



Orient Power Holdings Limited

ORITRON

INTERIM REPORT **2002**

INTERIM RESULTS

The board of directors (the “Board”) of Orient Power Holdings Limited (the “Company”) is pleased to announce the unaudited interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2002 (the “Period”), together with comparative figures for the corresponding period of 2001.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

| | Notes | For the six months ended 30 June | |
|---------------------------------------------------------------------|-------|-------------------------------------|---------------------------------|
| | | 2002 (Unaudited) HK\$'000 | 2001 (Unaudited) HK\$'000 |
| Turnover | 2 | 1,872,632 | 1,423,803 |
| Cost of sales | | (1,746,526) | (1,299,520) |
| Gross profit | | 126,106 | 124,283 |
| Other revenue and gain | 3 | 14,788 | 10,928 |
| Selling and distribution costs | | (39,341) | (27,609) |
| Administrative expenses | | (66,335) | (53,569) |
| Other operating expenses | | (6,958) | (7,367) |
| PROFIT FROM OPERATING ACTIVITIES | 4 | 28,260 | 46,666 |
| Finance costs | 5 | (10,508) | (22,895) |
| Share of profits and losses of: | | | |
| Jointly-controlled entities | | 444 | (5,818) |
| Associates | | 3,702 | (387) |
| PROFIT BEFORE TAX | | 21,898 | 17,566 |
| Tax | 6 | (155) | (2,950) |
| PROFIT BEFORE MINORITY INTERESTS | | 21,743 | 14,616 |
| Minority interests | | 506 | 490 |
| NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS | | 22,249 | 15,106 |
| Proposed interim dividends | 7 | 2,224 | 2,165 |
| EARNINGS PER SHARE – HK cents | 8 | | |
| Basic | | 5.1 | 3.5 |
| Diluted | | 5.1 | 3.5 |

CONDENSED CONSOLIDATED BALANCE SHEET

| | | 30 June 2002 (Unaudited) | 30 June 2001 (Unaudited) | 31 December 2001 (Audited) |
|------------------------------------------------------|-------|-----------------------------------------|--------------------------------|----------------------------------|
| | Notes | HK\$'000 | HK\$'000 | HK\$'000 |
| NON-CURRENT ASSETS | | | | |
| Fixed assets | | 290,569 | 256,377 | 287,339 |
| Deferred product development costs | | 54,093 | 56,224 | 50,159 |
| Interests in jointly-controlled entities | | 42,207 | 25,506 | 41,088 |
| Interests in associates | | 43,058 | 37,274 | 39,727 |
| Long term investment | | 1,300 | 850 | 1,000 |
| Long term trade receivables | | 3,995 | 3,623 | 6,963 |
| | | 435,222 | 379,854 | 426,276 |
| CURRENT ASSETS | | | | |
| Inventories | | 651,640 | 661,714 | 401,955 |
| Bills receivable | | – | 3,175 | 249 |
| Trade receivable | 9 | 401,090 | 358,702 | 372,482 |
| Prepayments, deposits and other receivables | | 54,679 | 33,934 | 45,022 |
| Cash and cash equivalents | | 217,551 | 128,057 | 220,652 |
| | | 1,324,960 | 1,185,582 | 1,040,360 |
| CURRENT LIABILITIES | | | | |
| Amount due to jointly-controlled entities | | 53,758 | 48,290 | 147,339 |
| Trade payable | 10 | 722,923 | 627,055 | 410,724 |
| Other payables and accruals | | 48,632 | 50,811 | 94,550 |
| Provisions for sales returns and warranty costs | | 9,431 | 3,886 | 19,083 |
| Tax payable | | 12,013 | 11,993 | 11,059 |
| Declared dividend | | 6,613 | 8,660 | – |
| Bank loans and other borrowings | 11 | 289,938 | 238,908 | 116,436 |
| Finance lease and hire purchase contract payables | 12 | 3,249 | 6,829 | 3,292 |
| | | 1,146,557 | 996,432 | 802,483 |
| NET CURRENT ASSETS | | 178,403 | 189,150 | 237,877 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 613,625 | 569,004 | 664,153 |

CONDENSED CONSOLIDATED BALANCE SHEET *(continued)*

| | | 30 June 2002 (Unaudited) HK\$'000 | 30 June 2001 (Unaudited) HK\$'000 | 31 December 2001 (Audited) HK\$'000 |
|------------------------------------------------------|-------|------------------------------------------------------|--------------------------------------------|----------------------------------------------|
| | Notes | | | |
| NON-CURRENT LIABILITIES | | | | |
| Bank loans and other borrowings | 11 | (71,428) | (65,710) | (132,857) |
| Finance lease and hire purchase contract payables | 12 | (2,615) | (5,895) | (4,262) |
| Deferred tax | | (9,652) | (14,398) | (11,239) |
| | | (83,695) | (86,003) | (148,358) |
| MINORITY INTERESTS | | | | |
| | | (4,522) | (5,463) | (5,422) |
| | | 525,408 | 477,538 | 510,373 |
| CAPITAL AND RESERVES | | | | |
| Issued capital | | 44,027 | 43,301 | 44,085 |
| Reserves | 13 | 479,157 | 432,072 | 459,675 |
| Proposed dividend | | 2,224 | 2,165 | 6,613 |
| | | 525,408 | 477,538 | 510,373 |

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

| | For the six months ended 30 June | |
|-----------------------------------------------------------------------------------|-------------------------------------|---------------------------------------------|
| | 2002 (Unaudited) HK\$'000 | Restated 2001 (Unaudited) HK\$'000 |
| Net cash (used in)/generated from operating activities | (50,958) | 8,630 |
| Net cash used in investing activities | (57,072) | (54,923) |
| Net cash used in financing activities | <u>(62,191)</u> | <u>(56,605)</u> |
| Decrease in cash and cash equivalents | (170,221) | (102,898) |
| Cash and cash equivalents at beginning of period | <u>182,559</u> | <u>41,436</u> |
| Cash and cash equivalents at end of period | <u>12,338</u> | <u>(61,462)</u> |
| Represented by: | | |
| Cash and bank balances | 217,551 | 128,057 |
| Bank borrowings repayable within three months from the date of the advance | (81,212) | (62,325) |
| Trust receipt loans repayable within three months from the date of the advance | <u>(124,001)</u> | <u>(127,194)</u> |
| | <u>12,338</u> | <u>(61,462)</u> |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Share capital (Unaudited) HK\$'000 | Share premium account (Unaudited) HK\$'000 | Property revaluation reserve (Unaudited) HK\$'000 | Capital reserve/ (goodwill) on consolidation (Unaudited) HK\$'000 | Exchange equalisation reserve (Unaudited) HK\$'000 | Retained profits (Unaudited) HK\$'000 | Proposed dividend (Unaudited) HK\$'000 | Total (Unaudited) HK\$'000 |
|-----------------------------------------|---------------------------------------------|--------------------------------------------------------|---------------------------------------------------------------|----------------------------------------------------------------------------------|----------------------------------------------------------------|------------------------------------------------|-------------------------------------------------|----------------------------------|
| At 1 January 2002 | 44,085 | 157,818 | 3,360 | (31,892) | 270 | 330,119 | 6,613 | 510,373 |
| Repurchase of shares | (58) | - | - | - | - | - | - | (58) |
| Premium paid on repurchase of shares | - | (122) | - | - | - | - | - | (122) |
| Exchange realignment | - | - | - | - | (421) | - | - | (421) |
| Final 2001 dividend declared | - | - | - | - | - | - | (6,613) | (6,613) |
| Interim 2002 dividend proposed | - | - | - | - | - | (2,224) | 2,224 | - |
| Net profit for the period | - | - | - | - | - | 22,249 | - | 22,249 |
| | <u>44,027</u> | <u>157,696</u> | <u>3,360</u> | <u>(31,892)</u> | <u>(151)</u> | <u>350,144</u> | <u>2,224</u> | <u>525,408</u> |
| At 30 June 2002 | 44,027 | 157,696 | 3,360 | (31,892) | (151) | 350,144 | 2,224 | 525,408 |
| At 1 January 2001 | 43,301 | 156,313 | 3,518 | (31,892) | 311 | 290,867 | 8,660 | 471,078 |
| Exchange realignment | - | - | - | - | 14 | - | - | 14 |
| Final 2000 dividend declared | - | - | - | - | - | - | (8,660) | (8,660) |
| Interim 2001 dividend proposed | - | - | - | - | - | (2,165) | 2,165 | - |
| Net profit for the period | - | - | - | - | - | 15,106 | - | 15,106 |
| | <u>43,301</u> | <u>156,313</u> | <u>3,518</u> | <u>(31,892)</u> | <u>325</u> | <u>303,808</u> | <u>2,165</u> | <u>477,538</u> |
| At 30 June 2001 | 43,301 | 156,313 | 3,518 | (31,892) | 325 | 303,808 | 2,165 | 477,538 |

2. SEGMENT INFORMATION (Continued)

Six months ended 30 June 2001

| | Audio HK\$'000 | In-car electronics HK\$'000 | Video HK\$'000 | Network information/ entertainment solutions HK\$'000 | Corporate and Others HK\$'000 | Elimina- tions HK\$'000 | Con- solidated HK\$'000 |
|----------------------------------|-------------------|-----------------------------------|-------------------|-------------------------------------------------------------------|----------------------------------------|-------------------------------|-------------------------------|
| REVENUE | | | | | | | |
| External sales | 604,835 | 560,916 | 251,879 | 6,173 | - | - | 1,423,803 |
| Inter-segment sales | 33,171 | 49,441 | 13,241 | - | - | (95,853) | - |
| Total revenue | <u>638,006</u> | <u>610,357</u> | <u>265,120</u> | <u>6,173</u> | <u>-</u> | <u>(95,853)</u> | <u>1,423,803</u> |
| SEGMENT RESULT | <u>20,922</u> | <u>21,437</u> | <u>12,640</u> | <u>(541)</u> | <u>13</u> | <u>-</u> | <u>54,471</u> |
| Unallocated corporate expenses | | | | | | | <u>(7,805)</u> |
| Profit from operating activities | | | | | | | <u>46,666</u> |

(b) Geographical segments*Group*

Six months ended 30 June 2002

| | United States of America HK\$'000 | Europe HK\$'000 | Asia HK\$'000 | Central and South America HK\$'000 | Canada HK\$'000 | Others HK\$'000 | Elimina- tions HK\$'000 | Con- solidated HK\$'000 |
|------------------|--------------------------------------------|--------------------|------------------|---------------------------------------------|--------------------|--------------------|-------------------------------|-------------------------------|
| Segment revenue: | | | | | | | | |
| External sales | <u>760,481</u> | <u>643,119</u> | <u>351,793</u> | <u>23,881</u> | <u>34,438</u> | <u>58,920</u> | <u>-</u> | <u>1,872,632</u> |
| Segment results* | <u>6,852</u> | <u>16,949</u> | <u>7,411</u> | <u>564</u> | <u>1,077</u> | <u>2,806</u> | <u>-</u> | <u>35,659</u> |

Six months ended 30 June 2001

| | United States of America HK\$'000 | Europe HK\$'000 | Asia HK\$'000 | Central and South America HK\$'000 | Canada HK\$'000 | Others HK\$'000 | Elimina- tions HK\$'000 | Con- solidated HK\$'000 |
|------------------|--------------------------------------------|--------------------|------------------|---------------------------------------------|--------------------|--------------------|-------------------------------|-------------------------------|
| Segment revenue: | | | | | | | | |
| External sales | <u>586,070</u> | <u>462,435</u> | <u>152,539</u> | <u>131,714</u> | <u>26,461</u> | <u>64,584</u> | <u>-</u> | <u>1,423,803</u> |
| Segment results* | <u>18,660</u> | <u>18,676</u> | <u>6,889</u> | <u>5,786</u> | <u>1,236</u> | <u>3,224</u> | <u>-</u> | <u>54,471</u> |

* Disclosed pursuant to the requirements of the Listing Rules

3. OTHER REVENUE AND GAIN

| | For the six months ended 30 June | |
|--------------------------------------|-------------------------------------|---------------------------------|
| | 2002 (Unaudited) HK\$'000 | 2001 (Unaudited) HK\$'000 |
| Tooling and repairing service income | 7,307 | 4,495 |
| Interest income | 1,194 | 1,407 |
| Rental income | 558 | 558 |
| Sales of scrap materials | 296 | 325 |
| Commission income | 2,524 | – |
| Gain on disposal of fixed assets | – | 110 |
| Others | 2,909 | 4,033 |
| | <u>14,788</u> | <u>10,928</u> |

4. PROFIT FROM OPERATING ACTIVITIES

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

| | For the six months ended 30 June | |
|----------------------------------------|-------------------------------------|---------------------------------|
| | 2002 (Unaudited) HK\$'000 | 2001 (Unaudited) HK\$'000 |
| Cost of inventories sold | 1,746,526 | 1,299,520 |
| Research and development costs: | | |
| Deferred expenditure amortised | 7,347 | 8,474 |
| Current year's expenditure | 4,975 | 4,422 |
| | <u>12,322</u> | <u>12,896</u> |
| Depreciation: | | |
| Owned fixed assets | 40,455 | 31,970 |
| Leased and hire purchased fixed assets | 1,502 | 4,730 |
| | <u>41,957</u> | <u>36,700</u> |

5. FINANCE COSTS

| | For the six months ended 30 June | |
|---------------------------------------------------------------------------------------------|-------------------------------------|---------------------------------|
| | 2002 (Unaudited) HK\$'000 | 2001 (Unaudited) HK\$'000 |
| Interest on bank loans, overdrafts, and other borrowings wholly repayable within five years | 10,304 | 22,150 |
| Interest on finance leases and hire purchase contracts | 204 | 745 |
| | <u>10,508</u> | <u>22,895</u> |

6. TAX

Hong Kong profits tax has been provided at the rate of 16% (2001: 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. Tax provision has been made by the jointly-controlled entities for the period.

| | For the six months ended 30 June | |
|-------------------------------|---------------------------------------------|------------------------------------------|
| | 2002 (Unaudited) HK\$'000 | 2001 (Unaudited) HK\$'000 |
| Group: | | |
| Hong Kong | 1,436 | 1,550 |
| Elsewhere | – | 89 |
| Deferred | <u>(1,588)</u> | <u>854</u> |
| | (152) | 2,493 |
| Share of tax attributable to: | | |
| Associates | 236 | 457 |
| Jointly-controlled entities | <u>71</u> | <u>–</u> |
| Tax charge for the period | <u>155</u> | <u>2,950</u> |

7. PROPOSED INTERIM DIVIDENDS

At a meeting of the board of directors held on 5 September 2002, the directors resolved to pay an interim dividend of HK0.5 cent per share for the six months ended 30 June 2002 (2001: HK 0.5 cent).

8. EARNINGS PER SHARE

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

| | For the six months ended 30 June | |
|---------------------------------------------------------------------------------------------------------------------------|---------------------------------------------|------------------------------------------|
| | 2002 (Unaudited) HK\$'000 | 2001 (Unaudited) HK\$'000 |
| Earnings | | |
| Net profit from ordinary activities attributable to shareholders used in basic and diluted earnings per share calculation | <u>22,249</u> | <u>15,106</u> |

8. EARNINGS PER SHARE (Continued)

| | As at 30 June | |
|--------------------------------------------------------------------------------------------------------------------------------------------|---------------------|---------------------|
| | 2002 (Unaudited) | 2001 (Unaudited) |
| Shares | | |
| Weighted average number of shares in issue during the period used in basic earnings per share calculation | 440,337,343 | 433,008,288 |
| Weighted average number of shares assumed issued at no consideration on deemed exercise of all share options outstanding during the period | – | 246,270 |
| Weighted average number of shares used in diluted earnings per share calculation | <u>440,337,343</u> | <u>433,254,558</u> |

9. TRADE RECEIVABLE

| | 30 June 2002 (Unaudited) HK\$'000 | 30 June 2001 (Unaudited) HK\$'000 | 31 December 2001 (Audited) HK\$'000 |
|--------------------|--------------------------------------------|--------------------------------------------|----------------------------------------------|
| Current to 90 days | 377,633 | 334,908 | 297,565 |
| 91 to 180 days | 4,733 | 18,801 | 63,856 |
| 181 to 360 days | 11,103 | 4,993 | 6,550 |
| Over 360 days | 7,621 | – | 4,511 |
| | <u>401,090</u> | <u>358,702</u> | <u>372,482</u> |

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

10. TRADE PAYABLE

| | 30 June 2002 (Unaudited) HK\$'000 | 30 June 2001 (Unaudited) HK\$'000 | 31 December 2001 (Audited) HK\$'000 |
|--------------------|--------------------------------------------|--------------------------------------------|----------------------------------------------|
| Current to 90 days | 652,722 | 545,378 | 293,245 |
| 91 to 180 days | 60,967 | 74,656 | 113,084 |
| 181 to 360 days | 8,425 | 6,698 | 4,395 |
| Over 360 days | 809 | 323 | – |
| | <u>722,923</u> | <u>627,055</u> | <u>410,724</u> |

11. BANK LOANS AND OTHER BORROWINGS

| | 30 June 2002 (Unaudited) HK\$'000 | 31 December 2001 (Audited) HK\$'000 |
|--------------------------------------------------------|------------------------------------------------------|----------------------------------------------|
| Bank overdrafts, unsecured | 1,258 | 2,334 |
| Trust receipt loans, unsecured | 129,610 | 36,487 |
| Bank loans, unsecured | 230,498 | 210,454 |
| Other loan, unsecured | — | 18 |
| | 361,366 | 249,293 |
| Bank overdrafts repayable within one year or on demand | 1,258 | 2,334 |
| Trust receipt loans repayable within one year | 129,610 | 36,487 |
| Bank loans repayable: | | |
| Within one year or on demand | 159,070 | 77,597 |
| In the second year | 57,143 | 90,000 |
| In the third to fifth years, inclusive | 14,285 | 42,857 |
| | 230,498 | 210,454 |
| Other loan repayable within one year | — | 18 |
| | 361,366 | 249,293 |
| Portion classified as current liabilities | (289,938) | (116,436) |
| Long term portion | 71,428 | 132,857 |

The other loan bears interest at three-month LIBOR plus 2.75% per annum and is repayable by 36 monthly instalments up to 2002.

12. FINANCE LEASE AND HIRE PURCHASE CONTRACT PAYABLES

The Group leases certain of its plant and machinery for its business. These leases are classified as finance lease and hire purchase contract payables and have remaining lease terms ranging from three to five years.

As 30 June 2002, the total future minimum lease payments under finance leases and hire purchase contract payables and their present values were as follows:

| | Minimum lease payments 30 June 2002 (Unaudited) HK\$'000 | Minimum lease payments 31 December 2001 (Audited) HK\$'000 | Present value of minimum lease payments 30 June 2002 (Unaudited) HK\$'000 | Present value of minimum lease payments 31 December 2001 (Audited) HK\$'000 |
|----------------------------------------------|----------------------------------------------------------------------------|------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------|
| Amounts payable: | | | | |
| Within one year | 3,514 | 3,661 | 3,249 | 3,292 |
| In the second year | 2,664 | 3,407 | 2,591 | 3,237 |
| In the third to fifth years, inclusive | 25 | 1,042 | 24 | 1,025 |
| Total minimum finance lease payments | 6,203 | 8,110 | 5,864 | 7,554 |
| Future finance charges | (339) | (556) | | |
| Total net finance lease payables | 5,864 | 7,554 | | |
| Portion classified as current liabilities | (3,249) | (3,292) | | |
| Long term portion | 2,615 | 4,262 | | |

13. RESERVES

| | Share premium account (Unaudited) HK\$'000 | Property revaluation reserve (Unaudited) HK\$'000 | Capital reserve/ (goodwill) on consolidation (Unaudited) HK\$'000 | Exchange equalisation reserve (Unaudited) HK\$'000 | Retained profits (Unaudited) HK\$'000 | Total (Unaudited) HK\$'000 |
|-----------------------------------------|--------------------------------------------------------|---------------------------------------------------------------|----------------------------------------------------------------------------------|----------------------------------------------------------------|------------------------------------------------|----------------------------------|
| At 1 January 2002 | 157,818 | 3,360 | (31,892) | 270 | 330,119 | 459,675 |
| Premium paid on repurchase of shares | (122) | - | - | - | - | (122) |
| Exchange realignment | - | - | - | (421) | - | (421) |
| Interim 2002 dividend proposed | - | - | - | - | (2,224) | (2,224) |
| Net profit for the period | - | - | - | - | 22,249 | 22,249 |
| At 30 June 2002 | 157,696 | 3,360 | (31,892) | (151) | 350,144 | 479,157 |

14. CONTINGENT LIABILITIES

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

| | Group | | Company | |
|---------------------------------------------------------------------------------------------------------|--------------------------------------------|----------------------------------------------|--------------------------------------------|----------------------------------------------|
| | 30 June 2002 (Unaudited) HK\$'000 | 31 December 2001 (Audited) HK\$'000 | 30 June 2002 (Unaudited) HK\$'000 | 31 December 2001 (Audited) HK\$'000 |
| Bills and post-dated cheques discounted with recourse | 156,017 | 206,469 | - | - |
| Guarantees given to banks in connection with facilities granted to subsidiaries | - | - | 1,507,097 | 1,722,773 |
| Guarantees given to banks in connection with facilities granted to jointly-controlled entities | - | - | 199,422 | - |
| | <u>156,017</u> | <u>206,469</u> | <u>1,706,519</u> | <u>1,722,773</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 2001: HK\$59,143,000) for acting as a guarantor in respect of banking facilities granted to the associate.
- (c) As at 30 June 2002, 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 2002 under the circumstances specified by the Ordinance, the maximum potential exposure would have been approximately HK\$9,525,000 (31 December 2001: HK\$8,731,000). No provision has been made in the financial statements in respect of such long service payments.

15. PLEDGE OF ASSETS

The Group had no assets pledged at the balance sheet date.

16. RELATED PARTY TRANSACTIONS

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

| | Notes | For the six months ended 30 June | |
|-------------------------------------------------------|-------|-------------------------------------|---------------------------------|
| | | 2002 (Unaudited) HK\$'000 | 2001 (Unaudited) HK\$'000 |
| Purchases of goods from jointly-controlled entities | (i) | 151,510 | 129,621 |
| Sales of raw materials to jointly-controlled entities | (ii) | 1,383 | 32,660 |
| Rental income from associates | (iii) | 108 | 108 |
| Management fee income from associates | (iv) | – | 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 2001: 3%). The balances due to these jointly-controlled entities at 30 June 2002 were HK\$53,758,000 (31 December 2001: HK\$147,339,000).
- (ii) The raw materials sold to jointly-controlled entities were charged at cost (six months ended 30 June 2001: 3% at cost).
- (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 14(b), the Company has executed a counter indemnity in favour of the controlling shareholder of an associate, for which no charge was made.

17. COMPARATIVE FIGURES

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

BUSINESS REVIEW

Business during the first half of 2002 was encouraging. The Group believes that consumers' sentiment during the Christmas season was not as pessimistic as projected in the aftermath of the 911 tragedy. Our products were in great demand throughout the first half of the year.

However, the Group is also fully aware that the higher demand was met with overwhelming supply in the market, thereby pressuring our profit margins at the same time. Competition was severe, especially in the DVD player market, from Mainland China manufacturers. In anticipation of the continuing competition, the Group has taken the initiative to raise operational efficiency and to lower material costs to improve its margins.

A major development of the Group during the period was our accelerated move to establish in Mainland China our own distribution network and brand building. The in-car electronics division also gained added momentum in the China market, as a number of OEM customers in the automobile manufacturing industry joined our list.

The Group's JV in Wuxi has successfully moved into their new factory building which offers a usable floor area of approximately 250,000 square feet. Production has commenced. The availability of this facility has come at an excellent time to serve the demand of the Mainland China market.

PROSPECTS

Demand for most of our products has been strong for the first half of the year. However, the Group remains cautious due to the uncertainties of the global economy. Therefore, the Group will exercise conservative measures to stay competitive in the market place by tightly controlling operating expenses and investments in our ongoing businesses, as well as continuing our efforts to improve productivity.

As both China's economy and its market demand for home entertainment and in-car electronics products show signs of acceleration, China is the Group's main target for expansion and market penetration in the next several years. The Group is on schedule to implement its core strategy to build up a distribution network within this market to push the Oritron brand. The Group's manufacturing capabilities and capacities in Wuxi and Nanjing will be in a strong position to seize growing opportunities in China.

The Group strongly believes that its edge against other competitors comes from product innovation and cost competitiveness together. Therefore, product innovation through R&D continues to be a fundamental component of our core strategy. Our facilities in China will continue to expand their engineering teams to develop advance products for the home entertainment and in-car electronics sectors.

The long-term prospect for the sectors of home entertainment and in-car electronics is solid. Advances in digital technologies and changes in regulations have made possible the convergence of entertainment, information and communications, and therefore many new product opportunities. DVD is an important product in the trend toward convergence; its market acceptance in the home and automobile environment continues to be strong. Next generation DVDs will have a variety of related features and capabilities. We are confident that the Group has assimilated the needed skill-sets, experience and customer base to be in a leading position to capture these opportunities.

MANAGEMENT DISCUSSION AND ANALYSIS

During the first half of the year 2002, the Group's sales turnover increased 31.5% to HK\$1.9 billion compared to the same period last year. Profit attributable to shareholders was HK\$22.2 million, advancing 47.3% from the comparable period last year, and is attributable to lower interest cost and improvement of results from associates and jointly controlled companies. Net profit margin rose slightly to 1.19% from 1.06% over the comparative period last year. Basic earnings per share was HK5.1 cents (2001 comparative figure: HK3.5 cents).

Revenues from the audio division were stable despite falling market prices for its products. The falling prices also affected operating margins in this sector. The video division achieved satisfactory business growth due to higher customer demand and new ODM customers. The operating margin was affected by the severe competition in the market and the use of outsourcing programs.

Business for in-car electronics advanced 14.1% during the half year. The division successfully launched new products in the in-car video entertainment category and the products were well received. However, traditional products experienced a decline in gross margin as competition increased.

The JV offering Networking Solution is transforming its business model amid the rapidly changing technology environment. The JV's business volume continues to remain a small portion of the Group's business.

Jointly controlled entities performed better. The JV at Wuxi benefited from the expansion of the production facility which boosted business activities by 82.3% over the previous corresponding period. Our JV at Nanjing registered a 276% increase in production, a substantial gain in efficiency due to the investment in automated production equipment in previous year.

The Group's investment in the associate company with Clarion of Japan also performed to satisfaction.

LIQUIDITY AND FINANCIAL RESOURCES

The Group experiences a low season during the first half of the year and usually operates in a high season in the second half. The result is normally a higher use of financial resources at the interim balance sheet date vis-à-vis that at the end of the financial year. Liquidity, assets and capital structure were all stable compared to the same period in the previous year. Total borrowing rose 15.7% to support business growth this year. The gearing ratio, calculated by total borrowings from banks and financial institutions net of cash divided by tangible net worth, improved to 31.8% from 44.9% in the same period last year.

The Group's orders on hand reflect the continuous trend of double digit growth towards the remainder of the year. The Group has adequate financial resources for its ongoing business activities. As mentioned above, the Group remains conservative and expects no substantial amount of investment in capital expenditure in the coming months.

The Group mainly borrows in US Dollars and Hong Kong Dollars on floating interest rates. Details of maturity profile of these borrowings, contingent liabilities and charges on group assets are set out in notes 11 & 12, 14 and 15 to the financial statements respectively.

All other information pertaining to those matters set out in paragraph 32 of Appendix 16 of the Listing Rules has not changed materially from the information disclosed in the most recent published annual report.

INTERIM DIVIDEND

The board of directors has taken a cautious view with regard to the uncertainty of the global economy and has therefore resolved to maintain the interim dividend at HK0.5 cent per share for the six months ended 30 June 2002 (2001: HK0.5 cent) to the shareholders whose names appear on the register of members of the Company on 24 October 2002. The interim dividend will be paid on or before 28 November 2002.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 18 October 2002 to 24 October 2002, both days inclusive, during which period no share transfers will be effected. To qualify for the interim dividend, 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 17 October 2002.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

At 30 June 2002, the interests of the directors and chief executives in the share capital of the Company or its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), were as follows:

Ordinary shares of 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. Leung Chun Pong | | 100,089 | – |
| Mr. Lin Hoo Fun | (b) | – | 48,850,327 |

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 refers to the same parcel of shares which 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, the chief executives or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations, as defined in the SDI Ordinance.

DIRECTORS' AND CHIEF EXECUTIVES' RIGHTS TO ACQUIRE SHARES

Apart from as disclosed under the headings "Directors' and chief executives' interests in shares" above, at no time during the period were rights to acquire benefits by means of the acquisition of shares, warrants or debentures of the Company granted to any director, chief executive or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS

At 30 June 2002, 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 | Percentage of the Company's share capital |
|-------------------------------|--------------------------|-------------------------------------------------|
| High Rate Investments Limited | 161,870,103 | 36.8 |
| Newray Int'l Limited | 48,850,327 | 11.1 |

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' and chief executives' interests in shares" above.

Save as disclosed above, no person, other than the directors and the chief executives of the Company, whose interests are set out in the section headed "Directors' and chief executives' 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 SHARES IN THE COMPANY

During the period, the Company repurchased 578,000 shares on the Stock Exchange of Hong Kong Limited and these shares were all subsequently cancelled by the Company. Except for the aforementioned, the Company did not redeem any of its listing securities, and neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period.

AUDIT COMMITTEE

The audit committee has reviewed the financial statements of the Company for the six months ended 30 June 2002.

CORPORATE GOVERNANCE

None of the Directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the accounting period covered by the interim report, in compliance with the Code of Best Practice as set out in the Listing Rules (Main Board) of The Stock Exchange.

On behalf of the Board
Poon Ka Hung
Chairman

Hong Kong, 5 September 2002