



DAIWA ASSOCIATE HOLDINGS LIMITED

台 和 商 事 控 股 有 限 公 司

Interim Report 2004

二 零 零 四 年 中 期 業 績 報 告



DAIWA ASSOCIATE HOLDINGS LIMITED



**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 2004. The unaudited interim accounts have been reviewed by the Company's Audit Committee.

### RESULTS

For the reported period, the Group recorded a consolidated net profit after taxation and minority interests of HK\$12.6 million (30 September 2003: HK\$8.2 million), representing a growth of 54.3% as compared to the last corresponding period. Basic earnings per share was HK7.84 cents (2003: HK5.16 cents).

Turnover of the Group was HK\$616.5 million (30 September 2003: HK\$410 million), representing a substantial increase of 50.4% as compared to the same period last year.

### INTERIM DIVIDEND WITH WARRANT ALTERNATIVE

The Board of Directors has recommended an interim dividend of HK1 cent per ordinary share, to be paid in cash with the alternative to the shareholders to elect to receive part or all of their dividend entitlement in form of warrants on the basis of one warrant for every five shares held (the "Warrant Alternative") by shareholders whose names appear on the Register of Members of the Company on Tuesday, 25 January 2005.

The Warrant Alternative is conditional upon, amongst other things, the approval of shareholders at a special general meeting of the Company to be held on Tuesday, 25 January 2005 and the Listing Committee of the Stock Exchange of Hong Kong Limited granting listings of and permission to deal in the new shares that fall to be issued on the exercise of the subscription rights thereunder.

A circular setting out the details of the Warrants Alternative and incorporating a notice of a special general meeting of the Company to approve, amongst other things, the Warrant Alternative will be sent to the shareholders of the Company as soon as practicable.

### CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Wednesday, 19 January 2005 to Tuesday, 25 January 2005, both days inclusive, during which period no transfer of shares can be registered. In order to qualify for the interim dividend with Warrant Alternative, 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, 18 January 2005.

### LIQUIDITY AND FINANCIAL RESOURCES

At 30 September 2004, the Group's net current assets amounted to HK\$170 million and the shareholders' funds were HK\$338 million. The amount of total borrowings and finance lease obligations was at low level of HK\$63.6 million and the gearing ratio, which is defined as total borrowings, excluding minority interests and deferred taxation to shareholders' funds was 0.19. The cash and bank balances were HK\$83.6 million while after net of bank borrowings was HK\$20 million.

At 30 September 2004, total available banking facilities of the Group were approximately HK\$163.9 million, of which HK\$81.1 million was available for use. Finance lease obligations outstanding on the same date amounted to HK\$4.8 million.

At the end of September 2004, the Group completed a right issue of 105,873,066 Rights Shares at a price of HK\$0.45 each to finance the acquisition of a personal computer distributing group in Canada. This right issue strengthened the financial position and enlarged the capital base of the Group.

The Group's assets were financed by shareholders' funds, trade payables and bank borrowings. Trade payables and bank borrowings are 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 monitored the mix of the borrowings, cash and cash equivalents and currency forward contracts to minimize the exposure in exchange risk. The Group's borrowings were bearing interest at floating rates.

### **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 COMPONENTS — Manufacturing and Distribution**

Turnover under this category of the reporting year was HK\$358.6 million, representing a growth of 38.9% when compared with the same period of last reported year (2003: HK\$258.2 million).

#### **Electronic Component Distribution**

The Group is one of the leading distributors of electronic components in Hong Kong and China acting as an authorized distributor for Toshiba, On-Semiconductor, Panasonic, Lite-On, Sino America Silicon and Arnold Magnetics. Other than the main sales office in Hong Kong, the Group has established various sales offices in Shenzhen, Guangzhou, Shanghai, Chengdu and Beijing, PRC.

The core products that the Group distributes are integrated circuits, transistors, microprocessors, discrete and passive electronic components for these renowned brands. Major application of electronic components in this sector are for audio and video products, electronic toys, power supplies, household appliances, air-conditioners and other consumer electronics. The Group endeavors in seeking new distributorship from various countries.

Turnover for this segment was recorded \$273.8 million (30 September 2003: HK\$207.6 million), representing an increase of 31.9%, 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.

Sales in the manufacturing of Transistors, Diodes as well as Wire and Harnesses are well performed. Turnover for this segment was recorded \$84.8 million (30 September 2003: HK\$50.6 million), representing an increase of 67.6% as compared to the same period last year.

#### **EMS (Contract Electronic Manufacturing Service), OEM and ODM**

##### **EMS**

Providing Electronic Manufacturing Services to demanding customers is one of the major contributions to the Group's profit. The Group devotes big effort to explore new assembling technologies and reliable quality and management systems. The new EMS production plant was opened and new equipment was set up to further facilitate the EMS manufacturing with dustproof clean-room and anti-statistic assembling floors. Advanced SMD mounters, high precision automatic solder paste printer, automatic optical checker, in-circuit tester and nitrogen filled re-flow furnace were also installed. The result of new EMS projects was encouraging.

Turnover for this segment was recorded \$118 million (30 September 2003: HK\$86 million), representing an increase of 37.2% as compared to the same period last year.

**OEM and ODM**

The Group successfully gained massive orders in ODM audio electronics from mega Superstore. The orders are big and consistent but selling price is relatively low. The Management has to reform the managements in engineering, purchasing and production to suit these massive orders. Turnover of this segment was \$139.9 million (30 September 2003: HK\$65.6 million), representing an increase of 113.2% as compared to the same period last year.

Although the low profit margin of these massive orders temporarily resulted in negative profit contributions of this sector to the Group, the Management believes that when this mode of business is matured, and after the plastic injection workshop of the Group is set up, the business can bring in a considerable contribution to the Group.

**FUTURE PROSPECT**

By the investment of sales management in the Distribution sector of the Group, business is growing along the tracks of projection. The contributions of new principal suppliers of electronic components become mature. The Group starts to negotiate with other potential suppliers and will bring in new distributorships in the coming year.

To cater for the future development of ODM and OEM business, the Group has acquired the use right of two pieces of industrial land in Heyuan City, Guangdong Province of the PRC with a total site area of 240,000 square meters for the future development in ODM and OEM manufacturing businesses. The Group will set up a joint venture plastic injection factory in the site to bring the Group in a more competitive edge towards the massive orders from mega superstores by the self sufficient supply of plastic parts.

In late September 2004, the Group has successfully acquired one of the major personal computer distribution companies in Canada with sales offices widely spread throughout the country. The acquisition of the company can bring the Group into the new business of distribution and manufacturing of Personal Computers.

**EMPLOYEES**

At 30 September 2004, the Group employed a total of approximately 6,000 employees of which 130 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 appraisals. The Group also provides ORSO Scheme, Mandatory Provident Fund Scheme and medical benefits to all Hong Kong employees. During the reported period, no share options had been granted to employees.

## Condensed Consolidated Profit and Loss Account

For the six months ended 30 September 2004

	Note	Unaudited	
		Six months ended	
		30 September	
		2004	2003
		HK\$'000	HK\$'000
Turnover	2	616,518	409,934
Cost of sales		<u>(543,907)</u>	<u>(352,507)</u>
Gross profit		72,611	57,427
Other revenue/income		196	469
Selling and distribution expenses		(12,968)	(8,775)
General and administrative expenses		<u>(45,783)</u>	<u>(39,053)</u>
Operating profit	3 & 4	14,056	10,068
Finance costs		(513)	(599)
Share of loss of jointly controlled entity		<u>(1)</u>	<u>(2)</u>
Profit before taxation		13,542	9,467
Taxation	5	<u>(925)</u>	<u>(1,377)</u>
Profit after taxation		12,617	8,090
Minority interests		<u>15</u>	<u>98</u>
Profit attributable to shareholders		<u>12,632</u>	<u>8,188</u>
Interim dividends	7	<u>—</u>	<u>2,382</u>
Earnings per share			
— Basic	8	<u>7.84 cents</u>	<u>5.16 cents</u>
— Diluted	8	<u>7.84 cents</u>	<u>5.16 cents</u>

## Condensed Consolidated Balance Sheet

As at 30 September 2004

		Unaudited 30 September 2004 HK\$'000	Audited 31 March 2004 HK\$'000
	Note		
<b>Non-current assets</b>			
Goodwill	9 & 14	26,152	—
Fixed assets	9	145,723	128,100
Construction-in-progress		—	5,141
Interest in jointly controlled entity		1,657	1,658
Long-term investments		1,050	1,050
Deferred tax assets	6	1,980	1,812
		176,562	137,761
<b>Current assets</b>			
Inventories		169,795	131,573
Trade receivables	10	178,485	121,328
Prepayments, deposits and other receivables		15,023	14,878
Cash and bank balances		83,566	67,953
		446,869	335,732
<b>Current liabilities</b>			
Short-term bank borrowings		58,710	47,358
Trade payables	11	186,374	119,444
Accruals and other payables		28,627	16,648
Current portion of long-term liabilities	12	2,904	1,901
		276,615	185,351
<b>Net current assets</b>			
		170,254	150,381
<b>Total assets less current liabilities</b>			
		346,816	288,142
<b>Non-current liabilities</b>			
Long-term liabilities	12	2,518	1,910
Deferred tax liabilities	6	5,211	5,446
		7,729	7,356
<b>Net Assets</b>			
		339,087	280,786
<b>Financed by:</b>			
Share capital	13	26,468	15,881
Reserves		311,958	264,229
<b>Shareholders' equity</b>			
		338,426	280,110
Minority interests		661	676
		339,087	280,786

## Condensed Consolidated Cash Flow Statement

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For the six months ended 30 September 2004

	Unaudited	
	Six months ended	
	30 September	
	2004	2003
	HK\$'000	HK\$'000
Net cash inflow from operating activities	<u>13,016</u>	<u>2,682</u>
Net cash outflow from investing activities	<u>(53,327)</u>	<u>(4,894)</u>
Net cash inflow/(outflow) from financing activities	<u>55,695</u>	<u>(1,049)</u>
Increase/(decrease) in cash and cash equivalents	15,384	(3,261)
Cash and cash equivalents at 1 April	67,953	60,799
Effect of foreign exchange rate changes	<u>229</u>	<u>109</u>
Cash and cash equivalents at the end of the period	<u>83,566</u>	<u>57,647</u>
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	<u>83,566</u>	<u>57,647</u>

## Condensed Consolidated Statement of Changes in Equity

*For the six months ended 30 September 2004*

	Share premium <i>HK\$'000</i>	Capital reserves <i>HK\$'000</i>	Cumulative translation adjustments <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Proposed dividend <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2004	160,944	90	(800)	41,201	61,206	1,588	264,229
Translation adjustments			228				228
Profit for the period					12,632		12,632
Final dividend paid for 2004						(1,588)	(1,588)
Right Issue	36,457						36,457
At 30 September 2004	<u>197,401</u>	<u>90</u>	<u>(572)</u>	<u>41,201</u>	<u>73,838</u>	<u>—</u>	<u>311,958</u>
At 1 April 2003	160,944	90	(496)	41,201	50,343	2,382	254,464
Translation adjustments			109				109
Profit for the period					8,188		8,188
Final dividend paid for 2003						(2,382)	(2,382)
Interim dividend proposed					(2,382)	2,382	—
At 30 September 2003	<u>160,944</u>	<u>90</u>	<u>(387)</u>	<u>41,201</u>	<u>56,149</u>	<u>2,382</u>	<u>260,379</u>

## Notes to condensed interim accounts

### 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 Institute of Certified Public Accountants (the "HKICPA"). 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 2004.

### 2. Revenues and segment information

The Group is principally engaged in the design, development, manufacture and distribution of electronic components and the provision of manufacturing services for electronic products.

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		Manufacturing services for electronic products		Eliminations		Group	
	Six months ended 30 September		Six months ended 30 September		Six months ended 30 September		Six months ended 30 September	
	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover								
External sales	358,594	258,242	257,924	151,692				
Inter-segment sales	19,557	798	9	246	(19,566)	(1,044)		
	<u>378,151</u>	<u>259,040</u>	<u>257,933</u>	<u>151,938</u>	<u>(19,566)</u>	<u>(1,044)</u>	<u>616,518</u>	<u>409,934</u>
Segments results	5,911	3,454	8,145	6,614			14,056	10,068
Finance costs							(513)	(599)
Share of loss of jointly controlled entity							(1)	(2)
Profit before taxation							13,542	9,467
Taxation							(925)	(1,377)
Profit after taxation							12,617	8,090
Minority interests							15	98
Profit attributable to shareholders							<u>12,632</u>	<u>8,188</u>

#### (b) Secondary reporting format — geographical segments:

	Turnover	
	Six months ended 30 September	
	2004	2003
	HK\$'000	HK\$'000
Hong Kong and Mainland China	346,914	256,580
North America	144,496	58,173
Europe	52,687	31,146
Japan	66,078	60,656
Other Asian countries	6,343	3,379
	<u>616,518</u>	<u>409,934</u>

3. **Operating profit**

Operating profit is stated after charging and crediting the following:

	<b>Six months ended 30 September</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Charging:		
Depreciation of fixed assets	7,064	6,706
Provision for slow moving stock	2,105	2,076
Crediting:		
Interest income	<u>56</u>	<u>159</u>

4. **Staff costs**

	<b>Six months ended 30 September</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Wages and salaries	39,952	32,281
Other allowances and benefits	1,248	1,949
Retirement benefit costs — defined contribution plans	<u>1,462</u>	<u>443</u>
	<u><b>42,662</b></u>	<u><b>34,673</b></u>

5. **Taxation**

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits for the period. Mainland China enterprise income tax and overseas income tax are calculated at the rates applicable to the respective subsidiaries.

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

	<b>Six months ended 30 September</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Hong Kong profits tax	479	532
Mainland China enterprise income tax	338	102
Overseas income tax	<u>67</u>	<u>—</u>
	<b>884</b>	<b>634</b>
Deferred tax — relating to the origination and reversal of temporary differences	<u>41</u>	<u>743</u>
	<u><b>925</b></u>	<u><b>1,377</b></u>

## Notes to condensed interim accounts

### 6. Deferred taxation

Deferred taxation are calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2003: 17.5%).

The movement on the Group's deferred tax assets and liabilities are as follows:

	<b>Six months ended 30 September 2004 HK\$'000</b>	Year ended 31 March 2004 HK\$'000
<b>Deferred tax assets</b>		
Opening balance	1,812	331
(Charged)/credited to profit and loss account (Note 5)	(276)	1,481
Acquisition	444	—
	<u>1,980</u>	<u>1,812</u>
<b>Deferred tax liabilities</b>		
Opening balance	5,446	4,724
(Credited)/charged to profit and loss account (Note 5)	(235)	722
	<u>5,211</u>	<u>5,446</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.

	<b>30 September 2004 HK\$'000</b>	31 March 2004 HK\$'000
Deferred tax assets	1,980	1,812
Deferred tax liabilities	(5,211)	(5,446)
	<u>(3,231)</u>	<u>(3,634)</u>

### 7. Dividends

	<b>Six months ended 30 September 2004 HK\$'000</b>	2003 HK\$'000
2003/2004 Final dividend, paid, of HK\$0.01 (2002/2003 final paid: HK\$0.015) per ordinary share (Note (i))	1,588	2,382
2004/2005 Interim dividend of HK\$0.01 (2003/2004: HK\$0.015) per ordinary shares with option to elect Warrant Alternative, proposed on 16 December 2004 (Note (ii))	—	2,382
	<u>1,588</u>	<u>4,764</u>

Note (i): At a meeting held on 23 July 2004 the directors proposed a final dividend of HK\$0.01 per ordinary share for the year ended 31 March 2004, which was paid on 28 September 2004 and has been reflected as an appropriation of retained earnings for the six months ended 30 September 2004.

Note (ii): At a meeting held on 16 December 2004 the directors proposed an interim dividend of HK\$0.01 per ordinary share for the six months ended 30 September 2004 to be paid in cash with the alternative to the shareholders to elect to receive part or all of their dividend entitlement in form of warrants on the basis of one warrant for every five shares held. 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 2005. The Warrant Alternative is subject to approval of shareholders at special general meeting to be held on Tuesday, 25 January 2005.

8. **Earnings per share**

The calculation of basic and diluted earnings per share are based on the Group's profit attributable to shareholders of HK\$12,632,000 (2003: HK\$8,188,000).

The basic earnings per share is based on the weighted average of 161,123,765 (2003: 158,809,600) ordinary shares in issue during the period. The diluted earnings per share is based on 161,123,765 (2003: 158,809,600) ordinary shares which is the weighted average number of ordinary shares in issue during the period plus the weighted average of nil (2003: nil) ordinary shares deemed to be issued at no consideration if all outstanding share options had been exercised.

9. **Capital expenditure**

As at six months ended 30 September 2004

	Goodwill HK\$'000	Fixed assets HK\$'000
Opening net book value	—	128,100
Acquisition of subsidiaries	26,152	1,919
Other additions	—	22,959
Disposals	—	(191)
Depreciation/amortisation charge	—	(7,064)
	<u>26,152</u>	<u>145,723</u>
Closing net book value	<u>26,152</u>	<u>145,723</u>

10. **Trade receivables**

Trade receivables and their ageing analysis is as follows:

	30 September 2004 HK\$'000	31 March 2004 HK\$'000
Less than 60 days	115,894	93,234
60 to 119 days	47,430	15,501
120 days or more	15,161	12,593
	<u>178,485</u>	<u>121,328</u>

Majority of the Group's sales is on open account terms, with credit terms generally ranging from 30 days to 60 days.

11. **Trade payables**

Trade payables and their ageing analysis is as follows:

	30 September 2004 HK\$'000	31 March 2004 HK\$'000
Less than 60 days	142,611	103,691
60 to 119 days	33,687	12,760
120 days or more	10,076	2,993
	<u>186,374</u>	<u>119,444</u>

12. **Long-term liabilities**

	30 September 2004 HK\$'000	31 March 2004 HK\$'000
Obligations under finance leases	4,846	3,219
Provision for long service payments	576	592
	<u>5,422</u>	<u>3,811</u>
Total amounts payable	5,422	3,811
Less: Current portion	2,904	1,901
	<u>2,518</u>	<u>1,910</u>
Long-term portion	<u>2,518</u>	<u>1,910</u>

## Notes to condensed interim accounts

### 13. Share capital

	Number of Ordinary Shares	HK\$'000
Authorised:		
Ordinary shares of HK\$0.10 each		
At 1 April 2004 and 30 September 2004	<u>1,000,000,000</u>	<u>100,000</u>
Issued and fully paid:		
Ordinary shares of HK\$0.10 each		
At 1 April 2004	158,809,600	15,881
Right issue ( <i>Note</i> )	<u>105,873,066</u>	<u>10,587</u>
At 30 September 2004	<u>264,682,666</u>	<u>26,468</u>

*Note:* The Company issued by way of 105,873,066 rights shares of HK\$0.10 each in the share capital of the Company (the "Rights Share(s)") on the basis of two Right Shares for every three issued share held on the close of business on 30 August 2004 at a subscription price of HK\$0.45 per Right Share payable in full on acceptance. The right issue was completed on 24 September 2004 and the Group raised a net amount of approximately HK\$47,044,000 of which HK\$47,000,000 was used to acquire Elite Century Holdings Limited ("Elite") and the balance will be used for general working capital for the Group. The acquisition of Elite was completed on 24 September 2004.

### 14. Acquisition

In September 2004, the Group acquired 100% of the ownership interest of Elite Century Holdings Limited ("Elite") which sells and distributes personal computer products mainly in Canada. In August 2004, the Group acquired the remaining 30% interest of a subsidiary, Daiwa Microtech Limited. After the acquisition, the entity became a wholly owned subsidiary. The consideration of these acquisitions were settled in cash. The resulting goodwill of the acquisitions will be amortised on a straight-line basis over 10 years.

Assets and liabilities arising from the acquisitions are as follows:

	HK\$'000
Fixed assets ( <i>Note 9</i> )	1,919
Cash and bank balance	10,156
Other assets less liabilities	<u>10,249</u>
Fair value of net assets	22,324
Goodwill ( <i>Note 9</i> )	<u>26,152</u>
Total purchase consideration	<u>48,476</u>

### 15. Contingent liabilities

At 30 September 2004, the Group and the Company had contingent liabilities in respect of bank guarantees amounting to HK\$24,111,000 (at 31 March 2004: HK\$24,111,000).

### 16. Commitments

#### (a) Capital commitments

	30 September 2004 HK\$'000	31 March 2004 HK\$'000
Contracted but not provided for		
— purchase of fixed assets	<u>8,302</u>	<u>382</u>

#### (b) Operating lease commitments

At 30 September 2004, the Group had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

	30 September 2004 HK\$'000	31 March 2004 HK\$'000
Within one year	1,809	540
In the second to fifth year inclusive	<u>3,498</u>	<u>195</u>
	<u>5,307</u>	<u>735</u>

**INTERESTS OF DIRECTORS**

At 30 September 2004, 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		
	Personal interests	Other interests	Total interests
Mr. LAU Tak Wan	5,186,666 (Note 1)	119,924,730 (Note 2 (i), (ii), (iii))	125,111,396
Ms. CHAN Yuen Mei, Pinky	3,353,332 (Note 1)	46,868,832 (Note 2 (i))	50,222,164
Mr. WAN Chor Fai	150,000	—	150,000
Mr. Barry John BUTTIFANT	500,000	—	500,000

*Notes:*

- 2,520,000 shares in the Company were jointly held by Mr. Lau Tak Wan ("Mr Lau") and Ms. Chan Yuen Mei, Pinky ("Ms Chan") (the spouse of Mr. Lau).
- 46,868,832 shares in the Company were beneficially owned by China Capital Holdings Investment Ltd ("China Capital"). The issued share capital of China Capital is 60% owned by Mr. Lau and 40% owned by Ms. Chan.
  - 59,939,232 shares in the Company were beneficially owned by Smartco United Limited ("Smartco"). The entire issued share capital of Smartco is owned by Daiwa Electronic Inc. of which 52.11% of issue shares capital is owned by Westpac Digital Inc ("Westpac"). Westpac was wholly owned by Mr. Lau.
  - 13,116,666 shares in the Company were beneficially owned by Cyber Concept Limited ("Cyber Concept"). The corporate decision of Cyber Concept was significantly influenced by Mr. Lau.

**(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 2004, none of the directors, chief executives of the Company 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 (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 and chief executives of the Company to acquire benefits by means of the acquisition of shares, underlying shares or debentures in the Company or its associated corporations.

## Supplementary Information

### 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 2004, 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

At 30 September 2004, 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>	<b>Number of shares held</b>	<b>% of the total issued shares</b>
China Capital Holdings Investment Ltd	(i)	46,868,832	17.71%
Smartco United Limited	(ii)	59,939,232	22.65%
Daiwa Electronic Inc.	(ii)	59,939,232	22.65%
Westpac Digital Inc.	(ii)	59,939,232	22.65%

#### Notes:

- (i) 46,868,832 shares in the Company were beneficially owned by China Capital Holdings Investment Ltd ("China Capital"). The issued share capital of China Capital is 60% owned by Mr. Lau and 40% owned by Ms. Chan.
- (ii) 59,939,232 shares in the Company were beneficially owned by Smartco United Limited ("Smartco"). The entire issued share capital of Smartco is owned by Daiwa Electronic Inc. of which 52.11% of issue shares capital is owned by Westpac Digital Inc ("Westpac"). Westpac was wholly owned by Mr. Lau.

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 2004.

### 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 2004 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.

### COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as its code of conduct regarding directors' securities transactions. Having made specific enquiry of all directors, the directors have confirmed compliance with the required standard set out in the Model Code as provided in Appendix 10 of the Listing Rules for the six months ended 30 September 2004.

### AUDIT COMMITTEE

The Company has an Audit Committee which was formed in accordance with the Code of Best Practice for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal control. The Audit Committee comprises three independent non-executive directors of the Company.

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 2004 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 2004.

By Order of the Board  
**LAU Tak Wan**  
*President*

Hong Kong, 16 December 2004

