

NOTES TO THE FINANCIAL STATEMENTS

1. Statement of compliance and accounting policies

The 2002 interim report has been prepared in accordance with the requirements of the Main Board Rules governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Statement of Standard Accounting Practice 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and on a basis consistent with the accounting policies adopted in preparing the annual report of the Group for the year ended 31 December 2001.

2. Segment information

Geographical segments by location of customers for the period ended 30 June 2002:

	United Kingdom <i>HK\$'000</i>	Other European Countries <i>HK\$'000</i>	Asia Pacific <i>HK\$'000</i>	Total <i>HK\$'000</i>
TURNOVER	175,949	71,908	31,234	279,091
RESULTS				
Segment results	18,888	6,699	2,722	28,309
Other revenue				—
Unallocated other revenue				169
Unallocated corporate expenses				(16,756)
Profit from operations				11,722
Finance costs				(1,701)
Profit from operations after finance costs				10,021
Minority interests				(10)
Profit for the period				10,031

Geographical segments by location of customers for the period ended 30 June 2001:

	United Kingdom <i>HK\$'000</i>	Other European Countries <i>HK\$'000</i>	Asia Pacific <i>HK\$'000</i>	Total <i>HK\$'000</i>
TURNOVER	160,846	12,235	33,736	206,817
RESULTS				
Segment results	6,644	1,806	1,063	9,513
Other revenue			533	533
Unallocated other revenue				2,099
Unallocated corporate expenses				(26,295)
Loss from operations				(14,150)
Finance costs				(9,387)
Loss from operations after finance costs				(23,537)
Minority interests				14
Loss for the period				(23,551)

As all of the Group's turnover and contribution to results were derived from the design, manufacture and sale of telephones and related equipment, no separate business segment analysis is presented for the Group.

3. Profit (loss) from operations

	Six months ended 30 June	
	2002 HK\$'000	2001 HK\$'000
Profit (loss) from operations has been arrived at after charging:		
Depreciation:		
- assets owned by the Group	540	8,476
- assets under finance leases	56	56
Amortisation of intangible assets	3,080	—
and after crediting:		
Interest income	67	159
Gain on disposal of property, plant and equipment	—	309
	<u> </u>	<u> </u>

4. Taxation

No provision for taxation has been made in the financial statements as the assessable profits of those companies of the Group which are subject to taxation is wholly absorbed by tax losses brought forward. Other companies of the Group which are subject to taxation incurred tax losses for the period.

5. Earnings (loss) per share

The calculation of the basic earnings (loss) per share for the period is based on the following data:

	Six months ended 30 June	
	2002 HK\$'000	2001 HK\$'000
Earnings (loss) for the purposes of basic earnings (loss) per share	<u>10,031</u>	<u>(23,551)</u>
Weighted average number of ordinary shares for the purposes of basic earnings (loss) per share	<u>268,367,288</u>	<u>168,688,580</u>

Diluted earnings per share for the period ended 30 June 2002 has not been shown because there were no potential shares which have dilutive effect on the basic earnings per share outstanding during this period.

The computation of diluted earnings per share for the period ended 30 June 2002 has not assumed the exercise of the Company's outstanding share options and convertible notes because their exercise would increase the earnings per share.

6. Trade receivables, bills receivables, deposits and prepayments

Included in trade receivables, bills receivables, deposits and prepayments are trade debtors of HK\$14,818,000 and their ageing analysis is as follows:

	30 June 2002 HK\$'000	31 December 2001 HK\$'000
0 -30 days	14,126	51,420
31- 60 days	413	1,095
Over 60 days	279	661
	<u>14,818</u>	<u>53,176</u>

The Group allows an average credit period of 20 to 30 days to its trade customers.

7. Trade receivables with insurance coverage

The rights and benefits of any claim under the insurance policy of the trade receivables have been assigned to a bank under the receivable discounting facilities. The ageing analysis at balance sheet date is as follows:

	30 June 2002 HK\$'000	31 December 2001 HK\$'000
0 -30 days	19,229	—
31- 60 days	13,389	—
Over 60 days	—	—
	<u>32,618</u>	<u>—</u>

The Group allows an average credit period of 30 to 40 days to its trade customers with insurance coverage.

8. Trade payables, deposits received and accrued charges

Included in trade payables, deposits received and accrued charges are trade payables of HK\$38,728,000 and their ageing analysis is as follows:

	30 June 2002 HK\$'000	31 December 2001 HK\$'000
0 -30 days	22,868	19,562
31- 60 days	8,246	20,408
Over 60 days	7,614	13,879
	<u>38,728</u>	<u>53,849</u>

9. Amount due to a jointly controlled entity

The amount due to a jointly controlled entity is unsecured, non-interest bearing and not repayable within one year.

10. Obligations under finance leases

	Minimum lease payment		Present value of minimum lease payments	
	30 June 2002 HK\$'000	31 December 2001 HK\$'000	30 June 2002 HK\$'000	31 December 2001 HK\$'000
Amounts payable under finance leases are repayable as follows:				
Within one year	210	897	186	845
More than one year, but not exceeding two years	97	114	77	91
Within two to five years	10	41	7	31
	<u>317</u>	<u>1,052</u>	<u>270</u>	<u>967</u>
Less: Future finance charges	(47)	(85)	—	—
Present value of lease obligations	<u>270</u>	<u>967</u>	270	967
Less: Amount due within one year and shown under current liabilities			(186)	(845)
Amount due after one year			<u>84</u>	<u>122</u>

The average lease term is 3 years (2001: 4 years). For the period ended 30 June 2002, the average effective borrowing rate was 6% (2001: 13%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

11. Convertible notes

	30 June 2002 HK\$'000	31 December 2001 HK\$'000
Balance at beginning of period/year	29,640	37,058
Repayment	(2,000)	(7,418)
Balance at end of period/year	27,640	29,640
Amount repayable within one year	(27,640)	(29,640)
Amount due after one year	—	—

- (a) Pursuant to the restructuring agreement dated 9 July 1999 ("Restructuring Agreement") between the Company and certain banks and financial institutions in Hong Kong, secured convertible notes with an aggregate principal value of approximately HK\$39,563,000 (the "Convertible Notes") were issued by the Company.

The principal amounts of the Convertible Notes, which bear interest at 7% per annum payable semi-annually in arrears, are to be repaid by the Company as follows:

- i) HK\$7,417,985 upon expiry of 24 months after the issuance of the Convertible Notes;
- ii) HK\$7,417,985 upon expiry of 30 months after the issuance of the Convertible Notes; and
- iii) The entire outstanding principal balance in the aggregate sum of up to HK\$24,726,617 upon expiry of 36 months after issue of the Convertible Notes.

Conversion of the part of the principal amount of the Convertible Notes referred to in (iii) above can take place at any time during the three-year period commencing on the date of issue of the Convertible Notes at a conversion price of HK\$0.15 per share, subject to adjustment. The conversion price was adjusted to HK\$1.284 per share as a result of the share consolidation and open offer of shares in the Company on 4 June 2001 and 21 June 2001 respectively.

Pursuant to the Restructuring Agreement, should the Free Cash Balance as defined in the Restructuring Agreement at the end of each financial period exceeds HK\$15 million, the Company is required to repay to the holders of the Convertible Notes 10% of that balance up to a maximum amount of HK\$3.5 million or the outstanding principal amount of the Convertibles Notes, whichever is lower.

The Convertible Notes are secured by the pledge of all of the Company's assets and its entire equity interests in two wholly-owned subsidiaries.

- (b) Up to 30 June 2002, principal of approximately HK\$2,505,000 were converted into 16,699,686 shares of the Company at a price of HK\$0.15 per share. There were no conversion during the period.
- (c) Subsequent to the interim reporting date, on 19 July 2002, the Company entered into a principal agreement with the Group Bank Agent as defined in the Restructuring Agreement for an extension of the repayment terms of the Convertible Notes. For details, please see note 18.

12. Share capital

There were no movement in the share capital of the Company in the current interim reporting period.

13. Reserves and deficit

	Share premium HK\$'000	Other capital reserve HK\$'000	Translation reserve HK\$'000	Deficit HK\$'000	Total HK\$'000
At 31 December 2001(Audited)	396,522	14,945	(1,650)	(453,705)	(43,888)
Exchange differences arising from translation of operations outside Hong Kong	—	—	(402)	—	(402)
Profit for the period	—	—	—	10,031	10,031
At 30 June 2002 (Unaudited)	396,522	14,945	(2,052)	(443,674)	(34,259)

14. Contingent liabilities

	30 June 2002 HK\$'000	31 December 2001 HK\$'000
Guarantees given to banks in respect of bank facilities utilized by a jointly controlled entity	74,925	76,263
Bills of exchange discounted with recourse	33,650	19,165
	<u>108,575</u>	<u>95,428</u>

15. Commitments

- (a) There were no significant capital commitment as at 30 June 2002. (2001: Nil)
- (b) Commitments under operating leases

At 30 June 2002, the Group had commitments in respect of land and buildings to make payments in the next twelve months under operating leases which expire as follows:

	30 June 2002 HK\$'000	31 December 2001 HK\$'000
Within one year	758	1,048
In the second to fifth year inclusive	280	659
	<u>1,038</u>	<u>1,707</u>

16. Pledge of assets

As at 30 June 2002, a bank deposit of HK\$1,574,000 (2001: HK\$775,000) was pledged by the Group to secure credit facilities granted to the Group.

As at 30 June 2002 and 2001, all of the Company's assets and its entire equity interests in two wholly-owned subsidiaries were pledged to secure the Convertible Notes.

17. Related party disclosures

During the period ended 30 June 2002, the Group purchased finished goods of HK\$237,341,000 from a jointly controlled entity. In addition, as at 30 June 2002, certain of the jointly controlled entity bank borrowings amounting to approximately HK\$75 million were guaranteed by the Group.

In the opinion of the directors, the transactions disclosed above were entered at terms determined and agreed by the Group and the relevant parties.

18. Post balance sheet events

Subsequent to the interim reporting date, on 19 July 2002, the Company entered into the principal agreement with the Group Bank Agent pursuant to which the Company and the Group Bank Agent (with the approval of the holders of Convertible Notes) have agreed, among other things, to the modification of the repayment and other terms of the Convertible Notes and to the issue by the Company of warrants to the holders of Convertible Notes.

Upon implementation of the proposed modification, HK\$12 million of the outstanding principal amount of the Convertible Notes will be repaid on 10 September 2002 and the repayment of the remaining balance of HK\$15,639,649 of the principal amount of the Convertible Notes will be extended by 12 months to 10 September 2003.