



NGAI LIK INDUSTRIAL HOLDINGS LIMITED

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

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2005

We are pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2005, together with the comparative figures, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited Six months ended 30 September	
	Notes	2005 HK\$'000	2004 HK\$'000 (Restated)
Turnover	4	1,561,823	2,008,123
Cost of sales		(1,457,232)	(1,880,810)
Gross profit		104,591	127,313
Other income		5,857	4,002
Selling and distribution expenses		(18,774)	(21,098)
Administrative expenses		(57,328)	(56,286)
Other operating income, net		5,397	5,890
Profit from operations	5	39,743	59,821
Finance costs		(11,306)	(1,941)
Share of results of associates		1,119	421
Profit before taxation		29,556	58,301
Taxation	6	(4,328)	(4,444)
Profit for the period		<u>25,228</u>	<u>53,857</u>
Attributable to :			
Equity holders of the Company		25,228	53,857
Minority interests		–	–
Profit for the period		<u>25,228</u>	<u>53,857</u>
Dividend	7	<u>11,895</u>	<u>27,756</u>
Earnings per share (HK cents)	8		
– Basic		<u>3.18</u>	<u>6.79</u>
– Diluted		<u>N/A</u>	<u>6.75</u>

CONDENSED CONSOLIDATED BALANCE SHEET

	As at 30 September 2005 HK\$'000 (Unaudited)	As at 31 March 2005 HK\$'000 (Audited) (Restated)
Non-current assets		
Investment properties	90,300	60,288
Property, plant and equipment	1,107,854	1,098,912
Interests in associates	19,047	18,468
Prepaid lease payments	66,048	68,746
Deferred development expenditure	33,328	31,765
Deposits for acquisition of property, plant and equipment	9,581	12,388
Long-term bank deposit	23,370	23,370
Investments in securities	15,305	15,733
	<u>1,364,833</u>	<u>1,329,670</u>
Current assets		
Inventories	537,265	418,590
Trade, other receivables and prepayments	175,869	128,989
Prepaid lease payments	1,450	1,450
Taxation recoverable	48,806	38,682
Bank balances and cash	221,559	215,420
	<u>984,949</u>	<u>803,131</u>
Current liabilities		
Trade and other payables	425,716	413,208
Taxation payable	79,406	76,581
Bank borrowings	364,481	170,440
Obligations under finance leases	184	3,141
	<u>869,787</u>	<u>663,370</u>
Net current assets	<u>115,162</u>	<u>139,761</u>
Total assets less current liabilities	<u>1,479,995</u>	<u>1,469,431</u>
Non-current liabilities		
Bank borrowings	358,068	370,520
Obligations under finance leases	15	34
Deferred taxation	33,568	30,702
	<u>391,651</u>	<u>401,256</u>
Net assets	<u>1,088,344</u>	<u>1,068,175</u>
Capital and reserves		
Share Capital	79,302	79,302
Reserves	1,005,022	984,853
Equity attributable to equity holders of the Company	1,084,324	1,064,155
Minority interests	4,020	4,020
Total equity	<u>1,088,344</u>	<u>1,068,175</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 (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and with the Hong Kong Accounting Standard ("HKAS") 34 "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 basis except for certain properties and financial instruments, which are measured at fair values, as appropriate.

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.

In the current period, the Group has adopted, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), HKAS and Interpretations ("Int") (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are effective for accounting periods beginning on or after 1 January 2005. The adoption of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. In particular, the presentation of minority interests and share of tax of associates have been changed. The changes in presentation have been adopted retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented:

(a) Investment properties

In the current period, the Group has, for the first time, adopted HKAS 40 "Investment Property". The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in the profit or loss for the period in which they arise. In previous periods, investment properties under the Statement of Standard Accounting Practice ("SSAP") 13 "Accounting of investment properties" 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 adopted the relevant transitional provisions in HKAS 40 and elected to adopt HKAS 40 from 1 April 2005 onwards. (see Note 3 for the financial impact).

(b) 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 (SSAP – Interpretation 20). In the current period, the Group has adopted HKAS Interpretation 21 "Income Taxes – Recovery of Revalued Non-Depreciable Assets" which removes the presumption that the carrying amount of investment properties are to be recovered through sale. Therefore, the deferred tax consequences of the investment properties are now assessed on the basis that reflect the tax consequences that would follow from the manner in which the Group expects to recover the property at each balance sheet date. In the absence of any specific transitional provisions in HKAS Interpretation 21, this change in accounting policy has been adopted retrospectively. (see Note 3 for the financial impact).

(c) Owner-occupied leasehold interest in land

In previous periods, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current period, the Group has adopted HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been adopted retrospectively. Comparative figures have been restated. (see Note 3 for the financial impact). 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.

(d) Financial instruments

In the current period, the Group has adopted 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 the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The application of HKAS 32 has had no material impact on how financial statements of the Group are presented for current or prior periods. The principal effects resulting from the implementation of HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has adopted 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.

Debt and equity securities

By 31 March 2005, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of SSAP 24 "Accounting for investments in securities". 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 or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method.

On 1 April 2005, the Group classified and measured its investments in securities in accordance with the requirements of HKAS 39. The investments in equity instruments with quoted market prices are classified as "available-for-sale financial assets", and are carried at fair value, with changes in fair value of approximately HK\$428,000 recognised in investment reserve.

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 or 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 or loss” or “financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)”. “Other financial liabilities” are carried at amortised cost using the effective interest method.

By 31 March 2005, the long-term bank deposits are stated at cost less any identified impairment loss that is other than temporary.

On 1 April 2005, the Group classified and measured its long-term bank deposits in accordance with the requirements of HKAS 39. Under HKAS 39, long-term bank deposits are carried at amortised cost using the effective interest method. The change has had no material effect on the results for the current period.

Derivatives

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 profit or loss for the period in which they arise.

Derecognition

HKAS 39 provides more rigorous criteria for the derecognition of financial assets than the criteria adopted in previous periods. Under HKAS 39, a financial asset is derecognised, when and only when, either the contractual rights to the asset’s cash flows expire, or the asset is transferred and the transfer qualifies for derecognition in accordance with HKAS 39. The decision as to whether a transfer qualifies for derecognition is made by applying a combination of risks and rewards and control tests. The Group has adopted the relevant transitional provisions and the revised accounting policy prospectively for transfers of financial assets on or after 1 April 2005. As a result, the Group’s discounted bills with recourse which were derecognised prior to 1 April 2005 have not been restated. As at 30 September 2005, the Group’s discounted bills with recourse, which were previously treated as contingent liabilities, have not been derecognised. Instead, the related bank borrowings of approximately HK\$33,826,000 have been recognised on the balance sheet date. The change has had no material effect on the results for the current period.

(e) Share-based payments

In the current period, the Group has adopted HKFRS 2 “Share-based payment” which requires an expense to be recognised where the Group buys goods or obtain services in exchange for shares or rights over shares (“equity-settled transactions”), or in exchange for other assets equivalent in value to a given number of shares or rights over shares (“cash-settled transactions”). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors’ and employees’ share options of the Company determined at the date of grant of the share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has adopted HKFRS 2 to share options granted on or after 1 January 2005. In relation to share options granted to before 1 January 2005, the Group has not adopted HKFRS 2 to share options granted on or before 7 November 2002 and share options that were granted after 7 November 2002 and had vested before 1 January 2005 in accordance with the relevant transitional provisions. The adoption of HKFRS 2 has no material effect on the condensed financial statements since all share options were granted by the Company after 7 November 2002 and had vested before 1 January 2005.

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

The effects of changes in the accounting policies described in note 2 on the results for the current period are as follows:

	HKAS-Int-21 HK\$'000	HKAS 40 HK\$'000	Total effects HK\$'000
Gains arising from changes in fair value of investment properties	–	3,105	3,105
Increase in deferred taxation liabilities relating to gains arising from changes in fair value of investment properties	(1,025)	–	(1,025)
(Decrease)/Increase in profit for the period	<u>(1,025)</u>	<u>3,105</u>	<u>2,080</u>

There is no effect of the changes in accounting policies described in note 2 on the results for the six months ended 30 September 2004.

The cumulative effects of the application of the new HKFRSs as at 31 March 2005 and 1 April 2005 on the balance sheet items are summarised below:

	As at 31.3.2005 (Originally stated) HK\$'000	Retrospective Adjustments		As at 31.3.2005 (Restated) HK\$'000	Adjustments on 1 April 2005		As at 1.4.2005 (Restated) HK\$'000
		HKAS 17 HK\$'000	HKAS 27 HK\$'000		HKAS-Int-21 HK\$'000	HKAS 40 HK\$'000	
Investment properties	60,288	–	–	60,288	–	24,623	84,911
Property, plant and equipment	1,169,108	(70,196)	–	1,098,912	–	(20,801)	1,078,111
Prepaid lease payments – non-current	–	68,746	–	68,746	–	–	68,746
Prepaid lease payments – current	–	1,450	–	1,450	–	–	1,450
Deferred taxation	(30,702)	–	–	(30,702)	(1,285)	–	(31,987)
Other assets and liabilities	(130,519)	–	–	(130,519)	–	–	(130,519)
Total effects on assets and liabilities	<u>1,068,175</u>	<u>–</u>	<u>–</u>	<u>1,068,175</u>	<u>(1,285)</u>	<u>3,822</u>	<u>1,070,712</u>
Share capital	79,302	–	–	79,302	–	–	79,302
Share premium	82,844	–	–	82,844	–	–	82,844
Exchange reserve	1,108	–	–	1,108	–	–	1,108
Accumulated profits	900,901	–	–	900,901	(1,285)	3,822	903,438
Minority interests	–	–	4,020	4,020	–	–	4,020
Total effects on equity	1,064,155	–	4,020	1,068,175	(1,285)	3,822	1,070,712
Minority interests	4,020	–	(4,020)	–	–	–	–
	<u>1,068,175</u>	<u>–</u>	<u>–</u>	<u>1,068,175</u>	<u>(1,285)</u>	<u>3,822</u>	<u>1,070,712</u>

There is no financial effects of the application of the new HKFRSs to the Group's equity at 1 April 2004.

The Group has not early adopted the following new HKAS or Interpretations that have been issued but are not yet effective. The Directors of the Company has commenced considering the potential impact of these HKAS or Interpretations but is not yet in a position to determine whether these HKAS or Interpretations would have a significant impact on how its results of operations and financial position are prepared and presented. These HKAS or Interpretations may result in changes in the future as to how the results and financial position are prepared and presented.

HKAS 1 (Amendment)	Capital Disclosures
HKAS 19 (Amendment)	Employees Benefits – Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intra-group Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 & HKFRS 4 (Amendments)	Financial Guarantee Contracts
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HKFRS-Int-4	Determining whether an Arrangement Contains a Lease
HKFRS-Int-5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

4. TURNOVER AND SEGMENT INFORMATION

Turnover represents the amounts received and receivable for goods sold and services rendered.

(a) Geographical segments

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

	Turnover		Segment results	
	Six months ended 30 September		Six months ended 30 September	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (Restated)
America	1,213,964	1,374,423	29,595	44,522
Europe	220,291	397,652	6,400	9,730
Asia	67,904	127,939	560	4,024
Others	59,664	108,109	1,004	3,109
	<u>1,561,823</u>	<u>2,008,123</u>	<u>37,559</u>	<u>61,385</u>
Interest income			1,923	535
Rental income			3,934	3,468
Unallocated corporate expenses			(3,673)	(5,567)
Profit from operations			39,743	59,821
Finance costs			(11,306)	(1,941)
Share of results of associates			1,119	421
Profit before taxation			29,556	58,301
Taxation			(4,328)	(4,444)
Profit for the period			<u>25,228</u>	<u>53,857</u>

(b) Business segments

For the six months ended 30 September 2005 and 2004, the Group's turnover represents the revenue generated from the electronics manufacturing services business, which is engaged in design, manufacture and sales of electronic and electrical products. Accordingly, no business segment information is required.

5. PROFIT FROM OPERATIONS

	Six months ended 30 September	
	2005	2004
	HK\$'000	HK\$'000 (Restated)
Profit from operations has been arrived at after charging (crediting) the following:		
Depreciation and amortisation of property, plant and equipment	40,627	34,935
Amortisation of prepaid lease payments	742	746
Amortisation of deferred development expenditure	9,404	6,907
Loss on disposal of property, plant and equipment	492	3,405
Interest income	(1,923)	(535)
	<u>49,342</u>	<u>45,563</u>

6. TAXATION

	Six months ended 30 September	
	2005	2004
	HK\$'000	HK\$'000 (Restated)
The taxation charges comprise:		
Profits tax		
Hong Kong	2,534	2,932
Other jurisdictions	385	—
	<u>2,919</u>	<u>2,932</u>
Deferred taxation	1,409	1,512
Taxation charge for the period	<u>4,328</u>	<u>4,444</u>

Notes:

- (a) Hong Kong Profits Tax is calculated at 17.5% (2004: 17.5%) of the estimated assessable profit for the six months ended 30 September 2005.
- (b) Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

7. DIVIDEND

	Six months ended 30 September	
	2005	2004
	HK\$'000	HK\$'000
Interim, proposed, of HK1.5 cents (2004: HK3.5 cents) per share	<u>11,895</u>	<u>27,756</u>

8. EARNINGS PER SHARE

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

	Six months ended 30 September	
	2005 HK\$'000	2004 HK\$'000
Earnings		
Profit for the period and earnings for the purposes of basic and diluted earnings per share	<u>25,228</u>	<u>53,857</u>
Number of ordinary shares		
Weighted average number of shares for the purpose of basic earnings per share	<u>793,016,684</u>	793,016,684
Effect of dilutive potential ordinary shares – share options	–	5,321,661
Weighted average number of shares for the purpose of diluted earnings per share	<u>793,016,684</u>	<u>798,338,345</u>

No diluted earnings per share has been presented because the exercise price of the Company's options was higher than the average market price for the six months ended 30 September 2005.

DIVIDEND

The Board of Directors (the "Board") has resolved to declare an interim dividend of HK1.5 cents (2004: interim dividend of HK3.5 cents) per share for six months ended 30 September 2005. The dividend will be payable on or about 18 January 2006 to shareholders of the Company whose names are on the Register of Members on 13 January 2006.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 9 January 2006 to 13 January 2006, 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 (which will be relocated to 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong with effect from 3 January 2006) not later than 4:30 p.m. on 6 January 2006.

BUSINESS REVIEW

For the six months ended 30 September 2005, the Group's turnover was HK\$1,562 million, representing a decrease of 22.2% as compared to the same period last year. Profit attributable to shareholders amounted to HK\$25 million, representing a decrease of 53.2% from HK\$54 million for the same period last year.

During the period under review, the Group's performance was significantly affected by the following adverse factors:

1. an abrupt rise in oil and raw material prices, in particular oil prices once hiked to a level of nearly US\$80 a barrel;
2. general increase in market interest rate;
3. appreciation of Renminbi ("RMB") starting from July 2005;
4. shortages and unstable supply of labour and escalation of wages and salaries in Southern China.

The high oil prices also had a negative impact on consumer purchasing power and our customers tended to be more conservative in making procurement decisions in view of the uncertain market conditions.

Furthermore, as explained in the 2005 Annual Report, the Group has decided to shift its product mix from conventional audio products to high value digital products. In line with this strategy, the sales of home audio products decreased by 26.1%, but still accounted for 87.8% of the total sales. The sales of digital products increased by 25.7% which accounted for 12.2% of the total sales.

During the period, America remained the Group's largest market followed by Europe. HK\$1,214 million and HK\$220 million of the Group's products were sold to America and Europe, accounting for 77.7% and 14.1% of the Group's total turnover respectively. During the same period last year, HK\$1,374 million and HK\$398 million of the Group's products were sold to America and Europe respectively.

The Group has taken stringent cost control measures and certain component manufacturing operations will be consolidated in the Qingyuan Industrial Estate in early 2006 with an aim of reducing certain operating costs and overheads.

PROSPECTS

The current environment for the manufacturing business remains challenging. Oil prices stayed at relatively high levels and interest rate sustained an uprising trend. In addition, further appreciation in RMB is generally expected in the near future and its impact on the related costs, such as wages and salaries and other expenses denominated in RMB, is uncertain. Moreover, labour shortage continues to be a general concern of the manufacturers in the Pearl River Delta region.

Thanks to the Group's well-developed production platforms in Qingyuan and Dongguan, Ngai Lik still places its focus on low-cost manufacturing of a wide variety of quality consumer electronic products for the mass market. Currently, the Group operates about 70 production lines in China.

With the continual trend of digitalization of consumer audio-visual products, the Group will proactively enhance its products mix on an on-going basis.

The Group has actively promoted its higher value digital products to its customers. These include flash based MP3 and WMA players with different display formats, such as 7 segment, segment ID3, dot matrix and dual colours OLED. To cater for customer demand, various optional features are offered, including card slot, radio receiving and voice recording. At present, 11 models are available and 10 new models are in the pipeline. Furthermore, the Group continues to expand its product range in portable DVD players in 6.2", 7", 8.5", 9" and 10" screen size. Additional features including DIVX, television receiving and USB interface are also provided. 5 models of notebook and slot in type are currently available and 4 new models are in the pipeline.

Customer response towards these new products is encouraging. The Group is confident that sales orders for these products will have a satisfactory growth in the coming financial year and expects the sales of such digital products will account for not less than 15% of sales revenues in FY2007.

Furthermore, the Group will launch another series of digital products such as LCD TVs in different sizes, DVD recorders, personal media players and digital boomboxes. The Group is committed to enhancing the productivity and product quality through automated production facilities in its production processes.

It is anticipated that the market condition will remain difficult for the second half of the financial year and therefore the Group will continue to implement stringent cost controls, consolidate its operations and reduce its capital expenditure to improve free cash flow.

The Group is also in the process of renewing and upgrading certain factory dormitories in Dongguan to provide a better working and living environment for its workers. The Group will also negotiate with its customers to distribute their orders in a more even manner during the coming year to avoid order backlog during the peak season from July to October.

The Group will also continue to explore business opportunities with new clients through the diversification of new product ranges and strives to achieve a proactive yet prudent product transition for the Group.

By leveraging on its solid foundation and establishment in the industry as well as the long-term relationship with its customers, the Group is confident of overcoming the challenges ahead.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Turnover

During the period, the sales turnover decreased to HK\$1,562 million, down by 22.2% as compared to the corresponding period last year. The drop was partly attributable to the competitive environment and partly to the planned reduction in product sales with high plastic consumption.

During the period, sales of home audio products accounted for approximately 87.8% of the Group's turnover, a decrease of 26.1% over last period, and remained its core business. Sales from digital and DVD players contributed to approximately 12.2% of the Group's turnover, an increase of 25.7% over last period.

Gross Margin

The Group continued to change its product mix and reduce the sales of CD audio products which used plastics, laminates and metals as the key raw materials. As a result, gross profit margin improved slightly to 6.7% despite the high level of key raw material costs.

Expenses

The Group's administrative expenses were similar to the period for last year and recorded at HK\$57 million. The percentage of administrative expenses to total sales rose to 3.7% (2004: 2.8%). With a lower sales revenue base for the period, the Group's selling and distribution expenses decreased to approximately HK\$19 million. The Group's finance costs surged to HK\$11 million, as a result of the significantly rise in average market interest rate and the increase in bank borrowings.

Working Capital Management and Dividend Policy

As at 30 September 2005, the Group maintained long-term bank deposit, bank balances and cash of approximately HK\$245 million (31 March 2005: HK\$239 million) The Group's average inventory turnover was about 56 days (31 March 2005: 51 days). The increase was partly due to certain stocks being piled up for the shipments in October and November 2005. The Group's average trade receivables turnover increased to 15 days (31 March 2005: 10 days).

The Board of Directors has declared an interim dividend of HK1.5 cents per share.

After careful deliberation the Group adhered to its existing dividend policy with a payout ratio of not more than 50% on profit attributable to shareholders, rather than maintaining the absolute amount of dividend of the prior year.

Financing and Capital Structure

For the period ended 30 September 2005, the total bank borrowings of the Group stood at approximately HK\$723 million (31 March 2005: HK\$544 million) of which HK\$358 million (31 March 2005: HK\$371 million) were not repayable within one year. The borrowings mainly included outstanding balances of syndicated loan facilities of HK\$294 million and term loans from several banks amounted to HK\$209 million. The increase in borrowings was mainly used to finance the CAPEX and daily operations.

The Group also issued letters of credit to procure the supplies of critical components and certain raw materials. The trust receipt loans amounted to approximately HK\$126 million (31 March 2005: HK\$40 million). The Group's borrowings were primarily denominated in Hong Kong dollars or US dollars and the Group had no significant exposure to foreign exchange fluctuations.

Capital Expenditure

Total capital expenditure for the period was HK\$73 million (31 March 2005: 328 million), out of which, HK\$20 million was spent on the construction of industrial buildings in the PRC, HK\$29 million for the acquisition of plant and machinery and HK\$12 million for moulds investment.

Liquidity and Financial Resources

The net current assets of the Group as at 30 September 2005 stood at a level of approximately HK\$115 million (31 March 2005: HK\$140 million) and the current ratio was 1.13 (31 March 2005: 1.21). Shareholders' funds were maintained at approximately HK\$1,084 million (31 March 2005: HK\$1,064 million).

Treasury Policy

The majority of the Group's sales and purchases were denominated in US Dollars and HK Dollars. As HK Dollars and US Dollars are pegged, the Group had minimum exposure to foreign exchange fluctuation and, presently, the Group had not entered into any financial instrument for hedging purposes. However, the Group will closely monitor the overall currency and interest rate exposures. When considered appropriate, the Group will hedge against currency exposure as well as interest rate exposure.

Employee Information

As at 30 September 2005, the Group had approximately 35,000 employees (2004: approximately 38,500). 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 the management, based on individual merits as well as the results from the 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.

CORPORATE GOVERNANCE

Compliance with the Code on Corporate Governance Practices

The Company has complied with the code provisions set out in the Code on Corporate Governance Practices (the "Code Provision") contained in Appendix 14 of the Listing Rules throughout six months ended 30 September 2005, except for the following deviations:

1. Code Provision A.4.2 stipulates that all directors appointed to fill casual vacancy should be subject to election by shareholders at the first general meeting after their appointment and that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. The Bye-laws of the Company states that the Chairman of the Board and/or the Managing Director of the Company shall not be subject to retirement by rotation and any director appointed to fill a casual vacancy on the Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at that meeting. In accordance with the Bye-laws of the Company, Dr. Lam Man Chan, the chairman of the Company did not retire by rotation at the 2005 Annual General Meeting. To ensure consistency with the Code Provision A.4.2, the Board plans to amend the Bye-laws of the Company to effect that all directors will be subject to retirement by rotation and that all directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after their appointment. Such amendment will be proposed at the Annual General Meeting in 2006 for approval by the shareholders.
2. Code Provision A.2.1 stipulates that the roles of chairman and chief executive officer ("CEO") should be separate and should not be performed by the same individual. The Company does not at present have any officer holding the position of CEO. Dr. Lam Man Chan is the founder and chairman of the Company and has also carried out the responsibilities of CEO. Dr. Lam possesses the essential leadership skills to manage the Board and extensive knowledge in the business of the Group. The Board considers the present structure to be more suitable to the Company because it can promote the efficient formulation and implementation of the Company's strategies. However, the Board may consider separating the roles of the chairman and the CEO if the Board considers appropriate.
3. As set out in 2005 Annual Report, the non-executive directors of the Company were previously not appointed for a specific term but were subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Bye-laws of the Company. On 6 September 2005, the term of appointment of each of the non-executive directors was changed to a specific term of three years to comply with the Code Provision A.4.1.
4. Code Provisions B.1.1 states that a remuneration committee should be established with specific written terms of reference which deal clearly with its authority and duties. On 6 September 2005, a remuneration committee was established by the Company. The committee comprises three independent non-executive directors and one executive director. The committee has adopted the terms of the reference in line with those set out in Appendix 14 of the Listing Rules.

AUDIT COMMITTEE

In compliance with the requirements of the Stock Exchange, an Audit Committee comprising one non-executive director and three independent non-executive directors was formed. Reporting to the Board of the Company, the Audit Committee is dedicated to the review and supervision of the Group's financial reporting process and internal controls. The interim results for the six months ended 30 September 2005 have been reviewed by the Audit Committee.

COMPLIANCE WITH CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

DEALING IN COMPANY'S LISTED SECURITIES

During the year, there were no purchases, 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 the Stock Exchange's website in due course.

BOARD OF DIRECTORS

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

By order of the Board
Lam Man Chan
Chairman

Hong Kong, 21 December 2005

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