

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2006 (2005: nil).

REVIEW AND OUTLOOK

Financial Review

Performance

During the period, the Group obtained an exclusive nationwide distribution rights for seven new Samsung's handset models, namely E778, E788, D848, i858, X508, X638 and X688. This was an important step for the Group to move towards a multi-brand distributor and to catch up with the current trend in mobile phone distribution industry in mainland China. The cooperation with Samsung will shift the Group's existing sales mix from highly concentrated Nokia products to a mix of Nokia and Samsung products.

Nevertheless, the contribution from Samsung handsets for the period was not significant as six of the seven models were launched in late June or early July this year. As a result, sales for the period was still mainly contributed by the existing national-wide distributed Nokia models: 7610, 3220, 2600, N-Gage QD, 6021 and 6708.

However, as most of these models were launched in mid to late 2004 and getting close to the end of their life cycles, both their unit selling prices and sales volumes fell in comparison with those of the same period last year. As a result, the total number of handsets sold of approximately 1.3 million sets and the consolidated turnover of HK\$1,217 million for the first six months ended 30 June 2006 represent a decrease of 14% and 21% respectively as compared with those for the previous corresponding period. Negotiation with Nokia on obtaining national distribution rights for some of their new handset models is in progress and should be finalized very soon.

As the cut throat price competition among some of the leading retail chains was finally regulated by the vendors at the end of last year, the gross profit margin went up to a more reasonable level of 4.2% as compared with that of 3.5% for the previous corresponding period. The sales of Samsung models also contributed to a higher profit margin even though their sales volume was not very significant during the period. However, the gross profit of HK\$52 million was still 6% lower than that of the previous corresponding period due to the lower sales turnover. With the full launch of Samsung models in July, it is expected that both sales and gross profit will be improved in the second half of the year.

At the same time, the Group continues to negotiate with the vendors and the operators with a view to develop other distribution modes as well as to create added values for them and thus generating higher amid steady revenue for the Group.

The distribution costs reduced by HK\$1.8 million or 11% to HK\$15.6 million for the six months ended 30 June 2006 mainly because of the decrease in sales turnover. Due to the improvement in the quality of the trade receivables, there was a written-back of the allowance for trade receivables during the period. This, together with the continuous streamlining of the existing fixed overheads, led to a decrease in administrative expenses from HK\$15.9 million last period to HK\$7.8 million this period.

The finance costs stayed at more or less the same level as the last corresponding period. Due to lower operating expenses, the interim profit before taxation and net profit increased to HK\$22.7 million and HK\$17.7 million respectively as compared with HK\$12.5 million and HK\$9.4 million respectively for the same period last year.

Treasury Policies, Liquidity and charge on assets

As at 30 June 2006, the Group's aggregate bank borrowings amounted to approximately HK\$498 million, of which approximately HK\$287 million was revolving working capital loans denominated in Renminbi, to provide flexibility to the Group in response to the changing monthly trading volume. The increase in bank borrowing from HK\$272 million as at 31 December 2005 to HK\$498 million was mainly attributable to seasonal factors, which normally required higher financing requirements during the slack season in summer when the stock was not moving fast. In comparison with the same period last year, the total bank borrowings as at 30 June 2005 was approximately HK\$478 million, which represented a difference of only 4%.

The gearing ratio of the Group, calculated as non-current liabilities to equity attributable to equity holders of the parent was approximately 24%. The total bank deposits and cash balances amounted to approximately HK\$242 million, of which HK\$149 million has been pledged to banks as securities for Renminbi and Hong Kong dollars short term revolving trade related bank facilities. The interest rates for all the loans are fixed on monthly, bi-monthly, quarterly or semi-annual basis. The interest cover is approximately 3.1 times.

During the period, there was no material change in the Group's funding and treasury policy. As over 90% of the Group's sales and purchases are denominated in Renminbi and the exchange rate of Renminbi and Hong Kong dollar is relatively stable, the risk of currency exposure is considered minimal and there is no financial instruments used for hedging purposes.

Working Capital

The amount of inventory as at 30 June 2006 of HK\$414 million represents approximately 64 days stock turnover as compared to 26 days stock turnover based on the inventory level of HK\$181 million as at 31 December 2005. The increase in inventory as well as stock turnover period is mainly attributable to the seasonal factors. June is traditionally a relatively slack period for mobile phone selling as compared to December which is the peak month of the year. In comparison with the amount of inventory as at 30 June 2005 of HK\$410 million, the increase of inventory as at 30 June 2006 was minimal. Substantially all the inventories are current mobile phone models and no significant provision for obsolescence is necessary. Also, there are price rebate or compensation arrangements with the vendors to protect against any subsequent price drop made by the vendors on the mobile phones.

The amount of trade receivable as at 30 June 2006 of HK\$126 million represents approximately 19 days debtor's turnover period as compared to 11 days as at 31 December 2005. The increase in debtor's turnover period is mainly due to longer credit period granted to certain large chain stores. Other than that, most of the sales are on either cash basis or limited credit period of less than 30 days. Thus, even though debtor's turnover period increased, the quality of trade receivables was still improving and there was a written-back of the allowance for trade receivables during the period.

Employees

The Group had a total number of 1,157 employees as at 30 June 2006, which included 1,066 marketing representatives and non-contracted promoters in various cities in mainland China. The increase in the number of marketing representatives and promoters during the period was for the distribution of new Samsung products line. There is no material change in the remuneration policy, bonus and share option scheme since 31 December 2005. No option has been granted since the adoption of the current option scheme.

Contingency and Material Acquisition and Disposal

During the period under review, there is no acquisition or disposal of material investment, subsidiary, associates or affiliated company. There is no significant contingent liability or capital commitment as at 30 June 2006.