



SiS INTERNATIONAL HOLDINGS LIMITED



**Interim Report
2001**

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED JUNE 30, 2001

	NOTES	For the six months ended June 30,	
		2001 (Unaudited) HK\$'000	2000 (Unaudited) HK\$'000
Turnover		2,091,774	1,565,934
Cost of sales		(1,994,778)	(1,495,975)
Gross profit		96,996	69,959
Other revenue		9,298	11,992
Distribution costs		(41,109)	(31,094)
Administrative expenses		(37,553)	(34,750)
Other operating expenses	4	(24,320)	(1,682)
Release of provision for management fee and interest	5	16,473	–
Profit from operations	6	19,785	14,425
Investment losses on subsidiaries and associates	7	(3,293)	–
Finance costs		(2,597)	(3,962)
Share of results of associates		984	61
Profit before taxation		14,879	10,524
Taxation	8	(6,584)	(2,205)
Profit before minority interest		8,295	8,319
Minority interest		(1,146)	181
Profit for the period		7,149	8,500
Dividend	9	5,361	5,361
Earnings per share	10		
– Basic		2.67 cents	3.20 cents
– Diluted		N/A	3.15 cents

CONDENSED CONSOLIDATED BALANCE SHEET

AT JUNE 30, 2001

	NOTES	June 30, 2001 (Unaudited) HK\$'000	December 31, 2000 (Audited) HK\$'000
Non-current assets			
Investment properties	11	79,270	77,857
Property, plant and equipment	11	42,200	42,767
Interests in associates		2,867	3,292
Investments in securities		9,299	14,221
Staff advances - due after one year		2,558	2,203
Club membership		1,300	1,300
		137,494	141,640
Current assets			
Inventories		355,596	237,710
Trade and other receivables, deposits and prepayments	12	604,065	464,398
Staff advances - due within one year		1,745	1,180
Amounts due from related companies		7,318	6,256
Pledged bank deposits		20,677	11,300
Bank balances and cash		100,700	194,150
		1,090,101	914,994
Current liabilities			
Trade and other payables	13	705,537	561,053
Bills payables	14	29,300	25,971
Obligations under hire purchase contracts - due within one year		304	366
Bank borrowings - due within one year		93,022	75,034
Taxation		8,388	3,772
		836,551	666,196
Net current assets		253,550	248,798
Total assets less current liabilities		391,044	390,438
Non-current liabilities			
Obligations under hire purchase contracts - due after one year		174	309
Deferred taxation		42	44
Advances from minority shareholders		194	203
Net assets		390,634	389,882
Capital and reserves			
Share capital	15	26,805	26,805
Share premium and reserves	16	374,084	372,696
Revaluation reserves	17	(15,186)	(13,546)
		385,703	385,955
Minority interest		4,931	3,927
		390,634	389,882

CONDENSED CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

FOR THE SIX MONTHS ENDED JUNE 30, 2001

	(Unaudited) HK\$'000
Revaluation decrease on investments in securities	(4,681)
Exchange realignment arising on translation of overseas operations	(2,426)
Net losses not recognised in the condensed consolidated income statement	<u>(7,107)</u>
Net profit for the period	<u>7,149</u>
Total recognised gains	<u>42</u>
Increase in retained profits at January 1, 2001 due to prior period adjustment arising from derecognition of liability for final dividend for 2000 (Note 2)	<u>5,361</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED JUNE 30, 2001

	(Unaudited) HK\$'000
Net cash outflow from operating activities	(90,674)
Net cash outflow from returns on investments and servicing of finance	(4,984)
Net cash outflow from taxation	(1,826)
Net cash outflow from investing activities	(13,771)
Net cash outflow before financing	<u>(111,255)</u>
Net cash inflow from financing	<u>15,332</u>
Decrease in cash and cash equivalents	<u>(95,923)</u>
Cash and cash equivalents at the beginning of the period	<u>177,878</u>
Cash and cash equivalents at the end of the period	<u>81,955</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2001

1. BASIS OF PREPARATION

The interim financial report has been prepared in accordance with the Statement of Standard Accounting Practice No. 25 “Interim financial reporting” issued by the Hong Kong Society of Accountants (“SSAP 25”), except that comparative figures are not presented either for the condensed consolidated statement of recognised gains and losses or for the condensed cash flow statement, being the first cash flow statement to be included in the interim financial report relating to accounting period ended on or after July 1, 2000. Such departures from SSAP 25 are permitted under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

2. ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of investment in securities and investment properties.

The accounting policies adopted are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended December 31, 2000, except as described below.

In the current period, the Group has adopted, for the first time, a number of revised or new Statements of Standard Accounting Practice (“SSAPs”) issued by the Hong Kong Society of Accountants. Adoption of these SSAPs does not have any significant effect on the current or prior period financial statements, except:

SSAP 9 (Revised)	Events after the balance sheet date
SSAP 26	Segment reporting
SSAP 30	Business combinations

In accordance with SSAP 9 (Revised), dividends declared after the balance sheet date are not recognised as a liability at the balance sheet. In previous years, the declaration of dividends after the balance sheet date was treated as an adjusting post balance sheet event. The effect of this change has been to increase shareholders’ funds at January 1, 2000 and 2001 by HK\$5,361,000 and HK\$5,361,000 respectively.

In accordance with SSAP 26, the segment disclosures have been modified in order to conform with the requirements of the standard. Segment disclosures for the six months ended June 30, 2000 have also been amended so that they are presented on a consistent basis.

In accordance with SSAP 30, the Group has elected not to restate goodwill (negative goodwill) previously eliminated against (credited to) reserves. Accordingly, goodwill arising on acquisitions prior to January 1, 2001 continues to be held in reserves and will be charged to the income statement at the time of disposal of the relevant subsidiary and associate, or at such time as the goodwill is determined to be impaired. Negative goodwill arising on acquisitions prior to January 1, 2001 will be credited to income at the time of disposal of the relevant subsidiary and associate.

Goodwill arising on acquisitions after January 1, 2001 is capitalised and amortised over its estimated useful life, i.e. over periods ranging from 5 to 20 years. Negative goodwill arising on acquisitions after January 1, 2001 is presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

3. SEGMENTAL INFORMATION**Business Segments**

For the six months ended June 30, 2001 (Unaudited)

	Distribution of computer products HK\$'000	Others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
REVENUE				
External sales	2,084,199	7,575	–	2,091,774
Inter-segment sales	120	8,019	(8,139)	–
Total revenue	<u>2,084,319</u>	<u>15,594</u>	<u>(8,139)</u>	<u>2,091,774</u>
SEGMENT RESULT	<u>25,100</u>	<u>(3,563)</u>	–	21,537
Interest income				2,974
Unallocated corporate expenses				(4,726)
Profit from operations				<u>19,785</u>

For the six months ended June 30, 2000 (Unaudited)

	Distribution of computer products HK\$'000	Others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
REVENUE				
External sales	1,562,156	3,778	–	1,565,934
Inter-segment sales	726	2,547	(3,273)	–
Total revenue	<u>1,562,882</u>	<u>6,325</u>	<u>(3,273)</u>	<u>1,565,934</u>
SEGMENT RESULT	<u>13,708</u>	<u>(1,646)</u>	–	12,062
Interest income				6,335
Unallocated corporate expenses				(3,972)
Profit from operations				<u>14,425</u>

4. OTHER OPERATING EXPENSES

	For the six months ended June 30,	
	2001	2000
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Provision for doubtful debts	21,360	1,682
Loss on disposal of investments in securities	158	–
Impairment losses recognised on investments in securities	2,802	–
	24,320	1,682

5. RELEASE OF PROVISION FOR MANAGEMENT FEE AND INTEREST

In the opinion of the Directors, the accrued management fee and interest payable to an independent third party made in prior years are no longer required, taking into account all available evidence and the progress of the relevant litigation for the six months ended June 30, 2001.

6. PROFIT FROM OPERATIONS

	For the six months ended June 30,	
	2001	2000
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Profit from operations has been arrived at after charging (crediting):		
Depreciation	4,039	1,695
Interest income	(2,974)	(6,335)

7. INVESTMENT LOSSES ON SUBSIDIARIES AND ASSOCIATES

	For the six months ended June 30,	
	2001	2000
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Loss on deemed disposal of associates	(128)	–
Impairment losses recognised on goodwill arising on acquisition of subsidiaries	(200)	–
Impairment losses recognised on interests in associates (including recognition of impairment of goodwill held in reserves)	(2,965)	–
	(3,293)	–

8. TAXATION

	For the six months ended June 30,	
	2001	2000
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
The charge comprises:		
Profits Tax for the period		
Hong Kong	3,238	1,701
Overseas	3,198	452
Profits Tax for prior years		
Overseas	6	–
Taxation attributable to the Company and its subsidiaries	6,442	2,153
Share of tax on results of associates	142	52
Taxation charge for the period	6,584	2,205

Hong Kong Profits Tax is calculated at 16% (2000: 16%) of the estimated assessable profit for the period.

Overseas taxation is calculated at the rates prevailing in the respective jurisdictions.

9. DIVIDEND

	For the six months ended June 30,	
	2001	2000
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
On June 15, 2001, a dividend of 2 cents (2000: 2 cents) was paid to shareholders as the final dividend for year ended December 31, 2000	5,361	5,361

The directors have not recommended the payment of any interim dividend (2000: nil).

10. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	For the six months ended June 30,	
	2001	2000
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Earnings for the purposes of basic earnings per share and diluted earnings per share	<u>7,149</u>	<u>8,500</u>
	Number of shares	
	'000	'000
Weighted average number of ordinary shares for the purposes of basic earnings per share	268,050	265,973
Effect of dilutive potential ordinary shares:		
Options	<u>—</u>	<u>3,821</u>
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>268,050</u>	<u>269,794</u>

No diluted earnings per share is presented for the six months ended June 30, 2001 as the exercise price of the Company's outstanding share options was higher than the average market price of the Company's shares for the period.

11. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

During the period, the Group spent approximately HK\$3,897,000 and HK\$2,000,000 (for six months ended June 30, 2000: HK\$4,808,000 and HK\$61,178,000) on addition of property, plant and equipment and investment properties respectively.

At June 30, 2001, the Directors estimated that the carrying amounts of the Group's investment properties do not differ significantly from that which would be determined using fair values at the balance sheet date. Consequently, no revaluation surplus or deficit has been recognised in the current period.

12. TRADE AND OTHER RECEIVABLES

The Group maintained a defined credit policy. For sales of goods, the Group allows an average credit period of 30-60 days to its trade customers. Service income receivable from customers are payable on presentation of invoices.

The following is an aged analysis of trade receivables at the balance sheet date:

	June 30, 2001 (Unaudited) HK\$'000	December 31, 2000 (Audited) HK\$'000
Within 30 days	487,519	296,592
31 to 90 days	62,625	115,261
91 to 120 days	11,222	15,290
Over 120 days	10,139	1,776
Trade receivables	571,505	428,919
Deposits, prepayments and other receivables	32,560	35,479
	604,065	464,398

13. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables at the balance sheet date:

	June 30, 2001 (Unaudited) HK\$'000	December 31, 2000 (Audited) HK\$'000
Within 30 days	449,596	300,409
31 to 90 days	76,405	100,670
91 to 120 days	7,912	8,654
Over 120 days	7,628	7,197
Trade payables	541,541	416,930
Accruals and other payables	163,996	144,123
	705,537	561,053

14. BILLS PAYABLES

The following is an aged analysis of bills payables at the balance sheet date:

	June 30, 2001 (Unaudited) HK\$'000	December 31, 2000 (Audited) HK\$'000
Within 90 days	26,376	18,508
91 to 120 days	2,924	7,463
	<u>29,300</u>	<u>25,971</u>

15. SHARE CAPITAL

	Number of shares '000	Amount HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
At June 30, 2001 and December 31, 2000	<u>350,000</u>	<u>35,000</u>
Issued and fully paid:		
At June 30, 2001 and December 31, 2000	<u>268,050</u>	<u>26,805</u>

16. SHARE PREMIUM AND RESERVES

	Share premium HK\$'000	Translation reserve HK\$'000	Statutory reserve HK\$'000	Reserve on consolidation HK\$'000	Contributed surplus HK\$'000	Retained profits HK\$'000	Total HK\$'000
At January 1, 2000							
– as originally stated	51,274	(1,425)	919	115,972	2,860	182,274	351,874
– prior year adjustment in respect of dividend (note 2)	–	–	–	–	–	5,361	5,361
– as restated	51,274	(1,425)	919	115,972	2,860	187,635	357,235
Exchange realignment	–	(2,891)	–	–	–	–	(2,891)
Shares issued	1,420	–	–	–	–	–	1,420
Reserve on acquisition of							
– subsidiaries	–	–	–	1,969	–	–	1,969
– associates	–	–	–	(1,774)	–	–	(1,774)
Profit for the year	–	–	–	–	–	22,098	22,098
Dividend (note 9)	–	–	–	–	–	(5,361)	(5,361)
At December 31, 2000	52,694	(4,316)	919	116,167	2,860	204,372	372,696
Exchange realignment	–	(2,426)	–	–	–	–	(2,426)
Release on impairment of:							
– subsidiaries	–	–	–	200	–	–	200
– associates	–	52	–	1,774	–	–	1,826
Profit for the period	–	–	–	–	–	7,149	7,149
Dividend (note 9)	–	–	–	–	–	(5,361)	(5,361)
At June 30, 2001	52,694	(6,690)	919	118,141	2,860	206,160	374,084

17. REVALUATION RESERVES

	Investment property HK\$'000	Investment HK\$'000	Total HK\$'000
At January 1, 2000	7,606	48,971	56,577
Revaluation	3,622	(71,750)	(68,128)
Realised on impairment of investments in securities	—	2,313	2,313
Realised on disposals	—	(4,308)	(4,308)
At December 31, 2000	11,228	(24,774)	(13,546)
Revaluation	—	(4,681)	(4,681)
Realised on impairment of investments in securities	—	2,802	2,802
Realised on disposals	—	239	239
At June 30, 2001	11,228	(26,414)	(15,186)

18. COMMITMENTS

	June 30, 2001 (Unaudited) HK\$'000	December 31, 2000 (Audited) HK\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements	20	584

Interim Dividend

The Board of Directors does not recommend the payment of an interim dividend for the six months ended June 30, 2001 (2000: Nil).

Business Review and Outlook

For the period ended June 30, 2001, turnover of the Group increased by 34% to approximately HK\$2,092 million and profit for the period amounted to approximately HK\$7,149,000. Earnings per share was HK2.67 cents.

The Company has reached a settlement arrangement with CHS Electronics, Inc. ("CHS") on CHS's non-payment of the balance of purchase price of the 80% shares of SiS Distribution Limited ("SiSDL").

The settlement was expected to close on September 17, 2001 but was delayed due to the recent terrorists attacks in the United States. Closing of the transactions is scheduled to take place shortly. The Board at present is not aware of any reasons why the settlement cannot be effected. In view of the settlement arrangement, the Group reversed numerous provisions previously accrued and consequently, an exceptional gain of approximately HK\$16,473,000 was recorded.

The directors have reviewed investment portfolio of SiS Netrepreneur Ventures Corp. and in order to reflect current market conditions, the directors decided to charge approximately HK\$2,802,000 to the Group's income statement. The Board believed the amount represented decline in the value of certain of our investment securities.

The Board foresees the economic environment for second half of 2001 will be difficult. Slow down of US economy affected Asia as a whole. However, the Board believes the slowdown in economy also present opportunities to improve market share. In order to maintain the Group's profitability, the Group will continue to tighten fixed and variable costs, improve inventories and accounts receivables management.

Financial Review and Analysis

Liquidity and Financial Resources

As at June 30, 2001, the Group had approximately HK\$101 million bank balances and cash. The Group's working capital requirements were mainly financed by internal resources and short-term borrowings. As at June 30, 2001, the Group had approximately HK\$74 million short term borrowings and HK\$19 million bank overdrafts.

The Group continued to sustain a good liquidity position without any long term debt funding. As at June 30, 2001, the Group had a net cash surplus (bank balances and cash less bank borrowings due within one year) of approximately HK\$8 million compared to approximately HK\$119 million as at December 31, 2000. The decrease of net cash surplus was mainly due to increase of inventories and accounts receivables.

Gearing ratio, as defined by total bank loans and bank overdrafts to shareholders' funds, as at June 30, 2001 was 24.12% compared to 19.44% as at December 31, 2000.

Charges on Assets

As at June 30, 2001, the Group has pledged bank deposits of approximately HK\$21 million (as at December 31, 2000: approximately HK\$11 million) to banks to secure general banking facilities granted to foreign subsidiaries.

Currency Risk Management

The Group maintains a conservative approach on foreign exchange exposure management. There are no significant changes in the strategies to hedge against exposure to fluctuations in exchange rates from last year end date.

Contingent Liabilities

The Company's corporate guarantees extended to certain banks and vendors as security for banking facilities and goods supplied to the Group amounted to approximately HK\$163 million (as at December 31, 2000: approximately HK\$152 million).

Employees

As at June 30, 2001, the Group employed 575 staff and the salary and other benefits paid to employees, including directors' emoluments, during the period amounted to approximately HK\$48 million. There are no significant changes in staff remuneration policies from last year end date.

Directors' Interests

(i) Shares

At June 30, 2001, the interests of the directors and their associates in the share capital of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") were as follows:

Name of directors	Number of ordinary shares held	
	Personal Interests	Corporate Interests
Lim Siam Kwee	8,424,400	178,640,000 (note)
Lim Kiah Meng	2,531,200	-
Lim Kia Hong	2,531,200	-
Lim Hwee Hai	2,531,200	-
Lim Hwee Noi	2,276,000	-

Note: Gold Sceptre Limited holds 140,360,000 shares and Kelderman Limited, Valley Tiger Limited and Swan River Limited each holds 12,760,000 shares in the issued share capital of the Company. Mr. Lim Siam Kwee has a controlling interest in Summertown Limited which owns the entire issued share capital of each of the above-mentioned companies.

(ii) Share options

Pursuant to the Share Option Scheme for employees which was adopted on July 29, 1992, the directors of the Company may, at their discretion, grant options to eligible employees, including directors of the Company, to subscribe for ordinary shares in the Company at a price being not less than 80% of the average of the closing prices of the shares on the Stock Exchange as stated in the Stock Exchange's quotation sheets for the five trading days immediately preceding the date of grant of the options or the nominal value of the shares whichever is the higher. The maximum number of ordinary shares in respect of which options may be granted under the share option scheme shall not exceed 10% of the issued share capital of the Company from time to time.

As at June 30, 2001, the directors had personal interests in share options to subscribe for shares in the Company as follows:

Name of Directors	Date of grant	Exercise price HK\$	Exercisable period	Number of share options At 6.30.2001 and 12.31.2000
Lim Siam Kwee	February 21, 2000	0.94	August 20, 2000 to July 28, 2002	1,000,000
Lim Kiah Meng	February 21, 2000	0.94	August 20, 2000 to July 28, 2002	1,000,000
Lim Kia Hong	February 21, 2000	0.94	August 20, 2000 to July 28, 2002	1,000,000
Lim Hwee Hai	February 21, 2000	0.94	August 20, 2000 to July 28, 2002	1,000,000
Lim Hwee Noi	February 21, 2000	0.94	August 20, 2000 to July 28, 2002	1,000,000

Other than as disclosed above, at June 30, 2001, none of the directors or chief executives, nor their associates, had any interests in any securities of the Company, any of its associated corporations, its ultimate holding company or its fellow subsidiaries as defined in the SDI Ordinance, and none of the directors or chief executives nor 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 during the period.

Substantial Shareholders

As at 30 June, 2001 the register of substantial shareholders maintained under section 16(1) of the SDI Ordinance shows that, other than the interests disclosed above in respect of the directors, the Company has not been notified of any interest representing 10% or more of the share capital of the Company.

Purchase, Sale or Redemption of 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 Group's interim report for the six months ended June 30, 2001 was reviewed by the Audit Committee ("Committee"). Regular meetings have been held by the Committee since its establishment and it shall meet at least twice each year.

Code of Best Practice

None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not, for any part of the accounting period covered by the interim report, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules of the Stock Exchange.

On behalf of the Board

LIM Kia Hong

Chief Executive Officer

Hong Kong, September 18, 2001