

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### 1. Basis of preparation

The condensed unaudited consolidated 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, and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The accounting policies and methods of computation used in the preparation of these interim accounts 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 the adoption of the applicable Statements of Standard Accounting Practice (“SSAP”) issued by the Hong Kong Society of Accountants which are effective for accounting period commencing on or after 1 January 2001.

The relevant changes to the Group’s principal accounting policies and the related effects of adopting these new SSAPs are set out below:

(a) *SSAP 26: Segment reporting*

In Note 2 to these condensed interim accounts, the Group has disclosed segment revenue and results as defined under SSAP 26. In accordance with the Group’s internal financial reporting, the Group has determined that business segments be presented as the primary reporting format. Comparative information has been given.

(b) *SSAP 9 (revised): Events after the balance sheet date*

In accordance with the revised SSAP 9, the Group no longer recognises dividend proposed or declared after the balance sheet date as a liability at the balance sheet date. The adoption of this standard has had no effect on the interim accounts as the Group did not propose the payment of any final dividend at the balance sheet date in the year of 2000.

(c) *SSAP 28: Provisions, contingent liabilities and contingent assets*

In accordance with SSAP 28 “Provisions, contingent liabilities and contingent assets”, provisions are recognised when the Group has a present obligation as a result of a past event which it is probable will result in an outflow of economic benefits that can be reasonably estimated.

The adoption of the above new accounting policies does not change the basis of identification of reportable segments in prior period.

(d) *SSAP 29: Intangible assets*

In the prior years, the Group has acquired technical know-how and distribution rights which are carried at cost less amortisation and impairment losses. The cost of intangible assets are amortised over their estimated useful lives on a straight-line basis.

(e) *SSAP 30: Business combination*

Goodwill on acquisition occurring on or after 1 January 2001 is included in intangible assets and is amortised using the straight-line method over its estimated useful life.

Goodwill on acquisition that occurred prior to 1 January 2001 was written off against reserves. The Group has adopted the transitional provisions in SSAP 30 and such goodwill has not been retroactively capitalised and amortised. However, any impairment arising on such goodwill is accounted for in accordance with SSAP 31 “Impairment of assets”.

(f) *SSAP 31: Impairment of assets*

SSAP 31 “Impairment of assets” has introduced a formal framework for the recognition of impairment losses in respect of the Group’s assets.

**2. Segmental information**

The Group's turnover and contribution to profit from operations for both periods ended 30 June 2001 and 30 June 2000, analysed by the business segments and geographical segments are as follows:

	30 June 2001		30 June 2000	
	Unaudited		Unaudited	
	Turnover	Contribution to profit from operations	Turnover	Contribution to profit from operations
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
By business segments:				
Media products	112,890	25,603	178,129	59,614
Total fulfilment services	42,157	7,736	122,101	14,059
Distribution of media products	18,274	4,613	-	-
Others	4,549	983	5,746	1,653
	<u>177,870</u>	<u>38,935</u>	<u>305,976</u>	<u>75,326</u>
Other revenue		2,144		1,908
Distribution and administrative expenses		(34,194)		(41,133)
Finance costs		(7,027)		(9,688)
Share of profit (loss) of an associate		1,163		(167)
Profit before tax		<u>1,021</u>		<u>26,246</u>
By geographical segments:				
Asia				
- People's Republic of China (including Hong Kong)	72,931	18,643	67,596	21,576
- Other region in Asia Pacific	36,921	9,950	32,471	8,217
Europe	38,589	8,640	68,425	26,288
North America	29,389	1,699	137,484	19,245
Others	40	3	-	-
	<u>177,870</u>	<u>38,935</u>	<u>305,976</u>	<u>75,326</u>
Other revenue		2,144		1,908
Distribution and administrative expenses		(34,194)		(41,133)
Finance costs		(7,027)		(9,688)
Share of profit (loss) of an associate		1,163		(167)
Profit before tax		<u>1,021</u>		<u>26,246</u>

**3. Other revenue**

	<b>Six months ended 30 June</b>	
	<b>2001</b>	<b>2000</b>
	<b>Unaudited</b>	<b>Unaudited</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Interest income	727	1,066
Others	<u>1,417</u>	<u>842</u>
	<u><b>2,144</b></u>	<u><b>1,908</b></u>

**4. Depreciation**

During the period, depreciation of HK\$15,768,000 (2000: HK\$14,083,000) was charged in respect of the Group's property, plant and equipment and amortisation of HK\$1,750,000 (2000: HK\$966,000) was charged in respect of the Group's intangible assets.

**5. Taxation**

	<b>Six months ended 30 June</b>	
	<b>2001</b>	<b>2000</b>
	<b>Unaudited</b>	<b>Unaudited</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
The credit (charge) comprises:		
Profits tax for the period		
Hong Kong	(495)	(837)
Overseas	(100)	(501)
Prior period		
Hong Kong – overprovision	494	532
Overseas – overprovision	<u>596</u>	<u>149</u>
	<u><b>495</b></u>	<u><b>(657)</b></u>

Hong Kong Profits Tax is calculated at 16% (2000: 16%) of the estimated assessable profits for the period. Overseas taxation is calculated at the rates prevailing in the respective jurisdictions.

**6. Proposed interim dividend**

	<b>Six months ended 30 June</b>	
	<b>2001</b>	<b>2000</b>
	<b>Unaudited</b>	<b>Unaudited</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Interim dividend – Nil (2000: HK2.2 cents)	<u>-</u>	<u>7,898</u>

**7. Earnings per share**

The calculation of earnings per share is based on the profit attributable to shareholders of HK\$1,736,000 (2000: HK\$25,589,000) and the weighted average number of 358,494,000 (2000: 366,018,667) shares in issue during the period.

No diluted earnings per share has been presented because the exercise price of the Company's share options were higher than the average market price for shares for the six months ended 30 June 2001.

The diluted earnings per share for the six months ended 30 June 2000 is based on the profit for the period of HK\$25,841,000 taking into account of the saving of interest on conversion of the bond, net of tax, of HK\$252,000 and on the weighted average of 389,762,994 shares in issue and issuable on the assumption that the bond is converted into shares of the Company on the date of issue of the bond on 27 July 1998 and the exercise of the Company's outstanding share options on the dates on which they are granted.

**8. Fixed assets**

For the six months ended 30 June 2001, the Group has acquired fixed assets amounting to approximately HK\$5,830,000 (At 31 December 2000: HK\$45,744,000).

**9. Debtors, deposits and prepayments**

	<b>30 June 2001 Unaudited HK\$'000</b>	31 December 2000 Audited HK\$'000
Trade debtors	<b>58,179</b>	57,146
Other debtors, deposits and prepayments	<b>44,015</b>	26,664
	<b><u>102,194</u></b>	<u>83,810</u>

The Group has a policy of allowing credit period varying from 30 to 90 days. The aged analysis of the trade debtors is as follows:

	<b>30 June 2001 Unaudited HK\$'000</b>	31 December 2000 Audited HK\$'000
0 to 3 months	<b>42,314</b>	33,028
4 to 6 months	<b>6,828</b>	2,630
7 to 9 months	<b>4,956</b>	3,345
10 to 12 months	<b>901</b>	3,057
Over 1 year	<b>3,180</b>	15,086
	<b><u>58,179</u></b>	<u>57,146</u>

**10. Trade and other payables**

	<b>30 June 2001 Unaudited HK\$'000</b>	31 December 2000 Audited HK\$'000
Trade creditors	<b>30,597</b>	44,084
Other creditors and accruals	<b>18,015</b>	24,250
	<b>48,612</b>	68,334

The aged analysis of the trade creditors is as follows:

	<b>30 June 2001 Unaudited HK\$'000</b>	31 December 2000 Audited HK\$'000
0 to 3 months	<b>28,456</b>	33,685
4 to 6 months	<b>1,222</b>	4,997
7 to 9 months	<b>478</b>	4,567
10 to 12 months	<b>217</b>	820
Over 1 year	<b>224</b>	15
	<b>30,597</b>	44,084

**11. Convertible bonds**

	<b>30 June 2001 Unaudited HK\$'000</b>	31 December 2000 Audited HK\$'000
Convertible bonds	<b>39,600</b>	15,016
Less: Issue expenses, net of amortisation of HK\$ nil (2000: HK\$840,749)	<b>–</b>	(48)
	<b>39,600</b>	14,968
Less: Amounts due within one year shown under current liabilities	<b>–</b>	(14,968)
Amount due after one year	<b>39,600</b>	–

In 1998, the Company issued a convertible bond to an investor for proceeds of US\$3,880,000. The bond carries interest at the rate of 4% per annum and is repayable on 30 June 2001. In 1999, the investor exercised its right under the loan agreement to convert 50% of the principal amount of the bond into shares of the Company. During the six months ended 30 June 2001, the remaining portion of the bond equivalent to HK\$19,563,000 was redeemed in full.

The Company entered into the Sale and Purchase Agreement on 8 November 2000 to acquire the entire issued share capital of Fortune Luck Development Ltd., an authorised distributor of media products by a reputable international corporation, in the total consideration of HK\$47,031,725 to be satisfied as to HK\$7,431,725 in cash and the balance by the issue of the non-interest bearing convertible notes in the total amount of HK\$39,600,000. In consideration of the Company entering into the Sale and Purchase Agreement, the vendors warrant and guarantee with the Company that the audited net profit after tax for distribution business shall not be less than approximately HK\$11,500,000 for the year ended 31 December 2001.

The convertible bond in the amount of HK\$39,600,000 is divided into four convertible notes. A convertible note of HK\$32,700,000 is convertible in part or in whole into Company's new shares at any time during the period commencing 18 months from the date of issue on 5 January 2001 to but excluding the third anniversary from the date of issue (the "Maturity Date"). To the extent that this convertible note has not been previously converted, it will be redeemed on the Maturity Date at the then outstanding principal amount provided that the Company has the option to call on the holder to convert this convertible note on the same date wholly into Company's new shares. The three convertible notes, each having a principal amount of HK\$2,300,000, are convertible in part or in whole into the Company's new shares at any time during the period commencing 12, 24 and 33 months from the date of issue respectively up to but excluding the Maturity Date. To the extent that the three convertible notes have not been previously converted, the convertible notes will be redeemed on the Maturity Date at the then outstanding principal amounts.

12. Reserves

	Shares Premium <i>HK\$'000</i>	Capital Reserve <i>HK\$'000</i>	Translation Reserve <i>HK\$'000</i>	Properties Revaluation Reserve <i>HK\$'000</i>	Retained Profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 31 December 1999	85,329	(3,144)	(137)	10,759	188,721	281,528
Profit for the year 2000					48,039	48,039
Dividends paid					(7,889)	(7,889)
Premium on purchase of a business		(25,047)				(25,047)
Premium on additional investment in an associate		(6,843)				(6,843)
Translation of foreign subsidiaries and an associate			(914)			(914)
Premium and cost on repurchase and cancellation of own shares	(8,127)					(8,127)
As at 31 December 2000	77,202	(35,034)	(1,051)	10,759	228,871	280,747
Profit for the period ended 30 June 2001					1,736	1,736
Translation of foreign subsidiaries and an associate			(234)			(234)
<b>As at 30 June 2001</b>	<b>77,202</b>	<b>(35,034)</b>	<b>(1,285)</b>	<b>10,759</b>	<b>230,607</b>	<b>282,249</b>

**13. Contingent assets**

In 1997, a subsidiary of the Company entered into an agreement with a customer under which the subsidiary was required to set up a software manufacturing fulfilment plant in the People's Republic of China and the customer was obliged, among other things, to place an annual minimum quantity of orders to the subsidiary for the 5 years ending 31 December 2002. Under the agreement, the subsidiary is entitled to claim the shortfall if the customer fails to place the minimum orders. At the material times, the customers, among other breaches, had failed to meet the minimum orders stipulated in the agreement for the 2 years ended 31 December 1999. No further orders had been placed by the customer since April 2000.

In July 2000, a Notice of Arbitration Proceedings was served on the customer by the subsidiary. The Arbitration Tribunal has been formed in Hong Kong to determine the dispute. In July 2001, the subsidiary filed a Statement of Claim claiming the total shortfall under the agreement and other losses amounting to approximately US\$54 million against the customer. In response to the Statement of Claim, the customer filed a Defence and Counterclaim claiming for damages in September 2001.

The Directors, based on the opinion from independent legal advisers, consider that the Company and/or the subsidiary has a meritorious claim against the customer and that the allegations made by the customer in its Defence and Counterclaim are not valid and are of the opinion that such counterclaim will not cause any material loss to the Company and/or the Group.

In view of the above, all direct expenditure incurred for the claim including the investment cost in establishment of the above manufacturing plant amounting to HK\$23 million are capitalised and carried in the financial statements pending settlement of the claim. The Directors are of the opinion that the Group has sufficient funds to support the claim.

**14. Contingent liabilities**

	<b>30 June 2001</b>	31 December 2000
	<b>Unaudited</b>	Audited
	<b>HK\$'000</b>	HK\$'000
Bills discounted with recourse	<u><b>35,383</b></u>	<u>41,265</u>

In addition, a subsidiary of the Company in 1998 received a writ from a customer in Hong Kong claiming amounts of Rmb5,885,000 and US\$1,000,000 relating to alleged defective products delivered by that subsidiary. However, the Directors, based on an opinion from the Group's independent legal advisers, consider that the allegations made by the customer are not valid and are of the opinion that such claims will not cause any material loss to the Group. No provision for the cost of the legal fees or loss, if any, arising from the allegations has been made in the financial statements.



**15. Capital commitment**

As at 30 June 2001, the Group had the following capital commitment:

	<b>30 June 2001 Unaudited HK\$'000</b>	31 December 2000 Audited HK\$'000
Capital to be contributed to an enterprise authorised but not contracted for	<u><b>1,588</b></u>	<u>–</u>

**16. Pledge of assets**

At 30 June 2001, the Group had pledged its leasehold land and buildings with a net book value of HK\$7,544,000 (2000: HK\$7,650,000), together with its plant and equipment with a net book value of HK\$8,672,000 (2000: HK\$8,723,000) to secure bank loans granted to its subsidiaries.

**17. Comparative figures**

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