

## BUSINESS REVIEW

Turnover of the Group for the six months ended 30 September 2003 decreased 5% to HK\$835,764,000 (2002: HK\$875,260,000). For the same period, profit attributable to shareholders rose 125% to HK\$28,120,000 (2002: HK\$12,510,000).

### *Marketing and Distribution*

During the six months under review, turnover from the distribution of semiconductors dropped by 1% to HK\$721,822,000 (2002: HK\$730,438,000). The corresponding operating profit also fell 13% to HK\$23,978,000 (2002: HK\$27,435,000).

In the first quarter of the period, the SARS outbreak in Hong Kong and Pearl River Delta area slowed the Group's semiconductors distribution business. Margins on the component sales were kept low to maintain steady flow of goods and to avoid any accumulation of inventory over the SARS affected period.

Second quarter turnover recovered strongly as the effect of SARS retreated. Customer orders previously held up were received. Demands for semiconductors from manufacturers operating in the Pearl River Delta region revived very quickly.

Performance of the digital consumer electronics products was particularly strong. Samsung Electronics is one of the recognised leaders in the digital electronics market. Sales of Samsung Electronics components used in digital cameras, MP3 players and TFT – LCD displays were exceptional. Semiconductors including flash memories, LCD display IC's, micro-controller IC's distributed by the Group were of great demand.

Overall turnover for the six months under review remained little changed from the last corresponding period.

The concentration of sales and backlog orders in the second quarter of the financial period had increased the Group's accounts receivable as at the balance sheet date. The effect is temporarily and the accounts receivable is expected to return to a normal low level in the third quarter of the financial year.

***Design and Manufacture***

The six months under review should be recognised as a beginning of a new page for the Group's design and manufacture business.

Turnover for the period fell 21% to HK\$113,942,000 (2002: HK\$144,822,000) and profit from operations rose to HK\$13,811,000 (2002: loss of HK\$5,892,000).

The drop in turnover of the design and manufacture business segment was solely attributable to the adoption of a new business model in our provision of manufacturing services to Reigncom Limited ("Reigncom"), a company incorporated in the Republic of Korea and an investee company of the Group.

In April 2003, the Group entered into a new electronic manufacturing services ("EMS") agreement with Reigncom. Under the new agreement, the Group's sales to Reigncom are based only on the EMS fees chargeable on the products manufactured. Raw materials used in the manufacture of the products are consigned by Reigncom.

Prior to the new agreement, the Group is responsible for the purchase of these raw materials. Accordingly, sales to Reigncom are based on the FOB price of the completed products which included the costs of the raw materials and the EMS fees chargeable.

The change in the business model caused an apparent drop in sales to Reigncom to HK\$16,531,000 (2002: HK\$135,920,000). If the same basis of the new EMS agreement were applied, the pro-forma 2002 sales to Reigncom would have been HK\$8,327,000. Thus reflecting a growth in the Reigncom EMS service sales of 99% in 2003.

In March 2003, the Group won its first major Japanese EMS customer to provide SMT printed circuit board assembly services. Production output rose rapidly from the initial 30,000 units per month in April 2003 to over 140,000 units per month in September 2003. Our consistent production quality had won many praises from our customers and further Japanese EMS orders are expected.

In addition to the Group's EMS services, sales of the Group's own ODM products also played a major role in the period under review. Turnover for the ODM products during the six months recorded exceptional growth to HK\$77,978,000 (2002: HK\$5,632,000). The success of our current range of MP3 players has attracted many new orders. In addition, much interest has also been generated for our next year's product range.

***Investment in Reigncom***

On 15 October 2003, Reigncom was granted a conditional approval for the proposed listing of its shares on KOSDAQ in the Republic of Korea. Formal approval for listing is expected to be granted on 18 December 2003 and dealings in Reigncom's shares are expected to commence on 19 December 2003. The IPO offer price has been set at 47,000 Won (approximately HK\$305) per share.

Based on the expected IPO offer price, the market value of the Company's interest in Reigncom would be approximately 45,864 million Won (approximately HK\$297,631,000). As a result of the shares to be issued by Reigncom pursuant to the IPO, the Company's percentage interest in the share capital of Reigncom will be reduced from the current level of about 18.8% to about 15.0% immediately following the share offer.

**PROSPECTS**

The full year financial performance for the Group's semiconductor distribution business is a picture of great optimism. Strong customer demand noted in the second quarter is expected to continue for the remainder of the financial year and beyond. Looking into 2004, sales of digital electronic components, including flash memory IC's, micro-controller units and TFT-LCD IC's are set to rise and prices are expected to remain robust.

The Group's long history as a leading distributor for Samsung Electronics components should enable us to secure reliable and timely supply of critical components for our customers and to capitalise in this growing digital electronic components market.

The Group's recent investment in capital equipment and product development has transformed our design and manufacture operations into a solid profit contributor to the Group. We have firmly established our reputation for quality EMS services and leading edge product design for MP3 products.

The sales growth of the Group's EMS services is expected to continue at an even faster rate. Orders from Reigncom and Japanese customers are expected to rise substantially in the coming year. Thus generating a meaningful return on investment for the EMS operation.

Based on our current successful range of ODM MP3 products, a new product lineup has been designed for 2004. Same emphasis has been put in the product's industrial design, details and user interface. These are the important attributes that differentiate our ODM products to those of the mass market. Much interest has already been generated and the directors are very optimistic of the sales of our new 2004 range of products.

## **LIQUIDITY AND FINANCIAL RESOURCES**

As at 30 September 2003, the Group had cash and bank balances of HK\$45,208,000 (2002: HK\$21,004,000).

Seasonal factors has increased the Group's gearing ratio as at 30 September 2003 to 1.05 (as at 31 March 2003: 0.82). This is calculated based on the Group's total borrowing, net of cash and bank balances, of HK\$248,491,000 (as at 31 March 2003: HK\$169,272,000) and the Group's net tangible assets of HK\$236,223,000 (as at 31 March 2003: HK\$207,654,000).

Total facilities available to the Group from its bankers amounted to HK\$477,170,000 (as at 31 March 2003: HK\$442,170,000). The management is confident that the Group has adequate financial resources for its business growth and forecast requirement for the coming year.

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members will be closed from 23 December 2003 to 29 December 2003 (both days inclusive) during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Tengis Limited, G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:30 p.m. on 22 December 2003.