

# ORITRON

## ORIENT POWER HOLDINGS LIMITED

*(Incorporated in Bermuda with limited liability)*

(Stock Code: 615)

<http://www.orientpower.com>

### Interim Results Announcement for the Six Months Ended 30 June 2004

#### 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 2004 (the “Period”), together with comparative figures for the corresponding period of 2003.

#### CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		For the six months ended 30 June	
		2004 (Unaudited) <i>HK\$'000</i>	Restated 2003 (Unaudited) <i>HK\$'000</i>
	<i>Notes</i>		
TURNOVER	2	1,833,140	1,893,562
Cost of sales		<u>(1,687,869)</u>	<u>(1,730,144)</u>
Gross profit		145,271	163,418
Other revenue	3	11,469	4,613
Selling and distribution costs		(44,421)	(40,212)
Administrative expenses		(83,241)	(65,039)
Other operating expenses		<u>(7,251)</u>	<u>(9,145)</u>
PROFIT FROM OPERATING ACTIVITIES	4	21,827	53,635
Finance costs	5	(6,859)	(10,203)
Share of profits and (losses) of:			
Jointly-controlled entities		(4,518)	528
Associates		<u>4,294</u>	<u>3,997</u>

		<b>For the six months ended 30 June</b>	
		<b>2004</b>	Restated 2003
	<i>Notes</i>	<b>(Unaudited) HK\$'000</b>	(Unaudited) HK\$'000
PROFIT BEFORE TAX		<b>14,744</b>	47,957
Tax	6	<b>(1,058)</b>	(10,218)
PROFIT BEFORE MINORITY INTERESTS		<b>13,686</b>	37,739
Minority interests		<b>12</b>	634
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<b>13,698</b>	38,373
Proposed interim dividend	7	<b>2,549</b>	4,448
EARNINGS PER SHARE – HK cents	8		
Basic		<b>2.7</b>	8.6
Diluted		<b>N/A</b>	N/A

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

Six months ended 30 June 2003 (Restated)

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

**(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>-</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>-</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	1,851	660
	<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	6,721	6,152
	<u>23,054</u>	<u>18,461</u>

## 5. FINANCE COSTS

	For the six months ended 30 June	
	2004	2003
	(Unaudited)	(Unaudited)
	HK\$'000	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	Restated 2003
	(Unaudited)	(Unaudited)
	HK\$'000	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>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: HK1.0 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. 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.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Business Review**

During the first half of this year, the global economic climate varied as geopolitical events continued to distract attention in major markets. The US and European economies did not exhibit consistent signs of full recovery or growth. Sectors that benefited from low interest rates performed well. However, growing consumer debts remained a concern.

In the consumer electronics arena, suppliers faced extreme competition in mainstream audio-video (AV) products as new products and new applications came to the market at a quick tempo while conventional products were phasing out rapidly. As a result, retailers used cut-throat price points to move their goods in short cycles.

The most important issue that had been troubling the electronics industry as a whole was the high oil price that, for the past year, had been driving up the costs of raw materials vital for electronics goods. The PRC also became a major user of the commodity raw materials from plastics to metals and paper.

Business at the In-Car division was solid. Consumers were particularly attracted by the option of video entertainment they could add to their vehicles. The revenue increased due to volume increase while the unit price dropped as expected.

The Home Division experienced some setbacks during the first six months as reflected by their drop in revenues when compared to the same period of the previous year. The higher materials costs and delays in certain new products coming to the market were the primary reasons.

For the PRC market, our goal this year is to build up a network of 400 POS (points of sales) in target cities as retail channels for our home AV products. As of end of June this year, over 400 POS were in place. The central government's endorsement in digital cable TV began to take shape that had led to our supplying small orders of these digital boxes for operators at the provincial and city level for field trials.

## **Prospects**

We expect the global economy will remain soft as the geopolitical situation remains uncertain and no sign of the high oil price to ease. The presidential election in the US will hopefully set a direction for the US economy and therefore the world's as well. Europe's economy is greatly influenced by its dependence on foreign oil supply. The PRC has reached a point that internal demands can drive growth.

For the consumer electronics industry, traditional products are now replaced by new concepts of portability, delivery and storage, all of which are made possible by technologies that have recently become affordable for mass-market products. High definition television sets (HDTV) and digital still cameras are at or near mass market price points; the overall atmosphere for both digital hardware and software is good for consumers.

The super-competitive landscape has also seen certain export-oriented manufacturers taking exit due to losses incurred from failure in materials cost management.

Broadcasting of digital entertainments by service providers to consumers is also taking place. Countries across Europe, for example, have switched on their digital terrestrial transmissions in co-existence with the present analog formats. Retailers have begun carrying digital set-top-boxes as households recognize new programs are available from the air. Similarly, the digital cable box market in the PRC is poised to grow as the central government's commitment to switch from analog to digital appears solid.

We hold guarded optimism that our overall results will improve by end of 2004 through accelerated efforts to regain lost grounds in the early part of the year. We have a strong outlook for growth in 2005 with new products.

We expect the In-Car Division to hold its course with healthy growth in the video sector. As we establish regular relationships with the car manufacturers in the primary market, we expect both the volume and product assortment will increase. We are optimistic that the Home Division will recover from the product delays and produce positive results during the second half of the year. Various new products are coming to the market in fourth quarter this year.

## **Liquidity and Financial Resources**

The Group's objective is to maintain a healthy and liquid financial position. Liquidity, assets and capital structure were all enhanced comparing to the same period in the previous year. As is usual in the consumer electronics industry, the Group experiences a low season during the first half of the year and normally a high season in the second half. The result is a higher use of financial

resources at the interim balance sheet date vis-a-vis that at the end of the financial year. Total borrowing rose 21.6% compared to the last year end. Subsequent to the balance sheet date, the Group arranged another HK\$300 million syndication loan to refinance the existing loans at a lower interest rate. The Group views its financial resources adequate for its ongoing business activities.

The Group's order book shows continuous shortening of order cycle from customers. The Group remains conservative and expects no substantial amount of investment in capital expenditure in the coming months. The Group had no assets pledged at the balance sheet date.

The gearing ratio, calculated by total borrowings from banks and financial institutions net of cash divided by tangible net worth, was 53.2%. The Group mainly borrows in US Dollars and HK Dollars on floating interest rates. Details on maturity profile of these borrowings and contingent liabilities will be set out in the notes to the financial statements in our interim report 2004. At the balance sheet date, the Group mainly held cash and bank deposits in US Dollars, HK Dollars, Renminbi and Australian Dollars. The Group considered its foreign exchange exposure well balanced with some exposure in non-US dollar base currencies.

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 resolved to pay an interim dividend of HK0.5 cent per share for the six months ended 30 June 2004 (2003: HK1.0 cent) to the shareholders whose names appear on the register of members of the Company on 12 October 2004. The interim dividend will be paid on or before 20 October 2004.

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from 6 October 2004 to 12 October 2004, 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 Branch Share Registrar in Hong Kong, Standard Registrars Limited, G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00 p.m. on 5 October 2004.

## **FULL DETAILS OF FINANCIAL INFORMATION**

The Interim Report 2004 containing all the information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules in force prior to 31 March 2004, which remain applicable to results announcements in respect of accounting periods commencing before 1 July 2004 under the transitional arrangements, will be published on the website of The Stock Exchange of Hong Kong Limited in due course.

On behalf of the Board  
**Poon Ka Hung**  
*Chairman*

Hong Kong, 16 September 2004

*As at the date of this announcement, the executive directors of the Company comprise Mr. Poon Ka Hung, Mr. Wu Lai Ping, Mr. Lin Hoo Fun and Mr. Leung Chun Pong; the non-executive directors comprise Ms. Jennifer Cheung Mei Ha and Mr. Edward Fung Chi Kong and the independent non-executive directors comprise Mr. Joseph Chan Wing Tai, Mr. Tay Chee Hung and Mr. Tang Tin Ying.*

Please also refer to the published version of this announcement in China Daily.