



07

INTERIM REPORT



S.A.S. Dragon Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock Code : 1184)



## CORPORATE INFORMATION

### DIRECTORS

#### Executive Directors

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

#### Non-Executive Director

Dr. Chang Chu Cheng

#### Independent Non-Executive Directors

Mr. Cheung Chi Kwan  
Mr. Liu Chun Ning, Wilfred  
Dr. Lui Ming Wah *SBS JP*  
Mr. Wong Tak Yuen, Adrian

#### AUDIT COMMITTEE

Mr. Wong Tak Yuen, Adrian (*Chairman*)  
Dr. Chang Chu Cheng  
Mr. Cheung Chi Kwan

#### REMUNERATION COMMITTEE

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

#### COMPANY SECRETARY

Mr. Wong Wai Tai

#### AUDITORS

Deloitte Touche Tohmatsu

#### LEGAL ADVISOR

C. P. Cheung & Co.

### REGISTERED OFFICE

Clarendon House  
2 Church Street  
Hamilton HM11  
Bermuda

### PRINCIPAL OFFICE

6th Floor, Tower B  
Hunghom Commercial Centre  
37 Ma Tau Wai Road  
Hong Kong

### SHARE REGISTRARS AND TRANSFER OFFICE

Tricor Secretaries Limited  
26th Floor, Tesbury Centre  
28 Queen's Road East  
Hong Kong

### PRINCIPAL BANKERS

Chong Hing Bank Limited  
Dah Sing Bank Limited  
Fubon Bank  
Hang Seng Bank Limited  
The Hongkong and Shanghai  
Banking Corporation Limited  
Standard Chartered Bank (Hong Kong) Limited

### WEBSITE

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

### STOCK CODE

The Stock Exchange of Hong Kong Limited:  
1184



## FINANCIAL HIGHLIGHTS

- Turnover increased by 36.8% to HK\$1,478 million.
- Earnings before interest, tax, depreciation and amortisation (EBITDA) rose by 21.8% to HK\$53.1 million.
- Profit attributable to equity holders grew by 96.7% to HK\$21.2 million.
- Basic earnings per share amounted to HK8.73 cents (2006: HK4.44 cents).
- Declared interim dividend of HK3 cents per ordinary share (2006: HK2 cents).



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 2007, together with comparative figures for the previous period, as follows:

## CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	For the six months ended 30 June	
		2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Turnover	2	<b>1,478,070</b>	1,080,393
Cost of sales		<b>(1,374,475)</b>	(1,002,158)
Gross profit		<b>103,595</b>	78,235
Interest income		<b>5,157</b>	2,441
Other income		<b>2,903</b>	2,916
Distribution costs		<b>(8,508)</b>	(7,292)
Administrative expenses		<b>(56,143)</b>	(37,814)
Finance costs		<b>(17,467)</b>	(15,625)
Impairment loss on available-for-sale investments		–	(7,800)
Share of results of associates		<b>(3)</b>	30
Profit before taxation		<b>29,534</b>	15,091
Taxation	3	<b>(3,402)</b>	(2,454)
Profit for the period	4	<b>26,132</b>	12,637
Attributable to:			
Equity holders of the Company		<b>21,176</b>	10,766
Minority interests		<b>4,956</b>	1,871
		<b>26,132</b>	12,637
Dividend paid	5	<b>12,127</b>	12,127
Earnings per share – Basic ( <i>HK cents</i> )	6	<b>8.73</b>	4.44

**CONDENSED CONSOLIDATED BALANCE SHEET**

		<b>30 June 2007 (Unaudited) HK\$'000</b>	31 December 2006 (Audited) HK\$'000
<hr/>			
Non-Current Assets			
Investment properties		<b>97,208</b>	87,200
Property, plant and equipment		<b>143,765</b>	135,508
Prepaid lease payments – non-current portion		<b>1,167</b>	1,179
Intangible assets		<b>3,359</b>	3,012
Goodwill		<b>16,419</b>	1,369
Interests in associates		<b>698</b>	699
Available-for-sale investments		<b>23,208</b>	4,970
Pledged bank deposits		<b>–</b>	23,396
		<hr/> <b>285,824</b>	<hr/> 257,333
Current Assets			
Inventories		<b>484,850</b>	269,392
Trade and other receivables	7	<b>426,791</b>	357,665
Bills receivable	7	<b>4,003</b>	26,398
Prepaid lease payments – current portion		<b>24</b>	24
Held-for-trading investments		<b>14,546</b>	12,025
Taxation recoverable		<b>4,575</b>	3,047
Pledged bank deposits		<b>67,645</b>	45,097
Bank balances and cash		<b>160,781</b>	225,705
		<hr/> <b>1,163,215</b>	<hr/> 939,353
Current Liabilities			
Trade and other payables	8	<b>300,853</b>	145,149
Bills payable	8	<b>70,612</b>	63,056
Taxation payable		<b>2,500</b>	1,224
Obligations under finance leases – due within one year		<b>86</b>	111
Bank borrowings – due within one year		<b>537,964</b>	471,870
		<hr/> <b>912,015</b>	<hr/> 681,410
Net Current Assets		<hr/> <b>251,200</b>	<hr/> 257,943
		<hr/> <b>537,024</b>	<hr/> 515,276



<i>Notes</i>	<b>30 June 2007 (Unaudited) HK\$'000</b>	31 December 2006 (Audited) HK\$'000
Capital and Reserves		
Share capital	<b>24,254</b>	24,254
Reserves	<b>351,174</b>	341,906
Equity attributable to equity holders of the Company	<b>375,428</b>	366,160
Minority interests	<b>28,131</b>	7,681
Total Equity	<b>403,559</b>	373,841
Non-Current Liabilities		
Obligation under finance leases – due after one year	<b>25</b>	56
Bank borrowings – due after one year	<b>124,676</b>	132,615
Deferred tax liabilities	<b>8,764</b>	8,764
	<b>133,465</b>	141,435
	<b>537,024</b>	515,276



## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company										
	Share capital	Share premium	Capital		Asset				Total	Minority interests	Total
			redemption reserve	Capital reserve	Contributed surplus	revaluation reserve	Translation reserve	Accumulated profit			
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 January 2006	24,254	10,992	1,109	11,145	102,558	24,299	(1,388)	191,668	364,637	6,510	371,147
Total recognized income and expense for the period	-	-	-	-	-	-	-	10,766	10,766	1,871	12,637
Dividend paid	-	-	-	-	(12,127)	-	-	-	(12,127)	-	(12,127)
At 30 June 2006 (unaudited)	24,254	10,992	1,109	11,145	90,431	24,299	(1,388)	202,434	363,276	8,381	371,657
At 1 January 2007	24,254	10,992	1,109	11,145	85,580	24,299	(1,388)	209,869	366,160	7,680	373,840
Exchange realignment	-	-	-	-	-	-	219	-	219	-	219
Profit for the period	-	-	-	-	-	-	-	21,176	21,176	4,956	26,132
Total recognized income and expense for the period	-	-	-	-	-	-	219	21,176	21,395	4,956	41,846
Acquisition of a subsidiary	-	-	-	-	-	-	-	-	-	15,495	15,495
Dividend paid	-	-	-	-	(12,127)	-	-	-	(12,127)	-	(12,127)
At 30 June 2007 (unaudited)	24,254	10,992	1,109	11,145	73,453	24,299	(1,169)	231,045	375,428	28,131	403,559



## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	<b>For the six months ended 30 June</b>	
	<b>2007</b>	2006
	<b>(Unaudited) HK\$'000</b>	(Unaudited) HK\$'000
Net cash (used in) from operating activities	<b>(67,897)</b>	97,389
Net cash used in investing activities	<b>(25,533)</b>	(3,264)
Net cash from (used in) financing activities	<b>28,506</b>	(59,738)
Net (decrease) increase in cash and cash equivalents	<b>(64,924)</b>	34,387
Cash and cash equivalents at beginning of the period	<b>225,705</b>	101,463
Cash and cash equivalents at end of the period	<b>160,781</b>	135,850
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	<b>160,781</b>	135,850





## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standards (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and 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”).

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2006.

In the current interim period, the Group has applied, for the first time, the following new standards, amendments and interpretations (“new HKFRSs”), issued by the HKICPA, which are effective for the Group’s financial year beginning 1 January 2007.

HKAS 1 (Amendment)	Capital Disclosures <sup>1</sup>
HKFRS 7	Financial Instruments: Disclosures <sup>1</sup>
HK(IFRIC) – INT 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies <sup>2</sup>
HK(IFRIC) – INT 8	Scope of HKFRS 2 <sup>3</sup>
HK(IFRIC) – INT 9	Reassessment of Embedded Derivatives <sup>4</sup>
HK(IFRIC) – INT 10	Interim Financial Reporting and Impairment <sup>5</sup>

<sup>1</sup> *Effective for annual periods beginning on or after 1 January 2007.*

<sup>2</sup> *Effective for annual periods beginning on or after 1 March 2006.*

<sup>3</sup> *Effective for annual periods beginning on or after 1 May 2006.*

<sup>4</sup> *Effective for annual periods beginning on or after 1 June 2006.*

<sup>5</sup> *Effective for annual periods beginning on or after 1 November 2006.*

The adoption of these new HKFRSs had no material effect on the results or financial position of the Group for the current or prior accounting period. Accordingly, no prior period adjustment has been recognized.

The Group has not early applied the following new standards or interpretations that have been issued but are not yet effective.



HKAS 23 (Revised)	Borrowing Costs <sup>1</sup>
HKFRS 8	Operating Segments <sup>1</sup>
HK(IFRIC) – INT 11	HKFRS 2: Group and Treasury Share Transactions <sup>2</sup>
HK(IFRIC) – INT 12	Service Concession Arrangements <sup>3</sup>

<sup>1</sup> *Effective for annual periods beginning on or after 1 January 2009.*

<sup>2</sup> *Effective for annual periods beginning on or after 1 March 2007.*

<sup>3</sup> *Effective for annual periods beginning on or after 1 January 2008.*

The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group.

## 2. SEGMENT INFORMATION

The turnover and contributions to profit of the Group for the six months ended 30 June 2007, analyzed by business segments and by geographical segments, are as follows:

### ***Business segments***

For management purposes, the Group's operations are organized into three operating division namely distribution of electronic components and semiconductors products, distribution of sports products and manufacture and sales of LCMS. These divisions are the basis on which the Group reports its primary segmental information.



Segment information about these businesses is presented as follows:

	<b>For the six months ended 30 June</b>			
	<b>Turnover</b>		<b>Results</b>	
	<b>2007</b>	2006	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
Distribution of electronic components and semiconductors products	<b>1,459,375</b>	1,067,047	<b>43,849</b>	37,480
Distribution of sports products	<b>13,190</b>	13,346	<b>510</b>	443
Manufacture and sales of liquid crystal display modules ("LCMs")	<b>5,505</b>	–	<b>908</b>	–
	<b>1,478,070</b>	1,080,393	<b>45,267</b>	37,923
Interest income			<b>5,157</b>	2,441
Unallocated corporate expenses			<b>(5,362)</b>	(4,512)
Unallocated corporate income			<b>1,942</b>	2,634
Finance costs			<b>(17,467)</b>	(15,625)
Impairment loss on available-for-sale investments			–	(7,800)
Share of results of associates			<b>(3)</b>	30
Profit before taxation			<b>29,534</b>	15,091
Taxation			<b>(3,402)</b>	(2,454)
Profit for the period			<b>26,132</b>	12,637

### **Geographical segments**

The Group's operations are located in the People's Republic of China excluding Hong Kong and Taiwan regions (the "PRC"), Hong Kong and Taiwan. The Group's distribution of electronic components and semiconductors products is mainly carried out in the PRC, Hong Kong and Taiwan. Distribution of sports products and manufacture and sales of LCMs are mainly carried out in the PRC and Hong Kong.



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

	<b>For the six months ended 30 June</b>	
	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
The PRC	<b>913,887</b>	647,864
Hong Kong	<b>400,807</b>	309,493
Taiwan	<b>143,186</b>	106,543
Others	<b>20,190</b>	16,493
	<b>1,478,070</b>	1,080,393

### 3. TAXATION

	<b>For the six months ended 30 June</b>	
	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
Hong Kong Profits Tax	<b>3,402</b>	2,454

Hong Kong Profits Tax is calculated at 17.5% (2006: 17.5%) of the estimated assessable profit for period.

### 4. PROFIT FOR THE PERIOD

	<b>For the six months ended 30 June</b>	
	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
Profit for the period has been arrived at after charging:		
Depreciation of property, plant and equipment	<b>5,911</b>	5,106
Amortisation of intangible assets	<b>160</b>	-
Amortisation of prepaid lease payments	<b>12</b>	-

**5. DIVIDEND PAID**

	<b>For the six months ended 30 June</b>	
	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
Final dividend in respect of the previous financial year, paid during the period, of HK5 cents per share (2006: HK5 cents)	<b>12,127</b>	12,127

**6. EARNINGS PER SHARE**

The calculation of basic earnings per share for the six months ended 30 June 2007 is based on the profit for the period attributable to equity holders of the Company of approximately HK\$21,176,000 (2006: HK\$10,766,000) and weighted average number of 242,540,720 shares (2006: 242,540,720 shares) in issue during the period.

No diluted earnings per share has been presented for both period as the Company had no potential ordinary shares outstanding during the six months ended 30 June 2007 and 2006.

**7. TRADE AND OTHER RECEIVABLES AND BILLS RECEIVABLE**

An aged analysis of trade and bills receivables by due dates is as follows:

	<b>30 June 2007</b>	31 December 2006
	<b>HK\$'000</b>	HK\$'000
Current to 30 days	<b>311,439</b>	291,943
31 to 60 days	<b>22,302</b>	29,923
61 to 90 days	<b>15,086</b>	12,488
Over 90 days	<b>30,770</b>	21,229
Trade receivables and bills receivable	<b>379,597</b>	355,583
Other receivables	<b>51,197</b>	28,480
	<b>430,794</b>	384,063

The Group allows a credit period ranged from 30 days to 120 days to its trade customers.



## 8. TRADE AND OTHER PAYABLES AND BILLS PAYABLE

An aged analysis of trade and bills payables by due date is as follows:

	<b>30 June 2007 HK\$'000</b>	31 December 2006 HK\$'000
Current to 30 days	<b>280,044</b>	167,906
31 to 60 days	<b>41,100</b>	2,630
61 to 90 days	<b>2,038</b>	3,026
Over 90 days	<b>6,699</b>	7,613
Trade payables and bills payable	<b>329,881</b>	181,175
Other payables	<b>41,584</b>	27,030
	<b>371,465</b>	208,205

## 9. SUBSEQUENT EVENT

On 13 August 2007, 16,950,000 new shares were allotted and issued at an issue price HK\$1.18 per share. The subscription of these new shares was immediate following a placement of 16,950,000 existing shares of the Company by the major shareholder, Unimicro Limited, at the same price to CCB International Asset Management Limited, a wholly-owned subsidiary of China Construction Bank Corporation, the H shares of which are listed on the main board of the Stock Exchange of Hong Kong Limited.

The net proceeds from the Subscription of approximately HK\$19.4 million was used as general working capital for the Group.

Details of the Placing and Subscription please refer to the announcement of the Company dated 1 August 2007.



## 10. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES

### (i) *Connected parties*

During the period, the Group had significant transactions and balances with related parties, some of which are also deemed to be connected parties pursuant to the Listing Rules. The significant transactions during the period and balances at the balance sheet date with related parties are as follows:

#### (a) *Transactions*

Name of party	Interested director	Nature of transactions	For the six months ended 30 June	
			2007 HK\$'000	2006 HK\$'000
Hon Hai Precision Industry Co Ltd ("Hon Hai") (note i) and its subsidiaries	–	Purchases of electronic products	21,193	18,993
		Sales of electronic products	133,973	93,731

#### (b) *Balances*

Name of party	Nature of transactions	30 June 2007	31 December 2006
		HK\$'000	HK\$'000
Hon Hai (note i) and its subsidiaries	Balance		
	– trade receivables	78,423	71,972
	– trade payables	9,110	14,450

Note:

- i. Hon Hai 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	
		2007 HK\$'000	2006 HK\$'000
Kitronix Limited	Sales of electronic products	<b>6,041</b>	–
Associates:			
Bestime Technology Development Ltd	Sales of electronic products	<b>62</b>	152
Now Electron Inc	Sales of electronic products	<b>3,168</b>	4,755

(b) *Balances*

Name of party	Nature of transactions	30 June	31 December
		2007 HK\$'000	2006 HK\$'000
Venturers of Kitronix Limited	Balance		
	– trade receivables	<b>2,449</b>	–
	– other receivables	–	667
Associates:			
Bestime Technology Development Ltd	Balance		
	– trade receivables	<b>743</b>	733
Now Electron Inc	Balance		
	– trade receivables	<b>986</b>	1,532





## **INTERIM DIVIDEND**

The Board has resolved to declare an interim dividend of HK3.0 cents (2006: HK2.0 cents) per share payable to the shareholders of the Company whose names appear on the Register of Members of the Company on 25 September 2007. The dividend warrants are expected to despatch to shareholders on or about 4 October 2007.

## **CLOSURE OF REGISTERS OF MEMBERS**

The registers of members of the Company will be closed from 24 September 2007 to 25 September 2007, 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, Tricor Secretaries Limited of 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on 21 September 2007.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Business review**

For the six months ended 30 June 2007, the Group's turnover increased 36.8% to HK\$1,478,070,000 (2006: HK\$1,080,393,000), gross profit rose by 32.4% to HK\$103,595,000 (2006: HK\$78,235,000), gross profit margin maintained at 7.0% (2006: 7.2%) and EBITDA (represented gross profit plus interest and other income minus distribution costs and administrative expenses plus depreciation and amortisation) grew 21.8% to HK\$53,087,000 (2006: HK\$43,592,000).

Profit attributable to equity holders of the Company grew by 96.7% to HK\$21,176,000 (2006: HK\$10,766,000), which resulted in a basic earnings per share of HK8.73 cents (2006: HK4.44 cents).

The satisfactory performance in the first half year was mainly attributable to the booming consumer market and strong demand for consumer and other electronic goods in China. The Group's electronic components benefited directly from demand exceeding supply opening room for upward price adjustments complemented by the Group's extensive supply and sales network. In addition, benefits from the consolidation of operations of Kitronix Limited ("Kitronix") and Hi-Level Technology Limited ("Hi-Level") were fully reflected in the first half year, which also explained the favourable performance of the Group.



## **Distribution of Electronic Components and Semiconductors Products**

### ***Consumer Electronic Products***

During the period under review, the Group began business with global consumer chip design company Sunplus Technology Company Limited, through the acquisition of Hi-Level. It has, as a result, strengthened its competitiveness in product design and customer network, and in turn enlarged its consumer electronic product business. The Group's existing customers also stand to benefit from Hi-Level's outstanding chip and circuit board design capability.

Other products of the Group including solutions for portable DVD player, GPS, PMP, LCD TV, digital camera and TFT-LCD with 1.5 inch to 47 inch screens, all registered stable sales during the reporting period.

Rapid development of digital television in China also translated into demand for set top boxes, and in turn remarkable rises in demand for related components produced by the Group.

### ***Mobile Phone Products***

The Smart Phone, equipped with games, 3G, GPS and Bluetooth capabilities and can also double as a camera for still images and films and be connected to the computer for data transfer, has become the trendy item to have. To support all its different function, it needs larger display panels. With an extensive supplier network and strong bargaining power, the Group has been able to satisfy customer demands with the display panels it distributes.

### ***Computer Products***

As the dual-mode processor can significantly enhance a computer's operation platform, it has become an important application for speeding up the speed of operation of computers. The phenomenon boosted the sales of the Group's relevant products, including the VGA card and high-ended motherboards.



### **Distribution of Sports Products**

As for the Group's sports products distribution business, its performance had been flat relative to the same period last year.

### **Manufacture and Sales of LCMs**

By setting up a joint venture company Kitronix in 2006, the Group has expanded its business to production and sales of LCMs and related products. The production facilities of Kitronix have given the Group the edge of stable supply of the products, complementing its leadership in tailoring solutions for customers to meet their specific needs. This special edge is critical to raising product quality and profit of the Group. Phase one of Kitronix's production plant in Dongguan commenced production in January this year and brought profit to the Group in the period under review.

### **PROSPECTS**

The second half of the year is the traditional peak season for the electronic product industry. As consumption sentiment booms in the market, supply of consumer electronics, mobile phone and computer products has been trailing farther and farther behind demand and product prices are going up. These phenomena are fueling demand for electronic components and solutions, thus work in obvious favour of the Group. During the period under review, the Group has began to sell the DVB-T solution and solutions for the environmentally friendly LED lighting system, which is expected to be providing future contribution to the Group.

In addition, the synergies with Hi-Level and Kitronix had started to come through in the first half of the year. As the two are consolidated with the rest of the Group's operation, their advantages will be even better realized contributing to the Group's scale and market share in the electronic component and the semi-conductor distribution business and the LCM manufacturing business. Against such a rosy backdrop, the Group will focus more resources on developing the Eastern China market to expand market coverage and also step up efforts to expand the India market.



In August 2007, by way of placing of shares, the Group introduced CCB International Asset Management Limited, a wholly owned subsidiary of China Construction Bank Corporation (“CCB”), as one of its substantial shareholders. Directors of the Group saw that as CCB demonstrating its strong confidence in the Group’s business and prospects, it will also be conducive to fostering customer confidence of the Group and the Group will have better position to further expand its business in the PRC market.

## **FINANCIAL REVIEW**

### **Significant Acquisition and Investment**

On 2 January 2007, the Group has completed the acquisition of 51% equity interest in Hi-Level at a consideration of HK\$30 million, which was paid in cash during the period under review. Details of this acquisition were included in the circular of the Company dated 12 December 2006.

On 15 June 2007, the Group has entered into Agreements to acquire a commercial property located at Shanghai, the PRC, at a total consideration of RMB20 million, of which RMB14 million were paid as of 30 June 2007. Details of this acquisition were included in the circular of the Company dated 9 July 2007.

### **Liquidity and Financial Resources**

On 30 June 2007, the Group’s current ratio was 127.5% (31 December 2006: 137.9%), net gearing ratio was 107.6% (31 December 2006: 83.0%), which is calculated based on the Group’s net borrowings (calculated as total interest-bearing borrowings minus total cash and bank balances) of approximately HK\$434,325,000 (31 December 2006: HK\$310,454,000) and total equity of HK\$403,559,000 (31 December 2006: HK\$373,841,000).

The Group recorded debtors turnover of approximately 46 days for the period under review (2006: 56 days) based on the amount of trade and bills receivable as at 30 June 2007 divided by sales of the same period multiplied by 181 days for the six months ended 30 June 2007 (365 days for the year ended 31 December 2006).



The Group recorded inventory turnover and average payable period of approximately 64 days and 43 days respectively for the six months ended 30 June 2007 (2006: approximately 46 days and 31 days respectively) based on the amount of inventory and trade and bills payables as at 30 June 2007 divided by cost of sales of the same period multiplied by 181 days for the six months ended 30 June 2007 (365 days for the year ended 31 December 2006).

The Directors considered that the Group's current cash and bank balances, together with available credit facilities will be sufficient to satisfy the Group's current and expected expanding operation needs. The Group's liquidity is further strengthened after the placing of shares as disclosed in subsequent event in the notes to the condensed financial statements.

### **Pledge of Assets**

At 30 June 2007, the following assets were pledged by the Group to banks in order to secure general banking facilities by these banks to the Group:

- (a) investment properties and leasehold land and buildings with carrying values of HK\$93,208,000 and HK\$67,597,000;
- (b) bank deposits of HK\$67,645,000;
- (c) trade receivables of HK\$162,265,000;
- (d) available-for-sales investments of HK\$11,169,000;
- (e) inventories of HK\$87,099,000.

### **Foreign Exchange Risk Management**

Most business transactions conducted by the Group and payments made to suppliers are either in Hong Kong Dollars, United States Dollars or Renminbi. Since the Group has maintained a near to naturally hedged position of the above foreign currency during the period under review, no financial instruments has been applied for hedging purposes.



## Employee and Remuneration Policy

On 30 June 2007, the Group employed approximately 450 employees in the PRC and Hong Kong. They were remunerated according to their merit, qualification, competence and job nature. Other staff benefits include share option scheme, provident fund schemes and medical insurance. Also, discretionary bonus may be granted to eligible employees based on the Group's financial results and individual performance.

## DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

On 30 June 2007, 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*

<b>Name of directors</b>	<b>Capacity</b>	<b>Number of issued ordinary shares held</b>	<b>Percentage of issued share capital of the Company</b>
Yim Yuk Lun, Stanley <i>JP</i>	Beneficial owner	8,094,000	3.34%
	Held by controlled corporation ( <i>Note</i> )	63,771,400	26.29%
		71,865,400	29.63%
Wong Sui Chuen	Beneficial owner	622,000	0.26%

*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 *JP* is also a director. All units in the unit trust are beneficially owned by a discretionary trust established by Mr. Yim Yuk Lun, Stanley *JP*, the beneficiaries of which include the spouse and issues of Mr. Yim Yuk Lun, Stanley *JP*.



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 2007.

## **SUBSTANTIAL SHAREHOLDERS**

On 30 June 2007, the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO shows that other than the interests disclosed above in respect of certain directors, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

### **Long positions**

#### ***Ordinary shares of HK\$0.10 each of the Company***

<b>Name of shareholders</b>	<b>Capacity</b>	<b>Number of issued ordinary shares held</b>	<b>Percentage of the issued share capital of the Company</b>
Hon Hai	Held by controlled corporation ( <i>Note</i> )	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 2007.



## **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 listed 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 period ended 30 June 2007, except for the following 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 *JP* acting as both the Chairman and the Managing Director of the Group is acceptable and in the best interest of the Group.

Under the code provision A.4.1 of the Code, non-executive directors should be appointed for a specific term and subject to re-election. 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.

## **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 2007.





## **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.

## **APPRECIATION**

On behalf of the Board, I would like to thank all staff members for their contribution and effort. I wish to extend my sincere gratitude to our shareholders and business partners for their continuous and valuable support.

On behalf of the Board  
**Yim Yuk Lun, Stanley** *JP*  
*Chairman and Managing Director*

Hong Kong, 5 September 2007