

V. NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Statement of Standard Accounting Practice No. 25 “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted are consistent with those followed in the Group’s annual audited financial statements for the year ended 31 December 2003.

3. SEGMENT INFORMATION

Business segments

The Group’s primary format for reporting segment information is business segments.

Six months ended 30 June 2004

	Intelligent Communication Products HK\$’000	Transportation System HK\$’000	Video Conference System HK\$’000	Broadband Wireless Access HK\$’000	Others HK\$’000	Eliminations HK\$’000	Consolidated HK\$’000
Turnover							
External sales	14,142	2,338	9,344	42,169	13	-	68,006
Inter-segment sales*	-	-	-	470	-	(470)	-
Total	<u>14,142</u>	<u>2,338</u>	<u>9,344</u>	<u>42,639</u>	<u>13</u>	<u>(470)</u>	<u>68,006</u>

* Inter-segment sales are charged at prevailing market rates.

Result							
Segment result	2,366	(5,956)	784	10,470	(378)	-	7,286
Unallocated corporate expenses							(170)
Profit from operations							7,116
Finance costs							(2,560)
Profit before taxation							4,556
Taxation							(2,931)
Profit before minority interests							1,625
Minority interests							718
Net profit for the period							<u>2,343</u>

3. SEGMENT INFORMATION (continued)

Business segments (continued)

Six months ended 30 June 2003

	Communication Products HK\$'000	Intelligent Transportation System HK\$'000	Video Conference System HK\$'000	Broadband Wireless Access HK\$'000	Others HK\$'000	Consolidated HK\$'000
Turnover						
External sales	<u>16,088</u>	<u>11,539</u>	<u>14,217</u>	<u>24,073</u>	<u>42</u>	<u>65,959</u>
Result						
Segment result	1,808	(3,377)	1,605	1,740	(321)	1,455
Unallocated corporate expenses						<u>(140)</u>
Profit from operations						1,315
Finance costs						(2,517)
Gain on partial disposal of a subsidiary						<u>17</u>
Loss before taxation						(1,185)
Taxation						<u>(171)</u>
Loss before minority interests						(1,356)
Minority interests						<u>1,499</u>
Net profit for the period						<u>143</u>

4. PROFIT FROM OPERATIONS

Six months ended 30 June	
2004	2003
HK\$'000	HK\$'000

Profit from operations has been arrived at after charging:

Amortisation of intangible assets (<i>Note</i>)	2,279	1,298
Depreciation of property, plant and equipment	2,223	2,165
Property, plant and equipment written off	8	–

and crediting:

Gain on disposal of property, plant and equipment	–	375
Interest income	67	90
	<u>67</u>	<u>90</u>

Note: Amortisation of approximately HK\$1,777,000 (2003: HK\$60,000) and HK\$502,000 (2003: HK\$1,238,000) are included in cost of sales and administrative expenses respectively.

5. FINANCE COSTS

Six months ended 30 June	
2004	2003
HK\$'000	HK\$'000

Interest on:

Bank borrowings		
– wholly repayable within five years	1,322	1,291
– not wholly repayable within five years	248	266
Obligations under finance leases wholly repayable within five years	–	2
Other borrowings wholly repayable within five years	990	958
	<u>990</u>	<u>958</u>
	<u>2,560</u>	<u>2,517</u>

6. TAXATION

	Six months ended 30 June	
	2004	2003
	HK\$'000	HK\$'000
Current tax:		
Hong Kong Profits Tax		
– current period	74	15
– underprovision in prior year	824	–
The People's Republic of China (the "PRC") income tax	<u>220</u>	<u>185</u>
	<u>1,118</u>	<u>200</u>
Deferred taxation:		
Current period	1,813	(616)
Attributable to a change in tax rate	<u>–</u>	<u>587</u>
	<u>1,813</u>	<u>(29)</u>
Taxation attributable to the Group	<u><u>2,931</u></u>	<u><u>171</u></u>

Hong Kong Profits Tax is calculated at 17.5% (2003: 17.5%) of the estimated assessable profit for the period.

Pursuant to relevant laws and regulations in the PRC, the Company's subsidiaries registered in the PRC are entitled to exemption from income tax under certain tax holidays and concessions. Income tax is calculated at rates given under the respective concessions.

7. DIVIDENDS

No dividends were paid during the period. The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2004.

8. BASIC EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the net profit for the period of HK\$2,343,000 (2003: HK\$143,000) and the weighted average number of shares of 974,832,071 (2003: 877,139,763) in issue throughout the period.

9. CAPITAL ADDITIONS

During the period, the Group spent HK\$1,256,000 (six months ended 30 June 2003: HK\$778,000) and HK\$826,000 (six months ended 30 June 2003: HK\$2,448,000) on acquisition of property, plant and equipment and intangible assets respectively.

10. DEBTORS AND PREPAYMENTS

Included in debtors and prepayments are trade debtors of HK\$86,611,000 (31 December 2003: HK\$54,040,000). For sales of goods, the Group allows an average credit period of 30 to 180 days to its trade customers located in Hong Kong and overseas and 181 to 365 days to trade customers located in the PRC. The average credit period of one year will be given to customers for revenue from service contracts. The following is an aged analysis of trade debtors:

	30.6.2004 HK\$'000	31.12.2003 HK\$'000
Within 30 days	40,876	40,806
Between 31 and 90 days	6,694	6,863
Between 91 and 180 days	470	2,698
Between 181 and 365 days	36,598	3,673
Over 1 year	1,973	–
	<u>86,611</u>	<u>54,040</u>

11. CREDITORS AND ACCRUED CHARGES

Included in creditors and accrued charges are trade creditors of HK\$33,425,000 (31 December 2003: HK\$32,042,000). The following is an aged analysis of trade creditors:

	30.6.2004 HK\$'000	31.12.2003 HK\$'000
Within 30 days	6,582	19,994
Between 31 and 90 days	4,677	5,429
Between 91 and 180 days	15,697	1,215
Between 181 and 365 days	2,435	1,147
Over 1 year	4,034	4,257
	<u>33,425</u>	<u>32,042</u>

12. SHARE CAPITAL

	Number of shares	Share capital nominal value HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
At 1 January 2004 and 30 June 2004	<u>10,000,000,000</u>	<u>1,000,000</u>
Issued and fully paid:		
At 1 January 2004	917,139,763	91,714
Shares issued on 18 March 2004	<u>100,000,000</u>	<u>10,000</u>
At 30 June 2004	<u>1,017,139,763</u>	<u>101,714</u>

Pursuant to a placing and underwriting agreement dated 3 March 2004, the Company issued 100,000,000 shares of HK\$0.10 each at a placing price of HK\$0.41 per share, representing a discount of approximately 16.33% to the closing market price of the Company's shares on 2 March 2004. The proceeds are used for general working capital purpose. These new shares were issued under the general mandate granted to the directors at the annual general meeting of the Company held on 30 April 2003 and rank pari passu with the existing shares in all respects.

13. PLEDGE OF ASSETS

At 30 June 2004, the Group had pledged certain land and buildings with carrying value of HK\$24,486,000 (31 December 2003: HK\$25,061,000) to secure the banking facilities. At 30 June 2004, bank deposits amounted to HK\$3,276,000 (31 December 2003: HK\$5,959,000) have been pledged to secure short term borrowings and are therefore classified as current assets.

14. RELATED PARTY TRANSACTIONS

During the period, the Group had the following transactions with related parties:

	Six months ended 30 June	
	2004	2003
	HK\$'000	HK\$'000
Shareholder		
Rental expenses and management fee paid (<i>note a</i>)	8	21
Related companies		
Disposal of property, plant and equipment (<i>note c</i>)	–	6
Associate		
Goods sold (<i>note b</i>)	3,484	4,914
Goods purchased (<i>note b</i>)	28,223	15,892
Disposal of property, plant and equipment (<i>note c</i>)	–	4,500
Management fee income received (<i>note d</i>)	200	387
	<u>200</u>	<u>387</u>

Notes:

- (a) The transactions were carried out in accordance with the terms of relevant agreement.
- (b) The goods sold and purchased from/to related parties were determined on a cost plus basis.
- (c) The proceeds from disposal of property, plant and equipment were determined by the directors with reference to the estimated open market value.
- (d) Management fee income was received with reference to the estimated market price for the services rendered as determined by the directors.
- (e) The balances with associates, related companies and a shareholder were unsecured, non-interest bearing and had no fixed repayment terms. The related companies are subsidiaries of a shareholder of the Company.