

TAI SHING

Tai Shing International (Holdings) Limited 泰盛國際（控股）有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8103)

INTERIM REPORT 2005

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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The Stock Exchange takes no responsibility for the contents of this announcement, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

This announcement, for which the directors of Tai Shing International (Holdings) Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange for the purpose of given information with regard to Tai Shing International (Holdings) Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:- (1) the information contained in this announcement is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

- Turnover for the six months ended 30 September 2005 amounted to approximately HK\$30 million representing an increase of approximately 879% over the corresponding period in 2004.
- Profit attributable to the shareholders for the six months ended 30 September 2005 amounted to approximately HK\$1.8 million. The Group sustained a loss of approximately HK\$1.2 million over the corresponding period in 2004.
- Earnings per share for the six months ended 30 September 2005 was approximately 2.6 HK cents. Loss per share for the six months ended 30 September 2004 was approximately 1.2HK cents.
- The Board does not recommend the payment of any dividend for the six months ended 30 September 2005.

The board of directors (the “Board”) of Tai Shing International (Holdings) Limited (the “Company”) is pleased to present the unaudited condensed consolidated results of the Company and its subsidiaries (collectively the “Group”) for the three months and six months ended 30 September 2005, together with the unaudited comparative figures for the corresponding periods in 2004, are as follows:-

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)
for the three months and six months ended 30 September 2005

		Three months ended 30 September		Six months ended 30 September	
		2005	2004	2005	2004
	Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	2	10,825	1,666	30,218	3,438
Cost of services and merchandise sold		(8,415)	(1,338)	(24,073)	(2,845)
Gross Profit		2,410	328	6,145	593
Other revenue	4	1,502	—	2,154	—
Research and development costs		—	—	—	—
Selling expenses		(1,414)	—	(2,923)	—
General and administrative expenses		(2,454)	(1,225)	(4,754)	(1,753)
Profit / (Loss) from operations	5	44	(897)	622	(1,160)
Finance costs		9	(1)	(36)	(3)
Other gains-net	6	2,282	5	2,282	5
Profit / (Loss) before taxation		2,335	(893)	2,868	(1,158)
Taxation	7	(26)	—	(57)	—
Profit / (Loss) for the period		<u>2,309</u>	<u>(893)</u>	<u>2,811</u>	<u>(1,158)</u>
Attributable to:					
Equity holder of the Company		1,946	(893)	1,843	(1,158)
Minority Interest		363	—	968	—
		<u>2,309</u>	<u>(893)</u>	<u>2,811</u>	<u>(1,158)</u>
Earnings / (Loss) per share - basic (HK cents)	8	<u>2.6</u>	<u>(1.2)</u>	<u>2.5</u>	<u>(1.5)</u>

CONDENSED CONSOLIDATED BALANCE SHEET

as at 30 September 2005

		Unaudited 30 September 2005 <i>HK\$'000</i>	Audited 31 March 2005 <i>HK\$'000</i>
Non-current assets			
Fixed assets		9,396	9,485
Investment securities	10	—	2,724
Available for sales - Investment	11	—	—
		9,396	12,209
Current Assets			
Gross amount due from customers for contracts		725	711
Inventories		25,485	26,412
Accounts receivable	12	31,715	26,742
Prepayments, deposits and other receivable		15,695	31,812
Cash and Cash equivalents		9,678	3,917
		83,298	89,594
Current Liabilities			
Gross amount due to customers for contracts		2,778	2,726
Trade payable	13	14,246	8,821
Bills payable	13	—	2,337
Receipts in advance		5,769	5,605
Other payables and accruals	14	23,067	15,574
Amount due to a related company		24,450	24,450
Short term bank loans		120	16,981
Tax payable		754	327
		71,184	76,821
Net current assets		12,114	12,773
Total assets less current liabilities		21,510	24,982
CAPITAL AND RESERVES			
Share capital	15	3,755	3,755
Other reserves	16	12,967	12,707
Accumulated losses		(4,529)	(6,372)
Shareholders' funds		12,193	10,090
Minority interests		9,317	14,892
Total Equity		21,510	24,982

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

for the six months ended 30 September 2005

	Attributable to equity holders of the Company						Minority Interest	Total
	Share Capital	Share Premium	Capital reserve	Exchange reserve	Accumulated losses	Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2005	3,755	12,270	1,200	(763)	(6,372)	10,090	14,892	24,982
Profit for the period	—	—	—	—	1,843	1,843	—	1,843
Acquired on subsidiaries	—	—	—	260	—	260	(5,575)	(5,315)
At 30 September 2005	<u>3,755</u>	<u>12,270</u>	<u>1,200</u>	<u>(503)</u>	<u>(4,529)</u>	<u>12,193</u>	<u>9,317</u>	<u>21,510</u>
At 1 April 2004	2,373	2,580	1,200	(770)	(4,373)	1,010	—	1,010
Loss for the period	—	—	—	—	(1,158)	(1,158)	—	(1,158)
Issue of new shares	908	8,172	—	—	—	9,080	—	9,080
At 30 September 2004	<u>3,281</u>	<u>10,752</u>	<u>1,200</u>	<u>(770)</u>	<u>(5,531)</u>	<u>8,932</u>	<u>—</u>	<u>8,932</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)
for the six months ended 30 September 2005

	Six months ended	
	30 September	
	2005	2004
	<i>HK'000</i>	<i>HK\$'000</i>
Net cash inflow/(outflow) from operating activities	27,372	(361)
Net cash outflow from investing activities	(4,714)	(22)
Net cash outflow from financing activities	<u>(16,897)</u>	<u>—</u>
Net increase/(decrease) in cash and cash equivalents	5,761	(383)
Cash and cash equivalents at 1 April	<u>3,917</u>	<u>907</u>
Cash and cash equivalents at 30 September	<u><u>9,678</u></u>	<u><u>524</u></u>
Analysis of balances of cash and cash equivalents		
Cash at bank and in hand	<u>9,678</u>	<u>524</u>
	<u><u>9,678</u></u>	<u><u>524</u></u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED RESULTS

1. Basis of presentation

The unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and with the applicable disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”). The accounting policies and methods of computation used in the preparation of this unaudited condensed financial statements are consistent with those used in the Group’s annual financial statements for the year ended 31 March 2005, except in relation to the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”, which also include HKASs and Interpretations) that affect the Group and are adopted for the first time for the current period’s financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 16	Property, Plant and Equipment
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations

The adoption of HKASs 1, 2, 7, 8, 10, 12, 16, 18, 19, 21, 23, 24, 27, 33, 37, 38 and HKFRS 2, has had no material impact on the accounting policies of the Group and the methods of computation in the Group's condensed consolidated financial statements. The impact of adopting the other HKFRSs is summarised as follows:

(a) HKAS 32 and HKAS 39 - Financial Instruments

Equity securities

In prior periods the Group classified its investment in equity securities as non-current assets: investments securities which were held for non-trading purposes and were stated at cost less any impairment losses.

Upon the adoption of HKASs 32, 36 and 39, these securities are classified as available-for-sale investments. Available-for-sale investments are those non-derivative investments in listed and unlisted equity securities that are designated as available-for-sale or are not classified in any of the other categories of financial assets as defined in HKAS 39. After initial recognition, available-for-sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until, the investment is sold, collected or otherwise disposed of or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; and discounted cash flow analysis and option pricing models.

When the fair value of unlisted equity securities cannot be reliably measured because (1) the variability in the range of reasonable fair value estimates is significant for that investment, or (2) the probabilities of the various within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost.

The Group assesses at each balance sheet date whether there is any objective evidence that an available-for-sale investment is impaired as a result of one or more events that occurred after the initial recognition of the assets ("loss events"), and that the loss event has an impact on the estimated future cash flows that can be reliably estimated.

If there is objective evidence of impairment, the cumulative loss that had been recognised directly in equity shall be removed from equity and recognised in the income statement. The amount of the loss recognised in the income statement shall be the difference between the acquisition cost and current fair value, less any impairment loss on that an available-for-sale investment investment previously recognised in the income statement.

The effects of the above changes are summarised in note 11 to the condensed consolidated financial statements. In accordance with the transitional provisions of HKAS 39, comparative amounts have not been restated.

(b) HKFRS 3 — Business Combinations and HKAS 36 — Impairment of Assets

In prior periods, goodwill arising on acquisition was capitalised and amortised on the straight-line basis over its estimated useful life and was subject to impairment testing when there was any indication of impairment.

Upon adoption of HKFRS 3 and HKAS 36, goodwill arising on acquisitions is no longer amortised but subject to an annual impairment review (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired). Any impairment loss recognised for goodwill is not reversed in a subsequent period.

Any excess of the Group's interest in the net fair value of acquirees' identifiable assets, liabilities and contingent liabilities over the cost of the acquisition of subsidiaries and associates (previously referred to as "negative goodwill"), after reassessment, is recognised immediately in the income statement.

2. Turnover

The principal activities of the Group are the provision of systems development, sales of software and hardware products, provision of professional services and provision of training services. Turnover represents income arising from the provision of systems development and consultancy services, provision of IT engineering and technical support services, provision of training courses and the sales of software and hardware products.

An analysis of the turnover by principal activities of the operations of the Group during the reporting periods is as follows:

	Three months ended		Six months ended	
	30 September		30 September	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<i>Principal activities</i>				
System development	10,600	1,074	29,650	1,976
Sales of software and hardware products	—	—	—	11
Professional services fees	169	558	450	1,376
Training fees	56	34	118	75
	10,825	1,666	30,218	3,438

3. Segment reporting

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

An analysis of the Group's turnover and results for the six months period by business segment is as follows:

	Sales of software								Consolidated	
	System Development		& hardware products		Professional services		Training			
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue from										
External customers	<u>29,650</u>	<u>1,976</u>	<u>—</u>	<u>11</u>	<u>450</u>	<u>1,376</u>	<u>118</u>	<u>75</u>	<u>30,218</u>	<u>3,438</u>
Contribution from operations	<u>6,001</u>	<u>397</u>	<u>—</u>	<u>2</u>	<u>67</u>	<u>138</u>	<u>77</u>	<u>56</u>	<u>6,145</u>	<u>593</u>
Unallocated operating income and expenses									<u>(5,523)</u>	<u>(1,753)</u>
Profit/(Loss) from operations									<u>622</u>	<u>(1,160)</u>
Finance costs									<u>(36)</u>	<u>(3)</u>
Other gain-net									<u>2,282</u>	<u>5</u>
Profit/(Loss) before taxation									<u>2,868</u>	<u>(1,158)</u>
Taxation									<u>(57)</u>	<u>—</u>
Profit/(Loss) after taxation									<u>2,811</u>	<u>(1,158)</u>
Depreciation & amortisation for the period	<u>886</u>	<u>14</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>886</u>	<u>14</u>
Signification non-cash expenses (other than depreciation and amortisation)									<u>—</u>	<u>—</u>
Unallocated signification non-cash expenses (other than depreciation and amortisation)									<u>—</u>	<u>—</u>
									<u>—</u>	<u>—</u>

The Group does not have any inter-segment sales.

An analysis of the Group's turnover for the period by geographical segments is as follows:

	Six months ended	
	30 September	
	2005	2004
	HK\$'000	HK\$'000
Hong Kong	2,229	3,438
PRC	27,989	—
	<u>30,218</u>	<u>3,438</u>

4. Other revenue

	Six months ended	
	30 September	
	2005	2004
	HK\$'000	HK\$'000
Gain on disposal of investment securities	1,157	—
Value added tax refund	997	—
	<u>2,154</u>	<u>—</u>

5. Profit/(Loss) from operations

Profit/(Loss) from operations is stated after charging /(crediting):

	Three months ended		Six months ended	
	30 September		30 September	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Auditors' remuneration	100	127	100	127
Depreciation	887	7	902	14
Finance costs -bank interests	(18)	1	27	3
Operating leases	1,163	48	1,207	90
Staff costs	3,163	1,503	6,974	3,264
Net exchange (gain)/loss	30	—	30	—
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

6 Other gain-net

	Six months ended	
	30 September	
	2005	2004
	HK\$'000	HK\$'000
Sales proceed on disposal of Hung Luen	3,746	—
Carrying value of Hung Luen	(1,421)	—
Direct cost relating to the disposal	(881)	—
	<hr/>	<hr/>
Gain on disposal	1,444	—
Excess of The Group's interest in fair value of the subsidiary's net assets acquired over cost (see note 18)	2,165	—
Less: Impairment loss on Tung Hing (see note 11)	(1,303)	—
Exchange loss	(24)	—
	<hr/>	<hr/>
	2,282	—
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7. Taxation

No Hong Kong profits tax has been provided in the financial statements as the Group has no assessable profits arising in Hong Kong during the three months and six months ended 30 September 2005 and 2004.

The provision the PRC taxation is based on the estimated taxable income for PRC taxation purpose for the year at the appropriate current rate of taxation.

A Group's subsidiary, Beijing Tongfang Electronic Science & Technology Company Limited, operated in the PRC was adjudicated as an Advanced Software Enterprise by the PRC government authority, the subsidiary is entitled to 10% Foreign Enterprise Income tax (instead of the tax rate of 13.5%).

8. Earnings/(Loss) per share

The calculation of basic earnings/(loss) per share for the three months and six months ended 30 September 2005 were based on the profit attributable to the shareholders of approximately of HK\$1,946,000 and HK\$1,843,000 (2004: loss of HK\$893,000 and HK\$1,158,000) divided by the weighted average number of 75,105,000 shares for the three months and six months ended (2004: 75,105,000 shares as restated) in issue during the period.

There were no potential dilutive ordinary shares in issue during the three months and six months ended 30 September 2005 and 2004.

9. Dividend

The Board does not recommend the payment of any dividend for the six months ended 30 September 2005 (2004: Nil).

10. Investment securities

	Unaudited At 30 September 2005 HK\$'000	Audited At 31 March 2005 HK\$'000
Unlisted investments, at cost	—	3,103
Less: Impairment loss	—	(379)
	<u>—</u>	<u>2,724</u>
	<u>—</u>	<u>2,724</u>

At 31 March 2005, the carrying value of the other investment exceed 10% of the total assets of the Group.

Name	Business structure	Place of incorporation	Principal activities	Registered capital	Percentage of interest held	Carrying value at 31 March 2005 HK\$'000
北京中廣鴻聯網絡技術有限公司 ("Hung Luen")	Corporate	The People's Republic of China	Research, development and provision of information-on-demand system solutions, telecommunication and broadcasting media, network solutions and provision of related products and services	RMB 4.5 million	40%	1,421
甘肅同興智能科技發展有限公司 ("Tung Hing")	Corporate	The People's Republic of China	Research, development and provision of information-on-demand system solutions, telecommunication and broadcasting media, network solutions and provision of related products and services	RMB 11.4million	12.11%	1,303
						<u>2,724</u>

The equity interest of 40% in Hung Luen was held by Top Gallant International Limited, a direct wholly-owned subsidiary incorporated in British Virgin Islands.

11. Available for sale investment

	<i>HK\$'000</i>
At 1 April 2005	2,724
Less: Disposal of Top Gallant, the sole asset of which is a 40% interest in Hung Luen	(1,421)
Impairment loss on Tung Hing	(1,303)
	<hr/>
Available for sale investment as at 30 September, 2005	<u>—</u>

As disclosed in the circular sent to the shareholders on 26 August 2005, the Company disposed of its entire equity interest in Top Gallant for HK\$3,745,500. The consideration was satisfied by the buyer of Top Gallant transferring to the Company the entire equity interest in Pacific Heights Holdings Limited (“Pacific Heights”). The sole asset of Pacific Heights is its 25% indirect interest in Beijing Tongfang. On Completion of the transaction on 15 September 2005, the Company holds a 65% indirect interest in Beijing Tongfang. The gain on disposal has been disclosed in note 6.

Tung Hing sustained an operating loss in 2004. Its business has not improved in 2005. The Group does not expect to receive any dividend (the only cash flow) from it until its business improved substantially. Therefore the Group has recognised a loss in Tung Hing of HK\$1,303,000 as impairment loss. The loss has been included in “Other gain-net” in the income statement.

12. Accounts receivable

An aged analysis of accounts receivable is as follows:

	Unaudited At 30 September 2005 <i>HK\$'000</i>	Audited At 31 March 2005 <i>HK\$'000</i>
Within 1 month	2,475	1,741
More than 1 month but within 3 months	3,393	3,717
More than 3 months but within 12 months	20,973	20,234
Beyond 1 year	4,874	1,050
	<hr/>	<hr/>
	31,715	26,742
	<hr/> <hr/>	<hr/> <hr/>

13. Trade and bills payables

	Unaudited At 30 September <i>HK\$'000</i>	Audited At 31 March <i>HK\$'000</i>
Bills payable	—	2,337
Trade Payable	<u>14,246</u>	<u>8,821</u>
	<u><u>14,246</u></u>	<u><u>11,158</u></u>

An ageing analysis of trade payable is as follows:

	Unaudited At 30 September <i>HK\$'000</i>	Audited At 31 March HK\$'000
Within 1 month	690	2,152
More than 1 month but within 3 months	91	1,328
More than 3 months but less than 12 months	5,724	7,634
Beyond 1 year	<u>7,741</u>	<u>44</u>
	<u><u>14,246</u></u>	<u><u>11,158</u></u>

All bills payables are due within five months.

14. Other payable and accruals

Included in "Other payables and accruals" is an amount of HK 1,800,000 representing the nominal value of a promissory note issued by the Company on 8 September 2003. The promissory note is redeemable on 7 September 2005. Therefore, the amount has been restated and disclosed as current liabilities.

15. Share capital

	Unaudited		Audited	
	As at 30 September 2005		As at 31 March 2005	
	No. of shares '000	Amount HK\$'000	No. of shares '000	Amount HK\$'000
Authorised:				
Ordinary shares of HK\$0.05 each	4,000,000	200,000	4,000,000	200,000
Issued and fully paid:				
At beginning and at end of the period ordinary shares of HK\$0.05 each	75,105	3,755	75,105	3,755

16. Reserves

Movements in reserves of the Group during the period are set out in the unaudited condensed consolidated statement of changes in equity of the financial statement.

17. Commitments under operating leases

At 30 September 2005, the total future minimum lease payments under non-cancellable operating leases payable are as follows:

	Unaudited At 30 September 2005 HK\$'000	Audited At 31 March 2005 HK\$'000
Within 1 year	607	923
After 1 year but within 5 years	1,902	64
	<u>2,509</u>	<u>987</u>

18. Business combinations

On 15 September 2005, the Group acquired the entire issued equity capital of Pacific Heights. The sole asset of Pacific Heights was its indirect 25% interest in Beijing Tongfang.

Beijing Tongfang has been a non-wholly owned subsidiary of the Group prior to the above mentioned acquisition and its accounts have been consolidated in the interim accounts of the Group to 30 September 2005. The acquisition has no impact on revenues and net profit of the Group for the period to 30 September 2005.

Details of net assets acquired and the excess of the Group's interest in the fair value of the subsidiary's net assets acquired over cost are as follows:

	<i>HK\$'000</i>
Purchase consideration:	
- Fair value of shares disposed of (<i>Note 11</i>)	3,746
Fair value of net assets acquired - as shown below	<u>(5,911)</u>
The excess of the Group's interest in the fair value of the subsidiary's net assets acquired over cost	<u><u>(2,165)</u></u>

The negative goodwill is attributable to the bargain price paid for the purchase.

The assets and liabilities arising from the acquisition are as follows:

	Fair value <i>HK\$'000</i>	Acquiree's carrying amount <i>HK\$'000</i>
Cash and cash equivalents	9,287	9,287
Fixed assets	9,187	9,187
Trade receivables	31,270	31,270
Amount due from customers	725	725
Other receivables and prepayments	31,504	31,504
Inventories	25,485	25,485
Trade payables	(38,696)	(38,696)
Amount due to customers for contracts	(2,778)	(2,778)
Others payables and accruals	(41,586)	(41,586)
Tax payable	(754)	(754)
Net assets	<u>23,644</u>	<u>23,644</u>
Less: 75% thereof	<u>(17,733)</u>	
Net assets acquired	<u><u>5,911</u></u>	
Purchase consideration settled in cash		—
cash and cash equivalents in subsidiary acquired*		<u>—</u>
Cash inflow on acquisition		<u><u>—</u></u>

* As mentioned above the accounts of Beijing Tongfang have been consolidated in the interim accounts of the Group to 30 September 2005, the acquisition has no impact on cash and cash equivalent of the Group.

19. Related Party Transactions

During the six months to 30 September, 2005 the Group purchased software amounted to HK\$14,428 (2004 - nil) from Tsinghua Tongfang Co. Ltd., a related company of the Company. The board of directors consider that the purchase from the related company was transacted on normal commercial terms similar to those offered to other independent third parties.

MANAGEMENT 'S DISCUSSION AND ANALYSIS

Business Review

Turnover for the six months ended 30 September 2005 amounted to approximately HK\$30 million representing an increase of approximately 879% over the corresponding period in 2004. The increase is mainly due to the consolidation of the results from Beijing Tongfang Electronic Science and Technology Company Limited ("Beijing Tongfang").

In May 2005, our integrated management information system for application in electricity generation and power plant operations has obtained the certificate of the China Torch Program. The continue strong demand for integrated management information system and simulation system by power plant and power provision companies in China, has provided the Company with ample market opportunities.

In response to demand in Southern China we established an office in Zhuhai in May 2005. With better representation and quicker response time, we should be well placed to source orders in this region.

Financial Performance

During the six months ended 30 September 2005, the Group recorded a turnover of approximately HK\$30 million (2004: HK\$3.4 million) representing an increase of approximately 879% as compared to that of corresponding period in 2004.

Revenue for the three months ended 30 September 2005 of approximately HK\$11 million is about 44% lower than that for the three months ended 30 June 2005. This is due to a drop in hardware sales. Gross margin of 22% for the second quarter is higher than the 19% for the first quarter, as the latter was affected by the higher proportion of low margin hardware sales.

Profit attributable to the shareholders was approximately HK\$1.8 million (2004: loss HK\$1.2 million). The improvement in profit was partly due to gains on the disposal of Hung Luen and the negative goodwill on the acquisition of an additional 25% of Beijing Tongfang (for details of these transactions please refer to note 6 of the accounts).

Liquidity and Financial Resources

As at 30 September 2005, shareholders' funds of the Group amounted to approximately HK\$12 million (2004: \$9 million). Current assets amounted to approximately HK\$83 million (2004: \$2.2 million), of which approximately HK\$10 million (2004: \$0.5 million) were cash and cash equivalents. Current liabilities of HK\$71 million (2004: \$2.1 million) were mainly other payables and accruals.

Gearing Ratio

The gearing ratio calculated on the basis of total liabilities over the total shareholders' fund as at 30 September 2005 was 584% (2004: 43.8%).

Foreign Currency Exposure

During the six months ended 30 September 2005, the Group experienced only immaterial exchange rate fluctuations as the functional currencies of the Group's operations were mainly Hong Kong dollars and Renminbi. As the risk on exchange rate difference was considered to be minimal, the Group did not employ any financial instruments for hedging purposes.

Capital Structure

There has been no change in the capital structure of the Company since 1 April 2005.

New Products and Services

The Group did not launch any new products or services during the period under review.

Material Acquisitions and Significant Investments

With the shareholders' approval granted at the extraordinary general meeting on 12 September 2005, the Company has successfully completed the acquisition of the entire issued share capital of Pacific Heights on 15 September 2005 for a consideration of HK\$3,745,500 satisfied by transferring the entire equity interest in Top Gallant to the seller. Details of the transaction were set out in the circular of the Company dated 26 August 2005.

At the same extraordinary general meeting, shareholders of the Company approved the acquisition of an additional 35% indirect interest in Beijing Tongfang for HK\$5,243,700. The consideration will be satisfied by the Company by the issue and allotment of 15,890,000 shares of the Company. Details of the transaction were set out in the circular of the Company dated 26 August 2005.

Employees and Remuneration Policies

As at 30 September 2005, the Group had hired 21 and 217 employees in Hong Kong and PRC respectively (2004: a total of 26) including the executive directors of the Company. Total staff costs including directors' remuneration for the six months period under review amounting to approximately HK\$7 million (2004: 3.3 million). The increase in the number of employees was due to the consolidation of Beijing Tongfang. The Group's remuneration policies are in line with the prevailing market practices and are determined on the basis of performance and experience of individual employees. The Group provides mandatory provident fund scheme for the employees employed under the jurisdiction of the Hong Kong Employment Ordinance.

The Company has conditionally adopted a share option scheme pursuant to which the executive directors of the Company and full-time employees of the Group may be granted options to subscribe for the shares of the Company. During the six months ended 30 September 2005, no option was granted under the share option scheme.

Charges on Group Assets and Contingent Liabilities

As at 30 September 2005, except for the acquisition of a further 35% interest in Beijing Tongfang as disclosed in the circular of the company dated 26 August 2005, the Group did not have any material charge on assets or any contingent liabilities (2004: Nil).

Future Plans for Material Investments or Capital Assets

As at 30 September 2005, except for the acquisition of a further 35% interest in Beijing Tongfang as disclosed in the circular of the Company dated 26 August 2005, the Group had no plans for material investments or capital assets.

Future Prospects

On completion of the acquisition mentioned above, the Group will have transformed itself into a major provider of management information system for power plants in the PRC. Your board will continue to look for growth opportunities both internally and through acquisition to take advantage of the rapidly expanding energy market of the PRC.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 30 September 2005, the relevant interests or short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571, the Laws of Hong Kong) ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they have taken or deemed to have under such provisions of the SFO), or which are required, pursuant to Section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which are required, pursuant to Rule 5.46 of the GEM Listing Rules relating to securities transactions by the directors, to be notified to the Company and the Stock Exchange, were as follows:

Long positions in the shares of the Company

Name of Director	Number of ordinary shares held			Total	Percentage of issued share capital
	Personal	Family	Corporate		
Mr. Luk Yat Hung (<i>Note</i>)	—	—	21,542,476	21,542,476	28.68%

Note: Mr. Luk Yat Hung will be taken to be interested in 21,542,476 shares in the Company as a result of him being beneficially interested in 50% of the issued share capital of Wide Source Group Ltd. which in turn holds 21,542,476 shares in the Company.

Long positions in underlying shares of equity derivatives and debentures of the Company

As at 30 September 2005, no long positions of directors and chief executive in the underlying shares of equity derivatives and debentures of the Company and its associated corporations were recorded in the register or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

Short positions in shares, underlying shares of equity derivatives and debentures of the Company

During the period under review, no short positions of the directors and chief executive in the shares, underlying shares of equity derivatives and debentures of the Company and its associated corporations were recorded in the register or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

Save as disclosed above, as at 30 September 2005, none of the directors or chief executive of the Company or their respective associates had any interests or short positions in the shares, underlying shares of equity derivative and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by the directors of listed issuers as referred to in Rule 5.46 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS

So far as is known to the directors of the Company, as at 30 September 2005, the following persons who had an interest or short positions in the shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:-

Long positions in shares of the Company

Name of Shareholders	Note	Number of shares held	Approximate Percentage of shareholding
Wide Source Group Ltd.	1	21,542,476	28.68%
Mr. Luk Yat Hung	2	21,542,476	28.68%
Mr. Ma Bing	3	21,542,476	28.68%
Best Jade Ltd.	4	7,190,000	9.57%
Ms. Li Luyuan	5	7,190,000	9.57%

Notes:

1. Wide Source Group Ltd. ("Wide Source") is a company incorporated in the British Virgin Islands with limited liability and is ultimately and beneficially owned as to 50% by Mr. Luk Yat Hung and as to 50% by Mr. Ma Bing.
2. Mr. Luk Yat Hung will be taken to be interested in 21,542,476 shares in the Company as a result of him being beneficially interested in 50% of the issued share capital of Wide Source which in turn holds 21,542,476 shares in the Company.
3. Mr. Ma Bing will be taken to be interested in 21,542,476 shares in the Company as a result of him being beneficially interested in 50% of the issued share capital of Wide Source which in turn holds 21,542,476 shares in the Company.

4. Best Jade Ltd. (“Best Jade”) is a company incorporated in the British Virgin Islands with limited liability and is 100% ultimately and beneficially owned by Ms. Li Luyuan.
5. Ms. Li Luyuan will be taken to be interested in 7,190,000 shares in the Company as a result of her being beneficially interested in the entire issued share capital of Best Jade which in turn holds 7,190,000 shares in the Company.

Long positions in underlying shares of the Company

As at 30 September 2005, no long positions of other persons or substantial shareholders in the underlying shares of equity derivatives of the Company and its associated corporations were recorded in the register.

Short positions in shares of the Company

As at 30 September 2005, no short positions of other persons or substantial shareholders in the shares of the Company and its associated corporations were recorded in the register.

Short positions in underlying shares of the Company

As at 30 September 2005, no short positions of other persons or substantial shareholders in the underlying shares of equity derivatives of the Company and its associated corporations were recorded in the register.

Save as disclosed above, as at 30 September 2005, the directors were not aware of any other person who had an interest or short position in the shares or underlying shares (including interests in options, if any) of the Company as recorded in the register required to be kept under Section 336 of the SFO.

DIRECTORS’ INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group’s business to which the Group was a party and in which a director of the Group had a material interest, whether directly or indirectly, subsisted at the six months ended 30 September 2005 or at any time during such period.

DIRECTORS’ COMPETING INTERESTS

As of 30 September 2005, none of the directors, substantial shareholders or management shareholders of the Company or their respective associates (as defined under the GEM Listing Rules) had any business or interest in a business which competes or may compete with the business of the Group.

SHARE OPTION SCHEME

Pursuant to the written resolutions of the shareholders, the Company has conditionally adopted and approved a share option scheme on 22 October 2003 (“New Share Option Scheme”) to replace the share option scheme adopted on 26 August 2000 (“Old Share Option Scheme”). The principal terms of the New Share Option Scheme were set out in the Appendix I to the circular of the Company dated 30 September 2003. No option has been granted by the Company under both the Old Share Option Scheme and New Share Option Scheme during the period under review or outstanding as at 30 September 2005.

The purpose of the New Share Option Scheme is to enable the Company to grant share options to selected participants as incentives or rewards for their contribution and prospective contribution to and stronger business relationship between the selected participants and the Group.

Save as disclosed above, as at 30 September 2005, none of the directors, chief executive or management shareholders or their respective associates (as defined under the GEM Listing Rules) had any interests or rights to subscribe for any shares of the Company or any of its associated corporations as defined in the SDI Ordinance.

AUDIT COMMITTEE

The Company has established an audit committee on 18 May 2000 with written terms of reference in compliance with the requirements as set out in Rules 5.28 to 5.30 of the GEM Listing Rules. The primary duties of audit committee are to review and supervise the financial reporting process and internal control system of the Group and to provide advice and comments to the Board.

The audit committee comprises four independent non-executive directors, namely, Mr. Chung Shui Ming Timpson, Professor Ip Ho Shing Horace, Mr. Yan Yonghong and Mr. Peng Lijun, and Mr. Chung Shui Ming Timpson is the chairman of the audit committee.

The audit committee has reviewed this interim results and has provided advice and comments thereon.

BOARD PRACTICES AND PROCEDURES

Up to the six months period ended 30 September 2005, the Company has complied with the board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions as set out in the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules throughout the period under review, except that:

- A4.2 Not all Directors are subject to retirement by rotation at least once every three years; and
- B1.1 The Company established a remuneration committee with written terms of reference in compliance with the GEM Listing Rule on 31 October, 2005.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY' S LISTED SECURITIES

During the six months period under review, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

On behalf of the Board

Luk Yat Hung
Chairman

Hong Kong, 4 November 2005

** for identification purpose only*

As of the date hereof, Mr. Luk Yat Hung (Chairman) and Ms. Li Wenli are the executive directors of the Company; and Mr. Chung Shui Ming, Timpson, Professor Ip Ho Shing, Horace, Mr. Yan Yonghong and Mr. Peng Lijun are independent non-executive directors of the Company.

The announcement will remain on the GEM website at www.bkgem.com at the "Latest Company Announcements" page for at least 7 days from the date of its publication and on the website of the Company at www.taishingintl.com.