

NOTES TO THE INTERIM FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

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

The interim report has been prepared in accordance with the Statement of Standard Accounting Practice (“SSAP”) No. 25 “Interim financial reporting” issued by the Hong Kong Society of Accountants and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. (“Stock Exchange”)

The accounting policies adopted are consistent with those followed in the Group’s annual financial statements for the year ended 31st March, 2001, except as described below.

The Group has adopted a number of new and revised SSAPs issued by the Hong Kong Society of Accountants, for the first time in the current period. The adoption of these new or revised SSAPs does not have any significant effect on the financial statements of the current or previous period.

In adopting SSAP No. 30 “Business Combinations”, the Group has elected not to restate goodwill (negative goodwill) previously eliminated against (credited to) reserves. Accordingly, goodwill arising on acquisitions prior to 1st April, 2001 is 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 acquisition prior to 1st April, 2001 will be credited to income at the time of disposal of the relevant subsidiary or associate. Goodwill arising on acquisition after 1st April, 2001 is capitalised and amortised over its estimated useful life of a maximum period of 20 years. Negative goodwill arising on acquisition after 1st April, 2001 is presented as a deduction from assets and will be released to income and based on an analysis of the circumstances from which the balance resulted.

2. SEGMENT INFORMATION

Business segments

Business segments for the six months ended 30th September, 2001:

	Design, manufacture and sale of electronic products <i>HK\$</i>	Securities trading <i>HK\$</i>	Consolidated <i>HK\$</i>
REVENUE	<u>447,953,057</u>	<u>26,297,289</u>	<u>474,250,346</u>
SEGMENT RESULT	<u>(10,279,623)</u>	<u>(19,044,708)</u>	(29,324,331)
Interest income			729,223
Unallocated corporate expenses			<u>(418,132)</u>
Loss from operations			<u>(29,013,240)</u>

Business segments for the six months ended 30th September, 2000:

	Design, manufacture and sale of electronic products HK\$	Securities trading HK\$	Consolidated HK\$
REVENUE	<u>692,330,857</u>	<u>115,977,398</u>	<u>808,308,255</u>
SEGMENT RESULT	<u>60,028,101</u>	<u>(11,631,742)</u>	48,396,359
Interest income			704,020
Unallocated corporate expenses			<u>(519,057)</u>
Profit from operations			<u>48,581,322</u>

Geographical segments

Geographical segments for the six months ended 30th September, 2001:

	Hong Kong HK\$	Mainland China HK\$	North and South America HK\$	Europe HK\$	Japan HK\$	Other countries HK\$	Elimination HK\$	Consolidated HK\$
REVENUE								
External sales	305,696,302	2,819,379	67,593,150	59,350,239	2,545,059	36,246,217	-	474,250,346
Inter-segment sales	<u>854,933,551</u>	<u>2,016,123</u>	-	-	-	-	(856,949,674)	-
Total revenue	<u>1,160,629,853</u>	<u>4,835,502</u>	<u>67,593,150</u>	<u>59,350,239</u>	<u>2,545,059</u>	<u>36,246,217</u>	<u>(856,949,674)</u>	<u>474,250,346</u>
SEGMENT RESULT	<u>(23,450,602)</u>	<u>(50,448)</u>	<u>(3,465,561)</u>	<u>(1,061,984)</u>	<u>(647,165)</u>	<u>(648,571)</u>	-	(29,324,331)
Interest income								729,223
Unallocated corporate expenses								<u>(418,132)</u>
Loss from operations								<u>(29,013,240)</u>

Geographical segments for the six months ended 30th September, 2000:

	Hong Kong HK\$	Mainland China HK\$	North and South America HK\$	Europe HK\$	Japan HK\$	Other countries HK\$	Elimination HK\$	Consolidated HK\$
REVENUE								
External sales	564,320,243	2,747,664	154,332,286	67,024,033	2,893,107	16,990,922	-	808,308,255
Inter-segment sales	<u>1,342,335,154</u>	<u>1,698,550</u>	-	-	-	-	(1,344,033,704)	-
Total revenue	<u>1,906,655,397</u>	<u>4,446,214</u>	<u>154,332,286</u>	<u>67,024,033</u>	<u>2,893,107</u>	<u>16,990,922</u>	<u>(1,344,033,704)</u>	<u>808,308,255</u>
SEGMENT RESULT	<u>30,510,308</u>	<u>32,680</u>	<u>12,763,776</u>	<u>4,280,005</u>	<u>(414,265)</u>	<u>1,223,855</u>	-	48,396,359
Interest income								704,020
Unallocated corporate expenses								<u>(519,057)</u>
Profit from operations								<u>48,581,322</u>

3. DEPRECIATION

During the period, depreciation of approximately HK\$17,541,000 (HK\$16,808,000 for the six months ended 30th September, 2000) was charged to the consolidated income statement in respect of the Group's property, plant and equipment.

4. TAXATION

01.04.2001	01.04.2000
to	to
30.09.2001	30.09.2000
HK\$	HK\$

The charge comprises:

Hong Kong Profits Tax calculated at 16% of the estimated assessable profit for the period	–	280,000
Taxation in other jurisdictions	<u>735,197</u>	<u>836,450</u>
	<u>735,197</u>	<u>1,116,450</u>

No provision for Hong Kong Profits Tax has been made in the current period as the Company and its subsidiaries incurred tax loss for the period.

Taxation in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

5. (LOSS) EARNINGS PER SHARE

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

01.04.2001	01.04.2000
to	to
30.09.2001	30.09.2000

(Loss) earnings:

Net (loss) profit for the period and (loss) earnings for the purpose of basic (loss) earnings and diluted (loss) earnings per share

<u>HK\$(34,219,170)</u>	<u>HK\$41,517,553</u>
--------------------------------	------------------------------

Number of shares:

Weighted average number of shares for the purpose of basic (loss) earnings per share

<u>2,696,644,323</u>	2,595,515,081
-----------------------------	---------------

Effect of dilutive potential shares:

Share options
Warrants

Not applicable	50,820,082
Not applicable	<u>135,596,677</u>

Weighted average number of shares for the purpose of diluted (loss) earnings per share

Not applicable	<u>2,781,931,840</u>
-----------------------	-----------------------------

The computation of diluted loss per share for the current period does not assume as their earlier exercise of the outstanding share option would result in a decrease in the loss per share.

6. INTERIM DIVIDEND

The directors do not declare the payment of interim dividend for the year ending 31st March, 2002. (HK\$0.4 cent per share for the year ended 31st March, 2001)

7. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK\$14,851,000 (approximately HK\$27,689,000 for the six months ended 30th September, 2000) to acquire property, plant and equipment to expand its existing manufacturing capacity.

8. DEBTORS, DEPOSITS AND PREPAYMENTS

At 30th September, 2001, the balance of debtors, deposits and prepayments included trade debtors of HK\$123,655,291 (HK\$71,620,805 at 31st March, 2001). The aging analysis of trade debtors at the reporting dates is as follows:

	30.09.2001 <i>HK\$</i>	31.03.2001 <i>HK\$</i>
0 – 30 days	76,427,459	38,574,166
31 – 60 days	29,410,369	14,813,803
61 – 90 days	321,468	15,839
>90 days	17,495,995	18,216,997
	<u>123,655,291</u>	<u>71,620,805</u>

The Group allows an average credit period ranged from 30 days to 90 days to its trade customers.

9. CREDITORS AND ACCRUED CHARGES

At 30th September, 2001, the balance of creditors and accrued charges included trade creditors of HK\$132,093,777 (HK\$70,608,822 at 31st March, 2001). The aging analysis of trade creditors at the reporting dates is as follows:

	30.09.2001 <i>HK\$</i>	31.03.2001 <i>HK\$</i>
0 – 30 days	50,996,288	29,950,916
31 – 60 days	31,572,682	18,316,910
61 – 90 days	23,960,444	4,247,700
>90 days	25,564,363	18,093,296
	<u>132,093,777</u>	<u>70,608,822</u>

10. SHARE CAPITAL

	Number of shares	Issued and fully paid share capital <i>HK\$</i>
Ordinary shares of HK\$0.10 each		
Balance at 1st April, 2001	2,693,196,673	269,319,667
Issue of shares upon exercise of warrants	33,668,729	3,366,873
Repurchase of shares	(33,640,000)	(3,364,000)
Balance at 30th September, 2001	<u>2,693,225,402</u>	<u>269,322,540</u>

During the period, the following changes in the share capital of the Company took place:

- 33,668,729 shares of HK\$0.10 each were issued at HK\$0.13 per share as a result of the exercise of certain warrants of the Company by the warrant holders.
- The Company repurchased its own shares on The Stock Exchange of Hong Kong Limited as follows:

Month	Number of Shares	Price per share		Aggregate Consideration <i>HK\$</i>
		Highest <i>HK\$</i>	Lowest <i>HK\$</i>	
April 2001	23,320,000	0.136	0.122	3,116,930
May 2001	5,490,000	0.160	0.128	766,180
June 2001	4,830,000	0.160	0.142	739,430
	<u>33,640,000</u>			<u>4,622,540</u>

The above shares were cancelled upon repurchase and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. The premium on repurchases was charged against accumulated profits. An amount equivalent to the nominal value of the shares cancelled was transferred from accumulated profits to the capital redemption reserve.

11. RESERVES

	Share premium HK\$	Other property revaluation reserve HK\$	Translation reserve HK\$	Accumulated profits HK\$	Capital redemption reserve HK\$	Total HK\$
At 1st April, 2000	96,221,427	1,682,040	2,233,997	236,504,935	34,345,000	370,987,399
Bonus issue of shares	(52,158,883)	-	-	-	-	(52,158,883)
Premium arising from issue of shares						
- on exercise of warrants	5,773,670	-	-	-	-	5,773,670
- on distribution of scrip dividends	359,608	-	-	-	-	359,608
Premium on redemption of shares	-	-	-	(7,948,006)	-	(7,948,006)
Capital redemption reserve arising from repurchase of shares	-	-	-	(6,858,800)	6,858,800	-
Goodwill reserve arising on acquisition of an associate	-	-	-	(391,274)	-	(391,274)
Minority shareholders' share of changes in reserves	-	-	(14,588)	-	-	(14,588)
Exchange difference arising on translation of operations outside Hong Kong	-	-	(226,736)	-	-	(226,736)
Net loss for the year	-	-	-	(52,803,421)	-	(52,803,421)
Dividends	-	-	-	(10,793,141)	-	(10,793,141)
At 31st March, 2001 and 1st April, 2001	50,195,822	1,682,040	1,992,673	157,710,293	41,203,800	252,784,628
Premium arising from issue of shares on exercise of warrants	1,010,062	-	-	-	-	1,010,062
Premium on redemption of shares	-	-	-	(1,258,540)	-	(1,258,540)
Capital redemption reserve arising from repurchase of shares	-	-	-	(3,364,000)	3,364,000	-
Exchange difference arising on translation of operations outside Hong Kong	-	-	(132,766)	-	-	(132,766)
Minority shareholders' share of changes in reserves	-	-	325,396	-	-	325,396
Net loss for the period	-	-	-	(34,219,170)	-	(34,219,170)
At 30th September, 2001	51,205,884	1,682,040	2,185,303	118,868,583	44,567,800	218,509,610
Attributable to:						
- the Company and subsidiaries	51,205,884	1,682,040	2,391,275	122,862,930	44,567,800	222,709,929
- associates	-	-	(205,972)	(3,994,347)	-	(4,200,319)
	51,205,884	1,682,040	2,185,303	118,868,583	44,567,800	218,509,610

12. CAPITAL COMMITMENTS

	30.09.2001 HK\$	31.03.2001 HK\$
Capital expenditure authorised for a property development project but not contracted for	23,887,842	24,090,842
Capital expenditure contracted for property, plant and equipment but not provided in the financial statements	2,350,319	5,628,217
	26,238,161	29,719,059

13. CONTINGENT LIABILITIES

	30.09.2001	31.03.2001
	<i>HK\$</i>	<i>HK\$</i>
Bills discounted with recourse	<u>9,434,837</u>	<u>4,423,264</u>

14. POST BALANCE SHEET EVENT

In October 2001, Sheen United Technology Limited, a wholly-owned subsidiary of the Company, acquired an additional interest of 60% in gopuppy Limited, a then 15% owned investee of the Company, at a consideration of HK\$3 million.

15. ACQUISITION OF A SUBSIDIARY

	<i>HK\$</i>
Net liabilities acquired	(2,886,000)
Goodwill arising on acquisition	10,290,671
	<hr/>
Consideration	<u>7,404,671</u>
Net cash outflow arising on acquisition	
Consideration	7,404,671
Bank balances and cash acquired	(2,269,800)
	<hr/>
	<u>5,134,871</u>

Cosmo Communications Corporation, the acquired subsidiary, did not make any significant contribution to the results of the Group during the interim period.