



DAIWA ASSOCIATE HOLDINGS LIMITED

台和商事控股有限公司

Interim Report 2007

二零零七年中期業績報告

(Stock code 股份代號: 1037)



2007

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 2007. The unaudited interim accounts have been reviewed by the Company's Audit Committee.

RESULTS AND DIVIDEND

For the six months ended 30 September 2007, the Group's turnover was HK\$1,017.6 million, representing a growth of 14.2% (2006: HK\$891.3 million). EBITDA (i.e. earnings before interest, tax, depreciation, amortization and non-cash items) for the period was HK\$24 million (2006: HK\$23.4 million) representing an increase of 2.5% when compared to the last corresponding period.

Net profit after taxation and minority interests for the period was HK\$9.5 million (2006: HK\$11.4 million) which represents a decrease of 17% when compared to the last corresponding period. Basic earnings per share was HK3.24 cents (2006: HK4.21 cents).

The decrease of profit mainly because of the increase of expenses in the new Heyuan consumer electronics factory where doubled management resources were involved in the setting up of production line and training new workers.

INTERIM DIVIDEND

The Board of Directors has recommended an interim dividend of HK1 cent per ordinary share payable in cash to shareholders whose names appear on the Register of Members of the Company on Friday, 28 December 2007.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Thursday, 27 December 2007 to Wednesday, 2 January 2008, 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 Tricor Abacus Limited, 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:00 p.m. on Monday, 24 December 2007.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's net current assets amounted to HK\$219.4 million and the shareholders' funds were HK\$393.3 million at 30 September 2007. The total amount of loans and finance lease was HK\$205.3 million and the gearing ratio, which is defined as total borrowings, excluding minority interests and deferred taxation to shareholders' funds was 0.52. The gearing rise was due to the draw down of long term borrowings to support the development of Heyuan factory site. The cash and bank balances were HK\$111.8 million.

At 30 September 2007, total available banking facilities of the Group were approximately HK\$276 million, of which HK\$60 million was available for use. Finance lease obligations outstanding on the same date amounted to HK\$3 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, Renminbi or Japanese Yen. The Group had entered into foreign currency contracts with banks to hedge certain future foreign currency trade liabilities. The Group's borrowing were bearing interest at floating rates.

President's Statement

BUSINESS REVIEW AND PROSPECT

The Group is mainly engaged in four major businesses, namely:

- EMS (Contract Electronic Manufacturing Services);
- Consumer Electronics;
- Electronic Components — Distribution and Manufacturing; and
- Personal Computer Distribution.

EMS (CONTRACT ELECTRONIC MANUFACTURING SERVICE)

The EMS business recorded a turnover of HK\$272.5 million (2006: HK\$215.4 million), representing an increase of 26.5%. Since the Group had devoted in improving quality and engineering in this segment, it recorded a satisfactory growth. The Group has further invested new facility in SMD production line and has set up new production floor with clean rooms which provides double capacity for the future growth. To facilitate the growth, the group will further recruit personnel in engineering, production management as well as quality management to enhance this service to be distinctive among competitors.

ELECTRONIC COMPONENTS — MANUFACTURING AND DISTRIBUTION

For the half year ended 30 September 2007, turnover of this business segment was HK\$422.9 million in the reporting period, representing an increase of 25.7% when compared with the same period of last year (2006: HK\$336.6 million).

Due to the rapid growth of sales from Shenzhen and Shanghai distribution offices, contribution from this sector kept increasing. Although the overall market environment was still slow, the Group successfully maintained and gained new orders by providing total solution and design-in package with the support of principal suppliers. Further, the recently gained distributorships started to have positive performance.

CONSUMER ELECTRONICS MANUFACTURING

In the reported period, the Group tried utmost effort to eliminate low profit margin products and keeps healthy profit margin products. Turnover of this segment was HK\$109.8 million (2006: HK\$172.2 million), representing a decrease of 36.2% when comparing with last reported period.

The Group has established a new factory site in Heyuan area for this product segment. Due to the parallel run of two operations of the existing and new factory site, double management resources was invested and created negative contribution to the Group in the reported period. The Group has already moved the whole production line to the Heyuan new site and this impact will gradually be eliminated in the coming months.

PERSONAL COMPUTER DISTRIBUTION

Business in this segment mainly comes from the distribution of personal computer system and parts in Canada. Turnover of this business segment was HK\$212.3 million in the reporting period, representing an increase of 27.1% when compared with the same period of last year (2006: HK\$167 million).

Due to the fact of consolidation of competitors in Canada, the Group has maintained good position in the market share. Turnover and gross margin in this segment is expected to keep growing in the coming year.

FUTURE PROSPECT

Because of the introduction of new principal suppliers and new product lines, turnover and gross profit of the electronic components distribution and the personal computer sectors will grow steadily. The group expects that business in this segment will have a record year.

The enhancement in SMT production will double up the capacity of the EMS manufacturing. The Group expects that there will be a significant growth in this segment.

In June, the Group has already moved all the segments in consumer product manufacturing to the new Heyuan production site which leaves the Dongguan factory site more space for further development of more technical and quality orientated business. The movement will also eliminate the doubled expenses when maintaining two operations in the transition period. With the growth of business and elimination of double expenses in this sector, the Group is confident that the negative impact in this segment will be eliminated in the next fiscal year.

EMPLOYEES

At 30 September 2007, the Group employed a total of approximately 6,000 employees of which 120 were Hong Kong based and 100 were employee 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 2007, no share options had been granted to employees.

Condensed Consolidated Profit and Loss Account

For the six months ended 30 September 2007

		Unaudited	
		Six months ended	
		30 September	
		2007	2006
	<i>Note</i>	HK\$'000	HK\$'000
Turnover	2	1,017,599	891,367
Cost of sales		<u>(916,937)</u>	<u>(798,238)</u>
Gross profit		<u>100,662</u>	<u>93,129</u>
Other income		2,384	1,852
Selling and distribution expenses		(14,865)	(14,297)
General and administrative expenses		<u>(71,489)</u>	<u>(64,092)</u>
Operating profit	3	16,692	16,592
Finance costs		<u>(4,520)</u>	<u>(3,297)</u>
Profit before income tax		12,172	13,295
Income tax expense	4	<u>(2,897)</u>	<u>(2,273)</u>
Profit for the year		<u><u>9,275</u></u>	<u><u>11,022</u></u>
Attributable to:			
Equity holders of the Company		9,520	11,457
Minority interests		<u>(245)</u>	<u>(435)</u>
		<u><u>9,275</u></u>	<u><u>11,022</u></u>
Dividends	6	<u><u>3,038</u></u>	<u><u>2,711</u></u>
Earnings per share for profit attributable to equity holders of the Company			
— basic	7	<u><u>HK 3.24 cents</u></u>	<u><u>HK 4.21 cents</u></u>
— diluted	7	<u><u>HK 3.16 cents</u></u>	<u><u>HK 4.21 cents</u></u>

The notes are integral part of these financial statements.

Condensed Consolidated Balance Sheet

As at 30 September 2007

		30 September 2007 Unaudited HK\$'000	31 March 2007 Audited HK\$'000
Non-current assets	<i>Note</i>		
Goodwill	8	25,079	25,079
Property, plant and equipment	8	184,144	178,153
Leasehold land and land use rights		25,099	25,376
Interest in a jointly controlled entity		1	1
Deferred income tax assets	5	777	701
Available-for-sale financial assets		5,070	4,340
Other assets		710	710
		<u>240,880</u>	<u>234,360</u>
Current assets			
Inventories		260,436	256,753
Trade receivables	9	267,580	177,168
Prepayments, deposits and other receivables		9,728	11,456
Derivative financial instruments		432	344
Cash and cash equivalents		111,829	93,432
		<u>650,005</u>	<u>539,153</u>
Total assets		<u>890,885</u>	<u>773,513</u>
Equity			
Capital and reserves attributable to equity holders of the Company			
Share capital	12	30,382	27,814
Reserves		362,889	342,435
		<u>393,271</u>	<u>370,249</u>
Minority interests		942	1,187
Total equity		<u>394,213</u>	<u>371,436</u>
Non-current liabilities			
Borrowings	11	60,966	50,377
Deferred income tax liabilities	5	5,085	5,015
		<u>66,051</u>	<u>55,392</u>
Current liabilities			
Borrowings	11	144,317	140,336
Trade payables	10	242,216	180,177
Accruals and other payables		40,858	23,710
Taxation payable		3,230	2,462
		<u>430,621</u>	<u>346,685</u>
Total liabilities		<u>496,672</u>	<u>402,077</u>
Total equity and liabilities		<u>890,885</u>	<u>773,513</u>
Net current assets		<u>219,384</u>	<u>192,468</u>
Total assets less current liabilities		<u>460,264</u>	<u>426,828</u>

The notes are integral part of these financial statements.

Condensed Consolidated Cash Flow Statement

For the six months ended 30 September 2007

	Unaudited	
	Six months ended	
	30 September	
	2007	2006
	HK\$'000	HK\$'000
Net cash inflow/(outflow) from operating activities	<u>8,806</u>	<u>(60,348)</u>
Net cash used in investing activities	<u>(14,022)</u>	<u>(18,805)</u>
Net cash from financing activities	<u>21,462</u>	<u>77,759</u>
Net increase/(decrease) in cash and cash equivalents	16,246	(1,394)
Cash and cash equivalents at 1 April	93,432	83,540
Effect of foreign exchange rate changes	<u>2,151</u>	<u>(549)</u>
Cash and cash equivalents at 30 September	<u>111,829</u>	<u>81,597</u>
Analysis of balances of cash and cash equivalents		
Cash and bank balances	<u>111,829</u>	<u>81,597</u>

The notes are integral part of these financial statements.

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 September 2007

Unaudited

	Attributable to shareholders of the Company										
	Share capital	Share premium	Capital reserves	Share redemption reserve	Cumulative translation adjustments	Statutory reserves	Available- for-sale financial assets revaluation reserve	Retained earnings	Total	Minority interest	Total
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
Contributions 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)
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>—</u>	<u>93,808</u>	<u>366,918</u>	<u>2,487</u>	<u>369,405</u>
At 1 April 2007	27,814	206,080	41,201	1,050	2,684	90	1,046	90,284	370,249	1,187	371,436
Currency translation differences	—	—	—	—	6,144	—	—	—	6,144	—	6,144
Profit for the period	—	—	—	—	—	—	—	9,520	9,520	(245)	9,275
Issue of new shares	2,586	8,975	—	—	—	—	—	—	11,561	—	11,561
Gain on revaluation of available-for-sale financial assets	—	—	—	—	—	—	467	—	467	—	467
Purchase of own shares	(18)	(95)	—	113	—	—	—	(113)	(113)	—	(113)
Final dividend paid for 2007	—	—	—	—	—	—	—	(4,557)	(4,557)	—	(4,557)
At 30 September 2007	<u>30,382</u>	<u>214,960</u>	<u>41,201</u>	<u>1,163</u>	<u>8,828</u>	<u>90</u>	<u>1,513</u>	<u>95,134</u>	<u>393,271</u>	<u>942</u>	<u>394,213</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 2007.

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 2007, 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 April 2007. The applicable New HKFRSs adopted in this interim financial report are set out below.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transfer

The adoption of the above new standard, amendment and interpretations has no material impact on the condensed consolidated interim financial information of the Group.

The following new standards and interpretations have been issued by the HKICPA but are not effective for financial year ending 31 March 2008 and have not been early adopted:

HKFRS 8	Operating Segments
HK(IFRIC)-Int 12	Service Concession Arrangements
HK(IFRIC)-Int 13	Customer Loyalty Programmes
HK(IFRIC)-Int 14	HKAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
HKAS 23 (Revised)	Borrowing Costs

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	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover										
External sales	422,932	336,560	342,462	387,712	252,205	167,095				
Inter-segment sales	160	1,829	—	—	—	—	(160)	(1,829)		
	<u>423,092</u>	<u>338,389</u>	<u>342,462</u>	<u>387,712</u>	<u>252,205</u>	<u>167,095</u>	<u>(160)</u>	<u>(1,829)</u>	<u>1,017,599</u>	<u>891,367</u>
Segments results	11,176	9,969	7,194	11,363	5,182	2,061			23,552	23,393
Unallocated income									1,086	835
Unallocated expenses									(7,946)	(7,636)
Finance costs									(4,520)	(3,297)
Profit before income tax									12,172	13,295
Income tax expenses									(2,897)	(2,273)
Profit for the year									<u>9,275</u>	<u>11,022</u>
Profit attributable to equity holders									9,520	11,457
Minority interests									(245)	(435)
									<u>9,275</u>	<u>11,022</u>

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

	Turnover	
	Six months ended 30 September	
	2007	2006
	HK\$'000	HK\$'000
Hong Kong and Mainland China	412,549	322,668
North America	320,558	338,279
Europe	105,553	138,026
Japan	166,916	78,502
Other Asian countries	12,023	13,892
	<u>1,017,599</u>	<u>891,367</u>

3. **Operating profit**

Operating profit is stated after charging and crediting the following:

	Six months ended 30 September	
	2007	2006
	HK\$'000	HK\$'000
Charging:		
Depreciation and amortisation of non-current assets	8,045	7,345
Provision for bad and doubtful debts	321	428
Crediting:		
Interest income	<u>740</u>	<u>536</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% (2006: 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 15% to 33% (2006: 15% to 33%). Companies established and operate in Canada are subject to Canadian income tax at the rate of 36% (2006: 36%).

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

	Six months ended 30 September	
	2007	2006
	HK\$'000	HK\$'000
Current taxation:		
— Hong Kong profits tax	630	868
— Mainland China enterprise income tax	1,052	832
— Oversea income tax	1,221	418
	<u>2,903</u>	<u>2,118</u>
Deferred tax — relating to the origination and reversal of temporary differences	(6)	155
	<u>2,897</u>	<u>2,273</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% (2006: 17.5%).

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

	Six months ended 30 September	Year ended 31 March
	2007	2007
	HK\$'000	HK\$'000
Deferred income tax assets		
Opening balance	1,150	1,619
Charged to profit and loss account (<i>Note 4</i>)	(94)	(469)
Closing balance	<u>1,056</u>	<u>1,150</u>
Deferred income tax liabilities		
Opening balance	5,464	5,090
(Credit)/charged to profit and loss account (<i>Note 4</i>)	(100)	374
Closing balance	<u>5,364</u>	<u>5,464</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	31 March
	2007	2007
	HK\$'000	HK\$'000
Deferred income tax assets	777	701
Deferred income tax liabilities	(5,085)	(5,015)
	<u>(4,308)</u>	<u>(4,314)</u>

6. Dividends

	Six months ended 30 September	
	2007	2006
	HK\$'000	HK\$'000
2006/2007 Final dividend, paid, of HK\$0.015 (2005/2006 final paid: HK\$0.01) per ordinary share (<i>Note (i)</i>)	4,557	2,719
2007/2008 Interim dividend of HK\$0.01 (2006/2007: HK\$0.01) per ordinary share, proposed on 12 December 2007 (<i>Note (ii)</i>)	3,038	2,711
	<u>7,595</u>	<u>5,430</u>

6. **Dividends** (continued)

Note (i): At a meeting held on 27 July 2007 the directors proposed a final dividend of HK\$0.015 per ordinary share for the year ended 31 March 2007, which was paid on 13 September 2007.

Note (ii): At a meeting held on 12 December 2007 the directors proposed an interim dividend of HK\$0.01 per ordinary share for the six months ended 30 September 2007. The proposed interim dividend has been reflected as an appropriation of retained earnings for the six months ended 30 September 2007.

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\$9,520,000 (2006: HK\$11,457,000).

The basic earnings per share is based on the weighted average of 294,180,669 (2006: 271,864,144) ordinary shares in issue during the period. The diluted earnings per share is based on 301,239,333 (2006: 271,864,144) ordinary shares which is the weighted average number of ordinary shares in issue during the period plus the weighted average of 7,058,664 (2006: Nil) 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 2007

	Goodwill HK\$'000	Property, plant and equipment HK\$'000
Opening net book value	25,079	178,153
Exchange difference	—	327
Acquisition of subsidiary	—	156
Additions	—	13,640
Disposals	—	(364)
Depreciation/amortisation charge	—	(7,768)
	<u>25,079</u>	<u>184,144</u>
Closing net book value	<u>25,079</u>	<u>184,144</u>

9. **Trade receivables**

Trade receivables and their ageing analysis is as follows:

	30 September 2007 HK\$'000	31 March 2007 HK\$'000
Less than 60 days	202,767	140,295
60 to 119 days	54,900	30,482
120 days or more	9,913	8,003
	<u>267,580</u>	<u>178,780</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 2007 HK\$'000	31 March 2007 HK\$'000
Less than 60 days	139,638	146,646
60 to 119 days	80,141	26,543
120 days or more	22,437	6,988
	<u>242,216</u>	<u>180,177</u>

Notes to condensed interim accounts

11. Borrowings		
	30 September	31 March
	2007	2007
	HK\$'000	HK\$'000
Obligations under finance leases	3,025	5,002
Bank borrowings	87,251	72,132
Trust receipts bank loans	<u>115,007</u>	<u>113,579</u>
Total amounts payable	205,283	190,713
Less: Current portion	<u>144,317</u>	<u>140,336</u>
Long-term portion	<u>60,966</u>	<u>50,377</u>
12. Share capital		
	Number of	HK\$'000
	Ordinary Shares	
Authorised:		
Ordinary shares of HK\$0.10 each		
At 1 April 2007 and 30 September 2007	<u>1,000,000,000</u>	<u>100,000</u>
Issued and fully paid:		
Ordinary shares of HK\$0.10 each		
At 1 April 2007	278,140,937	27,814
Issue of shares upon exercise of warrants	25,865,919	2,586
Purchase of own shares	<u>(184,000)</u>	<u>(18)</u>
At 30 September 2007	<u>303,822,856</u>	<u>30,382</u>
13. Commitments		
(a) Capital commitments		
	30 September	31 March
	2007	2007
	HK\$'000	HK\$'000
Contracted but not provided for		
— purchase of fixed assets	<u>9,117</u>	<u>13,804</u>
(b) Operating lease commitments		
At 30 September 2007, the Group had total future aggregate minimum lease payments under non-cancellable operating leases as follows:		
	30 September	31 March
	2007	2007
	HK\$'000	HK\$'000
Within one year	5,674	5,911
In the second to fifth year inclusive	<u>7,676</u>	<u>8,245</u>
	<u>13,350</u>	<u>14,156</u>

14. **Financial Risk Management**

14.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange risk, price 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, Canadian dollars, Chinese Renminbi and Japanese Yen. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. The Group uses certain foreign exchange contracts to manage foreign exchange exposure.

(b) *Price risk*

The Group is exposed to equity securities price risk because investments held by the Group are classified on the consolidated balance sheet as available-for-sale financial assets and carry at fair value. The Group is not exposed to commodity price risk.

(c) *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.

(d) *Liquidity risk*

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

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

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

14.2 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 fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date.

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 2007, 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	Unlisted Warrants		Number of issued ordinary shares/underlying shares attached to derivatives				Other interests	Total interests	Percentage
	Corporate interests	Notes	Personal interests	Notes	Ordinary shares in issued				
					Corporate interests	Notes			
Mr. LAU Tak Wan	7,862,388	2	6,537,141	1	147,706,499	2 & 3 & 4	1,142,854	163,248,882	53.73%
Ms. CHAN Yuen Mei, Pinky	7,862,388	2	4,022,854	1	147,706,499	2 & 3 & 4	3,657,141	163,248,882	53.73%
Mr. Wan Chor Fai	—	—	50,000	—	—	—	—	50,000	0.02%
Mr. Barry John BUTTIFANT	—	—	500,000	—	—	—	—	500,000	0.16%

Notes:

- 2,880,000 shares in the Company were jointly held by Mr. Lau Tak Wan ("Mr. Lau") and Ms. Chan Yuen Mei, Pinky (the spouse of Mr. Lau).
- 7,862,388 warrants and 74,431,436 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.
- 60,918,396 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.
- 12,356,667 shares in the Company were beneficially owned by Cyber Concept Limited ("Cyber Concept"). The issued share capital of Cyber Concept is 50% owned by Mr. Lau and 50% owned by Ms. Chan.

(b) Long position in shares of associated corporations of the Company

Dominion International Limited, which is 50% owned by Mr. Lau Tak Wan, and 50% owned by Ms. Chan Yuen Mei, Pinky:

	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 2007, 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 2007, 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 2007, 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)	60,918,396	—	20.05%
China Capital Holdings Investment Ltd	(2)	74,431,436	7,862,388	27.09%
Mr. Ng Hung Sang		18,280,198	—	6.02%

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 60,918,396, 163,248,882 and 163,248,882 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 74,431,436, 163,248,882 and 163,248,882 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 2007.

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 2007, 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 2007.

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 2007 with the directors.

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

During the six months ended 30 September 2007, the Company purchased a total of 184,000 shares of HK\$0.10 each of the Company in the range from HK\$0.59 to HK\$0.64 for a total consideration of HK\$111,460 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 2007.

By Order of the Board
LAU Tak Wan
President

Hong Kong, 12 December 2007

