



# FAR EAST TECHNOLOGY INTERNATIONAL LIMITED

(Incorporated in Hong Kong with limited liability)

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

(Stock Code: 36)

## ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH JUNE, 2006

### INTERIM RESULTS

The board of directors (the “Board”) of Far East Technology International Limited (the “Company”) herein present their unaudited condensed consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30th June, 2006 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, 2006

	Notes	Unaudited six months ended 30th June,	
		2006 HK\$'000	2005 HK\$'000 (restated)
Turnover	3	42,081	30,336
Cost of sales		(39,415)	(28,863)
Gross profit		2,666	1,473
Other income		672	829
Distribution costs		(188)	(383)
Administrative expenses		(7,629)	(5,264)
Finance costs		(277)	(112)
Other expenses		(176)	(67)
Increase (decrease) in fair value of held-for-trading investments		322	(1,600)
Gain on disposal of available-for-sale investments		–	1,046
Increase in fair value of investment properties		1,422	1,500
Gain on disposal of an associate		–	2,924
Loss on deemed disposal of an associate		(3,149)	–
Share of results of associates		4,978	4,330
Share of results of a jointly-controlled entity		–	(582)
(Loss) profit before taxation	4	(1,359)	4,094
Taxation	5	(38)	(22)
(Loss) profit for the period		(1,397)	4,072
Attributable to:			
Equity holders of the Company		(1,348)	3,992
Minority interests		(49)	80
		(1,397)	4,072
Dividend	6	–	–
(Loss) earnings per share			
Basic	7	(1.3 cents)	6.0 cents
Diluted		N/A	N/A

**CONDENSED CONSOLIDATED BALANCE SHEET***As at 30th June, 2006*

	<i>Notes</i>	<b>30/6/2006</b> <b>(unaudited)</b> <b>HK\$'000</b>	31/12/2005 (audited) HK\$'000
<b>NON-CURRENT ASSETS</b>			
Investment properties		<b>41,040</b>	36,040
Property, plant and equipment		<b>13,751</b>	14,745
Prepaid lease payments		<b>3,364</b>	3,467
Interests in associates		<b>62,147</b>	64,139
Interest in a jointly-controlled entity		<b>1,583</b>	1,583
Available-for-sale investments		<b>9,289</b>	8,567
		<b>131,174</b>	128,541
<b>CURRENT ASSETS</b>			
Prepaid lease payments		<b>204</b>	204
Held-for-trading investments		<b>44,765</b>	33,375
Inventories		<b>783</b>	6,493
Trade and other receivables	8	<b>20,761</b>	15,245
Amount due from associates		<b>670</b>	662
Amount due from a minority shareholder		<b>7,061</b>	5,551
Tax prepaid		<b>212</b>	21
Pledged bank deposits		<b>17,774</b>	4,851
Bank balances and cash		<b>15,620</b>	41,628
		<b>107,850</b>	108,030
<b>CURRENT LIABILITIES</b>			
Trade and other payables	9	<b>26,233</b>	26,067
Amounts due to directors		<b>2,892</b>	3,688
Amounts due to related companies		<b>1,557</b>	1,557
Amount due to a minority shareholder		<b>1,324</b>	1,312
Amount due to a jointly-controlled entity		<b>508</b>	508
Bank and other loans		<b>16,906</b>	15,273
Obligations under a finance lease – due within one year		<b>113</b>	102
		<b>49,533</b>	48,507
<b>NET CURRENT ASSETS</b>			
		<b>58,317</b>	59,523
		<b>189,491</b>	188,064
<b>CAPITAL AND RESERVES</b>			
Share capital		<b>1,095</b>	995
Reserves		<b>171,499</b>	170,219
Equity attributable to equity holders of the Company		<b>172,594</b>	171,214
Minority interests		<b>15,845</b>	15,773
		<b>188,439</b>	186,987
<b>NON-CURRENT LIABILITIES</b>			
Obligations under a finance lease – due after one year		<b>311</b>	375
Deferred taxation		<b>741</b>	702
		<b>1,052</b>	1,077
		<b>189,491</b>	188,064

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

### 1. Basis of preparation

The unaudited condensed consolidated interim 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 disclosure 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 2005 annual financial statements.

### 2. Application of Hong Kong Financial Reporting Standards / changes in accounting policies

The accounting policies used in the unaudited condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31st December, 2005 except as described below:

In current period, the Group and the Company have applied, for the first time, a number of new Hong Kong Financial Reporting Standards (“HKFRSs”), Hong Kong Accounting Standards (“HKASs”) and Interpretations (“INTs”) (hereinafter collectively referred to as “new HKFRSs”) issued by the HKICPA that are effective for accounting periods beginning on or after 1st January, 2006.

HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures
HKAS 21 (Amendment)	Net investment in a foreign operation
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions
HKAS 39 (Amendment)	The fair value option
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts
HKFRS 6	Exploration for and evaluation of mineral resources
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease
HK(IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market – waste electrical and electronic equipment
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies

The adoption of the new HKFRSs have no material impact on the unaudited condensed consolidated interim financial statements of the Group and the Company. Certain comparative figures for prior accounting period have been restated to conform with the current period’s presentation.

### 3. Business and geographical segments

#### Business segments

	Continuing operations							
	Securities investment and trading		Property development and investment		Industrial		Consolidated	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
<b>TURNOVER</b>								
External sales	<u>15,750</u>	<u>5,572</u>	<u>441</u>	<u>506</u>	<u>25,890</u>	<u>24,258</u>	<u>42,081</u>	<u>30,336</u>
<b>RESULTS</b>								
Segment results	<u>(2,690)</u>	<u>(3,749)</u>	<u>1,921</u>	<u>1,562</u>	<u>(2,814)</u>	<u>(1,108)</u>	<u>(3,583)</u>	<u>(3,295)</u>
Other income	600	829	3	-	69	-	672	829
Finance costs							(277)	(112)
Gain on disposal of an associate							-	2,924
Loss on deemed disposal of an associate							(3,149)	-
Share of results of associates							4,978	4,330
Share of results of a jointly – controlled entity	-	-	-	(582)	-	-	-	(582)
(Loss) profit before taxation							(1,359)	4,094
Taxation							(38)	(22)
(Loss) profit for the period							<u>(1,397)</u>	<u>4,072</u>

#### Geographical segments

	Sales revenue by geographical market	
	2006 HK\$'000	2005 HK\$'000
Hong Kong	18,870	9,633
PRC	11,503	9,117
Japan	11,708	11,586
	<u>42,081</u>	<u>30,336</u>

#### 4. (Loss) profit before taxation

**Unaudited six months  
ended 30th June,**  
**2006**                      2005  
*HK\$'000*                      *HK\$'000*  
(restated)

(Loss) profit before taxation has been arrived at after charging:

Amortisation of prepaid lease payments	102	87
Auditors' remuneration	348	290
Cost of inventories recognised as expense	26,281	23,711
Depreciation	2,006	2,305
Directors' remuneration and other staff costs, including retirement benefits schemes contributions of HK\$515,243 (2005: HK\$641,943)	7,214	6,427
Net exchange loss	50	57
Loss on disposal of property, plant and equipment	3	–
Operating lease payment in respect of rented premises	156	111

and after crediting:

Rental income from investment properties, less outgoings of HK\$29,843 (2005: HK\$21,304)	<u>411</u>	<u>506</u>
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#### 5. Taxation

**Unaudited six months  
ended 30th June,**  
**2006**                      2005  
*HK\$'000*                      *HK\$'000*

The charge comprises:

PRC enterprise income tax: Current period	–	(22)
	–	(22)
Deferred taxation	(38)	–
	<u>(38)</u>	<u>(22)</u>

PRC enterprise income tax is calculated at the rates prevailing.

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.

#### 6. Dividend

The directors do not recommend the payment of any interim dividend for the six months ended 30th June, 2006 (six months ended 30th June, 2005: Nil).

#### 7. (Loss) earnings per share

The calculation of basic (loss) earnings per share is based on the loss attributable to equity holders of the Company of HK\$1,348,000 (six months ended 30th June, 2005: profit of HK\$3,992,000) and on the weighted average number of 101,259,774 (six months ended 30th June, 2005: 66,333,781) ordinary shares in issue during the period, after taking into account the effect of the bonus issue during the period.

No diluted (loss) earnings per share has been presented because the exercise price of the Company's options was higher than the average market price for shares for the period, and the effect of dilutive potential ordinary shares of an associate is considered to be insignificant.

**8. Trade and other receivables**

For sales of goods, the Group has a policy of allowing a credit period of 30 days to 90 days to its trade customers. Rentals receivable from tenants and service income from customers are payable on presentation of invoices. The aged analysis of trade receivable is as follows:

	<b>THE GROUP</b>	
	<b>30/6/2006</b> <b>(unaudited)</b> <b>HK\$'000</b>	<b>31/12/2005</b> <b>(audited)</b> <b>HK\$'000</b>
0 – 30 days	<b>1,304</b>	2,270
31 – 60 days	<b>2,478</b>	1,023
61 – 90 days	<b>1,568</b>	2,111
Over 90 days	<b>4,610</b>	5,707
	<hr/>	<hr/>
Total trade receivables	<b>9,960</b>	11,111
Other receivables	<b>10,801</b>	4,134
	<hr/>	<hr/>
	<b>20,761</b>	15,245
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**9. Trade and other payables**

The aged analysis of trade payables is as follows:

	<b>THE GROUP</b>	
	<b>30/6/2006</b> <b>(unaudited)</b> <b>HK\$'000</b>	<b>31/12/2005</b> <b>(audited)</b> <b>HK\$'000</b>
0 – 30 days	<b>1,707</b>	3,106
31 – 60 days	<b>4,116</b>	832
61 – 90 days	<b>2,195</b>	880
Over 90 days	<b>6,145</b>	9,771
	<hr/>	<hr/>
Total trade payables	<b>14,163</b>	14,589
Other payables	<b>12,070</b>	11,478
	<hr/>	<hr/>
	<b>26,233</b>	26,067
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## **MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER'S STATEMENT CORPORATE RESULTS**

During the six months period ended 30th June, 2006 (the "Period") the Company and its subsidiaries (the "Group") recorded a turnover of HK\$42.10 million (2005: HK\$30.3 million), representing a drop of 38.94% over corresponding period in 2005. The Group's loss attributable to equity holders of the Company amounted to HK\$1.35 million (2005: profit of HK\$4 million) representing a decrease of 1.34 times compared to the corresponding period in 2005.

### **FINANCIAL REVIEW**

#### *Liquidity and Financial Resources*

As at 30th June, 2006, the Group had cash and bank balances of HK\$33.40 million (2005: HK\$46.5 million). Fundamentally, the Group's funding policy is to finance the business operations with internal generated cash and banking facilities. As at 30th June, 2006, the Group had total borrowings of HK\$17.33 million (2005: HK\$15.75 million) of which HK\$17.02 million (2005: HK\$15.38 million) was payable within one year and the remaining was payable after one year and was fully secured. The Group's borrowings were denominated in Hong Kong dollar, Japanese Yen and United States dollar. 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, 2006 slightly raised to 10.04% (2005: 9.2%). While the Group's current ratio (current assets to current liabilities) as at 30th June, 2006 has been maintained at a healthy level of 2.18 (2005: 2.23). The Group continues to implement prudent financing policy to reduce short-term borrowing as much as possible in order to ensure that the Group will not be affected by short-term uncertainties and exchange rate fluctuation.

#### *Capital Structure*

Pursuant to an ordinary resolution passed at the annual general meeting of the Company on 23rd May, 2006, 9.95 million shares were issued and allotted on 30th May, 2006 as fully paid up by way of a one for ten bonus issue in respect of which an amount of HK\$0.1 million standing to the credit of the share premium account was applied. Accordingly, the Company's issued share capital was increased from HK\$1 million to HK\$1.1 million by the bonus issue of 9.95 million shares of HK\$0.01 each in the share capital of the Company. The new ordinary shares rank pari passu with the existing shares in all respect.

#### *Pledge of Assets*

As at 30th June, 2006 certain assets of the Group with an aggregate carrying value of approximately HK\$55.30 million (2005: HK\$36.7 million) were pledged to secure loans facilities utilized by the Group.

#### *Risk on Foreign Exchange Fluctuations*

The Group had no significant risk on foreign exchange fluctuation during the period.

#### *Contingent Liabilities and Capital Commitments*

As at 30th June, 2006, the Group and the Company had no contingent liabilities (2005: Nil) and also no capital commitments (2005: Nil).

#### *Material Acquisitions and Disposals of Subsidiaries and Associated Companies*

During the period, the Group had no material acquisition and disposals of subsidiaries except that interests in associate, in May, 2006 Chinasoft International Limited (the "Chinasoft") allotted and issued second portion 23.25 million consideration shares at an issue price of HK\$1.16 each to China National Computer Software & Technology Service Corporation (Hong Kong) Limited (the "CS&S (HK)") for acquisition of 51% equity interest in Chinasoft Resources Information Technology Services Limited ("Chinasoft Resources") who had achieved the required profit hurdle in 2005 accounts. Accordingly, the Group's shareholding in Chinasoft had decreased from 23.20% to 22.48%, resulting in a loss on deemed disposal of HK\$3.15 million during the period. However, it raised to 22.51% after the Group had acquired 200,000 Chinasoft shares in open market at a consideration of approximately at HK\$195,000.

## **BUSINESS REVIEW**

For information technology investment, the Group's share of profit of an associate, relating to 22.51% equity interests in Chinasoft, raised to HK\$4.98 million (2005: HK\$4.35 million), representing an increase of 14.48% in the corresponding period 2005. With its acquisition of Powerise International and Opportune Technology, Chinasoft extends its business relationship with Microsoft and has also successfully expanded its outsourcing services into the Japanese market. In addition, Chinasoft has also established a subsidiary in the United States to enhance its global reach and shortened the gap with United States clients. It helps Chinasoft to continue to strengthen its market share in Information Technology industries within China.

For industrial holdings, Jiangsu Bang Bang Silky Fashion Manufacturer Company Limited (the "Jiangsu Bang Bang") reported turnover of HK\$14.5 million, representing a decline of 3.33% compared with the corresponding period in 2005. Whereas Suzhou Goldtract Commodity Concrete Company Limited recorded a turnover of HK\$11.40 million, representing a rise of 22.58% compared with the corresponding period in 2005. Safeguard quotas reimposed by the United States and European Union on specific categories of textile and garment products since mid 2005 effectively restricted the growth of textile industry and exerting a general downside pressure on textile products. The operating environment for garment export sales will continue to be challenging in the second half of 2006.

For Investment properties, gross rental income for the period, decreased by 20% to HK\$0.40 million compared with the corresponding period in 2005. Retail rentals regained its momentum in the second half of 2006 after a period of market consolidation in the first half of 2006. In anticipation of further economic growth and increase in consumption expenditure of the local households, retail sales will benefit, thus providing further growth impetus to retail rentals.

## **PROSPECTS**

Whilst there are concerns about the impact of high interest rates, surging energy prices and political tensions on the global economy, the Group's operating environment is generally positive nurtured by the robust economic growth in the Mainland China. The recent measures to slow down the mainland economy are specific to certain over-invested sectors and the central government has emphasized on the improvement of living standards and a more balanced growth model in favor of domestic consumption. With a mission to deliver shareholders' value, the Group has already constructed solid platforms for sustainable growth through our transformation into an investment company.

The Group will closely attend to the development of the Mainland China market, and study the feasibility of investing in the aviation related projects in the Mainland China. The Group is also actively seeking investment opportunities and expanding investment channels in order to capitalize the financial strength of the Group and maximize shareholders' value.

## **EMPLOYEE**

As at 30th June, 2006, the Group had approximately 600 employees in Hong Kong and the People's Republic of China (the "PRC") (2005: 600 employees) with majority of these employees employed in the 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.

## **POST BALANCE SHEET EVENT**

The Group had the following significant subsequent events:

On 28th May, 2006, the China Entertainment (Jiangsu) Development Limited (a wholly-owned subsidiary of the Company) entered into a conditional share transfer agreement with the 無錫市新業建設發展公司 for the disposal of 65% equity interest in Wuxi Cheerman Property Company Limited at a consideration of RMB 15.5 million.

The Company acquired of HK\$8.3 million principal amount of the convertible notes of Satellite Devices Corporation from First Vantage Limited on 25th August, 2006 at a consideration of HK\$4.98 million.

Details of the above disposal and acquisition are set out in the circular and the announcement of the Company dated 3rd July, 2006 and 5th September, 2006 respectively.

## **INTERIM DIVIDEND**

The directors do not recommend the payment of an interim dividend for the six months ended 30th June, 2006 (2005: 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.

## **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, 2006, with deviation from code provision A.4.1 of the Code in respect of the service term and rotation of Directors.

None of the existing Non-executive Directors of the Company is appointed for a specific term. This constitutes a deviation from code provision A.4.1 of the Code. However, all Non-executive Directors of the Company are subject to the retirement by rotation and re-election at each annual general meeting under Articles 79 and 80 of the Company. 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.

## **AUDIT COMMITTEE**

The Audit Committee of the Company comprised of one Non-executive Director and two Independent Non-executive Directors namely, Mr. Derek Chiu, Dr. Lee G. Lam and Mr. Ryan Yen Hwung Fong respectively.

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of the Group's unaudited interim results for the six months ended 30th June, 2006.

## **REMUNERATION COMMITTEE**

The Company had established a Remuneration Committee (the "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 Mr. Ryan Yen Hwung Fong and the Managing Director, Mr. Duncan Chiu of the Company. The 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 of 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, 2006.

On behalf of the Board

**DUNCAN CHIU**

*Managing Director and Chief Executive Officer*

Hong Kong, 22nd September, 2006

*As at the date of this announcement, the executive directors are Mr. Deacon Te Ken Chiu, Mr. Duncan Chiu and Mr. Dennis Chiu, the non-executive directors are Tan Sri Dato' David Chiu, Mr. Daniel Tat Jung Chiu, Mr. Derek Chiu, Mr. Desmond Chiu and Ms. Margaret Chiu; and the independent non-executive directors are Dr. Lee G. Lam, Mr. Ryan Yen Hwung Fong and Mr. Hing Wah Yim.*