

8. Trade and other payables

The following is an aged analysis of trade payables at the reporting date:

	At September 30, 2004 HK\$'m	At March 31, 2004 HK\$'m
Not yet due	199.5	159.7
Overdue less than 31 days	128.6	63.3
Overdue 31 to 90 days	23.0	10.6
Overdue more than 90 days	2.4	7.2
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	353.5	240.8
Other payables	336.1	188.5
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	689.6	429.3
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9. Share capital

	Number of shares	Amount HK\$'m
At April 1, 2004	2,082,449,907	208.2
Issue of shares on the exercise of share options	2,250,000	0.3
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At September 30, 2004	2,084,699,907	208.5
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BUSINESS REVIEWS

Turnover of the Group for the six months ended September 30, 2004 was HK\$1,346.0 million, representing an increase of approximately 4% from the corresponding period last year. This increase was mainly attributable to the LCD Consumer Electronic Products division. Over the same period, the Group's Oregon Scientific branded sales were HK\$591.9 million and accounted for 44% of the Group's turnover, compared with 46% for the same period last year. The Oregon Scientific branded sales were impacted by delays in new products and a port strike in Italy which accounted for HK\$55.0 million.

Gross profit increased by 4% to HK\$507.1 million while gross profit margin was maintained at 38%.

Total operating expenses remained under tight control with a modest increase of 4% to HK\$385.9 million. As a result, profit from operations was HK\$142.1 million, compared with HK\$133.4 million of the same period last year. It represented an increase of 7% and a return on sales of 11%, up from last year's 10%.

Profit attributable to shareholders for the period was HK\$105.1 million, which represented a 12% increase from the corresponding period last year. In terms of profitability, net profit margin for the period was 8%, compared with last year's 7%.

The major business development of each business division is described below.

Oregon Scientific recorded sales of HK\$591.9 million. In the period under review, Asia Pacific was the fastest growing major market, having achieved an increase of 89%. Whilst sales were affected by product delay and delivery problem caused by labour strikes in Italy, European markets still maintained growth of 8%, compared with the same period last year. All European markets achieved growth. The US market posted a drop in sales of 20% compared with the same period last year mainly in the competitive digital camera business and the consolidation in the electronic learning products business. However, this was partly compensated by the LCD consumer electronic products business which recorded an increase of 159% in the first half.

LCD Consumer Electronic Products division recorded sales of HK\$537.3 million, up 39% from the same period last year. It accounted for 40% of the Group's turnover and was the largest business of the Group. The sales growth was attributable to a 42% growth in Oregon Scientific branded sales to HK\$324.0 million and 35% growth in ODM/OEM sales to HK\$213.3 million. Sales under Oregon Scientific brand accounted for 60% of the division's total sales for the period, compared with 59% for the corresponding period last year.

In the first half of this year, the division launched a total of 68 new products including a collection of Weather and Timing products specifically for the US market.

Telecommunication Products division posted a 9% drop in sales to HK\$327.6 million for the period. It represented 24% of Group turnover, down from 28% a year ago. During the period, sales of Oregon Scientific were HK\$28.3 million, a 10% drop compared with HK\$31.6 million last year. Oregon Scientific accounted for 9% of the division's total sales for the period, which is the same as last year. ODM/OEM sales were HK\$299.3 million, representing a 9% decrease of last year's sales of HK\$328.1 million.

ODM/OEM sales were affected by the difficult market conditions, especially in the highly competitive cordless phone business in the US. Nevertheless, the division enjoyed satisfactory growth in ODM/OEM sales in both Europe and Asia Pacific. New transceiver products customers were developed and sales to network operators were higher in the first half of this year.

Digital Media Products division (formerly known as Electronic Personal Information Products division) recorded sales of HK\$184.6 million, representing a 6% drop from last year. It accounted for 14% of the Group's turnover. Although ODM/OEM sales recorded HK\$131.5 million, up 62% from the same period last year, Oregon Scientific branded sales were HK\$53.1 million, down 54% from the same period last year. About 29% of this division's sales were through Oregon Scientific brand, compared with 58% a year ago.

The drop in Oregon Scientific branded sales was mainly caused by product delays and market competition. On the other hand, ODM/OEM business recorded increases in both number of unit sold and average selling price mainly due to new customers gained in Asia and the US. A total of 13 new products, mainly digital camera and MP3 player, were launched in the first half of this year.

Electronic Learning Products division achieved HK\$291.5 million of sales for the period, posting a 16% decrease from the corresponding period last year. It represented 22% of the Group's turnover, down from 27% a year ago. Sales under Oregon Scientific brand were HK\$183.9 million, posting a decrease of 14% as compared with last year's sales of HK\$214.6 million. It accounted for 63% of the division's total sales. ODM/OEM business also decreased from sales of HK\$132.5 million for the first half of last year to HK\$107.6 million for this period, representing a drop of 19%.

The US remained the largest market for the business of Oregon Scientific. However, unfavorable market conditions accounted for the decrease in Oregon Scientific branded sales. ODM/OEM sales were also lower mainly due to decrease in sales to some existing customers. The division has launched 13 new products including 1 product under the Ferrari licence.

Working capital at the end of the period amounted to HK\$747.6 million, up 14% from HK\$653.5 million as stated at the end of the corresponding period last year. Due to seasonality factors, levels of inventories and trade receivables as at September 30, 2004 were higher than their levels at the last financial year end. When compared at the corresponding date last year, inventories and trade receivables increased by 38% and 1% respectively. The significant increase in inventories was mainly to prepare for the forthcoming peak selling season of Oregon Scientific business.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations from internal cash flow. Net cash and deposits at September 30, 2004 were HK\$300.9 million, which is HK\$93.1 million less than the balance recorded on the same date last year. The decrease was mainly due to the build up of inventory.

The Group has sufficient financial resources to fund our operations, current investment needs and development plans.

CAPITAL STRUCTURE AND TREASURY MANAGEMENT

The Group is funded entirely by equity and does not have any secured or unsecured long-term debt. Short-term bank borrowings of HK\$267.7 million as at September 30, 2004, compared with HK\$149.7 million last year, were in relation to bills payable, import loans, revolving bank loans used for currency hedging purposes and bank overdrafts.

Having considered the interest rate environment and its capital needs, the Group had placed HK\$296.4 million on high yield deposits with financial institutions as at September 30, 2004, compared with HK\$257.4 million last year. The average yield for these deposits was 6.7% per annum. These deposits were placed with institutions with a minimum double A rating. These instruments do carry a level of risk where interest earned could be nil if certain conditions are met.

The Group's exposure to foreign currency mainly arises from the net cash flow and net working capital translation of its overseas subsidiaries. We actively hedge our foreign currency exposures through natural hedges, forward contracts and options. As at September 30, 2004, we had forward contracts in place to hedge against possible exchange losses from future net cash flows. Speculative currency transactions are strictly prohibited. The management of currency risk is centralised in the Group's headquarters in Hong Kong.