

NOTES:

1. Statement of compliance and accounting policies

The 2001 interim report has been prepared in accordance with the requirements of the Main Board Rules governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Statement of Standard Accounting Practice 25 "Interim Financial Reporting" ("SSAP 25") issued by the Hong Kong Society of Accountants, except that comparative figures are not presented for the condensed consolidated cash flow statement and such departures from SSAP 25 are permitted under the Listing Rules.

The same accounting policies and basis of preparation adopted in the Group's 2000 audited annual accounts have been applied to the 2001 interim report.

2. Segment information

The Group is principally engaged in manufacturing and trading of telephones, including GSM phones, and related equipment.

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

	Turnover		Contribution to operating results	
	Six months ended		Six months ended	
	30 June		30 June	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
United Kingdom	160,846	104,431	10,467	(3,676)
Other European countries	12,235	20,931	2,097	(945)
Asia Pacific	33,736	15,178	2,409	(631)
	<u>206,817</u>	<u>140,540</u>	14,973	(5,252)
Other revenues			2,632	1,544
Distribution costs			(7,610)	(4,916)
Administrative expenses			(24,145)	(27,617)
Loss from operations			<u>(14,150)</u>	<u>(36,241)</u>

3. Loss from operations

Loss from operations has been arrived at after:-

	Six months ended 30 June	
	2001	2000
	HK\$'000	HK\$'000
Charging:		
Depreciation	8,532	10,544
Crediting:		
Gain on disposal of property, plant and equipment	309	—
	<u> </u>	<u> </u>

4. Finance costs

	Six months ended 30 June	
	2001	2000
	HK\$'000	HK\$'000
Interest on:		
— bank borrowings wholly repayable within five years	7,964	8,700
— convertible notes	1,297	1,208
— finance leases and hire purchases contracts	126	816
	<u> </u>	<u> </u>
	<u>9,387</u>	<u>10,724</u>

5. Taxation

No provision for taxation has been made in the financial statements as those companies of the Group which are subject to taxation incurred tax losses for the period.

6. Loss per share

The calculation of the loss per share for the period from 1 January 2001 to 30 June 2001 is based on the following data:

	Six months ended 30 June	
	2001 HK\$'000	2000 HK\$'000
Loss for the purposes of basic loss per share	<u>(23,551)</u>	<u>(46,973)</u>
Weighted average number of ordinary shares for the purposes of basic loss per share	<u>168,688,580</u>	<u>147,389,394</u>

The above weighted average number of ordinary shares for the purposes of basic loss per share has been adjusted for the effect of share consolidation on 4 June 2001 and the open offer completed on 22 June 2001.

The calculation of the basic loss per share for the period ended 30 June 2000 is based on the loss for that period of approximately HK\$46,973,000 and on the weighted average number of 147,389,394 shares in issue during that period as adjusted for the effect of share consolidation on 4 June 2001 and the open offer completed on 22 June 2001 (details of which are set out in note 12).

The fully diluted loss per share figure is not shown as it is not considered meaningful.

7. Trade receivables, bills receivables, deposits and prepayments

Included in trade receivables, other receivables, deposits and prepayments are trade debtors of HK\$19,783,000 and their ageing analysis is as follows:

	0 to 30 days HK\$'000	31 to 60 days HK\$'000	Over 60 days HK\$'000	Total HK\$'000
Balance at 30 June 2001	<u>17,303</u>	<u>2,480</u>	<u>—</u>	<u>19,783</u>

The Group allows an average credit period of 20 to 30 days to its trade customers.

8. Trade payables, deposits received and accrued charges

Included in trade payables, deposits received and accrued charges are trade payables of HK\$48,579,000 and their ageing analysis is as follows:

	0 to 30 days HK\$'000	31 to 60 days HK\$'000	Over 60 days HK\$'000	Total HK\$'000
Balance at 30 June 2001	<u>22,520</u>	<u>10,753</u>	<u>15,306</u>	<u>48,579</u>

9. Obligations under finance leases and hire purchase contracts

	30 June 2001 HK\$'000	31 December 2000 HK\$'000
The obligations under finance leases and hire purchase contracts are repayable as follows:		
Within one year	1,383	1,552
More than one year, but not exceeding two years	179	836
Within two to five years	77	18
	<u>1,639</u>	<u>2,406</u>
Less: Amounts due within one year and shown under current liabilities	<u>(1,383)</u>	<u>(1,552)</u>
Amounts due after one year	<u>256</u>	<u>854</u>

10. Bank and other borrowings

	30 June 2001 <i>HK\$'000</i>	31 December 2000 <i>HK\$'000</i>
Bank and other borrowings comprise:		
Trust receipts and packing loans	68,133	71,089
Other bank loans	106,794	112,866
Other borrowings	1,851	1,851
	<u>176,778</u>	<u>185,806</u>
Amounts owing to:		
— Hong Kong bankers	—	—
— PRC bankers	174,927	183,858
— Others	1,851	1,948
	<u>176,778</u>	<u>185,806</u>
Analysed as:		
Secured	147,815	150,715
Unsecured	28,963	35,091
	<u>176,778</u>	<u>185,806</u>
The bank and other borrowings are repayable as follows:		
Within one year or on demand	172,009	180,335
More than one year, but not exceeding two years	1,404	1,404
More than two years, but not exceeding five years	3,365	4,067
	<u>176,778</u>	<u>185,806</u>
Less: Amounts due within one year or on demand and shown under current liabilities	<u>(172,009)</u>	<u>(180,335)</u>
Amounts due after one year	<u>4,769</u>	<u>5,471</u>

11. Convertible notes

	30 June 2001 <i>HK\$'000</i>	31 December 2000 <i>HK\$'000</i>
Convertible notes outstanding	37,058	37,058
Amount repayable within one year	<u>(14,836)</u>	<u>(7,418)</u>
Amount due after one year	<u>22,222</u>	<u>29,640</u>

- (a) Pursuant to the Restructuring Agreement dated 9 July 1999 ("Restructuring Agreement") between the Company and certain banks and financial institutions in Hong Kong, secured convertible notes with an aggregate principal value of approximately HK\$39,563,000 (the "Convertible Notes") were issued by the Company.

The principal amount of the Convertible Notes, which bear interest at 7% per annum payable semi-annually in arrears, are to be repaid by the Company as follows:

- i) HK\$7,417,985 upon expiry of 24 months after the issuance of the Convertible Notes;
- ii) HK\$7,417,985 upon expiry of 30 months after the issuance of the Convertible Notes; and
- iii) The entire outstanding principal balance in the aggregate sum of up to HK\$24,726,617 upon expiry of 36 months after issue of the Convertible Notes.

Conversion of the part of the principal amount of the Convertible Notes referred to in (iii) above can take place at any time during the three-year period commencing on the date of issue of the Convertible Notes at a conversion price of HK\$1.284 per share, as adjusted for the effect of share consolidation on 4 June 2001 and the open offer completed on 22 June 2001.

Pursuant to the Restructuring Agreement, should the Free Cash Balance as defined in the Restructuring Agreement at the end of each financial period exceeds HK\$15 million, the Company is required to repay to the holders of the Convertible Notes 10% of that balance up to a maximum amount of HK\$3.5 million or the outstanding principal amount of the Convertibles Notes, whichever is lower.

The Convertible Notes are secured by the pledge of all of the Company's assets and its entire equity interests in two wholly-owned subsidiaries.

- (b) Up to 30 June 2001, principal of approximately HK\$2,505,000 was converted into shares of the Company.

12. Share capital

	<i>Notes</i>	Number of Shares	Amounts <i>HK\$'000</i>
AUTHORISED:			
Ordinary shares at HK\$0.01 each at 1 January 2001		25,000,000,000	250,000
Share consolidation	<i>I</i>	<u>(22,500,000,000)</u>	<u>—</u>
Ordinary shares at HK\$0.1 each at 30 June 2001		<u>2,500,000,000</u>	<u>250,000</u>
ISSUED AND FULLY PAID:			
Balance at 1 January 2001, ordinary shares at HK\$0.01 each		1,513,150,867	15,132
— Share consolidation	<i>I</i>	<u>(1,361,835,780)</u>	<u>—</u>
Issued and fully paid ordinary shares at HK\$0.1 each		151,315,087	15,132
Open offer	<i>II</i>	75,657,543	7,566
Placement	<i>III</i>	31,500,000	3,150
Option exercised by Suncorp Partners Limited	<i>IV</i>	<u>9,894,659</u>	<u>989</u>
At 30 June 2001		<u>268,367,289</u>	<u>26,837</u>

Notes:

- (i) Share consolidation

On 4 June 2001, every 10 issued and unissued shares of HK\$0.01 each in the capital of the Company was consolidated into one new share of HK\$0.1 (the "New Share").

(II) Open Offer

The Company issued by way of 75,657,543 offer shares of HK\$0.1 each in the share capital of the Company (the "Offer Shares") on the basis of one Offer Share for every two New Shares held on the close of business on 4 June 2001 at a subscription price of HK\$0.35 per Offer Share payable in full on acceptance. The open offer was completed on 22 June 2001.

(III) Placement

Pursuant to eight placing agreements all dated 4 May 2001 entered into between the Company and eight respective placees, the Company placed a total of 31,500,000 New Shares of HK\$0.1 each to independent investors at a price of HK\$0.35 per New Share.

(IV) Share options exercised by Suncorp Partners Limited

During the period, 9,894,659 New Shares of HK\$0.1 each in the Company were issued at an exercise price of HK\$0.428 per New Share upon the exercise of share options by Suncorp Partners Limited.

13. Contingent liabilities

	30 June 2001 HK\$'000	31 December 2000 HK\$'000
Bills discounted with recourse	6,487	6,318

14. Commitments

(a) Capital commitments for property, plant and equipment

	30 June 2001 HK\$'000	31 December 2000 HK\$'000
Contracted but not provided for	—	—
Authorised but not contracted for	—	499
	—	499

(b) Commitments under operating leases

At 30 June 2001, the Group had commitments in respect of land and buildings to make payments in the next twelve months under operating leases which expire as follows:

	30 June 2001 <i>HK\$'000</i>	31 December 2000 <i>HK\$'000</i>
Within one year	657	1,244
In the second to fifth year inclusive	90	1,105
	<u>747</u>	<u>2,349</u>

15. Post balance sheet events

Subsequent to the interim reporting date, the Board announced that on 16 July 2001, HB Electronics (China) Limited ("HB China"), a wholly owned subsidiary of the Company, entered into an agreement with Lian Tang Real Estate Development Corp of Shenzhen ("Liantang Real Estate"), Shenzhen Municipality City Luohu District Investment Management Company ("Luohu Investment") and Sichuan Top Software Co., Ltd ("Sichuan Top") to increase the registered capital of Shenzhen Guo Wei Electronics Co., Ltd. (the "Joint Venture") from RMB 50 million to RMB 64 million, to allow Sichuan Top to join as a new PRC joint venture partner in the Joint Venture and to transfer certain portions of the equity interests held by HB China, Liantang Real Estate and Luohu Investment respectively to Sichuan Top.

Details of the transaction are set out in the Group's circular dated 16 August 2001. This transaction was approved in the shareholders' meeting held on 4 September 2001.