



DAIWA ASSOCIATE HOLDINGS LIMITED

台 和 商 事 控 股 有 限 公 司

Interim Report 2003

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DAIWA ASSOCIATE HOLDINGS LIMITED

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Stock Code: 1037

INTERIM RESULTS

On behalf of the Board of Directors, I would like to present to shareholders the unaudited Interim Report of Daiwa Associate Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the six months ended 30 September 2003.

The 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\$8.2 million (30 September 2002: restated HK\$7.9 million), representing a growth of 3.8% as compared to the last corresponding period. Basic earnings per share was HK5.16 cents (2002: restated HK4.95 cents).

Turnover of the Group was HK\$410 million, representing a slight decrease of 2.9% as compared to the same period last year.

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 Members of the Company on 9 December 2003. The dividend will be payable on 19 December 2003.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Wednesday, 10 December, 2003 to Monday, 15 December 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, 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 Tuesday, 9 December 2003.

LIQUIDITY AND FINANCIAL RESOURCES

At 30 September 2003, the Group's net current assets amounted to HK\$151 million and the shareholders' funds were HK\$276 million. The amount of total borrowings and finance lease obligations was at low level of HK\$44 million and the gearing ratio, which is defined as total borrowings, excluding minority interests and deferred taxation to shareholders' funds was 0.16. The cash and bank balances were HK\$58 million while after net of bank borrowings was HK\$18 million.

At 30 September 2003, total available banking facilities of the Group were approximately HK\$117 million, of which HK\$59 million was available for use. Finance lease obligations outstanding on the same date amounted to HK\$4 million.

The Group's assets were financed by shareholders' funds, trade payables and bank borrowings. Trade payables and bank borrowings were repayable within one year. The borrowings, cash and cash equivalents were mainly denominated in Hong Kong dollars, US dollars or Renminbi. As the exchange rates of these currencies were relatively stable, the Group did not use any financial instruments to hedge the foreign currency liabilities, assets or investments. Instead, the Group monitored the mix of the borrowings and cash and cash equivalents relating to these currencies to minimize the exposure to fluctuations in exchange risk. The Group's borrowings were bearing interest at floating rates. At 30 September 2003, the Group did not pledge any fixed assets for securing banking facilities.

BUSINESS REVIEW AND PROSPECT

The Group is engaged in two major businesses, namely:

- Manufacturing and Distribution of Electronic Components
- EMS (Electronic Manufacturing Services), OEM and ODM business

Electronic Component Distribution

The Group is one of the leading distributors of electronic components in Hong Kong and PRC. As an authorized distributor for Toshiba, Panasonic, Rohm, On-semiconductor, Liteon and Sino America, the Group had professionally marketed integrated circuits, transistors, microprocessors, memory IC, discrete and passive electronic components of these renowned brands. Major application of electronic components in this sector were audio and video products, electronic toys, power supplies, household appliances,

President's Statement

air-conditioners, personal computers and other consumer electronics. In the reporting period, the Group has entered into new distributorship agreement with Arnold Magnetics Limited. Turnover for this segment was recorded HK\$207.6 million, representing an increase of 2.8%, while gross profit contribution to the Group was HK\$18.6 million, representing an increase of 12.6% as compared to the same period last year.

Electronic Component Manufacturing

The Group is engaged in manufacturing of Diodes (DO35, DO34, mini-MELF and DO41 packages), Transistors (SOT23 and TO92 packages), Variable Resistors, Electronic Wires and Harnesses.

After the installation of new facilities in the lead-wire production of DO35 diodes in which the production is more vertical integrated, sales turnover of diodes was maintained at HK\$22 million but gross profit of this sector was increased by 68% as compared to the same period last reported year.

Since there was huge global excess supply in SOT23 and TO92 packages, demand for transistors were still declining and its pricing was dropped below material cost. In order to lessen negative effects on profit of the Group, management had substantially cut down the productivity of this sector to a minimum level of production.

EMS (Electronic Manufacturing Service), OEM and ODM

After setting up of new SMD (Surface Mounted Devices), dust proof and anti-statistic facilities in this sector, the Group gained significant new business opportunities. Turnover of this sector was increased to HK\$86 million, which represented a growth of 35% as compared to the same period last year (2002: HK\$63.4 million).

Due to the outbreak of SARS that brought an unprecedented negative impact on business environment during the reported period, OEM & ODM manufacturing of consumer electronics was decreased to HK\$65 million (2002: HK\$81 million). Just right after the recovery from the outbreak of SARS, business activities have gradually resumed to normal.

FUTURE PROSPECT

The new distributorship from renowned principal suppliers in the distribution business of electronic components will become mature in the coming year. Inventory of these new products will be maintained at a healthy level while turnover for the new brand names will be in a more commercial scale. The sector also provides professional software as well as hardware engineering design facilities to customers such that the sector can promote components in cross brand name kit solution bundles.

Demand for Glass Diodes (DO35 & MELF) is increasing. The Group will further invest equipment and facilities to enhance the productivity of this product. The Group will also improve the capacity of Rectifier Diodes (DO41 package) production such that the cost of the diode will further be reduced. The Management has also successfully gained OEM contract from a renowned international customer in diode manufacturing and the project will be kicked-off in early 2004 in which the overall output in this sector will have a substantial growth.

The Group is now in close negotiation with leading department store in USA for the ODM of consumer electronics and believes that there will be substantial growth in sales orders of consumer electronics for the coming year.

The management believes that business of the Group will be grown to a new era in the coming year.

EMPLOYEES

At 30 September 2003, the Group employed a total of approximately 4,500 employees of which 120 were Hong Kong based while most of the others were PRC employees. Sales personnel are remunerated by salaries and incentives in accordance with the achievement of their sales target. General staff are offered salaries and year-end discretionary bonus which is based on the divisional profit and individual performance. The Group also provides a Mandatory Provident Fund and medical benefits to all Hong Kong employees. While for PRC employees, the Group made contributions to state-sponsored retirement plans as stipulated by the PRC rules and regulations. During the reported period, no share options have been granted to employees.

Condensed Consolidated Profit and Loss Account

For the six months ended 30 September 2003

| | Note | Unaudited | |
|--|------|--------------------------|--------------------------|
| | | Six months ended | |
| | | 30 September | |
| | | 2003 | 2002 |
| | | HK\$'000 | HK\$'000 |
| | | | <i>(restated)</i> |
| Turnover | 3 | 409,934 | 422,345 |
| Cost of sales | | <u>(352,507)</u> | <u>(370,273)</u> |
| Gross profit | | 57,427 | 52,072 |
| Other revenues | | 469 | 1,790 |
| Selling expenses | | (8,775) | (6,664) |
| Administrative expenses | | <u>(39,053)</u> | <u>(35,649)</u> |
| Operating profit | 3&4 | 10,068 | 11,549 |
| Finance costs | | (599) | (336) |
| Share of losses of jointly controlled entities | | <u>(2)</u> | <u>(1,979)</u> |
| Profit before taxation | | 9,467 | 9,234 |
| Taxation | 6 | <u>(1,377)</u> | <u>(1,473)</u> |
| Profit after taxation | | 8,090 | 7,761 |
| Minority interests | | <u>98</u> | <u>124</u> |
| Profit attributable to shareholders | | <u>8,188</u> | <u>7,885</u> |
| Interim dividends | 8 | <u>2,382</u> | <u>2,382</u> |
| Earnings per share | | | |
| — Basic | 9 | <u>5.16 cents</u> | <u>4.95 cents</u> |
| — Diluted | 9 | <u>5.16 cents</u> | <u>4.95 cents</u> |

Condensed Consolidated Balance Sheet

As at 30 September 2003

| | Note | Unaudited 30 September 2003 HK\$'000 | Restated 31 March 2003 HK\$'000 |
|---|------|---|--|
| Intangible assets | 10 | — | 469 |
| Fixed assets | 10 | 128,454 | 124,888 |
| Construction-in-progress | | 3,066 | 2,511 |
| Interests in jointly controlled entities | | 1,695 | 8,243 |
| Other investments | | 1,050 | 1,050 |
| | | <u>134,265</u> | <u>137,161</u> |
| Current assets | | | |
| Inventories | | 119,055 | 121,275 |
| Trade receivables | 11 | 118,986 | 94,262 |
| Prepayments, deposits and other receivables | | 18,918 | 16,927 |
| Cash and bank balances | | 57,647 | 60,799 |
| | | <u>314,606</u> | <u>293,263</u> |
| Current liabilities | | | |
| Trade payables | 12 | 105,329 | 95,759 |
| Accruals and other payables | | 16,502 | 14,198 |
| Current portion of long-term liabilities | 13 | 1,901 | 1,937 |
| Trust receipts bank loans | | 40,106 | 37,803 |
| | | <u>163,838</u> | <u>149,697</u> |
| Net current assets | | <u>150,768</u> | <u>143,566</u> |
| Total assets less current liabilities | | <u>285,033</u> | <u>280,727</u> |
| Financed by: | | | |
| Share capital | 14 | 15,881 | 15,881 |
| Reserves | | 260,379 | 254,464 |
| Total capital and reserves | | 276,260 | 270,345 |
| Minority interests | | 641 | 1,935 |
| Long-term liabilities | 13 | 2,996 | 4,054 |
| Deferred tax liabilities | 7 | 5,136 | 4,393 |
| | | <u>285,033</u> | <u>280,727</u> |

Condensed Consolidated Cash Flow Statement

For the six months ended 30 September 2003

| | Unaudited | |
|---|------------------|----------------|
| | Six months ended | |
| | 30 September | |
| | 2003 | 2002 |
| | HK\$'000 | HK\$'000 |
| Net cash inflow/(outflow) from operating activities | <u>2,682</u> | <u>(8,408)</u> |
| Net cash outflow from investing activities | <u>(4,894)</u> | <u>(4,394)</u> |
| Net cash (outflow)/inflow from financing activities | <u>(1,049)</u> | <u>12,860</u> |
| (Decrease)/increase in cash and cash equivalents | (3,261) | 58 |
| Cash and cash equivalents at 1 April | 60,799 | 60,405 |
| Effect of foreign exchange rate changes | <u>109</u> | <u>(136)</u> |
| Cash and cash equivalents at the end of the period | <u>57,647</u> | <u>60,327</u> |
| Analysis of balances of cash and cash equivalents: | | |
| Cash and bank balances | <u>57,647</u> | <u>60,327</u> |

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 September 2003

| | Share premium | Difference on merger | Exchange reserve | Contributed surplus | Retained profits | Surplus reserves | Proposed divided | Total |
|------------------------------|------------------|-------------------------|---------------------|------------------------|---------------------|---------------------|---------------------|----------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At 1 April 2003 | | | | | | | | |
| as previously reported | 160,944 | (10,393) | (496) | 51,594 | 54,371 | 90 | 2,382 | 258,492 |
| Effect of adopting SSAP 12 | | | | | (4,028) | | | (4,028) |
| At 1 April 2003 as restated | 160,944 | (10,393) | (496) | 51,594 | 50,343 | 90 | 2,382 | 254,464 |
| Exchange difference | | | | | | | | |
| on translation of accounts | | | | | | | | |
| of overseas subsidiaries and | | | | | | | | |
| jointly controlled entity | | | 109 | | | | | 109 |
| Profit for the period | | | | | 8,188 | | | 8,188 |
| Final dividend paid for 2003 | | | | | | | (2,382) | (2,382) |
| Interim dividend | | | | | (2,382) | | 2,382 | — |
| At 30 September 2003 | <u>160,944</u> | <u>(10,393)</u> | <u>(387)</u> | <u>51,594</u> | <u>56,149</u> | <u>90</u> | <u>2,382</u> | <u>260,379</u> |
| At 1 April 2002 | | | | | | | | |
| as previously reported | 161,072 | (10,393) | (963) | 51,594 | 47,132 | 90 | 1,595 | 250,127 |
| Effect of adopting SSAP 12 | | | | | (3,490) | | | (3,490) |
| At 1 April 2002 as restated | 161,072 | (10,393) | (963) | 51,594 | 43,642 | 90 | 1,595 | 246,637 |
| Exchange difference | | | | | | | | |
| on translation of accounts | | | | | | | | |
| of overseas subsidiaries and | | | | | | | | |
| jointly controlled entities | | | (136) | | | | | (136) |
| Profit for the period | | | | | 7,885 | | | 7,885 |
| Final dividend paid for 2002 | | | | | | | (1,595) | (1,595) |
| Interim dividend | | | | | (2,382) | | 2,382 | — |
| Premium on issue of shares | 133 | | | | | | | 133 |
| Expenses of repurchase of | | | | | | | | |
| ordinary shares | (255) | | | | | | | (255) |
| At 30 September 2002 | <u>160,950</u> | <u>(10,393)</u> | <u>(1,099)</u> | <u>51,594</u> | <u>49,145</u> | <u>90</u> | <u>2,382</u> | <u>252,669</u> |

1. **Basis of preparation and accounting policies**

The unaudited condensed consolidated interim financial statements of the Group are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") No.25 "Interim financial reporting" issued by the Hong Kong Society of Accountants (the "HKSA"). The accounting policies and basis of presentation used in the preparation of these condensed consolidated interim financial statements are consistent with those used in the preparation of the audited financial statements of the Group for the year ended 31 March 2003 except for the changes in accounting policy as explained in Note 2 below.

2. **Changes in accounting Policy**

SSAP 12 (revised) principally prescribes the accounting treatment and disclosures for deferred tax. In prior years, deferred tax is provided using the income statement liability method on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt. SSAP 12 (revised) requires the adoption of the balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions.

In order to comply with SSAP12 (revised) "Income Taxes" which became effective from 1 January, 2003 in Hong Kong, the Group's accounting policy for deferred tax was changed. Deferred tax liabilities are provided in full on all temporary differences between the carrying amounts of assets and liabilities in the balance sheet and their tax bases, while deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences and unused tax losses can be utilised.

The change of accounting policy mentioned above has been applied retrospectively. As detailed in the Condensed Consolidated Statement of Changes in Equity, opening retained profits at 1 April 2003 and 2002 have been reduced by HK\$4,028,000 and HK\$3,490,000 respectively, which represent the unprovided net deferred tax liabilities. This change has resulted in an increase in deferred tax assets and deferred tax liabilities at 31 March 2003 by HK\$331,000 and HK\$4,359,000 respectively. The profit charged to equity for the six months ended 30 September 2002 has been reduced by HK\$227,000.

3. **Revenues and segment information**

The Group is principally engaged in the design, development, manufacture and distribution of electronic components and consumer electronics.

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

(a) **Primary reporting format — business segments:**

| | Manufacturing and distribution of electronic components | | Electronic manufacturing services, OEM and ODM | | Eliminations | | Group | |
|---|---|----------------|--|----------------|-------------------------------|----------------|-------------------------------|----------------|
| | Six months ended 30 September | | Six months ended 30 September | | Six months ended 30 September | | Six months ended 30 September | |
| | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Turnover | | | | | | | | |
| External sales | 258,242 | 277,097 | 151,692 | 145,248 | | | | |
| Inter-segment sales | 798 | 1,565 | 246 | — | (1,044) | (1,565) | | |
| | <u>259,040</u> | <u>278,662</u> | <u>151,938</u> | <u>145,248</u> | <u>(1,044)</u> | <u>(1,565)</u> | <u>409,934</u> | <u>422,345</u> |
| Segments operating profits | 3,454 | 4,951 | 6,614 | 6,598 | | | 10,068 | 11,549 |
| Finance costs | | | | | | | (599) | (336) |
| Share of profits less losses of jointly controlled entities | | | | | | | (2) | (1,979) |
| Profit before taxation | | | | | | | 9,467 | 9,234 |
| Taxation | | | | | | | (1,377) | (1,473) |
| Profit after taxation | | | | | | | 8,090 | 7,761 |
| Minority interests | | | | | | | 98 | 124 |
| Profit attributable to shareholders | | | | | | | <u>8,188</u> | <u>7,885</u> |

Notes to condensed interim accounts

(b) Secondary reporting format — geographical segments:

| | Turnover | |
|------------------------------|----------------------------------|----------------|
| | Six months ended 30 September | |
| | 2003 | 2002 |
| | HK\$'000 | HK\$'000 |
| Hong Kong and Mainland China | 256,580 | 273,667 |
| USA | 58,173 | 75,132 |
| Europe | 31,146 | 30,292 |
| Japan | 60,656 | 34,802 |
| Other Asian countries | 3,379 | 8,452 |
| | <u>409,934</u> | <u>422,345</u> |

No analysis of the contribution to operating profit by geographical segment has been prepared as no contribution to profit from any of the above geographical segment is substantially out of line with the normal ratio of profit to turnover.

4. **Operating profit**

Operating profit is stated after charging and crediting the following:

| | Six months ended 30 September | |
|---------------------------------|----------------------------------|------------|
| | 2003 | 2002 |
| | HK\$'000 | HK\$'000 |
| <u>Charging:</u> | | |
| Depreciation of fixed assets | 6,706 | 4,859 |
| Provision for slow moving stock | 2,076 | — |
| <u>Crediting:</u> | | |
| Interest income | <u>159</u> | <u>265</u> |

5. **Staff costs**

| | Six months ended 30 September | |
|---|----------------------------------|---------------|
| | 2003 | 2002 |
| | HK\$'000 | HK\$'000 |
| Wages and salaries | 32,281 | 30,211 |
| Other allowances and benefits | 1,949 | 3,103 |
| Retirement benefit costs — defined contribution plans | 443 | 461 |
| | <u>34,673</u> | <u>33,775</u> |

6. **Taxation**

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profits for the period. Mainland China enterprise income tax is calculated at the rates applicable to the respective subsidiaries.

The amount of taxation charged to the condensed consolidated profit and loss account represents:

| | Six months ended 30 September 2003 | 2002 |
|---|---|-----------------|
| | HK\$'000 | HK\$'000 |
| Hong Kong profits tax | 532 | 1,030 |
| Mainland China enterprise income tax | 102 | 216 |
| | <u>634</u> | 1,246 |
| Deferred tax — relating to the origination and reversal of temporary differences | 743 | 227 |
| | <u>1,377</u> | <u>1,473</u> |

7. **Deferred taxation**

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2002: 16.0%).

The movement in the Group's deferred tax liabilities and assets during the period is as follows:

| | Six months ended 30 September 2003 | Year ended 31 March 2003 |
|------------------------------------|---|--------------------------------|
| | HK\$'000 | HK\$'000 |
| Deferred tax liabilities | | |
| Opening balance | 4,724 | 4,173 |
| Charged to profit and loss account | 790 | 551 |
| | <u>5,514</u> | <u>4,724</u> |
| Deferred tax assets | | |
| Opening balance | 331 | 318 |
| Charged to profit and loss account | 47 | 13 |
| | <u>378</u> | <u>331</u> |

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the condensed consolidated balance sheet.

| | 30 September 2003 | 31 March 2003 |
|--------------------------|------------------------------|------------------|
| | HK\$'000 | HK\$'000 |
| Deferred tax assets | (378) | (331) |
| Deferred tax liabilities | 5,514 | 4,724 |
| | <u>5,136</u> | <u>4,393</u> |

Notes to condensed interim accounts

8. Dividends

| | Six months ended 30 September | |
|---|----------------------------------|---------------------|
| | 2003 | 2002 |
| | HK\$'000 | HK\$'000 |
| 2002/2003 Final dividend, paid, of HK\$0.015 (2001/2002 final paid: HK\$0.01) per ordinary share (Note (i)) | 2,382 | 1,595 |
| 2003/2004 Interim dividend, proposed on 25 November 2003, of HK\$0.015 (2002/2003: HK\$0.015) per ordinary share (Note (ii)) | <u>2,382</u> | <u>2,382</u> |
| | <u><u>4,764</u></u> | <u><u>3,977</u></u> |

Note (i): At a meeting held on 16 July 2003 the directors proposed a final dividend of HK\$0.015 per ordinary share for the year ended 31 March 2003, which was paid on 5 September 2003 and has been reflected as an appropriation of retained earnings for the six months ended 30 September 2003.

Note (ii): At a meeting held on 25 November 2003 the directors declared an interim dividend of HK\$0.015 per ordinary share for the six months ended 30 September. This proposed dividend is not reflected as a dividend payable in these condensed interim accounts, but will be reflected as an appropriation of retained earnings for the year ending 31 March 2004.

9. Earnings per share

The calculation of basic and diluted earnings per share are based on the Group's profit attributable to shareholders of HK\$8,188,000 (2002: restated HK\$7,885,000).

The basic earnings per share is based on the weighted average of 158,809,600 (2002: 159,254,463) ordinary shares in issue during the period. The diluted earnings per share is based on 158,809,600 (2002: 159,434,078) ordinary shares which is the weighted average number of ordinary shares in issue during the period plus the weighted average of nil (2002: 179,615) ordinary shares deemed to be issued at no consideration if all outstanding share options had been exercised.

10. Capital expenditure As at six months ended 30 September 2003

| | Intangible assets- goodwill HK\$'000 | Fixed assets HK\$'000 |
|----------------------------------|---|-----------------------------|
| Opening net book value | 469 | 124,888 |
| Acquisition of subsidiary | 404 | 3,180 |
| Other additions | — | 7,245 |
| Disposals | — | (153) |
| Depreciation/amortisation charge | <u>(873)</u> | <u>(6,706)</u> |
| Closing net book value | <u><u>—</u></u> | <u><u>128,454</u></u> |

11. Trade receivables

Trade receivables and their ageing analysis is as follows:

| | 30 September 2003 HK\$'000 | 31 March 2003 HK\$'000 |
|-------------------|----------------------------------|------------------------------|
| Less than 60 days | 97,790 | 73,824 |
| 60 to 119 days | 16,474 | 15,570 |
| 120 days or more | <u>4,722</u> | <u>4,868</u> |
| | <u><u>118,986</u></u> | <u><u>94,262</u></u> |

The majority of the Group's sales is on open account terms, of which the settlement is generally expected to be within 60 days of the date of sales.

12. Trade payables

Trade payables and their ageing analysis is as follows:

| | 30 September 2003 HK\$'000 | 31 March 2003 HK\$'000 |
|-------------------|----------------------------------|------------------------------|
| Less than 60 days | 89,950 | 73,518 |
| 60 to 119 days | 10,077 | 15,127 |
| 120 days or more | 5,302 | 7,114 |
| | <u>105,329</u> | <u>95,759</u> |

13. Long-term liabilities

| | 30 September 2003 HK\$'000 | 31 March 2003 HK\$'000 |
|--|----------------------------------|------------------------------|
| Obligations under finance leases | 4,225 | 5,195 |
| Provision for long service payments | 672 | 796 |
| | <u>4,897</u> | 5,991 |
| Current portion of long-term liabilities | <u>(1,901)</u> | <u>(1,937)</u> |
| | <u>2,996</u> | <u>4,054</u> |

14. Share capital

| | Number of Ordinary Shares | HK\$'000 |
|---------------------------------------|------------------------------|----------------|
| Authorised: | | |
| Ordinary shares of HK\$0.10 each | | |
| At 1 April 2003 and 30 September 2003 | <u>1,000,000,000</u> | <u>100,000</u> |
| Issued and fully paid: | | |
| Ordinary shares of HK\$0.10 each | | |
| At 1 April 2003 and 30 September 2003 | <u>158,809,600</u> | <u>15,881</u> |

15. Contingent liabilities

(a) At 30 September 2003, the Group and the Company had contingent liabilities in respect of bank guarantees amounting to HK\$18,111,000 (at 31 March 2003: HK\$18,110,000).

(b) The Company did not have any significant contingent liabilities at 30 September 2003 and 2002.

16. Commitments

(a) Capital commitments

| | 30 September 2003 HK\$'000 | 31 March 2003 HK\$'000 |
|---------------------------------|----------------------------------|------------------------------|
| Contracted but not provided for | <u>—</u> | <u>1,845</u> |

Notes to condensed interim accounts

(b) *Operating lease commitments*

At 30 September 2003, the Group had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

| | 30 September 2003 HK\$'000 | 31 March 2003 HK\$'000 |
|---------------------------------------|---|------------------------------|
| Within one year | 502 | 633 |
| In the second to fifth year inclusive | <u>50</u> | <u>203</u> |
| | <u>552</u> | <u>836</u> |

17. **Related party transactions**

The Group had the following significant transactions, entered into in the normal course of business, with its related companies during the period.

| | Six months ended 30 September | |
|------------------------------|--|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 |
| Jointly controlled entities: | | |
| Sale of goods | — | 1,217 |
| Purchase of goods | <u>—</u> | <u>3,679</u> |

18. **Comparative figures**

Certain comparative figures have been adjusted as a result of changes in accounting policy for income taxes in order to comply with SSAP 12 (revised), details of which are set out in Note 2.

INTERESTS OF DIRECTORS

At 30 September 2003, the interests and short positions of the directors and the chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept by the Company under section 352 of the SFO 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 (the "Model Code") contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:—

(a) Long position in shares of the Company

| Name of directors | Number of ordinary shares beneficially held | | | Total interests |
|--------------------------|---|---------------------|---------------------|-----------------|
| | Personal interests | Corporate interests | Other interests | |
| Mr. LAU Tak Wan | 3,112,000 (Note 1) | — | 28,121,300 (Note 2) | 31,233,300 |
| Ms. CHAN Yuen Mei, Pinky | 2,012,000 (Note 1) | — | 28,121,300 (Note 2) | 30,133,300 |
| Mr. WAN Chor Fai | 250,000 | — | — | 250,000 |
| Mr. MAK Hon Kai, Stanly | 2,620,000 (Note 3) | — | — | 2,620,000 |
| Mr. Barry John BUTTIFANT | 100,000 | — | — | 100,000 |

Notes:

- 1,512,000 shares in the Company were jointly held by Mr. Lau and Ms. Chan (the spouse of Mr. Lau).
- 28,121,300 shares in the Company were beneficially owned by China Capital Holdings Investment Ltd ("China Capital"). The entire issued share capital of China Capital is owned by a trustee for the benefit of a discretionary trust the beneficiaries of which include Mr. Lau, Ms. Chan and certain of his family members.
- Subsequent to 30 September 2003, Mr. Mak's personal interest was decreased to 2,068,000 shares.

(b) Long position in shares of associated corporations of the Company

Dominion International Limited which is wholly owned by a trustee for the benefit of a discretionary trust the beneficiaries of which include Mr. LAU Tak Wan, Ms. CHAN Yuen Mei, Pinky (the spouse of Mr. Lau) and certain of his family members, has beneficial interests in the following subsidiaries:

| | Number of non-voting deferred shares held |
|---|---|
| Cosmos Wires and Connectors Manufacturing Limited | 50,000 |
| Westpac Digital Limited | 1 |
| Vastpoint Industrial Limited | 455,000 |
| Daiwa Associate (H.K.) Limited | 1,500,000 |

In addition, each of Mr. Lau and Ms. Chan beneficially owns 140,000 and 10,000 non-voting deferred shares respectively in Cosmotec Precision Industrial Limited.

Save as disclosed above, as at 30 September 2003, none of the directors or the chief executives of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading of 'INTERESTS OF DIRECTORS' above, at no time during the period was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares, underlying shares or debentures in the Company or any other body corporate.

SHARE OPTION SCHEMES

On 22 August 2002, the Company adopted a new share option scheme (the "New Scheme") in compliance with Chapter 17 of the Listing Rules, which replaced the old share option scheme (the "Old Scheme") in force previously. As at 30 September 2003, the Company did not grant any options under the New Scheme and no share options were outstanding under the Old Scheme during the period.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 30 September 2003, to the best knowledge of the directors, the following parties (other than a director or chief executive of the Company) were recorded in the register kept by the Company under section 336 of the SFO as being directly or indirectly interested in 5% or more of the issued share capital of the Company:

Interests in the shares of the Company

| | <i>Note</i> | Number of shares held | % of the total issued shares |
|-------------------------------------|-------------|------------------------------|-------------------------------------|
| Billion World International Limited | 1 | 13,748,000 | 8.66% |
| Telfast Consultancy Limited | 2 | 13,531,800 | 8.52% |

Notes:

1. Billion World International Limited is 100% owned by Mr. CHEN Zhao Hua. Accordingly, Billion World International Limited and Mr. Chen were deemed by SFO to be interested in 13,748,000 shares of the Company.
2. Telfast Consultancy Limited is 100% owned by Mr. NIP Chung Hon. Accordingly, Telfast Consultancy Limited and Mr. Nip were deemed by SFO to be interested in 13,531,800 and 13,533,800 shares of the Company respectively.

Save as disclosed above, the Company has not been notified of any other interest representing 5% or more of the issued share capital of the Company and recorded in the register of Substantial Shareholders maintained under Section 336 of the SFO as at 30 September 2003.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

None of the Directors of the Company is aware of any information which would reasonably indicate that the Company is not, or was not in compliance with the Code of Best Practice, as set out in Appendix 14 of the Listing Rules, at any time during the six months ended 30 September 2003 except for not specifying the terms of appointment of independent non-executive directors.

According to the bye-laws of the Company, independent non-executive directors are subject to retirement by rotation and re-election at the annual general meeting.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a general review of the unaudited interim condensed accounts for the six months ended 30 September 2003 with the directors.

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

Neither the Company nor any of its subsidiaries purchased, sold and redeemed any of the Company's listed securities during the six months ended 30 September 2003.

By Order of the Board
LAU Tak Wan
President

Hong Kong, 25 November 2003

