the Company are issuable.

Save as disclosed above, as at 31st March, 2006, none of the Directors, chief executive of the Company or their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be entered in the register kept by the Company pursuant to section 352 of the SFO, or were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code").

INTERESTS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS DISCLOSEABLE UNDER THE SECURITIES AND FUTURES ORDINANCE

As at 31st March, 2006, the register of substantial shareholders maintained under section 336 of the SFO shows that the following company (not being Directors or chief executive of the Company) had long positions of 5% or more in the shares of the Company which fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO:

| Name of shareholder | Capacity | Number of shares | Approximate percentage of shareholding |
|------------------------------------|------------------|------------------|--|
| Optimum Pace International Limited | Beneficial owner | 2,942,608,695 | 56.96% |

Save as disclosed above, no other person was recorded in the register required to be kept under section 336 of the SFO as having an interest or short position in the shares or underlying shares of the Company as at 31st March, 2006.

SHARE OPTION SCHEMES

On 16th March, 1999, the Company adopted the Old Scheme pursuant to which employees, including executive directors of the Group, were given opportunity to obtain equity holdings in the Company. The Old Scheme was subsequently terminated at the annual general meeting of the Company held on 27th March, 2003 whereby a new share option scheme (the "New Scheme") was adopted in compliance with the new requirements of the Listing Rules. Any share options which were granted under the Old Scheme prior to such termination shall continue to be valid and exercisable in accordance with the terms of the Old Scheme.

Details of the share options outstanding during the six months ended 31st March, 2006 which were granted under the Old Scheme are as follows:

| Grantees | Date of grant | Exercise price per share HK\$ | Exercise period | Number of options | | As at 31st March, 2006 |
|---|---------------------|----------------------------------|--|-------------------------|-----------------------------|------------------------|
| | | | | As at 1st October, 2005 | Cancelled during the Period | |
| Executive Director, Mr. SY Ethan, Timothy | 26th April, 1999 | 0.150 | 25th May, 1999 to 24th May, 2009 | 100,000,000 | - | 100,000,000 |
| Employees | 15th November, 2000 | 0.715 | 15th November, 2000 to 14th November, 2010 | 1,800,000 | 300,000 | 1,500,000 |

No share option had been granted, exercised or lapsed under the Old Scheme during the period under review.

No share option had been granted under the New Scheme since its adoption.

CORPORATE GOVERNANCE

Code on Corporate Governance Practices

Throughout the period of the six months ended 31st March, 2006, the Company has complied with the code provisions ("Code Provisions") set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules, except for the following deviations:-

1. **Code Provision A.2.1**

Code Provision A.2.1 provides that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

The positions of Chairman and Chief Executive Officer ("CEO") of the Company are currently carried on by the same person. The Board considers that the structure operated by the Company in this manner does not undermine the balance of power and authority between the Board and the management. The Board members have considerable experience and qualities which they bring to the Company and there is a balanced composition of Executive Directors and Non-executive Directors (including Independent Non-executive Directors). Given the composition of the Board, it believes that it is able to ensure that the balance of power between the Board and the management is not impaired. The Board believes that having the same person performing the roles of both Chairman and CEO does provide the Group with strong and consistent leadership and that, operating in this manner allows for more effective and efficient overall strategic planning of the Group.

2. **Code Provision A.4.2**

Code Provision A.4.2 provides that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

While the other Directors are subject to retirement by rotation at the annual general meeting of the Company at least once every three years, the CEO is not subject to retirement by rotation at the annual general meeting of the Company under Article 116 of the articles of association of the Company. In the opinion of the Board, stability and continuation are key factors to the successful implementation of business plans. The Board believes that it is beneficial to the Group that there is continuity in the role of the CEO and, therefore, the Board is of the view that the CEO should not be subject to retirement by rotation or hold office for a limited term at the present time.

3. Code Provisions B.1.1 to B.1.5

Code Provisions B.1.1 to B.1.5 provide that a remuneration committee should be established with specific written terms of reference which deal clearly with its authority and duties. These Code Provisions also state other relevant requirements in relation to a remuneration committee.

The Company has yet to establish a remuneration committee. However, the Board is currently making plans for the setting up of such a committee and it is anticipated that this process and the establishment of a remuneration committee will be completed in the second half of the current financial year.

4. Code Provision C.3.4

Code Provision C.3.4 provides that the audit committee should make available its terms of reference, explaining its role and authority delegated to it by the Board.

Throughout the Period, the written terms of reference of the Audit Committee of the Company, in compliance with the requirements set out in the Code on Corporate Governance Practices, is available to shareholders upon request. At the date hereof, such written terms of reference have also been published on the Company's website and the Company is now in compliance with this Code Provision.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code for dealing in securities of the Company by the Directors. Having made specific enquiry of all Directors, the Company considers that the Directors complied with the required standard set out in the Model Code throughout the six months ended 31st March, 2006.

Audit Committee

The Audit Committee of the Company was established in compliance with Rule 3.21 of the Listing Rules, with terms of reference in compliance with the provisions set out in the Code on Corporate Governance Practices. The Audit Committee comprises three Independent Non-executive Directors, namely Messrs. Andrew David ROSS, Geoffrey William FAWCETT and Charles Robert LAWSON and one Non-executive Director, namely Mr. KO Wai Lun, Warren, and is chaired by Mr. Andrew David ROSS.

The Audit Committee has reviewed with the management of the Company the accounting principles and practices adopted by the Group, and discussed internal controls and financial reporting matters including a review of the unaudited consolidated interim results of the Group for the six months ended 31st March, 2006.

By order of the Board
SY Ethan, Timothy
Chairman

Hong Kong, 24th May, 2006

As at the date of this Interim Report, the Board comprises 9 directors, of which 5 are Executive Directors, namely Mr. SY Ethan, Timothy, Mr. CHEUNG Wing Yin, Vigny Wiley, Mr. SUNG Yee Keung, Ricky, Mr. WAN Kwok Cheong and Mr. PANG Leung Ming, 1 is a Non-executive Director, namely Mr. KO Wai Lun, Warren and 3 are Independent Non-executive Directors, namely Mr. Andrew David ROSS, Mr. Geoffrey William FAWCETT and Mr. Charles Robert LAWSON.