



# FAR EAST TECHNOLOGY INTERNATIONAL LIMITED

(Incorporated in Hong Kong with limited liability)

Website: <http://www.fet.com.hk>

(Stock code: 36)

## INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH JUNE, 2005

### INTERIM RESULTS

The Board of Directors (the "Board") of Far East Technology International Limited (the "Company") herein present their unaudited condensed consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30th June, 2005 together with comparative amounts. The interim financial report has not been audited, but has been reviewed by the Company's audit committee.

### CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June, 2005

		Unaudited six months ended 30th June,	
	Notes	2005 HK\$'000	2004 HK\$'000 (restated)
Turnover	3	30,336	35,837
Cost of sales		(28,863)	(32,349)
Gross profit		1,473	3,488
Other operating income		829	199
Distribution costs		(383)	(173)
Administrative expenses		(5,264)	(4,831)
Other operating expenses		(67)	(133)
Gain on disposal of available-for-sale investments		1,046	1,118
Impairment loss on investment securities recognised		–	(241)
Fair value change on financial assets at fair value		(1,600)	3,557
Fair value change on investment properties		1,500	–
(Loss) profit from operations	4	(2,466)	2,984
Finance costs		(112)	(1,295)
Gain on disposal of discontinued operations	5	–	301
Gain on disposal of an investment property	6	–	1,032
Gain on disposal of partial interest in an associate		2,924	–
Share of results of associates		4,330	3,291
Share of results of a jointly-controlled entity		(582)	(17)
Profit before tax		4,094	6,296
Tax	7	(22)	(393)
Net profit for the period		4,072	5,903
Attributable to:			
Equity holders of the parent		3,992	5,513
Minority interests		80	390
		4,072	5,903
Earnings per share			
Basic	8	6.0 cents	8.3 cents
Diluted		N/A	N/A

**CONDENSED CONSOLIDATED BALANCE SHEET***As at 30th June, 2005*

	<b>30/6/2005</b> <b>(unaudited)</b>	<b>31/12/2004</b> <b>(audited)</b> <b>(restated)</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Assets</b>		
<b>Non-current Assets</b>		
Property, plant and equipment	16,048	18,143
Investment properties	27,200	25,700
Lease premium for land	4,477	4,566
Interest in associates	48,133	47,583
Interest in a jointly-controlled entity	2,218	2,800
Available-for-sale investments/investments in securities	10,894	8,180
	<hr/>	<hr/>
	108,970	106,972
<b>Current Assets</b>		
Financial assets at fair value/investments in securities	26,566	20,845
Inventories	5,685	5,275
Trade and other receivables	12,953	14,342
Lease premium for land	174	174
Amount due from minority shareholders	5,789	6,194
Amount due from associates	640	686
Pledged bank deposits	9,950	5,216
Bank balances and cash	14,962	14,467
	<hr/>	<hr/>
	76,719	67,199
	<hr/>	<hr/>
Total Assets	185,689	174,171
<b>Equity and Liabilities</b>		
<b>Capital and Reserves</b>		
Share capital	663	331,669
Reserves	123,675	(214,779)
	<hr/>	<hr/>
Equity attributable to equity holders of the parent	124,338	116,890
Minority interests	16,397	16,329
	<hr/>	<hr/>
Total Equity	140,735	133,219
<b>Current Liabilities</b>		
Trade and other payables	23,755	25,614
Amounts due to directors	4,994	5,752
Amounts due to related companies	1,627	1,557
Amount due to a minority shareholder	912	983
Amount due to a jointly-controlled entity	508	508
Tax payable	22	6
Bank and other loans – due within one year	13,136	6,532
	<hr/>	<hr/>
	44,954	40,952
	<hr/>	<hr/>
Total Liabilities	44,954	40,952
	<hr/>	<hr/>
Total Equity and Liabilities	185,689	174,171

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****1. Basis of preparation**

The unaudited condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and with the applicable disclosures requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and should be read in conjunction with the 2004 annual financial statements.

## 2. Significant accounting policies and change in accounting policies

The unaudited condensed consolidated financial statements have been prepared under the historical cost basis except for investment properties and available-for-sale investments, which are measured at fair values or revalued amounts, as appropriate.

The accounting policies used in the unaudited condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st December, 2004 except as described below.

In current period, the Group applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1st January, 2005. The adoption of the new HKFRSs has resulted in changes of 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) *Presentation of Financial Statements*

HKAS 1 "Presentation of Financial Statements" affects certain presentation in the consolidated balance sheet, consolidated income statement and consolidated statement of change in equity, including the following:

- i) tax of jointly-controlled entity and associates attributable to the Group, which were previously included in the tax charge on the consolidated income statement, are now included in the share of profits and loss of jointly controlled entity and associates, respectively; and
- ii) minority interests are now included in the equity section of the balance sheet.

The changes in presentation have been applied retrospectively.

### b) *Lease Premium for Land*

The adoption HKAS 17 "Leases" has resulted in a change in accounting policy relating to leasehold land. Leasehold land and buildings were previously carried at cost less accumulated depreciation and any accumulated impairment losses. In accordance with the provisions of HKAS 17, a lease of land and building should be split into a lease of land and a lease of building in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease. The lease premium for land is stated at cost and amortised over the period of the lease whereas the leasehold building is stated at cost less accumulated depreciation and any accumulated impairment losses.

Pursuant to HKAS 17, up-front payment made for leasehold land with a carrying value of approximately HK\$2,734,000 as at 30th June, 2005 (31st December, 2004: HK\$2,734,000) are reclassified as lease premium for land instead of land held for development (fixed assets) which are expensed in the consolidated income statement on straight-line basis over the period of the leases. Opening retained profits at 1st January, 2004 and 1st January, 2005 have been decreased by approximately HK\$383,000 and HK\$438,000 respectively. Profit for the six months ended 30th June, 2004 and 30th June, 2005 have been decreased by approximately HK\$27,000 and HK\$27,000 respectively.

### c) *Interest in Joint Venture*

The adoption of HKAS 31 "Interest in Joint Venture", allow a venturer to recognise its interest in a jointly controlled entity using either proportionate consolidation or the equity method. While there is no change, the Group recognises its interest in a jointly controlled entity using the equity method. The applied HKAS 31 does not have any material effect on the account for the current period. Comparative figures have not been restated.

### d) *Financial Assets and Liabilities*

The adoption of HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement" has resulted in a change in the accounting policy relating to the classification of financial assets and liabilities and their measurement.

In accordance with the provisions in HKAS 39, the investments have been classified into available-for-sale investments and financial assets at fair value. The classification depends on the purpose for which the investments were held. As a result of the adoption of HKAS 39, all the investments are now stated at fair value in balance sheet, except for certain available-for-sale investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, when they are measured at cost less any accumulated impairment losses. In addition, all the investments as at 31st December, 2004 that should be measured at fair value on adoption of HKAS 39 should be remeasured at 1st January, 2005 and any adjustment of the previous carrying value amount should be recognised as an adjustment of the balance of revaluation reserves at 1st January, 2005. The revaluation reserves at 1st January, 2005 and 30th June, 2005 have been increased by approximately HK\$3,368,000 and HK\$145,000 respectively. Comparative figures have not been restated.

Available-for-sale investments are carried at fair value with any unrealised gains and losses recognised in equity. Financial assets at fair value with any fair value change are included in the income statement. Available-for-sale investments and financial assets at fair value were previously classified as investments in securities (non-current assets) and investments in securities (current assets).

Borrowings are now recognised initially at fair value, net of transaction costs incurred. They are subsequently stated at amortised cost with any difference between the proceeds (net of transaction costs) and the redemption value recognised in the income statement over the period of the borrowing using the effective interest method or at fair value through profit and loss. Borrowings were previously carried at cost.

e) *Investment Properties*

Following the adoption of HKAS 40 “Investment Property”, changes in the fair values of investment properties are included in the income statement. Previously the Group had recorded such fair value changes in the property valuation reserve. The adoption of new HKAS 40 has been applied retrospectively and comparative figures presented have been restated to conform to the changed policy. Opening retained profits at 1st January, 2005 has been increased by approximately HK\$1,950,000. Profit for the six months ended 30th June, 2005 has been increased by approximately HK\$1,500,000.

f) *Deferred Taxes Related to Investment Properties*

In addition, Hong Kong Accounting Standard Interpretation (“HKAS-Int”) 21 now requires deferred tax to be calculated using profits tax rates, as opposed to using capital gain tax rates, on these surpluses and deficits. The deferred tax liabilities arising from revaluation of investment properties have been recognised at 1st January, 2005 and 30th June, 2005 approximately HK\$341,000 and HK\$263,000. The deferred tax assets and liabilities have been offset for the current period. The applied HKAS-Int 21 does not have any material effect on the account for the current period. Comparative figures have not been restated.

g) *Share-based Payments*

In the current period, the Group has applied HKFRS 2 “Share-based Payment” which requires an expense to be recognised where the Group buys goods or obtains service in exchange for shares or rights over shares (“equity-settled transactions”), or in exchange for other assets equivalent in value a given number of shares or rights over shares (“cash-settled transactions”). The principal impact of HKFRS 2 on the Group is 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. At as 30th June, 2005, no option has been granted pursuant to the adoptions of share option scheme on 23rd May, 2005. The applied HKFRS 2 does not have any material effect on the account for the current period. Comparative figures have not been restated.

### 3. Business and geographical segments

*Business segments*

	Continuing operations						Discontinued operation		Consolidated	
	Securities investment and trading		Property development and investment (restated)		Industrial		Entertainment and leisure			
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	six months ended 30th June, 2005      2004 HK\$'000    HK\$'000		2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
<b>TURNOVER</b>										
External sales	5,572	1,870	506	1,411	24,258	32,476	–	80	30,336	35,837
<b>RESULTS</b>										
Segment results	(3,749)	1,742	1,562*	307	(1,108)	967	–	(231)	(3,295)	2,785
Other operating income	829	78	–	7	–	114	–	–	829	199
(Loss) profit from operations									(2,466)	2,984
Gain on disposal of discontinued operations									–	301
Gain on disposal of an investment property									–	1,032
Finance costs									(112)	(1,295)
Gain on disposal of partial interest in an associate									2,924	–
Share of results of associates									4,330	3,291
Share of results of a jointly – controlled entity									(582)	(17)

Profit before tax	4,094	6,296
Tax	(22)	(393)
Net profit for the period	<u>4,072</u>	<u>5,903</u>

\* The segment result of property development and investment for 2005 had been included a fair value charge on investment properties HK\$1,500,000.

#### Geographical segments

	Sales revenue by geographical market	
	Unaudited six months ended 30th June,	
	2005	2004
	HK\$'000	HK\$'000
Hong Kong	9,633	8,107
Singapore	–	828
PRC	9,117	15,046
Japan	11,586	11,856
	<u>30,336</u>	<u>35,837</u>

#### 4. (Loss) profit from operations

	Unaudited six months ended 30th June,	
	2005	2004
	HK\$'000	HK\$'000
		(restated)
(Loss) profit from operations has been arrived at after charging:		
Auditors' remuneration	290	405
Depreciation	2,305	2,099
Directors' remuneration and other staff costs, including retirement benefits schemes contributions of HK\$641,943 (2004: HK\$623,680)	6,427	5,615
Minimum lease payments for operating lease in respect of rented premium	111	–
Lease premium for land amortisation	87	87
and after crediting:		
Profit on disposal of listed other investments	–	217
Rental income from investment properties, less outgoings of HK\$506,367 (2004: HK\$734,074)	506	717
	<u>506</u>	<u>717</u>

#### 5. Gain on disposal of discontinued operations

During the period, there was no gain recognised on the disposal of discontinued operations (six months ended 30th June, 2004: HK\$301,000).

#### 6. Gain on disposal of an investment property

During the period, there was no gain recognised on the disposal of an investment property (six months ended 30th June, 2004: HK\$1,032,000).

#### 7. Tax

	Unaudited six months ended 30th June,	
	2005	2004
	HK\$'000	HK\$'000
		(restated)
Current tax:		
Profits Tax for the period		
PRC	(22)	(393)
Tax attributable to the Company and its subsidiaries	<u>(22)</u>	<u>(393)</u>

Tax arising in PRC is calculated at the rates prevailing in the relevant jurisdictions.

No provision for Hong Kong Profits Tax has been made in the financial statements as the Company and its subsidiaries operating in Hong Kong have no assessable profits for the both periods.

Deferred tax has been provided for at the rate that is expected to apply in the period when the liability is settled or the asset is realised. The effect of deferred tax for the both period is considered to be insignificant to the Group.

#### 8. Earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity holders of the parent of HK\$3,992,000 (six months ended 30th June, 2004 (restated): HK\$5,513,000) and on the weighted average number of 66,333,781 (six months ended 30th June, 2004 (restated): 66,333,781) ordinary shares in issue during the period.

The basic earning per share six months ended 30th June, 2004 has been restated to reflect the reduction in number of ordinary shares in issue to 66,333,781 shares as a result of the capital reorganisation.

The effect of dilutive potential ordinary shares of an associate is considered to be insignificant to the Group.

**9. Interim dividend**

The directors do not recommend the payment of any interim dividend for the six months ended 30th June, 2005 (2004: Nil).

**MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER'S STATEMENT**

**1. CORPORATE RESULTS**

For the six months ended 30th June, 2005 (the "Period") the Company and its subsidiaries (the "Group") achieved a turnover of HK\$30.3 million (2004: HK\$35.8 million), which represented a decrease of 15% compared with corresponding period in 2004. The group reported a profit attributable to equity holders of the parent of HK\$4 million (2004: HK\$5.5 million) representing a decline of 27% over that of last period.

**2. FINANCIAL REVIEW**

*Liquidity and Financial Resources*

As at 30th June, 2005, the Group had cash and bank balance of HK\$15 million (2004: HK\$14.5 million). Basically, the Group's funding policy is to finance the business operations with internally generated cash and bank facilities. As at 30th June, 2005, the Group had total borrowings of HK\$13.1 million (2004: HK\$6.5 million) which was payable within one year and was fully secured. The Group's borrowings were denominated in Hong Kong dollars, Japanese Yen and United States dollars.

Interest rates were in line with the best lending rates either at prime or based on the Hong Kong Inter-bank Offer Rate. The Group did not have any financial instruments used for hedging purpose.

*Gearing Ratio and Current Ratio*

The Group's gearing ratio (total bank and other loans to shareholders' equity) as at 30th June, 2005 increased to 10.56% (2004: 5.59%). The Group's current ratio (current assets to current liabilities) as at 30th June, 2005 has increased to 1.71 (2004: 1.64). On the whole, the financial position and liquidity of the group is healthy and stable.

*Capital Structure*

In March 2005, the Company completed a capital reorganisation which comprised a share of consolidation every 5 issued and unissued shares of HK\$1.00 each into one consolidated share of HK\$5.00 each and the paid up capital of the issued consolidated shares was reduced from HK\$5.00 each to HK\$0.01 each by cancelling the paid up capital to the extent of HK\$4.99 on each issued consolidated share. Each of the authorized consolidated shares are subdivided into 500 shares of HK\$0.01 each.

After the completion of capital reorganisation, the authorized share capital of the Company will be HK\$700 million comprising 70 billion adjusted shares and the issued share capital of the Company will be HK\$0.66 million divided into 66.33 million adjusted shares.

*Pledge of Assets*

As at 30th June, 2005 certain assets of the Group with an aggregate carrying value of approximately HK\$59.5 million (2004: HK\$44.2 million) were pledged to secure loans facilities utilized by the Group.

*Exposure on Foreign Exchange Fluctuations*

The Group had no significant exposure to foreign exchange fluctuation during the period.

*Contingent Liabilities*

As at 30th June, 2005, the Group had no contingent liabilities (2004: Nil).

*Capital Commitments*

As at 30th June, 2005, the Group and the Company had no capital commitments (2004: Nil).

*Material Acquisitions and Disposals of Subsidiaries and Associated Companies*

During the period, the Company had no material acquisition and disposals of subsidiaries except that the Company had a disposal of partial interest 7 million shares in an associated company, Chinasoft International Limited (the "Chinasoft") with recognition a gain of HK\$2.9 million (2004: Nil). As a result, the company's equity interest in Chinasoft further reduced to 24.36%.

**3. BUSINESS REVIEW**

For information technology segment, in the group's share of profit of an associated company, relating to 24.36% equity interests in Chinasoft International Limited, amounted to HK\$4.35 million (2004: HK\$3.29 million), representing a rise of 32.22% over that of last period. It reflected Chinasoft's continuous endeavors in the market penetration and development into new market has been successful. It has also seen the establishment of Chinasoft's good quality, branding and reliability in China software industry. With the possible joining of strategic foreign business partners in the second half of 2005, it was anticipated that Chinasoft would continue to grow in both software and hardware segment.

For industrial segment, Jiangsu Bang Bang Silky Fashion Manufacturer Company Limited (the “Jiangsu Bang Bang”) reported turnover of HK\$15 million, a drop of 14% compared with the same period of last year. With the abolishment of the textile quota control amongst the World Trade Organisation member countries on 1st January, 2005 consolidations is expected amongst manufacturers of PRC’s garment industry. Furthermore, the announcement of new textile export duty imposition by the PRC government at the end of 2004 created further uncertainties in the outlook of garment manufacturing industry exporting out of China. Under such circumstances, Jiangsu Bang Bang’s sales and production strategies are inevitably adversely affected. Therefore, the business prospects for this segment is not quite optimistic in the coming year.

For property segment, gross rental income for the period, declined by 64% to HK\$0.5 million over that of last period. It was attributable to disposal of two investment properties in Hong Kong in 2004 and Tang City Properties Group in Singapore which would go for lease. With the opening of the Hong Kong Disneyland theme park in September 2005 and broader recovery in local economy, the Group believed that there would be more demand for retail space. Besides, Kwai Chung Fa Yuen in Kwai Chung has been left vacant since 24th July, 2005 for refurbishment, it is expected to be completed in April 2006.

## **PROSPECTS**

Overall business environment is likely to grow steadily in second half of 2005, though the surge of oil price and rising interest rate do cast shadows over longer term economy. Looking ahead, the group is actively exploring the forming of strategic partnerships to diversify its investments and broaden its source of income. It is expected that external acquisitions will strengthen the Group’s earning base and improve revenue inflow to the Group.

## **EMPLOYEE**

As at 30th June, 2005, the Group had approximately 600 employees in Hong Kong and PRC (2004: 600 employees) with majority of these employees employed in PRC. Employees are remunerated in accordance with nature of the job and market conditions. Staff incentive bonus and discretionary employee share options would be granted to reward and motivate those well performed employees.

## **SHARE OPTION SCHEME**

At the annual general meeting of the Company held on 23rd May, 2005, the Company adopted a share option scheme (“Scheme”) which is in compliance with the requirements as set out in Chapter 17 to the Listing Rules. No option had been granted under the Scheme during the six months ended 30th June, 2005.

## **POST BALANCE SHEET EVENT**

On 21st July, 2005, 6.6 million share options at a subscription price of HK\$1.35 per share with an exercisable period from 21st July, 2005 to 20th July, 2015 (both days inclusive) were granted to directors and employees of the Company. It represented 9.95% of the shares of the Company in issue at that date.

## **INTERIM DIVIDEND**

The directors do not recommend the payment of any interim dividend for the six months ended 30th June, 2005 (2004: Nil).

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES**

During the period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities.

## **AUDIT COMMITTEE**

The Audit Committee has reviewed with management the accounting principles and policies adopted by the Group and the unaudited interim financial statements for the six months ended 30th June, 2005.

## **CORPORATE GOVERNANCE**

The Company has complied with Code on Corporate Governance Practices (the “Code”) as set out in Appendix 14 of the Listing Rules throughout the six months ended 30th June, 2005, with deviations from code provision A.4.1 and A.4.2 of the Code in respect of the service term and rotation of directors. None of the existing non-executive director of the Company is appointed for a specific term and managing director is not subject to re-election by rotation by the company’s articles of association (the “Articles”) 76. This constitutes a deviation from code provision A.4.1 and A.4.2 of the Code. However, all Directors of the Company excluding managing director are subject to the retirement by rotation at each annual general meeting under Articles 79 and 80 of the Company. In view of good corporate governance practices, managing director voluntarily retires from his office at the forthcoming annual general meeting of the Company notwithstanding that he is not required to do so by the Company’s Article 76. As such, the Company considers that sufficient measures have been taken to ensure that the Company’s corporate governance practices are no less exacting than those in the Code.

## **REMUNERATION COMMITTEE**

The Company had established a remuneration committee with written terms of reference pursuant to the provisions set out in the Code. The committee comprised two independent non-executive directors, namely Dr. Lee G. Lam and Ryan Yen Hweng Fong and the Managing Director, Mr. Duncan Chiu of the

Company. The remuneration committee is principally responsible for formulation and making recommendation to the Board on the Group's policy and structure for all remuneration of directors and senior management.

#### **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code for Securities Transactions by Directors by Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules. Upon enquiry by the Company, all Directors of the Company have confirmed that they have complied with the required standards set out in the Model Code throughout the six months ended 30th June, 2005.

#### **INTERIM REPORT**

The interim report of the Company for the six months ended 30th June, 2005 containing all the information required by paragraphs 46(1) to 46(9) of Appendix 16 of the Listing Rules will be published on the Exchange's website ([www.hkex.com.hk](http://www.hkex.com.hk)).

On behalf of the Board

**DUNCUN CHIU**

*Managing Director and Chief Executive Officer*

Hong Kong, 22nd September, 2005

*As at the date hereof, the Board comprises that the executive directors of the Company are Mr. Deacon Te Ken Chiu, Mr. Duncan Chiu and Mr. Dennis Chiu, the non-executive directors of the Company are Dato' David Chiu, Mr. Daniel Tat Jung Chiu, Mr. Derek Chiu, Mr. Desmond Chiu and Ms. Margaret Chiu; and the independent non-executive directors of the Company are Mr. Chi Man Ma, Dr. Lee G. Lam and Mr. Ryan Yen Hwung Fong.*