

NOTES TO THE CONDENSED FINANCIAL STATEMENTS*For the six months ended 31 December 2001***1. BASIS OF PREPARATION**

The condensed interim financial statements have been prepared in accordance with Statement of Standard Accounting Practice ("SSAP") 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 ("Stock Exchange") ("Listing Rules").

2. SIGNIFICANT ACCOUNTING POLICIES

The condensed interim financial statements have been prepared under the historical cost convention as modified for the revaluation of certain properties.

The accounting policies and method of computation adopted in the preparation of these condensed interim financial statements are consistent with those used in the Group's annual financial statements for the year ended 30 June 2001, except that the Group has adopted the following new and revised SSAPs which are effective for accounting periods commencing on or after 1 January 2001:

| | | |
|------------------|---|--|
| SSAP 9 (revised) | : | Events after the balance sheet date |
| SSAP 26 | : | Segment reporting |
| SSAP 28 | : | Provisions, contingent liabilities and contingent assets |
| SSAP 30 | : | Business Combinations |
| SSAP 31 | : | Impairment of assets |
| SSAP 32 | : | Consolidated financial statements and accounting for investments in subsidiaries |

The changes to the Group's accounting policies and the effect of adopting these new policies are set out under note 2(a):

(a) Goodwill

Goodwill represents the excess of purchase consideration over the fair value at the date of acquisition ascribed to the Group's share of the separable net assets of the acquired subsidiaries and associates. Negative goodwill represents the excess of the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of subsidiaries and associates over the purchase consideration.

With the introduction of SSAP 30, goodwill arising on acquisitions on or after 1 July 2001 is now recognised as an intangible asset and is amortised on the straight-line basis over its estimated useful life. Any impairment loss identified is recognised as an expense immediately. Negative goodwill arising on acquisitions on or after 1 July 2001 is presented as a deduction from assets. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities, that portion of negative goodwill is recognised in the income statement when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the income statement over the remaining weighted average useful life of those assets; negative goodwill in excess of the fair values of those assets is recognised in the income statement immediately.

The Group has taken advantage of the transitional provisions of not restating goodwill (negative goodwill) previously eliminated against (credited to) reserves. Accordingly, goodwill that arising on acquisitions prior to 1 July 2001 is eliminated against reserves and will be charged to the income statement at the time of disposal of the relevant subsidiaries and associates or at such time as any impairment loss is identified in accordance with SSAP 31; negative goodwill that arising on acquisitions prior to 1 July 2001 is held in reserve and will be credited to income at the time of disposal of the relevant subsidiaries and associates.

(b) Associates

Associates are those entities, other than subsidiaries or joint ventures, in which the Company is able to exercise a significant influence in management through board representation or otherwise. Significant influence is the power to participate in, but not control, the financial and operating policy decisions of the associated concerned.

Investment in associates is accounted for in the consolidated financial statements using equity method. An assessment of investment in associates is performed when there is an indication that the asset has been impaired or the impairment loss recognised in prior years no longer exists.

3. SEGMENTAL INFORMATION

The Group is principally engaged in the manufacturing and selling of multimedia electronic products, toys and games products and the trading in telecommunication products. An analysis of the Group's turnover and contribution to profit/(loss) from operations by principal activity and geographical area during the period is shown as follows:

| | Turnover | | Contribution to profit/ (loss) from operations | |
|----------------------------------|-------------------------|-------------|---|-------------|
| | Six months ended | | Six months ended | |
| | 31 December | | 31 December | |
| | 2001 | 2000 | 2001 | 2000 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| <i>By principal activity:</i> | | | | |
| Manufacture and sale of | | | | |
| Multimedia electronic products | 147,319 | 146,527 | 5,247 | 3,481 |
| Toys and games products | 33,962 | 61,616 | (6,004) | (3,933) |
| Trading in telecommunication | | | | |
| products | 37,420 | 48,112 | 285 | (248) |
| Others | 16,824 | 6,870 | 602 | (1,543) |
| | 235,525 | 263,125 | 130 | (2,243) |
| <i>By geographical location:</i> | | | | |
| North America | 163,985 | 141,179 | (2,293) | 2,410 |
| Europe | 57,217 | 65,351 | 1,026 | (791) |
| Japan | 1,954 | 47,520 | 688 | (1,194) |
| Local and others | 12,369 | 9,075 | 709 | (2,668) |
| | 235,525 | 263,125 | 130 | (2,243) |

4. DEPRECIATION/AMORTISATION

During the period, depreciation of HK\$4,513,000 (2000: HK\$3,845,000) was charged in respect of the Group's tangible fixed assets and amortisation of HK\$724,000 (2000: Nil) was charged in respect of the goodwill arising on acquisition of an associate.

5. TAXATION

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong or the estimated assessable profits are wholly absorbed by tax losses brought forward for the current and last corresponding periods.

6. INTERIM DIVIDEND

The Board of Directors does not recommend the payment of an interim dividend for the current period (2000: Nil).

7. LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss for the period of HK\$4,761,000 (2000: HK\$4,064,000) and on the weighted average of 6,531,670,883 (2000: 6,449,107,840) ordinary shares in issue during the period.

No diluted loss per share is presented for the current period as the exercise of the outstanding share options of the Company would result in a decrease in the loss per share for the current period which is anti-dilutive.

No diluted loss per share was presented for the last corresponding period as the effect of the assumed conversion of the Company's outstanding convertible bonds and exercise of the Company's outstanding share options would be anti-dilutive.

8. TANGIBLE FIXED ASSETS

| | Leasehold properties | Leasehold improvements | Furniture, fixtures & equipment | Plant & machinery | Tools & moulds | Motor vehicles | Total |
|---------------------------|-------------------------|---------------------------|---------------------------------------|----------------------|-------------------|-------------------|---------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At cost/valuation: | | | | | | | |
| At 1 July 2001 | 25,930 | 12,772 | 17,697 | 28,215 | 38,852 | 4,658 | 128,124 |
| Additions | - | 3,672 | 758 | 775 | 1,964 | 370 | 7,539 |
| Disposals | - | - | (125) | (1,228) | - | (2,304) | (3,657) |
| At 31 December 2001 | 25,930 | 16,444 | 18,330 | 27,762 | 40,816 | 2,724 | 132,006 |
| Depreciation: | | | | | | | |
| At 1 July 2001 | - | 9,729 | 11,116 | 18,131 | 25,909 | 3,586 | 68,471 |
| Charge for the period | 589 | 489 | 576 | 1,283 | 1,472 | 104 | 4,513 |
| On disposal written back | - | - | (81) | (1,044) | - | (2,029) | (3,154) |
| At 31 December 2001 | 589 | 10,218 | 11,611 | 18,370 | 27,381 | 1,661 | 69,830 |
| Net book value: | | | | | | | |
| At 31 December 2001 | <u>25,341</u> | <u>6,226</u> | <u>6,719</u> | <u>9,392</u> | <u>13,435</u> | <u>1,063</u> | <u>62,176</u> |
| At 30 June 2001 | <u>25,930</u> | <u>3,043</u> | <u>6,581</u> | <u>10,084</u> | <u>12,943</u> | <u>1,072</u> | <u>59,653</u> |

Apart from the leasehold properties which are held under medium-term leases, all tangible fixed assets are stated at cost. The net book value of medium-term leasehold properties comprises:

| | 31 December 2001 (Unaudited) HK\$'000 | 30 June 2001 (Audited) HK\$'000 |
|---------------------|--|--|
| At valuation | | |
| – In Hong Kong | 5,829 | 5,930 |
| – Outside Hong Kong | <u>19,512</u> | <u>20,000</u> |
| | <u>25,341</u> | <u>25,930</u> |

The Group's leasehold properties were valued at 30 June 2001 by a firm of property consultants, on an open market value basis. The carrying amount of leasehold properties that would be included in the accounts if the leasehold properties were carried at cost less depreciation is HK\$12,684,000 (at 30 June 2001: HK\$12,966,000).

The net book value of fixed assets includes an amount of HK\$3,135,000 (at 30 June 2001: HK\$2,430,000) in respect of assets held under hire purchases contracts.

9. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 60 days to 90 days to its trade customers. Included in trade and other receivables are trade debtors of HK\$50,624,000 (at 30 June 2001: HK\$56,065,000) with the following aged analysis:

| | 31 December 2001 (Unaudited) HK\$'000 | 30 June 2001 (Audited) HK\$'000 |
|----------------|--|--|
| Within 90 days | 25,591 | 32,601 |
| Over 90 days | <u>25,033</u> | <u>23,464</u> |
| | <u>50,624</u> | <u>56,065</u> |

The Group is in the process of recovering receivable of approximately HK\$18 million in respect of goods shipped to a former customer, North American Foreign Trading Corporation ("NAFT") in 1996. NAFT has filed a Statement of Claim with the American Arbitration Association, in which it alleges that the Group manufactured and sold defective goods to NAFT for which NAFT is entitled to a refund. In addition, NAFT is claiming damages not exceeding US\$5 million. Based on legal advice, the Group is contesting vigorously the claims brought by NAFT and has counterclaimed for the said sum of HK\$18 million and for other damages. Accordingly, although it is not possible to determine the outcome of these proceedings with reasonable certainty at this time, no provision has been made in these interim financial statements against the Group's exposure in respect of this matter.

10. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$66,078,000 (at 30 June 2001: HK\$56,065,000) with the following aged analysis:

| | 31 December 2001 (Unaudited) HK\$'000 | 30 June 2001 (Audited) HK\$'000 |
|----------------|--|--|
| Within 90 days | 37,970 | 32,601 |
| Over 90 days | <u>28,108</u> | <u>23,464</u> |
| | <u>66,078</u> | <u>56,065</u> |

11. DEPOSIT RECEIVED

The deposit received, which represents a refundable deposit received for the proposed disposal of 49% equity interest and the shareholders' loan of Welback International Investments Limited, is unsecured and interest-free. Details are disclosed in note 16(b).

12. SHARE CAPITAL

| | 31 December 2001 (Unaudited) HK\$'000 | 30 June 2001 (Audited) HK\$'000 |
|---|--|--|
| <i>Authorised:</i> | | |
| 20,000,000,000 ordinary shares of HK\$0.01 each | <u>200,000</u> | <u>200,000</u> |
| <i>Issued and fully paid:</i> | | |
| 6,535,707,840 (at 30 June 2001: 6,490,107,840) ordinary shares of HK\$0.01 each | <u>65,357</u> | <u>64,901</u> |

Options to subscribe for 45,600,000 ordinary shares of HK\$0.01 each in the Company were exercised at the range from HK\$0.0135 to HK\$0.0274 each during the current period. The premium on the issue of the shares of HK\$354,200 was credited to the share premium account.

13. PLEDGE OF ASSETS

At 31 December 2001, the Group pledged the leasehold properties with a net book value of HK\$25,341,000 (at 30 June 2001: HK\$25,930,000) and a property held for sale of HK\$36,556,000 (at 30 June 2001: HK\$36,556,000) to secure credit facilities granted to the Group.

14. CONTINGENT LIABILITIES

| | 31 December 2001 (Unaudited) HK\$'000 | 30 June 2001 (Audited) HK\$'000 |
|--------------------------------|--|--|
| Bills discounted with recourse | <u>19,694</u> | <u>6,898</u> |

At 31 December 2001, the Company provided corporate guarantees amounting to approximately HK\$35,000,000 (at 30 June 2001: HK\$42,000,000) to various banks in respect of banking facilities granted to and utilised by its subsidiaries amounted to approximately HK\$19,536,000 (at 30 June 2001: HK\$25,616,000).



15. CAPITAL COMMITMENTS

As at 31 December 2001, the Group had the following commitments in respect of acquisition of plant and equipment:

| | 31 December 2001 (Unaudited) HK\$'000 | 30 June 2001 (Audited) HK\$'000 |
|---------------------------------|--|--|
| Contracted but not provided for | 756 | 4,251 |

16. POST BALANCE SHEET EVENTS

The following significant events occurred subsequent to the balance sheet date:

- (a) On 18 January 2002, a subscription agreement was entered into by Quicky Technologies Limited ("Quicky"), a wholly-owned subsidiary of the Company, and Widax Corporation ("Widax") to subscribe for 1,500,000 shares of Series A of preferred convertible stocks of Widax at US\$1.00 each. Widax is a company incorporated in the United States of America (the "USA") and engaged in the development of High Speed Internet Access Products in USA. As at 31 December 2001, Widax is owned as to approximately 54% by Gen-Wan Technology Corp ("Gen-Wan"), a 23.7% owned associated company of the Company. Upon full conversion of an aggregate of 4,000,000 shares of Series A of preferred convertible stocks issued by Widax, Widax will be directly owned as to approximately 39.6% and 10% by Gen-Wan and Quicky respectively. Details of the subscription were disclosed in the Company's press announcement dated 21 January 2002.
- (b) On 30 January 2002, the Company entered into a conditional sale and purchase agreement (the "Disposal Agreement") with Tripoli Investments Limited ("Tripoli") to dispose of 49% of equity interest and the shareholders' loan of Welback International Investments Limited ("Welback International"), a wholly-owned subsidiary of the Company which has been suffering losses in the past years, at an aggregate cash consideration of HK\$43,000,001 (subject to adjustment). Welback International together with its subsidiaries are principally engaged in the manufacture and sale of electronic and LCD products and trading in telecommunications products. The disposal constitutes a discloseable and connected transaction for the Company pursuant to the Listing Rules and subject to the approval of independent shareholders. Details of the transaction were disclosed in the Company's press announcement dated 31 January 2002.
- (c) On 18 March 2002, a special resolution was passed regarding the change of Company's name to "Terabit Access Technology International Limited", which is subject to approval by the Registrar of Companies in Bermuda and the change will be effective from the date on which the Certificate of Incorporation on the change of the Company's name is issued by the Registrar of Companies in Bermuda.

17. APPROVAL OF INTERIM FINANCIAL REPORT

The interim financial report was approved by the Board of Directors on 22 March 2002.

By Order of the Board
Koh Tat Lee
Executive Director

Hong Kong, 22 March 2002

