

# MOBICON GROUP LIMITED

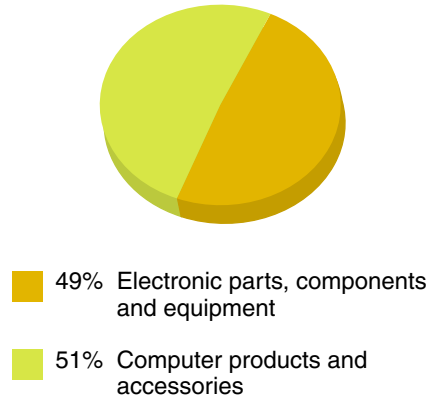
INTERIM REPORT 2003/2004

*On the High Road to Future Success*

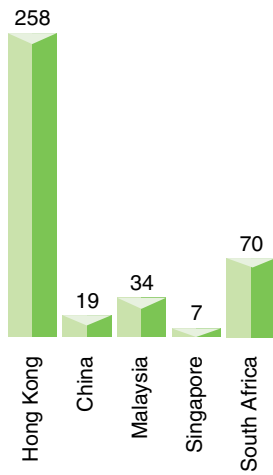


## FINANCIAL SUMMARY

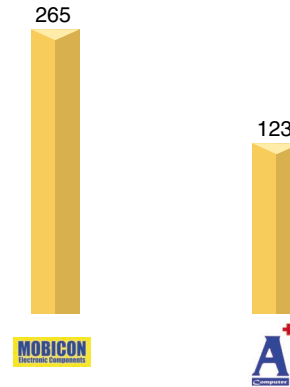
Turnover by business segments (by percentage)



Distribution of workforce\* by geographical location



Distribution of workforce\* by line of business



\* Total: 388 employees

**INTERIM RESULTS**

The Board of Directors (the "Directors") of Mobicon Group Limited (the "Company") are pleased to announce the unaudited condensed consolidated accounts of the Company and its subsidiaries (the "Group") as at and for the six months ended 30 September 2003 together with comparative figures as follows:

**CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT**

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2003

		<b>(Unaudited)</b>	
		<b>Six months ended</b>	
		<b>30 September</b>	
		<b>2003</b>	<b>2002</b>
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	2	565,684	320,972
Cost of sales		<u>(504,988)</u>	<u>(278,024)</u>
Gross profit		60,696	42,948
Other revenue		719	300
Distribution and selling expenses		(18,522)	(9,988)
General and administrative expenses		<u>(22,818)</u>	<u>(18,446)</u>
Operating profit	2&3	20,075	14,814
Finance costs		(193)	(63)
Share of loss of an associate		<u>(148)</u>	<u>(139)</u>
Profit before taxation		19,734	14,612
Taxation	4	<u>(3,519)</u>	<u>(2,883)</u>
Profit after taxation but before minority interests		16,215	11,729
Minority interests		<u>(1,010)</u>	<u>(758)</u>
Profit attributable to shareholders		<u>15,205</u>	<u>10,971</u>
Dividends	5	<u>4,000</u>	<u>4,000</u>
Earnings per share – Basic	6	<u>HK7.6 cents</u>	<u>HK5.5 cents</u>

**CONDENSED CONSOLIDATED BALANCE SHEET**  
AS AT 30 SEPTEMBER 2003

		(Unaudited) As at 30 September 2003 HK\$'000	(Audited) As at 31 March 2003 HK\$'000
Non-current assets	<i>Note</i>		
Fixed assets	7	4,547	3,582
Interest in an associated company		1,205	898
Current assets			
Inventories		128,964	87,956
Accounts receivable	8	109,366	65,098
Prepayments, deposits and other receivables		8,649	3,750
Cash and bank balances		18,072	20,553
Total current assets		----- 265,051	----- 177,357
Current liabilities			
Accounts payable	9	73,562	36,902
Accruals and other payables		17,636	15,010
Short-term bank loans – unsecured		37,638	7,000
Taxation		7,351	3,258
Dividends payable		58	48
Total current liabilities		----- 136,245	----- 62,218
Net current assets		----- 128,806	----- 115,139
Total assets less current liabilities		----- 134,558	----- 119,619
Financed by:			
Share capital	10	20,000	20,000
Reserves		108,365	97,258
Shareholders' equity		128,365	117,258
Minority interests		6,020	2,253
Non-current liability			
Deferred taxation		173	108
		----- 134,558	----- 119,619

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2003**

	(Unaudited)						
	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Translation reserve <i>HK\$'000</i>	Proposed dividends <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 1 April 2003	20,000	16,706	800	124	4,000	75,628	117,258
Profit for the period	-	-	-	-	-	15,205	15,205
Dividends paid	-	-	-	-	(4,000)	-	(4,000)
Proposed dividend	-	-	-	-	4,000	(4,000)	-
Effect of foreign exchange rate changes	-	-	-	(98)	-	-	(98)
As at 30 September 2003	<u>20,000</u>	<u>16,706</u>	<u>800</u>	<u>26</u>	<u>4,000</u>	<u>86,833</u>	<u>128,365</u>
As at 1 April 2002	20,000	16,706	800	-	-	65,699	103,205
Profit for the period	-	-	-	-	-	10,971	10,971
Proposed dividend	-	-	-	-	4,000	(4,000)	-
Effect of foreign exchange rate changes	-	-	-	(2)	-	-	(2)
As at 30 September 2002	<u>20,000</u>	<u>16,706</u>	<u>800</u>	<u>(2)</u>	<u>4,000</u>	<u>72,670</u>	<u>114,174</u>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**  
**FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2003**

	(Unaudited)	
	Six months ended	
	30 September	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Net cash outflow from operating activities	(30,543)	(30,889)
Net cash used in investing activities	(908)	(1,356)
Net cash from financing activities	<u>29,288</u>	<u>13,867</u>
Decrease in cash and bank balances	(2,163)	(18,378)
Cash and cash equivalents, beginning of period	20,553	26,675
Effect of foreign exchange rate changes	<u>(318)</u>	<u>(51)</u>
Cash and cash equivalents, end of period	<u>18,072</u>	<u>8,246</u>
Analysis of the balances of cash and cash equivalents		
Cash and bank balances	<u>18,072</u>	<u>8,246</u>

## NOTES TO THE INTERIM FINANCIAL REPORT

### 1. Basis of presentation and preparation

These unaudited consolidated condensed accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25, "Interim Financial Reporting" issued by the Hong Kong Society of Accountants ("HKSA").

These condensed accounts should be read in conjunction with the 2003 annual accounts.

The accounting policies and methods of computation used in the preparation of these condensed accounts are consistent with those used in the annual accounts for the year ended 31 March 2003 except that the Group has changed its accounting policy following its adoption of SSAP 12 (revised) "Income Taxes" issued by the HKSA which is effective for accounting periods commencing on or after 1 January 2003.

Under SSAP 12 (revised), deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In prior year, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the SSAP12 (revised) represents a change in accounting policy, but has no material effect on the Group's result for the current period.

### 2. Segment information

#### (a) Primary segment

The Group is principally engaged in the trading and distribution of electronic parts, components and equipment and computer products and accessories.

The Group is organized into two main business segments:

- Electronic products - Trading and distribution of electronic parts, components and equipment
- Computer products - Trading and distribution of computer products and accessories

	Six months ended 30 September 2003		
	Electronic products	Computer products	Total
	HK\$'000	HK\$'000	HK\$'000
Turnover	278,457	287,227	565,684
Segment results	20,604	196	20,800
Unallocated costs			(725)
Operating profit			20,075
Finance costs			(193)
Share of loss of an associated company			(148)
Profit before taxation			19,734
Taxation			(3,519)
Profit after taxation			16,215
Minority interests			(1,010)
Profit attributable to shareholders			15,205

2. **Segment information** (Continued)  
 (a) *Primary segment* (Continued)

	<b>Six months ended 30 September 2002</b> (Unaudited)		
	<b>Electronic products</b> <i>HK\$'000</i>	<b>Computer products</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
Turnover	227,895	93,077	320,972
Segment results	14,881	(67)	14,814
Unallocated costs			-
Operating profit			14,814
Finance costs			(63)
Share of loss of an associated company			(139)
Profit before taxation			14,612
Taxation			(2,883)
Profit after taxation			11,729
Minority interests			(758)
Profit attributable to shareholders			10,971

(b) *Secondary segment*

The Group operates in the following main geographical areas

	<b>Six months ended 30 September 2003</b> (Unaudited)					<b>Total</b> <i>HK\$'000</i>
	<b>Hong Kong</b> <i>HK\$'000</i>	<b>Asia Pacific</b> <i>HK\$'000</i>	<b>South Africa</b> <i>HK\$'000</i>	<b>Europe</b> <i>HK\$'000</i>	<b>Others</b> <i>HK\$'000</i>	
Segment turnover	507,256	29,981	15,740	10,311	2,396	565,684
Segment results	18,841	644	804	415	96	20,800
Unallocated costs						(725)
Operating profit						20,075

	<b>Six months ended 30 September 2002</b> (Unaudited)					<b>Total</b> <i>HK\$'000</i>
	<b>Hong Kong</b> <i>HK\$'000</i>	<b>Asia Pacific</b> <i>HK\$'000</i>	<b>South Africa</b> <i>HK\$'000</i>	<b>Europe</b> <i>HK\$'000</i>	<b>Others</b> <i>HK\$'000</i>	
Segment turnover	280,028	19,119	8,654	7,164	6,007	320,972
Segment results	12,928	538	849	330	169	14,814
Unallocated costs						-
Operating profit						14,814

### 3. Operating profit

Operating profit in the condensed consolidated profit and loss account was determined after charging and crediting the following:

	(Unaudited) Six months ended 30 September	
	2003 HK\$'000	2002 HK\$'000
<i>Charging</i>		
Staff costs (including directors' emoluments)		
– wages and salaries	22,063	15,124
– pension costs – defined contribution plans	915	473
Provision for obsolete and slow-moving inventories	2,940	3,964
Provision for doubtful debts	211	7
Depreciation of fixed assets	864	638
Operating lease rentals of premises	5,360	3,666
Impairment of goodwill arising from acquisition of a subsidiary company	54	–
Auditors' remuneration	275	300
	<u>          </u>	<u>          </u>
<i>Crediting</i>		
Gain on dilution of interests in subsidiaries	525	–
Gain on disposal of fixed assets	32	3
Net exchange gain	635	539
	<u>          </u>	<u>          </u>

### 4. Taxation

Taxation comprised:

	(Unaudited) Six months ended 30 September	
	2003 HK\$'000	2002 HK\$'000
Current taxation		
– Hong Kong profits tax	3,093	2,492
– Overseas taxation	426	391
	<u>          </u>	<u>          </u>
	3,519	2,883
	<u>          </u>	<u>          </u>

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the subsidiaries operating in Hong Kong is as follows:

	(Unaudited) Six months ended 30 September	
	2003 HK\$'000	2002 HK\$'000
Profit before taxation	19,734	14,612
	<u>          </u>	<u>          </u>
Calculated at a taxation rate of 17.5% (2002: 16%)	3,453	2,338
Effect of different taxation rates in other countries	208	128
Expenses not deductible for taxation purposes	34	694
Others	(176)	(277)
	<u>          </u>	<u>          </u>
Taxation charge	3,519	2,883
	<u>          </u>	<u>          </u>

The Company is exempted from taxation in Bermuda until 2016.

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profit arising in or derived from Hong Kong.

Mobicon Electronic Trading (Shenzhen) Limited ("MET") being a foreign investment enterprise established in the free trade zone of Futian, Shenzhen, People's Republic of China ("PRC"), is subject to PRC enterprise income tax at the rate of 15%. No provision for PRC enterprise income tax has been made as MET is still in a tax loss position.

Taxation on profits of the other overseas subsidiaries has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the subsidiaries operate.

There was no material unprovided deferred taxation for the period.



**5. Dividends**

At a meeting held on 5 December 2003, the Directors declared an interim dividend of HK\$0.02 per ordinary share for the six months ended 30 September 2003. This interim dividend is not reflected as a dividend payable in these condensed interim accounts, but reflected as an appropriation of retained profits as at 30 September 2003 (2002: HK\$0.02 per ordinary share). The share register of members of the Company will be closed from 8 January 2004 to 9 January 2004, both days inclusive. The interim dividend will be payable on 16 January 2004 to shareholders whose names appear on the register of members of the Company on 9 January 2004.

**6. Earnings per share**

The calculation of basic earnings per share for the six months ended 30 September 2003 is based on the Group's profit attributable to shareholders of approximately HK\$15,205,000 (2002: HK\$10,971,000) and on 200,000,000 shares (2002: 200,000,000 shares) in issue during the period.

No diluted earnings per share is presented as there were no potential dilutive ordinary shares in issue during the six months ended 30 September 2002 and 2003.

**7. Fixed assets**

Movement of fixed asset for the six months ended 30 September 2003:

	<b>(Unaudited)</b> <i>HK\$'000</i>
Net book value at 1 April 2003	3,582
Additions	1,389
Subsidiary acquired	401
Disposals	(118)
Depreciation	(864)
Translation adjustment	157
	<hr/>
Net book value at 30 September 2003	<u>4,547</u>

**8. Accounts receivable**

The Group normally grants to its customers credit periods for sales of goods ranging from 14 to 60 days. The ageing analysis of accounts receivable is stated as follows:

	<b>As at</b> <b>30 September</b> <b>2003</b> <b>(Unaudited)</b> <i>HK\$'000</i>	<b>As at</b> <b>31 March</b> <b>2003</b> <b>(Audited)</b> <i>HK\$'000</i>
0 to 60 days	101,699	58,688
61 to 120 days	6,118	5,489
121 to 180 days	907	500
181 to 365 days	1,118	827
	<hr/>	<hr/>
	109,842	65,504
Less: Provision for doubtful debts	(476)	(406)
	<hr/>	<hr/>
	<u>109,366</u>	<u>65,098</u>

**9. Accounts payables**

The ageing analysis of accounts payables is stated as follows:

	<b>As at</b> <b>30 September</b> <b>2003</b> <b>(Unaudited)</b> <i>HK\$'000</i>	<b>As at</b> <b>31 March</b> <b>2003</b> <b>(Audited)</b> <i>HK\$'000</i>
0 to 60 days	70,117	34,392
61 to 120 days	1,480	1,345
121 to 180 days	677	204
181 to 365 days	1,288	961
	<hr/>	<hr/>
	<u>73,562</u>	<u>36,902</u>

## 10. Share capital

	Authorised	
	Number of shares (Unaudited) '000	Nominal Value (Unaudited) HK\$'000
As at 1 April 2003 and 30 September 2003	<u>2,000,000</u>	<u>200,000</u>
	Issued and fully paid	
	Number of shares (Unaudited) '000	Nominal Value (Unaudited) HK\$'000
As at 1 April 2003 and 30 September 2003	<u>200,000</u>	<u>20,000</u>

## 11. Acquisition

On 1 April 2003, the Group acquired 100% of the share capital of Videocom Technology (HK) Limited which engages in trading and distribution of computer products and accessories and is incorporated in Hong Kong. The consideration of approximately HK\$54,000 was settled in cash, resulting in goodwill on acquisition of approximately HK\$54,000. The acquired business contributed revenue of approximately HK\$134,463,000 and operating loss of approximately HK\$177,000 to the Group for the period from 1 April 2003 to 30 September 2003.

The assets and liabilities arising from the acquisition are as follows:

	HK\$'000
Fixed assets ( <i>Note 7</i> )	401
Inventories	5,387
Accounts receivable	3,323
Prepayments, deposits and other receivables	625
Cash and bank balances	768
Accounts payable	(7,264)
Accruals and other payables	(3,175)
Deferred taxation	(65)
	<hr/>
Fair value of net assets	–
Goodwill on acquisition	54
	<hr/>
Total purchase consideration	<u>54</u>

## 12. Commitments and contingent liabilities

### (a) Capital commitments

	As at 30 September 2003 (Unaudited) HK\$'000	As at 31 March 2003 (Audited) HK\$'000
Addition to fixed assets – contracted but not provided for	<u>1,000</u>	<u>1,000</u>

### (b) Operating lease commitments

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

	As at 30 September 2003 (Unaudited) HK\$'000	As at 31 March 2003 (Audited) HK\$'000
– Not later than one year	7,750	5,234
– Later than one year and not later than five years	<u>6,585</u>	<u>6,768</u>
	<u>14,335</u>	<u>12,002</u>

### (c) Contingent liabilities

As at 30 September 2003, the Group did not have any significant contingent liabilities.

### 13. Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

- (a) Particulars of significant transactions between the Group and related parties are summarised below:

		(Unaudited) Six months ended 30 September	
	Note	2003 HK\$'000	2002 HK\$'000
Management fee received from an associated company	(i)	69	69
Interest income received from an associated company		32	6
Rentals paid/payable to:			
– M-Bar Limited	(ii)	1,041	1,386
– Mr. Hung Kim Fung, Measure and Ms. Yeung Man Yi, Beryl	(ii)	–	240
		<u>          </u>	<u>          </u>

Note:

- (i) Management fee was received from an associated company, Create Tech Software Systems Limited at a fixed monthly rate of HK\$11,500 per month for use and lease of facilities of the Group.
- (ii) M-Bar Limited is a wholly-owned subsidiary of Mobicon Electronic Supplies Company Limited, a company beneficially owned by Mr. Hung Kim Fung, Measure (30%), Ms. Yeung Man Yi, Beryl (30%), Mr. Hung Ying Fung (20%) and Mr. Yeung Kwok Leung, Allix (20%), directors and substantial shareholders of the Company. The lease agreements with M-Bar Limited and Mr. Hung Kim Fung, Measure and Ms. Yeung Man Yi, Beryl were entered into at terms agreed between the contracting parties.
- (b) Included in prepayments, deposits and other receivables were rental deposits paid to M-Bar Limited of approximately HK\$382,000 (2002: HK\$382,000).
- (c) Included in accruals and other payables was an amount due to a minority shareholder of approximately HK\$4,897,000 (2002: HK\$4,385,000). The amount is unsecured, interest free and repayable on demand.

### 14. Comparative figures

- (a) Certain comparative figures of the condensed consolidated profit and loss account have been reclassified to conform with the current period's presentation. The comparative figure of other revenue has been restated to include interest income. Certain expenses, such as selling staff costs, have been reclassified from general and administrative expenses to distribution and selling expenses. Such reclassifications have no effects on the consolidated profit attributable to shareholders.
- (b) Certain comparative figures of the condensed consolidated cash flow statement have been reclassified to conform with the current period's presentation due to the adoption of SSAP15 (revised).

### BUSINESS RESULTS

The Group's turnover for the six months ended 30 September 2003 was approximately HK\$566 million. This represents a sizeable increase of approximately 76% compared with the turnover of HK\$321 million with the corresponding period last year, and it is also equivalent to approximately 86% of the Group's turnover during the whole of the last financial year. The net profit attributable to the Company's shareholders grew by approximately 39% to approximately HK\$15 million, up from last year's HK\$11 million; and represents earnings per share of approximately HK\$0.076 (last year's figure: HK\$0.055).

During the period under review, the Group continued to implement its "Satellite Development Strategy" and develop the business of its new Videocom retail computer service brand. These were the main factors contributing to the rapid rise in turnover and profit. Moreover, the computer business accounted for approximately 51% of the Group's total turnover, compared with approximately 29% in the same period last year. However, the lower profit margins currently prevailing in the computer product business caused the Group's gross profit margin to fall slightly to approximately 11% during the period under review.





## BUSINESS REVIEW

During the period under review, the Group further developed its two core businesses, namely (1) trading and distribution of electronic parts, components and equipment under the Mobicon brand name, which accounted for approximately 49% of total turnover; and (2) trading and distribution of computer products and accessories under the retail brand Videocom. This business division is managed by a subsidiary of the Group, A Plus Computer Holdings Limited, and accounted for the rest of the Group's total turnover. The Group intends to continue developing these two businesses in a coordinated and balanced manner by using the "Satellite Development Strategy", with the aim of consolidating its leading position in the industry.

### Trading and Distribution of Electronic Parts, Components and Equipment

#### Hong Kong

The Group's business of trading and distribution of electronic parts, components and equipment continued to grow during the period under review, and turnover increased by approximately 22% as compared with the corresponding period last year. All the Group's local subsidiaries in Hong Kong – including DV Power Limited, MCU Power Limited, Milliard Devices Limited and Arkia Advance Limited – achieved good results. The Group also concluded a number of contracts pursuant to which the Group was appointed as an agent for various prestigious brands, such as Arnold, Artesyn, AUK, Fortune and etc. A subsidiary, MCU Power Limited, which was engaged in providing micro control units and designing application solutions, achieved rapid and significant growth. This company had mastered state-of-the-art development skills, and it had already started offering numerous peripheral active components and solutions, such as the uPen and MP3 Players. It would go on to develop consumer products, including digital cameras, in the near future. In addition, The Group had established a new subsidiary, Conwise Power Limited, to provide radio frequency components and the related solutions. This company had been appointed as the sole agent in Asia of radio controlled clock manufactured by the premium European chip provider, HKW-Elektronik GmbH; and scored significant result.



#### Oversea

The Group's Singapore business, which was established last year, had shown improved results. The business of the Group's subsidiaries in South Africa and Malaysia was likewise encouraging. In terms of geographical segments, the Group's total turnover was made up of Hong Kong 90%, the Asia-Pacific region (other than Hong Kong) 5%, Europe 1%, South Africa 3%, and other regions 1%.

### Trading and Distribution of Computer Products and Accessories

The Group had been actively developing the Videocom computer retail brand since the beginning of 2003. Its business in the trading and distribution of computer products and accessories had since grown significantly, with turnover increased by approximately 209% compared with the same period last year. Moreover, digital and wireless products were the best-selling products. These included LCD monitors, MP3 Players, digital cameras, memory cards, protocol memory modules, compact flashes, memory sticks, flash drives and etc. In a new promotional strategy, Videocom adopted a chic and adorable and energetic animated character called "Joyce" as its image girl. A new promotional slogan, "Happy promotion, Joyce is a True Joy", had also been launched to reinforce a trendy and approachable brand image that targeted the young generation of IT fans. This would become another Videocom's promotional strategies.

## FUTURE OUTLOOK

The Group is optimistic about the prospects for the electronic parts business, as it believes the current excess supply of products will decline and prices will gradually increase in the near future. Looking ahead, the

Group will continue to position itself as a provider of applications solutions to better meet its customers' demand for support services in this area. It will also continue to create a presence in key overseas markets. The Group will strengthen its range of product categories and increase the number of models in each category; and it will also compile and distribute comprehensive catalogues to publicise these products in overseas markets. On the other hand, it will proactively approach the world's most prestigious brands with a view to building its business further. Taking advantage of Mobicon's well-established trading platform and its inventory hub in Hong Kong, the Group will provide "SOS" (Small Order Services) to smaller companies that require smaller quantities of products. By doing this, Mobicon will be able to meet their needs better and build closer relationships with both the customers and the brands.



In the computer business, the current shortage of memory chips will lessen, which means that prices will eventually decline and sales volumes will increase.

### **FUTURE OUTLOOK** (Continued)

The Group believes new types of products and models will come to the market continuously and replace the existing ones. While sales of MP3 Players will continue to grow in the coming year, a new product – the MP4 Player – will also be launched in the market. The trend of upgrading computer hard drives and LCD monitors will continue. As prices of LCD TVs decline, computers will increasingly be regarded as ordinary domestic electrical appliances, and LCD TVs will replace the traditional type. The Group will leverage on this trend by enhancing Videocom's brand image and further promoting its own MEC brand. In addition to extending its retail network by establishing more outlets in computer malls, the Group will also enter the consumer product malls for the first time. In addition, it will further consolidate the scale of its computer retail business through mergers and acquisitions.



Overall, the Group is optimistic about its future prospects. CEPA (the Closer Economic Partnership Arrangement) will accelerate its development in Mainland China, where it plans to implement a localisation strategy, establish point-to-point sales services, and sell products directly in cities such as Dongguan, Guangzhou and Shanghai. As the Hong Kong economy improves, and with the strength of the Mainland China as its back up, the Board believes that the Group's operations will grow stronger than ever, thus enhancing the returns to shareholders.

### **LIQUIDITY AND FINANCIAL RESOURCES**

As at 30 September 2003, the Group had cash and bank balances of approximately HK\$18 million (As at 31 March 2003: HK\$21 million). The Group's net current assets amounted to approximately HK\$129 million (As at 31 March 2003: HK\$115 million).

As at 30 September 2003, the Group had aggregate banking facilities of approximately HK\$70 million (As at 31 March 2003: HK\$45 million) from several banks for overdrafts, loans and trade financing, with an unused balance of approximately HK\$32 million (As at 31 March 2003: HK\$38 million).

The Directors believe that the Group's existing financial resources are sufficient to fulfill its commitments and current working capital requirements.

### **CAPITAL STRUCTURE**

As at 30 September 2003, the total borrowings of the Group were approximately HK\$38 million (As at 31 March 2003: HK\$7 million) which are in the form of short-term bank loans for financing expansion and future development plans of its subsidiaries. The Group's bank borrowings were denominated in US dollars and Hong Kong dollars. These loans have a maturity term of two to three months and they can be rolled over afterwards at the Group's discretion. During the period, the Group's borrowings bore interest at rates ranging from 1.781% to 2.875% per annum (As at 31 March 2003: ranging from 3.656% to 3.938% per annum).

### **GEARING RATIO**

As at 30 September 2003, the Group's gearing ratio (calculated as a percentage of total borrowings over the total assets, less current liabilities) was approximately 0.280 (As at 31 March 2003: 0.059).

### **EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES**

Most of the Group's transactions were denominated in Hong Kong dollars, RMB and US dollars. Given that the exchange rate of Hong Kong dollar against the RMB has been and is likely to remain stable, and the HKSAR Government's policy of linking the Hong Kong dollars to the US dollars remains in effect, the Directors consider that the Group's risk on foreign exchange will remain minimal. As at 30 September 2003, the Group had no significant exposure under foreign exchange contracts, interest or currency swaps, or other financial derivatives.

### **CHARGES ON ASSETS**

The Group did not have any charge on its assets as at 30 September 2003.

### **CONTINGENT LIABILITIES**

The Group had no contingent liabilities as at 30 September 2003.

### **SHARE OPTION SCHEME**

On 8 August 2003, the Company approved the termination of the share option scheme which was adopted by the Company on 18 April 2001 and the adoption of a new share option scheme (the "New Share Option Scheme") pursuant to which the eligible persons may be granted options to subscribe for shares of the Company upon and subject to the terms and conditions of the rules of the New Share Option Scheme. The New Share Option Scheme is in line with the current Charter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Reasons for the adoption of the New Share Option Scheme and summary of the principal terms of the rules of the New Shares Option Scheme have been set out in the circular to the shareholders of the Company on 14 July 2003. No options have been granted up to 30 September 2003.

## DIRECTORS' INTERESTS IN SHARES

As at 30 September 2003, the interests of the Directors and chief executive in the shares of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance (the "SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO or as notified to the Company were as follows:

### (i) Ordinary shares of HK\$0.10 each in the Company

Director	Number of shares		
	Personal interests	Family interests	Total interests
Mr. Hung Kim Fung, Measure	–	90,000,000 (Note a)	90,000,000
Ms. Yeung Man Yi, Beryl	–	90,000,000 (Note a)	90,000,000
Mr. Hung Ying Fung	30,000,000	–	30,000,000
Mr. Yeung Kwok Leung, Allix	–	30,000,000 (Note b)	30,000,000

Note:

- (a) These shares are held by M2B Holding Limited, a wholly-owned subsidiary of Action 2 Limited which, in turn, is wholly and beneficially owned by Mr. Hung Kim Fung, Measure and Ms. Yeung Man Yi, Beryl. Action 2 Limited is the trustee of Beryl Unit Trust set up by its shareholders. The assets of Beryl Unit Trust include the entire issued share capital of M2B Holding Limited, which are ultimately held by Trident Trust Company (Cayman) Limited as trustee for the benefit and upon trust for the Measure & Beryl Trust, which is a discretionary trust.
- (b) These shares are held by Bestmark Management Limited, a wholly-owned subsidiary of Holford Group Corporation which, in turn, is wholly and beneficially owned by Mr. Yeung Kwok Leung, Allix and his spouse, Ms. Wan Lam Keng. Holford Group Corporation is the trustee of A&W Unit Trust set up by its shareholders. The assets of A&W Unit Trust include the entire issued share capital of Bestmark Management Limited, which are ultimately held by Trident Trust Company (Cayman) Limited as trustee for the benefit and upon trust for the Trinity Trust, which is a discretionary trust.

### (ii) Non-voting deferred shares in a subsidiary – A Plus Electronic Company Limited ("A Plus")

Each of Mr. Hung Kim Fung, Measure, Ms. Yeung Man Yi, Beryl, Mr. Hung Ying Fung and Mr. Yeung Kwok Leung, Allix has beneficial interests in his/her personal capacity in the following number of non-voting deferred shares in A Plus:

Name	Number of non-voting deferred shares
Mr. Hung Kim Fung, Measure	300,000 shares of HK\$1.00 each
Ms. Yeung Man Yi, Beryl	300,000 shares of HK\$1.00 each
Mr. Hung Ying Fung	200,000 shares of HK\$1.00 each
Mr. Yeung Kwok Leung, Allix	200,000 shares of HK\$1.00 each

Save as disclosed above and under the section headed "Share Options", none of the Directors and chief executive (including their spouse and children under 18 year of age) had any interest in, or had been granted, or exercised, any rights to subscribe for shares of the Company and its associated corporations (within the meaning of the SFO).

Save as disclosed under the section headed "Share Options", at no time during the period was the Company or any of its subsidiaries a party to any arrangements to enable any of the Company's Directors or members of its management to acquire benefits by means of the acquisition of shares in, or debenture of the Company or any other body corporate.

## SUBSTANTIAL SHAREHOLDERS

As at 30 September 2003, the register of substantial shareholders maintained under Section 336 of the SFO shows that the Company had not been notified of any substantial shareholders' interests, being 5% or more of the Company's issued share capital, other than those of the directors and chief executive as disclosed above.

**EMPLOYMENT, TRAINING AND REMUNERATION POLICY**

As at 30 September 2003, the Group had approximately 388 full-time employees whose remuneration is based on their individual performance and merits, years of experience and market condition.

The Group provides employee benefits such as medical scheme, discretionary bonus and share option scheme and also provides in-house training programmes and external training sponsorship.

**PURCHASE, SALE OR REDEMPTION OF SHARES**

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

**CODE OF BEST PRACTICE**

None of the Directors is aware of any information which would indicate that the Group is not, or was not, in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules of The Stock Exchange of Hong Kong Limited at any time during the six months ended 30 September 2003, except that the non-executive directors are not appointed for specific terms. However, the non-executive directors are subject to retirement by rotation and re-election at annual general meeting in accordance with the Company's By-laws.

**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 review of the unaudited condensed accounts for the six months ended 30 September 2003 with the Directors.

By order of the Board  
**Hung Kim Fung, Measure**  
*Chairman and Managing Director*

Hong Kong, 5 December 2003