

NOTES TO THE CONDENSED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2001

1. ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements have been prepared under the historical cost convention.

In the current period, the Group has adopted, for the first time, the following new and revised Statements of Standard Accounting Practice (“SSAP(s)”) issued by the Hong Kong Society of Accountants:

SSAP 9 (Revised)	Events after the Balance Sheet Date
SSAP 26	Segment Reporting
SSAP 28	Provisions, Contingent Liabilities and Contingent Assets
SSAP 29	Intangible Assets
SSAP 30	Business Combinations
SSAP 31	Impairment of Assets
SSAP 32	Consolidated Financial Statements and Accounting for Investments in Subsidiaries

In accordance with SSAP 9 (Revised) “Events after the Balance Sheet Date”, dividends proposed or declared after the balance sheet date are not recognised as a liability at the balance sheet date, but are disclosed in the notes to the financial statements. This change in accounting policy has been applied retrospectively, resulting in prior period adjustment which increases the dividend reserve and decreases the dividend payable as at 1 July 2000 by HK\$8,828,000 and as at 1 July 2001 by HK\$8,900,000 (note 12).

SSAP 26 is concerned with the presentation and disclosure of financial information. The presentation in the current period’s unaudited condensed consolidated financial statements has been modified in order to conform with the requirements of this standard. Comparative amounts have been restated in order to achieve a consistent presentation.

In adopting SSAP No. 30 “Business Combinations”, the Group has elected not to restate goodwill (negative goodwill) previously eliminated against (credited to) reserves. Accordingly, goodwill arising on acquisitions prior to 1 July 2001 is held in reserves and will be charged to the income statement at the time of disposal of the relevant subsidiary or associate, or at such time as the goodwill is determined to be impaired. Negative goodwill arising on acquisition prior to 1 July 2001 will be credited to income at the time of disposal of the relevant subsidiary or associate. Goodwill arising on acquisition after 1 July 2001 is capitalised and amortised over its estimated useful life of a maximum period of 20 years. Negative goodwill arising on acquisition after 1 July 2001 is presented as a deduction from assets and will be released to income and based on an analysis of the circumstances from which the balance resulted.

2. SEGMENT INFORMATION

For management purposes, the Group is currently organised into four main operating businesses – General systems products, provision of services and software licensing, leasing of systems products and distribution from investments in telecommunications networks and e-commerce projects. These businesses are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below:

Business Segments

Results

	Segment revenue Six months ended 31 December		Segment result Six months ended 31 December	
	2001 HK\$'000 (Unaudited)	2000 HK\$'000 (Unaudited)	2001 HK\$'000 (Unaudited)	2000 HK\$'000 (Unaudited)
General systems products	437,678	407,325	48,747	77,183
Provision of services and software licensing	236,516	246,173	85,102	92,034
Leasing of systems products	22,470	15,480	(453)	1,518
Distribution from investments				
– telecommunications networks	61,510	69,260	37,760	31,855
– e-commerce projects	24,125	–	(39,731)	–
Consolidated total	<u>782,299</u>	<u>738,238</u>	<u>131,425</u>	<u>202,590</u>

Other information

	Capital additions Six months ended 31 December		Depreciation and amortisation Six months ended 31 December	
	2001 HK\$'000 (Unaudited)	2000 HK\$'000 (Unaudited)	2001 HK\$'000 (Unaudited)	2000 HK\$'000 (Unaudited)
General systems products	133,553	8,614	27,423	49,388
Provision of services and software licensing	1,900	3,767	21,952	28,553
Leasing of systems products	1,849	1,915	3,387	2,072
Distribution from investments				
– telecommunications networks	23	111	14,700	920
– e-commerce projects	8	–	62,278	22,251
Consolidated total	<u>137,333</u>	<u>14,407</u>	<u>129,740</u>	<u>103,184</u>

Balance sheet

	Segments assets		Segment liabilities	
	31 December	30 June	31 December	30 June
	2001	2001	2001	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Audited and restated)	(Unaudited)	(Audited and restated)
General systems products	1,233,893	1,070,039	(268,615)	(259,680)
Provision of services and software licensing	1,143,080	1,112,761	(207,233)	(245,530)
Leasing of systems products	69,682	63,209	(50,102)	(41,421)
Distribution from investments				
– telecommunications networks	339,416	301,830	(63,213)	(48,126)
– e-commerce projects	1,019,236	897,123	(14,352)	(6,106)
Consolidated total	<u>3,805,307</u>	<u>3,444,962</u>	<u>(603,515)</u>	<u>(600,863)</u>

Geographical Segments

The following table provides an analysis of the Group's revenue by geographical market, irrespective of the origin of the goods/services:

	Revenue by geographical segment		Profit from operations	
	Six months ended		Six months ended	
	31 December		31 December	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
People's Republic of China, including Hong Kong and Macau	625,210	552,698	110,303	180,352
Europe	109,527	131,025	1,043	11,903
Others	47,562	54,515	20,079	10,335
Consolidated total	<u>782,299</u>	<u>738,238</u>	<u>131,425</u>	<u>202,590</u>

2. SEGMENT INFORMATION – Continued

Geographical Segments – Continued

The following is an analysis of the carrying amount of segment assets, and capital additions to property, plant and equipment, system and networks, interests in e-commerce projects and telecommunications projects, analysed by the geographical market to which the assets generate revenue:

	Carrying amount of segment assets		Capital additions	
	31 December 2001 <i>HK\$'000</i> (Unaudited)	30 June 2001 <i>HK\$'000</i> (Audited and restated)	31 December 2001 <i>HK\$'000</i> (Unaudited)	30 June 2001 <i>HK\$'000</i> (Audited and restated)
People's Republic of China, including Hong Kong and Macau	3,264,464	2,894,677	105,607	9,386
Europe	348,158	342,439	23,231	16,454
Others	192,685	207,846	8,495	1,214
Consolidated total	3,805,307	3,444,962	137,333	27,054

3. DIRECT OPERATING EXPENSES

	Six months ended 31 December	
	2001 <i>HK\$'000</i> (Unaudited)	2000 <i>HK\$'000</i> (Unaudited)
Cost of inventories recognised in direct operating expenses	400,528	325,646

4. DEPRECIATION AND AMORTISATION

	Six months ended 31 December	
	2001 <i>HK\$'000</i> (Unaudited)	2000 <i>HK\$'000</i> (Unaudited)
Amortisation of investments in e-commerce projects	60,934	–
Amortisation of investments in telecommunications projects	23,440	34,905
Amortisation of systems and networks	2,725	127
Depreciation on:		
Owned assets	41,762	67,697
Assets under finance leases	879	455
	129,740	103,184

5. TAXATION

Six months ended	
31 December	
2001	2000
HK\$'000	HK\$'000
(Unaudited)	(Unaudited)

The charge comprises:

Hong Kong Profits Tax	685	430
Taxation in other jurisdictions	236	663
	<u>921</u>	<u>1,093</u>

Hong Kong Profits Tax is calculated at 16% on the estimated assessable profits derived from Hong Kong. Taxation in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The low effective tax rate is attributable to the fact that a substantial portion of the Group's profit neither arises in, nor is derived from, Hong Kong and is accordingly not subject to Hong Kong Profits Tax and is not subject to taxation in any other jurisdictions.

6. DIVIDEND

Dividend represents proposed interim dividend in scrip form equivalent to HK0.0625 cent per share (2000: HK0.0625 cent per share after adjustment to take into account of a bonus issue in the proportion of one bonus share for each share on 19 December 2001), with a cash option.

7. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

Six months ended		
31 December		
2001	2000	
HK\$'000	HK\$'000	
(Unaudited)	(Unaudited)	
Earnings for the purpose of calculating basic earnings per share	101,485	158,538
Adjustment to the share of result of a subsidiary based on dilution of its earnings per share	–	(813)
Earnings for the purpose of calculating diluted earnings per share	<u>101,485</u>	<u>157,725</u>
	Number of shares	
	As at 31 December	
	2001	2000
	'000	'000
Weighted average number of shares for the purpose of calculating basic earnings per share	12,079,427	11,770,807
Potential dilutive shares issuable under the Company's share option scheme and warrants	3,399	20,480
Weighted average number of shares for the purpose of calculating diluted earnings per share	<u>12,082,826</u>	<u>11,791,287</u>

8. PROPERTY, PLANT AND EQUIPMENT

	<i>HK\$'000</i>
Net book value at 1 July 2001	226,185
Currency realignment	2,122
Additions	7,907
Transfer from stock	17
Disposals	(288)
Depreciation	(42,641)
	<hr/>
Net book value at 31 December 2001	<u>193,302</u>

At 31 December 2001, certain land and buildings of the Group with a net book value of HK\$8,070,000 (30 June 2001: HK\$7,932,000) were pledged to a bank as security for banking facilities granted to the Group. Loss on disposal of property, plant and equipment of the Group amounted to HK\$213,000 for the period.

9. TRADE AND OTHER RECEIVABLES

At 31 December 2001, the balance of trade and other receivables included trade receivables of HK\$266,638,000 (30 June 2001: HK\$296,259,000). The aging analysis of trade receivables at the reporting date is as follows:

	31 December 2001 <i>HK\$'000</i> (Unaudited)	30 June 2001 <i>HK\$'000</i> (Audited)
0 – 60 days	241,070	268,997
61 – 90 days	15,471	10,005
91 – 180 days	2,360	14,083
> 180 days	7,737	3,174
	<hr/>	<hr/>
	<u>266,638</u>	<u>296,259</u>

The Group maintains a well-defined credit policy regarding its trade customers dependent on their credit worthiness, nature of services and products, industry practice and condition of the market with credit period ranging from 30 to 180 days.

10. TRADE AND OTHER PAYABLES

At 31 December 2001, the balance of trade and other payables included trade payables of HK\$14,505,000 (30 June 2001: HK\$17,922,000). The aging analysis of trade payables at the reporting date is as follows:

	31 December 2001 HK\$'000 (Unaudited)	30 June 2001 HK\$'000 (Audited)
0 – 60 days	6,191	11,809
61 – 90 days	3,123	2,484
91 – 180 days	5,051	2,564
> 180 days	140	1,065
	<hr/> 14,505 <hr/>	<hr/> 17,922 <hr/>

At 31 December 2001, the balance of trade and other payables included warranty provision of HK\$1,520,000, and is analysed as follows:

	<i>HK\$'000</i>
At 1 July 2001	1,669
Currency realignment	65
Additional provision	906
Utilisation of provision	<hr/> (1,120) <hr/>
At 31 December 2001	<hr/> 1,520 <hr/>

The warranty provision represents management best estimate of the Group's liability under 12 month warranties granted on communication equipment, based on past experience of the Group.

11. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Authorised share capital of HK\$0.10 each:		
At 1 July 2001	12,000,000,000	1,200,000
Increase in share capital	<u>18,000,000,000</u>	<u>1,800,000</u>
At 31 December 2001	<u>30,000,000,000</u>	<u>3,000,000</u>
Issued and fully paid share capital of HK\$0.10 each:		
At 1 July 2001	5,933,468,857	593,347
Issue of shares upon bonus issue	6,095,846,970	609,585
Issue of shares as consideration to acquire an investment	1,185,600,000	118,560
Issue of shares upon exercise of warrants	<u>1,000,950,749</u>	<u>100,095</u>
At 31 December 2001	<u>14,215,866,576</u>	<u>1,421,587</u>

During the period, the following changes in the issued and fully paid share capital of the Company took place:

- (a) On 19 December 2001, a total of 6,095,846,970 bonus shares of HK\$0.10 each ("Shares") were issued to shareholders of the Company on the register of members on 5 December 2001;
- (b) On 20 December 2001, the Company issued 1,185,600,000 shares to Pinkerton Development Limited as consideration for the acquisition of 19% interest in Cumbrian Range Limited; and
- (c) 162,378,113 Shares and 838,572,636 Shares were issued at HK\$0.211 per Share and HK\$0.1055 per Share respectively pursuant to the exercise of subscription rights under the warrants of the Company which expired on 22 December 2001.

All shares issued rank pari passu each other in all respects.

Warrants

On 6 December 2001, the Company announced a bonus issue of new warrants to its shareholders on the register of members on 24 December 2001. A total of 2,843,173,315 units of warrants with subscription rights of approximately HK\$335,494,451 were issued on 7 January 2002. Each unit of warrant entitles its holder to subscribe for shares of the Company at an initial subscription price of HK\$0.118 per Share, subject to adjustments, from the date of issue thereof until 6 January 2003.

12. RESERVES

	Share premium HK\$'000	Dividend reserve HK\$'000	Capital redemption reserve HK\$'000	Capital reserve HK\$'000	Goodwill reserve HK\$'000	Translation reserve HK\$'000	Accumulated profit HK\$'000	Total HK\$'000
At 1 July 2000								
– as originally stated	902,693	–	50	–	(387,826)	2,439	1,225,503	1,742,859
– prior period adjustment								
Derecognition of liability for final dividend for 2000	–	8,828	–	–	–	–	–	8,828
– as restated	902,693	8,828	50	–	(387,826)	2,439	1,225,503	1,751,687
Premium arising from issue of shares								
– on exercise of warrants	10	–	–	–	–	–	–	10
– on distribution of scrip dividends	3,800	–	–	–	–	–	–	3,800
Exchange difference arising on translation of operations outside Hong Kong	–	–	–	–	–	(141)	–	(141)
Capitalization for bonus issue of shares of a subsidiary	–	–	–	42,198	–	–	(42,198)	–
Net profit for the year	–	–	–	–	–	–	252,579	252,579
Transfer-dividend for the year								
– Interim	–	7,386	–	–	–	–	(7,386)	–
– Final	–	8,900	–	–	–	–	(8,900)	–
Dividend paid	–	(16,214)	–	–	–	–	–	(16,214)
At 30 June 2001, as restated	906,503	8,900	50	42,198	(387,826)	2,298	1,419,598	1,991,721
Premium arising from issue of shares								
– on exercise of warrants	22,637	–	–	–	–	–	–	22,637
– as consideration to acquire an interest in securities	59,280	–	–	–	–	–	–	59,280
Exchange difference arising on translation of operations outside Hong Kong	–	–	–	–	–	666	–	666
Capitalization for bonus issue of shares	(668,864)	–	–	63,297	–	–	(63,297)	(668,865)
Net profit for the period	–	–	–	–	–	–	101,485	101,485
Transfer - dividend for the period	–	8,885	–	–	–	–	(8,885)	–
At 31 December 2001	<u>319,556</u>	<u>17,785</u>	<u>50</u>	<u>105,495</u>	<u>(387,826)</u>	<u>2,964</u>	<u>1,448,901</u>	<u>1,506,924</u>

13. CAPITAL COMMITMENTS

	31 December 2001 HK\$'000 (Unaudited)	30 June 2001 HK\$'000 (Audited)
Capital expenditure in respect of investments:		
Contracted for but not provided in the financial statements	–	23,250
Authorised but not contracted for	–	–
	<u>–</u>	<u>23,250</u>
Capital expenditure in respect of property, plant and equipment:		
Contracted for but not provided in the financial statements	132,243	816
Authorised but not contracted for	15,762	26,178
	<u>148,005</u>	<u>26,994</u>
	<u>148,005</u>	<u>50,244</u>

14. OPERATING LEASE COMMITMENTS

The Group had future minimum lease payments payable under non-cancellable operating leases in respect of rented premises and machinery and equipment which fall due at the reporting date as follows:

	31 December 2001		30 June 2001	
	Land and buildings HK\$'000 (Unaudited)	Machinery and equipment HK\$'000 (Unaudited)	Land and buildings HK\$'000 (Audited)	Machinery and equipment HK\$'000 (Audited)
Operating leases which expire:				
Within one year	2,661	2,853	3,823	3,576
In the second to fifth years inclusive	2,590	5,560	3,462	4,112
	<u>5,251</u>	<u>8,413</u>	<u>7,285</u>	<u>7,688</u>

15. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to confirm with the current period's presentation.