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.	**49,020**	77,153

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.

Employees

As at 30th September 2001, the Group had approximately 12,000 employees. The majority of these employees work in Hong Kong and China. Remuneration packages are generally commensurated with individual qualifications and market terms. The Group also provides other benefits including medical insurance, provident fund and education subsidies to all eligible employees.

REVIEW OF OPERATIONS

During the period under review, audio-visual products remained the Group's major source of income. Our existing audio products, such as hi-fi systems utilizing our proprietary 5-disc changer, maintained solid market shares in North America and Europe. OEM customer's demand for car audio products also remained stable, accounting for approximately five per cent of the Group's revenue.

With the aim of broadening our sources of income while capitalizing on the trend for digitized consumer electronic products, the Group diversified into the development of visual products, such as DVD players with built-in amplifiers. Together with our cooperation with large OEM customers, these visual products represent a whole new market level of business opportunities for the Group.

With low-end telecommunication products drifting into obsolescence, consumers globally are enthusiastically turning to the latest high frequency telecommunication products, such as Digital Enhanced Cordless Telecommunications (DECT) technology. Boosted by the launch of DECT in Europe in late 2000, market demand for telecommunication products has remained steady and generated favorable income to us. We are also speeding up the development of a series of 2.4GHz digital cordless phones for a North American market launch in 2002.

By implementing stringent quality controls to ensure minimum defect rates and consistent delivery of the very highest quality products, we have moved significantly closer to our prime quality assurance target of achieving ISO9000: 2000 certification by 2002. A Quality Committee chaired by top management with the participation of all middle and senior management also meet at least monthly to review the Group's quality status.

Our investment over the past year in new Surface Mount Technology (SMT) facilities for the manufacturing of sophisticated electronic products has strengthened our market competitiveness. This new investment in advanced production facilities has helped us to secure orders from a number of OEM clients, as well as to attract interest from potential new customers. We believe our continuous investment in SMT and other advanced automatic production facilities will return an attractive profit margin in the longer term.

We have also committed ourselves to lowering operating costs by reallocation of resources. The Group's Shenzhen office opened in July 2001, its second PRC base after the Dongguan plant. As well as being the site for an R&D center, some of the operations departments from the Group's Hong Kong office have also been moved there. In view of the PRC's lower operating cost, we expect to achieve significant savings from this reorganization. Further savings and increased efficiency have also been achieved by winding down some unprofitable areas of our business operations during the relocation process.