

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 1. PRINCIPAL ACCOUNTING POLICIES AND BASIS OF PREPARATION

The unaudited consolidated interim 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 Institute of Certified Public Accountants, and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The accounting policies and basis of preparation used in the preparation of the interim financial statements are consistent with those used in and should be read in conjunction with the audited financial statements for the year ended 31 December 2003.

## 2. SEGMENT INFORMATION

## (a) Business Segment

## Group

## Six months ended 30 June 2004

	Home entertainment HK\$'000	In-car electronics HK\$'000	Network information/ entertainment solutions HK\$'000	Corporate and Others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Segment revenue:						
Sales to external customers	839,225	988,905	5,010	-	-	1,833,140
Intersegment sales	11	43,165	-	-	(43,176)	-
Total	<u>839,236</u>	<u>1,032,070</u>	<u>5,010</u>	<u>-</u>	<u>(43,176)</u>	<u>1,833,140</u>
Segment results	<u>(8,414)</u>	<u>45,927</u>	<u>(1,920)</u>	<u>1,057</u>	<u>-</u>	<u>36,650</u>
Corporate and unallocated expenses						<u>(14,823)</u>
Profit from operating activities						<u>21,827</u>

## Six months ended 30 June 2003 (Restated)

	Home entertainment HK\$'000	In-car electronics HK\$'000	Network information/ entertainment solutions HK\$'000	Corporate and Others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Segment revenue:						
Sales to external customers	1,008,307	883,698	1,557	-	-	1,893,562
Intersegment sales	63	2,333	-	-	(2,396)	-
Total	<u>1,008,370</u>	<u>886,031</u>	<u>1,557</u>	<u>-</u>	<u>(2,396)</u>	<u>1,893,562</u>
Segment results	<u>17,381</u>	<u>46,388</u>	<u>(1,097)</u>	<u>271</u>	<u>-</u>	<u>62,943</u>
Corporate and unallocated expenses						<u>(9,308)</u>
Profit from operating activities						<u>53,635</u>

## 2. SEGMENT INFORMATION (continued)

## (b) Geographical segment

Group

Six months ended 30 June 2004

	U.S.A. 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: Sales to external customers	<u>558,707</u>	<u>925,216</u>	<u>109,955</u>	<u>69,125</u>	<u>121,790</u>	<u>48,347</u>		<u>- 1,833,140</u>

Six months ended 30 June 2003

	U.S.A. 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: Sales to external customers	<u>586,317</u>	<u>934,134</u>	<u>220,356</u>	<u>23,052</u>	<u>48,158</u>	<u>81,545</u>		<u>- 1,893,562</u>

## 3. OTHER REVENUE

	For the six months ended 30 June	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Tooling and repairing service income	2,575	1,360
Interest income	4,760	1,563
Rental income	1,021	558
Sales of scrap materials	314	303
Commission income	948	169
Others	<u>1,851</u>	<u>660</u>
	<u>11,469</u>	<u>4,613</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	
	2004 (Unaudited) HK\$'000	Restated 2003 (Unaudited) HK\$'000
Cost of inventories sold and services provided	1,687,869	1,730,144
Depreciation	37,663	28,986
Research and development costs:		
Deferred expenditure amortised	16,333	12,309
Current year's expenditure	<u>6,721</u>	<u>6,152</u>
	<u>23,054</u>	<u>18,461</u>

## 5. FINANCE COSTS

	For the six months ended 30 June	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Interest on bank loans, overdrafts, and other borrowings wholly repayable within five years	6,844	10,097
Interest on finance leases and hire purchase contracts	15	106
	<u>6,859</u>	<u>10,203</u>

## 6. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) 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.

	For the six months ended 30 June	
	2004 (Unaudited) HK\$'000	Restated 2003 (Unaudited) HK\$'000
Group:		
Current – Hong Kong	1,273	3,846
Current – Elsewhere	1,275	–
Deferred	(2,153)	5,923
	<u>395</u>	<u>9,769</u>
Share of tax attributable to:		
Associates	707	427
Jointly-controlled entities	(44)	22
	<u>707</u>	<u>427</u>
Total tax charge for the period	<u>1,058</u>	<u>10,218</u>

## 7. PROPOSED INTERIM DIVIDEND

The directors have resolved to pay an interim dividend of HK0.5 cent per share for the six months ended 30 June 2004 (2003: HK 1.0 cent).

## 8. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the period of HK\$13,698,000 (2003 (restated): HK\$38,373,000), and the weighted average of 509,805,968 (2003: 444,805,968) ordinary shares in issue during the period.

The item of diluted earnings per share for the periods ended 30 June 2004 and 2003 is not applicable as no diluting events existed during these periods.

## 9. TRADE RECEIVABLES

	30 June 2004 (Unaudited) HK\$'000	30 June 2003 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
Current to 90 days	449,099	410,061	436,162
91 to 180 days	5,314	8,632	1,429
181 to 360 days	3,227	3,499	1,127
Over 360 days	9,068	1,261	11,086
	<u>466,708</u>	<u>423,453</u>	<u>449,804</u>

## 10. TRADE PAYABLES

	30 June 2004 (Unaudited) HK\$'000	30 June 2003 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
Current to 90 days	468,027	620,312	491,842
91 to 180 days	21,264	43,068	25,120
181 to 360 days	1,121	3,091	466
Over 360 days	239	947	294
	<u>490,651</u>	<u>667,418</u>	<u>517,722</u>

## 11. BANK LOANS AND OTHER BORROWINGS

	30 June 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
Bank overdrafts, unsecured	1,385	663
Trust receipt loans, unsecured	143,466	18,450
Bank loans, unsecured	<u>574,080</u>	<u>571,222</u>
	<u>718,931</u>	<u>590,335</u>
Bank overdrafts repayable within one year or on demand	1,385	663
Trust receipt loans repayable within one year	143,466	18,450
Bank loans repayable:		
Within one year or on demand	295,509	135,508
In the second year	228,571	285,714
In the third to fifth years, inclusive	50,000	150,000
	<u>574,080</u>	<u>571,222</u>
	<u>718,931</u>	<u>590,335</u>
Portion classified as current liabilities	<u>(440,360)</u>	<u>(154,621)</u>
Long term portion	<u>278,571</u>	<u>435,714</u>

**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 lease terms ranging from three to five years.

As 30 June 2004, 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 2004 (Unaudited) HK\$'000	Minimum lease payments 31 December 2003 (Audited) HK\$'000	Present value of minimum lease payments 30 June 2004 (Unaudited) HK\$'000	Present value of minimum lease payments 31 December 2003 (Audited) HK\$'000
Amounts payable:				
Within one year	25	1,034	24	1,018
In the second year	-	6	-	6
Total minimum finance lease payments	25	1,040	24	1,024
Future finance charges	(1)	(16)		
Total net finance lease payables	24	1,024		
Portion classified as current liabilities	(24)	(1,018)		
Long term portion	-	6		

**13. CONTINGENT LIABILITIES**

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

	Group		Company	
	30 June 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000	30 June 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
Bills discounted with recourse	176,305	221,403	-	-
Guarantees given to banks in connection with facilities granted to:				
Subsidiaries	-	-	2,723,721	2,533,864
Jointly-controlled entities	68,250	68,250	68,250	68,250
	244,555	289,653	2,791,971	2,602,114

The above discounted bills were settled subsequent to the balance sheet date.

As at 30 June 2004, the guarantees given to banks by the Company in connection with banking facilities granted to subsidiaries were utilized to the extent of approximately HK\$488,972,000 (31 December 2003: HK\$610,785,000), and banking facilities guaranteed by the Group to the jointly-controlled entities were utilized to the extent of approximately HK\$68,250,000 (31 December 2003: HK\$66,047,000).

**13. CONTINGENT LIABILITIES (continued)**

- (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 2003: HK\$59,143,000) for the controlling shareholders' acting as a guarantor in respect of banking facilities granted to the associate.
- (c) The Group has a contingent liability in respect of possible future long service payments to employees under the Hong Kong Employment Ordinance, with a maximum possible amount of HK\$7,016,000 as at 30 June 2004 (31 December 2003: HK\$8,699,000). The contingent liability has arisen as a number of current employees have achieved the required number of years of service to the Group, at the balance sheet date, in order to be eligible for long service payments under the Employee Ordinance if their employment is terminated under the circumstances specified in the Employment Ordinance. A partial provision has been recognized in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.
- (d) In January 2004, Siemssen & Co. GmbH ("Siemssen"), a company situated in Hamburg, Germany and a former customer of Orient Power Video Manufacturing Limited ("OPVM"), an indirectly wholly owned subsidiary of the Company, filed a civil complaint against OPVM in the District Court of Hamburg ("the Action"). In the Action, Siemssen alleges that OPVM has breached certain warranties that it had provided under several contracts for the sale of OPVM products to Siemssen which rendered Siemssen liable to a third party to the extent of US\$9,835,000 (HK\$76,713,000). In the Action, Siemssen is claiming for the sum of US\$9,835,000 (HK\$76,713,000) and legal costs of Euro58,000 (HK\$565,000) against OPVM.

Of the said claim of US\$9,835,000 (HK\$76,713,000), a receivable due from Siemssen in the sum of US\$1,930,000 (HK\$15,054,000) is presently deposited into a bank by Siemssen pursuant to an order of the Hamburg court as security for part of the said claim in the Action. The said sum is held subject to the outcome of the Action and shall be returned to OPVM if Siemssen fails in the Action. OPVM through its legal representatives in Germany shall contest the Action. The directors of the Company have been advised by its German legal advisers that the claim in the Action has no merit.

**14. RELATED PARTY TRANSACTIONS**

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

		<b>For the six months ended 30 June</b>	
		<b>2004</b>	2003
		<b>(Unaudited)</b>	(Unaudited)
	<i>Notes</i>	<b>HK\$'000</b>	<i>HK\$'000</i>
Purchases of goods from jointly-controlled entities	(i)	<b>256,399</b>	223,858
Sales of raw materials to jointly-controlled entities	(ii)	<b>3,649</b>	32,172
Rental income of machinery from a jointly-controlled entity	(iii)	<b>464</b>	–
Rental income from associates	(iii)	<b>108</b>	108
Interest expenses paid to a jointly-controlled entity		<b>–</b>	674
		<b>—————</b>	<b>—————</b>

**14. RELATED PARTY TRANSACTIONS (continued)***Notes:*

- (i) The goods purchased from the jointly-controlled entities at prices ranging from cost to cost plus a margin of 3% (six month ended 30 June 2003: cost to cost plus a margin of 3%). The balances due to these jointly-controlled entities at 30 June 2004 were HK\$41,959,000 (31 December 2003: HK\$64,340,000).
- (ii) The raw materials sold to jointly-controlled entities were priced at cost (six month ended 30 June 2003: at cost).
- (iii) The directors considered that the rental charged were similar to fair market rates.

As disclosed in note 13(b), the Company has executed counter indemnity in favor of the controlling shareholder of an associate, in proportion to its interests therein, for which no charge was made.

In addition to the above, the Company had executed guarantees in favour of banks to non-wholly owned subsidiary and jointly-controlled entities, as disclosed in note 13(a).

**15. COMPARATIVE FIGURES**

Certain comparative figures have been restated to conform with changes in accounting estimates and deferred tax as adopted in the audited financial statements for the year ended 31 December 2003. The restatement included a decrease in the Group's depreciation charges of HK\$13,277,000, an increase in deferred tax of HK\$6,808,000 and a net increase in net profit of HK\$6,469,000 for the period ended 30 June 2003.