



**VASO DIGITAL INTERNATIONAL HOLDINGS LIMITED**

**華索國際控股有限公司\***

*(incorporated in the Cayman Islands with limited liability)*

**interim report 2002**

*\* For identification purposes only*

## 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.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the main board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies on GEM are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange takes no responsibility for the contents of this report, 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 report.

This report, for which the directors of Vaso Digital International Holdings Limited (the “Company”) 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 giving information with regard to the Company. The directors of the Company, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report 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 report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.



## FINANCIAL RESULTS

The board of directors (the "Board") of the Company announces the unaudited condensed pro forma combined results of the Company and its subsidiaries (the "Group") for the three and six months ended 30th September, 2002 together with the comparative figures for the corresponding periods in 2001 as follows:

		Six months ended 30th September, 2002		Three months ended 30th September, 2002	
		(Unaudited) HK\$000	(Unaudited) HK\$000	(Unaudited) HK\$000	(Unaudited) HK\$000
Turnover	3	9,531	7,342	5,349	1,583
Cost of sales		<u>(7,371)</u>	<u>(5,733)</u>	<u>(4,147)</u>	<u>(1,251)</u>
Gross profit		2,160	1,609	1,202	332
Other revenue		—	3	—	—
Selling and distribution costs		(43)	(92)	(29)	(32)
Administrative expenses		(1,166)	(1,029)	(614)	(481)
Other operating expenses		<u>(259)</u>	<u>(240)</u>	<u>(136)</u>	<u>(104)</u>
Profit/(loss) before tax	4	692	251	423	(285)
Tax	5	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net profit/(loss) from ordinary activities attributable to shareholders		<u>692</u>	<u>251</u>	<u>423</u>	<u>(285)</u>
Dividend	7	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Earnings/(loss) per share	6				
— Basic (cent)		<u>0.16</u>	<u>0.06</u>	<u>0.10</u>	<u>(0.06)</u>
— Diluted (cent)		<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>



## Condensed Pro forma Combined Balance Sheet

		As at 30th September, 2002 (Unaudited) HK\$'000	As at 31st March, 2002 (Audited) HK\$'000
NON-CURRENT ASSETS			
Fixed assets		65	72
CURRENT ASSETS			
Accounts receivable	8	2,144	1,301
Prepayments, deposits and other receivables		2,157	1,063
Due from a director		—	244
Cash and bank balances		43	400
		<u>4,344</u>	<u>3,008</u>
CURRENT LIABILITIES			
Accounts payable	9	1,643	1,473
Accrued liabilities and other payables		700	233
		<u>2,343</u>	<u>1,706</u>
NET CURRENT ASSETS		<u>2,001</u>	<u>1,302</u>
		<u>2,066</u>	<u>1,374</u>
CAPITAL AND RESERVES			
Issued capital		2,504	2,504
Reserves		(438)	(1,130)
		<u>2,066</u>	<u>1,374</u>



### Condensed Pro forma Combined Cash Flow Statement

	Six months ended 30th September, 2002 (Unaudited) HK\$'000	Six months ended 30th September, 2001 (Unaudited) HK\$'000
NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES		
Cash (used in)/generated from operations	(589)	947
Interest received	<u>—</u>	<u>3</u>
Net cash (outflow)/inflow from operating activities	<u>(589)</u>	<u>950</u>
INVESTING ACTIVITIES		
Purchase of fixed assets	(12)	(17)
Decrease/(increase) in amount due from a director	<u>400</u>	<u>(83)</u>
Net cash inflow/(outflow) from investing activities	<u>388</u>	<u>(100)</u>
NET CASH (OUTFLOW)/INFLOW BEFORE FINANCING ACTIVITIES	(201)	850
FINANCING ACTIVITY		
Repayment to a director	<u>—</u>	<u>(568)</u>
Net cash outflow from financing activity	<u>—</u>	<u>(568)</u>
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(201)	282
Cash and cash equivalents at beginning of period	<u>244</u>	<u>32</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u><u>43</u></u>	<u><u>314</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	<u><u>43</u></u>	<u><u>314</u></u>



## Condensed Pro forma Combined Statement of Changes in Equity

	Share capital and surplus HK\$'000	Capital reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1st April, 2001	4	1,504	(3,434)	(1,926)
Issue of shares by a subsidiary	2,500	—	—	2,500
Net profit for the period	<u>—</u>	<u>—</u>	<u>251</u>	<u>251</u>
At 30th September, 2001	<u>2,504</u>	<u>1,504</u>	<u>(3,183)</u>	<u>825</u>
At 1st April, 2002	2,504	1,504	(2,634)	1,374
Net profit for the period	<u>—</u>	<u>—</u>	<u>692</u>	<u>692</u>
At 30th September, 2002	<u>2,504</u>	<u>1,504</u>	<u>(1,942)</u>	<u>2,066</u>

Notes:

1. Group reorganisation and basis of presentation

*The Company*

The Company was incorporated in the Cayman Islands on 27th June, 2002 as an exempted company with limited liability under the Companies Law of the Cayman Islands. On incorporation, the Company had an authorised share capital of HK\$100,000 divided into 10,000,000 shares of HK\$0.01 each. On 28th June, 2002, one subscriber share was transferred to Share Able Investments Limited ("Share Able") for cash at par value. Apart from the aforesaid shares issued, no other transactions were carried out by the Company during the period from 27th June, 2002 to 30th September, 2002.

*Group reorganisation*

Pursuant to a reorganisation scheme (the "Group Reorganisation") to rationalise the structure of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") in preparation for the listing of the Company's shares on GEM in November 2002, the Company became the holding company of the companies now comprising the Group on 19th October, 2002. This was accomplished by the Company acquiring the entire issued share capital of Dynamic Choice Technology Limited ("Dynamic Choice"), the then holding company of other subsidiaries, in consideration for the allotment and issue of 7,785,999 shares of HK\$0.01 each in the share capital of the Company, credited as fully paid, to Share Able, the then shareholder of Dynamic Choice. Further details of the Group Reorganisation are set out in the Company's prospectus dated 30th October, 2002 (the "Prospectus"). The shares of the Company were listed on GEM on 12th November, 2002 (the "Listing Date").

*Basis of presentation*

The pro forma combined results, pro forma combined balance sheet and pro forma combined cash flow statements have been prepared using the merger basis of accounting as a result of the Group Reorganisation. On this basis, the Company has been treated as the holding company of its subsidiaries since their respective dates of incorporation



rather than from the date of their acquisition pursuant to the Group Reorganisation. Accordingly, the pro forma combined results of the Group for the three and six months ended 30th September, 2002 and 2001 and the pro forma combined balance sheets as at 30th September, 2002 and 31st March, 2002 have been prepared on the basis that the current Group structure has been in place since 1st April, 2001.

All significant transactions and balances among the companies comprising the Group have been eliminated on combination.

In the opinion of the Board, the unaudited pro forma combined results, balance sheet and cash flow statements prepared on the above basis is necessary to apprise the Company's shareholders of the Group's results and its state of affairs as a whole.

## 2. Effect of new and revised Hong Kong Statement of Standard Accounting Practice

The following new and revised Hong Kong Statements of Standard Accounting Practice ("SSAPs") are effective for the first time for the current periods' condensed pro forma combined financial statements:

SSAP 1 (Revised)	:	"Presentation of Financial Statements"
SSAP 15 (Revised)	:	"Cash Flow Statements"
SSAP 34	:	"Employee Benefits"

A summary of their major effects is as follows:

SSAP 1 (Revised) prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The main revision to this SSAP is to change the requirements from presenting a statement of recognised gains and losses to a statement of changes in equity. The condensed pro forma combined statement of changes in equity for the current interim period and the comparative figures have been presented in accordance with the revised SSAP.

SSAP 15 (Revised) prescribes the provision of information about the changes in cash and cash equivalents of an enterprise by means of a cash flow statement which classifies cash flows during the period into those from operating, investing and financing activities. The format of condensed pro forma combined cash flow statement for the current interim period and the comparative figures are presented in accordance with the revised SSAP 15.

SSAP 34 prescribes the accounting and disclosure for employee benefits. This SSAP has had no major impact on the interim report.

## 3. Turnover and segment information

The Group's turnover represents the net invoiced value of goods sold, after allowance for returns and trade discount, when applicable.



An analysis of the Group's turnover and segment results by business and geographical segment is as follows:

(a) *Business segments*

The following table presents revenue and results for the Group's business segments.

	IC Recorders		MP3 players		DVD players		Corporate		Total	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:										
Sales to external customers	<u>4,119</u>	<u>3,841</u>	<u>3,854</u>	<u>2,511</u>	<u>1,558</u>	<u>990</u>	<u>—</u>	<u>—</u>	<u>9,531</u>	<u>7,342</u>
Segment results	<u>924</u>	<u>935</u>	<u>845</u>	<u>475</u>	<u>391</u>	<u>199</u>	<u>(1,058)</u>	<u>(1,063)</u>	<u>1,102</u>	<u>546</u>
Interest income										3
Net unallocated expenses									(410)	(298)
Profit before tax									692	251
Tax									—	—
Net profit from ordinary activities attributable to shareholders									<u>692</u>	<u>251</u>

(b) *Geographical segments*

The following table presents revenue for the Group's geographical segments.

	Six months ended 30th September,	
	2002	2001
	HK\$'000	HK\$'000
Hong Kong, SAR	6,274	3,313
Japan	3,141	4,029
Others	<u>116</u>	<u>—</u>
	<u>9,531</u>	<u>7,342</u>

4. Profit/(loss) before tax

The Group's profit/(loss) before tax is arrived at after charging the following:

	For the six months ended 30th September,		For the three months ended 30th September,	
	2002	2001	2002	2001
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Depreciation	<u>317</u>	<u>86</u>	<u>163</u>	<u>43</u>





## 5. Tax

Hong Kong profits tax for the three months and six months ended 30th September, 2002 have not been provided (three months and six months ended 30th September, 2001: Nil) as the Group had sufficient tax losses brought forward to offset against the estimated assessable profits arising during the period. No provision for overseas profits tax has been made as the Group did not generate any assessable profits arising in the overseas countries in which the Group operates during the Relevant Periods.

No deferred tax had been provided for the Group because there were no significant timing differences at the respective balance sheet dates.

## 6. Earnings/(loss) per share

The calculations of basic earnings/(loss) per share are based on the unaudited net profit from ordinary activities attributable to shareholders for the three months and six months ended 30th September, 2002 of approximately HK\$423,000 and HK\$692,000, respectively, (three months and six months ended 30th September, 2001: net loss of approximately HK\$285,000 and net profit of approximately HK\$251,000, respectively) and the pro forma 440,000,000 shares in issue (pro forma number of shares in issue for the three months and six months ended 30th September, 2001: 440,000,000 shares).

No diluted earnings per share has been presented as no dilutive events existed during the three months and six months ended 30th September, 2002 and the corresponding periods in 2001.

## 7. Dividend

The Board does not recommend the payment of an interim dividend for the six months ended 30th September, 2002 (six months ended 30th September, 2001: Nil).

## 8. Accounts receivable

The Group gives credit terms of up to 30 days to its trade customers.

An aged analysis of accounts receivable is as follows:

	30th September 2002 HK\$'000 (Unaudited)	31st March, 2002 HK\$'000 (Audited)
Within 90 days	<u>2,144</u>	<u>1,301</u>

## 9. Accounts payable

An aged analysis of accounts payable is as follows:

	30th September 2002 HK\$'000 (Unaudited)	31st March, 2002 HK\$'000 (Audited)
Within 90 days	<u>1,643</u>	<u>1,473</u>



## MANAGEMENT DISCUSSION AND ANALYSIS

The Group is principally engaged in the development, design and sale of digital AV products which include IC recorders, MP3 players and DVD players. The objective of the Group is to be a leading provider and developer of digital AV products in the Asian market.

## FINANCIAL REVIEW

### Results

During the six months ended 30th September, 2002, the Group recorded a turnover of approximately HK\$9,531,000, representing an increase of approximately 30% from the corresponding period in previous year. Net profit from ordinary activities attributable to shareholders for the same period also increased to approximately HK\$692,000 from approximately HK\$251,000 in the corresponding period in previous year, representing an increase of approximately 176%.

The increase in turnover was mainly attributable to the increase in sales of MP3 players and the increase in net profit was mainly attributable to better cost control by the management of the Group.

### Liquidity, financial resources and capital structure

As at 30th September, 2002, the Group had no outstanding bank loans (31st March, 2002: Nil) and borrowings stated at fixed interest rates (31st March, 2002: Nil).

The debt ratio (defined as total liabilities over total assets) of the Group as at 30th September, 2002 was approximately 0.53 (31st March, 2002: approximately 0.55).

The Group's transactions during the six months ended 30th September, 2002 were denominated in HK Dollars and US Dollars. As the exchange rate of US Dollars to HK Dollars is fairly stable, the Directors are of the view that the Group's exposure to foreign currency exchange risk is limited. Hence, no hedging or other arrangements to reduce the currency risk have been implemented.

### Segment information

Sales of the Group comprise sales of the three major product lines of the Group, which are IC Recorders, MP3 players and DVD players. During the six months ended 30th September, 2002, sales of IC Recorders, MP3 players and DVD players represent approximately 43%, 41% and 16% respectively of the Group's turnover, as compared to approximately 52%, 34% and 14% respectively of the Group's turnover in the corresponding period in previous year.

The principal markets of the Group's products are Hong Kong and Japan. The sales to Hong Kong and Japanese markets represent approximately 66% and 33% of the Group's turnover in the six months ended 30th September, 2002, and approximately 45% and 55% respectively in the corresponding period in previous year.



Details of the business and geographical segments are disclosed in note 3 to the section headed "Financial Results" of this report.

### **New products**

The Group will continue to step up its efforts in developing new products and new models of existing products and to improve the quality, performance and functionality of the Group's products in order to achieve its objective of becoming a leading provider and developer of digital AV products in the Asian market.

### **Significant investments**

At 30th September, 2002, there was no significant investment held by the Group (31st March, 2002: Nil).

### **Material acquisitions or disposals of subsidiaries and affiliated companies**

Other than in connection with the Group Reorganisation in preparation for the listing of the Company's shares on GEM, there were no material acquisitions or disposals of subsidiaries and affiliated companies during the six months ended 30th September, 2002.

### **Future plans for material investments and expected source of funding**

Details for the Group's future plans for material investments or capital assets and their expected source of funding have been stated in the paragraphs headed "Statement of Business Objectives" and "Reasons for the Placing and the Use of Proceeds" respectively under the section headed "Future Plans and Prospects" in the Prospectus.

### **Contingent liabilities**

The Group did not have any significant contingent liabilities as at 30th September, 2002 (31st March, 2002: Nil).

### **Employees and remuneration policies**

As at 30th September, 2002, the Group had 17 (31st March, 2002: 11) full time employees. Remuneration is determined with reference to market terms and the performance, qualification and experience of individual employee. Year-end bonus based on individual performance will be paid to employees as recognition of and reward for their contributions. Other benefits include contributions to statutory mandatory provident fund scheme to its employees. To date, no share options have been granted to employees.

## **COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS**

The share of the Company was listed on GEM on the Listing Date. According to the paragraph headed "Statement of Business Objectives" under the section headed "Future Plans and Prospects" in the Prospectus, the first period covered by the statement of business objectives is



from 24th October, 2002 (Latest Practicable Date) to 31st March, 2003 whereas, this report covers the six months ended 30th September, 2002. Accordingly, no comparison is presented, and the actual business progress for the two years ended 31st March, 2001 and 2002, and from 1st April, 2002 to 24th October, 2002 is stated in the paragraph headed "Statement of Active Business Pursuits" under the section headed "General Overview of the Group" in the Prospectus. The Group is in the progress of implementing the business plan as stated in the Prospectus and subject to the bases and assumptions as stated in the paragraph headed "Bases and Assumptions" under the section headed "Future Plans and Prospects" in the Prospectus, the Board believes that the implementation will be in accordance with the time frame as disclosed in the Prospectus.

## USE OF PROCEEDS

The Company was listed on GEM on the Listing Date by way of placing of 105,300,000 shares (comprising 80,000,000 new Shares (the "New Shares") and 25,300,000 Sale Shares). The net proceeds (after deducting listing expenses) from the issue of New Shares were approximately HK\$13,000,000. The Group intends to apply the net proceeds for acquisition of plant, machinery and production facilities, for financing the expansion of the geographical coverage of the Group's distribution network, for the research and development of the technology for developing digital AV products and accessories and for marketing and brand building activities. Details of the use of proceeds are stated in the paragraph headed "Reasons for the Placing and the Use of Proceeds" under the section headed "Future Plans and Prospects" in the Prospectus. As of the date of this report, the Group has not spent any of the proceeds from the issue of New Shares and such proceeds are placed on short-term deposits with a bank in Hong Kong. The directors intend to use the net proceeds in the manner as disclosed in the Prospectus.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at the Listing Date, according to the register required to be kept under Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") or otherwise notified to the Company pursuant to the minimum standards of dealings by Directors as referred to in Rule 5.40 to 5.59 of the Rules Governing the Listing of Securities on GEM, the interests of Directors and chief executive in the Shares were as follows:

Director	Number of Shares				Total Interests
	Corporate Interests	Personal Interests	Family Interests	Other Interests	
Mr. Yasukawa Yoshihiro	364,000,000 (Note)	—	—	—	364,000,000

Note: These Shares are registered in the name of Share Able. Share Able is beneficially owned by Upgain Ventures Group Limited ("Upgain"), Number Great Investments Limited ("Number Great") and UPB Group Inc. ("UPB") in the proportion of 45%, 27.5%, and 27.5% respectively. Upgain is 60% owned by Mr. Yasukawa Yoshihiro and 20% owned by Mr. Lee Chun Piu, another Director. UPB is 100% owned by Mr. Yasukawa Yoshihiro.



## SUBSTANTIAL SHAREHOLDERS

As at the Listing Date, save for the interests of Directors and chief executive disclosed above, according to the register required to be kept by the Company under Section 16(1) of the Securities (Disclosure of Interests) Ordinance (“SDI Ordinance”) the following person was interested in 10% or more of the Company’s issued share capital:

Name	Number of Shares held	Approximate percentage of the shareholding in the Company
Share Able ( <i>Note</i> )	364,000,000	70%

*Note:* Share Able is beneficially owned by Uppain, UPB and Number Great in the proportion of 45%, 27.5% and 27.5% respectively. Uppain is 60% owned by Mr. Yasukawa Yoshihiro and 20% owned by Mr. Lee Chun Piu, another Director. UPB is 100% owned by Mr. Yasukawa Yoshihiro. Accordingly, each of Uppain and Mr. Yasukawa Yoshihiro is deemed to be interested in the Shares held by Share Able under the SDI Ordinance.

## SHARE OPTION SCHEME

On 19th October, 2002, the Company adopted a share option scheme (the “Share Option Scheme”) under which share options to subscribe for Shares may be granted under the terms and conditions stipulated therein. Since the Listing Date, no share option has been granted under the Share Option Scheme.

## DIRECTORS’ AND CHIEF EXECUTIVE’S RIGHTS TO ACQUIRE SECURITIES

Apart from as disclosed under the heading “Directors’ and chief executive’s interests in securities” above, at no time during the period under review was the Company or any of its subsidiaries a party to any arrangements to enable the Directors and chief executive of the Company to acquire benefits by means of the acquisition of shares in, or debt securities, including debentures, of the Company or any other body corporate and none of the Directors, chief executive or their spouses or children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such right.

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

Since the listing of the Company on GEM on the Listing Date and up to the date of this report, there were no purchases, sales or redemptions of the Company’s listed securities by the Company or any of its subsidiaries.

## COMPETING INTERESTS

None of the Directors or the management shareholders of the Company and their respective associates (as defined in the GEM Listing Rules) had an interest in a business which competes or may compete with the business of the Group.



## INTEREST OF SPONSOR

According to a sponsorship agreement between the Company and Kingston Corporate Finance Limited (the "Sponsor"), for a fee, the Sponsor acts as the Company's continuing Sponsor for the purpose of Chapter 6 of the GEM Listing Rules for the period up to 31st March, 2005.

As notified by the Sponsor, as at the date of this report, neither the Sponsor nor its directors or employees or associates, had any interests in the securities of the Company or any member of the Group, or any rights to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group.

## COMPLIANCE WITH RULES 5.28 TO 5.39 OF THE GEM LISTING RULES

The Company has complied with the board practices and procedures as set out in Rules 5.28 to 5.39 of the Listing Rules, since the listing of the Company's shares on GEM on the Listing Date.

## AUDIT COMMITTEE

The Company established an audit committee on 19th October, 2002 with written terms of reference in compliance with the requirements set out in Rules 5.23 and 5.24 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group. The audit committee comprises two independent non-executive Directors, namely, Mr. Christopher Leu and Mr. Goh Gen Cheung. The Group's unaudited results for the six months ended 30th September, 2002 have been reviewed by the audit committee who was of the opinion that the preparation of such results complied with the applicable accounting standards, the Stock Exchange and legal requirements and that adequate disclosure have been made.

By order of the Board  
**Vaso Digital International Holdings Limited**  
Yasukawa Yoshihiro  
*Chairman*

Hong Kong, 13th November, 2002