

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) 25, Interim Financial Reporting, issued by the Hong Kong Society of Accountants (“HKSA”). The condensed interim financial statements should be read in conjunction with the 2000 annual report.

The accounting policies and methods of computation used in the preparation of the condensed interim financial statements are consistent with those used in the annual accounts for the year ended 31 December 2000 except that the Group has changed certain of its accounting policies following its first adoption of the following SSAPs issued by the HKSA which are effective for accounting periods commencing on or after 1 January 2001:

SSAP 9 (revised)	:	Events after the balance sheet date
SSAP 14 (revised)	:	Leases
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

The changes to the Group’s accounting policies resulting from the adoption of these new policies are set out below:

(a) *SSAP 14 (revised): Leases*

The revised SSAP 14 prescribes the appropriate accounting policies and disclosures in relation to finance and operating leases, and that all future minimum lease payments under non-cancellable operating leases should be disclosed in the supporting notes to the financial statements. The adoption of SSAP 14 (revised) by the Group does not have any impact on the condensed financial statements except that disclosures set out in note 16 have been changed and restated.

(b) *SSAP 30: Business combinations*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary or associate at the date of acquisition. The Group has adopted SSAP 30 and has elected not to restate goodwill previously eliminated against reserves. Goodwill arising on acquisitions after 1 January 2001 is capitalized and amortised over its estimated useful life. Goodwill on acquisitions that occurred prior to 1 January 2001 was eliminated directly to reserves in the year of acquisition.

(c) *SSAP 31: Impairment of assets*

SSAP 31 requires company to assess whether there is any impairment of assets. If any such indication exists, the asset's recoverable amount is estimated and an impairment loss is recognized for the excess of carrying value of the asset over its estimated recoverable amount.

The Group has adopted SSAP 31 and goodwill arising on acquisitions after 1 January 2001 is amortised over its estimated useful life.

2. SEGMENTAL INFORMATION

An analysis of the Group's turnover and results by activities and geographical area are summarised as follows:

	Six months ended 30 June			
	2001		2000	
	Turnover	Results	Turnover	Results
	HK\$'000	HK\$'000	<i>HK\$'000</i>	<i>HK\$'000</i>
By activities:				
Manufacture and trading of:				
– CD/VCD players and mechanisms, amplifiers, computer peripherals	39,057	(9,866)	52,530	(10,080)
– Car audio mechanisms, cassette deck mechanisms and related products	36,047	(5,119)	54,672	(5,369)
– Personal office appliances and medical devices	25,611	400	37,043	995
	<u>100,715</u>	<u>(14,585)</u>	<u>144,245</u>	<u>(14,454)</u>
By geographical area:				
Asia				
Hong Kong	20,630	(3,282)	41,127	(5,318)
Singapore	1,395	(347)	3,642	(699)
Other countries	20,701	(3,240)	36,840	(3,150)
Europe	38,524	(6,062)	29,274	(4,859)
America	19,465	(1,654)	33,362	(428)
	<u>100,715</u>	<u>(14,585)</u>	<u>144,245</u>	<u>(14,454)</u>

3. LOSS BEFORE TAX

Loss before tax was determined after charging/(crediting) the followings:

	Six months ended 30 June	
	2001	2000
	HK\$'000	HK\$'000
Other revenue:		
Interest income	(646)	(439)
Other income	(768)	(100)
	(1,414)	(539)
Finance costs:		
Interest on bank loans, overdrafts and other borrowings wholly repayable within five years	1,951	2,233
Interest on finance leases	96	112
	2,047	2,345
Amortisation/write off of deferred development costs	2,174	3,520
Amortisation of goodwill	2,337	-
Depreciation	7,320	9,133

4. TAX

	Six months ended 30 June	
	2001	2000
	HK\$'000	HK\$'000
PRC corporate income tax	131	98
Hong Kong profits tax	103	258
Tax charge for the period	234	356

Hong Kong profits tax has been provided at the rate of 16% (Six months ended 30 June 2000: 16%) on the estimated assessable profits derived from Hong Kong during the period.

Profits generated from the activities in the PRC are subject to PRC corporate income tax at the applicable rates of tax based on existing legislation, interpretation and practices in respect thereof.

5. LOSS PER SHARE

The calculation of loss per share for the period is based on the consolidated net loss attributable to shareholders of HK\$17,151,000 (Six months ended 30 June 2000: HK\$17,819,000) and the weighted average number of ordinary shares used in the calculation of 305,155,068 ordinary shares (30 June 2000: 100,139,354 shares) in issue during the period.

The diluted loss per share for the six months ended 30 June 2001 and 2000 have not been shown as the share options outstanding during these periods had an anti-dilutive effect on the basic loss per share for these periods.

6. DIVIDENDS

The directors of the Company do not recommend the payment of any interim dividend for the six months ended 30 June 2001 (Six months ended 30 June 2000: Nil).

7. FIXED ASSETS

	30 June 2001	31 December 2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net book value at beginning of period/year	74,764	98,777
Additions	3,538	8,855
Disposals	–	(2,555)
Provisions for impairment in values	–	(1,601)
Arising from disposal of a subsidiary	–	(12,188)
Depreciation	(7,320)	(16,524)
	<hr/> 70,982	<hr/> 74,764
Net book value at end of period/year	70,982	74,764

8. GOODWILL

During the period, the Group has entered into an agreement to acquire the entire equity interest in Kongnet Group Limited (“Kongnet”) for a cash consideration of HK\$35,000,000. Kongnet is an investment holding company incorporated in British Virgin Islands. It holds 90% equity interest in a sino-foreign enterprise which is engaged in the Internet phone business in the People’s Republic of China (the “PRC”). The movement of the goodwill is as follows:

	30 June 2001	31 December 2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Arising from the acquisition of a subsidiary	35,056	–
Less: Amortisation during the period	(2,337)	–
	<hr/> 32,719	<hr/> –
Balance at end of period	32,719	–

9. LONG TERM INVESTMENTS AND LONG TERM DEPOSIT

At 31 December 2000, the Group held 10% interest in Global Cyber Limited (“Global Cyber”) at the cost of HK\$80,000,000. The Group had further acquired 4% interest in Global Cyber at a consideration of HK\$40,000,000 during the period. At 30 June 2001, the Group held 14% interest in Global Cyber at the cost of total HK\$120,000,000.

Subsequent to 30 June 2001, the Group entered into an agreement to acquire an additional 13% interest in Global Cyber, as detailed in note 17 to the financial statements. Upon signing of the memorandum of understanding with a vendor regarding the additional acquisition of 13% interest in Global Cyber, a deposit of HK\$45,000,000 had been paid on June 2001 and was classified as long term deposit.

10. ACCOUNTS RECEIVABLE

The Group maintains a defined credit policy and allows credit periods ranged from 15 to 90 days to its trade customers. The aged analysis of accounts receivable is as follows:

	30 June 2001	31 December 2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 month	6,122	12,410
2 to 3 months	3,862	10,227
4 to 6 months	720	2,586
7 to 12 months	1,464	1,190
Over 1 year	2,663	2,073
	<u>14,831</u>	<u>28,486</u>

11. ACCOUNTS PAYABLE

The aged analysis of accounts payable is as follows:

	30 June 2001	31 December 2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 month	7,450	12,695
2 to 3 months	10,729	20,010
4 to 6 months	5,670	4,554
7 to 12 months	1,819	350
Over 1 year	1,331	1,438
	<u>26,999</u>	<u>39,047</u>

12. SHARE CAPITAL

The movements in the issued share capital of the Company during the period were as follows:

	Number of ordinary shares	Carrying amount <i>HK\$'000</i>
At 1 January 2001	228,750,673	114,375
Placing of new ordinary shares	183,200,000	91,600
Exercise of share options	22,800,000	11,400
	<u>434,750,673</u>	<u>217,375</u>
At 30 June 2001	<u>434,750,673</u>	<u>217,375</u>

13. RESERVES

	Share premium account <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2001	95,220	33,474	198	(55,826)	73,066
Issue of new shares	113,916	–	–	–	113,916
Share issue expenses	(2,252)	–	–	–	(2,252)
Net loss for the period	–	–	–	(17,151)	(17,151)
	<u>206,884</u>	<u>33,474</u>	<u>198</u>	<u>(72,977)</u>	<u>167,579</u>
At 30 June 2001	<u>206,884</u>	<u>33,474</u>	<u>198</u>	<u>(72,977)</u>	<u>167,579</u>

14. RELATED PARTY TRANSACTIONS

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

	Six months ended 30 June	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Purchases of raw materials from a related company	594	777
Rentals paid to related companies	1,041	1,266
Rental paid to a director	360	369
Consultancy fees paid/payable to a related company	450	–
	<u>2,445</u>	<u>2,412</u>

15. CONTINGENT LIABILITIES

	30 June 2001 <i>HK\$'000</i>	31 December 2000 <i>HK\$'000</i>
Bills discounted with recourse	<u>7,735</u>	<u>13,724</u>

16. COMMITMENTS

	30 June 2001 <i>HK\$'000</i>	31 December 2000 <i>HK\$'000</i>
Commitments under non-cancellable operating leases in respect of land and buildings expiring:		
Within one year	7,759	8,349
In the second to fifth years, inclusive	<u>20,169</u>	<u>24,473</u>
	<u>27,928</u>	<u>32,822</u>

17. POST BALANCE SHEET EVENTS

- (a) On 18 July 2001, a subsidiary of the Company entered into an agreement to acquire an additional 13% equity interest in Global Cyber for a cash consideration of HK\$130 million. Deposits of HK\$45 million and HK\$20 million were paid to a vendor upon signing of the memorandum of understanding and the acquisition agreement on 1 June and 18 July 2001 respectively. The balance of HK\$65 million was paid upon completion of the acquisition on 22 August 2001.
- (b) Pursuant to a placing agreement entered into between the Company and Dao Heng Securities Limited on 23 August 2001, a total of 86,000,000 ordinary shares of HK\$0.50 each were issued and allotted to independent institutional investors, for cash, at a price of HK\$1.26 per placing share. The net proceeds of HK\$107.5 million are to be used for general working capital and possibly for further acquisition in investing project(s) beneficial to the Company. The placing was completed on 10 September 2001.

18. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

The condensed interim financial statements were approved by the board of directors on 24 September 2001.