

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Impact of Recently Issued Hong Kong Financial Reporting Standards (“HKFRSs”)

The Hong Kong Institute of Certified Public Accountants has issued a number of new HKFRSs and Hong Kong Accounting Standards, herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

2. Basis of Preparation

The financial results have been prepared in accordance with HKFRSs (which also include Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention except for the periodic remeasurement of certain fixed assets.

3. Turnover and Segmental Information

Turnover represents the net invoiced value of goods sold, after allowance for returns and trade discounts.

An analysis of the Group’s turnover and contribution to profit from operating activities by business segment and by geographical segment are summarised as follows:

a. Business segment:

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	2,249,245	1,879,434	6,047	-	-	4,134,726
Intersegment sales	7,741	101,765	-	-	(109,506)	-
Other revenue	10,809	11,676	9	-	-	22,494
Total	<u>2,267,795</u>	<u>1,992,875</u>	<u>6,056</u>	<u>-</u>	<u>(109,506)</u>	<u>4,157,220</u>
Segment results	<u>42,574</u>	<u>46,361</u>	<u>(5,856)</u>	<u>256</u>		83,335
Interest income						8,631
Unallocated expenses						<u>(33,433)</u>
Profit from operating activities						<u>58,533</u>

2003

	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	2,677,875	1,940,066	5,368	-	-	4,623,309
Intersegment sales	62	71,841	-	-	(71,903)	-
Other revenue	14,451	4,718	24	-	-	19,193
Total	<u>2,692,388</u>	<u>2,016,625</u>	<u>5,392</u>	<u>-</u>	<u>(71,903)</u>	<u>4,642,502</u>
Segment results	<u>63,954</u>	<u>86,679</u>	<u>(7,936)</u>	<u>2,782</u>	<u>-</u>	145,479
Interest income						4,108
Unallocated expenses						<u>(23,826)</u>
Profit from operating activities						<u>125,761</u>

b. *Geographical segment:*

2004

	U.S.A. <i>HK\$'000</i>	Europe <i>HK\$'000</i>	Asia <i>HK\$'000</i>	Central and South America <i>HK\$'000</i>	Canada <i>HK\$'000</i>	Others <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Segment revenue:								
Sales to external customers	<u>1,333,421</u>	<u>1,876,058</u>	<u>189,002</u>	<u>181,583</u>	<u>430,157</u>	<u>124,505</u>	<u>-</u>	<u>4,134,726</u>

2003

	U.S.A. <i>HK\$'000</i>	Europe <i>HK\$'000</i>	Asia <i>HK\$'000</i>	Central and South America <i>HK\$'000</i>	Canada <i>HK\$'000</i>	Others <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Segment revenue:								
Sales to external customers	<u>1,603,324</u>	<u>2,197,060</u>	<u>113,205</u>	<u>200,582</u>	<u>334,550</u>	<u>174,588</u>	<u>-</u>	<u>4,623,309</u>

4. **Other Revenue and Gain**

	Year ended 31 December	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Tooling and repairing service income	12,726	8,668
Interest income	8,631	4,108
Rental income	1,827	2,818
Sale of scrap materials	1,676	683
Commission income	-	2,450
Gain on disposal of associates	185	-
Others	6,080	4,574
	<u>31,125</u>	<u>23,301</u>

5. Finance Costs

	Year ended 31 December	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank loans, overdrafts, and trust receipt loans wholly repayable within five years	19,877	20,083
Interest on finance leases	<u>16</u>	<u>162</u>
	<u>19,893</u>	<u>20,245</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 year. 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.

The tax rate for corporate income tax ("CIT") applicable to the subsidiaries and jointly-controlled entities of the Group operating in Mainland China were 33%. Certain of these subsidiaries and jointly-controlled entities were eligible for exemption from CIT for the two years starting from the first year in which assessable profits were generated, and a 50% exemption from CIT for the following three years.

	Year ended 31 December	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Group:		
Current – Hong Kong		
Charge for the year	1,275	1,123
Under/(over) provision in prior years	–	173
Current – Elsewhere	3,454	5,989
Deferred	<u>6,727</u>	<u>15,725</u>
	<u>11,456</u>	<u>23,010</u>
Share of tax attributable to:		
Jointly-controlled entities	168	211
Associates	<u>1,891</u>	<u>858</u>
	<u>2,059</u>	<u>1,069</u>
Total tax charge for the year	<u>13,515</u>	<u>24,079</u>

7. Dividends

	Year ended 31 December	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interim dividend of HK0.5 cent per share (2003: HK1.0 cent)	2,549	4,448
Proposed final dividend of HK1.5 cents per share (2003: HK2.5 cents)	<u>7,647</u>	<u>12,745</u>
	<u>10,196</u>	<u>17,193</u>

A final dividend for 2004 of HK1.5 cents per share amounting to HK\$7,647,000 has been proposed by the Directors after the balance sheet date. The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

8. Earnings Per Share

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of HK\$37,357,000 (2003: HK\$90,174,000), and the weighted average of 509,805,968 (2003: 456,381,310) ordinary shares in issue during the year.

Diluted earnings per share amounts for the years ended 31 December 2004 and 2003 have not been disclosed as no dilutive events existed during these years.

9. Depreciation/Amortisation

	Year ended 31 December	
	2004 HK\$'000	2003 HK\$'000
Depreciation of fixed assets	83,749	69,172
Amortisation of research and development costs	35,777	28,059
	119,526	97,231

FINANCIAL RESULTS

The Group experienced a 10.6% decline in revenues and an overall drop in profit of 58.6% in 2004. We attribute this decline to a year of transition in the audio-video sector worldwide as consumers latched on to different new products and forewent many mainstream products. The measures we took during the year allowed us to slow down the decline with improving gross margins. We expect improvements in 2005. In anticipation, the board recommends to retain more of our reserve and therefore a reduction of the year's final dividend to HK1.5 cents per share.

BUSINESS REVIEW

Demands for traditional consumer products in major markets in general have been decreasing as consumers are shopping for new generation products. Many firms engaged in electronics related products worldwide have been either positively or adversely affected as evidenced by their 2004 results. As an example, Apple's i-Pod was a big hit in the US in 2004 while traditional CD-based portable audio players fell out of favor worldwide. The i-Pod phenomenon validated Internet as a means to deliver and distribute media commercially. Paid audio entertainment delivered via satellite, generally known as satellite radio, also picked up substantial momentum and customer base in the US. We believe 2004 was a transition period for product trends and user behavior in digital media.

For the Home Section, we took steps back in 2003 to steadily reduce our product mix in traditional products and invest in a variety of new products for 2004. Reduction in traditional products together with several of the new products becoming available later than expected led to less revenue in the first half of 2004. Consequently, we missed certain opportunities. We focused on serving key customers in a tough year. The second half results of the Home Section showed improvements and we attribute the recovery to actions of new products coming in and focused customers. While margin by product category varied, the overall margin averaging across all products saw improvement.

The In-Car Section had a good first half year and healthy margin but experienced a downturn during the second half of the year. We believe phenomenon similar to that happening at the Home Section began to take effect in the In-Car Section. Product variety had increased substantially and consumers had ample choices of new products over more conventional in-car audio-video equipment.

Sharp rise in costs of raw materials such as integrated circuits, metals, plastics and paper was a serious problem in early and mid 2004. Materials cost stabilized in the second half of 2004.

Major retails customers had changed their sourcing practices and branding strategies. Their primary objectives were to further reduce cost and have differentiation in the meantime. Accordingly, the Group scaled back on using our house-brand **ORITRON** other than in the China market.

We continue to strengthen our presence in the China market by building up our distribution and sales activities for the China market using our **ORITRON** brand. We have seen business growth during the year in line with our investment. However, we are still taking a cautious and conservative approach as reflected in the moderate sales volume. We have recently made additional investment in our Wuxi JV to support their development of business in the coming years.

PROSPECTS

We believe our business in 2005 will improve as our new products are making positive contributions and costs of raw materials become more stable. The strategy is to serve key clientele with our refined product mix and continue to drive for better margin. This strategy applies to both export and China market. We also believe that our product development strategy is paying off as our new products are capturing opportunities in the changing market.

An example of the new products of our In-Car Section is navigation equipment. Another example is a set-top-box for the digital terrestrial television (DTT) market in Europe. European nations are beginning to use digital transmissions in conjunction with existing analogue transmissions. Each nation has a timetable to commence using digital transmissions and switching off those for analogue signals. Consumers are buying necessary receiving equipment to enjoy more channels now available on their televisions. New derived products with functional variety will emerge along the way. Therefore, we anticipate great opportunities in the digital broadcast market.

Internally, our supply chain management (SCM) system came on line for the Home Section in early January 2005. The system will run for about six months before rolling out to other divisions and locations. The new IT system will help to further improve our resource management and efficiency of capital utilization.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group's working capital as at 31 December 2004 was about HK\$450 million. The total bank borrowings, which were denominated in US dollars and Hong Kong dollars, were HK\$582 million as at 31 December 2004. Subsequent to the balance sheet date, the Group has drawn down a long term loan of HK\$150 million to support the Group's working capital requirement when business resumes its season.

The cash and bank balances, which were also mainly denominated in US dollars and Hong Kong dollars, were HK\$321 million as at 31 December 2004.

The gearing ratio as at year end date, which is calculated by total borrowings from banks and financial institutions net of cash divided by tangible net worth, was at a satisfactory level of 38.4%. Based on a review on the state of our order book which reflects moderate business growth, the Group considers its financial resources adequate to finance its working capital requirements as well as the further capital injection to our China jointly-controlled entity in March 2005.

DISPOSALS OF ASSOCIATES

During the year under review the Group had disposed of its associates, Clarion Orient Co., Limited and Dongguan Clarion Orient Electronics Co., Limited to the controlling shareholder of these associates at a total consideration of HK\$50 million. The disposal resulted in a gain of HK\$185,000. The Group considered that the disposal would enhance the competitiveness for its own development and marketing of in-car electronics products.

CHARGE ON ASSETS

None of the Group's assets was pledged as at 31 December 2004.

CONTINGENT LIABILITIES

The total contingent liabilities of the Group as at 31 December 2004 was about HK\$402,757,000. The details are set out in note 35 to the financial statements of the Company's Annual Report.

EXCHANGE EXPOSURE

Sales and purchases of the Group are mostly transacted in US dollars. The Group considered its exchange exposure well managed through the current Hong Kong/US dollar peg.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2004, the Group had approximately 15,500 employees in the PRC, Hong Kong and the United States of America. Remuneration packages are generally structured by reference to the prevailing industry practice, individual performance and market conditions. The Group provides employee benefits such as year-end double pay, provident fund, medical insurance, training and discretionary bonuses. The remuneration policy and package of the Group are reviewed from time to time.

PROPOSED FINAL DIVIDEND

The directors recommend to pay a final dividend of HK1.5 cents per share for the year ended 31 December 2004 (2003: HK2.5 cents) to the shareholders whose names appear on the register of members of the Company on 30 May 2005. Subject to shareholders' approval, the final dividend is expected to be paid on or before 30 June 2005.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 24 May 2005 to 30 May 2005, both days inclusive, during which period no share transfers will be effected.

To qualify for the final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrars in Hong Kong, Standard Registrars Limited, Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00 p.m. on 23 May 2005.

PUBLICATION OF DETAILED RESULTS ANNOUNCEMENT ON THE EXCHANGE'S WEBSITE

The detailed results containing all the information required by paragraphs 45(1) to 45(3) 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 Exchange in due course.

LIST OF DIRECTORS

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

By Order of the Board
Poon Ka Hung
Chairman

Hong Kong, 20 April 2005

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