

FINANCIAL REVIEW

Results

For the six months ended 30 June 2004, the Group has resumed to profitability with a profit of approximately HK\$3.3 million (2003: HK\$0.8 million) after the Group reported a loss of approximately HK\$11.6 million for the fiscal 2003. The improved operating result was mainly attributable to the recovery in the Group's sales performance, which was adversely affected by the negative impact of Severe Acute Respiratory Syndrome ("SARS") on the Group's businesses in the same period last year.

The turnover of the Group for the six months ended 30 June 2004 amounted to approximately HK\$225.6 million, representing an increase of approximately 45% as compared with approximately HK\$155.1 million in the corresponding period of the previous year. Apart from the recovery in the Group's sales performance, the sales of Sony Ericsson's products under the business of development and provision of electronic turnkey device solutions has also brought a substantial contribution to the turnover for the business of development and provision of electronic turnkey device solutions.

The overall gross profit margin for the first half of 2004 was 10.4%, which is lower as compared to 14.0% in the corresponding period of the previous year. Such decrease is mainly due to less new products launched by its vendors in the first half of 2004. Usually, its vendors will take at least one year to develop new products. As its vendors are mainly in Taiwan, the outbreak of SARS last year has also delayed the development of new products.

Financial Resources and Liquidity

As at 30 June 2004, the Group had cash and bank balances of approximately HK\$34.1 million (2003: HK\$23.6 million). The Group had total assets of approximately HK\$213.5 million (2003: HK\$235.3 million) which was financed by current liabilities of approximately HK\$131.1 million (2003: HK\$166.0 million), minority interests of

approximately HK\$0.8 million (2003: HK\$0.7 million) and shareholders' equity of approximately HK\$81.6 million (2003: HK\$68.5 million). The current ratio was approximately 1.5 (2003: 1.3) and the gearing ratio of the Group was approximately 39.7% (2003: 53.7%). The gearing ratio has been calculated based on the total borrowings to the sum of total shareholders' equity and total borrowings of the Group.

Total facilities available to the Group from its bankers amounted to approximately HK\$148.0 million (2003: HK\$135.7 million). The management believes that the Group has adequate financial resources for its business requirement for the remaining year as well as its forecast requirement for the coming year.

Treasury policies

The Group generally finances its operations with internally generated resources and banking facilities provided by banks in Hong Kong. The banking facilities are mainly trust receipt loans and invoices finance tenor up to 60 days from the invoice date. The bank interest rates are mainly fixed by reference to either in the Hong Kong Prime rate or the Hong Kong Interbank Borrowing rate for Hong Kong dollar loans.

Charges on assets

Certain bank deposits, investment in securities, investment properties and leasehold land and buildings of the Group were pledged to its bankers to secure certain banking facilities granted to the Group.

Contingent liabilities

At 30 June 2004, the Group had contingent liability arising from bills of exchange discounted with recourse amounting to approximately HK\$14.5 million (2003: HK\$2.2 million).

BUSINESS REVIEW

Distribution of semiconductors

While SARS has been subdued in late June 2003 and gradually subsiding, the demand of semiconductors for production of electronic products was recovered gradually. In the first half of fiscal 2004, the Group's sale performance continued to be benefited from such recovery. For the six months ended 30 June 2004, the Group recorded turnover for distribution of semiconductors of approximately HK\$197.3 million, representing an increase of approximately 33.9% from that of the previous year.

As the Group's vendors are in Taiwan, the impact of SARS last year has delayed vendors' progress of new products development and therefore its vendors launched less new products in the first half of fiscal 2004. With the competition from the products of other suppliers, the Group has dropped the price of its products to maintain its competitive advantage and its gross profit margin dropped. As a result, the ratio of segment result to turnover for the distribution of semiconductors was dropped to 1.8% from 3.1% for that of the previous year.

Development and provision of electronic turnkey device solutions

Before stepping into the field of communication, the Group's business of development and provision of electronic turnkey device solutions were mainly concentrated on the field of consumer products such as toys and household appliances. The seasonality had substantial effects on the turnover of the first half year as the demand for such products is generally commences in around late May.

To overcome the effects of seasonality, the Group has paid much effort in exploring the market and strengthening its abilities in engineering since it listed on the main board last year. As discussed in the fiscal 2003 annual report, the Group has not only got the completion of technology know-how for global positioning system ("GPS") but also made distributorship agreements with Sony Ericsson for distributing Sony Ericsson's "M to M" products and GPRS Modem Cards. With these advantages, the

Group's the customers profile has extended to business and industrial users and its turnover for the business of development and provision of electronic turnkey device solutions amounted to approximately HK\$28.3 million, representing an increase of approximately 262% as compared with approximately HK\$7.8 million in the corresponding period of the previous year.

With the Group's continuing effort in exploring the market of communication, the Group made a distributorship agreement with Ericsson Longchia for GPS products within the period under review, which will increase the Group's competitive advantage in the communication field.

PROSPECTS

The Group believes that there will be many infrastructure building for 2008 Beijing Olympic Games and 2010 Shanghai Expo in PRC and the demand for communication system and products will increase, therefore the Group expects that the development and provision of electronic turnkey device solutions for communication products and systems will account for a bigger share of the Group's total turnover in the foreseeable future. With the technology know-how for GPS and distributorships for Sony Ericsson and Ericsson Longchia's communication products, the Group believes that it is not difficult for the Group to become a leading system integrator in communication field.

For the core business — distribution of semiconductors, the Group continues to focus on maintaining its relationship with its purchasing network, so that it can maintain the quality of its goods and keep its prices competitive. In additions, the Group believes that there should have synergies between the businesses of distribution of semiconductors and development and provision of electronic turnkey device solutions. Therefore, the Group will expand its customers' and suppliers' profile to communication field in order to increase the synergies between these businesses.

Looking ahead into the second half of the year, though the global economic atmosphere has been improving, some uncertainties currently prevail in the world's both economic and political scenes. With the economy reviving in China, the Group is still confident that it will be able to finish the year 2004 with good results.

DIRECTORS' INTERESTS IN SECURITIES

As at 30 June 2004, the issued share capital of the Company consisted of ordinary shares and the interests and short positions of the Directors and the Chief Executive of the Company in the shares, and underlying shares 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 Company's register kept under Section 352 of the SFO were as follows:

Interest in the Company's shares

| Name | Capacity, Nature of interest | Number of shares held | | Percentage of the issued share capital of the Company |
|-----------------------|------------------------------------|--------------------------|-------------------|---|
| | | Long position | Short position | |
| Wong Shu Wing | Corporate | 204,000,000 (Note) | — | 43% |
| Kwan Kim Fai, Stanley | Personal | 36,000,000 | — | 8% |

Note: These shares are held by Best Eagle International Ltd., a company incorporated in the British Virgin Islands ("BVI") and wholly owned by Wong Shu Wing.

Other than as disclosed above, none of the directors, or chief executives, nor their associates, had any interests or short positions in any shares of the Company or any of its associated corporations as at 30 June 2004.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the issue of shares of the Company pursuant to the Corporate Reorganisation mentioned 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 Directors, or their spouses or children under the age of 18, had right to subscribe for the securities of the Company, or had exercised any such right during the period.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company, its holding company or any its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at 30 June 2004 or at any time during the period then ended.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2004, in accordance with the register of the substantial shareholders kept by the Company under Section 336 of the SFO and so far as is known to the Directors, the following persons (other than a Director or Chief Executive of the Company) were interested in the issued capital (including short positions) representing 5% or more of the issued capital:

| Name | Capacity, Nature of interest | Number of shares held | | Percentage of the issued share capital of the Company |
|--|------------------------------------|--------------------------|-------------------|---|
| | | Long position | Short position | |
| Best Eagle International Ltd. (Note 1) | Corporate | 204,000,000 | — | 43% |
| Wong Shu Wing (Note 1) | Personal | 204,000,000 | — | 43% |
| D & M International Ltd. (Note 2) | Corporate | 60,000,000 | — | 13% |
| Leung Yu Ming, Steven (Note 2) | Personal | 60,000,000 | — | 13% |
| Kwan Kim Fai, Stanley | Personal | 36,000,000 | — | 8% |

Notes:

1. The entire issued share capital of Best Eagle International Ltd. is beneficially owned by Mr. Wong Shu Wing. Therefore both Best Eagle International Ltd. and Mr. Wong Shu Wing are deemed to have the duplicate interests in the share capital of the Company under the SFO.
2. The entire issued share capital of D & M International Ltd. is beneficially owned by Mr. Leung Yu Ming, Steven. Therefore both D & M International Ltd. and Mr. Leung Yu Ming, Steven are deemed to have the duplicate interests in the share capital of the Company under the SFO.

Save as disclosed herein, as at 30 June 2004, no other person was recorded in the Company's register kept pursuant to Section 336 of the SFO as having an Interest in

the issued capital (including short positions) representing 5% or more of the issued capital.

Save as disclosed herein, the Directors are not aware of any person, other than the persons (including his personal, family and corporate interests) as aforementioned, who had, directly or indirectly, an Interest in the issued capital (including short positions) representing 5% or more of the issued capital as at 30 June 2004.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the period. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the period.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

None of the Directors of the Company 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 June 2004.

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive Directors of the Company, namely Mr. Lau Chung Kwan, Mr. Yeung Ming Tai and Mr. Chang Kin Man. 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 interim accounts for the six months ended 30 June 2004 with the Directors.

EMPLOYMENT AND REMUNERATION POLICY

As at 30 June 2004, the Group had approximately 129 employee (2003: 136). We remunerate our employee based on their performance and the prevailing industry practices and the remuneration policy and package is reviewed by the Board on a periodical basis. Bonus and share options may be awarded to employees based on performance evaluation. These are derives and encouragements for personal performance. Up to now, no share option has been granted by the Group to its employees.

SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 12 February 2003 for the purpose of recognition of the contribution from Directors and eligible employees of the Group, and will expire in February 2013. Under the Scheme, the Board of Directors of the Company may grant options to eligible employees, including Directors of the Company and its subsidiaries, to subscribe for shares in the Company.

Subject to the condition that the total number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes of the Company must not exceed 30% of the shares of the Company in issue from time to time, the total number of shares in respect of which options may granted under the Scheme, when aggregated with any shares subject to any other schemes is not permitted to exceed 10% of the issued share capital of the Company immediately upon the listing of the shares on the Stock Exchange, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual in aggregate in any 12-month period is not permitted to exceed 1% of the shares of the Company in issue, without prior approval from the Company's shareholders.

Options granted must be taken up within 28 days of the date of grant, upon payment of HK\$1 per option. Options may be exercised at any time from the expiry of 6 months from the date of acceptance of the share option to such date as determined

by the Board of Directors but in any event not exceeding 10 years. The exercise price is determined by the Directors of the Company, and will not be less than the higher of the average closing price of the shares for the five business days immediately preceding the date of grant or the closing price of the shares on the date of grant.

No option was granted by the Company since the adoption of the Scheme.

By the Order of the Board

Wong Shu Wing

Chairman

Hong Kong, 25 August 2004