

## NOTES TO CONDENSED FINANCIAL STATEMENTS

### 1. Significant accounting policies

#### Basis of preparation

The unaudited consolidated results have been prepared in accordance with Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants. The accounting policies and basis of preparation are the same as those used in the annual financial statements for the year ended 30 September 2001 except that the following new/revised SSAPs issued by the Hong Kong Society of Accountants have been adopted for the first time in the preparation of the current period's condensed consolidated financial statements:

SSAP 9 (revised):	Events after the Balance Sheet Date
SSAP 28:	Provisions, Contingent Liabilities and Contingent Assets
SSAP 29:	Intangible Assets
SSAP 30:	Business Combinations
SSAP 31:	Impairment of Assets
SSAP 32:	Consolidated Financial Statements and Accounting for Investments in Subsidiaries

There is no material impact on the financial results and the financial positions of the Group by the adoption of the revised or new SSAPs mentioned above.

## 2. Turnover and segment information

The Group is principally engaged in the design, manufacture and sale of DC switches, AC switches, jacks, AC sockets and speaker terminals, all of which are basic components commonly used in electrical appliances and electronic products such as audio, video and telecommunications equipment, toys and computers.

An analysis of the Group's turnover and contribution to profit from operating activities for the six months ended 31 March 2002 by business segments and geographical segments is as follows:

	Turnover		Contribution to profit from operating activities	
	Six months ended 31 March		Six months ended 31 March	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Business segments:				
DC switches	<b>20,952</b>	23,581	<b>1,105</b>	(1,197)
AC switches	<b>522</b>	1,461	<b>30</b>	(72)
Jacks	<b>41,883</b>	27,307	<b>2,329</b>	(1,371)
AC sockets	<b>4,671</b>	4,649	<b>265</b>	(228)
Speaker terminals	<b>5,662</b>	5,919	<b>306</b>	(296)
	<b><u>73,690</u></b>	<u>62,917</u>	<b><u>4,035</u></b>	<u>(3,164)</u>
Interest income			<b><u>3,044</u></b>	<u>3,543</u>
			<b><u>7,079</u></b>	<u>379</u>
Geographical segments:				
People's Republic of China:				
Hong Kong, SAR	<b>52,105</b>	47,203	<b>5,823</b>	(617)
Other countries	<b>21,585</b>	15,714	<b>1,256</b>	996
	<b><u>73,690</u></b>	<u>62,917</u>	<b><u>7,079</u></b>	<u>379</u>

### 3. PROFIT FROM OPERATING ACTIVITIES

Profit from operating activities was determined after charging/(crediting):

	<b>2002</b> <b>HK\$'000</b>	2001 HK\$'000
Depreciation	<b>2,551</b>	6,627
Unrealised loss on unlisted debt securities	<b>2,392</b>	–
Gain on disposals of fixed assets	<b>(807)</b>	(1)
Gain on disposal of listed equity investment	<b>(868)</b>	–
Interest income	<b>(3,044)</b>	(3,543)
	<u><b>          </b></u>	<u><b>          </b></u>

### 4. TAX

	<b>2002</b> <b>HK\$'000</b>	2001 HK\$'000
Current:		
Hong Kong	–	–
Overseas	–	–
Under-provision in prior years	–	61
	<u><b>          </b></u>	<u><b>          </b></u>
Tax charge for the period	<u><b>          </b></u>	<u><b>          </b></u>

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the period and the corresponding period of 2001.

No provision for overseas profit tax has been made as the Group did not generate any assessable profits arising in the overseas countries in which the Group operates during the period and the corresponding period of 2001.

### 5. DIVIDEND

The Board has decided not to declare any interim dividend for the six months ended 31 March 2002 (2001: Nil).

### 6. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the Group's net profit from ordinary activities attributable to shareholders for the period of HK\$6,807,000 (2001: HK\$437,000) and the weighted average number of 67,140,000 (2001: 59,664,000 as adjusted to reflect the consolidation of the share capital and the rights issue during the period under review) ordinary shares in issue during the period.

The calculation of diluted earnings per share is based on the Group's unaudited net profit from ordinary activities attributable to shareholders for the period of HK\$6,807,000 (2001: HK\$437,000) and the weighted average of 67,697,000 (2001: 62,834,000 as adjusted to reflect the consolidation of the share capital and the rights issue during the period under review) shares outstanding during the period adjusted for the effects of all dilutive potential shares.

The weighted average number of shares used in the calculation of diluted earnings per share is based on the weighted average of 67,140,000 (2001: 59,664,000 as adjusted to reflect the consolidation of the share capital and the rights issue during the period under review) shares in issue during the period plus the weighted average of 557,000 (2001: 3,170,000 as adjusted to reflect the consolidation of the share capital and the rights issue during the period under review) shares deemed to be issued at no consideration if certain outstanding share options had been exercised.

## 7. ACCOUNTS RECEIVABLES

The ageing analysis of accounts receivable is as follows:

	<b>31 March 2002 HK\$'000</b>	30 September 2001 HK\$'000
Current – 3 months	<b>36,112</b>	36,513
4 – 6 months	<b>3,332</b>	2,915
7 – 12 months	<b>72</b>	–
	<b>39,516</b>	39,428

Payment terms with customers are largely on credit. Invoices are normally payable within 90 days of issuance, except for certain well established customers, where the terms are extended to 120 days. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are regularly reviewed by senior management.

## 8. ACCOUNTS PAYABLE

The ageing analysis of accounts payable is as follows:

	<b>31 March 2002 HK\$'000</b>	30 September 2001 HK\$'000
Current – 3 months	<b>4,997</b>	4,771
4 – 6 months	<b>4</b>	1
7 – 12 months	<b>8</b>	9
	<b>5,009</b>	4,781

## BUSINESS REVIEW

The Group's turnover and unaudited net profit attributable to shareholders for the six months ended 31 March 2002 were approximately HK\$73.7 million and HK\$6.8 million respectively, representing increases of 17.1% and 14.6 times respectively over the corresponding period in 2001. The turnover of DC switches, AC switches and speaker terminals decreased by 11%, 64% and 4% respectively. The turnover of jacks and AC sockets increased by 53% and 0.5% respectively.

Following the recovery of the US economy from its recession in the first quarter of 2002, together with increasing acceptance of the Group's new models of jacks by the customers, the Group's turnover and net profit for the period under review increased when compared to those of the previous corresponding period. Although competition in the switches industry are keen which to a certain extent affect the Group's net profit margin, the Group's profitability still showed improvement.

During the period under review, all the Group's Hong Kong production operations have been relocated to the Group's main production plant in Dongguan, the People's Republic of China ("PRC"). As the production workflows become more organised, the Group's production efficiency is improved and the operating costs are reduced. Nevertheless, the Group is paying continuous efforts in reorganising the production facilities and workflows in order to further increase the Group's production capacity to meet customers' requirements.

The Group has also worked closely with several famous Japanese and European consumer electronics brandname owners as their strategic OEM manufacturers in the PRC. The Group will continue to broaden its customer base and to promote its products globally.

## LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with internally generated cash flows. For the six months ended 31 March 2002, the Group generated net cash inflows

from operating activities of approximately HK\$13.6 million (2001: HK\$19.6 million). As at 31 March 2002, the Group had cash and cash equivalents of approximately HK\$50.6 million (30 September 2001: HK\$87.9 million), aggregate short-term and long-term bank loans of approximately HK\$248,000 of which HK\$130,000 will be repayable within one year and HK\$118,000 will be repayable in the second year (30 September 2001: HK\$9.5 million) together with aggregate banking facilities of approximately HK\$9 million (30 September 2001: HK\$15.9 million) which were secured by certain land and buildings and time deposits of the Group and a personal guarantee provided by a director of the Company.

The financial gearing ratio of the Group, based on the total borrowings to the shareholders' equity, has decreased from 6.5% as at 30 September 2001 to 0.1% as at 31 March 2002.

As most of the Group's monetary assets are mainly denominated in Hong Kong dollars and United States dollars with minimal balances in Singapore dollars and, Hong Kong dollar is pledged against United States dollar, the exchange rate risk of the Group is considered to be minimal. Thus, no hedging strategy was adopted by the Group.

## TREASURY INVESTMENT ACTIVITIES

As at 31 March 2002, the Group had short-term investments of approximately HK\$90 million (30 September 2001: HK\$24 million) in certain quality debt securities with favourable investment credit ratings. These investments are of high liquidity as there exist an efficient secondary market for these high credit rating bonds.

As at 31 March 2002, the Group's available balance of cash and cash equivalents together with short term investments amounted to approximately HK\$140.6 million (30 September 2001: HK\$112 million), representing total liquid funds of HK\$1.26 per share of the Company. The Group is actively seeking investment opportunities and will utilize these liquid funds available to maximize the return of the Company's shareholders.

## CAPITAL STRUCTURE

On 9 November 2001, by an ordinary resolution passed in a special general meeting of the Company, every 5 issued and unissued shares of the Company of HK\$0.10 each was consolidated into 1 share of HK\$0.50 each.

On 8 February 2002, by an ordinary resolution passed in a special general meeting of the Company, the shareholders of the Company can subscribe for one new share at HK\$0.50 for every one share held by them. On 6 March 2002, a total of 56,000,000 rights shares were allotted and an amount of HK\$28 million was raised and received by the Company. The net proceeds received from the rights issue amounted to approximately HK\$26.6 million, out of which approximately HK\$9 million had been used to repay bank borrowings and the remaining balance was used as additional working capital.