

## **INTERIM RESULTS**

On behalf of Daiwa Associate Holdings Limited, I would like to present to shareholders the Group's Interim Report and condensed accounts for the six months ended 30 September 2002. The consolidated results, consolidated cash flow statement and consolidated statement of changes in equity for the Group for the period, and the consolidated balance sheet as at 30 September 2002, all of which are unaudited and condensed, along with selected explanatory notes, are set out on pages 3 to 14.

These unaudited interim accounts have been reviewed by the Audit Committee of the Group.

## **RESULTS AND DIVIDEND**

For the reported period, the Group recorded a consolidated net profit after taxation and minority interests of HK\$8.1 million (30 September 2001: restated 10 million). Basic earnings per share was HK5.09 cents.

The Board of Directors has recommended an interim dividend of HK1.5 cents per ordinary share payable to shareholders whose names appear on the Register of the Members of the Company on Tuesday, 24 December, 2002.

## **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members of the Company will be closed from Friday, 27 December, 2002 to Friday, 3 January 2003, both days inclusive, during which period no transfer of shares can be registered. In order to qualify for the interim dividend, all properly completed transfer forms accompanied by relevant share certificates must be lodged with Abacus Share Registrars Limited, 5/F, Wing On Centre, 111 Connaught Road Central, Hong Kong for registration not later than 4:00 p.m. on Tuesday, 24 December, 2002.

## **LIQUIDITY AND FINANCIAL RESOURCES**

The Group continued to maintain a strong financial position. At 30 September, 2002, the Group's net current assets amounted to approximately HK\$143 million (31 March 2002: HK\$134 million) and the shareholders' funds were HK\$272 million (31 March 2002: HK\$266 million).

At 30 September 2002, cash and bank balances were HK\$60 million (31 March 2002: HK\$60 million) while total bank borrowings were HK\$35 million (31 March 2002: HK\$20 million). The cash and bank balances, net of bank borrowings were HK\$25 million.

At 30 September 2002, total banking facilities of the Group were approximately HK\$156 million of which HK\$103 million were available to be used. Finance leases obligations outstanding on the same date reduced to HK\$0.24 million.

The gearing ratio, which is defined as total borrowings, excluding minority interests and deferred taxation to shareholders' funds was 0.13.

The Group's borrowings are made in Hong Kong dollars and US dollars which are the main currencies in which the Group conducts its business. The Group's assets are financed by shareholders' funds, trade payables and bank borrowings. Trade payables and bank borrowings were mainly payable within one year. The borrowings, cash and cash equivalents were mainly denominated in Hong Kong dollars, US dollars or Renminbi. Since the exchange fluctuation of these currencies was relatively stable, the Group seldom used financial instruments to hedge against the foreign currency liabilities, assets or investments. Instead, the Group monitors the mix of the borrowings and cash and cash equivalents relating to these currencies to minimize the effect of the exchange risk. The Group's borrowings are bearing interest at a floating rates.

At 30 September, 2002, the Group has not pledged any of its assets for securing banking facilities.

## **BUSINESS REVIEW**

Facing the continuous global economic slowdown, business of the Group maintains and is steady. During the period, the turnover of the Group was HK\$422.3 million, representing a slight increase of 1.3% when compared with the same period last year.

When compared with the last interim results, although the net profit of the Group had a moderate drop of about 19%, the Group has already had a great improvement when compared with the results of the last second half year. Business turnover has recovered and is gradually improving. As an extension of the deferred contribution of substantial investment in new products and new market development of this year, the temporary negative effect on profit was still affecting the results of the Group but through the precise adjustment of the project budgets, the impact was diminishing.

### **Manufacturing**

Turnover of the Manufacturing sector has increased to HK\$203.5 million, representing an increase of 19% over the same period last year (30 September 2001: HK\$170 million).

Electronic Components Manufacturing continues to be the major core business and contributor to the Group's profit while the turnover on Consumer Electronics has dropped slightly.

The manufacturing of Glass Diode for Switching Diodes and Zener Diodes increased to 100 million pieces per month. With the vertical integration of manufacturing of diodes, the Group has started to manufacture lead-wire for the diodes which has resulted in substantial cost savings and has placed the products in a good competitive edge. Sales results continue to be satisfactory. New production facilities of Glass Diodes and lead-wire have been invested and the capacity of the diodes will increase to 150 million pieces per month in the next fiscal year.

The Wire and Harness business maintained steady growth. In the reported period, the Group kept continued to be granted safety standard certificates for new products, of which will further enhance the export capabilities of the sector.

With market diversification, the continuous slow economic atmosphere in the US became less of an effect on the Group's consumer electronics business. New models of CD Boomboxes, CD Portable Players and Clock radios which the Group developed last year has become active again. Enquiries from new customers were increasing.

### **Distribution**

Demand for electronic components has increased. Turnover in the Distribution sector of the Group was HK\$252 million which was slightly higher than the same period last year (30 September 2001: HK\$249 million).

The core distribution of electronic components was steady. The Group has invited new principal suppliers of electronic component to strengthen the product variety of the distribution team. The Group has just entered into a distributorship agreement with ON Semiconductors and Liteon. The Group has also recruited new dedicated sales staff both in Hong Kong and China to explore the opportunities from these new items.

The HUB system of logistic support for China delivery of electronic components for multi-national customers became mature and the demand for sales through this channel was increasing.

### **PROSPECTS**

The strong cash and financial position of the Group maintains good creditability among suppliers both in Manufacturing and Distribution sectors such that the Group can enjoy first tier pricing. The Group will also maintain low bank borrowings in the coming year to maintain the lowest level of bank charges and finance costs.

The Group will further invest in facilities to increase the production capacity of the Glass Diodes and lead-wire for the diode in order for the Group to secure a larger market share and cost reduction.

In the wire and harness manufacturing, the sector receives good responses and enquiries from overseas and the Group expects a steady growth.

The new supply line of electronic components will bring positive results to the Group's business of distributorship.

The Group has been collaborating with multinational electronics clients to establish dedicated Electronics Manufacturing Services (EMS) projects for broadband signal processing components for the infrastructure systems in wired and wireless communication as well as in the automotive markets. These projects will provide continuous revenue and profit growth in the next few years.

### **EMPLOYEES**

At 30 September 2002, the Group employed a total of approximately 3,200 employees of which 120 were Hong Kong based while most of the others were PRC employees.

Sales personnel are remunerated with salary and incentive on the basis of sales target. Non-sales personnel are offered a year-end discretionary bonus which is based on the divisional profit and individual appraisals. The Group also provides a Mandatory Provident Fund and medical benefits to all Hong Kong employees while some Hong Kong employees have an option to join the ORSO provident fund scheme of the Group. During the reported period, no share options have been granted to employees.