

Financial resources and liquidity

As at 30 June 2003, the Group had cash and bank balances of approximately HK\$9.3 million (2002: HK\$26.3 million). The Group had total assets of approximately HK\$208.2 million (2002: HK\$221.8 million) which was financed by current liabilities of approximately HK\$126.2 million (2002: HK\$162.0 million), minority interests of HK\$1.0 million (2002: HK\$1.0 million) and shareholders' equity of approximately HK\$80.9 million (2002: HK\$58.7 million). The current ratio was approximately 1.5 (2002: 1.3) and the gearing ratio of the Group was 39.4% (2002: 51.5%). The gearing ratio has been calculated based on the total borrowings to the sum of total shareholders' equity and total borrowings of the Group.

Total facilities available to the Group from its bankers amounted to approximately HK\$92.5 million (2002: HK\$76.5 million). The management believes the Group has adequate financial resources for its business requirement for the remaining year as well as its forecast requirement for the coming year.

Treasury policies

The Group generally finances its operations with internally generated resources and banking facilities provided by banks in Hong Kong. The banking facilities are mainly trust receipt loans and invoice finance tenor up to 60 days from the invoice date. The bank interest rates are mainly fixed by reference to either in the Hong Kong Prime rate or the Hong Kong Interbank Borrowing rate for Hong Kong dollar loans.

Bank deposits of the Group are in Hong Kong dollars, United States dollars or Renminbi.

Transactions of the Group are mainly denominated either in Hong Kong or United States dollars. The risk of exposure to fluctuations in exchange rates is therefore low. The Group did not do any hedging for the foreign currency transactions during the period.

Charges on assets

Certain bank deposits, investment in securities, investment properties and leasehold land and buildings of the Group were pledged to its bankers to secure certain banking facilities granted to the Group.

Contingent liabilities

As at 30 June 2003, the Group did not have any significant contingent liabilities.

BUSINESS REVIEW

For the six months ended 30 June 2003, the Group's turnover and profit for the period were approximately HK\$155.1 million (2002: HK\$187.1 million) and HK\$0.8 million (2002: HK\$16.0 million) respectively, representing decreases of approximately 17% and 95%, respectively, over the corresponding period in 2002. Basic earnings per share for the period was HK0.2 cents (2002: HK4.7 cents).

During the period, the sudden and unforeseeable outbreak of severe acute respiratory syndrome ("SARS") in Mainland China, Hong Kong and Taiwan has adversely affected the Group's operations to a large extent, causing the Group to record a significant drop in the turnover and profit attributable to shareholders. Indeed, SARS has affected the Group's businesses mainly in two ways:

- (1) The Group's customers are mainly in Hong Kong and PRC and suppliers are mainly in Taiwan. SARS has delayed the negotiation of purchase orders and demonstration of our proprietary embedded software for semiconductors and electronic turnkey device solutions to its customers and suppliers. The orders from its customers have been postponed, resulting in a decrease in its sales for the period.

- (2) As the Group's ability in development and provision of proprietary software for semiconductors and electronic turnkey device solutions are the Group's value added services to the Group's customers. Such delay in the provision of these value added services has brought a negative impact on the synergies among its various businesses and the Group's gross profit margin.

Besides, SARS has also abruptly interrupted the production and sales of the Group's customers. Consequently, the Group could not collect its accounts receivable as scheduled.

PROSPECTS

While SARS has been subdued in late June and gradually subsiding, the Group will closely monitor the progress of development of embedded software for semiconductors and electronic turnkey device solutions and is confident that they will catch up the customers' schedules. During the second half of 2003, it is expected that there would have a high demand for semiconductors and Mainland China is still the key growth market. The Group will continue to strengthen its design and development of electronic turnkey device solutions and expand its portfolio of suppliers in order to meet the customers' demand. With the committed effort of management and employees, we are optimistic that the Group will regain a healthy development in the second half of the financial year.

USE OF THE PROCEEDS FROM THE INITIAL PUBLIC OFFER

The net proceeds from the Company's issue of new shares at the time of its listing on the Stock Exchange on 3 March 2003 amounted to approximately HK\$22 million. During the period, the proceeds were applied as follows:

- Amount of HK\$1.4 million was expensed and/or prepaid for marketing the Group's product solution and collect latest market information and obtain feedback from customers in PRC.
- HK\$0.9 million was prepaid for developing and testing new electronic turnkey device solutions for household appliances and information appliances.

The Group intends to apply the remaining proceeds in the balance of the year continuing to expand the Group's engineering and developing capability and developing the Group's electronic turnkey device solutions business.

DIRECTORS' INTERESTS IN SECURITIES

As at 30 June 2003, the issued share capital of the Company consisted of ordinary shares and the interests and short positions of the Directors and the Chief Executive of the Company in the shares, and underlying shares 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 Company's register kept under Section 352 of the SFO were as follows:

Interest in the Company's shares

Name	Personal interests	Corporate interests	Total no. of shares	%
Wong Shu Wing	—	204,000,000 (Note)	204,000,000	51%
Kwan Kim Fai, Stanley	36,000,000	—	36,000,000	9%

Note: These shares are held by Best Eagle International Ltd., a company incorporated in the British Virgin Islands ("BVI") and wholly owned by Wong Shu Wing.

Save as disclosed above, as at 30 June 2003, none of the Directors or the Chief Executive of the Company had any interest or short position in the shares and underlying shares of the Company or any of its associated corporation (within the meaning of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Director of the Chief Executive is taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the issue of shares of the Company pursuant to the Corporate Reorganisation mentioned above, at no time during the period was the Company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of Directors, or their spouses or children under the age of 18, had right to subscribe for the securities of the Company, or had exercised any such right during the period.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company, its holding company or any its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at 30 June 2003 or at any time during the period then ended.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2003, in accordance with the register of the substantial shareholders kept by the Company under Section 336 of the SFO and so far as is known to the Directors, the following persons (other than a Director or Chief Executive of the Company) were interested in the issued capital (including short positions) representing 5% or more of the issued capital:

<u>Name</u>	<u>Number of shares</u>	<u>Approximate percentage of holding</u>
Best Eagle International Ltd. (Note 1)	204,000,000	51%
Wong Shu Wing (Note 1)	204,000,000	51%
D & M International Ltd. (Note 2)	60,000,000	15%
Leung Yu Ming, Steven (Note 2)	60,000,000	15%
Kwan Kim Fai, Stanley	36,000,000	9%

Notes:

1. The entire issued share capital of Best Eagle International Ltd. is beneficially owned by Mr. Wong Shu Wing. Therefore both Best Eagle International Ltd. and Mr. Wong Shu Wing are deemed to have the duplicate interests in the share capital of the Company under the SFO.
2. The entire issued share capital of D & M International Ltd. is beneficially owned by Mr. Leung Yu Ming, Steven. Therefore both D & M International Ltd. and Mr. Leung Yu Ming, Steven are deemed to have the duplicate interests in the share capital of the Company under the SFO.

Save as disclosed herein, as at 30 June 2003, no other person was recorded in the Company's register kept pursuant to Section 336 of the SFO as having an Interest in the issued capital (including short positions) representing 5% or more of the issued capital.

Save as disclosed herein, the Directors are not aware of any person, other than the persons (including his personal, family and corporate interests) as aforementioned, who had, directly or indirectly, an Interest in the issued capital (including short positions) representing 5% or more of the issued capital as at 30 June 2003.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the period. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the period.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

None of the Directors of the Company is aware of any information which would indicate that the Group is not, or was not, in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules of The Stock Exchange of Hong Kong Limited at any time during the period from 3 March 2003 to 30 June 2003.

AUDIT COMMITTEE

The Audit Committee comprises two independent non-executive Directors of the Company, namely Mr. Lau Chung Kwan and Mr. Yeung Ming Tai. 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 condensed interim accounts for the six months ended 30 June 2003 with the Directors.

EMPLOYMENT AND REMUNERATION POLICY

As at 30 June 2003, the Group had approximately 125 employees (2002: 128). We remunerate our employees based on their performance and the prevailing industry practices and the remuneration policy and package is reviewed by the Board on a periodical basis. Bonus and share options may be awarded to employees based on performance evaluation. These are drives and encouragements for personal performance. Up to now, no share option has been granted by the Group to its employees.

SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 12 February 2003 for the purpose of recognition of the contribution from Directors and eligible employees of the Group, and will expire in February 2013. Under the Scheme, the Board of Directors of the Company may grant options to eligible employees, including Directors of the Company and its subsidiaries, to subscribe for shares in the Company.

Subject to the condition that the total number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes of the Company must not exceed 30% of the shares of the Company in issue from time to time, the total number of shares in respect of which options may granted under the Scheme, when aggregated with any shares subject to any other schemes is not permitted to exceed 10% of the issued share capital of the Company immediately upon the listing of the shares on the Stock Exchange, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual in aggregate in any 12-month period is not permitted to exceed 1% of the shares of the Company in issue, without prior approval from the Company's shareholders.

Options granted must be taken up within 28 days of the date of grant, upon payment of HK\$1 per option. Options may be exercised at any time from the expiry of 6 months from the date of acceptance of the share option to such date as determined by the Board of Directors but in any event not exceeding 10 years. The exercise price is determined by the Directors of the Company, and will not be less than the higher of the average closing price of the shares for the five business days immediately preceding the date of grant or the closing price of the shares on the date of grant.

No option was granted by the Company since the adoption of the Scheme.

By the Order of the Board
Wong Shu Wing
Chairman

Hong Kong, 29 August 2003