



DAIWA ASSOCIATE HOLDINGS LIMITED

台和商事控股有限公司

Interim Report 2006

二零零六年中期業績報告

(Stock code 股份代號 : 1037)



DAIWA ASSOCIATE HOLDINGS LIMITED

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Stock Code: 1037

INTERIM RESULT

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 2006. The unaudited interim accounts have been reviewed by the Company's Audit Committee.

RESULTS AND DIVIDEND

For the six month ended 30 September 2006, the Group recorded a consolidated net profit after taxation and minority interests of HK\$11.4 million (2005: HK\$10.4 million), representing an increase of 9.4% from the corresponding period of last year. Basic earnings per share was HK4.21 cents (2005: HK 3.85 cents).

Turnover of the Group increased by 16.4% to HK\$891.4 million (2005: HK\$765.6 million) when compared with the interim result of 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 all of their entitlement in form of warrants on the basis of one warrant for every seven shares held (the "Warrant Alternative") by shareholders whose names appear on the Register of Members of the Company on Friday, 22 December 2006.

The Warrant Alternative is conditional upon, amongst other things, the approval of 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.

An announcement in respect of the Warrant Alternative will be published shortly and a circular setting out further details of the Warrant Alternative, amongst other things, will be sent to the shareholders of the Company as soon as possible.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Wednesday, 20 December 2006 to Friday, 22 December 2006, 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, 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:00 p.m. on Tuesday, 19 December 2006.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's net current assets amounted to HK\$205.4 million and the shareholders' funds were HK\$366.9 million at 30 September 2006. The total amount of loans and finance lease was HK\$182.3 million and the gearing ratio, which is defined as total borrowings, excluding minority interests and deferred taxation to shareholders' funds was 0.49. The gearing rise due to the drawn down of long term borrowings to finance the development of Heyuan factory site. The cash and bank balances were HK\$81.6 million.

At 30 September 2006, total available banking facilities of the Group were approximately HK\$260.4 million, of which HK\$56.6 million was available for use. Finance lease obligations outstanding on the same date amounted to HK\$2.6 million.

The Group's assets were mostly financed by shareholders' funds, trade payables and bank borrowings. Trade payables and short term loans are repayable within one year. Long term borrowings are repayable between two to five years. The borrowings, cash and cash equivalents were mainly denominated in Hong Kong dollars, US dollars, Canadian dollars or Renminbi. The Group had entered into foreign currency contracts with banks to hedge certain future foreign currency trade liabilities. 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) and Consumer Electronics;
- Electronic Components — Distribution and Manufacturing; and
- Personal Computer and Digital Products — Distribution and Manufacturing.

President's Statement

EMS (CONTRACT ELECTRONIC MANUFACTURING SERVICE) AND CONSUMER ELECTRONICS

Summary turnover of this segment was HK\$387.7 million in the reporting period, representing an increase of 35% when compared with the same period of last year (2005: HK\$287.8 million).

EMS (Contract Electronic Manufacturing Service)

The EMS business recorded a turnover of HK\$215.4 million (2005: HK\$167.6 million), representing an increase of 29%. This sector recorded a satisfactory growth on both turnover and gross profit after the change of business model. The Group continuously improved the manufacturing process including enhancement of equipment, human resources and supply chain management to streamline the operation.

Consumer Electronics

The turnover of consumer electronics manufacturing in the reported period grew by 43% to HK\$172.2 million (2005: HK\$120.2 million) comparing with last reported period. The profit margin of this sector also increased. By the increase of new production floors in Heyuan site, pressure from the tight production capacity and labor supply in Dongguan was partly relieved and the Group can accommodate higher capacity demand from customers. The newly operate plastic injection department enhanced the Group's ability to have more control of the cost and on time supply of plastic parts. In this fade-in and fade-out factory moving period, both Dongguan and Heyuan production sites were in parallel operation, administrative resources were more heavily involved.

ELECTRONIC COMPONENTS — MANUFACTURING AND DISTRIBUTION

For the half year ended 30 September 2006, turnover of this business segment was HK\$336.6 million in the reporting period, representing an increase of 9.6% when compared with the same period of last year (2005: HK\$307 million).

Electronic Component Distribution

Turnover of electronic components distribution in the period growth by 18% to HK\$267.2 million (2005: HK\$227.1 million). Profit margin was also higher than the last corresponding period.

Both HK and PRC sales teams had achieved positive results. Although the overall market environment was still severe, the Group successfully maintained the customers and gained new orders by providing total solution and design-in package with the support of principal suppliers. Contribution from Shenzhen and Shanghai sales team became more significant. The recently gained distributorships started to have positive performance.

Electronic Component Manufacturing

The Group has years of experience in manufacturing of Diodes (DO35, DO34, mini-MELF, Zener diode and DO41 packages), Transistors (SOT23 and TO92 packages), Electronic Wires and Harnesses and have gained international quality system accreditations for many years.

The production capacity for the manufacturing of electronic components was steady during the period. Price of raw materials still unsteady. Turnover of this sector had decreased by 13% when compared with last corresponding period.

PERSONAL COMPUTER AND DIGITAL PRODUCTS — DISTRIBUTION AND MANUFACTURING

Turnover of personal computer and digital products business was slightly decreased to HK\$167.1 million (2005: HK\$170.8 million) but the profit margin and profit contribution were increased. The Group has devoted heavily into the R&D of MP3, MP4, Picture Frame and Portable DVD products. On the other hand, the Canada operation is now starting to gear into the distribution of the Group's manufactured digital products and sell direct to the local market.

FUTURE PROSPECT

The management expects that the electronic component distribution business will growth steadily with the expansion of product lines and contribution from new principal suppliers.

In Heyuan new factory site, the OEM, Wire & Harnesses, Plastic Injection and Tooling Workshop have moved in for partial production. The construction of two multi-floor factory buildings and four multi-floor domicile buildings are going to be finished by the end of this fiscal year. By the first quarter of 2007, production capacity of the Group will be greatly increased. At the same time, the Zhaoqing and Yunfu factory site will also be consolidated to this facility in the coming future to facilitate an audio total solution mass production inside one single factory site. The new domicile buildings will be available for an addition of the accommodation of 3,000 workers.

In mid 2007, after the OEM & ODM are moved to Heyuan, the Dongguan factory site can leave more space for the further development of the more technical and quality orientated EMS business. The Group can then cater for the rapid increase demand of EMS customers that can bring in much higher profit contribution to the Group.

EMPLOYEES

At 30 September 2006, the Group employed a total of approximately 6,000 employees of which 120 were Hong Kong based and 100 were employed in Canada. Others were mostly PRC employees located in different factory sites. Sales personnel are remunerated by salaries and incentives scheme. General staff are offered year-end discretionary bonus. The Group also provides ORSO Scheme or Mandatory Provident Fund Scheme and medical benefits to all Hong Kong employees.

Pursuant to the terms and conditions of share option scheme adopted by the Company on 18 August 2005, the Group may grant share options to Directors and eligible employees. Up to 30 September 2006, no share options had been granted to employees.

Condensed Consolidated Profit and Loss Account

For the six months ended 30 September 2006

		Unaudited	
		Six months ended	
		30 September	
		2006	2005
	Note	HK\$'000	HK\$'000
Turnover	2	891,367	765,639
Cost of sales		<u>(798,238)</u>	<u>(686,737)</u>
Gross profit		<u>93,129</u>	<u>78,902</u>
Other gains		1,852	428
Selling and distribution expenses		(14,297)	(13,321)
General and administrative expenses		<u>(64,092)</u>	<u>(53,634)</u>
Operating profit	3	16,592	12,375
Finance costs		<u>(3,297)</u>	<u>(1,432)</u>
Profit before income tax		13,295	10,943
Income tax expense	4	<u>(2,273)</u>	<u>(495)</u>
Profit for the year		<u><u>11,022</u></u>	<u><u>10,448</u></u>
Attributable to:			
Equity holders of the Company		11,457	10,475
Minority interests		<u>(435)</u>	<u>(27)</u>
		<u><u>11,022</u></u>	<u><u>10,448</u></u>
Dividends	6	<u><u>2,711</u></u>	<u><u>2,727</u></u>
Earnings per share for profit attributable to equity holders of the Company			
— basic	7	<u><u>HK 4.21 cents</u></u>	<u><u>HK 3.85 cents</u></u>
— diluted	7	<u><u>HK 4.21 cents</u></u>	<u><u>HK 3.82 cents</u></u>

The notes are integral part of these financial statements.

Condensed Consolidated Balance Sheet

As at 30 September 2006

		30 September 2006 Unaudited HK\$'000	31 March 2006 Audited HK\$'000
Non-current assets			
Goodwill	8	25,503	24,811
Property, plant and equipment	8	165,841	145,662
Leasehold land and land use rights		25,760	26,093
Interest in a jointly controlled entity		1	1
Deferred income tax assets	5	902	1,088
Other assets		869	851
		<u>218,876</u>	<u>198,506</u>
Current assets			
Inventories		273,328	202,043
Trade receivables	9	253,904	188,277
Prepayments, deposits and other receivables		19,021	12,884
Derivative financial instruments		190	—
Cash and cash equivalents		81,597	83,540
		<u>628,040</u>	<u>486,744</u>
Current liabilities			
Borrowings		137,684	87,053
Trade payables	10	238,278	203,392
Accruals and other payables		45,655	18,480
Derivative financial instruments	11	1,019	461
		<u>422,636</u>	<u>309,386</u>
Net current assets		<u>205,404</u>	<u>177,358</u>
Total assets less current liabilities		<u>424,280</u>	<u>375,864</u>
Non-current liabilities			
Borrowings	11	44,667	6,196
Deferred income tax liabilities	5	4,528	4,559
Other long-term liabilities		5,680	5,692
		<u>54,875</u>	<u>16,447</u>
Net Assets		<u>369,405</u>	<u>359,417</u>
Equity			
Capital and reserves attributable to equity holders of the Company			
Share capital	12	27,111	27,218
Reserves		339,807	330,953
		<u>366,918</u>	<u>358,171</u>
Minority interests		2,487	1,246
Total equity		<u>369,405</u>	<u>359,417</u>

The notes are integral part of these financial statements.

Condensed Consolidated Cash Flow Statement

For the six months ended 30 September 2006

	Unaudited	
	Six months ended	
	30 September	
	2006	2005
	HK\$'000	HK\$'000
Net cash (outflow)/inflow from operating activities	<u>(60,348)</u>	<u>8,855</u>
Net cash used in investing activities	<u>(18,805)</u>	<u>(8,198)</u>
Net cash from financing activities	<u>77,759</u>	<u>645</u>
Net (decrease)/increase in cash and cash equivalents	<u>(1,394)</u>	<u>1,302</u>
Cash and cash equivalents at 1 April	83,540	65,037
Effect of foreign exchange rate changes	<u>(549)</u>	<u>121</u>
Cash and cash equivalents at 30 September	<u>81,597</u>	<u>66,460</u>
Analysis of balances of cash and cash equivalents		
Cash and bank balances	<u>81,597</u>	<u>66,460</u>

The notes are integral part of these financial statements.

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 September 2006

Unaudited

	Attributable to shareholders of the Company									
	Share capital	Share Premium	Capital reserves	Share Redemption Reserve	Cumulative translation adjustments	Other reserves	Retained earnings	Total	Minority Interest	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 April 2005, as previously reported	26,596	199,355	41,201	—	987	90	78,997	347,226	627	347,853
Effect of change of accounting policies	—	—	—	—	—	—	2,383	2,383	—	2,383
Balance at 1 April 2005, as restated	26,596	199,355	41,201	—	987	90	81,380	349,609	627	350,236
Currency translation differences	—	—	—	—	(752)	—	—	(752)	—	(752)
Profit for the period	—	—	—	—	—	—	10,475	10,475	(27)	10,448
Issue of share capital	675	2,699	—	—	—	—	—	3,374	—	3,374
Final dividend paid for 2005	—	—	—	—	—	—	(5,454)	(5,454)	—	(5,454)
Balance at 30 September 2005	<u>27,271</u>	<u>202,054</u>	<u>41,201</u>	<u>—</u>	<u>235</u>	<u>90</u>	<u>86,401</u>	<u>357,252</u>	<u>600</u>	<u>357,852</u>
Balance at 1 April 2006	27,218	201,838	41,201	268	1,977	90	85,579	358,171	1,246	359,417
Currency translation differences	—	—	—	—	518	—	—	518	—	518
Profit for the period	—	—	—	—	—	—	11,457	11,457	(435)	11,022
Contribution from minorities	—	—	—	—	—	—	—	—	1,676	1,676
Purchase of own shares	(107)	(402)	—	509	—	—	(509)	(509)	—	(509)
Final dividend paid for 2006	—	—	—	—	—	—	(2,719)	(2,719)	—	(2,719)
Balance at 30 September 2006	<u>27,111</u>	<u>201,436</u>	<u>41,201</u>	<u>777</u>	<u>2,495</u>	<u>90</u>	<u>93,808</u>	<u>366,918</u>	<u>2,487</u>	<u>369,405</u>

The notes are integral part of these financial statements.

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.

This interim financial report should be read in conjunction with the annual financial statements for the year ended 31 March 2006.

The accounting policies and methods of computation used in the preparation of this interim financial report are consistent with those used in the annual financial statements for the year ended 31 March 2006, except that the Group has changed certain of its accounting policies following its adoption of new/revised Hong Kong Financial Reporting Standards ("HKFRS") and HKAS (collectively referred to as the "New HKFRSs"), which have become effective for accounting periods beginning on or after 1 January 2006. The applicable New HKFRSs adopted in this interim financial report are set out below.

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 (Amendment)	Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 and HKFRS 4 (Amendment)	Financial Guarantee Contracts
HKFRS-Int 4	Determining whether an Arrangement contains a Lease

The adoption of the above HKAS did not result in substantial changes to the Group's balance sheet and profit and loss account. The changes in the Group's accounting policies are summarized as below:

- HKAS 19 (Amendment) introduces the option of an alter native recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. The Group does not intend to change the accounting policy adopted for recognition of actuarial gains and losses.
- HKAS 21 (Amendment) changes the net investment definition to include loans between fellow subsidiaries. It permits inter-company loans denominated in any currency to be part of a net investment in a foreign operation and to recognize foreign exchange volatility on such loans funding foreign operations in exchange reserve in the consolidated financial statements.
- HKAS 39 (Amendment) allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the consolidated financial statements, provided that: (a) the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction; and (b) the foreign currency risk will affect consolidated profit or loss.
- HKAS 39 (Amendment) changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category.
- HKAS 39 and HKFRS 4 (Amendment) requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognized at their fair value, and subsequently measured at the higher of (a) the unamortized balance of the related fees received and deferred, and (b) the expenditure required to settle the commitment at the balance sheet date.
- HKFRS-Int 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (a) fulfillment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset.

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

No early adoption of the following new standard, interpretations or amendment that have been issued but are not yet effective. The adoption of such new standard, interpretations or amendment will have no material impact on the accounts of the Group and will not result in substantial changes to the Group's accounting policies.

HKAS 1 (Amendment)	Presentation of Financial Statements: Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives

2. **Revenues and segment information**

The Group is principally engaged in the design, development, manufacturing and distribution of electronic components contract electronic manufacturing service and consumer electronics, 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:**

	Manufacturing and distribution of electronic components		Contract electronic manufacturing service and consumer electronics		Manufacturing and distribution of personal computers and digital products		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	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover										
External sales	336,560	307,051	387,712	287,785	167,095	170,803				
Inter-segment sales	1,829	5,810	—	167	—	—	(1,829)	(5,977)		
	<u>338,389</u>	<u>312,861</u>	<u>387,712</u>	<u>287,952</u>	<u>167,095</u>	<u>170,803</u>	<u>(1,829)</u>	<u>(5,977)</u>	<u>891,367</u>	<u>765,639</u>
Segments results	6,566	4,913	7,965	5,823	2,061	1,639			16,592	12,375
Finance costs									(3,297)	(1,432)
Income tax expenses									(2,273)	(495)
Profit for the year									<u>11,022</u>	<u>10,448</u>

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

	Turnover	
	Six months ended 30 September	
	2006	2005
	HK\$'000	HK\$'000
Hong Kong and Mainland China	322,668	298,955
North America	338,279	279,482
Europe	138,026	98,192
Japan	78,502	80,153
Other Asian countries	13,892	8,857
	<u>891,367</u>	<u>765,639</u>

3. **Operating profit**

Operating profit is stated after charging and crediting the following:

	Six months ended 30 September	
	2006	2005
	HK\$'000	HK\$'000
Charging:		
Depreciation and amortisation of fixed assets	7,100	6,572
Provision for bad and doubtful debts	428	467
Crediting:		
Interest income	<u>536</u>	<u>186</u>

Notes to condensed interim accounts

4. Income tax

The Company is exempted from taxation in Bermuda. Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits arising in or derived from Hong Kong. Companies established and operate in Mainland China are subject to Mainland China enterprise income tax at the rate of 33% (2005: 33%). Companies established and operate in Canada are subject to Canadian income tax at the rate of 36% (2005: 36%).

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

	Six months ended 30 September 2006 HK\$'000	2005 HK\$'000
Current taxation:		
— Hong Kong profits tax	868	408
— Mainland China enterprise income tax	832	589
— Oversea income tax	418	(137)
	<u>2,118</u>	860
Deferred tax — relating to the origination and reversal of temporary differences	155	(365)
	<u>2,273</u>	<u>495</u>

5. Deferred income tax

Deferred income tax are calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2005: 17.5%).

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

	Six months ended 30 September 2006 HK\$'000	Year ended 31 March 2006 HK\$'000
Deferred income tax assets		
Opening balance	1,088	2,265
Charged to profit and loss account (Note 4)	(186)	(1,177)
Closing balance	<u>902</u>	<u>1,088</u>
Deferred income tax liabilities		
Opening balance	4,559	5,346
Credit to profit and loss account (Note 4)	(31)	(787)
Closing balance	<u>4,528</u>	<u>4,559</u>

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current income tax assets against current income 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 2006 HK\$'000	31 March 2006 HK\$'000
Deferred income tax assets	902	1,088
Deferred income tax liabilities	(4,528)	(4,559)
	<u>(3,626)</u>	<u>(3,471)</u>

6. Dividends

	Six months ended 30 September 2006 HK\$'000	2005 HK\$'000
2005/2006 Final dividend, paid, of HK\$0.01 (2004/2005 final paid: HK\$0.02) per ordinary share (Note (i))	2,719	5,454
2006/2007 Interim dividend of HK\$0.01 (2005/2006: HK\$0.01) per ordinary share, proposed on 4 December 2006 (Note (ii))	2,711	2,727
	<u>5,430</u>	<u>8,181</u>

6. **Dividends (continued)**

Note (i): At a meeting held on 21 July 2006 the directors proposed a final dividend of HK\$0.01 per ordinary share for the year ended 31 March 2006, which was paid on 15 September 2006 and has been reflected as an appropriation of retained earnings for the six months ended 30 September 2006.

Note (ii): At a meeting held on 4 December 2006 the directors proposed an interim dividend of HK\$0.01 per ordinary share for the six months ended 30 September 2006 to be paid in cash with the alternative to the shareholders to elect to receive all of their dividend entitlement in form of warrants on the basis of one warrant for every seven shares held.

7. **Earnings per share**

The calculation of basic and diluted earnings per share are based on the Group's profit attributable to shareholders of HK\$11,457,000 (2005: HK\$10,475,000).

The basic earnings per share is based on the weighted average of 271,864,144 (2005: 271,977,835) ordinary shares in issue during the period. The diluted earnings per share is based on 271,864,144 (2005: 271,977,835) ordinary shares which is the weighted average number of ordinary shares in issue during the period plus the weighted average of Nil (2005: 2,111,499) ordinary shares deemed to be issued at no consideration as exercise of all outstanding share warrants would not have dilutive effect to earnings per share.

8. **Capital expenditure**

For six months ended 30 September 2006

	Goodwill HK\$'000	Property, plant and equipment HK\$'000
Opening net book value	24,811	145,662
Exchange difference	—	503
Acquisition of subsidiary	692	10,070
Additions	—	16,813
Disposals	—	(107)
Depreciation/amortisation charge	—	(7,100)
	<u>25,503</u>	<u>165,841</u>
Closing net book value	<u>25,503</u>	<u>165,841</u>

9. **Trade receivables**

Trade receivables and their ageing analysis is as follows:

	30 September 2006 HK\$'000	31 March 2006 HK\$'000
Less than 60 days	207,451	127,163
60 to 119 days	37,947	47,170
120 days or more	8,506	13,944
	<u>253,904</u>	<u>188,277</u>

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

10. **Trade payables**

Trade payables and their ageing analysis is as follows:

	30 September 2006 HK\$'000	31 March 2006 HK\$'000
Less than 60 days	187,420	174,146
60 to 119 days	40,172	19,044
120 days or more	10,686	10,202
	<u>238,278</u>	<u>203,392</u>

Notes to condensed interim accounts

11. Borrowings

	30 September 2006 HK\$'000	31 March 2006 HK\$'000
Obligations under finance leases	2,596	4,438
Bank borrowings	69,001	21,667
Trust receipts bank loans	110,754	67,144
Total amounts payable	182,351	93,249
Less: Current portion	(137,684)	(87,053)
Long-term portion	<u>44,667</u>	<u>6,196</u>

12. Share capital

	Number of Ordinary Shares	HK\$'000
Authorised:		
Ordinary shares of HK\$0.10 each		
At 1 April 2006 and 30 September 2006	<u>1,000,000,000</u>	<u>100,000</u>
Issued and fully paid:		
Ordinary shares of HK\$0.10 each		
At 1 April 2006	272,175,171	27,218
Purchase of own shares	(1,068,000)	(107)
At 30 September 2006	<u>271,107,171</u>	<u>27,111</u>

13. Contingent liabilities

At 30 September 2006, the Group had contingent liabilities in respect of guarantees issued by banks to the Group's suppliers amounting to HK\$24,111,000 (31 March 2006: 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.

14. Commitments

(a) Capital commitments

	30 September 2006 HK\$'000	31 March 2006 HK\$'000
Contracted but not provided for		
— purchase of fixed assets	<u>6,439</u>	<u>3,973</u>

(b) Operating lease commitments

At 30 September 2006, the Group had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

	30 September 2006 HK\$'000	31 March 2006 HK\$'000
Within one year	4,096	3,325
In the second to fifth year inclusive	6,933	7,172
	<u>11,029</u>	<u>10,497</u>

15. **Financial Risk Management**

15.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange risk, credit risk, liquidity risk, and cash flow and fair value interest-rate risk.

Management regularly monitors the financial risks of the Group. Because of the simplicity of the financial structure and the current operations of the Group, no major hedging activities are undertaken by management.

(a) *Foreign exchange risk*

The Group are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to United States dollar and Hong Kong dollars. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. The Group currently does not hedge its foreign exchange exposure.

(b) *Credit risk*

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales are made to customers with an appropriate credit history. The Group has policies that limit the amount of credit exposure to any financial institution.

(c) *Liquidity risk*

The Group maintains sufficient cash and credit lines to meet its liquidity requirements.

(d) *Cash flow and fair value interest-rate risk*

The Group's interest rate risk arises from bank balances and bank borrowings. This risk is managed through the maintenance of a proper portfolio of deposit and debt.

15.2 Accounting for derivative financial instruments

From 1 April 2004 to 31 March 2005, derivative financial instruments were designated "hedging" or "non-hedging instruments". The transactions that, according to the Group's policy for risk management, were able to meet the conditions for hedge accounting were classified as "hedging" transactions; the others, although set up for the purpose of managing risk (since the Group's policy do not permit speculative transactions), had been designated as "trading". The Group recorded derivative financial instruments at cost. The gains and losses on derivative financial instruments were included in the income statement on maturity to match the underlying hedged transactions where relevant. For foreign exchange instruments designated as hedges, the premium (or discount) representing the difference between the spot exchange rate at the inception of the contract and the forward exchange rate was included in the income statement, in general and administrative expenses, in accordance with the accrual method.

From 1 April 2005 onwards, derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Since the derivative instruments entered into by the Group do not qualify for hedge accounting, changes in the fair value of any derivative instruments are recognised immediately in the income statement.

15.3 Fair value estimation

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The nominal value less estimated credit adjustments of trade receivables and trade payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

Supplementary Information

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

At 30 September 2006, 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 and warrants of the Company

Name of directors	Number of issued ordinary shares/underlying shares attached to derivatives												
	Unlisted Warrants				Ordinary shares in issued								
	Corporate		Other		Personal		Corporate		Other		Total		
interests	Notes	interests	Notes	interests	Notes	interests	Notes	interests	Notes	interests	Notes	interests	Percentage
Mr. LAU Tak Wan	16,565,612	2&3	2,623,333	4	5,719,999	1	121,344,064	2&3	14,116,665	4	160,369,673	59.15%	
Ms. CHAN Yuen Mei, Pinky	16,565,612	2&3	2,623,333	4	3,519,998	1	121,344,064	2&3	16,316,666	4	160,369,673	59.15%	
Mr. WAN Chor Fai	—	—	—	—	50,000	—	—	—	—	—	—	50,000	0.02%
Mr. MAK Hon Kai, Stanley	—	—	—	—	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 Tak Wan ("Mr. Lau") and Ms. Chan Yuen Mei (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 EXECUTIVES' 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 2006, 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 EXECUTIVES' 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 2006, the Company did not grant any options under the New Scheme and no share options were outstanding under the Old Scheme.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 30 September 2006, 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 and warrants of the Company.

Interests in the shares and warrants of the Company

	<i>Note</i>	Number of ordinary shares held	Interest in underlying shares - unlisted warrants	% of the total issued shares
Leading Trade Limited	(1)	59,939,232	11,987,846	26.53%
China Capital Holdings Investment Ltd	(2)	61,404,832	4,577,766	24.34%
Cyber Concept Limited	(3)	13,116,667	2,623,333	5.81%

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 71,927,078, 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 65,982,598, 160,369,673 and 160,369,673 shares of the Company respectively.
3. Cyber Concept Limited is a company wholly owned by Mr. Yuen Che Bun, Mr. Yuen Che Bun and Mr. Lau Tak Wan are acting in concert. Accordingly, Cyber Concept Limited, Mr. Lau and Ms. Chan were deemed by SFO to be interested in 15,740,000, 160,369,673 and 160,369,673 shares of the Company.

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 2006.

Supplementary Information

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 2006, 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 separated 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.

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, relevant amendments to the Company's bye-laws were proposed and approved by the shareholders at the annual general meeting of the Company held on 1 September 2006, that all directors of the Company (whether appointed for specific terms or not) shall retire from office by rotation at least once every three years. 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.

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 2006.

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 review of the unaudited interim condensed accounts for the six months ended 30 September 2006 with the directors.

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

During the six months ended 30 September 2006, the Company purchased a total of 1,068,000 shares of HK\$0.10 each of the Company in the range from HK\$0.445 to HK\$0.530 for a total consideration of HK\$509,201 on The Stock Exchange of Hong Kong Limited, all of which shares were subsequently cancelled.

Save as disclosed above, 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 2006.

By Order of the Board
LAU Tak Wan
President

Hong Kong, 4 December 2006

