

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2001

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance 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”) and with Statement of Standard Accounting Practice (“SSAP”) 25 “Interim financial reporting” issued by the Hong Kong Society of Accountants, except that comparative figures are not presented either for the condensed consolidated statement of recognised gains and losses or for the condensed consolidated cash flow statement included in the first interim financial report relating to accounting periods ended on or after 1 July 2000. Such departures from SSAP 25 are permitted under the Listing Rules.

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies adopted for the preparation of the interim financial report are consistent with those adopted by the Group in its annual financial statements for the year ended 31 December 2000 except as described below.

In the current period, the Group has adopted, for the first time, the following revised or new SSAPs issued by the Hong Kong Society of Accountants:-

Dividends proposed or declared after the balance sheet date

In accordance with SSAP 9 (Revised) “Events after the balance sheet date”, dividends proposed or 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. Comparative information has been restated to reflect this change in accounting policy.

Provisions

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 this standard has no material effect on the amounts reported in the current or prior years.

2. PRINCIPAL ACCOUNTING POLICIES - *continued*

Goodwill

In the current period, the Group has adopted SSAP 30 “Business combinations” and has elected not to restate goodwill (negative goodwill) previously eliminated against (credited to) reserves. Accordingly, goodwill arising on acquisitions prior to 1 January 2001 continues to be 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 at the time of disposal of the relevant subsidiary, associate or joint venture.

Goodwill arising on acquisitions after 1 January 2001 will be capitalised and amortised over its estimated useful life. Negative goodwill arising on acquisitions after 1 January 2001 will be presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

Impairment of assets

SSAP 31 “Impairment of assets” is effective for periods beginning on or after 1 January 2001 and has introduced a formal framework for the recognition of impairment losses in respect of the Group’s assets other than financial assets and investment properties. The effect is disclosed in notes 3 and 9.

Segment reporting

SSAP 26 “Segment reporting”, which has been adopted for the first time in this interim reporting period, has established principles for reporting the segmental analysis of financial information. The details are set out in note 4.

Consolidation

SSAP 32 “Consolidated financial statements and accounting for investments in subsidiaries” has introduced a new definition of subsidiary, i.e. an enterprise that is controlled by the Group. This has resulted in the consolidation, for the first time, of certain additional subsidiaries for the purposes of these interim financial statements. Comparative amounts have been adjusted retrospectively and the effect of the adoption is disclosed in note 3.

In addition, the Group has adopted the following new accounting policy:-

Derivatives used for trading and investment

Derivatives used in the Group’s trading activities are recorded at fair value, and unrealised gains and losses are reflected in the income statement. The fair values of the trading positions generally are based on listed market prices. If listed market prices are not available or if the liquidation of the Group positions would reasonably be expected to impact market prices, fair value is determined based on other relevant factors, including dealer price quotations and price quotations for similar instruments traded in different markets, including markets located in different geographic areas. Fair values for certain derivative contracts are derived from pricing models which consider current market and contractual prices for the underlying financial instruments or commodities, as well as time value and yield curve or volatility factors underlying the positions.

3. IMPACTS ON ADOPTION OF REVISED OR NEW SSAPS

The effect of adoption of revised or new SSAPs on the results for the current and prior periods is as follows:-

	Six months ended 30.6.2001 HK\$'000	12 months ended 31.12.2000 HK\$'000	Six months ended 30.6.2000 HK\$'000
Effect of adoption of SSAP 32	2,000	1,090	(6,706)
Effect of adoption of SSAP 31	(30,035)	—	—
	<u>(28,035)</u>	<u>1,090</u>	<u>(6,706)</u>

The financial effect of adoption of revised or new SSAPs on the retained profits as at 1 January 2000 and 1 January 2001 has been shown in note 20.

4. SEGMENT INFORMATION

The turnover and attributable (loss)/profit from operations of the Group for the period, analysed by business segments and geographical segments are as follows:-

By business segments:-

For the six months ended 30 June 2001

	Mobile phone distribution HK\$'000	Telecom- munication products HK\$'000	Trading of securities HK\$'000	Consolidated HK\$'000
Turnover	<u>123,246</u>	<u>8,636</u>	<u>1,198,259</u>	<u>1,330,141</u>
Segment result and loss from operations	<u>(15,122)</u>	<u>(1,369)</u>	<u>(382,421)</u>	<u>(398,912)</u>

4. **SEGMENT INFORMATION - continued**

For the six months ended 30 June 2000

	Mobile phone distribution	Telecom- munication products	Trading of securities	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	<u>298,828</u>	<u>2,770</u>	<u>211,090</u>	<u>512,688</u>
Segment result	<u>3,461</u>	<u>(28,393)</u>	<u>1,446,855</u>	<u>1,421,923</u>
Impairment losses on non-trading investments				(120,085)
Gain on disposal of an associate				<u>7,800</u>
Profit from operations				<u>1,309,638</u>

By geographical segments:-

For the six months ended 30 June 2001

	Hong Kong	Mainland China	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	<u>1,224,236</u>	<u>105,905</u>	<u>1,330,141</u>
Segment result and loss from operations	<u>(389,479)</u>	<u>(9,433)</u>	<u>(398,912)</u>

For the six months ended 30 June 2000

	Hong Kong	Mainland China	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	<u>425,548</u>	<u>87,140</u>	<u>512,688</u>
Segment result	<u>1,465,453</u>	<u>(43,530)</u>	<u>1,421,923</u>
Impairment losses on non-trading investments			(120,085)
Gain on disposal of an associate			<u>7,800</u>
Profit from operations			<u>1,309,638</u>

5. NET (LOSSES) / GAINS ON INVESTMENTS

	Six months ended 30.6.2001 HK\$'000	Six months ended 30.6.2000 HK\$'000
Gain on realisation of non-trading listed investments	—	1,707,851
Net realised (loss) / gain on equity linked notes	(46,688)	8,971
Net unrealised loss on trading investments	(179,278)	(233,491)
Net realised (loss) / gain on derivatives	(13,540)	4,824
Net unrealised loss on derivatives	(70,123)	—
Impairment losses on non-trading investments	—	(120,085)
	<u>(309,629)</u>	<u>1,368,070</u>

6. OTHER REVENUE

	Six months ended 30.6.2001 HK\$'000	Six months ended 30.6.2000 HK\$'000
Dividend income from listed investments	4,737	682
Gross rental income from investment properties	1,895	880
Interest income	1,556	18,486
Others	480	466
	<u>8,668</u>	<u>20,514</u>

7. (LOSS) / PROFIT FROM OPERATIONS

	Six months ended 30.6.2001 HK\$'000	Six months ended 30.6.2000 HK\$'000
(Loss) / profit from operations has been arrived at after charging:-		
Depreciation and amortisation	2,040	1,135
Loss on disposal of property, plant and equipment	<u>358</u>	<u>—</u>

8. FINANCE COSTS

The finance costs represent interest on bank and other borrowings wholly repayable within five years.

9. IMPAIRMENT LOSS ON GOODWILL

During the six months ended 30 June 2001, the directors have assessed the recoverable amount of the goodwill arising from acquisition of an associate amounting to HK\$30,035,000 and identified that goodwill to be impaired. Accordingly, the carrying amount of the goodwill has been written down to its estimated recoverable amount of nil in the current interim period.

10. TAXATION

	Six months ended 30.6.2001 <i>HK\$'000</i>	Six months ended 30.6.2000 <i>HK\$'000</i>
The charge comprises:-		
Under-provision of Hong Kong Profits Tax in prior years	—	133
Share of taxation of associates	<u>33</u>	<u>—</u>
	<u><u>33</u></u>	<u><u>133</u></u>

No provision for Hong Kong Profits Tax has been made in the financial statements, as the Group has no assessable profit for the both periods.

11. DIVIDENDS

	Six months ended 30.6.2001 <i>HK\$'000</i>	Six months ended 30.6.2000 <i>HK\$'000</i>
Final dividend in respect of fiscal year 2000 at 0.5 HK cents (1999: nil) per ordinary share	<u><u>46,432</u></u>	<u><u>—</u></u>

The directors do not recommend the payment of an interim dividend in respect of the current period.

12. (LOSS) / EARNINGS PER SHARE

The calculation of the basic (loss) / earnings per share and diluted earnings per share is based on the following data:-

	Six months ended 30.6.2001 HK\$'000	Six months ended 30.6.2000 HK\$'000
(Loss) / earnings for the purposes of basic and diluted (loss) / earnings per share	<u><u>(443,217)</u></u>	<u><u>1,316,118</u></u>
	Number of shares	Number of shares
Weighted average number of shares for the purposes of basic (loss) / earnings per share	<u><u>9,286,461,803</u></u>	9,283,110,819
Effect of dilutive potential ordinary shares:- - Options		<u>1,517,375</u>
Weighted average number of shares for the purpose of diluted earnings per share		<u><u>9,284,628,194</u></u>

Diluted loss per share is not presented for the current period, as the exercise of the Company's outstanding warrants would reduce the loss per share.

13. INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

As SSAP 25 does not require an enterprise to arrange for a revaluation to be made by professional qualified valuers on revalued assets held at the interim period end, no professional valuation has been performed in respect of the Group's investment properties and leasehold land and buildings as at 30 June 2001. However, the directors consider that the values of the investment properties and leasehold land and buildings as at 30 June 2001 would not be materially different from the professional valuation made as at 31 December 2000 and, accordingly, no revaluation surplus or deficit has been recognised in the current period.

During the six months ended 30 June 2001, the Group reclassified certain leasehold land and buildings as investment properties with a carrying amount of HK\$19,680,000 as the Group has rented out these properties, which are considered to be held for their investment potential, to generate rental income from outsiders.

14. INVESTMENTS IN SECURITIES

	Trading investments		Non-trading investments		Total	
	30.6.2001 HK\$'000	31.12.2000 HK\$'000	30.6.2001 HK\$'000	31.12.2000 HK\$'000	30.6.2001 HK\$'000	31.12.2000 HK\$'000
Equity securities:-						
listed in Hong Kong	934,440	1,443,988	366,781	381,613	1,301,221	1,825,601
unlisted	414,794	492,175	22,852	6,000	437,646	498,175
	<u>1,349,234</u>	<u>1,936,163</u>	<u>389,633</u>	<u>387,613</u>	<u>1,738,867</u>	<u>2,323,776</u>
Market value of listed securities	<u>934,440</u>	<u>1,443,988</u>	<u>366,781</u>	<u>381,613</u>	<u>1,301,221</u>	<u>1,825,601</u>
Carrying amount analysed for reporting purposes as:-						
Non-current	—	—	368,496	339,638	368,496	339,638
Current	1,349,234	1,936,163	21,137	47,975	1,370,371	1,984,138
	<u>1,349,234</u>	<u>1,936,163</u>	<u>389,633</u>	<u>387,613</u>	<u>1,738,867</u>	<u>2,323,776</u>

15. DEBTORS, DEPOSITS AND PREPAYMENTS

The Group has a policy of allowing an average credit period of 30 - 90 days to its trade customers.

	30.6.2001 HK\$'000	30.12.2000 HK\$'000
An aged analysis of trade debtors and receivable from brokers is as follows:-		
Within 90 days	22,941	22,208
91 - 180 days	129	77
181 - 360 days	104	48
Over 360 days	5	—
	<u>23,179</u>	<u>22,333</u>
Other debtors, deposits and prepayments	38,298	44,470
	<u>61,477</u>	<u>66,803</u>

16. CREDITORS AND ACCRUED CHARGES

An aged analysis of trade creditors and payable to brokers is as follows:-

	30.6.2001	30.12.2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 90 days	76,683	27,302
91 - 180 days	726	121
181 - 360 days	10,815	3,064
Over 360 days	6,369	3,849
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	94,593	34,336
Other creditors and accrued charges	71,709	90,723
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	166,302	125,059
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17. LIABILITIES IN RESPECT OF DERIVATIVE CONTRACTS

At 30 June 2001, the balance represents the net unrealised loss on derivative contracts which are mainly related to the Company's dealing in over-the-counter options which are valued at their fair values by reference to the available market information.

18. BANK BORROWINGS

	30.6.2001	30.12.2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank overdraft	384	—
Short term bank loans - secured	—	265,519
	<hr/>	<hr/>
	384	265,519
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19. SHARE CAPITAL

	Number of shares	Amount <i>HK\$'000</i>
Ordinary shares of HK\$0.01 each		
Authorised:		
At 30 June 2001 and 31 December 2000	30,000,000,000	300,000
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Issued and fully paid:		
At 31 December 2000	9,286,461,740	92,865
Warrants exercised	600	—
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At 30 June 2001	9,286,462,340	92,865
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20. RESERVES

	Share premium HK\$'000	Capital reserve (goodwill) HK\$'000	Warrant reserve HK\$'000	Asset revaluation reserve HK\$'000	Capital redemption reserve HK\$'000	Translation reserve HK\$'000	Retained profits (deficit) HK\$'000	Total HK\$'000
THE GROUP								
At 1 January 2000								
- as originally stated	1,134,343	32,883	—	3,471,277	1,922	2,539	(517,353)	4,125,611
- prior year adjustment in respect of adoption of SSAP 32	—	—	—	—	—	—	86,582	86,582
- as restated	1,134,343	32,883	—	3,471,277	1,922	2,539	(430,771)	4,212,193
Net premium arising on issue of warrants	—	—	90,382	—	—	—	—	90,382
Goodwill arising on acquisition of an associate	—	(30,035)	—	—	—	—	—	(30,035)
Goodwill on acquisition of a subsidiary	—	(569)	—	—	—	—	—	(569)
Share of reserve of an associate	—	(668)	—	—	—	70	—	(598)
Premium arising on issue of shares	1,341	—	—	—	—	—	—	1,341
Transfer	1	—	(1)	—	—	—	—	—
Released on realisation of non-trading investments	—	—	—	(3,306,391)	—	—	—	(3,306,391)
Revaluation deficit of non-trading investments	—	—	—	(229,223)	—	—	—	(229,223)
Profit for the year	—	—	—	—	—	—	1,333,908	1,333,908
At 31 December 2000	1,135,685	1,611	90,381	(64,337)	1,922	2,609	903,137	2,071,008
Share of reserve of an associate	—	—	—	—	—	(342)	—	(342)
Revaluation deficit of non-trading investments	—	—	—	(44,907)	—	—	—	(44,907)
Impairment loss on goodwill	—	30,035	—	—	—	—	—	30,035
Loss for the period	—	—	—	—	—	—	(443,217)	(443,217)
Dividends	—	—	—	—	—	—	(46,432)	(46,432)
At 30 June 2001	1,135,685	31,646	90,381	(109,244)	1,922	2,267	413,488	1,566,145

21. CONTINGENT LIABILITY

In respect of the disposal of a subsidiary in prior years, the Group has given an indemnity to the purchaser against all liabilities, losses, costs and expenses suffered and/or incurred by the purchaser in relation to or arising out of the assignment of certain of the subsidiary's business contracts.

22. LITIGATION

Save and except for the matters specified in the last annual report for the year ended 31 December 2000, the Group is not engaged in any further litigation or claims of material importance and, so far as the directors of the Company are aware, no litigation or claims of material importance are pending or threatened by or against any companies of the Group.

23. RELATED PARTY TRANSACTION

During the six months ended 30 June 2001, the Group paid a reimbursement of expenses of HK\$3,000,000 to China Sci-Tech Holdings Limited ("CST"), a substantial shareholder of the Company. The reimbursement is based on the actual costs incurred by CST.