



Interim Report 2004 >



S.A.S. Dragon Holdings Limited
(Incorporated in Bermuda with limited liability)





DIRECTORS

Executive Directors

Mr. Yim Yuk Lun, Stanley J.P.

Chairman and Managing Director

Mr. Wong Sui Chuen

Mr. Cheung Yuk Kuen

Mr. Lau Ping Cheung

Non-Executive Director

Dr. Chang Chu Cheng

Independent Non-Executive Directors

Mr. Chang Ping Kin

Mr. Cheung Chi Kwan

Mr. Liu Chun Ning, Wilfred

Dr. Lui Ming Wah J.P.

Mr. Wong Tak Yuen, Adrian

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. Shea Chun Lok

AUDITOR

Deloitte Touche Tohmatsu

Certified Public Accountants

26th Floor, Wing On Centre

111 Connaught Road Central

Hong Kong

REGISTERED OFFICE

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Hamilton HM 11

Bermuda

PRINCIPAL OFFICE

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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.

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WEBSITE

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STOCK CODE

Stock Exchange of Hong Kong: 1184



The board of directors (the "Board") of S.A.S. Dragon Holdings Limited (the "Company") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2004, together with the comparative figures for the corresponding period last year, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Unaudited For the six months ended 30 June	
		2004 HK\$'000	2003 HK\$'000
Turnover	2	1,241,482	771,687
Cost of Sales		(1,160,639)	(721,647)
Gross profit		80,843	50,040
Interest income		60	540
Other operating income		1,777	6,766
Distribution costs		(7,269)	(6,627)
Administrative expenses		(43,189)	(34,330)
Profit from operations	3	32,222	16,389
Finance costs		(6,359)	(4,491)
Share of results of associates		49	(125)
Profit before taxation		25,912	11,773
Taxation	4	(4,920)	(1,343)
Profit before minority interests		20,992	10,430
Minority interests		(5,957)	(1,390)
Profit for the period		15,035	9,040
Dividend	5	4,611	–
Earnings per share	6		
Basic		HK 6.52 cents	HK 3.93 cents
Diluted		HK 6.52 cents	HK 3.93 cents

INTERIM RESULTS



CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	Unaudited 30.6.2004 HK\$'000	Audited 31.12.2003 HK\$'000
Non-current Assets			
Investment properties		58,000	58,000
Property, plant and equipment		79,061	82,596
Goodwill		2,205	3,040
Interests in associates		610	561
Investment securities		8,446	2,116
Club memberships		4,459	4,459
Deferred tax assets		167	167
		152,948	150,939
Current Assets			
Inventories		288,453	217,558
Trade and other receivables	7	488,569	464,516
Taxation recoverable		1,155	635
Pledged bank deposits		47,633	38,843
Bank balances and cash		17,015	28,935
		842,825	750,487
Current Liabilities			
Trade and other payables	8	159,344	174,643
Bills payable		95,635	49,919
Taxation payable		7,781	3,112
Obligations under finance leases – due within one year		192	192
Bank and other borrowings – due within one year		391,850	348,386
		654,802	576,252
Net Current Assets			
		188,023	174,235
		340,971	325,174
Capital and Reserves			
Share capital		23,054	23,014
Reserves		291,609	280,992
		314,663	304,006
Minority interests		17,627	11,671
Non-current Liabilities			
Obligations under finance leases – due after one year		323	413
Bank and other borrowings – due after one year		5,195	5,921
Deferred tax liabilities		3,163	3,163
		8,681	9,497
		340,971	325,174



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Capital redemp- tion reserve	Capital reserve	Contri- buted surplus	Asset revalu- ation reserve	Trans- lation reserve	Accumu- lated (losses) profit	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January, 2003	23,014	237,881	1,109	11,145	70,510	26,281	(1,388)	(85,772)	282,780
Transfer from share premium to contributed surplus	-	(237,881)	-	-	237,881	-	-	-	-
Transfer from contributed surplus to accumulated losses	-	-	-	-	(180,003)	-	-	180,003	-
Profit for the period	-	-	-	-	-	-	-	9,040	9,040
At 30 June 2003 (Unaudited)	23,014	-	1,109	11,145	128,388	26,281	(1,388)	103,271	291,820
Profit for the period	-	-	-	-	-	-	-	14,487	14,487
Interim dividend paid	-	-	-	-	(2,301)	-	-	-	(2,301)
At 31 December 2003 (Audited)	23,014	-	1,109	11,145	126,087	26,281	(1,388)	117,758	304,006
Exercise of share options	40	193	-	-	-	-	-	-	233
Profit for the period	-	-	-	-	-	-	-	15,035	15,035
Final dividend paid	-	-	-	-	(4,611)	-	-	-	(4,611)
At 30 June 2004 (Unaudited)	23,054	193	1,109	11,145	121,476	26,281	(1,388)	132,793	314,663



CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Unaudited	
	For the six months ended 30 June	
	2004	2003
	HK\$'000	HK\$'000
NET CASH (USED IN) FROM OPERATING ACTIVITIES	(28,122)	(33,293)
NET CASH (USED IN) FROM INVESTING ACTIVITIES	(15,708)	(12,211)
NET CASH FROM FINANCING ACTIVITIES	26,801	37,655
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(17,029)	(7,849)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	17,427	11,742
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	398	3,893
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	17,015	17,548
Bank overdrafts	(16,617)	(13,655)
	398	3,893



NOTES TO INTERIM FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the requirements of the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited ("the Stock Exchange") and Statement of Standard Accounting Practice 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants.

2. SEGMENT INFORMATION

The turnover and contributions to profit from operations of the Group for the six months ended 30 June 2004, analyzed by business segments and by geographical segments, are as follows:

Business segments

For management purposes, the Group's operations are organized into two main business units namely distribution of electronic components and semiconductors and distribution of sports equipments. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below.

2004 – Unaudited

	Distribution of electronic components and semiconductors HK\$'000	Distribution of sports equipments HK\$'000	Consolidated HK\$'000
TURNOVER			
External Sales	<u>1,198,100</u>	<u>43,382</u>	<u>1,241,482</u>
RESULT			
Segment result	<u>31,397</u>	<u>3,584</u>	34,981
Interest income			60
Unallocated corporate expenses			(3,716)
Unallocated corporate income			897
Finance costs			(6,359)
Share of results of associates	49	-	<u>49</u>
Profit before taxation			25,912
Taxation			<u>(4,920)</u>
Profit before minority interests			20,992
Minority interests			<u>(5,957)</u>
Profit for the period			<u>15,035</u>



2003 – Unaudited

	Distribution of electronic components and semiconductors HK\$'000	Distribution of sports equipment HK\$'000	Consolidated HK\$'000
TURNOVER			
External Sales	<u>737,093</u>	<u>34,594</u>	<u>771,687</u>
RESULTS			
Segment result	<u>16,488</u>	<u>2,656</u>	19,144
Interest income			540
Unallocated corporate expenses			(4,056)
Unallocated corporate income			761
Finance costs			(4,491)
Share of results of associates	(125)	–	<u>(125)</u>
Profit before taxation			11,773
Taxation			<u>(1,343)</u>
Profit before minority interests			10,430
Minority interests			<u>(1,390)</u>
Profit for the period			<u>9,040</u>

Geographical segments

The Group's operations are located in the People's Republic of China (the "PRC") and Hong Kong. The Group's distribution of electronic components and semiconductors is carried out in the PRC, Hong Kong, and Taiwan. Distribution of sports equipments is carried out in the PRC, Hong Kong and the Philippines.

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods:

Sales revenue by geographical market

	Unaudited For the six months ended 30 June	
	2004	2003
	HK\$'000	HK\$'000
PRC	644,957	304,876
Hong Kong	416,948	318,454
Taiwan	171,598	141,437
Others	7,979	6,920
	<u>1,241,482</u>	<u>771,687</u>



3. PROFIT FROM OPERATIONS

Unaudited
For the six months
ended 30 June

	2004	2003
	HK\$'000	HK\$'000

Profit from operations has been arrived at after charging:

Amortisation of goodwill (included in administrative expenses)	835	807
Depreciation	<u>4,225</u>	<u>4,698</u>

4. TAXATION

Unaudited
For the six months
ended 30 June

	2004	2003
	HK\$'000	HK\$'000

The charge comprises:

Profits Tax	4,920	1,168
Deferred taxation	-	175
	<u>4,920</u>	<u>1,343</u>

Hong Kong Profits Tax is calculated at 17.5% (2003: 17.5%) of the estimated assessable profit for period. Overseas taxation is calculated at the rates prevailing in the relevant jurisdictions. No provision for deferred taxation has been made for the period ended 30 June 2004 as the effect of all temporary differences is not material.

5. DIVIDEND

Dividend attributable to the previous financial year paid during the period.

Unaudited
For the six months
ended 30 June

	2004	2003
	HK\$'000	HK\$'000

Final dividend in respect of the previous financial year, paid during the period, of HK 2 cents per share (2003: Nil)

	<u>4,611</u>	<u>-</u>
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6. EARNINGS PER SHARE

	Unaudited	
	For the six months	
	ended 30 June	
	2004	2003
	HK\$'000	HK\$'000
Earnings for the purposes of basic and diluted earnings per share		
– profit for the period	15,035	9,040
	Number	Number
	of shares	of shares
Number of ordinary shares for the purposes of basic earnings per share	230,465,995	230,140,720
Effect of dilutive potential ordinary shares in respect of share options	16,157	–
Weighted average number of ordinary shares for the purposes of diluted earnings per share	230,482,152	230,140,720

7. 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\$488,569,000 (2003: HK\$464,516,000) and their aged analysis is as follows:

	Unaudited	Audited
	30.6.2004	31.12.2003
	HK\$'000	HK\$'000
Within 30 days	306,190	299,152
More than 30 days and within 60 days	42,309	36,155
More than 60 days and within 90 days	13,817	11,393
More than 90 days	45,352	54,523
	407,668	401,223



8. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$159,344,000 (2003: HK\$174,643,000) and their aged analysis is as follows:

	Unaudited	Audited
	30.6.2004	31.12.2003
	HK\$'000	HK\$'000
Within 30 days	118,307	138,766
More than 30 days and within 60 days	12,023	9,823
More than 60 days and within 90 days	4,055	1,132
More than 90 days	6,040	4,732
	<u>140,425</u>	<u>154,453</u>

9. CAPITAL COMMITMENTS

	Unaudited	Audited
	30.6.2004	31.12.2003
	HK\$'000	HK\$'000
Authorised and contracted for	<u>12,000</u>	<u>–</u>

10. 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 Listing Rules. The significant transactions during the period 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	Unaudited For the six months ended 30 Jun	
			2004 HK\$'000	2003 HK\$'000
Varitronix International Limited and its subsidiaries	Chang Chu Cheng	Purchases of electronic products (note i)	631	237
		Sales of electronic products (note i)	46,063	1,345
		Rental expenses paid by the Group (note ii)	129	129
United Dynamic Limited	Yim Yuk Lun, Stanley	Rental expenses paid by the Group (note ii)	240	240
Hon Hai Precision Industry Co., Ltd. (note iv) and its subsidiaries		Purchases of electronic products (note i)	43,260	51,517
		Sales of electronic products (note i)	168,362	124,851
		Commission paid by the Group (note iii)	-	-
		Commission received by the Group (note iii)	137	3,874

(b) *Balances*

Name of party	Nature of transactions	Unaudited	Audited
		30.6.2004 HK\$'000	31.12.2003 HK\$'000
Varitronix International Limited and its subsidiaries	Balance		
	- trade receivables	7,594	2,584
Hon Hai Precision Industry Co., Ltd. and its subsidiaries	Balance		
	- trade receivables	58,666	65,551
	- trade payables	25,127	36,995



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 transactions were carried out at terms determined and agreed by both parties.
- iv. 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 year, and significant balances with them at the balance sheet date, are as follows:

(a) *Transactions*

Name of party	Nature of transactions	Unaudited For the six months ended 30 Jun	
		2004 HK\$'000	2003 HK\$'000
Associates:			
Bestime Technology Development Limited	Sales of electronic products (note i)	285	519
	Purchases of electronic products	6	-
Ocean Bright Technology Limited	Sales of electronic products (note i)	8	1
	Services fee paid by the Group (note ii)	224	267

(b) *Balances*

Name of party	Nature of transactions	Unaudited	Audited
		30.6.2004 HK\$'000	31.12.2003 HK\$'000
Associates:			
Bestime Technology Development Limited	Balance		
	- trade receivables	5,369	11,636
Ocean Bright Technology Limited	Balance		
	- trade receivables	4,318	10,089

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 transaction was carried out at terms determined and agreed by both parties.



INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK1.8 cents (2003: HK1.0 cent) per share payable to the shareholders of the Company whose names appear on the Register of Members of the Company on 28 September 2004.

CLOSURE OF REGISTERS OF MEMBERS

The registers of members of the Company will be closed from 27 September 2004 to 28 September 2004, 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 pm on 24 September 2004. The dividend warrants will be despatched to shareholders on or about 4 October 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

Review of Results

For the six months ended 30 June 2004, the Group recorded turnover of HK\$1,241,482,000, representing a growth of 60.9% as compared with HK\$771,687,000 in the corresponding period in 2003. Profit attributable to shareholders rose 66.3% reaching HK\$15,035,000, compared with HK\$9,040,000 in the corresponding period in 2003. Basic earnings per share were HK 6.52 cents (2003: HK3.93 cents).

Earnings before interest, taxation, depreciation and amortisation ("EBITDA") from the Group's established businesses grew 72.3% to approximately HK\$37,288,000 (2003: approximately HK\$21,644,000. EBITDA represents earnings before interest, taxation, depreciation, amortisation, gains/(losses) on disposal of fixed assets, net gains/(losses) on investments, impairment on investment securities and impairment losses on interests in associates. While EBITDA is commonly used as an indicator of operating performance, leverage and liquidity, it is not presented as a measure of operating performance in accordance with accounting principles generally accepted in Hong Kong ("HKGAAAP") and should not be considered as representing net cash flows from operating activities. The computation of the Group's EBITDA may not be comparable to similarly titled measures of other companies.

During the period under review, the Group focused on allocating resources to industrial design, research and development, as well as maintaining close cooperation with its suppliers and customers. S.A.S. has established a solid customer base and reputation, allowing the Group to capture a significant market share. Therefore, the business of distributing electronic components including electronic consumer products, communication products and computer products recorded steady growth.



The Group maintained its competitive edge in the distribution of sports equipment business, especially golf equipment, which recorded satisfactory results.

Building on its solid business foundation, S.A.S. will explore more growth drivers for its business. Currently, with the help of its sophisticated risk assessment and contingency response system, the Group is evaluating the impacts of the Chinese government's macroeconomic control measures on the development of the country electronic product manufacturing sector. The move will allow the Group to derive corresponding measures to address adverse situations. Nevertheless, the Group believes the Chinese economy will benefit from the macroeconomic control measures in the long run and the electronic industry will evolve to become more institutionalized.

Review of Business

Distribution of Electronic Components

Electronic Consumer Products

The Group has strengthened its Industrial design and R&D capability by increasing the number of specialists on its R&D team, and providing regular training to technicians to familiarize them with the latest industrial development and enhance their engineering R&D capabilities. Moreover, the Group also embarked on boosting the capabilities of its Field Application Engineers ("FAE") to ensure their close cooperation with the research and development department. These policies laid the foundation for the Group to develop its LCD TV and Digital TV design solution business during the period, and at the same time enabled the Group to return encouraging results in the TV market.

In addition to TV sets, the number of portable DVD player solution clients also grew significantly during the period under review. The Group recorded satisfactory growth in the TFT-LCD monitor business. During the period, the Group made significant progress in the research and development of total solution for PDA, DSC, MP3 and DVD RW.

As for its audio and visual business, the sales of related components to National Semiconductor, Fairchild and Texas Instruments increased substantially. The Group will invest more resources into acquiring a larger market share.

Computer Products

Leveraging the gradual recovery of the computer industry, which started early this year, the Group's memory products for VGA card achieved outstanding sales. Sales in memory products, USB connectors, IEEE 1394 connectors and AVX passive components registered stable growth, generating a stable and recurring income for the Group's computer products business.



Communication Products

To further expand its income stream, the Group has been developing its communication business producing products for electronic communications, digital transmission, video conferencing, and multimedia functions. The Group is the Asian strategic sales partner of NMS Communications, a communication products and services provider. The partnership enables the Group to maintain stable sales of telecommunication products in the fast emerging VOIP industry. The business of the peripherals software for communication products and traditional PSTN switching products from Legerity, a reputable USA electronic communication brand recorded steady performance during the period.

Mobile Phone Products

The China mobile phone industry is growing rapidly, producing mobile phones of quality comparable to those produced by international players. Chinese manufacturers have indeed become more demanding on the quality of components and solution offers. The Group, however, is able to provide highly sophisticated total solutions for mobile phones. Its Samsung TFT modules have been the choice technology for numerous mobile manufacturers. In addition, components for camera function applications distributed by the Group, including the Core Logic's JPEG decoder and Hynix's Cmos Sensor module, CMD's static-protection solution and Sharp's Combo Flash all registered encouraging performance. During the period, the Group maintains close relationship with Agere Systems, a leading mobile phone chipset provider. Through its comprehensive advanced technology, the Group continued to provide base band chipsets solution to many Chinese mobile phone manufacturers.

The Group also entered into an agreement with OKI Electric Industry Co., Ltd. ("OKI"), to distribute its sound generator chips in China. This cooperation will create a win-win scenario for S.A.S. and OKI, enabling both parties to further exploit business opportunities in the China mobile phone market.

In addition to the substantial growth in sales of mobile phone market, the Group's value-added services such as logistics, technical support, quality control and after-sale services were all well-received by customers.

On top of the existing sales network, the Group set up sales point in Ningbo and Kunshan, and integrated sales and technical support in China, to serve the rapidly developing China mobile phone customers.



Distribution of Sports Equipment

As for its sports equipment distribution business, golfing is a fast developing sports in China prompted by economic growth and the worldwide golfing craze. The Group actively participated in many exhibitions of sports equipment in the region, and was involved in sponsoring a number of golf competitions. These activities successfully consolidated the reputation of the Titleist brand, contributing to the steady sales growth of Titleist products. Other sports brands, including Footjoy, Cobra, Wilson and Babolat, also recorded satisfactory growth. The Group also actively expanded its merchandising network to reduce the cost of sports equipment, thus lifted the overall profits of this business.

The Group actively promoted Titleist's sales in China through its Beijing, Shanghai and Shenzhen offices, and expanded the customer network in Hong Kong and the Philippines.

Prospect

Looking ahead, the Group believes that continuous technical development will be one of the deciding factors to its capturing of a larger market share. Therefore, it will allocate resources in its R&D business unit. The Group will also strengthen cooperation and communication with suppliers around the globe, allowing it to grasp the latest market trend and information to assist its sourcing and design processes.

As for the sales of electronic components, the Group will cooperate with Mitsumi, a renowned electronics components manufacturer in Japan, in the sales of pick up, power management and transformer for 3C markets, to generate a new profit stream. As for its mobile phone component products, besides focusing on promoting the Camera Phone solutions, the Group will also allocate resources on developing its emerging Agere 3G base band solutions business.

It has been some time after the Chinese Government imposed the macroeconomic control measures. Some electronic products manufacturers responded with prudence and slowed down launching new products. This is expected to affect to some extent the business of the Group. However, recognizing that this is a phenomenon the whole industry has to face, the Group will stick to its core businesses as well as continue to strength its business foundation. Besides, it has in place a mature risk assessment and emergency response system, which allows it to precisely capture market trends hence prepare its response ahead. . The system and related polices enable the Group to analyze the supply and demand of computers, communication products, consumer electronic products and mobile phones and the development trends of critical technologies, etc.



In the business of distribution of sports equipments, benefited from positive sentiment aroused by the Athens Olympics, sales increased as customers spent more on sports equipments. As China will host the Olympic Game in 2008, to promote a sense of involvement, the Chinese Government has begun to encourage its people to actively participate in sports activities. The Group believes that will present its sports equipments business with enormous opportunities.

The Group is provider of total solutions in electronic component package design. Leveraging its clear and predominant business positioning, complemented by the prosperous development of its sports equipment distribution business, the Group firmly believes that it has the strength to work together with its customers and cope with all sort of challenges, to continue to achieve win-win situation and bring satisfactory return to shareholders.

Capital Structure

Shareholders' equity increased to approximately HK\$314,663,000 as at 30 June 2004 from approximately HK\$304,006,000 as at 31 December 2003.

Liquidity and Financial Resources

In general, the Group finances its operation by cash flows generated internally and banking facilities provided by banks. The Group continued to maintain a healthy financial position. As at 30 June 2004, the Group had total fixed deposits and cash balances of approximately HK\$64,647,000 (2003: approximately HK\$67,778,000) and banking facilities amounted to an aggregate sum of approximately HK\$656,575,000 (2003: approximately HK\$498,459,000) with various banks.

On 30 June 2004, the current ratio was maintained at approximately 1.29 (2003: 1.30) whilst the quick ratio was approximately 0.85 (2003: approximately 0.92). At the same day, total indebtedness of bank borrowings amounted to approximately HK\$397,046,000 (2003: approximately HK\$354,307,000), representing approximately 126.2% of the total shareholders' equity (2003: approximately 116.5%). The Directors considered that the Group shall have sufficient financial resources to meet its working capital requirement after a due consideration of the net cash position and the availability of the existing banking facilities.

Foreign Exchange Risk Management

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.



Employees and Remuneration Policies

On 30 June 2004, the Group employed approximately 300 employees in the Greater China. They were remunerated according to the job nature and market conditions. Other staff benefits include a mandatory provident fund scheme, insurance, medical insurance and share option scheme.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

On 30 June 2004, the interests of the directors of the Company in the shares and underlying shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to section 352 of the Securities and Future Ordinance ("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, were as follows:

Long positions

(a) Ordinary shares of HK\$0.10 each of the Company

Name of directors	Capacity	Number of issued ordinary shares held	Percentage of issued share capital of the Company
Yim Yuk Lun, Stanley	Beneficial owner Held by controlled corporation (Note)	5,490,000	2.38%
		<u>59,185,400</u>	<u>25.67%</u>
		<u>64,675,400</u>	<u>28.05%</u>
Wong Sui Chuen	Beneficial owner	<u>202,000</u>	<u>0.09%</u>

(b) Share options of the Company

Name of directors	Capacity	Number of options held	Number of underlying shares
Yim Yuk Lun, Stanley	Beneficial owner	1,000,000	1,000,000

Note: These shares are held by a unit trust whose trustee is Unimicro Limited, a company incorporated in the British Virgin Islands, 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 issues 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 or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 30 June 2004.

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 1.1.2004	Exercised during the period	Lapsed during the period	Outstanding at 30.6.2004
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				<u>1,100,000</u>	<u>(100,000)</u>	<u>-</u>	<u>1,000,000</u>
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)	-	-
Total Employees				<u>300,000</u>	<u>(300,000)</u>	<u>-</u>	<u>-</u>
Total				<u>1,400,000</u>	<u>(400,000)</u>	<u>-</u>	<u>1,000,000</u>

Save as disclosed above, at no time during the year 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 year.

SUBSTANTIAL SHAREHOLDERS

On 30 June 2004, the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO shows that the following shareholders, in addition to the directors as stated under the heading "Directors' interests in shares and underlying shares", had notified the Company of relevant interests and short positions in the issued share capital of the Company.



Long positions

Ordinary shares of HK\$0.10 each of the Company

Name of shareholders	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Hon Hai Precision Industry Co., Ltd. ("Hon Hai")	Held by controlled corporation (Note)	46,000,000	19.95%
Foxconn Holding Limited ("Foxconn")	Beneficial owner	46,000,000	19.95%

Note: Hon Hai owns 100% interest in Foxconn and is accordingly deemed 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 relevant interests or short positions in the issued share capital of the Company as at 30 June 2004.

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

During the period under review, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's securities.

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 2004 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 2004, 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.

APPRECIATION

On behalf of the Board, I would like to express my gratitude and appreciation to all our staff for their loyalty and dedication and 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, 10 September 2004