

## BUSINESS REVIEW

Turnover of the Group for the six months ended 30 September 2004 increased 36% to HK\$1,135m (2003: HK\$836m). For the same period, profit attributable to shareholders increased 122% to HK\$63m (2003: HK\$28m).

### Marketing and Distribution

During the period under review, turnover from the marketing and distribution of semiconductors increased 27% to HK\$919m (2003: HK\$722m). The profit from this segment, amounted to HK\$15m (2003: HK\$24m), fell 38% from last year.

During the period, the demand for flash memory remained strong. Application of flash memory products kept on rising in digital electronic consumer products, like MP3 players; USB discs and digital cameras, and the demand for higher memory capacity significantly increased demand for flash memory products. The Group's sales in flash memory products rose 64% to HK\$259m (2003: HK\$158m) with increased market share. Due to the relatively lower margin of the flash memory products, the high sales volume of the products changed the composition of Group's sales mix and reduced overall gross margin.

Sales in other product areas, including system LSI products; micro-controller units; LCD driver IC's and power devices IC, have shown an overall steady increase in turnover and gross margin on these products are stable.

The Group continues to differentiate itself from competition by providing technical design and engineering support to our customers. It strives to become the preferred one-stop supplier to customers for the products the Group distributes. These value added elements are fundamental to the Group's business practices and for developing long term customer relationships. They also ensure the margins achieved by the Group are more robust when compared to its peers.

### Design and Manufacture

Turnover of the design and manufacture business for the period increased 89% to HK\$215m (2003: HK\$114m). Profit from the segment increased 16% to HK\$16m (2003: HK\$14m).

The increased turnover from the design and manufacturing business segment was primarily attributable to the success of the Group's own design manufacture ("ODM") operation. The market responded well to the continuous enhancement in product design, practical features and fashionable styling of the Group's MP3 players. The exceptional achievement in design and development of new products was well accepted by the customers. During the period, the Group designed many quality and trendy MP3 products for customers, in turn enriched its customer portfolio. The diversified products range secured rising orders from customers all over the world.

During the period, one of the most remarkable achievements of the Group was the successful launch of its own brand MP3 players. The launch of the two state-of-the-art MP3 players under the new stylish brand – SiGn signified the Group's active expansion of its own brand manufacture ("OBM") business. Targeting the premium consumer markets, the MP3 players from SiGn marked another milestone in the development of the next generation MP3 players with its innovative design, advanced technology and excellent capabilities. Currently, the SiGn MP3 players are carried in many well-known electronic retail chain stores in Hong Kong, Korea, Japan and Europe.

### **Investment in Reigncom**

During the six months under review, the Group disposed of 330,000 shares in Reigncom Limited ("Reigncom") and resulted in a net gain of HK\$41m. The Group's interest in Reigncom is reduced to 9.8%.

As at 30 September 2004, the market value of the Group's remaining interest in Reigncom amounted to approximately HK\$220m.

## **PROSPECTS**

Looking ahead, building on the established marketing and distribution core operation, the Group will strive to focus on accelerating the development of its high-growth design and manufacture business.

The Group will continue to maintain its position as one of the leading semiconductors distributors in Asia by distributing the traditional and new products of Samsung Electronics including TFT/LCD displays, CMOS image sensors and new micro controller units, and also keep on expanding its distribution portfolio by distributing Cornice Inc. and Ness Display Co., Ltd's products.

In October 2004, the Group's electronic manufacture services ("EMS") division commenced pilot production of IP phone-sets for a long-term strategic customer. The pilot production has been successful and full-scale production is scheduled to commence towards the end of the financial year. The manufacture of IP phone sets represent a diversification of the Group's EMS manufacture division into non-MP3 related products. Further scope for cooperation and more manufacturing orders for other EMS products may follow.

Boasting strong capability in design and engineering of stylish consumer electronic products, the Group's ODM business will continue to be its major growth driver in the years ahead. Breakthrough in product quality has enabled the Group to obtain orders from a prestigious Japanese ODM customer. The first and second batches of shipment had been delivered and future orders are expected.

The Group's OBM operation shall become the Group's another growth driver in the future. Apart from the current local and the PRC markets, the Group is expanding its footprint to Europe as well as Japan by establishing more distribution channels. Boasting award winning product designs, the Group is motivated to continue to refine its product styling and industrial design to develop quality and leading-edge products. The management believes the further strengthening of its OBM operation shall create a prosperous future for the Group.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 30 September 2004, the Group had cash and bank balances of HK\$89m (2003: HK\$45m).

The gearing ratio as at 30 September 2004 was reduced to 0.60 (2003: 1.05). This is calculated based on the Group's total bank borrowings, net of cash and bank balances, of HK\$203m (2003: HK\$248m) and the Group's net tangible assets of HK\$337m (2003: HK\$236m).

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 28 December 2004 to 30 December 2004 (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 24 December 2004.

## EMPLOYEES

As at 30 September 2004, the Group employed a total of approximately 2,000 full time employees. The Group recruits and promotes individuals based on merit and their development potentials for the positions offered. Remuneration package is determined with reference to their performance and the prevailing salary levels in the market. In addition, the Group operates a share option scheme for eligible employees to provide incentive to the participants for their contribution, and continuing efforts to promote the interests of the Group.