Interim Report
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Orient Power Holdings Limited
東 強 電 子 集 團 有 限 公 司

(Incorporated in Bermuda with limited liability)

ORITRON

INTERIM RESULTS

The board of directors (the "Board") of Orient Power Holdings Limited (the "Company") announces the unaudited interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2005 (the "Period"), together with comparative figures for the corresponding period in 2004 are as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30 June 2005

		For the six months ended 30 June	
			Restated
		2005	2004
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
TURNOVER	*3*	**1,700,602**	1,833,140
Cost of sales		**(1,564,779)**	(1,687,869)
Gross profit		**135,823**	145,271
Other income and gains	*4*	**11,554**	11,469
Selling and distribution costs		**(37,851)**	(44,421)
Administrative expenses		**(81,702)**	(83,241)
Other operating expenses		**(7,831)**	(7,251)
Finance costs	*5*	**(17,120)**	(6,859)
Share of profits and (losses) of:			
Jointly-controlled entities		**(866)**	(4,474)
Associate		**–**	3,587
PROFIT BEFORE TAX	*6*	**2,007**	14,081
Tax	*7*	**(620)**	(395)
PROFIT FOR THE PERIOD		**1,387**	13,686
ATTRIBUTABLE TO:			
Equity holders of the parent		**881**	13,698
Minority interests		**506**	(12)
		1,387	13,686
EARNINGS PER SHARE – HK cents	*8*		
Basic		**0.2**	2.7
Diluted		**N/A**	N/A
DIVIDEND PER SHARE – HK cent	*9*	**Nil**	0.5

CONDENSED CONSOLIDATED BALANCE SHEET

30 June 2005

	Notes	**30 June 2005 (Unaudited) *HK$'000***	Restated 30 June 2004 (Unaudited) *HK$'000*	Restated 31 December 2004 (Audited) *HK$'000*
NON-CURRENT ASSETS				
Fixed assets:				
Property, plant and equipment		**508,853**	362,595	408,216
Investment property		**4,200**	3,500	4,200
Prepaid land lease payments		**5,409**	–	–
Deferred product development costs		**74,802**	64,513	67,006
Goodwill		**1,521**	–	–
Interests in jointly-controlled entities		**54,152**	140,983	97,932
Interests in associates		**–**	49,166	–
Deposits for product development costs and mould		**45,258**	38,286	39,152
Deferred tax assets		**9,388**	4,165	8,560
Total non-current assets		**703,583**	663,208	625,066
CURRENT ASSETS				
Trade receivables	*10*	**682,105**	466,708	481,658
Inventories		**931,494**	559,629	359,062
Bills receivable		**49,902**	16,637	701
Prepayments, deposits and other receivables		**41,921**	29,901	18,915
Prepaid land lease payments		**127**	–	–
Cash and cash equivalents	*11*	**150,429**	371,450	321,431
Total current assets		**1,855,978**	1,444,325	1,181,767
CURRENT LIABILITIES				
Amount due to jointly-controlled entities		**–**	41,959	–
Trade payables	*12*	**391,965**	490,651	324,752
Provisions for sales returns and warranty costs		**5,434**	15,658	11,431
Other payables and accruals		**94,716**	85,221	96,108
Tax payable		**14,554**	18,052	13,807
Bank loans and other borrowings	*13*	**946,673**	440,360	281,597
Finance lease and hire purchase contract payables		**–**	24	6
Due to minority shareholder of subsidiaries		**13,981**	1,997	3,808
Total current liabilities		**1,467,323**	1,093,922	731,509

CONDENSED CONSOLIDATED BALANCE SHEET *(continued)*

30 June 2005

	Notes	**30 June 2005 (Unaudited) *HK$'000***	Restated 30 June 2004 (Unaudited) *HK$'000*	Restated 31 December 2004 (Audited) *HK$'000*
NET CURRENT ASSETS		**388,655**	350,403	450,258
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,092,238**	1,013,611	1,075,324
NON-CURRENT LIABILITIES				
Bank loans and other borrowings	*13*	**307,143**	278,571	300,000
Deferred tax liabilities		**30,734**	17,497	30,772
		337,877	296,068	330,772
		754,361	717,543	744,552
CAPITAL AND RESERVES				
Share capital		**50,981**	50,981	50,981
Reserves		**686,740**	666,551	693,466
Equity attributable to equity holders of the parent		**737,721**	717,532	744,447
Minority interests		**16,640**	11	105
		754,361	717,543	744,552

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2005

	Attributable to equity holders of the parent									
	Issued share capital *HK$'000*	Share premium account *HK$'000*	Property revaluation reserve *HK$'000*	Capital reserve/ (goodwill) on con-solidation *HK$'000*	Exchange equalisation reserve *HK$'000*	Retained profits *HK$'000*	Proposed dividend *HK$'000*	Total *HK$'000*	Minority interests *HK$'000*	Total *HK$'000*
At 1 January 2004	50,981	212,320	4,131	(24,675)	504	460,573	12,745	716,579	23	716,602
Final 2003 dividend declared	–	–	–	–	–	–	(12,745)	(12,745)	–	(12,745)
Interim 2004 dividend proposed	–	–	–	–	–	(2,549)	2,549	–	–	–
Net profit/(loss) for the period	–	–	–	–	–	13,698	–	13,698	(12)	13,686
At 30 June 2004	50,981	212,320	4,131	(24,675)	504	471,722	2,549	717,532	11	717,543
Surplus on revaluation	–	–	5,805	–	–	–	–	5,805	–	5,805
Interim 2004 dividend declared	–	–	–	–	–	–	(2,549)	(2,549)	–	(2,549)
Final 2004 dividend proposed	–	–	–	–	–	(7,647)	7,647	–	–	–
Net profit for the period	–	–	–	–	–	23,659	–	23,659	94	23,753
At 31 December 2004	50,981	212,320	9,936	(24,675)	504	487,734	7,647	744,447	105	744,552
On adoption of HKFRSs *(Note 2)*	–	–	(550)	24,675	–	(24,125)	–	–	–	–
As restated	50,981	212,320	9,386	–	504	463,609	7,647	744,447	105	744,552
Exchange realignment	–	–	–	–	40	–	–	40	–	40
Final 2004 dividend declared	–	–	–	–	–	–	(7,647)	(7,647)	–	(7,647)
Acquired on acquisition of a subsidiary	–	–	–	–	–	–	–	–	16,029	16,029
Net profit for the period	–	–	–	–	–	881	–	881	506	1,387
At 30 June 2005	**50,981**	**212,320**	**9,386**	**–**	**544**	**464,490**	**–**	**737,721**	**16,640**	**754,361**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2005

	For the six months ended 30 June	
	2005	2004
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	**(568,884)**	(110,435)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	**(194,849)**	(194,653)
NET CASH INFLOW FROM FINANCING ACTIVITIES	**580,448**	107,270
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(183,285)**	(197,818)
Cash and cash equivalents at beginning of period	**321,057**	567,883
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**137,772**	370,065
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**150,429**	371,450
Bank overdrafts	**(12,657)**	(1,385)
	137,772	370,065

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

The condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting". The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2004, except in relation to the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs", which also include HKASs and Interpretations) that affect the Group and are adopted for the first time for the current period's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HK(SIC)-Int 21	Income Taxes – Recovery of Revalued Non-depreciable Assets
HK-Int 4	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases

The adoption of HKASs 1, 2, 7, 8, 10, 12, 16, 18, 19, 21, 23, 24, 27, 28, 32, 33, 37, 38, 39, HKFRS2, HK(SIC)-Int 21 and HK-Int 4 has had no material impact on the accounting policies of the Group and the methods of computation in the Group's condensed consolidated financial statements. The impact of adopting the other HKFRSs is summarised as follows:

1. ACCOUNTING POLICIES *(continued)*

(a) HKAS 17 – Leases

In prior periods, leasehold land and buildings held for own use were stated at cost less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the Group's leasehold interest in land and buildings is separated into leasehold land and leasehold buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified from fixed assets to prepaid land premiums/land lease payments, while leasehold buildings continue to be classified as part of property, plant and equipment. Prepaid land premiums for land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

This change in accounting policy has had no effect on the condensed consolidated income statement and retained earnings. The comparatives on the condensed consolidated balance sheet for the year ended 31 December 2004 have been restated to reflect the reclassification of leasehold land.

(b) HKAS 40 – Investment Property

In prior periods, changes in the fair values of investment properties were dealt with as movements in the investment property revaluation reserve. If the total of this reserve was insufficient to cover a deficit, on a portfolio basis, the excess of the deficit was charged to the income statement. Any subsequent revaluation surplus was credited to the income statement to the extent of the deficit previously charged.

Upon the adoption of HKAS 40, gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise. Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

The Group has taken advantage of the transitional provisions of HKAS 40 to adjust the effect of adopting the standard to the opening balance of retained earnings rather than restating the comparative amounts to reflect the changes retrospectively for the earlier period presented in the condensed consolidated financial statements. The effects of the above changes are summarised in note 2 to the condensed consolidated financial statements.

(c) HKFRS 3 – Business Combinations and HKAS 36 – Impairment of Assets

In prior periods, goodwill/negative goodwill arising on acquisitions prior to 1 January 2001 was eliminated against consolidated capital reserve in the year of acquisition and was not recognised in the income statement until disposal or impairment of the acquired business.

Goodwill arising on acquisitions on or after 1 January 2001 was capitalised and amortised on the straight-line basis over its estimated useful life and was subject to impairment testing when there was any indication of impairment. Negative goodwill was carried in the balance sheet and was recognised in the consolidated income statement on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets, except to the extent it related to expectations of future losses and expenses that were identified in the acquisition plan and that could be measured reliably, in which case, it was recognised as income in the consolidated income statement when the future losses and expenses were recognised

Upon the adoption of HKFRS 3 and HKAS 36, goodwill arising on acquisitions is no longer amortised but subject to an annual impairment review (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired). Any impairment loss recognised for goodwill is not reversed in a subsequent period.

1. ACCOUNTING POLICIES *(continued)*

(c) HKFRS 3 – Business Combinations and HKAS 36 – Impairment of Assets (continued)

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of the acquisition of subsidiaries and associates (previously referred to as "negative goodwill"), after reassessment, is recognised immediately in the income statement.

The transitional provisions of HKFRS 3 have required the Group to eliminate at 1 January 2005 the carrying amounts of accumulated amortisation with a corresponding entry to the cost of goodwill and to derecognise the carrying amounts of negative goodwill (including that remaining in consolidated capital reserve) against retained earnings. Goodwill previously eliminated against consolidated capital reserve remains eliminated against consolidated capital reserve and is not recognised in the income statement when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

The effects of the above changes are summarised in note 2 to the condensed consolidated financial statements. In accordance with the transitional provisions of HKFRS 3, comparative amounts have not been restated.

2. SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described in note 1 above are as follows:

(a) On profit and loss account line items

	For the six months ended 30 June	
	2005	2004
	HK$000	*HK$000*
(Decrease)/Increase in share of results of jointly-controlled entities	**(3)**	44
Decrease in share of results of associates	**–**	(707)
Decrease in taxation	**3**	663
	–	–

The application of the HKFRSs has had no effect to the Group's profit for the period ended 30 June 2005 and 2004.

(b) On balance sheet items

	As at 31.12.2004	Adjustments	As at 1.1.2005
	HK$'000	*HK$'000*	*HK$'000*
Capital reserve	1,243	(1,243)	–
Goodwill reserve	(25,918)	25,918	–
Property revaluation reserve	9,936	(550)	9,386
Retained profits	487,734	(24,125)	463,609

The application of the HKFRSs has had no effect to the Group's equity at 1 January 2004.

3. SEGMENT INFORMATION

The Group's operating businesses are structured and managed separately according to the nature of their operations and the products they provide. Each of the Group's business segments represents a strategic business unit that offers products which are subject to risks and returns that are different from those of the other business segments. The following tables present revenue and results for the Group's business segments.

(a) Business segments

Group

Six months ended 30 June 2005

	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	790,756	908,548	1,298	–	–	1,700,602
Intersegment sales	–	19,532	–	–	(19,532)	–
Other revenue	3,641	4,612	2	108	–	8,363
Total	794,397	932,692	1,300	108	(19,532)	1,708,965
Segment results	11,075	18,945	(1,392)	108	–	28,736
Interest income						3,191
Unallocated expenses						(11,934)
Finance costs						(17,120)
Share of losses of jointly-controlled entities						(866)
Tax						(620)
Profit for the period						1,387

3. SEGMENT INFORMATION *(continued)*

(a) ***Business segments*** *(continued)*

Six months ended 30 June 2004 (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	839,225	988,905	5,010	–	–	1,833,140
Intersegment sales	11	43,165	–	–	(43,176)	–
Other revenue	1,567	4,080	6	1,056	–	6,709
Total	840,803	1,036,150	5,016	1,056	(43,176)	1,839,849
Segment results	(8,414)	45,927	(1,920)	1,057	–	36,650
Interest income						4,760
Unallocated expenses						(19,583)
Finance costs						(6,859)
Share of profit and (losses) of:						
Jointly-controlled entities						(4,474)
Associates						3,587
Tax						(395)
Profit for the period						13,686

3. SEGMENT INFORMATION *(continued)*

(b) Geographical segments

The following tables present revenue for the Group's geographical segments.

Group

Six months ended 30 June 2005

	U.S.A.	**Europe**	**Asia**	**Central and South America**	**Canada**	**Others**	**Elimina-tions**	**Con-solidated**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
Segment revenue:								
Sales to external customers	**433,292**	**837,082**	**156,163**	**117,265**	**114,027**	**42,773**	**–**	**1,700,602**

Six months ended 30 June 2004

	U.S.A.	Europe	Asia	Central and South America	Canada	Others	Elimina-tions	Con-solidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue:								
Sales to external customers	558,707	925,216	109,955	69,125	121,790	48,347	–	1,833,140

4. OTHER INCOME AND GAINS

	For the six months ended 30 June	
	2005	2004
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Tooling and repairing service income	**5,690**	2,575
Interest income	**3,191**	4,760
Rental income	**572**	1,021
Sales of scrap materials	**1,290**	314
Commission income	**–**	948
Others	**811**	1,851
	11,554	11,469

5. FINANCE COSTS

	For the six months ended 30 June	
	2005	2004
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interest on bank loans, overdrafts, and trust receipt loans wholly repayable within five years	**17,120**	6,844
Interest on finance leases	**–**	15
	17,120	6,859

6. PROFIT BEFORE TAX

Profit before tax was determined after charging the following:

	For the six months ended 30 June	
	2005	2004
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Depreciation	**49,431**	37,663
Amortisation of prepaid land lease payments	**32**	–
Research and development costs:		
Deferred expenditure amortised	**19,362**	16,333
Current year's expenditure	**7,619**	6,721
	26,981	23,054

7. TAX

	For the six months ended 30 June	
		Restated
	2005	2004
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Current – Hong Kong profits tax	**1,166**	1,273
Current – PRC corporate income tax ("CIT")	**319**	1,275
Deferred	**(865)**	(2,153)
Total tax charge for the period	**620**	395

Hong Kong profits tax has been provided at a 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 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.

Share of tax attributable to jointly-controlled entities and associates amounting to HK$3,000 (six months ended 2004: HK$663,000) are included in "Share of profit and losses of jointly-controlled entities and associate" on the face of the condensed consolidated profit and loss account.

8. EARNINGS PER SHARE

The calculation of basic earnings per share for the period is based on the profit attributable to equity holders of the parent of HK$881,000 (six months ended 30 June 2004: HK$13,698,000), and the weighted average number of 509,805,968 (six months ended 30 June 2004: 509,805,968) ordinary shares in issue during the period.

Diluted earnings per share amounts for the periods ended 30 June 2005 and 2004 have not been disclosed as no dilutive events existed during these periods.

9. DIVIDEND

At a meeting of the board of directors held on 21 September 2005, the directors resolved not to pay an interim dividend to shareholders (2004: HK0.5 cent).

10. TRADE RECEIVABLES

The Group allows a credit period of 0 to 270 days to its trade customers. An aged analysis of the trade receivables as at the balance sheet date net of provision for impairment, is as follows:

	30 June 2005 (Unaudited)	30 June 2004 (Unaudited)	31 December 2004 (Audited)
	HK$'000	*HK$'000*	*HK$'000*
Current to 90 days	**662,109**	449,099	441,380
91 to 180 days	**3,736**	5,314	19,130
181 to 360 days	**3,884**	3,227	8,881
Over 360 days	**12,376**	9,068	12,267
Total	**682,105**	466,708	481,658

A provision is made when there is objective evidence that the Group will not be able to collect the amounts due according to the original terms of the receivables.

11. CASH AND CASH EQUIVALENTS

	30 June 2005 (Unaudited)	31 December 2004 (Audited)
	HK$'000	*HK$'000*
Bank deposits and cash	**61,032**	321,431
Cash under escrow	**89,397**	–
	150,429	321,431

Cash under escrow was held at a solicitor pending implementation of banking facilities.

12. TRADE PAYABLES

An aged analysis of the trade payables as at the balance sheet date is as follows:

	30 June 2005 (Unaudited) *HK$'000*	30 June 2004 (Unaudited) *HK$'000*	31 December 2004 (Audited) *HK$'000*
Current to 90 days	**353,325**	468,027	317,240
91 to 180 days	**25,235**	21,264	3,323
181 to 360 days	**10,320**	1,121	2,775
Over 360 days	**3,085**	239	1,414
Total	**391,965**	490,651	324,752

13. BANK LOANS AND OTHER BORROWINGS

	30 June 2005 (Unaudited) *HK$'000*	31 December 2004 (Audited) *HK$'000*
Bank overdrafts, unsecured	**12,657**	374
Trust receipt loans, unsecured	**510,050**	–
Bank loans, unsecured	**731,109**	581,223
	1,253,816	581,597
Bank overdrafts repayable within one year or on demand	**12,657**	374
Trust receipt loans repayable within one year	**510,050**	–
Bank loans repayable:		
Within one year or on demand	**423,966**	281,223
In the second year	**221,429**	235,714
In the third to fifth years, inclusive	**85,714**	64,286
	731,109	581,223
	1,253,816	581,597
Portion classified as current liabilities	**(946,673)**	(281,597)
Long term portion	**307,143**	300,000

14. CONTINGENT LIABILITIES

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

	Group		Company	
	30 June 2005 (Unaudited) ***HK$'000***	31 December 2004 (Audited) *HK$'000*	**30 June 2005 (Unaudited)** ***HK$'000***	31 December 2004 (Audited) *HK$'000*
Bills discounted with recourse	**91,648**	299,522	**–**	–
Guarantees given to banks in connection with facilities granted to:				
Subsidiaries	**–**	–	**1,432,726**	2,895,864
Jointly-controlled entities	**25,662**	19,500	**17,862**	19,500
	117,310	319,022	**1,450,588**	2,915,364

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

As at 30 June 2005, the banking facilities granted to the subsidiaries subject to guarantees given to banks by the Company were utilised to the extent of approximately HK$1,432,726,000 (31 December 2004: HK$829,480,000), and the banking facilities guaranteed by the Group to the jointly-controlled entities were utilised to the extent of approximately HK$25,662,000 (31 December 2004: HK$19,500,000).

(b) 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$6,205,000 (31 December 2004: HK$7,022,000) as at 30 June 2005. The contingent liability has arisen because, at the balance sheet date, a number of current employees have achieved the required number of years of service to the Group in order to be eligible for long service payments under the Employee Ordinance if their employment is terminated under certain circumstances. 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.

(c) On 23 May 2005, the Company, together with 12 subsidiaries were served with a writ (the "Writ") by Koninklijke Philips Electronics N.V. ("Philips") in the Court of First Instance of Hong Kong for alleged infringement of their patent rights, mainly for CD and DVD technologies. A jointly-controlled entity was named as a defendant in the Writ but the proceedings have not been served upon them. Orient Power Electronics Limited ("OPE") and Orient Power Multimedia Limited ("OPMM"), 2 wholly owned subsidiaries of the Company, had respectively entered into license agreements with Philips for the use of Philips' patents. Philips claims that OPE and OPMM have breached such license agreements for failing to submit statements in respect of licensed products and pay royalties. Although OPE and OPMM are separate legal entities, Philips is further alleging that by virtue of the said license agreements, the other defendants (the "Non-Licenced Parties"), are also accountable for payments due under the said license agreements entered into by OPE and OPMM respectively. Alternatively, Philips is claiming that if the Non-Licenced Parties are not accountable under the license agreements, the Non-Licenced Parties are liable for damages for infringement of the patents of Philips in Hong Kong. Apart from this, Philips is alleging against the Company and/or its subsidiaries misrepresentation, inducing breach of contract and conspiracy to cause damage to Philips. Philips is therefore seeking relief against the Company and/or its subsidiaries in the form of an injunction, an account for royalties and/or damages for breach of contract, etc., including interest and all costs incurred by Philips in relation to the Writ. Philips' claim has not set out a figure for damages. However, Philips made an estimation of unpaid royalties of over US$60 million, but no basis of calculation had been provided by Philips. The directors of the Company have been seeking legal advice on the claims made by Philips under the Writ. Up to date, the directors are advised that the assessment of the merits of the allegation concerning patent infringement requires further study and it is pre-mature to have any concluded view on the same. On the other hand, the directors are advised that the Company and its subsidiaries have valid defence for all other allegations. Based on the legal advice at this stage, it is too early for the directors to form an opinion on the making of provision (if any) in respect of the claims made by Philips under the Writ. Besides, the directors are of the opinion that adequate provision for legal fees in relation to the Writ has been made in the interim financial statements up to 30 June 2005.

14. CONTINGENT LIABILITIES *(continued)*

(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 alleged that OPVM had breached certain warranties that it had provided under several contracts for the sale of products of OPVM 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 Euro 58,000 (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 contested the Action. The directors of the Company have been advised by its German legal advisers that the claim in the Action has no merit and therefore no specific provision has been made for the claim.

(e) Certain subsidiaries of the Group are involved in litigations arising in the ordinary course of their respective businesses. Having reviewed outstanding claims and taking into account legal advice received, the directors are of the opinion that even if the claims are found to be valid, there will be no material adverse effect on the financial position of the Group.

15. RELATED PARTY TRANSACTIONS

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

		For the six months ended 30 June	
		2005	2004
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
Purchases of goods from jointly-controlled entities	*(i)*	**269,751**	256,399
Sales of raw materials to jointly-controlled entities	*(ii)*	**–**	3,649
Rental income of machinery from a jointly-controlled entity	*(iii)*	**464**	464
Rental income from associates	*(iii)*	**–**	108

Notes:

(i) The goods were purchased from the jointly-controlled entities at prices ranging from cost to cost plus a margin of 3% (six month ended 30 June 2004: cost to cost plus a margin of 3%). The balances due to these jointly-controlled entities at 30 June 2005 were nil (31 December 2004: Nil).

(ii) The raw materials sold to the jointly-controlled entities were priced at cost (six month ended 30 June 2004: cost to cost plus a margin of 3%).

(iii) The directors considered that the rental charged were similar to fair market value.

In addition to the above, the Company had executed guarantees in favour of fellow subsidiaries and jointly-controlled entities, as disclosed in note 14(a).

16. ACQUISITION OF A SUBSIDIARY

On 10 March 2005, the Group increased its interest in Orient Power (Wuxi) Digital Technology Co. Limited ("OPWX") from 55% to 77.5%, at a consideration of approximately HK$39,000,000. OPWX is an equity joint venture company established in the PRC. The acquisition has been accounted for using the purchase method of accounting. The amount of goodwill arising as a result of this acquisition was HK$1,521,000.

	HK$'000
Net assets acquired	71,239
Minority interests	(16,029)
	55,210
Goodwill arising on acquisition	1,521
	56,731
Satisfied by:	
Cash consideration paid	39,000
Interest in jointly-controlled entity	17,731
	56,731

The carrying amounts of net assets acquired approximate to their fair value.

The goodwill arising on the acquisition of OPWX is attributable to the anticipated profitability of the manufacturing and China distribution of the Group's products in the local market and the anticipated future operating synergies from the combination.

OPWX contributed approximately HK$73,063,000 and HK$2,257,000 to the Group's turnover and profit for the period, respectively, for the period between the date of acquisition and the balance sheet date. Had the acquisition been completed on 1 January 2005, the Group's turnover for the period would have been increased by approximately HK$12,178,000 and profit for the period would have been decreased by approximately HK$184,000. This proforma information is for illustrative purposes only and is not necessarily indicative of the turnover and results of the Group that would actually have been impacted had the acquisition been completed on 1 January 2005, nor is it intended to be a projection of future results.

FINANCIAL RESULTS

The Group's revenues and profit decreased by 7.2% and 93.6% respectively during the first half of 2005. The decrease in turnover was due to continued slow down in demand for conventional products while new products demand phased in at a slower than expected pace. The lower profit was mainly due to higher interest cost during the period. The adverse effects cited in the 2004 annual report continued into 2005.

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2005 (2004: HK0.5 cent per share).

BUSINESS REVIEW AND PROSPECTS

Demands for conventional home audio-video products in mature markets have steadily decreased due to emergence of new digital audio and video products. Suppliers of conventional products are competing for shares in the declining market. The same phenomenon can be said about the In-Car business. The Group's digital terrestrial television (DTT) products for the European market are steadily gaining early acceptance by importers and therefore market share. However, currently growth of the DTT market has temporarily slowed down as the market goes through an adjustment phase.

Taking into account the changes in market dynamics, the management has been taking prudent steps to increase efficiency via reduction of expenses through organizational change. In spite of the growing China economy, the management has decided to consolidate its domestic distribution business in view of slim profit margins and counterparty risks.

The legal disputes between Philips and the Group have impact on the results of the Group as they draw resources and management attention.

The soaring price of petroleum and increases in interest rates present challenges to our business operations. The Group will focus on reducing operating expenses for the second half of this year in order to preserve our resources in preparation for the business opportunities and challenges in 2006.

As mentioned in the announcement of the Company dated 25 July 2005, a majority of the bankers of the Group (the "Lenders") are currently observing an informal standstill principally to the effect that the existing facilities remain available to the Group and no enforcement action will be taken by any Lender against the Group. The Group is finalising with the Lenders on a formal standstill agreement.

In view of the substantial increase in professional fees in dealing with the bank creditors and the disputes with Philips, and higher interest expenses, the Group is foreseeing adverse impacts on its financial results for the year 2005 and is expecting that a loss may be incurred for the year for the first time. The directors would like to advise investors to exercise caution when dealing with shares of the Company.

Management is committed to our fundamental strategy of product innovations and cost leadership. We firmly believe that our fundamental strategy, together with support from various stakeholders, will put us back on course in 2006.

INVENTORY

Inventory increased to HK$931.5 million as at 30 June 2005. The higher inventory was a result of sales coming below management anticipation for the first half of the year. The management expects the increased inventory to be consumed during the high season in the second half of the year 2005.

LIQUIDITY AND FINANCIAL RESOURCES

Cash balance at HK$150.4 million, mainly held in US Dollars, HK Dollars and Renminbi, was lower than same time last year due to the higher inventory level. The Group's liquidity remains satisfactory with current ratio of 1.26. During the period, the Group appointed Standard Chartered Bank (Hong Kong) Limited to act as the liaison bank to work with other lenders of the Group to maintain existing facilities. As of balance sheet date, bank indebtedness toward banks was HK$1,253.8 million. The borrowings were in US Dollars, HK Dollars and Renminbi on floating interest rates. Gearing ratio, calculated by total borrowings net of cash divided by tangible net worth, rose to 163%. The directors believe that current facilities would be sufficient to support continue operations of the Group.

The Group's order book shows a slight decline towards the year end compared to the same period last year. Sales and purchases of the Group are mostly transacted in US dollar denomination. The Group considers its exchange exposure well managed through the current HK/US peg. The appreciation of Renminbi has had minimal effect to the Group.

The Group had no assets pledged at the balance sheet date. During the period, the Group increased its interests in a jointly-controlled entity in which details are set out in note 16 to the financial statement. Details on maturity profile of the borrowings and contingent liabilities are set out in notes 13 and 14.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

As at 30 June 2005, the interests of the directors and chief executive in the share capital of the Company, as recorded in the register required to be kept under Section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (The "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Name	**Nature of interest**	**Number of issued shares held**	**Percentage of issued share capital**
Mr. Poon Ka Hung *(Note 1)*	Corporate	161,870,103	31.75%
Mr. Wu Lai Ping *(Note 1)*	Other	161,870,103	31.75%
Mr. Lin Hoo Fun *(Note 2)*	Corporate	3,500,000	0.69%
Mr. Leung Chun Pong	Personal	103,842	0.02%

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES *(continued)*

Notes:

(1) These shares were held by High Rate Investments Limited ("High Rate"), a company beneficially owned as to 50% by Mr. Poon Ka Hung and the balance of 50% by a family discretionary trust of which Mr. Wu Lai Ping is the settlor and his family members are beneficiaries. Both Mr. Poon Ka Hung and Mr. Wu Lai Ping are directors of High Rate.

(2) These shares were held by Newray Int'l Limited, a company beneficially and wholly owned by Mr. Lin Hoo Fun and in which he is a director.

Save as disclosed above, none of the directors or any chief executive of the Company had an interest or short position in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 30 June 2005, the following shareholders (other than a director or chief executive of the Company) had interests in the issued share capital of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name	Capacity and nature of interest	Number of issued shares held	Percentage of the issued share capital
High Rate Investments Limited	Beneficial owner	161,870,103	31.75%
Powerix Engineering Limited *(Note 1)*	Interests of corporation controlled by Fidelitycorp Limited	161,870,103	31.75%
Fidelitycorp Limited *(Note 1)*	Trustee of a family discretionary trust for family members of Wu Lai Ping	161,870,103	31.75%
Chan Tit Sang, Peter *(Note 2)*	Directly beneficially owned and through a controlled corporation	33,738,524	6.62%

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES *(continued)*

Notes:

1. These shares are held by High Rate which is beneficially owned as to 50% by Mr. Poon Ka Hung and 50% by a family discretionary trust of which Mr. Wu Lai Ping is the settlor and his family members are beneficiaries.

2. 18,221,211 shares are held by Mr. Chan Tit Sang, Peter as a beneficial owner and the remaining 15,517,313 shares are held by Strong Luck Limited, a controlled corporation beneficially owned by him.

Save as disclosed above, as at 30 June 2005, according to the register of interests required to be kept by the Company under section 336 of the SFO, there was no person, other than the directors and the chief executive of the Company, whose interests are set out in the section headed "Directors' and chief executive's interests in shares" above, who had any interest or short position in the shares or underlying shares of the Company.

SHARE OPTION SCHEME

On 29 May 2002, the Company adopted a share option scheme under which it may grant options to eligible persons, including employees and directors of the Group, to subscribe for shares of the Company.

The Company did not grant any option under the share option scheme since its adoption.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's securities during the six months ended 30 June 2005.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2005, the Group had approximately 17,785 employees in the PRC, Hong Kong and United States. 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.

CORPORATE GOVERNANCE

In the opinion of the Directors, the Company has complied with the code provisions set out in the Code on Corporate Governance Practices (the "Code") in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the six months ended 30 June 2005, except for the deviations as mentioned below.

CORPORATE GOVERNANCE *(continued)*

Code Provision A.2.1 stipulates that the roles of the Chairman and the Chief Executive Officer should be separate and should not be performed by the same individual. The Company does not have a separate Chairman and Chief Executive and Mr. Poon Ka Hung currently holds both positions. The Board believes that vesting the roles of both Chairman and Chief Executive in the same person provides the Group with strong and consistent leadership and allows for effective planning, formulation and implementation of the Company's business strategies which will enable the Group to sustain the development of the Group's business efficiently.

Code Provision A.4.1 stipulates that non-executive directors should be appointed for specific terms. However, all the non-executive directors of the Company have not been appointed for specific terms but are subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Bye-laws of the Company.

In April 2005, the Company's Remuneration Committee with specific written terms of reference was established in accordance with the requirements of the Code. The Remuneration Committee consists of four members including one non-executive director and three independent non-executive directors of the Company. In addition, the terms of reference of the Audit Committee was modified to incorporate certain provisions set out in the Code.

To ensure stricter compliance with the Code, relevant amendment to the Company's Bye Laws was proposed and approved by shareholders at the Annual General Meeting of the Company held on 30 May 2005 so that every Director shall be subject to retirement by rotation at least once every three years.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules. Having made specific enquiry, all directors of the Company have confirmed that they have complied with the required standard set out in the Model Code during the six months ended 30 June 2005.

AUDIT COMMITTEE

The audit committee currently comprises four non-executive directors, three of them being independent. The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of the unaudited interim results for the six months ended 30 June 2005.

By Order of the Board
Poon Ka Hung
Chairman

Hong Kong, 21 September 2005