

## Notes to the Condensed Financial Statements:

### 1. Principal accounting policies

These interim financial statements have not been audited by the Company's auditors but have been reviewed by the Company's audit committee.

These interim financial statements have complied with Statements of Standard Accounting Practice ("SSAP") No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants ("HKSA") and the disclosure requirements set out in Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The accounting policies and basis of presentation used in the preparation of the interim financial statements are consistent with those used in the annual audited financial statements for the year ended 31 March 2001, except that the following new/revised SSAPs have been adopted for the first time in the preparation of the current period's condensed consolidated 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

### 2. Segmental information

	Turnover		Contribution to profit (loss) from operating activities	
	Six months ended		Six months ended	
	30 September		30 September	
	2001	2000	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>By activities</b>				
Continuing operations				
– communication products	<b>116,820</b>	–	<b>11,159</b>	–
– communication software and services	<b>21,034</b>	–	<b>6,578</b>	–
Discontinued operations				
– toy products	–	472	–	208,580
	<b>137,854</b>	472	<b>17,737</b>	208,580
<b>By geographical regions</b>				
PRC (excluding Hong Kong)	<b>137,854</b>	–	<b>17,737</b>	–
Hong Kong	–	10	–	236,217
Europe	–	34	–	(2,034)
United States of America	–	336	–	(20,100)
Others	–	92	–	(5,503)
	<b>137,854</b>	472	<b>17,737</b>	208,580

### 3. Discontinued operations

In prior period, the Group's production facilities in PRC had been seized by court order and the Group had not engaged in any production activities thereafter.

### 4. Profit from operating activities

Profit from operating activities is determined after charging and crediting the followings:

	Unaudited Six months ended 30 September	
	2001	2000
	HK\$'000	HK\$'000
Charging:		
Depreciation of fixed assets	645	8,281
Operating lease rentals in respect of land and buildings	913	669
Exchange losses, net	209	599
Amortisation of goodwill	600	–
Loss on disposals of fixed assets	69	200
Interest on bank loans and overdrafts wholly repayable within one year	226	2,818
Interest on convertible bonds wholly repayable within five years	857	2,383
Interest on other loans	1,341	3,012
	<u>          </u>	<u>          </u>
Crediting:		
Interest income on bank deposits	265	94
	<u>          </u>	<u>          </u>

### 5. Tax

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong for the period (2000: Nil).

The amount of taxation charged to the consolidated income statement represents the overseas taxation. (2000: Nil)

### 6. Earnings per share

#### (a) Basic earnings per share

The calculation of basic earnings per share is based on the unaudited net profit attributable to shareholders for the period of HK\$10,219,000 (2000: HK\$200,367,000), and the weighted average of 997,379,979 (2000: 485,238,798) ordinary shares in issue during the period.

#### (b) Diluted earnings per share

The calculation of diluted earnings per share is based on the unaudited net profit attributable to shareholders for the period of HK\$10,219,000. The weighted average number of ordinary shares used in the calculation comprises the 997,379,979 ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average of 125,577,358 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all options outstanding and all outstanding balance of convertible bonds had been converted into shares during the period.

The diluted earnings per share for the six months ended 30 September 2000 is not shown because there were no dilutive potential ordinary shares outstanding during the period.

## 7. Accounts receivable

The Group's average credit term to trade debtor is 60 days. The aging analysis of accounts receivable is as follows:

	<b>As at 30 September 2001 (Unaudited) HK\$'000</b>	As at 31 March 2001 (Audited) HK\$'000
Within 30 days	31,473	13,230
Over 30 days but within 90 days	6,050	16,285
Over 90 days	22,757	10,761
	<u>60,280</u>	<u>40,276</u>

## 8. Accounts payable

The aging analysis of accounts payable is as follows:

	<b>As at 30 September 2001 (Unaudited) HK\$'000</b>	As at 31 March 2001 (Audited) HK\$'000
Within 180 days	36,083	–
Over 180 days	1,838	462
	<u>37,921</u>	<u>462</u>

## 9. Share Capital

### (a) Shares

	<i>Note</i>	<b>No. of shares '000</b>	<i>HK\$'000</i>
<i>Authorised:</i>			
Ordinary shares of HK\$0.10 each			
Beginning of period		1,500,000	150,000
Addition	<i>i.</i>	1,500,000	150,000
End of period		<u>3,000,000</u>	<u>300,000</u>
<i>Issued and fully paid:</i>			
Ordinary shares of HK\$0.10 each			
Beginning of period		891,508	89,151
Placement of new shares	<i>ii.</i>	160,000	16,000
Debt conversion	<i>iii.</i>	8,907	891
End of period		<u>1,060,415</u>	<u>106,042</u>

Notes:

- (i) On 12 July 2001, the authorised share capital of the Company was increased from 1,500,000,000 to 3,000,000,000 ordinary shares of HK\$0.10 each.
- (ii) On 30 May 2001, the Company announced the placing of 160 million new shares of the Company of HK\$0.10 each at a price of HK\$0.18 per share. The placing was completed on 5 June 2001 and the cash proceeds therefrom was approximately HK\$28.8 million.
- (iii) During the period, the Company converted certain of its indebtedness into subscription shares and details are as follows:

<b>Date of conversion</b>	<b>Number of ordinary shares</b>	<b>Approximate issued price (HK\$)</b>
30 May 2001	1,600,000	0.305
12 June 2001	427,000	1.00
22 August 2001	6,880,000	2.10
	8,907,000	

(b) *Share options*

On 3 August 2001, the Company granted 4,500,000 share options to certain employees of the Group at a consideration of HK\$1.00 per grantee under the share option scheme (the “Scheme”) for the subscription of ordinary shares of the Company at a subscription price of HK\$0.3672 per share. The share options granted are exercisable up to 2 August 2011.

On 29 August 2001, the Company granted 92,670,000 share options to certain directors and certain employees of the Group at a consideration of HK\$1.00 per grantee under the Scheme for the subscription of ordinary shares of the Company at a subscription price of HK\$0.352 per share. The share options granted are exercisable for the period from 1 April 2002 to 28 August 2011.

None of these share options has been exercised since the dates of grant.

**10. Reserves**

	<b>Share premium</b>	<b>Exchange reserve</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Beginning of period	288,156	–	288,156
Premium on issue of shares	27,335	–	27,335
Exchange reserve	–	235	235
End of period	315,491	235	315,726

**11. Notes to condensed consolidated cash flow statement**

(a) *Acquisition of a subsidiary*

During the period, the Group acquired 51% interest in Beijing HollyBridge System Integration Company Limited at a total consideration of HK\$16,000,000 in cash. The acquisition during the period contributed approximately HK\$443,000 to the group’s cash and cash equivalents.

(b) *Major non-cash transaction*

During the period, the Company entered into debt-equity conversion agreements with its creditors, leading to a capitalization of the Group’s indebtedness of approximately HK\$15,426,000.

## 12. Related party transactions

As at the balance sheet date, the Group had the following material related parties balances:

- (a) Amounts due to a related company was unsecured, non-interest bearing and had no pre-determined term of repayment.
- (b) A director of the Company provided guarantee on other loan of the Group.

## 13. Commitments

As at 30 September 2001, the Group had the annual commitments payable in the following year under non-cancellable operating leases in respect of land and buildings expiring within:

	<b>As at 30 September 2001 (Unaudited) HK\$'000</b>	As at 31 March 2001 (Audited) HK\$'000
One year	391	807
Two to five years, inclusive	<u>4,129</u>	<u>–</u>
	<u><b>4,520</b></u>	<u><b>807</b></u>

## 14. Contingent liabilities

As at 30 September 2001, the Group provided guarantees in respect of an other loan granted to a disposed subsidiary to the extent of approximately HK\$36 million.

## 15. Post balance sheet events

- (a) On 2 November 2001, the Company provided a guarantee to a financial institution for a loan facility provided to a subsidiary to the extent of approximately HK\$28 million.
- (b) On 23 November 2001, the Group entered into a letter of intent with Shenzhen Venture Capital Co. Ltd. in respect of the proposed subscription of equity interest of Telecom Plus Technology (Shenzhen) Limited, a wholly-owned subsidiary of the Group. The subscription funds will be amounted to approximately HK\$19 million.