

## **BUSINESS REVIEW AND PROSPECTS**

### ***Operating results and financial position***

For the six months ended 30 September 2001, the Group's turnover was HK\$556,423,000 (2000: HK\$588,057,000) and the profit attributable to shareholders during the period was HK\$2,272,000 (2000: HK\$14,434,000).

Cyclical downturn of the semiconductors industry and the slowdown of the US economy during the period have affected the Group's turnover and profitability in its semiconductors distribution business. The effect was offset by the growth in the Group's manufacturing operation.

Turnover for design, manufacture and original equipment manufacture operations rose 113% to approximately HK\$164 million. The Group's iMP product received worldwide recognition as the benchmark CD/MP3 discman in the market and has achieved substantial market share in the USA, Europe and Korea.

### ***Marketing and distribution***

For the six months ended 30 September 2001, turnover for semiconductors distribution fell 23% to HK\$392,222,000 (2000: HK\$510,959,000).

The majority of the reduction in turnover arose from the Singapore market. Semiconductors distributed by the Group in Singapore are mainly supplied to multinational customers for applications in mobile telecommunication devices and computer peripherals. These products are amongst the hardest hit in the current downturn.

The management has taken positive steps in re-engineering its Singapore operation through a series of cost cutting measures, re-alignment of sales and marketing efforts and active promotions to industrial and consumer electronics customers. While the overall Singapore market remains weak, the management does not expect any instant turnaround. The management is confident that the solid steps being taken now will ensure a speedy recovery and return to profitability in the anticipated market turnaround in the later half of 2002.

Turnover for semiconductors distribution in Hong Kong market increased by a modest 6%. The Group's customers in Hong Kong and China are less affected by the cyclical downturn in the semiconductors and the computer related industries. Nonetheless the slowdown of the worldwide economy has dampened overall demand. Gross profit margin fell in line with prevailing market conditions.

Against a background of falling demand, the Group was able to increase its market share and achieve turnover growth in the period. Much tribute goes towards our relentless sales team and strong support from our principal suppliers, Samsung Electronics and Fairchild Semiconductors.

Demand in the second half of the financial year remains uncertain as customers are reluctant to place longer term orders and shipment forecast beyond the fourth quarter of 2001. Management efforts are focused on the control of working capital and operational efficiency to ensure the Group remains lean and competitive.

### ***Design, manufacture and original equipment manufacture***

For the six months ended 30 September 2001, turnover from the Group's manufacturing operations rose 113% to approximately HK\$164 million (2000: HK\$77 million). The growth was derived from the manufacture of the Group's award winning iMP product. Since the first launch of the iMP product in the fourth quarter of 2000, the product has continued to re-juvenate itself through continuous firmware upgrades and new models introduction. The many awards and public interests generated by the product has turned into solid revenue for the Group and a substantial market share in the niche CD/MP3 discman market in the USA, Europe and Korea.

Two new iMP models are being launched in the fourth quarter of 2001. Together with a marketing initiative to promote the Group's own brand iMP products in the first quarter of 2002, the management are confident that revenue from iMP range of product will continue to grow substantially in 2002. In addition, profit margin from the product are also expected to improve as the major development and startup costs for the product range have been absorbed during the initial product introduction and costs savings in materials will be derived from volume manufacture.

On 31 August 2001, the Group's interest in Reigncom Limited, an associate of the Group, was diluted from 20.0% to 19.4%. The dilution was due to the issue of new shares by Reigncom Limited ("Reigncom") to its employees association, whose beneficiaries are present employees of Reigncom. The issue of shares was an incentive to reward the employees for their dedication and to further promote the sense of ownership amongst Reigncom's employees. Reigncom ceased to become an associate of the Group and has been reclassified as a long term investment.

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The Directors believes the issue of shares to the employees association was made for the long term benefit of Reigncom and the reduced equity interest does not change the strategic partnership between the Group and Reigncom in the development and the manufacture of the iMP products in the foreseeable future.

### ***Liquidity and financial resources***

The Group's financial position improved during the period under review.

The Group's gearing ratio as at 30 September 2001 reduced to 1.07 (31 March 2001: 1.21). The gearing ratio is calculated based on the Group's total borrowings, net of cash held at the balance sheet date, of HK\$201,527,000 (31 March 2001: HK\$223,674,000) and the Group's net tangible assets of HK\$188,550,000 (31 March 2001: HK\$184,828,000).

The improved gearing is achieved through conscientious management of the Group's working capital and consolidation after a period of rapid expansion in the prior year.

As at the balance sheet date, the Group has total banking facilities available from its bankers of HK\$451,963,000, of which HK\$258,944,000 remained unutilised.

## **DIRECTORS' INTERESTS IN SHARES**

As at 30 September 2001, the interests of the directors in the equity securities of the Company and its associated corporations as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

### ***Company***

<b>Name of director</b>	<b>Number of shares and nature of interests</b>	
	<b>Personal interests</b>	<b>Other interests</b>
Mr. So Yuk Kwan	–	77,040,200 ( <i>Note</i> )
Mr. So Wai Yin	275,000	–
Mr. So Chi On	–	77,040,200 ( <i>Note</i> )

*Note:* B.K.S. Company Limited, which is a wholly-owned subsidiary of Credit Cash Limited, was the legal beneficial owner of 77,040,200 shares of HK\$0.10 each in the share capital of the Company. The entire issued share capital of Credit Cash Limited is held by Ansbacher (BVI) Limited, as trustee of a discretionary trust, the beneficiaries of which include Mr. So Chi On and other family members of Mr. So Yuk Kwan.

Save as disclosed above, none of the directors or their associates (as defined under the Listing Rules) had any personal, family, corporate or other interests in the equity securities of the Company or any of its associated corporations as defined in the SDI Ordinance.