



Giving Access to Our Life · Interim Report 2005

S.A.S. Dragon Holdings Limited

(Incorporated in Bermuda with limited liability)

DIRECTORS

Executive Directors

Mr. Yim Yuk Lun, Stanley
(*Chairman and Managing Director*)
Mr. Wong Sui Chuen

Non-Executive Directors

Dr. Chang Chu Cheng
Mr. Lau Ping Cheung

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. Wong Wai Tai

AUDIT COMMITTEE

Mr. Wong Tak Yuen, Adrian (*Chairman*)
Mr. Cheung Chi Kwan
Mr. Chang Ping Kin

REMUNERATION COMMITTEE

Mr. Wong Sui Chuen (*Chairman*)
Dr. Lui Ming Wah J.P.
Mr. Wong Tak Yuen, Adrian

AUDITOR

Deloitte Touche Tohmatsu

REGISTERED OFFICE

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PRINCIPAL OFFICE

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Hung Hom 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.

WEBSITE

<http://www.sasdragon.com.hk>

STOCK CODE

The Stock Exchange of
Hong Kong Limited: 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 2005 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		For the six months ended 30 June	
		2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
	Notes		
Turnover	5	1,047,900	1,241,482
Cost of sales		(971,623)	(1,160,639)
Gross profit		76,277	80,843
Interest income		937	60
Other operating income		2,962	1,777
Distribution costs		(7,506)	(7,269)
Administrative expenses		(42,593)	(43,189)
Profit from operations	6	30,077	32,222
Finance costs		(9,306)	(6,359)
Share of results of associates		(30)	49
Profit before taxation		20,741	25,912
Taxation	7	(2,279)	(4,920)
Profit for the period		18,462	20,992
Attributable to:			
Shareholders of the Company		17,323	15,035
Minority interests		1,139	5,957
		18,462	20,992
Dividend	8	9,701	4,611
Earnings per share	9	HK cents	HK cents
— Basic		7.14	6.52
— Diluted		N/A	6.52

CONDENSED CONSOLIDATED BALANCE SHEET

		30 June 2005 (Unaudited) HK\$'000	31 December 2004 (Audited) HK\$'000
	Notes		
Non-Current Assets			
Investment properties		78,679	58,000
Property, plant and equipment		79,115	80,431
Goodwill		1,369	1,369
Interests in associates		442	472
Available-for-sale investments		19,965	—
Investments in securities		—	4,981
Club memberships		4,459	4,459
Deferred tax assets		165	165
		184,194	149,877
Current Assets			
Inventories		294,631	255,161
Trade and other receivables	10	417,986	409,554
Bills receivable		30,479	42,926
Investments held for trading		14,492	—
Investments in securities		—	2,602
Taxation recoverable		697	723
Pledged bank deposits		80,591	78,128
Bank balances and cash		65,219	44,671
		904,095	833,765
Current Liabilities			
Trade and other payables	11	139,783	183,684
Bills payable		43,753	66,541
Taxation payable		7,165	7,102
Obligations under finance leases			
— due within one year		163	219
Bank and other borrowings			
— due within one year		485,785	329,549
		676,649	587,095
Net Current Assets		227,446	246,670
Total Assets Less Current Liabilities		411,640	396,547

Notes	30 June 2005 (Unaudited) HK\$'000	31 December 2004 (Audited) HK\$'000
Capital and Reserves		
Share capital	24,254	24,254
Reserves	325,737	318,115
Equity attributable to shareholders of the Company	349,991	342,369
Minority interests	7,994	6,855
Total Equity	357,985	349,224
Non-Current Liabilities		
Obligation under finance leases		
— due after one year	281	356
Bank and other borrowings		
— due after one year	50,016	43,609
Deferred tax liabilities	3,358	3,358
	53,655	47,323
	411,640	396,547

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to shareholders of the Company										
	Share capital HK\$'000	Share premium HK\$'000	Capital		Asset			Accumulated profit HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total HK\$'000
			redemption reserve HK\$'000	Capital reserve HK\$'000	Contributed surplus HK\$'000	revaluation reserve HK\$'000	Translation reserve HK\$'000				
At 1 January, 2004	23,014	—	1,109	11,145	126,087	26,281	(1,388)	117,758	304,006	11,671	315,677
Issue of share arising from exercise of share options	40	193	—	—	—	—	—	—	233	—	233
Profit for the period	—	—	—	—	—	—	—	15,035	15,035	5,957	20,992
Dividend paid	—	—	—	—	(4,611)	—	—	—	(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	17,628	332,291
At 1 January 2005 — originally stated	24,254	10,992	1,109	11,145	117,110	26,281	(1,388)	152,866	342,369	6,855	349,224
Effects of changes in accounting Policies (note 2 and 3)	—	—	—	—	—	(10,582)	—	10,582	—	—	—
As restated	24,254	10,992	1,109	11,145	117,110	15,699	(1,388)	163,448	342,369	6,855	349,224
Net profit for the period	—	—	—	—	—	—	—	17,323	17,323	1,139	18,462
Dividend paid	—	—	—	—	(9,701)	—	—	—	(9,701)	—	(9,701)
At 30 Jun 2005 (unaudited)	24,254	10,992	1,109	11,145	107,409	15,699	(1,388)	180,771	349,991	7,994	357,985

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended 30 June	
	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
Net cash used in operating activities	(72,318)	(28,122)
Net cash used in investing activities	(50,638)	(15,708)
Net cash from financing activities	139,585	26,801
Net increase/(decrease) in cash and cash equivalents	16,629	(17,029)
Cash and cash equivalents at beginning of the period	44,452	17,427
Cash and cash equivalents at end of the period	61,081	398
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	65,219	17,015
Bank overdrafts	(4,138)	(16,617)
	61,081	398

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and Hong Kong Accounting Standards ("HKAS") 34 "Interim Financial Reporting", issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention except for certain financial instruments, which are measured at fair values, as appropriate.

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2004, except as described below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), HKAS and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. In particular, the presentation of minority interests and share of tax of associates/jointly controlled entities have been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented.

Business Combinations

In the current period, the Group has applied HKFRS 3 "Business Combinations", which is effective for business combinations for which the agreement date is on or after 1 January 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

Goodwill

In previous periods, goodwill arising on acquisitions was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. With respect to goodwill previously capitalised on the balance sheet, the Group has discontinued amortising such goodwill from 1 January 2005 onwards and goodwill will be tested for impairment at least annually/in the financial year in which the acquisition takes place. Goodwill arising on acquisitions after 1 January 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current period. Comparative figures for 2004 have not been restated.

Financial Instruments

In the current period, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

Financial assets and financial liabilities other than debt and equity securities

From 1 January 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)". "Other financial liabilities" are carried at amortised cost using the effective interest method.

Derecognition

HKAS 39 provides more rigorous criteria for the derecognition of financial assets than the criteria applied in previous periods. Under HKAS 39, a financial asset is derecognised, when and only when, either the contractual rights to the asset's cash flows expire, or the asset is transferred and the transfer qualifies for derecognition in accordance with HKAS 39. The decision as to whether a transfer qualifies for derecognition is made by applying a combination of risks and rewards and control tests. The Group has applied the relevant transitional provisions and applied the revised accounting policy prospectively for transfers of financial assets on or after 1 January 2005. As at 30 June 2005, the Group's factored trade receivables with full recourse have not been derecognised. Instead, the related borrowings of HK\$98,216,000 have been recognised on the balance sheet date. This change has had no material effect on the results for the current period.

Investment Properties

In the current period, the Group has, for the first time, applied HKAS 40 "Investment Property". The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in the profit or loss for the period in which they arise. In previous periods, investment properties under the predecessor Standard were measured at open market values, with revaluation surplus or deficits credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and revaluation subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. The Group has applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 from 1 January 2005 onwards. The relevant amount held in asset revaluation reserve at 1 January 2005 has been transferred to the Group's retained earnings (see Note 3 for the financial impact).

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described above on the results for the current and prior period are as follows:

	For the six months ended 30 June	
	2005 HK\$'000	2004 HK\$'000
Decrease in amortisation of goodwill	835	—

The cumulative effects of the application of the new HKFRSs as at 31 December 2004 and 1 January 2005 are summarized below:

	As at 31 December 2004 HK\$'000	Effect of HKAS 40 HK\$'000	Effect of HKAS 32 and HKAS 39 HK\$'000	As at 1 January 2005 (Restated) HK\$'000
Balance sheet items				
Investments in securities (non-current)	4,981	—	(4,981)	—
Investments in securities (current)	2,602	—	(2,602)	—
Available-for-sale investments	—	—	4,981	4,981
Investments held for trading	—	—	2,602	2,602
Total effects on assets and liabilities	7,583	—	—	7,583
Accumulated profits	152,866	10,582	—	163,448
Asset revaluation reserve	26,281	(10,582)	—	15,699
Total effects on equity	179,147	—	—	179,147

4. POTENTIAL IMPACT ARISING ON THE NEW ACCOUNTING STANDARDS NOT YET EFFECTIVE

The Group has not early applied the following new Standards or Interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these Standards or Interpretations will have no material impact on the financial statements of the Group.

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS-Int 4	Determining whether an Arrangement Contains a Lease
HKFRS-Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

5. SEGMENT INFORMATION

The turnover and contributions to profit from operations of the Group for the six months ended 30 June 2005, 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 segmental information. Segment information about these businesses is presented as follows:

For the six months ended 30 June 2005

	Distribution of electronic components and semiconductors HK\$'000	Distribution of sports equipments HK\$'000	Consolidated HK\$'000
Turnover			
External Sales	1,001,589	46,311	1,047,900
Results			
Segment result	25,195	4,407	29,602
Interest income			937
Unallocated corporate expenses			(4,582)
Unallocated corporate income			4,120
Finance costs			(9,306)
Share of results of associates	(30)	—	(30)
Profit before taxation			20,741
Taxation			(2,279)
Profit for the period			18,462

For the six months ended 30 June 2004

	Distribution of electronic components and semiconductors HK\$'000	Distribution of sports equipments HK\$'000	Consolidated HK\$'000
Turnover			
External Sales	1,198,100	43,382	1,241,482
Results			
Segment result	31,397	3,584	34,981
Interest income			60
Unallocated corporate expenses			(3,716)
Unallocated corporate income			897
Finance costs			(6,359)
Share of results of associates	49	—	49
Profit before taxation			25,912
Taxation			(4,920)
Profit for the period			20,992

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.

An analysis of the Group's sales by geographical market, irrespective of the origin of the goods, is as follows:

	For the six months ended 30 June	
	2005 HK\$'000	2004 HK\$'000
PRC	642,864	644,957
Hong Kong	289,490	416,948
Taiwan	97,140	171,598
Others	18,406	7,979
	1,047,900	1,241,482

6. PROFIT FROM OPERATIONS

	For the six months ended 30 June	
	2005 HK\$'000	2004 HK\$'000
Profit from operations has been arrived at after charging:		
Amortisation of goodwill (included in administrative expenses)	—	835
Depreciation	4,281	4,225

7. TAXATION

	For the six months ended 30 June	
	2005 HK\$'000	2004 HK\$'000
Hong Kong Profits Tax	2,279	4,920

Hong Kong Profits Tax is calculated at 17.5% (2004: 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 2005 as the effect of all temporary differences is not material.

8. DIVIDEND

	For the six months ended 30 June	
	2005 HK\$'000	2004 HK\$'000
Final dividend in respect of the previous financial year, paid during the period, of HK4 cents per share (2004: HK2 cents)	9,701	4,611

9. EARNINGS PER SHARE

	For the six months ended 30 June	
	2005	2004
	HK\$'000	HK\$'000
Earnings		
Earnings for the purposes of basic and diluted earnings per share		
— profit for the period	17,323	15,035

	For the six months ended 30 June	
	2005	2004
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	242,540,720	230,465,995
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

All the outstanding share options granted by the Company were either exercised or expired during the year ended 31 December 2004.

10. 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\$385,880,000 (2004: HK\$380,892,000) which are analysed by due date as follows:

	30 June 2005	31 December 2004
	HK\$'000	HK\$'000
Current	230,860	225,507
Within 30 days	65,049	65,427
More than 30 days and within 60 days	31,734	27,155
More than 60 days and within 90 days	16,050	11,190
More than 90 days	42,187	51,613
	385,880	380,892

11. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$110,338,000 (2004: HK\$160,259,000) which are analysed by due dates as follows:

	30 June 2005 HK\$'000	31 December 2004 HK\$'000
Current	80,661	102,840
Within 30 days	22,238	37,164
More than 30 days and within 60 days	5,673	16,521
More than 60 days and within 90 days	1,119	1,830
More than 90 days	647	1,904
	110,338	160,259

12. 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	For the six months ended 30 June	
			2005 HK\$'000	2004 HK\$'000
Hon Hai Precision Industry Co Ltd ("Hon Hai") (note iii) and its subsidiaries	—	Purchases of electronic products (note i)	41,095	43,260
		Sales of electronic products (note i)	81,584	168,362
		Commission paid by the Group (note i)	—	—
		Commission received by the Group (note i)	126	137
United Dynamic Limited	Yim Yuk Lun, Stanley	Rental expenses paid by the Group (note ii)	240	240

(b) *Balances*

Name of party	Nature of transactions	30 June	31 December
		2005	2004
		HK\$'000	HK\$'000
Hon Hai and its subsidiaries	Balances		
	— trade receivables	52,230	38,221
	— trade payables	27,274	25,471

Notes:

- i. The transactions were carried out at terms determined and agreed by both parties.
- ii. The rentals were charged at terms determined and agreed by both parties.
- iii. 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 period, and significant balances with them at the balance sheet date, are as follows:

(a) *Transactions*

Name of party	Nature of transactions	For the six months ended 30 June	
		2005	2004
		HK\$'000	HK\$'000
Varitronix International Ltd and its subsidiaries (note i)	Purchases of electronic products (note ii)	205	631
	Sales of electronic products (note ii)	13,668	46,063
	Rental expenses paid by the Group (note ii)	147	129
Associates:			
Bestime Technology Development Ltd	Sales of electronic products (note ii)	619	285
	Purchases of electronic products (note ii)	6,105	6
Ocean Bright Technology Ltd	Sales of electronic products (note ii)	—	8
	Purchases of electronic products (note ii)	4,212	—
	Services fee paid by the Group (note ii)	—	224
Now Electron Inc	Sales of electronic products (note ii)	2,966	—

(b) *Balances*

Name of party	Nature of transactions	30 June	31 December
		2005	2004
		HK\$'000	HK\$'000
Varitronix International Ltd and its subsidiaries (note i)	Balance — trade receivables	3,874	1,098
Associates:			
Bestime Technology Development Ltd	Balance — trade receivables	7,671	14,747
Ocean Bright Technology Ltd	Balance — trade receivables	10,360	15,799
Now Electron Inc	Balance — trade receivables	1,634	755

Notes:

- i. Mr. Chang Chu Cheng, a director of the Company, has beneficial interest in the company.
- ii. The transaction were carried out at terms determined and agreed by both parties.

EVENT AFTER THE BALANCE SHEET DATE

Subsequent to the interim reporting date, on 2 September 2005, S.A.S. Investment Company Limited, a wholly owned subsidiary of the Company, entered into a subscription agreement with ShenZhen Zhongtiejian Investment Co., Ltd. to acquire a property located at 28th Floor, Noble Center, Junction of Jintian Road and Futiansan Road, Futian Central District, ShenZhen, China, (the "Property") at a total consideration of RMB29,914,509 (equivalent to approximately HK\$28.76 million). The Group intends to acquire the Property for self-use to cope with its expanding business in China, in particular, to improve internal communication and increase the cohesiveness among different business units within the Group. A circular containing further information of the above transaction will be sent to the shareholders of the Company as soon as practicable.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK2.0 cents (2004: HK1.8 cents) per share payable to the shareholders of the Company whose names appear on the Register of Members of the Company on 4 October 2005.

CLOSURE OF REGISTERS OF MEMBERS

The registers of members of the Company will be closed from 3 October 2005 to 4 October 2005, 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 30 September 2005. The dividend warrants will be despatched to shareholders on or about 10 October 2005.

MANAGEMENT DISCUSSION AND ANALYSIS

Review of Results

For the six months ended 30 June 2005, the Group recorded turnover of HK\$1,047,900,000 representing a decline of 15.6% as compared with HK\$1,241,482,000 in the corresponding period in 2004. Profit attributable to shareholders of the Company rose 15.2% reaching HK\$17,323,000 compared with HK\$15,035,000 in the corresponding period in 2004. Basic earnings per share were HK7.14 cents (2004: 6.52 cents).

During the period under review, the Group focused its resources on providing valued customers with cost effective solutions. Together with its strengthening competitiveness, the Group is able to achieve a balancing growth of gross profit margin and overall results of electronic components, including consumer electronic products, communication products, computer products and mobile phone products. The Group's sports equipment distribution business also sustained its advantages and achieved satisfactory results in the distribution of tennis products, in addition to golf products.

Review of Business

Distribution of Electronic Components

Consumer Electronic Products

Sales of consumer electronic products maintained sustainable growth during the review period. The satisfactory results are attributable to the popularity of several products among customers, including solutions for portable DVD player, MP3, PMP and LCD TV. The Group successfully penetrates TFT LCD market ranged from small size 1.8 inches to large size 47 inches, which substantially increased its competitiveness.

In addition, having wide applications of Nand Flash in many consumer electronic products, the Group has recorded satisfactory sales of Nand Flash products.

As for audio and visual products, National Semiconductor, Fairchild and related products of Texas Instruments distributed by the Group recorded stable growth. The Group was awarded "Outstanding Performance" award by Fairchild. Moreover, in recognition of excellent business growth and market penetration, the Group was awarded "Distributor of the Year (Asia)" by California Micro Devices.

Computer Products

As for computer products, the robust growth of the computer industry in 2005 and the growing demand for laptop computers, boosted substantially the sales of the Group's memory products, Foxconn connectors, IEEE 1394 connectors, and AVX passive components.

Communication Products

The overall telecom communication industry grew mildly during the review period, benefiting the Group's communication products business. During the period under review, responding to its major customers focusing on the development of 3G and Next Generation Network (NGN) business, the Group began developing a series of relation solutions last year, which were adopted by customers and brought satisfactory results.

As the demand for value-added communication services and efficient network equipment rose, the Group's RingBack Tone business performed well. With 3G gaining popularity in the Greater China Region, the demand for Video Access (VA) services also increased. Customer demand for VA products for NMS Communications, in particular, rose significantly to the Group's benefit. As the sole distributor of NMS products in the Greater China Region, the Group was guaranteed a stable source of sales profit.

Mobile Phone Products

Besides benefited from the increasing market demand for high end products by providing a total solution for a range of multimedia products, the Group's overall results were not seriously affected by the fall in sales of domestic branded mobile phones in the PRC as more and more international mobile phone brands outsource parts of their production processes to OEM factories in the PRC.

Seeing that MPEG-4 is becoming the standard of next generation multimedia products, the Group pioneered the offer of MPEG-4 solution to its customers. Moreover, leveraging the Group's strong design capability and innovation, the Group managed to achieve mature technology for developing solutions for mobile phones with 2.0 to 3.0 megapixels cameras, which enabled the Group to attain a quality customer base.

Distribution of Sports Equipment

Distribution of Wilson tennis and golf products recorded stable increases during the period. In addition, the Group introduced several renowned golf product brands, which brought in instant satisfactory profits for the segment. These brands included Orlimar from the USA, MAKSER golf club from Europe, Hi-Tec golf shoes from the UK, AKRIA golf club from Japan, Freeline golf balls and Feel Golf wedges also from the USA.

During the period under review, the Group participated in several large scale sports equipment trade shows in the PRC, including China Golf Expo (Beijing), during which it introduced its renowned golf brands to PRC consumers. The Group succeeded in strengthening consumer awareness of its sports equipment through sponsoring large sports competitions in the PRC and developing its sales networks.

Prospect

The Group believes negative impacts of market situations such as the appreciation of Renminbi, rising interest rates and oil prices will continue to affect the overall business environment in the second half of 2005. The Group will continue to develop its existing businesses with extreme caution, while looking for new business opportunities and is cautiously optimistic about its business development in the second half of the year.

As for the sales of electronic components, on the sound foundations of all its different business areas, the Group will focus on the development of quality customer bases, prompt provision of quality solutions to its customers to help them cope with the fast-changing requirements on communication, computers, consumer electronic and mobile phones products. The NGN and 3G product markets, in particular, will present new growth drivers to the Group in the future.

As for the sports equipment distribution business, distribution of golf relation brands has successfully created brand synergies for the Group. Looking into the second half of the year, the Group will continue to expand the market for branded golf products, as well as step up promotion of tennis related brands.

Conclusion

Besides adhering to the principle of providing cost effective and quality products and services to its customers, having close and deep relationship with both of its customers and suppliers is another key factor to the Group's success. The Group will continue to strive to bring better profit growth, and satisfactory results for its shareholders.

Capital Structure

Total equity increased to HK\$357,985,000 as at 30 June 2005 from HK\$349,224,000 as at 31 December 2004.

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 balancing financial position. As at 30 June 2005, the Group had total fixed deposits and cash balances of HK\$145,810,000 (2004: HK\$122,799,000) and banking facilities amounted to an aggregate sum of HK\$981,000,000 (2004: HK\$877,000,000) with various banks.

On 30 June 2005, the current ratio was maintained at 1.3 (2004: 1.4) whilst the quick ratio was 0.9 (2004: 1.0). At the same day, total indebtedness of bank borrowings amounted to HK\$535,801,000 (2004: HK\$373,158,000), representing 153.1% of the total shareholders' equity (2004: 109.0%). 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 2005, the Group employed approximately 350 employees in Hong Kong and PRC. 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 2005, 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

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	5,490,000	2.26%
	Held by controlled corporation (Note)	63,771,400	26.30%
		69,261,400	28.56%
Wong Sui Chuen	Beneficial owner	302,000	0.12%

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 2005.

SUBSTANTIAL SHAREHOLDERS

On 30 June 2005, 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	Held by controlled corporation (Note)	46,000,000	18.97%
Foxconn Holding Limited (“Foxconn”)	Beneficial owner	46,000,000	18.97%

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 2005.

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.

CORPORATE GOVERNANCE

The Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2005, except for the following major deviations:

Under the code provision A.2.1 of the Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

Having considered the current business operation and the size of the Group, the Board is of the view that Mr. Yim Yuk Lun, Stanley acting as both the Chairman and the Managing Director of the Group is acceptable and in the best interest of the Group. The Board will review this situation periodically.

Under the code provision A.4.1 & A.4.2 of the Code, (a) non-executive directors should be appointed for a specific term and subject to re-election; and (b) all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

The non-executive directors have not been appointed for a specific term. However, according to the Bye-laws of the Company, one-third of the directors for the time being shall retire from office by rotation at each annual general meeting. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are similar to those in the Code.

The Board will review in the current year the relevant Bye-laws and propose any amendments, if necessary, to ensure compliance with the code provision A.4.2.

AUDIT COMMITTEE

The Audit Committee of the Company has reviewed with management the accounting principles and policies adopted by the Group and the unaudited interim financial statements for the six months ended 30 June 2005.

REMUNERATION COMMITTEE

The Company established a Remuneration Committee on 30 June 2005 in accordance with the requirements of the Code. The Remuneration Committee of the Board comprises two independent non-executive directors namely Dr. Lui Ming Wah and Mr. Wong Tak Yuen, Adrian and one executive director namely Mr. Wong Sui Chuen, being the Chairman of the Remuneration Committee.

MODEL CODE

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard set out in Appendix 10 to the Listing Rules (the "Model Code"). Having made specific enquiry of all directors, all directors confirmed they have complied with the required standard set out in the Model Code and the code of conduct adopted by the Company regarding securities transactions by directors.

APPOINTMENT OF DIRECTOR

The Board is pleased to announce that Mr. Lau Ping Cheung has been appointed as non-executive director of the Company on 1 July 2005.

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, 15 September 2005