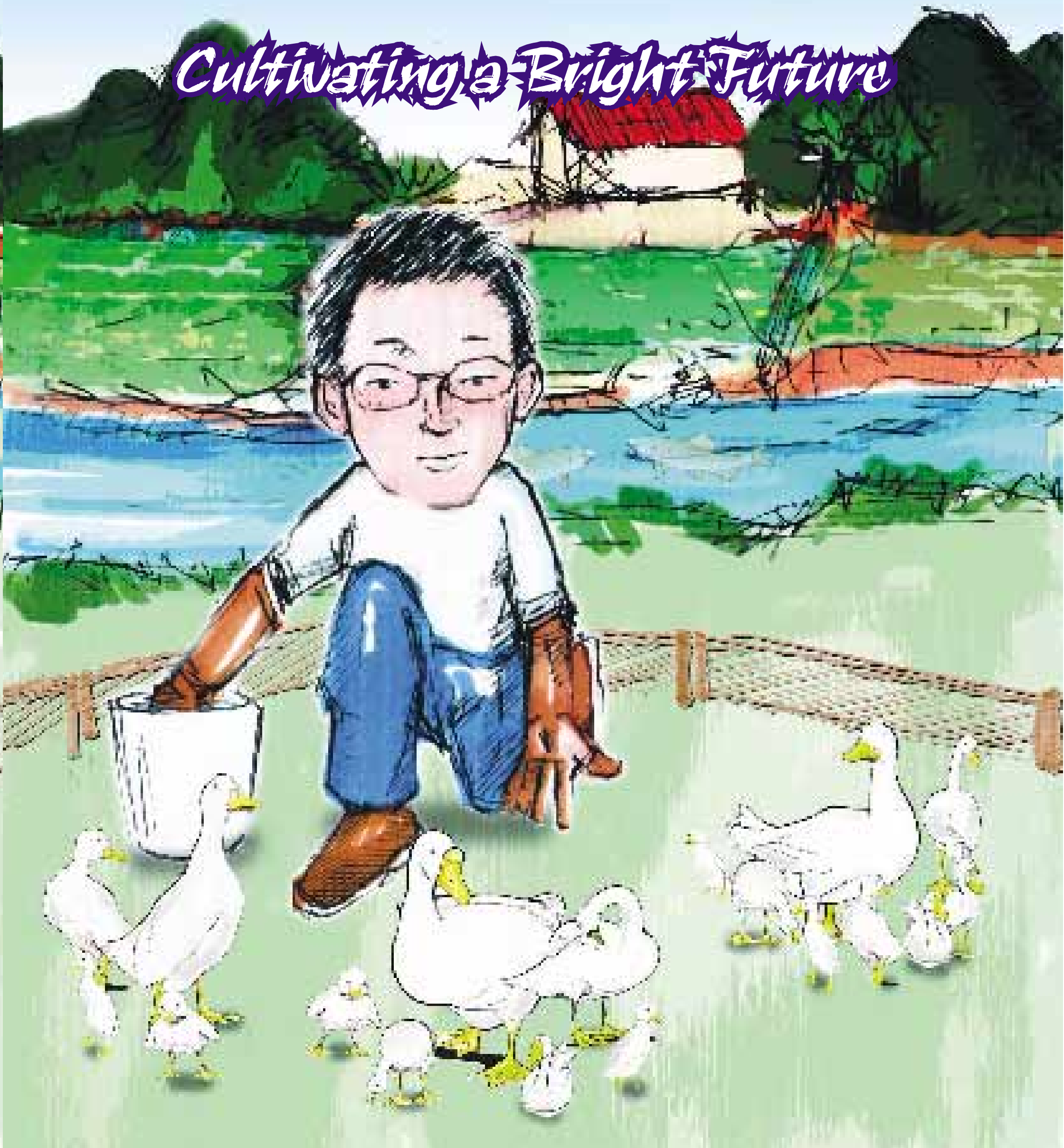
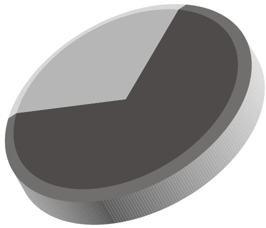
# MOBICON GROUP LIMITED

## INTERIM REPORT 2002/2003



## FINANCIAL SUMMARY

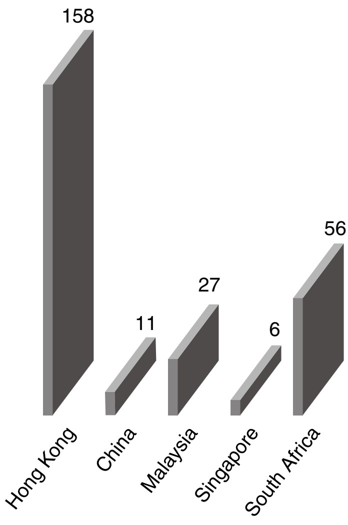
### Turnover Analysis by Product Category



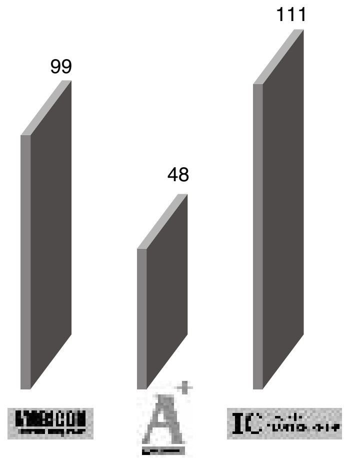
29% Computer memory modules and peripherals

71% Electronic components, equipment and industrial parts

### Distribution of workforce by geographical location




### Distribution of workforce by line of business



**INTERIM RESULTS**

The Board of Directors (the "Directors") of Mobicon Group Limited (the "Company") are pleased to announce the unaudited condensed consolidated accounts of the Company and its subsidiaries (the "Group") as at and for the six months ended 30 September 2002 together with comparative figures as follows:

**CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT**

*FOR THE SIX MONTH ENDED 30 SEPTEMBER 2002 (UNAUDITED)*

| | | **(Unaudited) Six months ended 30 September** | |
|---|---|---|---|
| | | **2002** | **2001** |
| | *Note* | *HK$'000* | *HK$'000* |
| Turnover | *2* | 320,972 | 145,048 |
| Cost of sales | | (278,024) | (120,326) |
| Gross profit | | 42,948 | 24,722 |
| Other revenue | | 253 | – |
| Distribution and selling expenses | | (1,719) | (910) |
| General and administrative expenses | | (26,715) | (18,211) |
| Operating profit | *2&3* | 14,767 | 5,601 |
| Interest expense | | (63) | – |
| Interest income | | 47 | 682 |
| Share of loss of an associate | | (139) | – |
| Profit before taxation | | 14,612 | 6,283 |
| Taxation | *4* | (2,883) | (1,137) |
| Profit after taxation but before minority interests | | 11,729 | 5,146 |
| Minority interests | | (758) | 1 |
| Profit attributable to shareholders | | 10,971 | 5,147 |
| Interim dividend | *5* | 4,000 | 5,000 |
| Earnings per share – Basic | *6* | HK 5.5 cents | HK 2.7 cents |

**CONDENSED CONSOLIDATED BALANCE SHEET**
*AS AT 30 SEPTEMBER 2002*

| | Note | (Unaudited) As at 30 September 2002 HK$'000 | (Audited) As at 31 March 2002 HK$'000 |
|---|---|---|---|
| Non-current assets | | | |
| Fixed assets | 7 | 3,267 | 2,958 |
| Investment in an associate | | – | 139 |
| | | 3,267 | 3,097 |
| Current assets | | | |
| Inventories | | 89,575 | 70,008 |
| Accounts receivable | 8 | 81,146 | 36,287 |
| Prepayment, deposits and other receivables | | 3,005 | 3,457 |
| Due from an associate | | 460 | – |
| Cash and bank deposits | | 8,246 | 26,675 |
| | | 182,432 | 136,427 |
| Current liabilities | | | |
| Accounts payable | 9 | (46,016) | (25,858) |
| Accruals and other payables | | (7,969) | (9,482) |
| Due to an associate | | – | (51) |
| Short-term bank loans, secured | | (14,000) | – |
| Taxation payable | | (1,851) | – |
| Total current liabilities | | (69,836) | (35,391) |
| Net current assets | | 112,596 | 101,036 |
| Total assets less current liabilities | | 115,863 | 104,133 |
| Financed by: | | | |
| Share capital | 10 | 20,000 | 20,000 |
| Reserves | | 17,504 | 17,506 |
| Retained profit | | 72,670 | 65,699 |
| Proposed dividend | 5 | 4,000 | – |
| Shareholders' funds | | 114,174 | 103,205 |
| Minority interests | | 1,581 | 820 |
| Non-current liability | | | |
| Deferred taxation | | 108 | 108 |
| | | 115,863 | 104,133 |

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

*FOR THE SIX MONTH ENDED 30 SEPTEMBER 2002 (UNAUDITED)*

| | Share capital | Share premium | Capital reserve | (Unudited) Translation reserve | Proposed dividend | Retained profit | Total |
|---|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| As at 1 April 2002 | 20,000 | 16,706 | 800 | – | – | 65,699 | 103,205 |
| Profit for the period | – | – | – | – | – | 10,971 | 10,971 |
| Proposed dividend | – | – | – | – | 4,000 | (4,000) | – |
| Effect of foreign exchange rate changes | – | – | – | (2) | – | – | (2) |
| As at 30 September 2002 | 20,000 | 16,706 | 800 | (2) | 4,000 | 72,670 | 114,174 |
| As at 1 April 2001 | – | – | – | – | – | 66,296 | 66,296 |
| Issue of share arising from the reoganisation | 200 | – | – | – | – | – | 200 |
| Issue of shares through public offering and private placement | 5,000 | – | – | – | – | – | 5,000 |
| Premium on issue of ordinary shares | – | 45,000 | – | – | – | – | 45,000 |
| Share issuance expense | – | (13,494) | – | – | – | – | (13,494) |
| Capitalisation of share premium | 14,800 | (14,800) | – | – | – | – | – |
| Effect of reorganization | – | – | 800 | – | – | – | 800 |
| Profit for the period | – | – | – | – | – | 5,147 | 5,147 |
| Proposed dividend | – | – | – | – | 5,000 | (5,000) | – |
| As at 30 September 2001 | 20,000 | 16,706 | 800 | – | 5,000 | 66,443 | 108,949 |

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

*FOR THE SIX MONTH ENDED 30 SEPTEMBER 2002 (UNAUDITED)*

| | (Unaudited) Six months ended 30 September | |
|---|---|---|
| | **2002** | **2001** |
| | *HK$'000* | *HK$'000* |
| Net cash outflow from operating activities | (30,889) | (23,963) |
| Net cash used in investing activities | (1,356) | (935) |
| Net cash from financing activities | (133) | 11,292 |
| Decrease in cash and bank deposits | (32,378) | (13,606) |
| Cash and cash equivalents, beginning of period | 26,675 | 45,874 |
| Effect of foreign exchange rate changes | (51) | – |
| Cash and cash equivalents, end of period | (5,754) | 32,268 |
| Analysis of the balances of cash and cash equivalents | | |
| Cash and bank deposits | 8,246 | 32,268 |
| Short-term bank loans | (14,000) | – |
| | (5,754) | 32,268 |

**NOTES:**

**1. Basis of presentation**

These unaudited condensed consolidated accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25, Interim Financial Reporting, issued by the Hong Kong Society of Accountants.

The accounting policies and methods of computation used in the preparation of these unaudited condensed consolidated accounts are consistent with those used in the annual financial statements for the year ended 31 March 2002, except as described below.

Effective 1 April 2002, the Group has adopted, for the first time, the following SSAPs issued by the Hong Kong Society of Accountants:

| | |
|---|---|
| SSAP 1 (revised): | Presentation of financial statements |
| SSAP 11 (revised): | Foreign currency translation |
| SSAP 15 (revised): | Cash flow statements |
| SSAP 25 (revised): | Interim financial reporting |
| SSAP 34: | Employee benefits |

A summary of their major effect 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 requirement 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 11 (revised) prescribes the basis of presentation of foreign currency transactions and financial statements. The principal impacts of this revised SSAP on the condensed consolidated financial statements is that the profit and loss account of subsidiaries and associates operating in overseas are translated at an average rate for the period on consolidation, rather than translated at the applicable rates of exchange ruling at the balance sheet date as was previously required. This is a change in accounting policy, however, the translation of the profit and loss of foreign subsidiaries in prior periods has not been restated as the effect of this change is not material to the current and prior periods.

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.

SSAP 25 (revised) prescribes the presentation and disclosures following changes in SSAP 1 (revised) and SSAP 15 (revised). The condensed consolidated accounts for the current interim period and the comparative figures have been presented in accordance with the revised SSAP.

SSAP 34 prescribes the accounting treatment and disclosures for employee benefits. This SSAP has had no major impact on these condensed consolidated accounts.

2. **Segment Information**

The Group is principally engaged in trading of electronic components and computer products and accessories to customers in different geographical areas. Accordingly, the Directors have determined that there is only one business segment and the geographical segment is its primary reporting format.

An analysis of geographical segment is as follows:

| | Six months ended 30 September 2002 (Unaudited) | | | | | |
|---|---|---|---|---|---|---|
| | **Hong Kong** | **Asia Pacific** | **Europe** | **America** | **Others** | **Total** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Turnover * | | | | | | |
| External sales | 280,028 | 14,900 | 7,164 | 1,737 | 17,143 | 320,972 |
| Operating results | | | | | | |
| Operating profit | 12,883 | 686 | 330 | 80 | 788 | 14,767 |
| Share of loss of an associate | | | | | | (139) |
| Interest income | | | | | | 47 |
| Interest expense | | | | | | (63) |
| Taxation | | | | | | (2,883) |
| Profit before minority interests | | | | | | 11,729 |

| | Six months ended 30 September 2001 (Unaudited) | | | | | |
|---|---|---|---|---|---|---|
| | **Hong Kong** | **Asia Pacific** | **Europe** | **America** | **Others** | **Total** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Turnover * | | | | | | |
| External sales | 120,426 | 8,749 | 8,995 | 3,231 | 3,647 | 145,048 |
| Operating results | | | | | | |
| Operating profit | 4,650 | 338 | 347 | 125 | 141 | 5,601 |
| Interest income | | | | | | 682 |
| Taxation | | | | | | (1,137) |
| Profit before minority interests | | | | | | 5,146 |

* *Turnover by geographical location is determined on the basis of the destination of delivery of merchandise to customers.*

### 3. Operating profit

Operating profit in the condensed consolidated profit and loss account was determined after charging and crediting the following:

| | (Unaudited) Six months ended 30 September | |
|---|---|---|
| | **2002** | **2001** |
| | *HK$'000* | *HK$'000* |
| *After charging –* | | |
| Staff costs (including directors' emoluments) | | |
| – wages and salaries | 15,124 | 11,093 |
| – pension costs – defined contribution plans | 473 | 375 |
| Provision for obsolete and slow-moving inventories | 3,964 | – |
| Provision for doubtful debts | 7 | – |
| Depreciation of fixed assets | 638 | 287 |
| Operating lease rentals of premises | 3,666 | 2,070 |
| Net exchange loss | – | 52 |
| Auditors' remuneration | 300 | 300 |
| *After crediting –* | | |
| Gain on disposal of fixed assets | 3 | – |
| Net exchange gain | 539 | – |

### 4. Taxation

The Company and its subsidiaries are subject to income taxes on an entity basis on income arising in or derived from the tax jurisdiction in which they operate.

The Company was incorporated under laws of Bermuda and, under current Bermuda Law, is not subject to tax on profit or on capital gains. The Company has obtained from the Minister of Finance of Bermuda for an assurance, under the Exempted Undertakings Tax Protection Act 1966 of Bermuda, that no such taxes shall be so payable until 28 March 2016.

Hong Kong profits tax has been provided at the rate of 16% (2001 – 16%) on the estimated assessable profit for the period. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

Taxation in the unaudited condensed consolidated profit and loss account consists of:

| | (Unaudited) Six months ended 30 September | |
|---|---|---|
| | **2002** | **2001** |
| | *HK$'000* | *HK$'000* |
| Current taxation – | | |
| Hong Kong profits tax | 2,492 | 1,137 |
| Overseas tax | 391 | – |
| | 2,883 | 1,137 |

**5. Interim dividend**

The Board of Directors has proposed an interim dividend of HK$0.02 per ordinary share, totalling HK$4,000,000 (2001: HK$5,000,000) for the six months ended 30 September 2002 to shareholders whose names appear on the register of members of the Company on 20 December 2002. The share register of members of the Company will be closed from 19 December 2002 to 20 December 2002, both days inclusive. The dividend will be paid on 23 December 2002.

**6. Earnings per share**

The calculation of basic earnings per share for the six months ended 30 September 2002 is based on the consolidated profit attributable to shareholders of approximately HK$10,971,000 (2001 – HK$5,147,000) and on the weighted average number of approximately 200,000,000 shares (2001 – 190,984,000 shares) in issue during the period.

No diluted earnings per share is presented as there were no potential dilutive ordinary shares in issue during the six months ended 30 September 2001 and 2002.

**7. Fixed assets**

Movements of fixed asset for the six months ended 30 September 2002:

| | **(Unaudited)**<br>*HK$'000* |
|---|---|
| Net book value at 1 April 2002 | 2,958 |
| Additions | 1,015 |
| Disposals | (120) |
| Depreciation | (637) |
| Translation adjustment | 51 |
| Net book value at 30 September 2002 | 3,267 |

**8. Accounts receivable**

The Group normally grants to its customers credit periods for sales of goods ranging from 14 to 60 days. The ageing analysis of accounts receivable is stated as follows:

| | **As at 30 September 2002** ***(Unaudited)*** *HK$'000* | **As at 31 March 2002** ***(Audited)*** *HK$'000* |
|---|---|---|
| 0 to 60 days | 72,994 | 30,839 |
| 61 to 120 days | 6,526 | 3,407 |
| 121 to 180 days | 286 | 1,390 |
| 181 to 365 days | 1,749 | 1,053 |
| | 81,555 | 36,689 |
| *Less:* Provision for doubtful debts | (409) | (402) |
| | 81,146 | 36,287 |

## 9. Accounts payable

The ageing analysis of accounts payable is stated as follows:

| | As at 30 September 2002 (Unaudited) *HK$'000* | As at 31 March 2002 (Audited) *HK$'000* |
|---|---|---|
| 0 to 60 days | 38,385 | 18,830 |
| 61 to 120 days | 3,649 | 3,528 |
| 121 to 180 days | 659 | 3,426 |
| 181 to 365 days | 3,323 | 74 |
| | 46,016 | 25,858 |

## 10. Share capital

| | Authorised | |
|---|---|---|
| | Number of Shares (Unaudited) *'000* | Nominal Value (Unaudited) *HK$'000* |
| At 1 April 2002 and 30 September 2002 | 2,000,000 | 200,000 |

| | Issued and fully paid | |
|---|---|---|
| | Number of Shares (Unaudited) *'000* | Nominal Value (Unaudited) *HK$'000* |
| At 1 April 2002 and 30 September 2002 | 200,000 | 20,000 |

## 11. Operating lease commitments

As at 30 September 2002, the Group had operating lease commitments in respect of rented premises under various non-cancellable operating lease agreements extending to January 2006. The amounts of total commitments are analysed as follows:

| | As at 30 September 2002 (Unaudited) *HK$'000* | As at 31 March 2002 (Audited) *HK$'000* |
|---|---|---|
| Amounts payable | | |
| – within one year | 4,903 | 4,903 |
| – more than one year but not exceeding five years | 7,787 | 10,238 |
| | 12,690 | 15,141 |

**12. Related parties transactions**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

Particulars of significant transactions between the Group and related parties are summarised below:

| | **(Unaudited) Six months ended 30 September** | |
|---|---|---|
| | **2002** | **2001** |
| | *HK$'000* | *HK$'000* |
| Management fee from Create Tech Software Systems Limited, an associate | 69 | – |
| Interest income received from Create Tech Software Systems Limited, an associate | 6 | – |
| Rentals paid/payable to: | | |
| – M-Bar Limited (i) | 1,386 | 1,386 |
| – Mr. Hung Kim Fung, Measure and Ms. Yeung Man Yi, Beryl | 240 | 240 |

*Note:*

(i) M-Bar Limited is a wholly owned subsidiary of Mobicon Electronic Supplies Company Limited, a company beneficially owned by Mr. Hung Kim Fung, Measure (30%), Ms. Yeung Man Yi, Beryl (30%), Mr. Hung Ying Fung (20%) and Mr. Yeung Kwok Leung, Allix (20%), directors and substantial shareholders of the Company.

## BUSINESS RESULTS

The Group's turnover for the six months ended 30 September 2002 was approximately HK$321 million. This represents a strong increase of 121% compared with the corresponding period last year, and a slight improvement on the results for the last financial year. Net profit attributable to shareholders of the Company grew by 113% to approximately HK$11 million, representing earnings per share of HK$0.055.

A revived electrical products market, sustained development of the Group's computer business, and the success of its Satellite Development Strategy were all contributing factors to this rapid rise in turnover and profit. Nevertheless, despite growth in the sales of computer products and memory modules, the lower profit margins that prevail in this sector in comparison to the Group's core electronics components business, meant the Group's overall gross profit margin fell slightly to 13%. Even so, as a result of the substantial increase in turnover, overall gross profit rose by 74% to HK$43 million compared with the same period last year.

## BUSINESS REVIEW

In the period under review, the Group engaged in the procurement and distribution of electronics parts and equipment, and computer components, and gained favourable results from the development of the Satellite Development Strategy. The Group did not have material acquisitions and disposal of subsidiaries and associates during the six months ended 30 September 2002.

The Group has three main brands: Mobicon Electronic Components, IC Master, and A Plus.

**A) Mobicon Electronic Components**

The four Mobicon Electronic Components subsidiaries of the Group engage mainly in distributing electronic parts and components in different markets.

*DV Power Limited ("DV Power")*

DV Power targets the power source and electrical appliances market by distributing electronic parts supplied by major brands, including Cheng Home, TSC and Solteam. These are highly specialized products targeting niche market, which makes DV Power confident in their excellent prospects. It intends to become a leading supplier in this industry.

*MCU Power Limited ("MCU Power")*

MCU Power mainly provides Micro Control Unit (MCU) solutions to the intelligent electrical appliances and toys market, focusing on the development of electronic consumer products and intelligent toys activated by 8-bit MCUs. MCU Power is also dedicated to offering product application solutions to clients. The major brands distributed by MCU Power are currently Winbond, MDT, Utron and Silan.

*Milliard Devices Limited ("Millard")*

Milliard markets passive components for consumer electronic products and offers related one-stop-services. Major brands it distributes include Thermometric, Promax Johnton, Partsnic (formerly called Daewoo), Chi Lick Schurter, Pilkor, etc. To better serve its global client base, Milliard intends to start offering real-time on-line sales services within the next three years.

*Arkia Advance Limited ("Arkia")*

Arkia supplies electronics parts and components to the telecommunications market in Mainland China. Major brands it distributes are AMS, UTC, SLS, SIWARD, FUDAN, etc. Following China's accession to the World Trade Organisation ("WTO"), market demand for telecommunication systems has increased steadily and the Group will take advantage of this opportunity to promote telephone single chip integrated circuits ("ICs"), energy-saving ICs and musical ICs for mobile telephones.

**B) IC Master**

The Group has distribution centres for retailing of electronics products and components under the brand name "IC Master" through the following subsidiaries in Hong Kong, South Africa, Malaysia and Singapore respectively. The Group has also entered into strategic alliances with established local electronics suppliers in other markets to realize its aim to provide a full range of services to local customers. This enables the Group to achieve its goal in serving the local communities.

*Hong Kong – IC Master Shop*
In order to more cost-effectively utilize its resources, IC Master Shop merged its two retail stores in Tong Choi Street, Kowloon into one outlet, and moved the entire sales team to its office and warehouse at San Po Kong, Kowloon in August 2002. At the same time, it extended the scope of its service range to offer customers more professional and personal service. Several higher-level certificate/ degree holders joined the equipment products sales team, enabling it to conduct on-site equipment demonstrations and facilitating the provision of professional advice to individual clients.

*South Africa – Mobicon-Mantech Holdings Ltd ("Mobicon-Mantech")*
To avoid overlapping of resources and to increase the South African operation's profit contribution, the Group has consolidated its operations by closing its office at Midrand, South Africa during the period under review; reallocating its business to the three other branches in Johannesburg, Durban and Cape Town, South Africa. Mobicon-Mantech plans to increase its share of the local market by extending its electronic equipment sales and distribution network from original electronics parts market.

*Malaysia – Mobicon-Remote Electronic Sdn Bhd ("Mobicon-Remote")*
With the Malaysian government's strong support for the development of small and medium-size enterprises (SME), Mobicon-Remote plans to extend its sales to the SME sector. In addition, it intends to diversify its service range by extending its electronic parts retail services to the electronic equipment business. Moreover, Mobicon-Remote has entered into negotiations with a growing number of local enterprises, with a view to enlarging its distribution network and strengthening its market position.

*Singapore – Mobicon-Remote Electronic Pte Ltd ("Mobicon-Remote Electronic")*
This is the only foreign investment wholly owned by the Group. At this stage, the Group's focus is on analyzing and studying the market in order to better understand its needs, and to establish a strong foundation for future development when the economic environment improves. The intention is to establish Mobicon-Remote Electronic as the headquarters for Southeast Asia, managing the daily business operations of all subsidiary companies within the region.

**C) A Plus**
There are five subsidiaries of the Group engaged in A Plus products. Each provides one-stop computer services to meet different customer needs.

*A Power Limited ("A Power")*
A Power is a computer repair and maintenance agency, mainly specializing in the design and distribution of Uninterruptible Power Supply (UPS) and rack-mounted solutions for computer rooms. The major brands it distributes include Liberts UPS products and ServGate firewall. In November 2002, A Power signed an agreement with Emerson, making it the first UPS product repair and maintenance centre in Hong Kong accredited by this famous US company. A Power's target

customers are government departments, hotels, SMEs, and multinational enterprises in Hong Kong, Macau and the South China region.

In view of the uncertainties of the global economic climate and the lower-than-average profit margins currently prevailing in the industry, A Power will take the opportunity to continue building its customer base by offering professional computer repair and maintenance services at reasonable cost.

*Create Tech Software Systems Limited ("Create Tech")*
Create Tech focuses on medium-size and multinational enterprises in the Asia region. It engages in web-based enterprise resource planning (ERP) solutions, tailor-made software and distributed software packages. Create Tech plans to enter in the China market in a steady but progressive manner, as its business stabilizes and grows.

*PC Master Limited ("PC Master")*
PC Master operates a chain of trendy computer shops which specialize in Liquid Crystal Display ("LCD") monitors, portable PC, and equipment for wireless networks. Despite fierce market competition, PC Master plans to expand its number of outlets, so as to enhance operational efficiency.

*A Plus 2 Computer Limited ("A Plus 2")*
A Plus 2 offers express comprehensive purchasing services to computer retailers, including storage, transportation and maintenance. A Plus 2 has formed strategic partnerships with several multinational brands, including Microsoft, IBM, Compaq etc.

**PROSPECTS**

The Group is confident that there will be sustained growth in the electronics and computer market in the second half of the year. Following a sharp decrease in the prices of electronic components, the prices of electronic products have also dropped, and this should stimulate retail sales. Meanwhile, mobile phones with colour screens are the latest trend and this is creating new demand that should stimulate steady growth in the sales of related electronic parts and components. In the computer business, the popularity of LCD monitors and wireless on-line systems should arrest the decline in demand for computer products, thus stabilizing the market's development.

The Group's Satellite Development Strategy is being steadily implemented and has started to gain favourable results. Meanwhile, the Group has further developed its investments on the Mainland, where the number of equipment distributors shall increase from 300 at present to about 1,000 within two years. This will help building the Group's profile as a regional distributor of electronic equipment in the South China region.

Moreover, the Satellite Development Strategy will hasten the Group's development in both Hong Kong and overseas markets. The Group's enlarged product line and services are attracting the attention of a growing number of enterprises many of which are eager to work closely with it. In the last six months, for example, the Group has signed distribution contracts with more than 10 brands, creating higher quality and more diversified product choices for customers.

Cooperation between the Group's subsidiaries in the past six months have created a synergistic effect. Their diversified production lines and all-round service scope are major selling points for customers, especially as purchasing patterns change from diversified to integrated purchasing. Meanwhile, the Group also benefits from the more competitive pricing that is possible with a larger client base, together with the larger sizes of orders, all of which help lowering the costs and increasing the profitability.

In the future, the Group will be more discriminating in selecting business partners, to enable it to provide more comprehensive one-stop service. Moreover, it should continue to benefit from the success of the Satellite Development Strategy, which will make it stand out from the competition in the electronics market, and increase profits.

**LIQUIDITY AND FINANCIAL RESOURCES**

The Group's financial foundation is strong, and it will progressively allocate resources for several high-potential projects. As at 30 September 2002, the Group's net cash balance and total assets amounted to HK$8 million and HK$186 million respectively. Net assets per share amounted to HK$0.571. Meanwhile, dividends and earnings per share are HK$0.02 and HK$0.055 respectively.

As at 30 September 2002, the Group incured HK$14 million bank loans from its bankers to finance its expansion and the future development plans of its subsidiaries. The loans are with a maturity term of one month and can be rolled over afterwards at the discretion of the Group. The gearing ratio (defined as a percentage of total borrowings over total assets less current liabilities) as at 30 September 2002 is 0.12.

The Directors believe that the Group's existing financial resources are sufficient to fulfil its commitments and current working capital requirements.

**CHARGES ON ASSETS**

The Group did not have any charge on their assets as at 30 September 2002.

**CONTINGENT LIABILITIES**

The Group had no contingent liabilities as at 30 September 2002.

**SHARE OPTION SCHEME**

On 18 April 2001, the Company approved a share option scheme under which the Company's Directors may, at its discretion, invite any employees of the Company or any of its subsidiaries, including any executive directors, to take up options to subscribe for shares in the Company. The maximum number of shares in respect of which options may be granted under the share option scheme may not exceed 10% of the issued share capital of the Company. The subscription price will be determined by the Company's Board of Directors and will be the highest of (i) the nominal value of the shares, (ii) the quoted closing prices of the Company's shares on the trade day immediately preceding the date of offer of the options, and (iii) the average of the quoted closing price of the Company's shares on the five trading days immediately preceding the date of offer of the options. The scheme became effective upon the listing of the Company's shares on 7 May 2001. No options have been granted up to 30 September 2002.

## DIRECTORS' INTERESTS IN SHARES

As at 30 September 2002, the Directors had the following interests in the shares of the Company and its subsidiaries within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), as recorded in the Register of Directors' Interests required to be kept by the Company pursuant to Section 29 of the SDI Ordinance:

### (i) The Company

| Director | Corporate interest | Personal interest | Family interests | Total interest | Percentage of share outstanding |
|---|---|---|---|---|---|
| Mr. Hung Kim Fung, Measure | – | – | 90,000,000 *(Note 1)* | 90,000,000 | 45% |
| Ms. Yeung Man Yi, Beryl | – | – | 90,000,000 *(Note 1)* | 90,000,000 | 45% |
| Mr. Hung Ying Fung | – | 30,000,000 | – | 30,000,000 | 15% |
| Mr. Yeung Kwok Leung, Allix | – | – | 30,000,000 *(Note 2)* | 30,000,000 | 15% |

*Notes:*

1. These shares are held by M2B Holding Limited, a wholly-owned subsidiary of Action 2 Limited which, in turn, is wholly and beneficially owned by Mr. Hung Kim Fung, Measure and Ms. Yeung Man Yi, Beryl. Action 2 Limited is the trustee of Beryl Unit Trust set up by its shareholders. The assets of Beryl Unit Trust include the entire issued share capital of M2B Holding Limited, which are ultimately held by Trident Trust Company (Cayman) Limited as trustee for the benefit and upon trust for the Measure & Beryl Trust, which is a discretionary trust.

2. These shares are held by Bestmark Management Limited, a wholly-owned subsidiary of Holford Group Corporation which, in turn, is wholly and beneficially owned by Mr. Yeung Kwok Leung, Allix and his spouse, Ms. Wan Lam Keng. Holford Group Corporation is the trustee of A&W Unit Trust set up by its shareholders. The assets of A&W Unit Trust include the entire issued share capital of Bestmark Management Limited, which are ultimately held by Trident Trust Company (Cayman) Limited as trustee for the benefit and upon trust for the Trinity Trust, which is a discretionary trust.

**(ii) Subsidiary – A Plus Electronic Company Limited ("A Plus")**

Each of Mr. Hung Kim Fung, Measure, Ms. Yeung Man Yi, Beryl, Mr. Hung Ying Fung and Mr. Yeung Kwok Leung, Allix have beneficial interests in their personal capacity in the following number of non-voting deferred shares in A Plus:

| Name | Number of non-voting deferred shares |
|---|---|
| Mr. Hung Kim Fung, Measure | 300,000 shares of HK$1.00 each |
| Ms. Yeung Man Yi, Beryl | 300,000 shares of HK$1.00 each |
| Mr. Hung Ying Fung | 200,000 shares of HK$1.00 each |
| Mr. Yeung Kwok Leung, Allix | 200,000 shares of HK$1.00 each |

Save as disclosed above, the Company had no notice of any interests required to be recorded under Section 29 of the SDI Ordinance.

## SUBSTANTIAL SHAREHOLDERS

As at 30 September 2002, according to the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance, those shareholders having an interest of 10% or more of the issued share capital of the Company are as follows:

| Name | Number of Shares | Approximate percentage of issued shares |
|---|---:|---:|
| M2B Holding Limited | 90,000,000 | 45% |
| Mr. Hung Ying Fung | 30,000,000 | 15% |
| Bestmark Management Limited | 30,000,000 | 15% |

Save as disclosed above, the Company had no notice of any interests to be recorded under Section 16(1) of the SDI Ordinance.

## EMPLOYEES

As at 30 September 2002, the Group had approximately 258 full time employees whose remuneration are based on individual merits and years of experience.

## EXPOSURE TO FLUCTUATION IN EXCHANGE RATES AND RELATED HEDGES

The Group's borrowings are primarily denominated in Hong Kong dollars. The Group has no significant exposure to foreign exchange fluctuation and there is seldom any need to make use of financial instruments for hedging purposes.

## PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the six months ended 30 September 2002.

## CODE OF BEST PRACTICE

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 six months ended 30 September 2002, except that the non-executive directors are not appointed for specific terms. However, the non-executive directors are subject to retirement by rotation and re-election at annual general meeting in accordance with the Company's Bye-laws.

## AUDIT COMMITTEE

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 accounts for the six months ended 30 September 2002 with the directors.

By Order of the Board
**Hung Kim Fung, Measure**
*Chairman*

Hong Kong, 3 December 2002