



NGAI LIK INDUSTRIAL HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)
(Stock Code: 332)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2004

BUSINESS REVIEW

The six months under review was a challenging period for the Group. For the six months ended 30 September 2004, the Group recorded a turnover of HK\$2,008 million compared with HK\$1,652 million for the same period last year, representing an increase of 21.5%. The satisfactory improvement was mainly attributable to the increase in sales demand for electronics consumer products after the improvement of the global economy and the benefit of industry consolidation for core traditional audio products. The net profit for the period recorded a decrease from HK\$121 million for the same period last year to HK\$54 million. Like other industrial manufacturers, the Group's profit margin was negatively affected by the increasing global commodity prices for key raw materials used for manufacturing. For the six months ended 30 September 2004, high oil prices and growing global demand for commodities have contributed to increasing raw material costs. Thus, lower net margin reflected the impact of drastic price increases in key commodity raw materials, such as plastics, laminates and metals.

During the six months ended 30 September 2004, sales of home audio products represented approximately 89.8% of the Group's turnover and remains the Group's core business. During the period, the Group successfully launched some high value digital products like DVD combos and DVD home theatre systems. Although the Group received numerous customer orders for its products, the plastic and other commodity prices also reached new heights around September 2004. In the second quarter of the financial year, average spot prices of plastics jetted up approximately 50% to 60%. The cost of plastic raw materials was vital for the manufacturing of consumer electronics goods and the Group's operating costs were significantly increased.

During the period under review, the Group implemented new vertical integration operations like manufacturing of corrugated papers, speakers, connectors and cassette deck motors, upgrading the single layer PCB operations and enhancing the electroplating process. The newly developed Qingyuan Industrial Estate has been gradually put into use to increase the Group's production capacity. However, the subcontracting charges were maintained at relatively high levels when the various new operations were still undergoing ramp up processes. Some of these processes require time to bolster its operation efficiency. The Group's subcontracting charges during the period amounted to HK\$59 million (2003: HK\$28 million).

The Group rearranged its banking facilities in August 2004 with a HK\$350 million syndicated loan facility. The Group will take benefit from lower finance costs. The Group's administrative expenses were similar to the corresponding period in previous year recorded at HK\$56 million. The Group's selling and distribution expenses increased from HK\$13 million for the same period last year to HK\$21 million, mainly because of the record shipments for the period. Moreover, the operations in Qingyuan incurred higher transportation costs than Dongguan. The Group has exercised stringent control on costs and the percentage of selling, distribution and administrative expenses to total sales was reduced to 3.9% (2003: 4.0%).

The Group has a geographically diverse market. During the six months ended 30 September 2004, America remained the largest market of the Group's products followed by Europe. HK\$1,374 million and HK\$398 million of the Group's products were sold to America and Europe, accounting for 68.4% and 19.8% of the Group's total turnover respectively. During the corresponding period in previous year, approximately HK\$997 million and HK\$390 million of the Group's products were sold to America and Europe respectively. The Group successfully acquired certain reputable distributors during the period and this helps in further expanding the distribution of the Group's products in America and Europe.

In order to improve the quality and performance of the Group's products, the Group remains committed to developing new products and new models of existing products with additional features. We have a research and design team of over 300 engineers in Dongguan, launching over 40 newly designed products every year.

During the six months ended 30 September 2004, the Group also determined to enhance its automation in the production processes. The Group acquired additional sets of plastic injection and surface mounts machines, stamp presses and dies and CNC machinery for moulding operation. The Group also installed swing robots and auto-spraying equipment with C10,000 cleaning room standards. All these processes contributed to our overall production efficiency and quality. On top of the existing four sets of power generators, the Group acquired an additional set of 4,000 kw power generator to further cut down its power cost.

PROSPECTS

The Qingyuan Industrial Estate has about 660,000 square meters and the Group has developed about 45% of the plot as phase one of the plant. Currently, it has a production capacity of around 21 assembly production lines. The Group will carefully install new assembling lines at an appropriate pace to cater for the demand for additional production capacity. The operations of Qingyuan Industrial Estate is fully vertically integrated. The electroplating operations and manufacture of printed circuit boards have been relocated to Qingyuan and upgraded with advanced manufacturing facilities. The Qingyuan Industrial Estate is expected to bring synergies to the existing production plants of the Group and it is expected that the Group will further enjoy the benefits of economies of scale for its production.

In line with our determination to improve our production efficiency, the Group will further increase the number of surface mount machines, plastic injection machines and swing robots. With the Group's efforts in automation processes, the Group is confident in achieving better operation efficiency and product quality. The Group has also planned to implement various energy saving programs in production plants so as to conserve energy and reduce energy costs. The installation of inverters on injection moulding machines is one of the pilot schemes adopted by the Group. At the same time, the Group will continue to evaluate and pursue vertical integration processes that will provide positive contribution for further reducing our overall operational costs.

Looking forward, the Group is trying to restore the operating profit margin level and provide reasonable returns to shareholders. The Group is consciously reviewing the product mix profit contribution. The Group sees itself in a good position to produce mass-market products that can leverage on our larger scale of productions. Preliminary order placements from customers are desirable. New high value digital products will also be launched to further enhance our competitiveness in the consumer electronics industry.

The Group is aware of the costs of commodity materials still maintaining at high levels. In order to remain competitive, the Group will continue to maintain a tight cost control and expand its product range and customer base at the same time. The new digital products, such as LCD TV with DVD players, Hard Disk Drive MP3 players, Flash MP3 players and MPEG4 players are anticipated to make healthy and favorable profit contributions in the near future. As a sizable consumer electronics manufacturer, the Group is committed to consolidating its leading market position in traditional audio products, launch new product systematically and extend our geographical presence around the world.

All in all, the Group's financial results for the period have been adversely affected by the drastic increase in certain raw materials costs. However, the Group maintained a healthy balance sheet. In particular with the signing of the syndicated loan during the period under review, the Group is able to achieve savings in its overall interest expenses, efficiency and flexibility in its financial management. The Group will also benefit from the enhanced production operations in Qinguan and Dongguan in the long-run.

MANAGEMENT DISCUSSION AND ANALYSIS

Working Capital Management and Dividend Policy

As at 30 September 2004, the Group maintained bank balances and cash of approximately HK\$341 million (31 March 2004: HK\$274 million) and working capital utilisation rate continued to be efficient. The Group's average inventory turnover was about 48 days (30 September 2003: 44 days). The Group's average trade receivables turnover was only 10 days (30 September 2003: 26 days), reflecting improvement in credit control of the Group.

The Board of Directors has declared an interim dividend of HK3.5 cents per share.

The Board of Directors considers the policy of maintaining a normal dividend payout ratio of about 50% on net profit as appropriate. Whilst providing rewards to the investors for their on-going support, the cash available after dividend payments is sufficient to match the Group's future funding requirements.

Financing and Capital Structure

Total debt of the Group stood at approximately HK\$459 million (31 March 2004: HK\$343 million). In August 2004, the Group entered into a four-year syndicated loan agreement with a syndicate of ten banks for the amount of HK\$350 million. As at 30 September 2004, the facility, with a more preferential interest rate, has been fully drawdown to refinance the Group's existing certain credit facility, including the outstanding balance of the HK\$210 million syndication loan arranged in 2002. The balance of the facility was mainly used to finance the construction costs of Qingyuan Industrial Estate. Because of drawdown of the above facility and the capital expenditure of about HK\$183 million for the period, the gearing ratio increased to 0.42 (31 March 2004: 0.31).

The Group's borrowings are primarily denominated in Hong Kong dollars and the Group has no significant exposure to foreign exchange fluctuations.

Liquidity and Financial Resources

The net current assets of the Group as at 30 September 2004 stood high at a level of approximately HK\$334 million (31 March 2004: HK\$318 million). Accordingly, the current ratio still stood at a very healthy level of 1.43 (31 March 2004: 1.47). Shareholders' funds were maintained at approximately HK\$1,084 million (31 March 2004: HK\$1,098 million).

Exchange Exposure

The majority of the Group's sales and purchases are denominated in US Dollars and HK Dollars. As HK Dollars and US Dollars are hedged, the Group's exposure to foreign exchange risk is insignificant.

Employee information

As at 30 September 2004, the Group had approximately 173 employees in Hong Kong and Macau (31 March 2004: 157) and approximately 28,600 employees in Dongguan, the PRC (31 March 2004: 29,000) and approximately 9,800 in Qingyuan, the PRC (31 March 2004: 5,800). The increase in headcount in the PRC was a result of further expansion of its production capacity and its vertically integrated operations in the PRC. The remuneration packages are generally structured with reference to market conditions and the qualifications of the employees. The salaries and wages of the Group's employees are normally reviewed on an annual basis based on performance appraisals and other relevant factors. Bonuses are normally paid to management staff based on individual merits as well as the results of respective companies with which the staff works for.

Benefit plans for its Hong Kong Staff include a provident fund scheme and medical and life insurance. The Company also maintains a Share Option Scheme, under which options may be granted to employees to subscribe for shares in the Company. This Share Option Scheme is designed to give employees an incentive to perform.

The Board of Directors (the “Directors”) of Ngai Lik Industrial Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 September 2004, together with the comparative figures, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	<i>Notes</i>	Unaudited	
		Six months ended 30 September	
		2004	2003
		HK\$'000	HK\$'000
Turnover	3	2,008,123	1,652,369
Cost of sales		(1,880,810)	(1,461,890)
		<hr/>	<hr/>
Gross profit		127,313	190,479
Other income		4,002	2,042
Selling and distribution expenses		(21,098)	(12,934)
Administrative expenses		(56,286)	(52,741)
Other operating income, net		5,890	6,497
		<hr/>	<hr/>
Profit from operations	5	59,821	133,343
Finance costs		(1,941)	(2,105)
Share of results of associates		547	547
		<hr/>	<hr/>
Profit before taxation		58,427	131,785
Taxation	6	(4,570)	(11,149)
		<hr/>	<hr/>
Net profit for the period		<u>53,857</u>	<u>120,636</u>
		<hr/>	<hr/>
Dividends	7	<u>27,756</u>	<u>118,907</u>
		<hr/>	<hr/>
Earnings per share (HK cents)	8		
– Basic		6.79	15.22
– Diluted		6.75	15.20

CONDENSED CONSOLIDATED BALANCE SHEET

	As at 30 September 2004 (Unaudited) <i>HK\$'000</i>	As at 31 March 2004 (Audited) <i>HK\$'000</i>
Non-current assets		
Investment properties	53,581	53,581
Property, plant and equipment	1,068,980	926,658
Interests in associates	16,259	15,642
Deferred development expenditure	30,534	26,872
	<u>1,169,354</u>	<u>1,022,753</u>
Current assets		
Inventories	517,566	531,849
Trade and other receivables and prepayments	209,790	149,676
Taxation recoverable	36,263	36,263
Bank balances and cash	341,095	273,564
	<u>1,104,714</u>	<u>991,352</u>
Current liabilities		
Trade and other payables	553,225	462,883
Taxation payable	76,919	74,436
Dividend payable	67,406	–
Bank borrowings – due within one year	68,528	122,425
Obligations under finance leases – due within one year	4,905	13,401
	<u>770,983</u>	<u>673,145</u>
Net current assets	<u>333,731</u>	<u>318,207</u>
Total assets less current liabilities	<u>1,503,085</u>	<u>1,340,960</u>
Minority interests	<u>4,020</u>	<u>4,020</u>
Non-current liabilities		
Bank borrowings – due after one year	381,472	204,250
Obligations under finance leases – due after one year	3,871	3,163
Deferred tax liabilities	29,385	31,602
	<u>414,728</u>	<u>239,015</u>
Net assets	<u>1,084,337</u>	<u>1,097,925</u>
Capital and reserves		
Share Capital	79,302	79,302
Reserves	1,005,035	1,018,623
Shareholders' funds	<u>1,084,337</u>	<u>1,097,925</u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED 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 on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") and Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

2. Principal accounting policies

The condensed financial statements have been prepared under the historical cost convention, as modified for revaluation of investment properties.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2004.

3. Segment information

(a) Geographical segments

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods manufactured or services rendered:

	Turnover		Segment results	
	Six months ended		Six months ended	
	30 September		30 September	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
America	1,374,423	996,971	44,522	93,830
Europe	397,652	389,854	9,730	34,078
Asia	127,939	156,435	4,024	3,065
Others	108,109	109,109	3,109	7,189
	<u>2,008,123</u>	<u>1,652,369</u>	<u>61,385</u>	<u>138,162</u>
Interest income			535	993
Rental income			3,468	1,049
Unallocated corporate expenses			(5,567)	(6,861)
Profit from operations			<u>59,821</u>	<u>133,343</u>
Finance costs			(1,941)	(2,105)
Share of results of associates			547	547
Profit before taxation			<u>58,427</u>	<u>131,785</u>
Taxation			(4,570)	(11,149)
Net profit for the period			<u>53,857</u>	<u>120,636</u>

(b) Business segments

For the six months ended 30 September 2004, the Group's turnover represents the revenue generated from the electronics manufacturing services business ("EMS business"), which is engaged in design, manufacture and sales of electronic and electrical products. Accordingly, no business segment information is required.

For the six months ended 30 September 2003, the Group had been operated in two business segments, EMS business and motorcycle business which was engaged in the sales of motorcycle parts. As more than 90% of the Group's turnover, segment results and assets were attributable to the EMS business, the business segment information was not presented. The motorcycle business had been disposed of during the aforesaid period as detailed in note 4.

4. Discontinued business

During the six months ended 30 September 2003, the Group disposed of the entire share capital of Hangerton Group Limited, which together with its subsidiaries, carried out all of the Group's motorcycle business. The results of the motorcycle business which had been included in the unaudited condensed consolidated income statement from 1 April 2003 to the date of disposal were as follows:

	HK\$'000
Turnover	27,604
Cost of sales	(33,870)
Gross loss	(6,266)
Administrative expenses	(2,089)
Loss from operations	(8,355)
Finance costs	(3)
Net loss for the period	<u>(8,358)</u>

5. Profit from operations

	Six months ended 30 September	
	2004	2003
	HK\$'000	HK\$'000
Profit from operations		
has been arrived at after		
charging (crediting)		
the following:		
Depreciation and		
amortisation of property,		
plant and equipment	35,681	28,073
Amortisation of deferred		
development expenditure	6,907	5,529
Loss on disposal of		
property, plant and		
equipment	3,405	351
Interest income	(535)	(993)
	<u>35,681</u>	<u>28,073</u>

6. Taxation

	Six months ended 30 September	
	2004	2003
	HK\$'000	HK\$'000
The taxation charges comprise:		
Current tax		
Hong Kong		
Provided for the period	2,932	7,989
Overprovision in a		
prior year	–	(18)
	<u>2,932</u>	<u>7,971</u>
Deferred tax		
Provided for the period	1,512	675
Attributable to change in		
tax rate in Hong Kong	–	2,436
	<u>1,512</u>	<u>3,111</u>
Taxation attributable to		
the Company and its		
subsidiaries	4,444	11,082
Share of taxation		
attributable to an		
associate	126	67
	<u>4,570</u>	<u>11,149</u>

Notes

- (a) Hong Kong Profits Tax is calculated at 17.5% (2003: 17.5%) of the estimated assessable profit for the six months ended 30 September 2004.
- (b) Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

7. Dividends

	Six months ended 30 September	
	2004	2003
	HK\$'000	HK\$'000
Special, approved, of nil cent		
(2003: HK8 cents)		
per share (Note)	–	63,417
Interim, proposed, of		
HK3.5 cents (2003:		
HK7 cents) per share	27,756	55,490
	<u>27,756</u>	<u>118,907</u>

Note: On 5 September 2003, the Directors approved the payment of a special dividend by utilizing the sales proceeds of HK\$63,892,000 from the disposal of motorcycle business.

8. Earnings per share

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

	Six months ended 30 September	
	2004	2003
	HK\$'000	HK\$'000
Earnings		
Net profit for the period and earnings for the purposes of basic and diluted earnings per share	<u>53,857</u>	<u>120,636</u>
Number of ordinary shares		
Weighted average number of shares for the purpose of basic earnings per share	793,016,684	792,716,684
Effect of dilutive potential share – share options	<u>5,321,661</u>	<u>819,688</u>
Weighted average number of shares for the purpose of diluted earnings per share	<u>798,338,345</u>	<u>793,536,372</u>

DIVIDEND

The Board of Directors has resolved to declare an interim dividend of HK3.5 cents (2003: interim dividend of HK7 cents) per share for the six months ended 30 September 2004. The dividend will be payable on or about 18 January 2005 to shareholders of the Company whose names are on the Register of Members on 14 January 2005.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 10 January 2005 to 14 January 2005, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch registrars, Tengis Limited, G/F., BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:30 p.m. on 7 January 2005.

AUDIT COMMITTEE

In compliance with the requirements of the Stock Exchange, an Audit Committee comprising three independent non-executive directors was formed. Reporting to the Board of Directors of the Company, the Audit Committee is dedicated to the review and supervision of the Group's financial reporting process and internal controls. The Company's Audit Committee has reviewed this unaudited interim report of the Group for the six months ended 30 September 2004.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

None of the Directors is aware of any information that would reasonably indicate that the Company is not or, was not for any time during the six months ended 30 September 2004, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules, except for the term of office for the non-executive directors of the Company is subject to retirement by rotation and re-election at the annual general meeting in accordance with the Bye-Laws of the Company.

PURCHASE, SALE OR REDEMPTION OF COMPANY'S LISTED SECURITIES

During the period, there were no purchase, sale or redemption by the Company or any of its subsidiaries, of the Company's listed securities.

PUBLICATION OF FURTHER INFORMATION ON THE STOCK EXCHANGE'S WEBSITE

All the financial and other related information of the Company required by paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules will be published on Stock Exchange's website in due course.

By order of the Board
Lam Man Chan
Chairman

Hong Kong, 20 December 2004

As at the date of this announcement, the executive directors of the Company are Mr. Lam Man Chan, Mr. Hui King Chun, Ms. Ting Lai Ling, Ms. Ting Lai Wah and Mr. Yeung Cheuk Kwong, the non-executive director of the Company is Dr. Hari Naroomal Harilela GBS OBE JP and the independent non-executive directors of the Company are Mr. Lam Ping Cheung, Andrew, Mr. Ng Chi Yeung, Simon and Mr. Tam Yuk Sang, Sammy.

Please also refer to the published version of this announcement in The Standard.