

# NOTES TO THE CONDENSED FINANCIAL STATEMENTS

30 June 2005

## 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed interim financial statements are prepared in accordance with Hong Kong Accounting Standard (“HKAS”) No. 34: Interim Financial Reporting and other relevant HKASs and Interpretations, the Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”).

The accounting policies and methods of computation used in the preparation of the interim financial statements are the same as those adopted in preparing the annual financial statements for the year ended 31 December 2004 except for the new adoption of HKFRSs and HKASs as disclosed in note 2 below.

## 2. IMPACT OF NEW/REVISED HKFRASs AND HKASs

The HKICPA has issued a number of new HKFRSs and HKASs and Interpretations, which are effective for the accounting periods commencing on or after 1 January 2005. The Group has adopted the following HKFRSs and HKASs issued up to 30 June 2005 which are pertinent to its operations and relevant to these interim financial statements.

HKAS 1	Presentation of financial statement
HKAS 17	Leases
HKAS 32	Financial instruments: Disclosure and presentation
HKAS 36	Impairment of assets
HKAS 38	Intangible assets
HKAS 39	Financial instruments: Recognition and measurement
HKAS 40	Investment property
HKFRS 3	Business combinations

The adoption of these new/revised HKFRSs and HKASs has resulted in the following changes to the Group’s accounting policies that have affected the amount reported or disclosures for the current or prior year.

- (a) The adoption of HKAS 1 has affected the presentation of minority interests and other disclosures.

## 2. IMPACT OF NEW/REVISED HKFRASs AND HKASs (continued)

- (b) The adoption of HKAS 17 has resulted in a change in accounting policy relating to leasehold land. In previous periods, owner-occupied leasehold land and buildings were included in property, plant and equipment and carried at valuation less accumulated depreciation. In current period, under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment. In restating the Group's results for prior periods on the basis of the new and revised policies to comply with HKAS 17, the retained profits brought forward as at 1 January 2004 have been reduced by HK\$17 million, and the net profit of the Group for the six months ended 30 June 2004 and the year ended 31 December 2004 have been reduced by HK\$1 million and HK\$2 million, respectively, in respect of the amortisation of land lease prepayment.
- (c) The adoption of HKFRS 3, HKAS 36 and HKAS 38 has resulted in changes in accounting policies in impairment of assets, trademarks and patents and goodwill. Prior to this, trademarks and patents and goodwill were:
- amortised on the straight-line basis over its estimated economic useful life, not exceeding 20 years; and
  - assessed for impairment at each balance sheet date.

In accordance with the provision of HKFRS 3:

- the Group ceased amortisation of trademarks and patents and goodwill from 1 January 2005;
- accumulated amortisation as at 31 December 2004 has been eliminated with a corresponding decrease in the cost of trademarks and patents and goodwill;
- from the year ending 31 December 2005 onward, trademarks and patents and goodwill are tested annually for impairment, as well as when there are indications of impairment;
- derecognise the carrying amount of negative goodwill with a corresponding adjustment to the opening balance of retained profits at 1 January 2005.

**2. IMPACT OF NEW/REVISED HKFRASs AND HKASs (continued)**

- (d) The adoption of HKAS 32 and HKAS 39 has resulted in a change in accounting policy for recognition, measurement and disclosure of financial instruments. By 31 December 2004, the Group classified and measured its debt and equity securities in accordance with the alternative treatment of Statement of Standard Accounting Practice 24 (SSAP 24). Under SSAP 24, investments in debt or equity securities are classified as trading securities, non-trading securities or held-to-maturity investments as appropriate. Both trading securities and non-trading securities are measured at fair value. Unrealised gains or losses of trading securities are reported in the income statement for the period in which gains or losses arise. Unrealised gains or losses of non-trading securities are reported in equity until the securities are sold or determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for that period. From 1 January 2005 onwards, the Group classifies and measures its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as financial assets at fair value through profit or loss, available-for-sale financial assets, loans and receivables, or held-to-maturity financial assets. Financial assets at fair value through profit or loss and available-for-sale financial assets are carried at fair value, with changes in fair values recognised in income statement and equity respectively. Loans and receivables and held-to-maturity financial assets are measured at amortised cost using the effective interest method.

On 1 January 2005, the Group classified and measured its debt and equity securities in accordance with the requirements of HKAS 39. Upon the adoption of the HKAS 39, trading securities and non-trading securities reported under SSAP 24 were classified as financial assets at fair value through profit and loss and available-for-sale financial assets, respectively. Accordingly, no adjustment to accumulated profit at 1 January 2005 was required.

- (e) The adoption of HKAS 40 has resulted in a change in accounting policy relating to investment properties. In prior years, the change in the fair value of investment properties was recognised in the investment property revaluation reserve. The deficit of this reserve was charged to the income statement and any subsequent increases were credited to the income statement up to the amount previously charged. Following the adoption of HKAS 40, gains or losses arising from changes in fair value of investment properties are included in the income statement in the period in which they arise.

In restating the Group's results for prior periods on the basis of the adoption of HKAS 40, the retained profits brought forward as at 1 January 2004 have been increased by HK\$2 million, and the net profit of the Group for the year ended 31 December 2004 has been increased by HK\$1 million with a corresponding adjustment to the investment property revaluation reserve in respect of the surplus on revaluation of investment properties.

### 3. TURNOVER

Turnover represents the net invoiced value of goods sold after allowances for returns and trade discounts; and corporate finance and investment income but excludes intra-group transactions.

The Group comprises of:

Groups	Principal activities
(i) Branded distribution	Trading of audio & video products and shares
(ii) Electronics manufacturing services	Manufacture and trading of electronic and computer products

An analysis of the Group's turnover by principal activity for the period is as follows:

	Six months ended	
	30 June 2005 (Unaudited) <i>HK\$ million</i>	30 June 2004 (Unaudited) <i>HK\$ million</i>
Branded distribution	1,555	1,604
Electronics manufacturing services	1,068	1,287
	<u>2,623</u>	<u>2,891</u>

### 4. INCOME STATEMENT BY BUSINESS AND GEOGRAPHICAL SEGMENTS

#### (a) Income statement by business segments:

*For the six months ended 30 June 2005:*

	Branded distribution <i>HK\$ million</i>	Electronics manufacturing services <i>HK\$ million</i>	Unallocated <i>HK\$ million</i>	(Unaudited) Consolidated <i>HK\$ million</i>
Turnover	<u>1,555</u>	<u>1,068</u>		<u>2,623</u>
Divisional operating results	<u>167</u>	<u>38</u>		205
Unallocated corporate expenses				<u>(7)</u>
				198
Gain on disposal of property, plant and equipment	-	-	2	2
Interest income				<u>12</u>
Operating profit				212
Interest expenses				(20)
Tax credit				<u>1</u>
Profit for the period				<u>193</u>

4. INCOME STATEMENT BY BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Income statement by business segments: (continued)

*For the six months ended 30 June 2004:*

	Branded distribution <i>HK\$ million</i>	Electronics manufacturing services <i>HK\$ million</i>	Unallocated <i>HK\$ million</i>	(Restated) Consolidated <i>HK\$ million</i>
Turnover	<u>1,604</u>	<u>1,287</u>		<u>2,891</u>
Divisional operating results	<u>164</u>	<u>51</u>		215
Unallocated corporate expenses				<u>(7)</u>
				208
Gain/(loss) on disposal of property, plant and equipment	2	(18)	-	(16)
Interest income				<u>2</u>
Operating profit				194
Loss on disposal of subsidiaries				(4)
Interest expenses				(13)
Tax charge				<u>(1)</u>
Profit for the period				<u>176</u>

(b) The geographical segments of the Group's turnover is as follows:

	Six months ended	
	30 June 2005 (Unaudited) <i>HK\$ million</i>	30 June 2004 (Unaudited) <i>HK\$ million</i>
Asia	1,621	2,075
North America	749	420
Europe	<u>253</u>	<u>396</u>
	<u>2,623</u>	<u>2,891</u>

## 5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Six months ended	
	30 June 2005 (Unaudited) <i>HK\$ million</i>	30 June 2004 (Restated) <i>HK\$ million</i>
Depreciation of property, plant and equipment:		
Owned assets	52	63
Leased assets	1	1
Operating lease rentals:		
Land and buildings	9	11
Interest on:		
Bank overdrafts and loans wholly repayable within five years	17	12
Bank loans wholly repayable over five years	3	1
Auditors' remuneration	3	3
Amortisation of goodwill	–	7
Amortisation of brands, trademarks and patents	–	39
Amortisation of other assets	14	4
Staff costs:		
Salaries and other benefits	89	98
Retirement benefit costs	2	1
Manufacturing cost	182	220
Research and development expenditure	10	5
Net foreign exchange (gain)/loss	(29)	23
Change in fair value of short term equity securities	(19)	–
Negative goodwill recognised in respect of		
increased investment in subsidiaries	(1)	–
(Gain)/loss on disposal of property, plant and equipment	(2)	16
Interest income	(12)	(2)

**6. TAX CREDIT/(CHARGE)**

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been provided at the applicable rates of tax in the countries in which the subsidiaries operate, based on existing legislation, interpretations and practices in respect thereof.

	Six months ended	
	30 June 2005	30 June 2004
	(Unaudited)	(Unaudited)
	<i>HK\$ million</i>	<i>HK\$ million</i>
Current period provision:		
Hong Kong	(1)	(1)
Over provision in prior period		
Hong Kong	1	-
Deferred tax		
Hong Kong	1	-
	1	-
	1	(1)

**7. DIVIDENDS**

	Six months ended	
	30 June 2005	30 June 2004
	(Unaudited)	(Unaudited)
	<i>HK\$ million</i>	<i>HK\$ million</i>
2003 final cash dividend of HK10 cents per share on 460 million shares	-	46
2003 special dividend by way of a distribution in specie of one share of Sansui Electric Co., Ltd. ("SEC"), a company listed on the First Section of the Tokyo Stock Exchange, for every two shares of the Company being held by the shareholders on the register of members on 16 June 2004. The market value at that date and at 30 June 2004 of SEC was 34 Yen per share which equates to a special dividend of HK121 cents per share	-	555
2004 final dividend of HK19 cents per share on 460 million shares	87	-
	87	-
	87	601
Interim dividend in respect of 2005 of HK12 cents per share (2004: HK11 cents) on 460 million shares was approved by the Board after the balance sheet date, and not recognised as a liability as at 30 June	55	51
	55	51

## 8. EARNINGS PER SHARE

The calculation of earnings per share is based on profit attributable to shareholders of HK\$190 million (2004: HK\$171 million) and on 460 million shares in issue during the period.

Diluted earnings per share has not been presented as the Company did not have any potential ordinary shares during the above two periods.

## 9. PROPERTY, PLANT AND EQUIPMENT

	30 June 2005 (Unaudited) <i>HK\$ million</i>	31 December 2004 (Restated) <i>HK\$ million</i>
Net book value at beginning of year	1,089	1,298
Foreign currency adjustment	–	1
Additions	16	55
Disposal of subsidiaries	–	(16)
Disposals	(3)	(123)
Depreciation provided during the period	(53)	(126)
	<u>1,049</u>	<u>1,089</u>
Net book value at balance sheet date	<u>1,049</u>	<u>1,089</u>

## 10. LONG TERM INVESTMENTS

	30 June 2005 (Unaudited) <i>HK\$ million</i>	31 December 2004 (Audited) <i>HK\$ million</i>
Listed investments, at market value		
Outside Hong Kong	22	21
Unlisted investments, at cost less impairment	94	615
	<u>116</u>	<u>636</u>
	<u>116</u>	<u>636</u>



## 11. BRANDS, TRADEMARKS AND PATENTS

	30 June 2005 (Unaudited) <i>HK\$ million</i>	31 December 2004 (Audited) <i>HK\$ million</i>
At beginning of year	1,315	1,391
Foreign currency adjustment	–	2
Amortisation for the period	–	(78)
	<u>1,315</u>	<u>1,315</u>
At balance sheet date	<u><u>1,315</u></u>	<u><u>1,315</u></u>

## 12. GOODWILL/(NEGATIVE GOODWILL)

	Goodwill		Negative goodwill	
	30 June 2005 (Unaudited) <i>HK\$ million</i>	31 December 2004 (Audited) <i>HK\$ million</i>	30 June 2005 (Unaudited) <i>HK\$ million</i>	31 December 2004 (Audited) <i>HK\$ million</i>
At beginning of year	268	284	(4)	(4)
Derecognition of negative goodwill				
to retained profits	–	–	4	–
Additional interest in subsidiaries	–	–	–	(1)
(Amortisation)/release for the period	–	(16)	–	1
	<u>268</u>	<u>268</u>	<u>–</u>	<u>(4)</u>
At balance sheet date	<u><u>268</u></u>	<u><u>268</u></u>	<u><u>–</u></u>	<u><u>(4)</u></u>

## 13. SHORT TERM INVESTMENTS

	30 June 2005 (Unaudited) <i>HK\$ million</i>	31 December 2004 (Audited) <i>HK\$ million</i>
Listed investments, at market value		
Hong Kong	34	–
Outside Hong Kong	460	415
Unlisted investments, at fair value	<u>551</u>	<u>1</u>
	<u><u>1,045</u></u>	<u><u>416</u></u>

#### 14. ACCOUNTS, BILLS AND OTHER RECEIVABLES

The Group allows an average credit period of 30 to 90 days to its trade customers. The aged analysis of trade and other receivables (net of allowance for doubtful debts) is as follows:

	30 June 2005 (Unaudited) <i>HK\$ million</i>	31 December 2004 (Audited) <i>HK\$ million</i>
0 – 3 months	708	645
3 – 6 months	112	16
Over 6 months	101	40
	<u>921</u>	<u>701</u>

#### 15. INVENTORIES

	30 June 2005 (Unaudited) <i>HK\$ million</i>	31 December 2004 (Audited) <i>HK\$ million</i>
Raw materials	372	307
Work in progress	45	52
Finished goods	404	375
	<u>821</u>	<u>734</u>

#### 16. ACCOUNTS AND BILLS PAYABLES

The aged analysis of accounts and bills payables is as follows:

	30 June 2005 (Unaudited) <i>HK\$ million</i>	31 December 2004 (Audited) <i>HK\$ million</i>
0 – 3 months	1,191	624
3 – 6 months	77	12
Over 6 months	92	33
	<u>1,360</u>	<u>669</u>

**17. SHARE CAPITAL**

	Number of ordinary shares of HK\$0.10 each <i>million</i>	Amount <i>HK\$ million</i>
Authorised:		
At 1 January 2004, 31 December 2004 and 30 June 2005	<u>1,000</u>	<u>100</u>
Issued and fully paid:		
At 1 January 2004, 31 December 2004 and 30 June 2005	<u>460</u>	<u>46</u>

**18. SHARE PREMIUM**

	30 June 2005 (Unaudited) <i>HK\$ million</i>	31 December 2004 (Audited) <i>HK\$ million</i>
At 1 January 2004, 31 December 2004 and 30 June 2005	<u>812</u>	<u>812</u>

## 19. RESERVES AND MINORITY INTERESTS

	Contributed reserve	Investment revaluation reserve	Capital reserve	Exchange fluctuation reserve	Retained profits	Total	Minority interests
	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million
At 1 January 2004, as previously reported	961	(2)	455	(231)	910	2,093	540
Adoption of HKAS 17	-	-	-	-	(17)	(17)	(1)
Adoption of HKAS 40	-	(2)	-	-	2	-	-
	<u>961</u>	<u>(2)</u>	<u>455</u>	<u>(231)</u>	<u>910</u>	<u>2,093</u>	<u>540</u>
At 1 January 2004, as restated	961	(4)	455	(231)	895	2,076	539
Exchange fluctuation arising on consolidation of overseas subsidiaries	-	-	-	-	-	-	(4)
Increased investment in subsidiaries	-	-	-	-	-	-	(12)
Surplus on revaluation of equity securities	-	4	-	-	-	4	-
Released on disposal of long term investments	-	13	-	-	-	13	-
Released on disposal of subsidiaries	-	-	(12)	35	-	23	(3)
Dividend paid to minority interests	-	-	-	-	-	-	(4)
Profit for the year	-	-	-	-	550	550	(41)
Distribution to shareholders	-	-	-	-	(741)	(741)	-
	<u>961</u>	<u>(4)</u>	<u>455</u>	<u>(231)</u>	<u>895</u>	<u>2,076</u>	<u>539</u>
At 31 December 2004 and 1 January 2005	961	13	443	(196)	704	1,925	475
Derecognise negative goodwill	-	-	-	-	4	4	-
Exchange fluctuation arising on consolidation of overseas subsidiaries	-	-	-	14	-	14	-
Increased investment in subsidiaries	-	-	-	-	-	-	(15)
Deferred taxation	-	(6)	-	-	-	(6)	-
Surplus on revaluation of equity securities	-	1	-	-	-	1	-
Dividend paid to minority interests	-	-	-	-	-	-	(24)
Profit for the period	-	-	-	-	190	190	3
Dividends	-	-	-	-	(87)	(87)	-
	<u>961</u>	<u>13</u>	<u>443</u>	<u>(196)</u>	<u>704</u>	<u>1,925</u>	<u>475</u>
At 30 June 2005	<u>961</u>	<u>8</u>	<u>443#</u>	<u>(182)</u>	<u>811</u>	<u>2,041</u>	<u>439</u>

# The balance of capital reserve comprises goodwill and negative goodwill of HK\$124 million and HK\$210 million, respectively.

**20. CONTINGENT LIABILITIES**

	30 June 2005 (Unaudited) <i>HK\$ million</i>	31 December 2004 (Audited) <i>HK\$ million</i>
Bills discounted with recourse	—	2
Guarantee of trade finance banking facilities granted to a former associate	27	31

**21. COMMITMENTS**

	30 June 2005 (Unaudited) <i>HK\$ million</i>	31 December 2004 (Audited) <i>HK\$ million</i>
(a) Capital commitments:		
Contracted for	2	—
Authorised, but not contracted for	2	—
	4	—
(b) The future minimum lease payments under non-cancellable operating leases for each of the following periods:		
Land and buildings:		
Not later than one year	13	28
Later than one year and not later than five years	9	18
	22	46
(c) At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:		
Land and buildings:		
Not later than one year	1	2
Later than one year and not later than five years	1	1
	2	3
(d) The group had commitments under the following foreign exchange forward contracts at fixed exchange rates for the purpose of hedging against accounts receivables and accounts payables:		
To sell approximately RMB1,133 million (2004: RMB524 million)	1,067	493
To purchase approximately JPY1,289 million (2004: JPY558 million)	91	42

## 22. BANKING AND FINANCE LEASE FACILITIES

Certain banking and finance lease facilities available to the Group were secured by assets for which the aggregate carrying values were as follows:

	30 June 2005 (Unaudited) <i>HK\$ million</i>	31 December 2004 (Restated) <i>HK\$ million</i>
(a) Legal charges over brands, trademarks and patents	582	582
(b) Legal charges over medium term leasehold land and buildings in Hong Kong	192	195
(c) Legal charges over investment properties	42	45
(d) Legal charges over plant and machinery	15	20
(e) Pledge of medium term leasehold land and buildings outside Hong Kong	103	107
(f) Pledge of accounts receivable and bank deposits	16	20
	<u>950</u>	<u>969</u>

## 23. COMPARATIVE FIGURES

Due to adoption of new/revised HKFRSs and HKASs for the current period, the accounting treatment and presentation of certain items on the financial statements have been revised to comply with the new requirements. Accordingly, certain figures have been adjusted to reserves in prior year. Also, certain comparative figures have been reclassified to conform with the current period's presentation.

## 24. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

The interim financial statements were approved and authorised for issue by the board of directors on 23 September 2005.

## DIVIDENDS

The Board of Directors has resolved to pay an interim dividend of HK12 cents per share (2004: HK11 cents per share) totaling approximately HK\$55 million (2004: HK\$51 million) to shareholders whose names appear on the register of members on 31 October 2005. It is expected that dividends will be dispatched to shareholders on or before 16 November 2005.

## CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from 1 November to 3 November 2005, both days inclusive, during which no transfer of shares will be registered.

To rank for the interim dividend, all transfers should be lodged with the Company's Registrars, Tengis Limited at G/F, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on 31 October 2005.