

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2001

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the Statement of Standard Accounting Practice No. 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants ("SSAP 25"), except that the comparative figures for the condensed consolidated statement of recognised gains and losses and the condensed consolidated cash flow statement relating to accounting period ended 30 June 2000 have not been presented. Such departures are permitted under Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The accounting policies adopted are consistent with those followed in the Group's annual financial statements for the year ended 31 December 2000 except as described in note 2.

2. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS IN HONG KONG

In May 2001, the Hong Kong Society of Accountants ("HKSA") issued a revised Statement of Standard Accounting Practice ("SSAP") 10 "Accounting for investments in associates". The revised SSAP 10 requires consequential adoption of several SSAPs, of which SSAP 30 "Business combinations" and SSAP 31 "Impairment of assets" are considered to have an impact on the accounting policies adopted by the Group for the current period, along with revised SSAP 10.

Among the various new requirements under revised SSAP 10, it requires appropriate adjustments for amortisation of goodwill, being the difference between the cost of investment in associate and the investor's share of the fair values of the net identifiable assets, when applying the equity method in preparing consolidated financial statements. The previous SSAP 10 did not have such a requirement. As a result of the new requirement, the Group amortises goodwill relating to its associate, Bizipoint.com Limited, over a period of 20 years with retrospective effect. However, the adoption of the revised SSAP 10 has had no material effect on amounts reported in the prior period.

3. SEGMENTED INFORMATION

Turnover represents the aggregate of the net invoiced value of goods sold, after allowances for goods returned and trade discounts.

An analysis of Group turnover and operating profit/(loss) before share of results of associates by principal activity and geographical area of operations are as follows:

	Six months ended 30 June			
	Turnover		Operating profit/(loss) before share of results of associates	
	2001 (unaudited) HK\$'000	2000 (unaudited) HK\$'000	2001 (unaudited) HK\$'000	2000 (unaudited) HK\$'000
By activity				
Continuing operations				
Sale of components and related products	66,401	126,323	(3,753)	(9,920)
Others	669	2,383	186	1,846
	<u>67,070</u>	<u>128,706</u>	<u>(3,567)</u>	<u>(8,074)</u>
Discontinued operations				
Sale of consumer electronics products	–	1,405,689	–	10,287
	<u>67,070</u>	<u>1,534,395</u>	<u>(3,567)</u>	<u>2,213</u>
Profit on disposal of subsidiaries			–	107,430
Amortisation of goodwill			(4,588)	–
Provision for doubtful debts			–	(220,000)
Provision for impairment of investment properties			–	(19,000)
Provision for impairment of properties, plant and equipment			–	(9,056)
Other expenses less other income			(5,711)	6,409
Finance costs			(49,027)	(14,905)
			<u>(62,893)</u>	<u>(146,909)</u>

	Six months ended 30 June			
	Turnover		Operating profit/(loss) before share of results of associates	
	2001 (unaudited) HK\$'000	2000 (unaudited) HK\$'000	2001 (unaudited) HK\$'000	2000 (unaudited) HK\$'000
By geographical area				
Continuing operations				
China including Hong Kong	58,126	31,325	(3,146)	(10,857)
Europe	1,873	7,362	(109)	204
United States of America	6,512	12,025	(346)	677
Japan	559	–	34	–
Others	–	77,994	–	1,902
	<u>67,070</u>	<u>128,706</u>	<u>(3,567)</u>	<u>(8,074)</u>
Discontinued operations				
China including Hong Kong	–	177,385	–	959
Europe	–	319,868	–	1,376
United States of America	–	258,877	–	1,063
Japan	–	354,481	–	4,008
Others	–	295,078	–	2,881
	<u>–</u>	<u>1,405,689</u>	<u>–</u>	<u>10,287</u>
	<u>67,070</u>	<u>1,534,395</u>	<u>(3,567)</u>	<u>2,213</u>
Profit on disposal of subsidiaries			–	107,430
Amortisation of goodwill			(4,588)	–
Provision for doubtful debts			–	(220,000)
Provision for impairment of investment properties			–	(19,000)
Provision for impairment of properties, plant and equipment			–	(9,056)
Other expenses less other income			(5,711)	6,409
Finance costs			(49,027)	(14,905)
			<u>(62,893)</u>	<u>(146,909)</u>

4. LOSS FROM OPERATING ACTIVITIES

This is arrived at after charging:

	Six months ended 30 June	
	2001 (unaudited) HK\$'000	2000 (unaudited) HK\$'000
Gross rental income	669	2,383
Less: outgoings	<u>(46)</u>	<u>(93)</u>
Net rental income	623	2,290
Interest income	779	24,689
Profit on disposal of subsidiaries	-	107,430
and after charging:		
Amortisation of goodwill	4,588	-
Depreciation of owned properties, plant and equipment	1,603	19,912
Provision for doubtful debts	-	220,000
Provision for impairment of investment properties	-	19,000
Provision for impairment of properties, plant and equipment	<u>-</u>	<u>9,056</u>

5. FINANCE COSTS

	Six months ended 30 June	
	2001 (unaudited) HK\$'000	2000 (unaudited) HK\$'000
Interest and similar charges on:		
Bank loans and overdrafts wholly repayable within five years	-	7,560
Other	<u>49,027</u>	<u>17,600</u>
	<u>49,027</u>	<u>25,160</u>

Finance costs for the six months ended 30 June 2000 included HK\$10,255,000 related to the discontinued operations.

6. 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 current period. Taxes on profits assessable outside Hong Kong have been calculated at the rates of taxation prevailing in the countries in which the Group operates, based on existing law, practice and interpretation thereof.

	Six months ended 30 June	
	2001 (unaudited) <i>HK\$'000</i>	2000 (unaudited) <i>HK\$'000</i>
The Group	<u>714</u>	<u>401</u>

7. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss attributable to shareholders of HK\$64,616,000 (2000: HK\$147,519,000) and the weighted average of 3,713,566,325 (2000: 3,354,858,140) shares in issue during the current period.

The diluted loss per share for the periods ended 30 June 2001 and 2000 have not been shown as there were no dilutive potential ordinary shares in existence during the current period and the outstanding warrants and options during the period ended 30 June 2000 had an anti-dilutive effect on the basic loss per share for the period.

8. TRADE AND OTHER RECEIVABLES

Included in the balance are advances to be realised, net of provisions, amounting to HK\$600,000,000 arising from the rescue of the Akai Group (as at 31 December 2000: HK\$600,000,000).

The Group allows an average credit period of 30 to 45 days to its trade customers.

The following is an aging analysis of trade and other receivables (net of provision for doubtful debts) at the reporting date:

	30 June 2001 (unaudited) <i>HK\$'000</i>	31 December 2000 (audited) <i>HK\$'000</i>
	Current	348
One to three months	424	653
More than three months	<u>607,993</u>	<u>602,894</u>
	<u>608,765</u>	<u>629,183</u>

9. **TRADE AND OTHER PAYABLES**

Included in the balance is an amount due to The Grande Group of HK\$601,758,000 (as at 31 December 2000: HK\$512,990,000) which is unsecured, repayable on normal trading terms and bears interest at prime rate plus 2% per annum.

The following is an aging analysis of trade and other payables at the reporting date:

	30 June 2001 (unaudited) HK\$'000	31 December 2000 (audited) HK\$'000
Current	619,284	547,622
One to three months	55	10,479
More than three months	<u>16,246</u>	<u>14,247</u>
	<u>635,585</u>	<u>572,348</u>

10. **SHARE CAPITAL**

Ordinary shares

	Number of ordinary shares of HK\$0.01 each	HK\$'000
<i>Authorised:</i>		
1 January 2001 and 30 June 2001	<u>5,000,000,000</u>	<u>50,000</u>
<i>Issued and fully paid:</i>		
1 January 2001	3,543,676,822	35,437
Issue of new shares	<u>250,000,000</u>	<u>2,500</u>
30 June 2001	<u>3,793,676,822</u>	<u>37,937</u>

On 28 February 2001, the Company issued 250,000,000 new shares of HK\$0.01 per share at HK\$0.08 per share to provide additional working capital of HK\$20,000,000 for the company.

11. RESERVES

Group

	Share premium account HK\$'000	Contributed surplus HK\$'000	Other fixed assets revaluation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
31 December 2000 (audited) and 1 January 2001	727,855	460,074	2,034	12,164	(894,345)	307,782
Issue of new shares	17,500	-	-	-	-	17,500
Share issue expenses	(326)	-	-	-	-	(326)
Loss for the current period	-	-	-	-	(64,616)	(64,616)
30 June 2001 (unaudited)	<u>745,029</u>	<u>460,074</u>	<u>2,034</u>	<u>12,164</u>	<u>(958,961)</u>	<u>260,340</u>

Included in accumulated losses at 30 June 2001 were losses of HK\$4,149,000 accumulated by associates (as at 31 December 2000: HK\$3,236,000).

12. CONTINGENT LIABILITIES

	30 June 2001 (unaudited) HK\$'000	31 December 2000 (audited) HK\$'000
Bills discounted with recourse	<u>-</u>	<u>4,168</u>

13. COMMITMENTS

	30 June 2001 (unaudited) HK\$'000	31 December 2000 (audited) HK\$'000
Capital commitments - contracted for	<u>-</u>	<u>156</u>

14. RELATED PARTY TRANSACTIONS

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

	Notes	Six months ended 30 June	
		2001 (unaudited) HK\$'000	2000 (unaudited) HK\$'000
Sales of components and related products to The Grande Holdings Limited and its associates (the "Grande Group"), a substantial shareholder of the Company in the previous period	(a)	1,435	13,246
Interest income from the Grande Group	(b)	446	–
Purchases of various components, raw materials and packaging materials from the Grande Group	(a)	2,587	598
General and administrative expenses charged by the Grande Group	(b)	3,500	1,339
Interest and similar charges payable to the Grande Group	(c)	49,027	17,600
Subcontracting charges paid to the Grande Group	(b)	357	–

Notes:

- (a) Considerations for these sales and purchase transactions were determined through negotiations between the respective parties with reference to, among other things, the price lists and the volume of the transactions on a case-by-case basis.
- (b) The considerations were determined through negotiations between the respective parties.
- (c) Interest expense was charged at prime rate plus 2% per annum.

At 30 June 2001, the net balance due to the Grande Group was HK\$601,758,000 (31 December 2000 : HK\$512,990,000). The balance due is unsecured, repayable on normal trading terms and bears interest at prime rate plus 2% per annum.