

DAIWA

DAIWA ASSOCIATE HOLDINGS LIMITED

台和商事控股有限公司

Interim Report 2005

二零零五年中期業績報告



DAIWA ASSOCIATE HOLDINGS LIMITED

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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 2005. The unaudited interim accounts have been reviewed by the Company's Audit Committee.

RESULTS AND DIVIDEND

For the reported period, the Group recorded a consolidated net profit after taxation and minority interests of HK\$10.4 million (30 September 2004: HK\$12.6 million), representing a decrease of 17% from the corresponding period of last year. Basic earnings per share was HK3.85 cents (2004: HK7.84 cents).

Turnover of the Group was HK\$765.6 million (30 September 2004: HK\$616.5 million), representing a substantial increase of 24% as compared to the same period last year.

The Board of Directors recommended an Interim Dividend of HK1 cent per ordinary share to be paid in cash to the shareholders whose names appear on the Register of Members of the Company on Friday, 30 December 2005. The cash dividend will be payable on Wednesday, 11 January 2006.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Thursday, 22 December 2005 to Friday, 30 December 2005, both days inclusive, during which period no transfer of shares can be registered. In order to qualify for the interim dividend, 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 Wednesday, 21 December 2005.

LIQUIDITY AND FINANCIAL RESOURCES

At 30 September 2005, the Group's net current assets amounted to HK\$195 million and the shareholders' funds were HK\$355 million. The total amount of loans and finance lease was at HK\$83.1 million and the gearing ratio, which is defined as total borrowings, excluding minority interests and deferred taxation to shareholders' funds was 0.23. The cash and bank balances were HK\$66.5 million.

At 30 September 2005, total available banking facilities of the Group were approximately HK\$181 million, of which HK\$104 million was available for use. Finance lease obligations outstanding on the same date amounted to HK\$6.1 million.

The Group's assets were mostly financed by shareholders' funds, trade payables and bank borrowings. Trade payables and short term bank loans are repayable within one year. Long term bank loans are repayable within three years. The borrowings, cash and cash equivalents were mainly denominated in Hong Kong dollars, US dollars or Renminbi. The Group entered into foreign currency forward contracts with banks to hedge certain future foreign currency trade liabilities in order to minimize the risk. The Group's borrowings were bearing interest at floating rates.

BUSINESS REVIEW AND PROSPECT

The Group is engaged in three major businesses, namely:

- EMS (Contract Electronic Manufacturing Services), OEM and ODM
- Electronic Components — Distribution and Manufacturing
- Personal Computer and Digital Products — Distribution and Manufacturing

President's Statement

EMS (CONTRACT ELECTRONIC MANUFACTURING SERVICE), OEM AND ODM

EMS (Contract Electronic Manufacturing Service)

EMS manufacturing was the key development direction of the Group in the past years. The management had paid long-term investment in engineering, training of qualified production staff and adoption of enhanced management system as well as precise quality system. The Group had gained major awards and accreditations in management and quality system such as ISO9000, QA9000, ISO14000 and Six Sigma Management System.

Other than the improvement of workshop environment, the Group had also increased new facilities in SMD productions.

The Group had gained great recognition from demanding customers. Orders of this sector was increased aggressively. Turnover for this segment was HK\$167.6 million (30 September 2004: HK\$118 million), representing an increase of 42%.

OEM and ODM

The Group had changed some production line to cope with the massive orders in audio electronics from mega superstore buyers. After last year's experience, quality was improved and process flow was streamlined. However, due to the limitation of existing production space, the Group could not cater for the large demand from customers. The shortage of labor supply and increased labor cost in Dongguan area also affected the performance of OEM and ODM business. Turnover of this sector was \$120.2 million (30 September 2004: HK\$139.9 million), representing a decrease of 14%, from the same period last year.

To enable the Group for much bigger capacity of production, the Group has already acquired a land of 2,000,000 sq. feet in Heyuan and will move this sector of labor intensive production to the new site. Two blocks of building has already finished and is now under pre-production stage.

The newly set up of plastic injection workshop was also under test-running.

ELECTRONIC COMPONENTS — Distribution and Manufacturing

Electronic Component Distribution

During the period, the pressure of price increase in metal and plastic raw material hit most of the manufacturers of consumer electronics. By sharing the impact, margin of electronic components was undercut to cope with the market sentiment. In order to keep the minimum mark-up of revenue and to keep away from credit risk, the Group had to keep a distant from some marginal customers. As a result, turnover of electronic component distribution was under stress in the reported period. To overcome the effect, the Group had diversified the product mix and introduced new brands to meet the market expectation. The Group also persistently provided value added services to our customer including total solution packages and design-in technical services to gain more stable orders with reasonable profit margin.

In this sector, sales performance of PRC offices was satisfactory. Profit margin percentage was increased although overall turnover was decreased.

Electronic Component Manufacturing

The Group manufactured Diodes (DO35, DO34, mini-MELF and DO41 packages) and Transistors (SOT23 and TO92 packages), Loudspeakers, Electronic Wires and Harnesses.

Sales of Transistors were stable. The new production line of Diodes in Yu Fu was matured. By the improvement of product quality and efficiency, cost of production is under control. Sales and profit contribution of Diodes were increased by more than 20%.

Due to the increase of plastic and metal price, the manufacturing activities in wire and harnesses was decreased.

Turnover of this segment was HK\$307.1 million in the reporting period, representing a decrease of 14% when compared with the same period of last year (2004: HK\$358.6 million).

Digital Products — Distribution and Manufacturing

Although the competition in computer products market was keen in Canada, the management had endeavored to widen the product mix, brand name and to diversify the source of products. The Group had established a new sourcing team to source for computer accessories in Asia and this had brought in new highlight to this sector.

The Group had also invested new resources in the R&D of MP3, USB and iPod peripheral products. The result in this sector is significant and had gained good feedback from customers. The Group had already established good quality image among customers. Turnover of this sector for the six months was HK\$170.8 million, represented 22% of the turnover of the Group of the six month ended 30 September 2005.

FUTURE PROSPECT

In the Electronic Component Distribution sector, contributions from the products of new principal suppliers will grow steadily. Sales in PRC will play a more important role in the future distribution activity. The Group is now negotiating with some niche principle IC and semiconductor suppliers for the new distributorship in HK and China territories.

The first stage of Heyuan new factory site will be finished by the second quarter of 2006. In this new site, the labor source competition will not be as keen as the Dongguan area. Production cost in the new site is lower and it also provides much more production space which will greatly loosen the existing production capacity pressure. The setting up of plastic injection house and tooling room in this site will also enable the Group's capability to a more vertical production perfection model. The Management believes that this new site will facilitate the Group to have a leap and bounce growth in OEM and ODM manufacturing of consumer products.

Other than the existing models of consumer electronics, the Group has already recruited new engineering team to explore the new opportunity in DVD sector.

In EMS sector, the Group will provide deeper involvement in the Turnkey supply to major buyers and this action will bring in considerable contribution both to the turnover and profit of the Group in the following period.

EMPLOYEES

At 30 September 2005, the Group employed a total of approximately 6,000 employees of which 130 were Hong Kong based and 100 were employee in Canada. Others were mostly PRC employees located in different factory site. Sales personnel are remunerated by salaries and incentives scheme. Other staff are offered year-end discretionary bonus. 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 2005

		Unaudited	
		Six months ended	
		30 September	
		2005	2004
			Restated
	Note	HK\$'000	HK\$'000
Turnover	2	765,639	616,518
Cost of sales		<u>(686,737)</u>	<u>(543,907)</u>
Gross profit		<u>78,902</u>	<u>72,611</u>
Other revenue		428	196
Selling and distribution costs		(13,321)	(12,968)
General and administrative expenses		<u>(53,634)</u>	<u>(45,784)</u>
Operating profit	3 & 4	12,375	14,055
Finance costs		<u>(1,432)</u>	<u>(513)</u>
Profit before taxation		10,943	13,542
Taxation	5	<u>(495)</u>	<u>(925)</u>
Profit after taxation		<u><u>10,448</u></u>	<u><u>12,617</u></u>
Attributable to:			
Shareholders of the Company		10,475	12,632
Minority interest		<u>(27)</u>	<u>(15)</u>
		<u><u>10,448</u></u>	<u><u>12,617</u></u>
Earnings per share for profit attributable to the Shareholders			
— basic	8	<u><u>HK 3.85 cents</u></u>	<u><u>HK 7.84 cents</u></u>
— diluted	8	<u><u>HK 3.82 cents</u></u>	<u><u>HK 7.84 cents</u></u>
Dividends	7	<u><u>2,727</u></u>	<u><u>2,647</u></u>

Condensed Consolidated Balance Sheet

As at 30 September 2005

		30 September 2005 Unaudited HK\$'000	31 March 2005 Restated HK\$'000
	<i>Note</i>		
ASSETS			
Non-current assets			
Goodwill	9	24,811	24,811
Fixed assets	9	132,925	132,552
Leasehold land and land use rights		18,047	18,284
Deferred tax assets	6	2,067	2,265
Available-for-sale financial assets		710	1,050
Construction in progress		3,894	1,866
		182,454	180,828
Current assets			
Inventories		206,853	188,146
Trade receivables	10	226,192	154,691
Prepayments, deposits and other receivable		6,168	17,433
Financial instruments — cashflow hedge		278	—
Cash and cash equivalents		66,460	65,037
		505,951	425,307
Total assets		688,405	606,135
EQUITY			
Share capital	13	27,271	26,596
Reserves		325,149	315,179
Proposed interim dividend		2,727	5,451
		355,147	347,226
Minority interest		600	627
Total equity		355,747	347,853
LIABILITIES			
Non-current liabilities			
Long term liabilities	12	16,880	15,369
Deferred tax liabilities	6	4,783	5,346
		21,663	20,715
Current liabilities			
Trade payables	11	225,617	161,823
Accruals and other payables		17,947	18,251
Short-term bank borrowings		47,022	42,876
Current portion of long term liabilities	12	20,409	14,617
		310,995	237,567
Total liabilities		332,658	258,282
Total equity and liabilities		688,405	606,135
Net current assets		194,956	187,740
Total assets less current liabilities		377,410	368,568

Condensed Consolidated Cash Flow Statement

For the six months ended 30 September 2005

	Unaudited	
	Six months ended	
	30 September	
	2005	2004
	HK\$'000	HK\$'000
Net cash generated from operating activities	<u>8,855</u>	<u>13,016</u>
Net cash used in investing activities	<u>(8,198)</u>	<u>(53,327)</u>
Net cash from financing activities	<u>645</u>	<u>55,695</u>
Net increase in cash and cash equivalents	1,302	15,384
Cash and cash equivalents at 1 April	65,037	67,953
Effect of foreign exchange rate changes	<u>121</u>	<u>229</u>
Cash and cash equivalents at 30 September	<u>66,460</u>	<u>83,566</u>
Analysis of balances of cash and cash equivalents		
Cash at bank balances	<u>66,460</u>	<u>83,566</u>

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 September 2005

Unaudited

	Attributable to shareholders of the Company							Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Capital reserves HK\$'000	Cumulative translation adjustments HK\$'000	Other reserves HK\$'000	Retained earnings HK\$'000	Minority interest HK\$'000	
Balance at 1 April 2004, as previously reported as equity	15,881	160,944	41,201	(800)	90	62,794	—	280,110
Balance at 1 April 2004, as previously separately reported as minority interest	—	—	—	—	—	—	676	676
Balance at 1 April 2004, as restated	<u>15,881</u>	<u>160,944</u>	<u>41,201</u>	<u>(800)</u>	<u>90</u>	<u>62,794</u>	<u>676</u>	<u>280,786</u>
Currency translation differences	—	—	—	228	—	—	—	228
Net income recognized directly in equity	—	—	—	228	—	—	—	228
Profit for the period	—	—	—	—	—	12,632	(15)	12,617
Total recognized income for the six months ended 30 September 2004	—	—	—	228	—	12,632	(15)	12,845
Right issue	10,587	36,457	—	—	—	—	—	47,044
Final dividend paid for 2004	—	—	—	—	—	(1,588)	—	(1,588)
Balance at 30 September 2004	<u>26,468</u>	<u>197,401</u>	<u>41,201</u>	<u>(572)</u>	<u>90</u>	<u>73,838</u>	<u>661</u>	<u>339,087</u>
Balance at 1 April 2005, as previously reported as equity	26,596	199,355	41,201	987	90	78,997	—	347,226
Balance at 1 April 2005, as previously separately reported as minority interest	—	—	—	—	—	—	627	627
Balance at 1 April 2005, as restated	<u>26,596</u>	<u>199,355</u>	<u>41,201</u>	<u>987</u>	<u>90</u>	<u>78,997</u>	<u>627</u>	<u>347,853</u>
Cash flow hedges, net of tax	—	—	—	—	278	—	—	278
Currency translation differences	—	—	—	(752)	—	—	—	(752)
Net income recognized directly in equity	—	—	—	(752)	278	—	—	(474)
Profit for the period	—	—	—	—	—	10,475	(27)	10,448
Total recognized income/(loss) for the six months ended 30 September 2005	—	—	—	(752)	278	10,475	(27)	9,974
Issue of share capital	675	2,699	—	—	—	—	—	3,374
Final dividend paid for 2005	—	—	—	—	—	(5,454)	—	(5,454)
Balance at 30 September 2005	<u>27,271</u>	<u>202,054</u>	<u>41,201</u>	<u>235</u>	<u>368</u>	<u>84,018</u>	<u>600</u>	<u>355,747</u>

Notes to condensed interim accounts

1. Basis of preparation and accounting policies

This unaudited condensed consolidated financial information has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

The accounting policies and methods of computation used in the preparation of this condensed consolidated financial information are consistent with those used in the annual financial statements for the year ended 31 March 2005 except that the Group has changed certain of its accounting policies following its adoption of new/revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRS") which are effective for accounting periods commencing on or after 1 January 2005.

The changes to the Group's accounting policies and the effect of adopting these new policies are set out below.

In 2005, the Group adopted the new/revised standards of HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 31	Investments in Joint Ventures
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 3	Business Combinations

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 21, 23, 24, 27 and 33 did not result in substantial changes to the Group's accounting policies. In summary:

- HKAS 1 has affected the presentation of minority interest and other disclosures.
- HKASs 2, 7, 8, 10, 16, 23, 27 and 33 had no material effect on the Group's policies.
- HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as the presentation currency for respective entity financial statements.
- HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land and land use rights from property, plant and equipment to operating leases. The up-front prepayments made for the leasehold land and land use rights are expensed in the income statement on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the income statement. In prior years, the leasehold land was accounted for at cost less accumulated depreciation and accumulated impairment.

The Group adopted the proportionate consolidation under HKAS 31 "Interests in Joint Ventures" to account for its interests in jointly controlled entities. In prior years, the Group's interests in jointly controlled entities were accounted for by the equity method. The adoption of the proportionate consolidation approach under HKAS 31 represents a change in accounting policy.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit or loss and available-for-sale financial assets. It has also resulted in the recognition of derivative financial instruments at fair value and the change in the recognition and measurement of hedging activities.

1. **Basis of preparation and accounting policies** (continued)

The adoption of HKFRS 3, HKAS 36 and HKAS 38 results in a change in the accounting policy for goodwill. Until 31 March 2005, goodwill was amortised on a straight line basis over 3 to 10 years; and assessed for an indication of impairment at each balance sheet date.

In accordance with the provisions of HKFRS 3:

- The Group ceased amortisation of goodwill from 1 April 2005;
- Accumulated amortisation as at 31 March 2005 has been eliminated with a corresponding decrease in the cost of goodwill;
- From the year ending 31 March 2006 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards. All standards adopted by the Group require retrospective application other than:

- HKAS 16 — the initial measurement of an item of property, plant and equipment acquired in an exchange of assets transaction is accounted at fair value prospectively only to future transactions;
- HKAS 21 — prospective accounting for goodwill and fair value adjustments as part of foreign operations;
- HKAS 39 — does not permit to recognize, derecognize and measure financial assets and liabilities in accordance with this standard on a retrospective basis.
- HKFRS 3 — prospectively after the adoption date.

Summary of the change in accounting policies:

The adoption of HKAS 17, 36, 38 and HKFRS 3 have no impact on the Group's consolidated profit and loss account, effect of adopting HKAS 31, 32 and 39 are as follows:

	Six months ended 30 September 2005		Six months ended 30 September 2004	
	HKAS 31 HK\$'000	HKAS 32 & 39 HK\$'000	HKAS 31 HK\$'000	HKAS 32 & 39 HK\$'000
Increase in general and administrative expenses	1	—	1	—
Decrease in share of loss of jointly controlled entity	(1)	—	(1)	—
Impairment loss	—	(340)	—	—
Total increase / (decrease) in profit	—	(340)	—	—
Increase/(decrease) in basic earning per share	—	(HK 0.01 cent)	—	—

Effect on the adoption of HKAS 17, 31, 32 and 39 on consolidated balance sheet are listed below:

	30 September 2005			31 March 2005		
	HKAS 17 HK\$'000	HKAS 31 HK\$'000	HKAS 32 & 39 HK\$'000	HKAS 17 HK\$'000	HKAS 31 HK\$'000	HKAS 32 & 39 HK\$'000
Decrease in fixed assets	(18,047)	—	—	(18,284)	—	—
Increase in leasehold land and land use right	18,047	—	—	18,284	—	—
Decrease in long term investment	—	—	(1,050)	—	—	—
Increase in available-for-sale financial assets	—	—	710	—	—	—
Increase in financial instruments — cashflow hedge	—	—	278	—	—	—
Increase in other reserves	—	—	278	—	—	—
Increase in current assets	—	1,638	—	—	1,639	—
Decrease in interest in jointly controlled entity	—	(1,638)	—	—	(1,639)	—

Notes to condensed interim accounts

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, and the manufacturing and distribution of personal computers and digital 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:

	Electronic components distribution and manufacturing		Electronic manufacturing services		Digital Products distribution and manufacturing		Eliminations		Group	
	Six months ended 30 September		Six months ended 30 September		Six months ended 30 September		Six months ended 30 September		Six months ended 30 September	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover										
External sales	307,051	358,594	287,785	257,924	170,803	—				
Inter-segment sales	5,810	19,557	167	9	—	—	(5,977)	(19,566)		
	<u>312,861</u>	<u>378,151</u>	<u>287,952</u>	<u>257,933</u>	<u>170,803</u>	<u>—</u>	<u>(5,977)</u>	<u>(19,566)</u>	<u>765,639</u>	<u>616,518</u>
Segments results	4,913	5,910	5,823	8,145	1,639	—			12,375	14,055
Operating profit									12,375	14,055
Finance costs									(1,432)	(513)
Profit before taxation									10,943	13,542
Taxation									(495)	(925)
Profit after taxation									<u>10,448</u>	<u>12,617</u>
Profit attributable to shareholders									10,475	12,632
Minority interests									(27)	(15)
									<u>10,448</u>	<u>12,617</u>

(b) Secondary reporting format — geographical segments:

	Turnover	
	Six months ended 30 September 2005	2004
	HK\$'000	HK\$'000
Hong Kong and Mainland China	298,955	346,914
North America	279,482	144,496
Europe	98,192	52,687
Japan	80,153	66,078
Other Asian countries	8,857	6,343
	<u>765,639</u>	<u>616,518</u>

3. Operating profit

Operating profit is stated after charging and crediting the following:

	Six months ended 30 September	
	2005	2004
	HK\$'000	HK\$'000
Charging:		
Depreciation of fixed assets	6,572	7,064
Provision for bad debts	467	2,108
Crediting:		
Interest income	186	56
	<u>186</u>	<u>56</u>

4. Staff costs

	Six months ended 30 September	
	2005	2004
	HK\$'000	HK\$'000
Wages and salaries	49,218	39,952
Other allowances and benefits	1,343	1,248
Retirement benefit costs — defined contribution plans	1,759	1,462
	<u>52,320</u>	<u>42,662</u>

5. **Taxation**

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits for the period. Mainland China enterprise income tax and Canada 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:

	Six months ended	
	30 September	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong profits tax	408	479
Mainland China enterprise income tax	589	338
Canada income tax	(137)	67
	<u>860</u>	<u>884</u>
Deferred tax — relating to the origination and reversal of temporary differences	(365)	41
	<u><u>495</u></u>	<u><u>925</u></u>

6. **Deferred taxation**

Deferred taxation are calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2004: 17.5%).

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

	Six months ended		Year ended 31 March 2005
	30 September		
	2005	2004	<i>HK\$'000</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Deferred tax assets			
Opening balance	2,265		1,812
(Charged)/credited to profit and loss account (Note 5)	(198)		15
Acquisition	—		438
	<u>2,067</u>		<u>2,265</u>
Closing balance	<u><u>2,067</u></u>		<u><u>2,265</u></u>
Deferred tax liabilities			
Opening balance	5,346		5,446
(Credit) to profit and loss account (Note 5)	(563)		(100)
	<u>4,783</u>		<u>5,346</u>
Closing balance	<u><u>4,783</u></u>		<u><u>5,346</u></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.

	30 September		31 March
	2005		2005
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Deferred tax assets	2,067		2,265
Deferred tax liabilities	(4,783)		(5,346)
	<u>(2,716)</u>		<u>(3,081)</u>

7. **Dividends**

	Six months ended	
	30 September	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
2004/2005 Final dividend, paid, of HK\$0.02 (2003/2004 final paid: HK\$0.01) per ordinary share (Note (i))	5,454	1,588
2005/2006 Interim dividend of HK\$0.01 (2004/2005: HK\$0.01) per ordinary share, proposed on 6 December 2005 (Note (ii))	2,727	2,647
	<u><u>8,181</u></u>	<u><u>4,235</u></u>

Notes to condensed interim accounts

7. Dividends (continued)

Note (i): At a meeting held on 14 July 2005 the directors proposed a final dividend of HK\$0.02 per ordinary share for the year ended 31 March 2005, which was paid on 12 September 2005 and has been reflected as an appropriation of retained earnings for the six months ended 30 September 2005.

Note (ii): In December 2004, the Company declared an interim dividend of HK\$0.01 per ordinary share. Qualifying shareholders, at their options, could receive the dividend (i) in cash or (ii) in warrants to subscribe for ordinary shares of the Company of HK\$0.1 each at HK\$0.5 each on the basis of one warrant for every five shares held. In this connection, the interim dividend was settled by (i) cash of HK\$1,205,000 and (ii) 28,843,209 warrants.

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\$10,475,000 (2004: HK\$12,632,000).

The basic earnings per share is based on the weighted average of 271,977,835 (2004: 161,123,765) ordinary shares in issue during the period. The diluted earnings per share is based on 271,977,835 (2004: 161,123,765) ordinary shares which is the weighted average number of ordinary shares in issue during the period plus the weighted average of 2,111,499 (2004: nil) ordinary shares deemed to be issued at no consideration if all outstanding share warrants had been exercised.

9. Capital expenditure

As at six months ended 30 September 2005

	Goodwill HK\$'000	Fixed assets HK\$'000
Opening net book value	24,811	132,552
Exchange difference	—	140
Other additions	—	6,808
Disposals	—	(3)
Depreciation/amortisation charge	—	(6,572)
Closing net book value	<u>24,811</u>	<u>132,925</u>

10. Trade receivables

Trade receivables and their ageing analysis is as follows:

	30 September 2005 HK\$'000	31 March 2005 HK\$'000
Less than 60 days	159,750	108,776
60 to 119 days	49,986	39,043
120 days or more	16,456	6,872
	<u>226,192</u>	<u>154,691</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 2005 HK\$'000	31 March 2005 HK\$'000
Less than 60 days	182,159	132,893
60 to 119 days	36,899	21,079
120 days or more	6,559	7,851
	<u>225,617</u>	<u>161,823</u>

12. Long-term liabilities

	30 September 2005 HK\$'000	31 March 2005 HK\$'000
Obligations under finance leases	6,069	8,875
Unsecured bank borrowings	30,000	20,000
Provision for long service payments	1,220	1,111
Total amounts payable	37,289	29,986
Less: Current portion	(20,409)	(14,617)
Long-term portion	<u>16,880</u>	<u>15,369</u>

13. Share capital

	Number of Ordinary Shares	HK\$'000
Authorised:		
Ordinary shares of HK\$0.10 each		
At 1 April 2005 and 30 September 2005	<u>1,000,000,000</u>	<u>100,000</u>
Issued and fully paid:		
Ordinary shares of HK\$0.10 each		
At 1 April 2005	265,962,372	26,596
Issue of shares upon exercise of warrants (Note)	<u>6,746,799</u>	<u>675</u>
At 30 September 2005	<u>272,709,171</u>	<u>27,271</u>

Note: During the period, 6,746,799 warrants were utilised to subscribe for 6,746,799 shares, at a subscription price of HK\$0.50 per share. The new shares issued in connection with the warrant utilisation rank pari passu in all aspects with the existing shares.

14. Contingent liabilities

At 30 September 2005, the Group had contingent liabilities in respect of guarantees issued by banks to the Group's suppliers amounting to HK\$24,111,000 (2005: HK\$24,111,000). The Group's management anticipate that no material liabilities will arise from the above guarantees which have been arisen in the ordinary course of business.

15. Commitments

(a) Capital commitments

	30 September 2005 HK\$'000	31 March 2005 HK\$'000
Contracted but not provided for		
— purchase of fixed assets	<u>14,032</u>	<u>10,723</u>

(b) Operating lease commitments

At 30 September 2005, the Group had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

	30 September 2005 HK\$'000	31 March 2005 HK\$'000
Within one year	2,472	3,258
In the second to fifth year inclusive	<u>2,828</u>	<u>3,629</u>
	<u>5,300</u>	<u>6,887</u>

Supplementary Information

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

At 30 September 2005, 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 issued ordinary shares/underlying shares attached to derivatives											Total interests	Percentage
	Unlisted Warrants				Ordinary shares in issued								
	Corporate		Other		Personal		Corporate		Other				
interests	Notes	interests	Notes	interests	Notes	interests	Notes	interests	Notes	interests	Notes		
Mr. LAU Tak Wan	16,565,612	283	2,623,333	4	5,719,999	1	121,344,064	283	14,116,665	4	160,369,673	51.77%	
Ms. CHAN Yuen Mei, Pinky	16,565,612	283	2,623,333	4	3,519,998	1	121,344,064	283	16,316,666	4	160,369,673	51.77%	
Mr. WAN Chor Fai	—	—	—	—	50,000	—	—	—	—	—	50,000	0.02%	
Mr. MAK Hon Kai, Stanly	—	—	—	—	1,000,000	—	—	—	—	—	1,000,000	0.37%	
Mr. Barry John BUTTIFANT	—	—	—	—	500,000	—	—	—	—	—	500,000	0.18%	

Notes:

- 2,520,000 shares in the Company were jointly held by Mr. Lau and Ms. Chan (the spouse of Mr. Lau).
- 4,577,766 warrants and 61,404,832 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.
- 11,987,846 warrants and 59,939,232 shares in the Company were beneficially owned by Leading Trade Ltd ("Leading Trade"). The issue share capital of Leading Trade is 50% owned by Mr. Lau and 50% owned by Ms. Chan.
- 2,623,333 warrants and 13,116,667 shares in the Company were beneficially owned by Cyber Concept Limited ("Cyber Concept"). Cyber Concept is a company wholly owned by Mr. Yuen Che Bun, Mr. Yuen Che Bun and Mr. Lau are acting in concert.

(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.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS *(continued)*

Save as disclosed above, as at 30 September 2005, 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 for Securities Transactions by directors of Listed Issuers in the Listing Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading of "DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS" 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.

SHARE OPTION SCHEMES

On 18 August 2005, 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 2005, 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 2005, 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>	Number of shares held	% of the total issued shares
Leading Trade Limited	<i>(i)</i>	59,939,232	21.98%
China Capital Holdings Investment Ltd	<i>(ii)</i>	61,404,832	22.52%

Notes:

1. Leading Trade Limited is 50% owned by Mr. LAU Tak Wan and 50% owned by Ms. CHAN Yuen Mei, Pinky. Accordingly, Leading Trade Limited, Mr. Lau and Ms. Chan were deemed by SFO to be interested in 59,939,232, 160,369,673 and 160,369,673 shares of the Company.
2. China Capital Holdings Investment Limited is 60% owned by Mr. LAU Tak Wan and 40% owned by Ms. CHAN Yuen Mei, Pinky. Accordingly, China Capital Holdings Investment Limited, Mr. Lau and Ms. Chan were deemed by SFO to be interested in 61,404,832, 160,369,673 and 160,369,673 shares of the Company respectively.

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 2005.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions as set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 to the Listing Rules throughout the six months ended 30 September 2005, save for the following deviations:

Code Provision A.2.1

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

Mr. LAU Tak Wan is the Chairman of the Board and the president of the Company. In the opinion of the Board, the role of the president and the chief executive officer is the same. The Board considers that the present structure provides the Group with strong and consistent leadership and allows for efficient and effective business planning and execution. Hence, the Board believes that it is in the best interest of the shareholders of the Company that Mr. LAU Tak Wan will continue to assume the roles of the Chairman of the Board and the president of the Company. However, the Company will review the current structure as and when it becomes appropriate in future.

Supplementary Information

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES *(continued)*

Code Provision A.4.1

Under this code provision, non-executive directors should be appointed for a specific term and subject to re-election.

None of the existing non-executive directors of the Company is appointed for a specific term. However, under the Company's bye-laws, all the directors of the Company (whether executive or non-executive) are subject to the retirement 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 no less exacting than those in the Code.

Code Provision B.1.1

Under this code provision, the Company should establish a remuneration committee with terms of reference which deal clearly with its authority and duties. A majority of the members of the remuneration committee should be independent non-executive directors.

The Company has established the remuneration committee on 6 December 2005 with appropriate terms of reference.

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 2005.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a general review of the unaudited interim condensed accounts for the six months ended 30 September 2005 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 2005.

By Order of the Board
LAU Tak Wan
President

Hong Kong, 6 December 2005

