

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### 1. BASIS OF PREPARATION

The condensed financial statements have been prepared under the historical cost convention as modified for the revaluation of certain investments in securities.

The condensed financial statements have been prepared in accordance with the Statement of Standard Accounting Practice 25 "Interim financial reporting" ("SSAP 25") issued by the Hong Kong Society of Accountants and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), except that comparative figures are not presented for the condensed consolidated statement of recognised gains and losses and for the condensed consolidated cash flow statement, being the first condensed consolidated cash flow statement to be included in the first interim financial report relating to accounting period ended on or after 1 July 2000. Such departures from SSAP 25 are permitted under the Listing Rules.

Except as described in Note 2, the accounting policies adopted in preparing these condensed financial statements are consistent with those followed in the Group's annual financial statements for the year ended 31 December 2000.

### 2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

The following is a summary of new and revised SSAPs which have been adopted in the preparation of the current period's financial statements.

- SSAP 9 (revised)	:	Events after the Balance Sheet Date
- SSAP 14 (revised)	:	Leases
- 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
- Interpretation 13	:	Goodwill – continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves

## 2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”) (continued)

The major effects of the adoption of these SSAPs to the accounting policies of the Group are as follows:

In accordance with the revised SSAP 9, dividends declared after the balance sheet date are not recognised as a liability in the balance sheet. In previous years, the declaration of dividends after the balance sheet date was treated as an adjusting post balance sheet event. The effect of this change is to include the proposed dividend in respect of 2000 in current period and, as a result, the dividend for the six months ended 30 June 2000 is adjusted from HK\$44 million to HK\$36 million.

In accordance with the SSAP 29, the Group’s intangible assets are amortised, using the straight-line basis, over its expected useful lives but not exceed 20 years from the date when the intangible asset is available for use.

In accordance with the SSAP 31, the Group determines the value in use of its assets as the present value of estimated future cash flows together with estimated disposal proceeds at the end of its useful life. The Group is required to assess at each balance sheet date whether there are any indications that assets may be impaired, and if there are such indications, the recoverable amount of the assets is to be determined. Any resulting impairment losses identified are charged to the income statement.

In accordance with the SSAP 30 and Interpretation 13, the Group has elected not to restate goodwill (negative goodwill) previously eliminated against (credited to) reserves. Accordingly, goodwill arising on acquisitions prior to 1 January 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 acquisitions prior to 1 January 2001 will be credited to income statement at the time of disposal of the relevant subsidiary or associate. Goodwill arising on acquisitions after 1 January 2001 is capitalised and amortised over its estimated useful life but not more than 20 years. Negative goodwill arising on acquisitions after 1 January 2001 is presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

In restating the Group’s results for prior periods on the basis of the new policy to comply with SSAP 30 and SSAP 31, the retained profits brought forward as at 1 January 2000 have been decreased by HK\$440 million, and the net profit of the Group for the six months ended 30 June 2000 and the year ended 31 December 2000 have been decreased by HK\$99 million and HK\$987 million, respectively for the impairment of goodwill arising from the acquisition of subsidiaries and associates.

### 3. TURNOVER AND SEGMENTAL INFORMATION

Turnover represents the net invoiced value of goods sold after allowances for returns and trade discounts; and corporate finance and investment income but excludes intra-group transactions.

Revenue from the following activities has been included in the Group's turnover :

	Six months ended	
	30 June 2001	30 June 2000
	(Unaudited)	(Unaudited)
	<i>HK\$ million</i>	<i>HK\$ million</i>
Sales of goods	3,220	2,875
Provision of corporate finance, investment and other services	73	126
	<u>3,293</u>	<u>3,001</u>
	<u>3,293</u>	<u>3,001</u>

An analysis of Group's turnover and contribution to operating profit by principal activity and geographical area of operations for the six months ended 2001 and 2000 are as follows :

	Turnover		Contribution	
	30 June 2001	30 June 2000	30 June 2001	30 June 2000
	(Unaudited)	(Unaudited)	(Unaudited)	(Restated)
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
By principal activity :				
Computer related products	1,338	625	91	138
Consumer electronic products	1,882	2,250	95	(95)
Corporate finance, investment and others	73	126	30	464
	<u>3,293</u>	<u>3,001</u>	<u>216</u>	<u>507</u>
	<u>3,293</u>	<u>3,001</u>	<u>216</u>	<u>507</u>
By geographical area :				
United States of America	685	985	38	120
Europe	691	515	16	(38)
Asia	1,917	1,501	162	425
	<u>3,293</u>	<u>3,001</u>	<u>216</u>	<u>507</u>
	<u>3,293</u>	<u>3,001</u>	<u>216</u>	<u>507</u>

#### 4. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging / (crediting) :

	Six months ended	
	30 June 2001 (Unaudited) <i>HK\$ million</i>	30 June 2000 (Unaudited) <i>HK\$ million</i>
Depreciation :		
Owned property, plant and equipment	83	116
Leased property, plant and equipment	—	—
	<u>83</u>	<u>116</u>
Operating lease rentals :		
Land and buildings	8	16
Interest on :		
Bank overdrafts and loans wholly repayable within five years	44	32
Other loans wholly repayable within five years	—	1
Auditors' remuneration	3	2
Amortisation of other assets	7	—
Research and development expenditure	7	13
(Gain) / loss on disposal of property, plant and equipment	5	(8)
Interest income	(20)	(8)
	<u><u>(20)</u></u>	<u><u>(8)</u></u>

#### 5. TAX

Hong Kong profits tax has been provided at the rate of 16% (2000 : 16%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been provided at the applicable rates of tax in the countries in which the subsidiaries operate, based on existing legislation, interpretations and practices in respect thereof.

	Six months ended	
	30 June 2001 (Unaudited) <i>HK\$ million</i>	30 June 2000 (Unaudited) <i>HK\$ million</i>
Current tax provision :		
Hong Kong	1	5
Overseas	1	1
Over provision in prior period :		
Overseas	(1)	—
Deferred tax :		
Hong Kong	—	(1)
	<u>1</u>	<u>5</u>
	<u><u>1</u></u>	<u><u>5</u></u>

## 6. DIVIDENDS

	Six months ended	
	30 June 2001	30 June 2000
	(Unaudited)	(Restated)
	<i>HK\$ million</i>	<i>HK\$ million</i>
Final dividend in respect of 2000 of HK20 cents (1999 : HK10 cents) per share	80	36

An interim dividend in respect of 2001 of HK8 cents per share amounting to a total of HK\$32 million is approved by the Board. This interim dividend has not been included as a liability in these interim financial statements.

The amount of interim dividend has been calculated on the basis of 400 million shares in issue as at 31 August 2001.

## 7. EARNINGS PER SHARE

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

	Six months ended	
	30 June 2001	30 June 2000
	(Unaudited)	(Restated)
	<i>HK\$ million</i>	<i>HK\$ million</i>
Earnings for the purposes of basic earnings per share :		
Net profit attributable to shareholders	101	52
Effect of dilutive potential ordinary shares :		
Interest on convertible bonds of a subsidiary	-	1
Adjustment to the share of results of subsidiaries based on dilution of their earnings per share	-	(4)
Earnings for the purposes of diluted earnings per share	101	49
Weighted average number of ordinary shares for the purposes of basic earnings per share	400	290
Effect of dilutive potential ordinary shares :		
Warrants	-	3
	400	293

Diluted earnings per share has not been presented for 2001 as no diluting events existed during this period.

## 8. PROPERTY, PLANT AND EQUIPMENT

	Cost or valuation <i>HK\$ million</i>	Accumulated depreciation <i>HK\$ million</i>	Net book value <i>HK\$ million</i>
At 1 January 2001	2,358	(736)	1,622
Foreign currency adjustment	(9)	3	(6)
Additions	30	–	30
Depreciation provided during the period	–	(83)	(83)
Disposal	(47)	18	(29)
	<u>2,332</u>	<u>(798)</u>	<u>1,534</u>
At 30 June 2001	<u>2,332</u>	<u>(798)</u>	<u>1,534</u>

## 9. LONG TERM INVESTMENTS

	30 June 2001 (Unaudited) <i>HK\$ million</i>	31 December 2000 (Audited) <i>HK\$ million</i>
Listed investments, at market value		
Hong Kong	17	21
Outside Hong Kong	6	6
Unlisted investments, at fair value	152	151
	<u>175</u>	<u>178</u>

Included in the unlisted investments were convertible instruments amounting to HK\$43 million (2000 : HK\$42 million) which were issued by associates of the Group.

## 10. ACCOUNTS, BILLS AND OTHER RECEIVABLES

The Group allows an average credit period of 30 to 90 days to its trade customers. The aging analysis of trade and other receivables (net of provision for doubtful debts) is as follows :

	30 June 2001 (Unaudited) <i>HK\$ million</i>	31 December 2000 (Audited) <i>HK\$ million</i>
0 – 3 months	1,308	1,584
3 – 6 months	12	15
Over 6 months	56	24
	<u>1,376</u>	<u>1,623</u>

At 30 June 2001, included in the amount of accounts, bills and other receivable was an amount of HK\$603 million due from a former subsidiary, O2New Technology Limited, formerly Toyo Holdings Limited. The amount is unsecured and bears interest at 2% above Hong Kong dollars prime rate.

## 11. INVENTORIES

	30 June 2001 (Unaudited) <i>HK\$ million</i>	31 December 2000 (Audited) <i>HK\$ million</i>
Raw materials	589	759
Work in progress	101	75
Finished goods	357	369
	<u>1,047</u>	<u>1,203</u>

## 12. ACCOUNTS AND BILLS PAYABLE

The aging analysis of accounts and bills payable is as follows :

	30 June 2001 (Unaudited) <i>HK\$ million</i>	31 December 2000 (Audited) <i>HK\$ million</i>
0 – 3 months	827	1,414
3 – 6 months	98	270
Over 6 months	261	46
	<u>1,186</u>	<u>1,730</u>

### 13. SHARE CAPITAL AND SHARE PREMIUM

	Number of ordinary shares of HK\$2.50 each <i>million</i>	Share Capital <i>HK\$ million</i>	Share Premium <i>HK\$ million</i>
Authorised :			
At 1 January 2000 and 31 December 2000	400	1,000	
Increase in authorised share capital	600	1,500	
	<u>1,000</u>	<u>2,500</u>	
At 30 June 2001			
	<u>1,000</u>	<u>2,500</u>	
Issued and fully paid :			
At 1 January 2000	261	653	4
Issue of new shares	104	259	181
Exercise of warrants	35	88	70
Share issue expenses	-	-	(2)
	<u>400</u>	<u>1,000</u>	<u>253</u>
At 31 December 2000 and 1 January 2001	400	1,000	253
Issue of new shares	-	1	1
	<u>400</u>	<u>1,001</u>	<u>254</u>
At 30 June 2001			
	<u>400</u>	<u>1,001</u>	<u>254</u>

### 14. PRIOR PERIOD ADJUSTMENT

The financial effect of the adoption of the new accounting policies described in note 2 to the condensed financial statements prior to 1 January 2000 is summarised below :

	Investment revaluation reserve <i>HK\$ million</i>	Capital reserve <i>HK\$ million</i>	Exchange fluctuation reserve <i>HK\$ million</i>	Retained profits <i>HK\$ million</i>	Total <i>HK\$ million</i>
At 1 January 2000 as originally stated	2	113	(171)	1,055	999
Derecognition of liability for final dividend for 1999	-	-	-	36	36
Retrospective recognition of impairment of goodwill held in reserves	-	440	-	(440)	-
	<u>2</u>	<u>553</u>	<u>(171)</u>	<u>651</u>	<u>1,035</u>
At 1 January 2000 as restated	<u>2</u>	<u>553</u>	<u>(171)</u>	<u>651</u>	<u>1,035</u>



15. RESERVES

	Investment revaluation reserve <i>HK\$ million</i>	Capital reserve <i>HK\$ million</i>	Exchange fluctuation reserve <i>HK\$ million</i>	Retained profits <i>HK\$ million</i>	Total <i>HK\$ million</i>
At 1 January 2000 as restated	2	553	(171)	651	1,035
Arising on consolidation of overseas subsidiaries	-	-	(23)	-	(23)
Share of reserve movements of associates	-	(4)	16	-	12
Reversed on disposal of subsidiaries	-	(55)	(2)	-	(57)
Elimination of goodwill arising from acquisition of additional interests in subsidiaries	-	(7)	-	-	(7)
Surplus on revaluation of long term equity securities	1	-	-	-	1
Loss for the year	-	-	-	(581)	(581)
Dividends	-	-	-	(84)	(84)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
At 31 December 2000 and 1 January 2001 as restated	3	487	(180)	(14)	296
Arising on consolidation of overseas subsidiaries	-	-	(33)	-	(33)
Share of reserve movements of associates	-	-	20	-	20
Deficit on revaluation of long term equity securities	(3)	-	-	-	(3)
Profit for the period	-	-	-	101	101
Dividends	-	-	-	(80)	(80)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
At 30 June 2001	<u>          </u>	<u>487*</u>	<u>(193)</u>	<u>7</u>	<u>301</u>

\* The balance of capital reserve comprise goodwill and negative goodwill of HK\$124 million and HK\$244 million, respectively.

## 16. CONTINGENT LIABILITIES

	30 June 2001 (Unaudited) <i>HK\$ million</i>	31 December 2000 (Audited) <i>HK\$ million</i>
Bills discounted with recourse	87	11
Guarantee of trade finance banking facilities granted to :		
Associates	37	35
Former subsidiaries	–	14
	<u>124</u>	<u>60</u>

All trade bills discounted at the balance sheet date were subsequently honoured by customers with no losses to the Group.

## 17. COMMITMENTS

	30 June 2001 (Unaudited) <i>HK\$ million</i>	31 December 2000 (Audited) <i>HK\$ million</i>
(a) Capital commitments in respect of property, plant and equipment:		
Contracted for	6	1
Authorised, but not contracted for	2	5
	<u>8</u>	<u>6</u>
(b) The future minimum lease payable under non-cancellable operating leases for each of the following periods:		
Land and buildings:		
Not later than one year	17	15
Later than one year and not later than five years	19	32
Later than five years	1	–
	<u>37</u>	<u>47</u>

## 18. BANKING FACILITIES

Certain banking facilities available to the Group were secured by the following assets and which aggregate carrying values were as follows:

	30 June 2001 (Unaudited) <i>HK\$ million</i>	31 December 2000 (Audited) <i>HK\$ million</i>
(i) Legal charges over medium term leasehold land and buildings in Hong Kong	247	250
(ii) Pledge of medium term leasehold land and buildings outside Hong Kong	177	124
(iii) Pledge of inventories	137	180
(iv) Pledge of accounts receivable and bank deposit	129	331
	690	885
	690	885

## 19. COMPARATIVE AMOUNTS

As explained in note 2 to the condensed financial statements, due to the adoption of new and revised SSAPs during the current period, the presentation of the condensed consolidated income statement, the condensed consolidated balance sheet and certain supporting notes have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been restated or reclassified to conform to the current period presentation.

## 20. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

The interim financial statements were approved by the board of directors on 26 September 2001.

## DIVIDENDS

The Board of Directors has resolved to pay an interim dividend of HK8 cents per share (2000 : HK12 cents per share) totaling approximately HK\$32 million (2000 : HK\$48 million) to shareholders whose names appear on the register of members on 19 October 2001. It is expected that dividend will be dispatched to shareholders on or before 31 October 2001.