

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30th September 2001

1. Basis of preparation and accounting policies

The unaudited condensed consolidated financial statements have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) No. 25, “Interim Financial Reporting”, issued by the Hong Kong Society of Accountants.

The accounting policies and methods of computation used in preparation of these condensed financial statements are consistent with those used in the annual accounts for the year ended 31st March 2001 except that the Group has changed certain of its accounting policies following its adoption of the following new or revised SSAPs which are effective for accounting periods commencing on or after 1st January 2001. Certain comparative figures have been restated to conform with the current period’s presentation.

The changes in the Group’s accounting policies resulting from the adoption of the new and revised policies are set out below:

SSAP 9 (revised) “Events after the balance sheet date”

In accordance with the revised SSAP 9, the Group no longer recognises dividends proposed or declared after the balance sheet date as a liability at the balance sheet date. This change in accounting policy has been applied retrospectively so that the proposed final dividend amounting to HK\$15,411,000 previously disclosed as a current liability as at 31st March 2001 has been restated and shown under shareholders’ funds.

SSAP 14 (revised) “Leases”

The SSAP 14 (revised) prescribes the accounting policies and disclosure requirements in relation to finance and operating leases. The adoption of SSAP 14 (revised) does not have any impact on these accounts except that the comparatives of finance lease liabilities and operating lease commitments have been extended or restated.

SSAP 26 “Segment reporting”

In Note 2 to these condensed financial statements the Group has disclosed segment revenue and results as defined under SSAP 26. In accordance with the Group’s internal financial reporting the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format. Comparative information has been given.

1. Basis of preparation and accounting policies (continued)

SSAP 30 "Business combinations"

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition. For acquisitions after 1st January 2001, negative goodwill is presented in the same balance sheet classification as goodwill.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities, that portion of negative goodwill is recognised in the consolidated profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the consolidated profit and loss account over the remaining weighted average useful life of those assets; negative goodwill in excess of the fair values of those assets is recognised in the consolidated profit and loss account immediately. For acquisitions prior to 1st January 2001, negative goodwill was taken directly to reserves on acquisition. The Group has taken advantage of the transitional provisions in SSAP 30 and such negative goodwill will not be restated.

2. Segment information

The Group is principally engaged in the design, manufacture and sale of consumer audio-visual, telecommunication and plastic products.

An analysis of the Group's turnover and contribution to operating profit for the period by principal activities and geographical segments is as follows:

	Six months ended 30th September			
	Turnover		Contribution to operating profit	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
By principal activities:				
Consumer audio-visual products	1,656,341	1,928,657	56,211	66,881
Telecommunication products	61,156	39,862	1,691	1,311
Plastic products	22,141	32,318	1,860	3,112
	<u>1,739,638</u>	<u>2,000,837</u>	<u>59,762</u>	<u>71,304</u>

2. Segment information (continued)

	Turnover	
	Six months ended	
	30th September	
	2001	2000
	HK\$'000	HK\$'000
By geographical segments:		
North America	1,044,903	1,074,964
Europe	421,044	531,932
Asia	196,640	260,668
South America	51,796	108,196
Africa	14,098	11,150
Australia and New Zealand	11,157	13,927
	<u>1,739,638</u>	<u>2,000,837</u>

No analysis of the contribution by geographical segments has been prepared as no contribution to profit or loss from any of the above geographical segments is substantially out of line with the normal ratio of profit to turnover.

3. Operating profit

Operating profit is stated after (crediting) / charging the following:

	Six months ended	
	30th September	
	2001	2000
	HK\$'000	HK\$'000
Negative goodwill recognised as income	(1,648)	–
Depreciation	44,694	44,420
Amortisation of deferred development costs	13,207	12,159

4. Taxation

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profit for the period.

5. Dividends

At a meeting held on 12th December 2001, the directors declared an interim dividend of HK1.5 cents (2000: HK1.5 cents) per share for the six months ended 30th September 2001.

	Six months ended	
	30th September	
	2001	2000
	HK\$'000	HK\$'000
2001 final dividend, paid in September 2001, of HK3.0 cents (2000 final dividend paid in October 2000: HK3.0 cents) per ordinary share	15,384	15,476
Interim, proposed, of HK1.5 cents (2000: HK1.5 cents) per ordinary share	7,687	7,738
	<u>23,071</u>	<u>23,214</u>

6. Earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders for the six months ended 30th September 2001 of HK\$42,056,000 (2000: HK\$46,052,000) and the weighted average of 513,112,105 (2000: 502,717,614) ordinary shares in issue during the period.

There is no diluted earnings per share since the company has no dilutive potential ordinary share for the current period.

7. Fixed assets

	30th September	31st March
	2001	2001
	HK\$'000	HK\$'000
Opening net book value	476,821	471,310
Additions	60,506	118,436
Disposals	(1,971)	(20,652)
Depreciation	(44,694)	(92,273)
	<u>490,662</u>	<u>476,821</u>

8. Deferred development costs

	30th September 2001 HK\$'000	31st March 2001 HK\$'000
Opening net book value	42,820	46,622
Additions	13,083	35,587
Amortization and write-off	<u>(13,207)</u>	<u>(39,389)</u>
Closing net book value	<u>42,696</u>	<u>42,820</u>

9. Trade receivable

An aging analysis of trade receivable is as follows:

	30th September 2001 HK\$'000	31st March 2001 HK\$'000
0 - 30 days	389,022	192,687
31 - 60 days	55,128	16,370
61 - 90 days	4,963	102
Over 90 days	<u>8,586</u>	<u>10,853</u>
	<u>457,699</u>	<u>220,012</u>

The credit terms given to the customers vary and are generally based on the financial strengths of individual customer. In order to effectively manage the credit risks associated with trade receivable, credit evaluations of customers are performed periodically.

10. Trade payable

An aging analysis of trade payable is as follows:

	30th September 2001 HK\$'000	31st March 2001 HK\$'000
0 - 30 days	291,272	146,901
31 - 60 days	241,377	106,867
61 - 90 days	80,489	40,239
Over 90 days	<u>1,300</u>	<u>1,983</u>
	<u>614,438</u>	<u>295,990</u>

11. Share capital

	<i>Number of shares</i>	<i>HK\$'000</i>
Authorised:		
Ordinary shares of HK\$0.10 each		
Brought forward and carried forward	<u>800,000,000</u>	<u>80,000</u>
Issued and fully paid:		
Ordinary shares of HK\$0.10 each		
At 1st April 2001	513,703,854	51,370
Repurchase of shares	<u>(1,242,000)</u>	<u>(124)</u>
At 30th September 2001	<u>512,461,854</u>	<u>51,246</u>

During the period, 1,242,000 ordinary shares of HK\$0.10 each were repurchased on The Stock Exchange of Hong Kong Limited and cancelled. The total cash consideration is approximately HK\$637,000.

12. Retained earnings

	30th September 2001 HK\$'000	31st March 2001 HK\$'000
Retained earnings brought forward		
As previously reported	553,229	494,034
Effect of adopting SSAP 9 (revised)	<u>15,411</u>	<u>14,658</u>
As restated	568,640	508,692
Final dividend paid	(15,384)	(15,476)
Interim dividend paid	–	(7,724)
Transfer to capital redemption reserve	(124)	(239)
Profit for the period/year	<u>42,056</u>	<u>83,387</u>
Retained earnings carried forward	<u>595,188</u>	<u>568,640</u>
Retained earnings	595,188	568,640
Final dividend proposed	–	(15,411)
Interim dividend proposed	<u>(7,687)</u>	<u>–</u>
	<u>587,501</u>	<u>553,229</u>

13. Long-term liabilities

	30th September 2001 HK\$'000	31st March 2001 HK\$'000
Bank loans - secured	13,681	17,664
- unsecured	194,304	177,686
	207,985	195,350
Obligations under finance leases	33,643	40,867
	241,628	236,217
Current portion of long-term liabilities	(82,190)	(68,380)
	159,438	167,837

At 30th September 2001, the Group's bank loans were repayable as follows:

	30th September 2001 HK\$'000	31st March 2001 HK\$'000
Within one year	64,832	49,312
In the second year	53,480	55,769
In the third to fifth year	89,673	90,269
	207,985	195,350

At 30th September 2001, the Group's finance lease liabilities were repayable as follows:

	30th September 2001			Restated 31st March 2001		
	Present value HK\$'000	Future finance charges HK\$'000	Finance lease liabilities HK\$'000	Present value HK\$'000	Future finance charges HK\$'000	Finance lease liabilities HK\$'000
Within one year	17,358	1,278	18,636	19,068	1,866	20,934
In the second year	10,814	520	11,334	13,705	806	14,511
In the third to fifth year	5,471	180	5,651	8,094	335	8,429
	33,643	1,978	35,621	40,867	3,007	43,874

14. Contingent liabilities

As at 30th September 2001, the Group had bills discounted with recourse to banks amounting to HK\$82,709,000 (31st March 2001: HK\$20,377,000).

The Company provided guarantees in favour of the banks to secure general banking facilities granted to certain subsidiaries. As at 30th September 2001, total utilised banking facilities amounted to HK\$414,000,000 (31st March 2001: HK\$327,000,000).

15. Commitments

(a) Operating lease commitments

As at 30th September 2001, the Group had total future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	30th September 2001 HK\$'000	Restated 31st March 2001 HK\$'000
Within one year	31,999	31,262
In the second to fifth year inclusive	44,381	32,978
After the fifth year	30,221	31,784
	<u>106,601</u>	<u>96,024</u>

(b) Capital commitments

	30th September 2001 HK\$'000	31st March 2001 HK\$'000
Contracted but not provided for:		
Moulds, plant and machinery	896	10,810
Land and buildings	–	10,342
	896	21,152
Authorised but not contracted for:		
Moulds, plant and machinery	1,334	283
	<u>2,230</u>	<u>21,435</u>

16. Related party transaction

The Group had significant transactions with Venturer Electronics Inc. in which a son of a director of the Company has beneficial interests. These transactions were entered into on normal commercial terms and on terms no less favourable to the Company than those available to independent third parties.

	Six months ended	
	30th September	
	2001	2000
	HK\$'000	HK\$'000
Sales of goods to the Venturer Electronics Inc.	<u>49,020</u>	<u>77,153</u>

At 30th September 2001, an outstanding balance of HK\$25,951,000 (31st March 2001: HK\$18,330,000) with the Venturer Electronics Inc. resulting from the above transactions has been included in trade receivable classified under current assets in the condensed consolidated balance sheet.

MANAGEMENT DISCUSSION AND ANALYSIS

Group results

Recession across the global economy has brought about challenging times for many industries and businesses. The impact of the economic downturn on the Group has been reduced, however, by decisive management action that has been quickly implemented to put prudent cost control strategies into place. During the six months under review, the Group recorded turnover of HK\$1,700 million (2000: HK\$2,000 million). Profit attributable to shareholders was HK\$42 million (2000: HK\$46 million), while the Group's profit margin has been maintained at 2.4 per cent, the same level as the corresponding period last year.

Liquidity and financial resources

Management is clear about how important it is to maintain a healthy financial position in the face of an ever-changing economic environment. With regard to the three-year term loan of HK\$250 million secured in October last year, HK\$138 million has been drawn, leaving HK\$112 million available for future needs. Together with HK\$180 million cash on hand, the facility provides a sound cushion for the Group in these turbulent times as well as secures foundations for our future growth and development.

The gearing ratio of the Group, based on the net total borrowings to the shareholder's equity increased from 16% to 21% due to seasonal factor. Nearly all of the Group's borrowings are on the floating rate basis and the Group has benefited from the recent cut in interest rate.

Foreign exchange exposure to the Group is well managed, as nearly all sales and purchases are denominated in US dollar and HK dollar.