

FINANCIAL RESULTS

During the first half of the year 2001, the Group's sales turnover was HK\$1.4 billion, a marginal decline of 8.7% when compared with the same period last year. The directors regarded this small retrenchment of sales volume as acceptable given the significant slow down of the U.S. economy since the beginning of this year. Profit attributable to shareholders was HK\$15.1 million, a significant decline of 46.6% when compared with the same period last year. Operating profits for the period improved by 13.2% to HK\$46.7 million on reduced expenses. However, the jointly-controlled entities and associates incurred a loss of HK\$6.2 million as compared to a profit of HK\$7.6 million in the first half of last year. Basic earnings per share was HK3.5 cents (2000 comparative figure: HK7.0 cents).

MANAGEMENT REVIEW

During the 6 months under review, the strategy of the Group to emphasize on the OEM/ODM business has proven to be correct. We formulated our strategy based on the experience that when economies slowed down, consumers would concentrate more on well-known brands when purchase. Our ODM customers, who are seeking design, engineering and quality production expertise continued to support us while their businesses are maintained. The Group was able to grow the OEM/ODM business during the period.

On the other hand, the Group faced with more challenges with products under our own brands. There was some significant deterioration of purchasing confidence from our customers globally. The dramatic cut in interest rates in the U.S. was generally read as a signal of anticipated slowdown of the economy or even a recession and weakening of consumer purchasing interest and power. Our customers became very conservative in their purchasing, especially towards less known brands. The situation was particularly acute in the first quarter of this year. As time progressed, when the drop in domestic consumption was not as steep as one expected, our customer resumed some buying programs.

In terms of the profit margin, during the period under review, DVD players, which had provided the Group with a better than average margin, became a commodity item. With one of the strengths of the Group being able to develop products with higher technology contents and thus higher margin, we decided not to compete in loss making pricing strategy in the DVD player market. Our strategy is not to compete in mere pricing but marketing, new technology and quality. Nevertheless, gross profit margin was affected and declined from 9.2% to 8.8%.

The deterioration of net profits was a result of firstly losses made by the jointly-controlled entities of HK\$5.8 million instead of a profit of HK\$2.2 million. Our jointly-controlled entities are essentially involved in manufacturing, the profit margin of which would normally be squeezed during a weak economy. We expect an improvement as production of new products commences in the second half. Secondly, the HK\$5.4 million profit of the associates for the first half of last year turned into a loss of HK\$0.4 million. The Group is confident that this situation can be rectified and a profit can be made from the associates for the full year of 2001.

On the positive side, the Group's operating margin improved from 2.6% to 3.3% on reduced expenses as emphasis shifted to the ODM business. The Group has significantly reduced selling and distribution expenses from HK\$44.1 million for the first half of last year to HK\$23.5 million by reducing distribution of our own branded products and improving operating efficiency.

LIQUIDITY AND FINANCIAL RESOURCES

The working capital of the Group remains adequate. It was further enhanced by a syndicated loan organized in July 2001 with better terms than the one last year. The gearing ratios and inventory level registered an increase from the end of last year due to seasonal factors.

PROSPECTS

The state of the global economy is not at all clear. While orders on hand provided us with comfort of essentially maintaining business level in the short term, we are taking actions in anticipation of a continuously slow global economy in 2002. We are quite confident of receiving orders of similar or even higher quantity in the medium term. However, price erosion is inevitable causing a marginal decline in total sales turnover. Profit margin will continue to be under pressure. The directors are implementing cost cutting measures and putting further efforts to develop new products and new markets to increase revenue. Overall for this year, the Group is confident that it is unlikely to have any significant further deterioration of its results from the first half of this year.

The Group will continue to re-organize and expand its product development capability. More alliance with technology partners will be formed. The Group has successfully developed a number of new products for home and in-car use. Some of these products are being shipped to customers. With proper marketing research to determine what products to be developed, management to ensure efficiency and competitive cost base, distribution to ensure our products can reach most customers and quality, our Group has excellent potential not only to maintain but grow the business when external factors become more favourable.

Our resource development in China, albeit its business being a small proportion of the Group currently, is catered for this fastest growing major economy of the World. Our 51% owned joint venture in Xian for the development of telematic technology and products, is being recognized both domestically and internationally. Mobile products and in-car video products are being shipped to customers. There are many approaches from domestic potential partners as recognition of their expertise. Our 51% owned OP-Sunniwell IT Ltd. in Beijing continued to successfully win tenders to install Inter-Net Protocol (IP) networks. Our partners at OP-Sunniwell have also developed an IP set-top box now being marketed. It has however not yet reached the point of yielding positive financial results. The distribution teams in China are being established and likely to start contributing revenue in the second half of this year. This is the area where we will grow our own brand of products. The Wuxi factory, which is catered for the China market and production of digital products where more automation is required, will be completed towards the end of this year.

INTERIM DIVIDEND

The board of directors has resolved to pay an interim dividend of HK0.5 cent per share for the six months ended 30 June 2001 (2000: HK1 cent) to the shareholders whose names appear on the register of members of the Company on 5 October 2001. The shareholders are entitled to receive new shares of the Company, credited as fully paid, by way of scrip dividend with an alternative to elect to receive such dividend (or part thereof) in cash in lieu of new shares (the "Scrip Dividend Scheme"). The interim dividend will be paid on or before 20 November 2001.

The Scrip Dividend Scheme will be subject to the Listing Committee of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") granting a listing of and permission to deal in the shares to be issued pursuant thereto. A circular setting out the details of the Scrip Dividend Scheme together with the form of election will be sent to shareholders of the Company as soon as practicable.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 3 October 2001 to 5 October 2001, both days inclusive, during which period no share transfers will be effected.

To qualify for the interim dividend and the Scrip Dividend Scheme, all transfers accompanied by the relevant share certificates must be lodged with the Company's Share Registrars in Hong Kong, Standard Registrars Limited, 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong not later than 4:00 p.m. on 28 September 2001.

DIRECTORS' INTEREST IN SHARES

At 30 June 2001, the interests of the directors in the share capital of the Company or its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")), as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance, were as follows:

Shares in the Company

Name of director	Notes	Number of shares held and nature of interest	
		Personal	Corporate
Mr. Poon Ka Hung	(a)	–	161,870,103
Mr. Wu Lai Ping	(a)	–	161,870,103
Mr. Lin Hoo Fun	(b)	–	48,850,327
Mr. Leung Chun Pong		92,370	–

Notes:

- (a) The number of shares held as corporate interests of Messrs. Poon Ka Hung and Wu Lai Ping refers to the same parcel of shares which were held by High Rate Investments Limited, a company beneficially owned as to 50% by Mr. Poon Ka Hung and the balance of 50% by family trusts of which Mr. Wu Lai Ping and his family members are beneficiaries.
- (b) The number of shares held as corporate interests of Mr. Lin Hoo Fun were held by Newray Int'l Limited, a company beneficially owned by Mr. Lin Hoo Fun.

Messrs. Poon Ka Hung and Wu Lai Ping together indirectly controlled more than one-third of the issued shares of the Company and accordingly they were deemed to have interests in the share capital or registered capital of the subsidiaries, associates and jointly-controlled entities of the Company.

In addition to the above, certain directors have non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above, none of the directors or their associates had any personal, family, corporate or other interest in the equity or debt securities of the Company or any of its associated corporations, as defined in the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Pursuant to the Company's share option scheme, the Company granted options in favour of certain directors to subscribe for shares in the Company. Details of the options granted are as follows:

Name of director	Number of share options at 31 December 2000 and lapsed unexercised upon the expiry of the exercise period	Exercise period of share options	Exercise price of share options
Mr. Poon Ka Hung	1,000,000	22 October 1996 to 25 March 2001	HK\$0.26
Mr. Wu Lai Ping	1,000,000	22 October 1996 to 25 March 2001	HK\$0.26
Mr. Lin Hoo Fun	1,000,000	22 October 1996 to 25 March 2001	HK\$0.26

All of the share options granted to the directors lapsed unexercised upon the expiry of the exercise period.

At no time during the period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights previously granted to them exercised by them during the period. Save as disclosed above, at no time during the period was the Company or any of its subsidiaries a party to any arrangement to enable the directors or their respective spouse or children under 18 years of age to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS

At 30 June 2001, the following interests of 10% or more of the share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance.

Name	Number of shares held	Interest %
High Rate Investments Limited	161,870,103	37.4
Newray Int'l Limited	48,850,327	11.3

These interests have also been disclosed as interests of Messrs. Poon Ka Hung, Wu Lai Ping and Lin Hoo Fun under the section headed "Directors' interests in shares" above.

Save as disclosed above, as at 30 June 2001, no person, other than the directors and the chief executives of the Company, whose interests are set out in the section headed "Directors' interests in shares" above, had registered an interest in the share capital of the Company that was required to be recorded pursuant to Section 16(1) of the SDI Ordinance.

PURCHASE, SALE OR REDEMPTION OF SHARE IN THE COMPANY

There was no purchase, sale or redemption of the Company's listed shares by the Company or any of its subsidiaries during the period.

AUDIT COMMITTEE

The audit committee has reviewed the financial statements of the Company for the six months ended 30 June 2001.

CORPORATE GOVERNANCE

In the opinion of the directors, the Company has complied throughout the period with those paragraphs of the Code of Best Practice as set out in Appendix 14 of the Listing Rules with which it is required to report compliance.

On behalf of the Board

Poon Ka Hung
Chairman

Hong Kong, 6 September 2001