

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. PRINCIPAL ACCOUNTING POLICIES AND BASIS OF PREPARATION

The unaudited consolidated financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice ("SSAP") No.25 "Interim Financial Reporting", issued by the Hong Kong Society of Accountants, except that the comparative figures of the condensed consolidated cash flow statement is not presented. Such departure is permitted by the transitional provision set out in the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited.

The accounting policies and basis of preparation of these interim accounts are the same as those adopted in the Group's annual financial statements for the year ended 31st December 2000 except that the Group has adopted SSAP No.9 (revised), "Events after the balance sheet date" and SSAP No.30, "Business Combinations", issued by the Hong Kong Society of Accountants which became effective during the year.

Dividends proposed or declared after the balance sheet date

In accordance with the SSAP No.9 (revised), 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 comparatives presented have been restated to conform to the changed policy.

Goodwill

In the current period, the Group has adopted SSAP 30 "Business Combinations" and has elected not to restate goodwill (negative goodwill) previously eliminated against (credited to) reserves. Accordingly, goodwill (negative goodwill) arising on acquisitions of subsidiaries prior to 1st January, 2001 is held in reserves and will be charged (credited) to the income statement at the time of disposal of the relevant subsidiary, or at such time as the goodwill is determined to be impaired. Goodwill arising on acquisitions after 1st January, 2001 is capitalised and amortised over its estimated useful life of 20 years.

2. PRIOR YEAR ADJUSTMENT

Please refer to Note 14 for the financial effect of the adoption of the new accounting policy described in Note 1.

3. TURNOVER AND SEGMENTAL INFORMATION

Turnover represents the net invoiced value of goods sold, after allowance for returns and trade discounts.

An analysis of the Group's turnover and contribution to profit from operating activities by business segment are summarised as follows:

	Turnover		Contribution to profit from operating activities	
	For the six months ended 30 June			
	2001 (Unaudited)	2000 (Unaudited)	2001 (Unaudited)	2000 (Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Continuing operations				
Development, manufacture, sale and distribution of:				
– audio products	604,835	581,414	18,622	12,120
– in-car electronic products	560,916	704,343	17,300	15,053
– video products	251,879	216,591	11,285	14,800
– network information/ entertainment solution	6,173	1,415	(541)	(480)
	<u>1,423,803</u>	1,503,763	<u>46,666</u>	41,493
Discontinued operations				
Development, manufacture and sale of telecommunication products	–	55,880	–	(281)
	<u>1,423,803</u>	<u>1,559,643</u>	<u>46,666</u>	<u>41,212</u>

3. TURNOVER AND SEGMENTAL INFORMATION (continued)

An analysis of the Group's turnover and contribution to profit from operating activities by geographical segment is as follows:

	Turnover		Contribution to profit from operating activities	
	For the six months ended 30 June			
	2001 (Unaudited) HK\$'000	2000 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000	2000 (Unaudited) HK\$'000
The United States of America ("U.S.A.")	586,070	912,484	15,890	19,576
Europe	462,435	375,288	16,405	14,086
Asia	152,539	108,340	6,602	2,544
Canada	26,461	27,030	846	851
Central and South America	131,714	78,666	4,744	2,053
Others	64,584	57,835	2,179	2,102
	<u>1,423,803</u>	<u>1,559,643</u>	<u>46,666</u>	<u>41,212</u>

4. OTHER REVENUE

	For the six months ended 30 June	
	2001 (Unaudited) HK\$'000	2000 (Unaudited) HK\$'000
Tooling and repairing service income	4,495	3,706
Interest income	1,407	1,473
Rental income	558	492
Gain on disposal of fixed assets	110	231
Result on proceed of investment	-	3,347
Sales of scrap materials	325	337
Others	4,033	2,751
	<u>10,928</u>	<u>12,337</u>

5. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging:

	For the six months ended 30 June	
	2001 (Unaudited) HK\$'000	2000 (Unaudited) HK\$'000
Cost of inventories sold	1,298,110	1,416,123
Research and development costs:		
Deferred expenditure amortised	8,474	9,466
Current year's expenditure	4,422	7,894
	<u>12,896</u>	<u>17,360</u>
Amortisation of goodwill	2	-
Depreciation:		
Owned fixed assets	31,970	23,571
Leased and hire purchased fixed assets	4,730	4,903
	<u>36,700</u>	<u>28,474</u>

6. FINANCE COSTS

	For the six months ended 30 June	
	2001 (Unaudited) HK\$'000	2000 (Unaudited) HK\$'000
Interest on bank loans, overdrafts, and other borrowings wholly repayable within five years	22,150	17,339
Interest on finance leases and hire purchase contracts	<u>745</u>	<u>936</u>
	<u>22,895</u>	<u>18,275</u>

7. TAX

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Jointly-controlled entities operating in the People's Republic of China (the "PRC") are entitled to an exemption from PRC income tax for two years from their first year with assessable profits, and thereafter are entitled to a 50% exemption for a further three consecutive years. No tax provision has been made by the jointly-controlled entities for the period, because they did not generate any assessable profits, or because they were still entitled to their 100% tax exemption.

	For the six months ended 30 June	
	2001 (Unaudited) HK\$'000	2000 (Unaudited) HK\$'000
Group:		
Hong Kong	1,550	1,547
Elsewhere	89	130
Deferred	<u>854</u>	<u>1,350</u>
	2,493	3,027
Share of tax attributable to associates	<u>457</u>	<u>28</u>
Tax charge for the period	<u>2,950</u>	<u>3,055</u>

8. INTERIM DIVIDENDS

At a meeting of the board of directors held on 6th September, 2001, the directors resolved to pay an interim dividend of HK 0.5 cent per share for the six months ended 30th June, 2001 (2000: HK 1 cent).

9. EARNINGS PER SHARE

The bases on which basic and diluted earnings per share are calculated as follows:

	For the six months ended 30 June	
	2001 (Unaudited) HK\$'000	2000 (Unaudited) HK\$'000
<i>Earnings</i>		
Net profit from ordinary activities attributable to shareholders used in basic and diluted earnings per share calculation	<u>15,106</u>	<u>28,264</u>
	As at 30 June	
	2001 (Unaudited)	2000 (Unaudited)
<i>Shares</i>		
Weighted average number of shares in issue during the period used in basic earnings per share calculation	433,008,288	401,328,318
Weighted average number of shares assumed issued at no consideration on deemed exercise of all share options outstanding during the period	<u>246,270</u>	<u>6,491,121</u>
Weighted average number of shares used in diluted earnings per share calculation	<u>433,254,558</u>	<u>407,819,439</u>

10. TRADE RECEIVABLE

	30 June 2001 (Unaudited) HK\$'000	31 December 2000 (Audited) HK\$'000
Current to 90 days	334,908	317,532
91 to 180 days	18,801	28,857
181 to 360 days	4,993	14,297
Over 360 days	–	454
	<u>358,702</u>	<u>361,140</u>

The Group in general allows a credit period of 30 to 240 days to its trade debtors.

11. TRADE PAYABLE

	30 June 2001 (Unaudited) HK\$'000	31 December 2000 (Audited) HK\$'000
Current to 90 days	545,378	263,152
91 to 180 days	74,656	95,372
181 to 360 days	6,698	1,206
Over 360 days	<u>323</u>	<u>4</u>
	<u>627,055</u>	<u>359,734</u>

12. FINANCE LEASE AND HIRE PURCHASE CONTRACT PAYABLES

There were obligations under finance leases and hire purchase contracts at the balance sheet date were as follows:

	30 June 2001 (Unaudited) HK\$'000	31 December 2000 (Audited) HK\$'000
Amounts payable:		
Within one year	6,829	10,176
In the second year	3,245	4,580
In the third to fifth years, inclusive	2,540	4,381
	12,724	19,137
Portion classified as current liabilities	(6,829)	(10,176)
Long term portion	5,895	8,961

13. SHARE CAPITAL

There were no movements in the share capital of the Company during the six months ended 30 June 2001.

14. RESERVES

	Share premium account HK\$'000	Property revaluation reserve HK\$'000	Capital reserve/ (goodwill) on consolidation HK\$'000	Exchange equalisation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 31 December 2000						
– As report	156,313	3,518	(31,892)	311	290,867	419,117
– Effect of adopting SSAP 9 (revised)	–	–	–	–	8,660	8,660
– As restated	156,313	3,518	(31,892)	311	299,527	427,777
Exchange realignment	–	–	–	14	–	14
Final dividend declared	–	–	–	–	(8,660)	(8,660)
Net profit for the period	–	–	–	–	15,106	15,106
At 30 June 2001	156,313	3,518	(31,892)	325	305,973	434,237

15. CONTINGENT LIABILITIES

- (a) At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	30 June 2001 (Unaudited) HK\$'000	31 December 2000 (Audited) HK\$'000	30 June 2001 (Unaudited) HK\$'000	31 December 2000 (Audited) HK\$'000
Bills and post-dated cheques discounted with recourse	137,427	108,948	-	-
Guarantees given to banks in connection with facilities granted to subsidiaries	-	-	1,740,540	1,763,540
	<u>137,427</u>	<u>108,948</u>	<u>1,740,540</u>	<u>1,763,540</u>

- (b) Counter indemnities have been given by the Company to the controlling shareholder of an associate to the extent of approximately HK\$59,143,000 (31 December 2000: HK\$59,143,000) for acting as a guarantor in respect of banking facilities granted to the associate.
- (c) As at 30 June 2001, a number of employees of the Group who had completed the required number of years of service under the Hong Kong Employment Ordinance (the Ordinance) to be eligible for long service payments upon the termination of their employment. The Group is only liable to make such payments if the termination of employment meets the circumstances which are specified in the Ordinance. Had the employment of all of these eligible employees been terminated on 30 June 2001 under the circumstances specified by the Ordinance, the maximum potential exposure would have been approximately HK\$8,185,000 (31 December 2000: HK\$6,677,000). No provision has been made in the financial statements in respect of such long service payments.

16. PLEDGE OF ASSETS

At the balance sheet date, the Group had pledged the following assets to banks for facilities granted to the Group:

	30 June 2001 (Unaudited) HK\$'000	31 December 2000 (Audited) HK\$'000
Inventories	-	70,372
Bank deposits	-	6,850
	<u>-</u>	<u>77,222</u>

17. RELATED PARTY TRANSACTIONS

The Group had the following material transactions with related parties during the period:

	Notes	For the six months ended 30 June	
		2001 (Unaudited) HK\$'000	2000 (Unaudited) HK\$'000
Purchases of goods from jointly-controlled entities	(i)	129,621	267,137
Sales of raw materials to jointly-controlled entities	(ii)	32,660	16,920
Rental income from associates	(iii)	108	108
Management fee income from associates	(iv)	120	120
Interest expenses paid to a jointly-controlled entity	(v)	164	—

Notes:

- (i) The goods were charged by the jointly-controlled entities at cost to cost plus a margin of 3% (six months ended 30 June 2000: 3%). The balances due to these jointly-controlled entities at 30 June 2001 were HK\$48,290,000 (31 December 2000: HK\$103,912,000).
- (ii) The raw materials sold to jointly-controlled entities were charged at cost to cost plus a margin of 3% (six months ended 30 June 2000: 3%).
- (iii) The directors considered that the rental charged was similar to fair market rates.
- (iv) The management fee income was charged at an appropriate allocation of costs incurred by the Group.
- (v) The interest expense paid to a jointly-controlled entity arose from advances therefrom. Interest was charged at a rate of 6.5% per annum.

As disclosed in note 15(b), the Company has executed a counter indemnity in favour of the controlling shareholder of an associate, for which no charge was made.

18. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current period's presentation.