

Second Interim Report

第二次中期報告

2000



**LEARNING
CONCEPTS
HOLDINGS
LIMITED**

學習動力控股
有限公司



SECOND UNAUDITED INTERIM RESULTS

The Directors of **Learning Concepts Holdings Limited** (the “Company”) hereby announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the twelve months ended 31 December 2000 as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		(Unaudited) Twelve months ended 31st December 2000 HK\$'000	(Audited) Year ended 31st December 1999 HK\$'000	(Unaudited) Six months ended 30th June 2000 HK\$'000	1999 HK\$'000
Turnover	2	578,328	571,539	258,829	227,966
Cost of sales		(583,160)	(507,102)	(241,043)	(179,463)
Gross (loss)/profit		(4,832)	64,437	17,786	48,503
Other revenues		924	300	3,072	(1,312)
Engineering expenses		(31,056)	(26,843)	(31,698)	(31,853)
Administrative expenses		(52,939)	(34,648)	(20,915)	(14,026)
Other operating expenses		(105,950)	(59,736)	(18,335)	(13,292)
Operating loss	3	(193,853)	(56,490)	(50,090)	(11,980)
Finance costs		(18,929)	(18,529)	(9,574)	(8,424)
Share of profits/(losses) of					
A jointly controlled entity		1,609	-	-	-
An associated company		(225)	158	-	-
Loss before taxation		(211,398)	(74,861)	(59,664)	(20,404)
Taxation	4	(378)	(364)	(210)	(115)
Loss after taxation		(211,776)	(75,225)	-	-
Minority interests		827	-	-	-
Loss attributable to shareholders		(210,949)	(75,225)	(59,874)	(20,519)
Basic loss per share	5	8.02 cents	21.33 cents	5.72 cents	7.96 cents

CONDENSED CONSOLIDATED BALANCE SHEETS

AS AT 31ST DECEMBER 2000 AND 31ST DECEMBER 1999

		Unaudited	Audited
		31st December	31st December
		2000	1999
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Fixed assets		122,708	109,911
Investment in an associated company		2,542	2,767
Investment in a jointly controlled entity		7,173	–
Intangible assets	6	430,184	19,423
 Current assets			
Inventories		63,515	117,276
Trade and bills receivables	7	32,576	67,740
Amount due from joint venture	7	19,938	–
Other current assets		54,008	37,744
Bank balances and cash		11,822	4,504
		<u>181,859</u>	<u>227,264</u>
 Current liabilities			
Trade and bills payables	8	133,766	112,435
Taxation payable		137	421
Other current liabilities		98,265	95,784
Trust receipt loans		4,290	8,129
Bank loans and overdrafts	9	149,903	112,023
Convertible notes		–	4,172
Finance leases		1,128	1,221
		<u>387,489</u>	<u>334,185</u>
 Net current liabilities		<u>(205,630)</u>	<u>(106,921)</u>
 Total assets less current liabilities		<u>356,977</u>	<u>25,180</u>

		Unaudited	Audited
		31st December	31st December
		2000	1999
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Financed by:			
Share capital	10	636,719	44,719
Reserves		<u>(281,033)</u>	<u>(73,001)</u>
Shareholders' funds		355,686	(28,282)
Minority interests		286	–
Non-current liabilities			
Long-term liabilities	9	–	51,176
Finance leases	9	215	1,496
Deferred taxation		<u>790</u>	<u>790</u>
		<u>356,977</u>	<u>25,180</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Unaudited Twelve Months Ended 31st December 2000 <i>HK\$'000</i>	Audited Year Ended 31st December 1999 <i>HK\$'000</i>
Net cash (outflow)/inflow from operating activities	(49,974)	30,434
Net cash outflow from returns on investments and servicing of finance	(18,730)	(18,342)
Total tax (paid)/refund paid	(661)	315
Net cash outflow from investing activities	(20,192)	(28,456)
Net cash inflow/(outflow) from financing	<u>97,433</u>	<u>(11,202)</u>
Increase/ (decrease) in cash and cash equivalents	7,876	(27,251)
Cash and cash equivalents at 1st January	<u>(80,343)</u>	<u>(53,092)</u>
Cash and cash equivalents at 31st December	<u><u>(72,467)</u></u>	<u><u>(80,343)</u></u>
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	11,822	4,504
Bank overdrafts	(79,999)	(76,718)
Trust receipt loans	<u>(4,290)</u>	<u>(8,129)</u>
	<u><u>(72,467)</u></u>	<u><u>(80,343)</u></u>

CONDENSED STATEMENT OF RECOGNISED GAINS AND LOSSES

	Twelve Months Ended 31st December 2000 <i>HK\$'000</i>	Year Ended 31st December 1999 <i>HK\$'000</i>
Exchange difference arising on translation of overseas subsidiaries not recognised in the profit and loss account	636	(1,024)
Loss for the period	<u>(210,949)</u>	<u>(75,225)</u>
Total recognised gains and losses	<u><u>(210,313)</u></u>	<u><u>(76,249)</u></u>

NOTES TO CONDENSED INTERIM ACCOUNTS

1 Accounting policies

These unaudited consolidated condensed interim accounts (“interim accounts”) are prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) No. 25, “Interim Financial Reporting”, issued by the Hong Kong Society of Accountants.

Except for the change in accounting policy as set out below, the accounting policies used in the preparation of these interim accounts are consistent with those used in the annual accounts for the year ended 31st December 1999.

Change in accounting policy

Before 1st January 2000, goodwill, which represents the excess of purchase consideration over the fair values ascribed to the net assets of subsidiaries, jointly controlled entities and associated companies acquired, is taken to reserves in the year of acquisition.

Effective 1st January 2000, the Group has early adopted the accounting principles for goodwill in accordance with the Statement of Standard Accounting Practice 30 “Business Combinations” (the “Statement”). Pursuant to the Statement, goodwill of the Group is now recognised as an asset and amortised by equal annual instalments over its estimated useful economic life of not more than 10 years. This change in accounting policy was applied proactively.

2 Turnover

The Group is principally engaged in the design, manufacturing and marketing of consumer electronic products.

An analysis of the Group's turnover and contribution to operating loss for the period by principal activities and markets is as follows:

	(Unaudited)	(Audited)	(Unaudited)	(Audited)
	Turnover		Gross profit	
	Twelve	Year ended	Twelve	Year ended
	months ended	31st December	months ended	31st December
	2000	1999	2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Principal activities:				
Consumer packaged electronics	264,550	325,501	15,031	49,691
Telecommunication products	150,918	107,684	(26,045)	(8,823)
Electronic manufacturing services	162,860	138,354	6,182	23,569
	<u>578,328</u>	<u>571,539</u>	<u>(4,832)</u>	<u>64,437</u>
Principal markets:				
Europe	296,950	316,170		
United States of America/Canada	94,440	109,410		
Others	186,938	145,959		
	<u>578,328</u>	<u>571,539</u>		

No analysis of the contribution by principal markets has been prepared as no contribution to profit or loss from any of the above geographical segments is substantially out of line with the normal ratio of profit or loss to turnover.

3 Operating loss

Operating loss is stated after crediting and charging the following:

	Twelve months ended 31st December 2000 <i>HK\$'000</i>	Year ended 31st December 1999 <i>HK\$'000</i>
Crediting		
Gain on disposal of fixed assets	—	59
Charging		
Depreciation:		
Owned fixed assets	14,475	12,406
Leased fixed assets	646	718
Amortisation of pre-operating expenses	—	518
Amortisation and write-off of product development costs	28,867	16,895
Amortisation of goodwill on acquisition	10,821	—
Provision for stock obsolescence	63,531	17,037
Provision for bad and doubtful debts	16,201	7,935
Loss on disposal of fixed assets	111	—
Operating leases in respect of land and buildings	3,495	2,795
Staff costs	56,353	54,256
Redundancy cost (<i>note a</i>)	3,126	—

Note a:

The Group has discontinued the telecommunication business segment with effect from October 2000. The contribution to turnover and the operating loss in respect of these discontinued operations were HK\$150,918,000 (1999: HK\$107,684,000) and HK\$64,999,760 (1999: HK\$24,550,000) respectively, for the twelve month period ended 31st December 2000.

4 Taxation

No provision for Hong Kong profits tax has been made as companies within the Group operating in Hong Kong have no estimated assessable profits for the period.

Taxation outside Hong Kong represents tax charges on the estimated assessable profits of subsidiaries operating outside Hong Kong, calculated at the rates applicable in the respective jurisdiction.

The amount of taxation charged to the consolidated profit and loss account represents:

	Twelve months ended 31st December 2000 <i>HK\$'000</i>	Year ended 31st December 1999 <i>HK\$'000</i>
Overseas taxation	378	702
Over provisions in prior periods	–	(169)
Deferred taxation	–	(169)
	<u>378</u>	<u>364</u>

5 Loss per share

The calculation of basic loss per share is based on the Group's loss attributable to shareholders of HK\$210,948,558 (1999: HK\$75,225,000) and on the weighted average of 2,630,142,820 (1999: 352,716,734) ordinary shares in issue during the period.

6 Intangible assets

	31st December 2000	31st December 1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
Product development costs		
At 1st January	19,423	20,975
Cost incurred	17,611	15,343
Less: Amortisation and write-off	<u>(28,867)</u>	<u>(16,895)</u>
At 31st December	<u>8,167</u>	<u>19,423</u>
Goodwill on acquisition		
At 1st January	–	–
Additions	432,838	–
Less: Amortisation	<u>(10,821)</u>	<u>–</u>
At 31st December	<u>422,017</u>	<u>–</u>
	<u><u>430,184</u></u>	<u><u>19,423</u></u>

7 Trade and bills receivables

The aging analysis of the balance is as follows:

	31st December 2000	31st December 1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
0-90 days	27,259	44,758
91-180 days	1,867	10,227
181-270 days	1,025	2,171
271-360 days	<u>2,425</u>	<u>10,584</u>
	<u><u>32,576</u></u>	<u><u>67,740</u></u>

The majority of the Group's sales are on letters of credit. The remaining amounts are on credit terms of thirty to sixty days.

The amount due from joint venture is in respect of electronic toy products sold to Juguetes Electronicos Avanzados S.L., a newly formed joint venture company based in Spain. The sales are on credit terms of one hundred and eighty days.

8 Trade and bills payables

An aging analysis of trade and bills payables is as follows:

	31st December 2000	31st December 1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
0-90 days	39,283	27,224
91-180 days	40,607	22,040
181-270 days	16,554	29,857
271-360 days	6,300	10,760
Over 360 days	31,022	22,554
	<u>133,766</u>	<u>112,435</u>

9 Long-term liabilities

	31st December 2000	31st December 1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loans		
Unsecured	–	–
Secured	36,908	51,176
	<u>36,908</u>	<u>51,176</u>
Obligations under finance leases	1,343	2,717
	<u>38,251</u>	<u>53,893</u>
Current portion of long-term liabilities	(38,036)	(1,221)
	<u>215</u>	<u>52,672</u>

The analysis of the above is as follow:

Bank loans		
Wholly repayable within five years	36,908	51,176
Not wholly repayable within five years	–	–
	<u>36,908</u>	<u>51,176</u>
Obligations under finance leases		
Wholly repayable within five years	1,343	2,717
Not wholly repayable within five years	–	–
	<u>38,251</u>	<u>2,717</u>
Current portion of long-term liabilities	(38,036)	(1,221)
	<u>215</u>	<u>52,672</u>

At 31st December 2000, the Group's bank loans and overdraft and other borrowings were repayable as follows:

	Bank loans and overdrafts		Obligations under finance leases	
	31st December 2000 HK\$'000	31st December 1999 HK\$'000	31st December 2000 HK\$'000	31st December 1999 HK\$'000
Within one year	149,903	112,023	1,128	1,221
In the second year	–	21,376	215	1,221
In the third to fifth year	–	29,800	–	275
	<u>149,903</u>	<u>163,199</u>	<u>1,343</u>	<u>2,717</u>

10 Share capital

	No. of Shares	HK\$'000
Authorised:		
Ordinary shares of \$0.10 each		
At 1st January 2000	5,000,000,000	500,000
Increase	<u>10,000,000,000</u>	<u>1,000,000</u>
At 31st December 2000	<u>15,000,000,000</u>	<u>1,500,000</u>
Issued and fully paid:		
At 1st January 2000	447,192,000	44,719
Issue of shares	5,880,000,000	588,000
Conversion of convertible notes	<u>40,000,000</u>	<u>4,000</u>
At 31st December 2000	<u>6,367,192,000</u>	<u>636,719</u>

On 15th March 2000, 1,000,000,000 shares of HK\$0.10 each were issued to Savoy TC Limited, a third party at par for cash.

On 9th June 2000, convertible notes of HK\$4,000,000 were converted by the note holder, Hefei Holdings Limited into 40,000,000 new shares of HK\$0.10 each at a conversion price of HK\$0.10 per share.

By an ordinary resolution passed on 19th September, 2000, the authorised share capital of the Company was increased from HK\$500,000,000 to HK\$1,500,000,000 by the creation of 10,000,000,000 new shares of HK\$0.10 each. These shares rank pari passu with existing shares of the Company.

On 20th September 2000, 4,700,000,000 shares of the Company of HK\$0.10 each were allotted and issued at par to Victorious Limited which is a wholly-own subsidiary of Sino-i.com Limited as consideration for the acquisition of the entire issued share capital of Rich King Inc. pursuant to the Sale and Purchase Agreement entered into among the Company, Savoy TC Limited and Sino-i.com Limited.

On 5th October 2000, 180,000,000 shares of the Company of HK\$0.10 was issued to Victorious Limited at HK\$0.12 per share for cash pursuant to the Subscription Agreement entered into by Victorious Limited with the company.

11 Contingent liabilities

	31st December 2000	31st December 1999
Discounted bills of exchange discounted with recourse	<u>2,822</u>	<u>23,731</u>

12 Commitments

(a) *Capital commitments for property, plant and equipment*

	31st December 2000 HK\$'000	31st December 1999 HK\$'000
Contracted but not provided for	4,500	9,537
Authorised but not contracted for	<u>—</u>	<u>—</u>
	<u>4,500</u>	<u>9,537</u>

(b) *Commitments under operating leases*

At 31st December 2000, the Group had commitments to make payments in the next twelve months under operating leases in respect of land and buildings which expire as follows:

	31st December 2000	31st December 1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	80	738
In the second to fifth year inclusive	2,171	1,597
After the fifth year	684	909
	<u>2,935</u>	<u>3,244</u>

13 Related party transactions

Significant related party transactions, which were carried out in the normal course of the Group's business are as follows:

	Twelve months ended 31st December 2000	Year ended 31st December 1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
Factory overheads recharges received (<i>note i</i>)	<u>—</u>	<u>2,060</u>

- (i) The factory premises and production facilities in Dong Keng owned by Dong Guan Team Concepts Electronics Limited were partly used by Paramanufacturing Ltd. during the period from 1st January 2000 to 31st December 2000. The overhead recharges included rental, management fee and staff benefits which are determined on a cost reimbursement basis.

14 Subsequent events

Save as disclosed under the section "Management Discussion and Analysis" there are no other material events that took place subsequent to 31st December 2000.

INTERIM DIVIDEND

The Directors have resolved not to declare any interim dividend for the twelve months ended 31 December 2000 (1999: Nil).

CHANGE IN FINANCIAL YEAR END

The Group has changed its financial year end from 31 December to 31 March, to be co-terminous with the financial year end of Sino-i.com Limited, the ultimate holding company.

The second interim report is prepared prior to a preliminary announcement of the final results for the fifteen months period from 1 January 2000 to 31 March 2001 to be published by the Company on or before 31 July 2001.

CHANGE OF COMPANY'S NAME

By a special resolution duly passed on 8 January 2001, the Company changed its name from Savoy Concepts Limited to Learning Concepts Holdings Limited. The Registrar of Companies in Bermuda has approved such change with effect from 16 January 2001.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Group revenue for the twelve months ended 31 December 2000 was HK\$578.3 million, an increase of 1.2% compared with the same period last year. Loss attributable to shareholders increased 180% to HK\$210.9 million. During the period, there was no turnover contribution from the education portal, which was acquired by the Group in September 2000. The Group's post acquisition share of the results of this education portal is a loss of approximately HK\$3,348,000. The drop in profit

margin was mainly attributed to the component shortage problems which led to the increase in cost of components and cancellation of sales orders.

Business Review

Since September 2000, Sino-i.com Limited ("Sino-i.com") became the controlling shareholder of the Company. The first goal set by the new management is to strengthen the Company's balance sheet and to restructure the entire operation to ensure operating efficiency. In order to relax the financial burden, the Company has come to an agreement on 29 November 2000 with a shareholder to settle the shareholder's loan of HK\$35.5 million through the issue of new shares. In addition, in February 2001 Sino-i.com appointed KPMG to perform an independent business review to evaluate the entire business in order to rectify past problems of the Company and appropriate action has been taken by Sino-i.com to protect all shareholders' interest.

During the period under review, the Company has undergone a series of cost cutting exercises, discontinuing of loss-making Telecom business, restructure of manufacturing workflow, liquidation of idle inventory and redefining the product mix to strengthen the overall fundamentals for improving its financial position. Both the management of the Company and its banker have reached an understanding that one of the most feasible means of improving the Company's net asset value is by injecting tangible assets, which in turn may increase its share capital.

On 20 March 2001, the Company entered into asset swap agreements with its controlling shareholder, Sino-i.com. Pursuant to the agreements, Sino-i.com will acquire Rich King Inc. for HK\$470 million from the Company, which has an 80% interest in an education portal, www.edu-edu.com.cn and the Company will acquire the entire interest in Liu Wan Development (BVI) Company Limited for HK\$2,337,430,000 and 100% of Nanjing properties for HK\$80 million. HK\$470 million will be set off against the cash consideration payable by Sino-i.com under the agreements and the remaining HK\$1,947,430,000 will be satisfied by the

issuance of 19,474,300,000 shares at HK\$0.10 each by the Company. In addition to the assets injection from Sino-i.com, two options were also granted to the Company to acquire 51% of the issued share capital of Listar Properties Limited and the entire issued share capital of Hancheers International Enterprise Limited respectively.

Resulting from the injection of properties, the assets of the Company will be increased, which in turn would improve its ability to raise funds from external sources for supporting its main business of manufacturing of education toys and other related businesses. Currently, the Company has no intention to change its main business of manufacturing and designing of education toys.

Barring unforeseen circumstances, the Group is envisaged to record an improved performance in the year of 2001 with better profit margins, increase in turnover and operating efficiency.

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

As at 31 December 2000, the interests of the Directors and their associates in the equity or debt securities of the Company or any of its associated corporation (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) as required to be recorded in the register maintained pursuant to Section 29 of the SDI Ordinance were as follows:–

Name of Director	No. of shares of HK\$0.10 each Corporate Interests
Mr. Yu Pun Hoi	4,635,000,000*

* *Mr. Yu Pun Hoi is beneficially interest in these Shares through his 38.53 per cent. interests in Victorious Limited. Victorious Limited is a wholly owned subsidiary of Sino-i.com Limited and Sino-i.com Limited is 38.53 per cent. beneficially owned by Mr. Yu Pun Hoi and his associates.*

Save as disclosed above, as at 31 December 2000, none of the Directors or their associates had or were deemed to have any interest in any equity or debt securities of the Company or any of its associated corporation as defined in the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

The employee share option scheme of the Company, which was adopted on 22 January 1991, has expired on 21 January 2001. As at 31 December 2000, there were no share options issued under such scheme which remained outstanding.

A new share option scheme (the "Scheme") was adopted at a special general meeting of the Company held on 8 January 2001, under which the directors may, at their discretion, grant to executive directors and employees of the Group options to subscribe for the shares in the capital of the Company from time to time within 10 years after adoption of the Scheme. The maximum number of shares may be granted under the Scheme will not exceed such number of shares as shall represent 10% of the issued share capital of the Company from time to time excluding any shares issued pursuant to the Scheme.

Apart from the foregoing, at no time during the period under review was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or chief executives of the Company or their respective spouse or children under the age of 18 to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2000, the register maintained by the Company under Section 16(1) of the SDI Ordinance shows that the Company has been notified of the following interests, being 10% or more of the Company's issued share capital:—

Name	<i>Note</i>	No. of shares
Sino-i.com Limited	1	4,635,000,000
Victorious Limited	1	4,635,000,000

Note:

- Victorious Limited is a wholly owned subsidiary of Sino-i.com Limited and Sino-i.com Limited is 38.53 per cent. beneficially owned by Mr. Yu Pun Hoi and his associates.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the twelve months ended 31 December 2000, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any shares of the Company.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including a review of the unaudited interim results for the twelve months ended 31 December 2000.

CODE OF BEST PRACTICE

None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the twelve months ended 31 December 2000, in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited except that non-executive directors are not appointed for a specific term as recommended in paragraph 7 of Appendix 14. All Directors, including the non-executive Directors, are subject to the retirement and rotation requirements in accordance with the Company's Bye-Laws.

By order of the Board

Lam Bing Kwan

Director

Hong Kong, 27 March 2001



LEARNING CONCEPTS HOLDINGS LIMITED

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