

Interim Report 2003



S.A.S. Dragon Holdings Limited

(Incorporated in Bermuda with limited liability)

Due to excel in focus and foresight, our experienced staff penetrate markets across the globe and provide flexible and quick goods delivery.

***To stay ahead, you need a reliable
one-stop-solutions partner
– SAS Group***



DIRECTORS

Executive Directors

Mr. Yim Yuk Lun, Stanley
Chairman and Managing Director
Mr. Wong Sui Chuen

Non-Executive Director

Dr. Chang Chu Cheng

Independent Non-Executive Directors

Mr. Chang Ping Kin
Mr. Liu Chun Ning, Wilfred
Dr. Lui Ming Wah, *J.P.*
Mr. Wong Tak Yuen, Adrian

COMPANY SECRETARY

Mr. Lee Yiu Pun, Jason *HKSA, FACCA*

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants
26th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong

REGISTERED OFFICE

Clarendon House
Church Street
Hamilton HM 11
Bermuda

PRINCIPAL OFFICE

6th Floor, Tower B
Hunghom Commercial Centre
37 Ma Tau Wai Road
Hong Kong

SHARE REGISTRARS AND TRANSFER OFFICE

Secretaries Limited
Ground Floor, BEA Harbour View Centre
56 Gloucester Road, Wanchai
Hong Kong

PRINCIPAL BANKERS

Dah Sing Bank Limited
Hang Seng Bank Limited
The Hongkong and Shanghai Banking
Corporation Limited
Liu Chong Hing Bank Limited

LEGAL ADVISOR

C.P. Cheung & Co.
23rd Floor, Golden Centre
188 Des Voeux Road
Central
Hong Kong

WEBSITE

<http://www.sasdragon.com.hk>

The Directors of S.A.S. Dragon Holdings Limited (the "Company") are pleased to announce the unaudited interim results of the Company, its subsidiaries and associated companies (the "Group") for the six months ended 30 June 2003 as follows:

CONSOLIDATED INCOME STATEMENT

	For the six months ended 30 June	
	2003 HK\$'000	2002 HK\$'000
Turnover	771,687	612,721
Cost of sales	(721,647)	(557,995)
Gross profit	50,040	54,726
Investment income	540	110
Other operating income	6,766	1,710
Distribution costs	(6,627)	(6,341)
Administrative expenses	(33,523)	(32,515)
Goodwill amortisation	(807)	(807)
Profit from operations	16,389	16,883
Finance costs	(4,491)	(5,049)
Share of results of associates	(125)	-
Profit before taxation	11,773	11,834
Taxation	(1,343)	(1,621)
Profit before minority interests	10,430	10,213
Minority interests	(1,390)	(2,197)
Profit for the period	9,040	8,016
Interim dividend	2,301	NIL
Earnings per Share		
Basic	3.93 cents	3.48 cents
Diluted	3.93 cents	3.48 cents

CONSOLIDATED BALANCE SHEET

	As at 30 June 2003 HK\$'000	As at 31 December 2002 HK\$'000
Non-current Assets		
Investment properties	57,000	57,000
Property, plant and equipment	77,418	81,604
Goodwill	3,789	4,595
Interests in associates	695	820
Investment securities	4,107	7,520
Club memberships	4,459	4,108
	147,468	155,647
Current Assets		
Inventories	218,026	173,181
Trade and other receivables	380,319	373,583
Taxation recoverable	809	580
Pledged bank deposits	27,753	12,452
Bank balances and cash	17,548	30,702
	644,455	590,498
Current Liabilities		
Trade and other payable	168,169	172,264
Bills payable	45,538	44,855
Taxation payable	3,304	1,560
Obligations under a finance lease – due within one year	158	72
Bank and other borrowings – due within one year	268,261	230,928
	485,430	449,679
Net Current Assets	159,025	140,819
	306,493	296,466
Capital and Reserves		
Share capital	23,014	23,014
Reserves	271,306	262,266
	294,320	285,280
Minority interests	9,544	8,125
Non-current Liabilities		
Obligations under a finance lease – due after one year	–	120
Bank and other borrowings – due after one year	2,203	2,690
Deferred taxation liability	426	251
	2,629	3,061
	306,493	296,466

CONSOLIDATED CASH FLOW STATEMENT

	As at 30 June 2003 HK\$'000	As at 31 December 2002 HK\$'000
OPERATING ACTIVITIES		
Profit (Loss) from operations	16,389	26,730
Adjustments for:		
Interest income	(540)	(1,186)
Amortisation of goodwill	807	1,613
Depreciation and amortisation of property, plant and equipment	4,697	9,855
(Gain) loss on disposal of property, plant and equipment	-	(498)
Deficit on revaluation of investment properties	-	1,000
Impairment on investment securities	-	900
Operating cash flows before movements in working capital	21,353	38,414
Increase in inventories	(44,845)	(15,128)
(Increase) decrease in trade and other receivables	(6,737)	(67,071)
Decrease (increase) in bills receivable	-	1,472
Increase (decrease) in trade and other payables	(4,094)	44,403
Increase (decrease) in bills payable	683	15,554
Cash generated from operations	(33,640)	17,644
Hong Kong Profits Tax (paid)/refunded	347	(2,161)
NET CASH FROM OPERATING ACTIVITIES	(33,293)	15,483
INVESTING ACTIVITIES		
Repayment from (loan to) an investee	-	21,923
Decrease (increase) in pledged bank deposits	(15,302)	1,840
Interest received	540	1,186
Proceeds on disposal of property, plant and equipment	-	637
Proceeds on disposal of an investment security	3,413	2
Purchase of property, plant and equipment	(511)	(10,398)
Additional investment in associates	-	(946)
Purchase of club memberships	(351)	(151)
NET CASH FROM INVESTING ACTIVITIES	(12,211)	14,093
FINANCING ACTIVITIES		
Repayment of bank and other borrowings	(559,342)	(765,136)
Interest paid	(4,479)	(11,025)
Repayment of obligations under a finance lease	(34)	(68)
Interest on obligations under a finance lease	(12)	(25)
Bank and other borrowings raised	601,493	760,601
Contributions from minority shareholders	29	600
NET CASH (USED IN) FROM FINANCE ACTIVITIES	37,655	(15,053)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(7,849)	14,523
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	11,742	(2,781)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	3,893	11,742
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	17,548	30,702
Bank overdrafts	(13,655)	(18,960)
	3,893	11,742

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital HK\$'000	Share Premium HK\$'000	Capital redemption reserve HK\$'000	Capital reserve HK\$'000	Contributed surplus HK\$'000	Asset revaluation reserve HK\$'000	Translation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2003	23,014	237,881	1,109	11,145	70,510	29,271	(1,388)	(86,262)	285,280
Transfer from share premium to contributed surplus	-	(237,881)	-	-	237,881	-	-	-	-
Transfer from contributed surplus to accumulated losses	-	-	-	-	(180,002)	-	-	180,002	-
Profit for the period	-	-	-	-	-	-	-	9,040	9,040
At 30 June 2003	23,014	-	1,109	11,145	128,389	29,271	(1,388)	102,780	294,320
Attributable to:									
- the Company and subsidiaries	23,014	-	1,109	11,145	128,389	29,271	(1,388)	102,905	294,445
- associates	-	-	-	-	-	-	-	(125)	(125)
	23,014	-	1,109	11,145	128,389	29,271	(1,388)	102,780	294,320
	Share capital HK\$'000	Share Premium HK\$'000	Capital redemption reserve HK\$'000	Capital reserve HK\$'000	Contributed surplus HK\$'000	Asset revaluation reserve HK\$'000	Translation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2002	23,014	237,881	1,109	11,145	70,510	29,271	(1,388)	(97,746)	273,796
Profit for the period	-	-	-	-	-	-	-	8,016	8,016
At 30 June 2002	23,014	237,881	1,109	11,145	70,510	29,271	(1,388)	(89,730)	281,812
Attributable to:									
- the Company and subsidiaries	23,014	237,881	1,109	11,145	70,510	29,271	(1,388)	(89,730)	281,812
- associates	-	-	-	-	-	-	-	-	-
	23,014	237,881	1,109	11,145	70,510	29,271	(1,388)	(89,730)	281,812

Note:

The capital reserve of the Group represents:

- (i) the reserve arising on the acquisition of shares in subsidiaries from minority shareholders pursuant to the Group reorganization of HK\$10,445,000; and
- (ii) the differences between the nominal value of the aggregate share capital of the subsidiaries acquired pursuant to the group reorganization in September 1994, over the nominal value of the Company's share issued in exchange of HK\$700,000.

NOTES TO INTERIM FINANCIAL STATEMENTS

1. Principal Accounting Policies

The unaudited interim results of the Group have been prepared in compliance with Statements of Standard Accounting Practice ("SSAP") No. 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants ("HKSA"), and on a basis consistent with the accounting policies adopted in the report and accounts for the year ended 31 December 2002 except that the Group has changed its accounting policies following its adoption of the revised SSAP No. 12 (revised) "Income Taxes" ("SSAP 12 (Revised)") issued by the HKSA which is effective for the accounting period commencing on or after 1 January 2003.

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognized in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognized in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, with limited exceptions. The adoption of SSAP 12 (Revised) has had no significant effect on the results for the current or prior accounting periods.

2. Segmental Information

An analysis of the Group's turnover and contribution to operating profit for the period by business segments and geographical segments is as follows:

Business Segments

	For the six months ended 30 June 2003		
	Distribution of electronic goods HK\$'000	Distribution of sports products HK\$'000	Consolidated HK\$'000
TURNOVER	737,093	34,594	771,687
RESULT			
Segment result	16,488	2,656	19,144
Investment income			540
Unallocated corporate expenses			(4,056)
Unallocated corporate income			761
Finance costs			(4,491)
Share of results of associates			(125)
Profit before taxation			11,773
Taxation			(1,343)
Profit before minority interests			10,430
Minority interests			(1,390)
Profit attributable to shareholders			9,040

	For the six months ended 30 June 2002		Consolidated HK\$'000
	Distribution of electronic goods HK\$'000	Distribution of sports products HK\$'000	
TURNOVER	575,692	37,029	612,721
RESULT			
Segment result	17,014	3,162	20,176
Investment income			109
Unallocated corporate expenses			(4,468)
Unallocated corporate income			1,067
Finance costs			(5,049)
Share of results of associates			-
Profit before taxation			11,835
Taxation			(1,622)
Profit before minority interests			10,213
Minority interests			(2,197)
Profit attributable to shareholders			8,016

Geographical Segments

	Sales revenue by geographical market For the six months ended 30 June	
	2003 HK\$'000	2002 HK\$'000
Hong Kong	318,454	357,170
PRC	304,876	159,777
Taiwan	141,437	88,502
Others	6,920	7,272
	771,687	612,721

3. Depreciation

During the period, depreciation of HK\$4.7 million (2002: HK\$4.7 million) was charged in respect of the Group's property, plant and equipment.

4. Taxation

	For the six months ended 30 June	
	2003 HK\$'000	2002 HK\$'000
Profits Tax	1,168	1,622
Deferred Tax	175	-
	1,343	1,622

Hong Kong profits tax has been provided at 17.5% (2002: 16%) on the estimated assessable profits for the period. Overseas taxation is calculated at the rates prevailing in the relevant jurisdictions.

5. Earnings Per Share

The calculation of the basic and diluted earnings per share for the six months ended 30 June 2003 is based on the following data:

	For the six months ended 30 June	
	2003	2002
Earnings:		
Profit attributable to shareholders for the purpose of basic and diluted earnings per share	HK\$9,040,000.00	HK\$8,016,000.00
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic earnings per share	230,140,720	230,140,720
Effect of dilutive potential ordinary shares in respect of share options:	-	60,377
Weighted average number of ordinary shares for the purposes of diluted earnings per share	230,140,720	230,201,097

6. Trade and Other Receivables

The Group has a policy of allowing credit periods ranging from 30 days to 120 days to its trade customers.

Included in trade and other receivables are trade receivables of HK\$322,019,000 (2002: HK\$326,562,000) and their aged analysis is as follows:

	The Group	
	30 June 2003 HK\$'000	31 December 2002 HK\$'000
Within 30 days	226,015	195,622
More than 30 days and within 60 days	20,963	35,055
More than 60 days and within 90 days	33,051	54,385
More than 90 days	41,990	41,500
	322,019	326,562

7. Trade and Other Payables

Included in trade and other payables are trade payables of HK\$217,626,000 (2002: HK\$163,816,000) and their aged analysis is as follows:

	The Group	
	30 June 2003 HK\$'000	31 December 2002 HK\$'000
Within 30 days	175,885	147,990
More than 30 days and within 60 days	26,961	13,016
More than 60 days and within 90 days	3,704	1,039
More than 90 days	11,076	1,771
	217,626	163,816

8. Connected and Related Party Transactions and Balances

(i) Connected parties

During the period, the Group had significant transactions and balances with related parties, some of which are also deemed to be connected parties pursuant to the Rules Governing the Listing of Securities on the Stock Exchange. The significant transactions during the year and balances at the balance sheet date with related parties in which certain directors of the Company have beneficial interests, are as follows:

(a) Transactions

Name of party	Interested director	Nature of transactions	June 2003 HK\$'000	June 2002 HK\$'000
Varitronix International Limited and its subsidiaries	Chang Chu Cheng	Purchases of electronic products (<i>note i</i>)	237	1,632
		Sales of electronic products (<i>note i</i>)	1,345	1,310
		Rental expenses paid by the Group (<i>note ii</i>)	129	129
United Dynamic Limited	Yim Yuk Lun, Stanley	Rental expenses paid by the Group (<i>note ii</i>)	240	240
Hon Hai Precision Industry Co., Ltd. (<i>note iii</i>) and its subsidiaries	-	Purchases of electronic products (<i>note i</i>)	51,517	67,398
		Sales of electronic products (<i>note i</i>)	73,334	66,277
		Commission paid to the Group	3,874	-

(b) Balances

Name of party	Nature of transactions	June 2003 HK\$'000	December 2002 HK\$'000
Varitronix International Limited	- trade receivables	497	1,365
	- trade payables	-	-
Hon Hai Precision Industry Co., Ltd. and its subsidiaries	- trade receivables	1,797	8,716
	- trade payables	-	-

Notes:

- (i) The transactions were carried out at market price or, where no market price was available, at terms determined and agreed by both parties.
- (ii) The rentals were charged with reference to market value.
- (iii) The company is a substantial shareholder of the Company.

(II) *Related parties, other than connected parties*

The significant transactions with related parties, other than connected parties, during the period, and significant balances with them at the balance sheet date, are as follows:

(a) Transactions

Name of party	Nature of transactions	June 2003 HK\$'000	June 2002 HK\$'000
Associates:			
Bestime Technology Development Limited	Sales of electronic products (<i>note</i>)	519	-
Ocean Bright Technology Limited	Sales of electronic products (<i>note</i>)	1	-
	Commission paid by the Group	267	-

(b) Balances

Name of party	Nature of transactions	June 2003 HK\$'000	December 2002 HK\$'000
Associates:			
Bestime Technology Development Limited	Sales of electronic products (<i>note</i>)	8,051	9,843
Ocean Bright Technology Limited	Sales of electronic products (<i>note</i>)	5,961	9,722

Note: The transactions were carried out at market price or, where no market price was available, at terms determined and agreed by both parties.

INTERIM DIVIDEND

The Directors have resolved to declare an interim dividend for the six months ended 30 June 2003 of HK\$1.0 cent (2002: Nil) per share to the shareholders whose names registered on the register of members of the Company at the close of business on 3 October 2003. The dividend will be dispatched on 20 October 2003.

MANAGEMENT DISCUSSION AND ANALYSIS

For the six months ended 30 June 2003, the Group recorded turnover of HK\$771,687,000, representing a significant growth of 26% as compared to HK\$612,721,000 in the corresponding period in 2002. Profit attributable to shareholders rose 13% reaching HK\$9,040,000, compared to HK\$8,016,000 recorded in the corresponding period in 2002.

Business Review

To cope with the fast-growing electronics industry and further consolidate its leading status in the industry, the Group has continuously devising various corporate positioning strategies over the years and is poised to become a total solutions provider of designs and packaged electronic components. During the period under review, the Group has been committed to strengthening its industrial design as well as its research and development capabilities, with the substantial increase of its research and development manpower. Through close cooperation with electronic components designers, the Group incorporated their design philosophies into its industrial design solutions, generating comprehensive total solutions and also substantially enhancing the added value of its solutions. The Group's industrial design spans extensive dimensions, its design solutions are widely deployed in portable DVD players, GSM mobile phones, TFT-LCD monitors, broadband processors etc., all distinctly demonstrating the wide scale and scope of the Group's design industry and research and development capabilities.

Leveraging the extensive experience accumulated in the electronics industry, the Group is highly conversant with the industry's development trends. Development of the electronics industry in Mainland China market is flourishing in view of the thriving China economy, leading to an influx of electronics products manufacturers into the electronics market. However, the intense competition is driving manufacturers to actively seek top quality, low cost electronic components and total solutions through different channels and strategies, in the hope of mitigating the merchandizing costs while sustaining market share. During the period, the Group actively identified suitable electronic components for customers through its extensive network of suppliers. At the same time cautiously devising cost-effective and time-saving total solutions, coupled with its professional expertise and one-stop services offered such as electronics components design and exploration, as a result the Group has received high recognition from customers. Among the Group's activities, performance of the distribution of communications products has been exceptionally outstanding, whilst computers and the consumer-related electronic components businesses also achieved favourable results.

Additionally, the surging of China's economy has propelled the emergence and prevalence of golfing, a move which has driven the Group's distribution of sports equipment to highly promising performances.

As both business lines of the Group recorded growth during the period, the Group's overall turnover and profit still attained growth despite the outbreak of the Severe Acute Respiratory Syndrome (SARS) virus in Mainland China and Hong Kong.

Distribution of Electronic Components

Electronic Consumer Products

Demand for electronic consumer products surged with the increasing consumption power enjoyed by the mass public, thus creating immense opportunities for the Group's electronic consumer products business. Digital cameras and solutions applied to portable DVD players, specially designed by the Group to cater for Mainland customers during the period, were exceptionally well-received by customers. Besides, through its cooperation with a broad range of suppliers, the Group's TFT-LCD monitor solutions offered were also highly recognized by customers. As TFT has become a common component for many electronic products, driving the growth and development of the entire electronics industry, the Group has laid solid foundations in this business area while customers could enjoy the economic and cost-effective benefits brought about by the Group's early research and development of this technology in comparison to other competitors. In addition, the Group was also actively involved in design and solution compilations for LCDs and digital TVs during the period to enhance this business and to elevate its technological and advanced horizons.

With the continuous technological advancement, quality of the existing LCD TVs has surpassed the traditional TV. Their attributes of having extra slim monitor screens and low radiation explain their increasing popularity. Therefore, traditional TVs are expected to become obsolete and be replaced by LCD TVs. As this market poses tremendous potential, the Group is poised to grasp the opportunities to develop and expand this market.

Computer Products

During the period, the Group successfully raised the profit margin for its computer products business with the provision of one-stop total solution package services comprising design with packaged computer components to customers. Besides, as the internet and multimedia have become an integral part of our daily lives, an increasingly extensive variety of products are emerging as a result, in which sales of memory products have recorded an increment, hence leading to a steady performance enjoyed by the computer products business during the period.

Electronic communications

The Group, keen to engage in the development of mobile phone display solutions, has been in negotiation with numerous PRC mobile phone manufacturers for cooperation projects and gained strong breakthroughs in its progress. During the period, the Group obtained a HK\$150 million contract from one of the top five mobile phone manufacturers in the PRC to provide base band GSM & GPRS chipset solutions. The design solutions comprise base band GSM and GPRS chipset devices supplied by Agere Systems ("Agere"). In addition to the tailor-made solution, value-added services including logistics and technical support, quality control and after-sales services are also being offered to the client.

Apart from mobile phones, the Group also kept expanding its research and development team as well as its manpower to accelerate the development of its businesses, including electronic communications, digital transmission, video conferencing, multimedia playback etc., which all gained significant progress during the period.

Distribution of Sports equipment

The Group mainly acts as the exclusive agent for a number of sports brands including Titleist, Wilson, Footjoy and Cobra. Following the prevalence and emerging popularity of golf in the PRC, Hong Kong and the Philippines, the compounded growth in the number of golf courses, coupled with the Group's active participation in worldwide large-scale sports equipment exhibitions and sponsorship of various golf competitions to promote brand awareness of Titleist, sales of Titleist products continued to surge, leading to sales growth in the sports equipment distribution business during the period. At the same time, the Group reduced the cost of sports equipment through merchandising channels and thus lifted overall profits.

Prospects

Distribution of Electronic Components

According to the official statistics released by The Ministry of Information Industry in May 2003, the proportion of mobile phones manufactured within the Mainland accounted for 33% of the total usage of mobile phones within the territory, while sales of locally produced mobile phones within the period even accounted for 50% of total sales. At the same time, the number of mobile phones users in the PRC will increase by 25% to 258 million. These figures demonstrate the tremendous potential brought about by the PRC mobile phone market, while electronic components, technical expertise and design solutions used in the production of mobile phones will inevitably trigger market demand for products offered by the Group's suppliers such as Agere's base band GSM & GPRS chipsets, CoreLogic's JPEG decoders, Foxconn's connectors etc.. Apart from local mobile phone manufacturers in the Mainland, international brands are also flocking to the thriving PRC market, forming strong impetus which is accelerating market development. The intensifying competition generates favourable opportunities for the Group to excel and forge ahead. In view of this situation, the Group will allocate more resources to research and development in the future to expand its communications devices business. The Group will also continue to extend its electronic communications, digital transmission, video conferencing and multimedia playback businesses with a view to generating additional income streams for the Group.

In addition, with the continuing trend for the integration of consumer electronic products, computers with communications devices, various components and products such as TFT monitors, will even be more widely applied in the realm of different electronic products. As the Group's technical expertise, involved in the development of TFT monitors, is increasingly growing in sophistication and market recognition, the Group intends to wholeheartedly promote its expertise and related solutions to clients in addition to its consumer electronic products manufacturers and importers. This move will enable the Group's different business lines to fully exploit the synergies created and shorten the merchandising time incurred by clients, which will in turn enhance the competitiveness of its clients, allowing them to react swiftly to the ever-changing market environment.

Apart from constantly improving the quality of existing products and enhancing their functionality, the Group is also committed to enriching its product mix, offering cost-saving designs and comprehensive total solutions. The Group will also continue to maintain close cooperation with suppliers and buyers of electronic components so as to continue expanding its supplier and buyer network and further improve the Group's economies of scale.

Distribution of Sports equipment

The number of golfers in the PRC is expected to grow at an annual rate of 20% while the number of golf courses will also escalate to 500 by the end of 2005 from 150 at the end of 2003. Additionally, with continuously increasing consumption power, demand for quality golf equipment in Mainland China is also increasing. Titleist, which is exclusively distributed by the Group and ranked first among all worldwide brands of golf equipment, perfectly meets customer requirements and thus is poised for a promising future, the Group is also highly confident about it.

The Group also continues to seek brands with high potential, establishing exclusive distribution contracts to provide extra choices for customers. To further extend its market share in the PRC, the Group will strengthen promotions through its offices in Beijing, Shanghai and Shenzhen to stimulate sales in the Mainland. In addition, the Group will also expand its clientele in Hong Kong and the Philippines apart from the PRC market, which constitutes the Group's largest sales, by negotiating with worldwide golf clubs and chain shops, to meet an annual growth target of 20% in its client numbers.

Conclusion

With the distinctive corporate positioning established by the Group in response to the fast-growing electronics industry and the robust growth in the distribution of the sports equipment business, the Group's business performance is set to achieve sustainable growth.

Liquidity & Financial Resources

The Group's liquidity and financial resources position continued to be healthy and stable. The Group's cash and bank balances as at 30 June 2003 amounted to HK\$45 million (2002: HK\$43 million) of which HK\$28 million were pledged to banks for facilities granted to the Group. All of these liquid funds were denominated in US dollars and HK dollars.

Treasury Policies

The Group generally finances its operations with internally generated cash flows and loans facilities provided by banks in Hong Kong. As of 30 June 2003, the total outstanding short-term borrowings stood at approximately HK\$268 million (2002: HK\$231 million). Borrowing methods used by the Group mainly include bank loans and overdrafts. The interest rates of most of these are fixed by reference to the Hong Kong dollar best lending rate. The Directors believe that the Group has sufficient financial resources to discharge its debts and to finance its operations and capital expenditures.

Capital Structure

As at 30 June 2003, consolidated shareholders' equity reached HK\$294 million (2002: HK\$285 million) and there is no aggregated interest-bearing borrowings as at 30 June 2003 (2002: Nil). The Group's gearing ratio was approximately 0.92 (2002: 0.82).

Foreign exchange exposure

The Group had limited exposure to fluctuation in foreign currencies as most of its transactions were conducted in Hong Kong dollars and United States dollars. Exchange rates between these currencies were relatively stable during the period under review.

Reward for Employees

As at 30 June 2003, the Group employed approximately 300 employees in Hong Kong and the mainland China. They were remunerated according to the nature of the job and market conditions. Other staff benefits include a mandatory provident fund scheme, insurance, medical insurance and share option scheme.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

At 30 June 2003, the interests of the directors and chief executives and their associates in the share capital of the Company and its associated corporations, within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Name	Number of ordinary shares	
	Personal interests	Family interests
Yim Yuk Lun, Stanley	5,490,000	59,185,400 <i>(Note)</i>
Wong Sui Chuen	2,000	–

Note: These shares are held by a unit trust whose trustee is Unimicro Limited, a company incorporated in the British Virgin Island, of which Mr. Yim Yuk Lun, Stanley is also a director. All units in the unit trust are beneficially owned by a discretionary trust established by Mr. Yim Yuk Lun, Stanley, the beneficiaries of which include the spouse and issue of Mr. Yim Yuk Lun, Stanley.

Save as disclosed above and other than certain nominee shares in subsidiaries held by certain directors in trust for the Company, none of the directors or chief executives or their associates had any interests in any securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

SHARE OPTIONS

The following table discloses movements in the Company's share options during the period:

	Date of grant	Exercise price per share HK\$	Exercisable period	Outstanding at 31.12.2002	Cancelled during the period	Lapsed during the period	Outstanding at 30.06.2003
Directors							
Yim Yuk Lun, Stanley	29.9.1997	3.80	29.9.1997 - 16.9.2004	1,000,000	-	-	1,000,000
Wong Sui Chuen	17.6.2000	0.57	17.6.2002 - 16.6.2004	100,000	-	-	100,000
Total Directors				1,100,000	-	-	1,100,000
Employees							
	4.5.2000	0.59	4.5.2002 - 3.5.2004	200,000	-	-	200,000
	17.6.2000	0.57	17.6.2002 - 16.6.2004	100,000	-	-	100,000
	14.6.2001	0.49	14.6.2001 - 13.6.2003	800,000	-	(800,000)	-
Total Employees				1,100,000	-	(800,000)	300,000
Grand Total				2,200,000	-	(800,000)	1,400,000

Save as disclosed above, at no time during the period was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the directors or their spouses or children under the age of eighteen had any right to subscribe for the securities of the Company, or had exercised any such right during the period.

SUBSTANTIAL SHAREHOLDERS

At 30 June 2003, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that the following persons, in addition to the director as stated under “Directors’ and chief executives’ interests in shares”, are interested in 5% or more of the issued share capital of the Company.

Name of shareholders	Number of ordinary Share beneficially held
Hon Hai Precision Industry Co., Ltd. (“Hon Hai”) <i>(Note)</i>	46,000,000
Foxconn Holding Limited (“Foxconn”)	46,000,000

Note: Hon Hai owns 100% interest in Foxconn and is accordingly deemed by the SDI Ordinance to be interested in those ordinary shares of the Company beneficially owned by Foxconn.

Save as disclosed above, the Company has not been notified of any other interests as at 30 June 2003 representing 5% or more of the issued share capital of the Company.

AUDIT COMMITTEE

The Audit Committee of the Board, comprising of the independent non-executive directors of the Company, has also held a meeting to review the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including a review of the unaudited interim financial statements of the Group for the six months ended 30 June 2003 prior to recommending them to the Board for approval.

CODE OF BEST PRACTICE

None of the directors is aware of information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30 June 2003, in compliance with the Code of Best Practice set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

CLOSURE OF REGISTERS OF MEMBERS

The registers of members of the Company will be closed from 6 October 2003 to 9 October 2003, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all share transfers accompanied by the relevant share certificates must be lodged with the Company’s branch share registrar in Hong Kong, Secretaries Limited of G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, for registration not later than 4:00 p.m. on 3 October 2003.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities during the six months ended 30 June 2003.

PUBLICATION OF INTERIM RESULTS ON THE STOCK EXCHANGE WEBSITE

Detailed announcement of interim results of the Group for the six months ended 30 June 2003, containing all the information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, will be published on the website of the Stock Exchange in due course.

APPRECIATION

On behalf of the Directors, I would like to extend our gratitude and sincere appreciation to all our staff for their dedication whilst to our suppliers, customers and shareholders for their continued support.

On behalf of the Board
Yim Yuk Lun, Stanley
Chairman and Managing Director

Hong Kong SAR, 19 September 2003