



RUILI HOLDINGS LIMITED

瑞力控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code : 491)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2004

The Board of Directors of Ruili Holdings Limited (hereinafter referred to as the “Company”) is pleased to announce the **unaudited** consolidated results of the Company and its subsidiaries (hereinafter collectively referred to as the “Group”) for the six months ended 31 December 2004.

Condensed Consolidated Income Statement

For the six months ended 31 December 2004

| | | Six months ended 31 December | |
|---|------|------------------------------|-------------|
| | | 2004 | 2003 |
| | | (Unaudited) | (Unaudited) |
| | Note | HK\$'000 | HK\$'000 |
| Turnover | 3 | 52,555 | 43,368 |
| Cost of sales | | (47,665) | (36,382) |
| Gross profit | | 4,890 | 6,986 |
| Other income | | 43 | 1,186 |
| Revaluation increase in investment properties | | – | 6,500 |
| Distribution costs | | (1,072) | (504) |
| Administrative expenses | | (14,322) | (9,353) |
| (Loss)/profit from operations | | (10,461) | 4,815 |
| Amortisation on goodwill | | (393) | (5) |
| Finance costs | | (920) | (1,973) |
| Gain on disposal of subsidiaries | 5 | 4 | 68,580 |
| (Loss)/profit before taxation | | (11,770) | 71,417 |
| Taxation | 6 | – | – |
| (Loss)/profit before minority interests | | (11,770) | 71,417 |
| Minority interests | | 1,346 | – |
| Net (loss)/profit for the period | | (10,424) | 71,147 |
| (Loss)/earnings per share | 8 | | |
| Basic | | (3.87 cents) | 27.73 cents |
| Diluted | | N/A | 27.64 cents |

CONDENSED CONSOLIDATED BALANCE SHEET
As at 31 December 2004

| | <i>Note</i> | 31 December 2004 (Unaudited) HK\$'000 | 30 June 2004 (Audited) HK\$'000 |
|---|-------------|--|--|
| Non-current assets | | | |
| Intangible assets | | 4,362 | 80 |
| Property, plant and equipment | | 2,802 | 1,368 |
| | | <u>7,164</u> | <u>1,448</u> |
| Current assets | | | |
| Inventories | | 3,105 | – |
| Trade and other receivables | 9 | 28,990 | 5,670 |
| Investment deposits | | – | 16,100 |
| Time deposits, bank balances and cash | | 513 | 1,942 |
| | | <u>32,608</u> | <u>23,712</u> |
| Less: Current liabilities | | | |
| Trade and other payables | 10 | 18,396 | 4,962 |
| Short-term secured bank borrowings | | 4,717 | 1,442 |
| Obligations under finance leases due within one year | | – | 208 |
| Convertible bonds | | – | 15,938 |
| Short-term borrowings | | 8,693 | 8,560 |
| | | <u>31,806</u> | <u>31,110</u> |
| Net current assets/(liabilities) | | <u>802</u> | <u>(7,398)</u> |
| Total assets less current liabilities | | <u>7,966</u> | <u>(5,950)</u> |
| Less: Non-current liabilities | | | |
| Obligations under finance leases due after one year | | – | 504 |
| Minority interests | | <u>8,002</u> | <u>–</u> |
| Net liabilities | | <u>(36)</u> | <u>(6,454)</u> |
| Financed by: | | | |
| Share capital | | 115,530 | 106,141 |
| Reserves | | <u>(115,566)</u> | <u>(112,595)</u> |
| Shareholders' deficits | | <u>(36)</u> | <u>(6,454)</u> |

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
For the six months ended 31 December 2004

1. BASIS OF PREPARATION

The condensed consolidated interim financial statements have been prepared in accordance with Statement of Standard Accounting Practice (“SSAP”) 25 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated interim financial statements have been prepared under the historical cost convention as modified for the revaluation of certain properties.

The accounting policies and method of computation used in the preparation of these condensed consolidated interim financial statements are consistent with those used in the Group's audited financial statements for the year ended 30 June 2004.

3. SEGMENT INFORMATION

(a) Business Segments

The Group is principally engaged in the manufacturing and selling of multimedia electronic and provision of telecommunication and system integration services. In the last corresponding period, the Group was also engaged in the trading of toys and game products.

| | Six months ended 31 December 2004 (Unaudited) | | | | |
|--|---|--|--|---------------------------|---------------------------------|
| | Multimedia electronic products <i>HK\$'000</i> | Toys and games products <i>HK\$'000</i> | Telecom- munication and system integration <i>HK\$'000</i> | Others <i>HK\$'000</i> | Consolidated <i>HK\$'000</i> |
| Revenue from external customers | <u>52,309</u> | <u>-</u> | <u>230</u> | <u>16</u> | <u>52,555</u> |
| Segment results | <u>4,810</u> | <u>-</u> | <u>78</u> | <u>2</u> | 4,890 |
| Interest income and unallocated gains | | | | | 43 |
| Unallocated corporate expenses | | | | | <u>(15,394)</u> |
| Loss from operations | | | | | (10,461) |
| Amortisation on goodwill | | | | | (393) |
| Finance costs | | | | | (920) |
| Gain on disposal of subsidiary | | | | | <u>4</u> |
| Loss before taxation | | | | | (11,770) |
| Taxation | | | | | <u>-</u> |
| Loss before minority interests | | | | | (11,770) |
| Minority interests | | | | | <u>1,346</u> |
| Loss for the period | | | | | <u>(10,424)</u> |

| Six months ended 31 December 2003 (Unaudited) | | | | | |
|--|---|--|--|---------------------------|---------------------------------|
| | Multimedia electronic products <i>HK\$'000</i> | Toys and games products <i>HK\$'000</i> | Telecom- munication and system integration <i>HK\$'000</i> | Others <i>HK\$'000</i> | Consolidated <i>HK\$'000</i> |
| Revenue from external customers | <u>15,950</u> | <u>4,542</u> | <u>21,588</u> | <u>1,288</u> | <u>43,368</u> |
| Segment results | <u>3,433</u> | <u>978</u> | <u>2,298</u> | <u>277</u> | 6,986 |
| Interest income and unallocated gains | | | | | 1,186 |
| Revaluation increase in investment properties | | | | | 6,500 |
| Unallocated corporate expenses | | | | | <u>(9,857)</u> |
| Profit from operations | | | | | 4,815 |
| Amortisation on goodwill | | | | | (5) |
| Finance costs | | | | | (1,973) |
| Gain on disposal of subsidiary | | | | | <u>68,580</u> |
| Profit before taxation | | | | | 71,417 |
| Taxation | | | | | <u>-</u> |
| Profit before minority interests | | | | | 71,417 |
| Minority interests | | | | | <u>-</u> |
| Net profit for the period | | | | | <u>71,417</u> |

There are no sales or other transactions between the business segments.

Analysis of assets and liabilities by business segments has not been disclosed as most of the Group's assets and liabilities are unallocated.

(b) Geographical Segments

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers. More than 90% of the Group's assets are located in the region of Hong Kong and Mainland China. Accordingly, analysis of segment assets based on geographical segments has not been disclosed.

| Six months ended 31 December 2004 (Unaudited) | | | | | |
|---|-------------------------------------|---------------------------|--------------------------|--|---------------------------------|
| | North America <i>HK\$'000</i> | Europe <i>HK\$'000</i> | Japan <i>HK\$'000</i> | Local and Others <i>HK\$'000</i> | Consolidated <i>HK\$'000</i> |
| Revenue from external customers | <u>3,443</u> | <u>5,221</u> | <u>21</u> | <u>43,870</u> | <u>52,555</u> |
| Segment results | <u>842</u> | <u>964</u> | <u>21</u> | <u>3,063</u> | <u>4,890</u> |

| Six months ended 31 December 2003 (Unaudited) | | | | | |
|---|-------------------------------------|---------------------------|--------------------------|--|---------------------------------|
| | North America <i>HK\$'000</i> | Europe <i>HK\$'000</i> | Japan <i>HK\$'000</i> | Local and Others <i>HK\$'000</i> | Consolidated <i>HK\$'000</i> |
| Revenue from external customers | <u>4,524</u> | <u>2,229</u> | <u>377</u> | <u>36,238</u> | <u>43,368</u> |
| Segment results | <u>974</u> | <u>480</u> | <u>81</u> | <u>5,451</u> | <u>6,986</u> |

There are no sales between the geographical segments.

4. DEPRECIATION

During the period, the following depreciation and amortisation have been charged to the Group's condensed consolidated income statement.

| | Six months ended 31 December | |
|--|---------------------------------|---------------------------------|
| | 2004 (Unaudited) HK\$'000 | 2003 (Unaudited) HK\$'000 |
| Depreciation of property, plant and equipment | 419 | 495 |
| Amortisation of intangible assets | 393 | 5 |
| Amortisation of issue costs of convertible bonds | — | 3 |
| | <u> </u> | <u> </u> |

5. GAIN ON DISPOSAL OF SUBSIDIARIES

| | Six months ended 31 December | |
|---|---------------------------------|---------------------------------|
| | 2004 (Unaudited) HK\$'000 | 2003 (Unaudited) HK\$'000 |
| Disposal of net liabilities shared by the Group | 46 | 103,333 |
| Amount due by the subsidiaries | (42) | (47,013) |
| Asset revaluation reserve released | — | 1,460 |
| Capital revenue on consolidation released | — | 10,800 |
| | <u> </u> | <u> </u> |
| Gain on disposal | <u> 4</u> | <u> 68,580</u> |

6. TAXATION

No provision for Hong Kong and PRC profits tax has been made as there were no assessable profits derived from Hong Kong and PRC for the current and last corresponding periods.

7. INTERIM DIVIDEND

The directors do not recommend the payment of an interim dividend for the current period (2003: Nil).

8. (LOSS)/EARNING PER SHARE

The calculation of basic (loss)/earnings per share is based on the following data:

| | Six months ended 31 December | |
|---|---------------------------------|--------------------|
| | 2004 | 2003 (restated) |
| (Loss)/profit for the period for the purposes of basic (loss)/earning per share (in HK\$'000) | <u>(10,424)</u> | <u>71,471</u> |
| Weighted average of ordinary shares for the purposes of basic (loss)/earnings per share | <u>269,562,795</u> | <u>257,785,169</u> |

Pursuant to a resolution passed by the shareholders of the Company at a special general meeting on 17 December 2004, every forty of the authorised, issued and unissued ordinary shares of HK\$0.01 each in the share capital of the Company were consolidated into one share of HK\$0.40 each.

The weighted average number of ordinary shares in 2003 for the purposes of calculating the basic earning per share have been retrospectively adjusted for the forty-to-one share consolidation which took place in December 2004.

There were no potential dilutive shares in existence for the six months ended 31 December 2004 and, accordingly no diluted loss per share has been presented.

The calculation of diluted earning per ordinary share for the last corresponding share was based on the following data:

| | <i>HK\$'000</i> |
|--|-------------------------|
| Earnings for calculation of basic earning per ordinary share (net profit attributable to ordinary shareholders) | 71,417 |
| Effect of dilutive potential ordinary shares – interest on convertible bonds | <u>138</u> |
| Earnings for calculation of diluted earning per ordinary share | <u><u>71,555</u></u> |
| | Number of shares |
| | <i>'000</i> |
| | (restated) |
| Weighted average number of shares used in calculating basic earnings per share | 257,785 |
| Effect of dilutive potential ordinary shares – Convertible bonds | <u>1,087</u> |
| Weighted average number of shares used in calculating basic earning per ordinary share | <u><u>258,872</u></u> |

9. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 60 days to 90 days to its trade customers. Included in trade and other receivables are trade debtors of approximately HK\$8,212,000 (at 30 June 2004: HK\$2,440,000) with the following aged analysis:

| | 31 December 2004 (Unaudited) <i>HK\$'000</i> | 30 June 2004 (Audited) <i>HK\$'000</i> |
|----------------|---|---|
| Within 90 days | 7,151 | 1,373 |
| Over 90 days | <u>1,061</u> | <u>1,067</u> |
| | <u><u>8,212</u></u> | <u><u>2,440</u></u> |

The Group allows an average credit period of 90-180 days (30 June 2004: 90-180 days) to its trade customers.

10. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payable of approximately HK\$4,596,000 (at 30 June 2004: HK\$2,181,000) with the following aged analysis:

| | 31 December 2004 (Unaudited) <i>HK\$'000</i> | 30 June 2004 (Audited) <i>HK\$'000</i> |
|----------------|---|---|
| Within 90 days | 1,784 | 1,598 |
| Over 90 days | <u>2,812</u> | <u>583</u> |
| | <u><u>4,596</u></u> | <u><u>2,181</u></u> |

11. COMPARATIVE FIGURES

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

MANAGEMENT DISCUSSION AND ANALYSIS

Results

Turnover for the six months ended 31 December 2004 increased to HK\$52.6 million from HK\$43.4 million for the same period last year. The increase in turnover was mainly attributable to the increase in the sales of multimedia electronic products in the period. Gross profit for the period amounted to HK\$4.9 million, compared with HK\$7.0 million in last year. The drop in gross profit was mainly as a result of aggressive pricing strategy under the fierce competition in the multimedia electronic products market. Net loss for the period was HK\$10.4 million, compared with a net loss of HK\$3.7 million for the same period last year, if the revaluation increase in investment properties of HK\$6.5 million and gain on disposal of non-wholly owned subsidiary of HK\$68.6 million were excluded from the net profit of HK\$71.4 million for the same period last year. Loss per share for the period under review was 3.87 cents.

Review of Operations

Subsequent to the disposal of Welback International Investment Limited and its subsidiaries and Ruian Weiye Technology Company Limited in previous years, the Group has diversified its business into system integration and development through the acquisition of 55% equity interest in Shenzhen Yinhetong Information Technology Company Limited 深圳銀河通信息技術有限公司 (“SRT”). At the same time, another major trading arm of the Group, Ruian Technology Company Limited has regained a larger customer base than in previous year.

Multimedia Electronic Products

The turnover for multimedia electronic products for the six months period ended 31 December 2004 amounted to HK\$52.3 million, representing a growth of 228% against the same period last year. The significant growth was mainly as a result of increase in demand of multimedia electronic products such as DVD players and digital cameras. However, in order to maintain a satisfactory market share in this highly competitive multimedia electronic products market, more aggressive pricing strategy is inevitable. The gross profit percentage was therefore dropped from 21.5% for the last period to 9.2% for the current period.

Telecommunication & System Integration

Subsequent to the acquisition of SRT in July 2004, the service is provided by this newly acquired company. However, the performance of this business in the period was unsatisfactory. The turnover and gross profit for the period was HK\$230,000 and HK\$78,000 respectively.

Future Business Prospects and Plans

The Group is now engaging in the businesses of selling high technology digital cameras, karaoke combo systems with TV and DVD players and high definition DVD players.

With the high definition TV, eg Plasma TV and LCD TV becoming more and more popular in household nowadays; high definition DVD player will be a high potential market for the Group. The Group will continue to source for other new products to suit the demand of the customers.

On 7 February 2005, the Group has entered into a sale and purchase agreement for the acquisition of the office on 2nd Floor of Talon Tower, 38 Connaught Road West, Hong Kong at a consideration of HK\$21,878,500. The acquisition was completed on 17 February 2005. The directors believe that by making the acquisition the cash resources of the Group can be better utilized given the gradual recovery of the Hong Kong property market. In addition, the Group will be able to make savings on rental expense.

With the GDP growth of 8.1% in 2004, the economy of Hong Kong was the best since the Asian financial crisis. The values of properties in Hong Kong have also rebounded significantly. Strong global economic growth has been observed in last year. A policy of weak US dollars by US government recently has provided a good opportunity for Hong Kong exporters. However, we will keep alert of fluctuation in global oil price and increase in US interest rates which will affect the global economy.

Subsequent to the placing of shares, the Group has acquired the necessary funding for its working capital and investment requirements. The Group will, on one hand, continue to improve its cost effectiveness and enhance its competitiveness. On the other hand, we will continue to explore new investment opportunities and meanwhile closely monitor its existing investment portfolio to ensure that shareholders' fund will be placed in areas where there are high growth and earning potential.

Financial Review and Liquidity

As at 31 December 2004, the Group had net liabilities of HK\$36,000, compared with net liabilities of HK\$6.5 million for the year ended 30 June 2004. The current ratio, representing current assets divided by current liabilities was 1.03, improved from 0.76 at the last year end date.

As at 31 December 2004, the Group has outstanding liabilities from two loans of approximately of HK\$8.7 million from an independent third party. These loans were unsecured, chargeable with interest rate at 10% per annum. These loans were subsequently converted into 21,732,430 shares at HK\$0.40 each according to a settlement agreement dated 7 February 2005. Bank loan of RMB5.0 million, obtained by SRT prior to the acquisition by the Group, was also consolidated into the consolidated balance sheet of the Group at the period end.

The gearing ratio, as a ratio of total borrowings over total assets, at 31 December 2004, was substantially improved to 0.34 from 1.06 at the last year end date.

On 12 November 2004, the Company entered into a placing agreement and supplemental agreement with the placing agent in relation to the appointment of the placing agent for the placing of 225,000,000 shares at HK\$0.40 each. A special general meeting was held on 17 December 2004 with the above placing of new shares were approved. The placing of new shares was completed on 21 January 2005.

As at 31 December 2004, the Group had contingent liabilities of HK\$24 million mainly as a result of a corporate guarantee provided by the Company to a financial institution in respect of banking facilities granted to our former subsidiaries. HK\$5.5 million of the banking facilities were utilized by that former subsidiaries and such amount was subject to a claim by the financial institution.

Exposure to Fluctuation in Exchange Rates and Related Hedges

During the period, the sales of finished goods and purchase of raw material for the Group were mainly denominated in US dollars, Renminbi and Hong Kong dollars. Borrowings in terms of loans and convertible bonds were also denominated in Hong Kong dollars with interest being charged on a fixed rate basis. As the exchange rates of Hong Kong dollars against US dollars and Renminbi were relatively stable during the period, the Group's exposure to fluctuations in exchange rates was minimal.

Employee Schemes

As at 31 December 2004, there were 47 employees (17 based in Hong Kong and 30 based in PRC) within the Group. The remuneration policy and package of the Group's employees are periodically reviewed and approved by the executive directors. Apart from provident fund scheme, in-house training programmes, medical insurance scheme, discretionary bonuses and share options may also be awarded to employees according to the assessment of individual performance.

Major Litigation and Arbitration Proceedings

The Company and its former subsidiary, P.N. Electronics Ltd. ("PNE"), are in arbitration with North American Foreign Trading Corporation ("NAFT") in respect of a gross receivable of HK\$18 million and related damages from various parties for goods shipped by PNE to NAFT in 1996. The arbitration proceedings were initiated by NAFT against the Company and PNE claiming for alleged damages in New York, U.S.A. The alleged claims had been contested and a counterclaim for the sum of HK\$18 million as well as other damages was made in the proceedings. On 3 March 2005, no further action has been taken by either party and thus it is not possible to predict the outcome with reasonable certainty.

On 13 October 2003, a writ of summons and statement of claim was made by BII Finance Company ("BII Finance") against the Company under a guarantee allegedly given by the Company in favour of BII Finance in respect of certain alleged liabilities of the Company's ex-subsiidiary, Welback Enterprises Limited. The claim is for a sum of approximately HK\$3,583,000 and US\$248,000 (approximately HK\$1,934,000) together with interest and costs. The claim is being disputed by the Company. The Company has joined its former directors, Mr. Lee Chun Kwok ("Mr. Lee") and Mr. Fong Wing Seng ("Mr. Fong"), as third parties to the action. The Company's defence was filed on 1 December 2003. BII Finance has taken out summary judgment proceedings against the Company, Mr. Lee and Mr. Fong which was heard before the High Court on 2 and 3 November 2004. The hearing has yet to conclude and a further two days have been fixed for the adjourned hearing of BII Finance's application for summary judgment, on 14 and 15 April 2005.

Save as disclosed above, no member of the Group is engaged in any litigation or claims of material importance and no litigation or claims of material importance is known to the Directors to be pending or threatened by or against any member of the Group.

Purchase, Sale or Redemption of the Company's Listed Securities

During the six months ended 31 December 2004, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

Code of Best Practice

In the opinion of the directors, the Company has complied throughout the six months ended 31 December 2004 with the Code of Best Practice set out in Appendix 14 to the Listing Rules.

Model Code

The Company has on 31 December 2004 adopted a model code for securities transaction by Directors on term no less exacting than the required standard set out in Appendix 10 of the Listing Rules.

Audit Committee

The Audit Committee currently comprises three independent non-executive directors of the Company, namely Mr. Li Fui Lung, Danny, Mr. Ng Hoi Yue, Herman and Mr. John Paul McLellan. The Audit Committee and the Group's external auditors have reviewed with the management on the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters the Group's unaudited interim financial statements for the six months ended 31 December 2004.

Publication of Interim Results on the Stock Exchange's Website

All information of interim results of the Group for the period required by paragraphs 46(1) to 46(6) of Appendix 16 to the Listing Rules will be published on the website of the Stock Exchange in due course.

As at the date of this announcement, the Board comprises:

Executive Directors:

Mr. Yu Kam Kee, Lawrence M.B.E., JP. (*Chairman*)
Mr. Carl Chang (*Chief Executive Officer*)
Mr. Yu Kam Yuen, Lincoln
Mr. Wu Jiahong

Independent Non-Executive Directors:

Mr. Li Fui Lung, Danny
Mr. Ng Hoi Yue, Herman
Mr. John Paul McLellan

By Order of the Board
Ruli Holdings Limited
Ng Yuk Yee, Feona
Company Secretary

Hong Kong, 21 March 2005

* *For identification purpose*

The English language text of this announcement shall prevail over the Chinese language text.