

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim Financial Reporting" and the applicable disclosure requirement of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The unaudited condensed consolidated interim financial statements have been prepared under the historical cost convention, except for the remeasurement of certain equity investments.

The accounting policies and basis of preparation of the consolidated interim financial statements are the same as those used in the annual report for the year ended 31 March 2002 except for the following revised SSAPs have been adopted for the first time in the preparation of the current period's condensed consolidated financial statements:

- SSAP 1 (Revised): "Presentation of Financial Statements"
- SSAP 15 (Revised): "Cash Flow Statements"

A summary of their major effects is as follows:

SSAP 1 (Revised) prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The main revision to this SSAP is to change the requirements from presenting a statement of recognised gains and losses to a statement of changes in equity. The condensed consolidated statement of changes in equity for the current interim period and the comparative figures have been presented in accordance with the revised SSAP.

SSAP 15 (Revised) prescribes the provision of information about the historical changes in cash and cash equivalents by means of a cash flow statement which classifies cash flows during the period into operating, investing and financing activities. The condensed consolidated cash flow statement for the current interim period and the comparative figures have been presented in accordance with the revised SSAP.

2. SEGMENT INFORMATION

The Group principally engages in the marketing and distribution of electronic components and the design, manufacture and original equipment manufacture of electronic products and Internet appliances.

The following tables present revenue and profit from operating activities information for the Group's business segments and geographical segments:

	Segment revenue Six months ended 30 September		Segment results Six months ended 30 September	
	2002 (unaudited) HK\$'000	2001 (unaudited) HK\$'000	2002 (unaudited) HK\$'000	2001 (unaudited) HK\$'000
<i>Business segments:</i>				
Marketing and distribution	730,438	392,222	27,435	6,709
Design, manufacture and original equipment manufacture	144,822	164,201	(5,892)	4,717
	<u>875,260</u>	<u>556,423</u>	<u>21,543</u>	<u>11,426</u>
Interest income			312	906
Unallocated corporate expenses			(573)	(1,020)
Unrealised holding loss on short term investment			(67)	—
Loss on deemed disposal of interest in an associate			—	(403)
Profit from operating activities			<u>21,215</u>	<u>10,909</u>
<i>Geographical segments:</i>				
Hong Kong	644,315	386,633	20,746	10,891
Singapore	86,362	37,059	689	(3,345)
Korea	135,920	123,177	592	1,967
Other locations	8,663	9,554	(484)	1,913
	<u>875,260</u>	<u>556,423</u>	<u>21,543</u>	<u>11,426</u>
Interest income			312	906
Unallocated corporate expenses			(573)	(1,020)
Unrealised holding loss on short term investment			(67)	—
Loss on deemed disposal of interest in an associate			—	(403)
Profit from operating activities			<u>21,215</u>	<u>10,909</u>

3. PROFIT FROM OPERATING ACTIVITIES

	Six months ended 30 September	
	2002	2001
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Profit from operating activities is arrived at after charging:		
Depreciation	6,243	6,136
Unrealised holding loss on short term investment	67	—
Loss on deemed disposal of interest in an associate	—	403
Exchange (gains)/losses, net	(88)	578
and after crediting:		
Interest income	<u>312</u>	<u>906</u>

4. FINANCE COSTS

	Six months ended 30 September	
	2002	2001
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Interest on bank loans and overdrafts wholly repayable within five years	5,366	8,298
Interest on finance leases	<u>149</u>	<u>246</u>
	<u>5,515</u>	<u>8,544</u>

5. TAX

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing laws, interpretations and practices in respect thereof.

	Six months ended 30 September	
	2002	2001
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Provision for tax in respect of profit for the period:		
Hong Kong	3,451	599
Overseas	<u>27</u>	<u>26</u>
Tax charge for the period	<u>3,478</u>	<u>625</u>

6. INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of 1 cent per ordinary share in issue in respect of the six months ended 30 September 2002 (2001: Nil) payable on 6 December 2002 to shareholders whose names appear on the register of members of the Company on 29 November 2002.

7. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders of HK\$12,222,000 (2001: HK\$2,272,000) and the weighted average of 320,531,637 (2001: 247,286,936) ordinary shares in issue during the period.

Diluted earnings per share for the six months ended 30 September 2002 and 2001 have not been disclosed, as the share options outstanding during the periods had an anti-dilutive effect on the basic earnings per share for the period.

The weighted average number of ordinary shares in issue for the six months ended 30 September 2001 used in the calculation of basic earnings per share and diluted earnings per share have been adjusted to reflect the effect of the rights issue completed on 3 June 2002.

8. INVENTORIES

	30 September 2002 (<i>unaudited</i>) HK\$'000	31 March 2002 (<i>audited</i>) HK\$'000
Raw materials	41,272	29,458
Work in progress	13,757	8,365
Finished goods	172,115	104,553
	<u>227,144</u>	<u>142,376</u>

9. ACCOUNTS RECEIVABLE

The Group seeks to maintain strict control over its outstanding receivables and has a credit control policy to minimise credit risk. A credit committee consisting of senior management and the directors of the Group has been established to review and approve large customer credits.

The aged analysis of the accounts receivable as at 30 September 2002, based on the invoice due date and stated net of provision for doubtful debts, is as follows:

	30 September 2002 (unaudited) HK\$'000	31 March 2002 (audited) HK\$'000
Accounts receivable:		
Current	170,430	121,097
Less than 30 days	33,296	32,826
31 - 60 days	19,950	12,512
Over 60 days	9,345	10,851
	<u>233,021</u>	<u>177,286</u>

10. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

The aged analysis of the accounts payable as at 30 September 2002, based on the invoice due date, is as follows:

	30 September 2002 (unaudited) HK\$'000	31 March 2002 (audited) HK\$'000
Accounts payable:		
Current	67,305	58,466
Less than 30 days	14,386	19,085
31 - 60 days	651	2,776
Over 60 days	421	577
	<u>82,763</u>	<u>80,904</u>
Accrued expenses	<u>11,791</u>	<u>8,076</u>
	<u>94,554</u>	<u>88,980</u>

11. SHARE CAPITAL

	Number of shares (unaudited)	Share capital (unaudited) HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
At 30 September 2002 and 31 March 2002	<u>800,000,000</u>	<u>80,000</u>
Issued and fully paid:		
At 1 April 2002	236,321,613	23,632
Exercise of share options	5,700,000	570
Rights issue of shares	<u>119,510,806</u>	<u>11,951</u>
At 30 September 2002	<u>361,532,419</u>	<u>36,153</u>

BUSINESS REVIEW AND PROSPECTS

The directors are pleased to report the return to profitability for the Group. Turnover for the six months ended 30 September 2002 rose 57% to HK\$875,260,000 (2001: HK\$556,423,000) and net profit attributable to shareholders rose 438% to HK\$12,222,000 (2001: HK\$2,272,000).

Marketing and Distribution

For the six months under review, turnover from the distribution of semiconductors rose by a substantial 86% to HK\$730,438,000 (2001: HK\$392,222,000). The corresponding operating profit from the distribution of semiconductors has shown a three fold increase to HK\$27,435,000 (2001: HK\$6,709,000).

The growth in turnover for distribution of semiconductors in Hong Kong has been the strongest. It is fueled by strong customer demand and competitive products.

Following the extraordinary drop in demand and inventory clear out in the second half of calendar year 2001, customers were keen to replenish depleted inventory. Consumer demand for traditional as well as digital audio and video electronic products has remained steady during the period under review. These translate into solid orders for electronic manufacturers for the export markets in Hong Kong.

In the six months under review, the Group gained market share against competitors of other brands of semiconductors products. The Group's marketing is focused in the traditional electronics manufacturing industry operating in Hong Kong and Southern China. The Group strives to secure reliable supply of Samsung Electronics products; at competitive prices and at the time required by our customers. Our relentless efforts in the marketing and promotion have enlarged the overall market share for the Group, and also for Samsung Electronics products, in the traditional system LSI and flash memory market.

Turnover for distribution of semiconductors in Singapore has shown an encouraging recovery to HK\$86,362,000 (2001: HK\$37,059,000). Together with management's positive steps taken to re-engineer the Singapore operation, the Group's Singapore semiconductors distribution business has been returned to a breakeven position.

Design and Manufacture

For the six months under review, the Group rolled out three completely new ranges of iMP products as well as a range of USB flash drives. The products are well received in the market and steady orders are being received from customers. It also reconfirms the Group's leading position in the market for the manufacturing of world-class iMP products. Through advanced engineering and higher level of integration, the new iMP models carry lower material costs and improved profit margin compare to earlier products. As these products are launched during the period, the full contribution to the Group's turnover and profit are not reflected in the period under review.

In respect of non-iMP OEM business, pilot production for a number of new OEM projects, including advanced CCD camera systems and commercial IP-telephones, were completed successfully. Mass production will commence in the third and the fourth quarters of the current financial year. These products require a high standard of engineering and manufacturing skills and carry a higher profit margin.

Together, these new iMP products and OEM projects will improve the overall profitability and return on investment for the manufacturing operation.

Financial Performance and Prospects

During the period under review, the Group went through a burst of rapid expansion in turnover, driven by the increase in the distribution of semiconductors products. The management is optimistic that the growth momentum will continue through the quality service the Group provides to our customers and competitive semiconductors products from our principals, Samsung Electronics and Fairchild Semiconductors.

In respect of the design and manufacture operation, new iMP and USB products introduced during the period and other OEM projects starting in the second half of the financial year are set to add to the continued growth in the Group's revenue and profitability.