

# NOTES TO THE CONDENSED FINANCIAL STATEMENTS

*For the six months ended 31 December 2005*

## 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 Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

## 2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values on initial recognition.

The accounting policies adopted in the condensed financial statements are consistent with those followed in the preparation of the annual financial statements of the Company and its subsidiaries (the “Group”) for the year ended 30 June 2005 except as described below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (“HKFRSs”), Hong Kong Accounting Standards (“HKASs”) and Interpretations (hereinafter collectively referred to as “new HKFRSs”) issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group’s accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented.

### **Financial Instruments**

In the current period, the Group has applied HKAS 32 “Financial Instruments: Disclosure and Presentation” and HKAS 39 “Financial Instruments: Recognition and Measurement”. HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

*Convertible bonds*

Previously, the convertible bonds were classified as liabilities and recorded at the proceeds received, net of premium payable on redemption and unamortised deferred expenditures, on the balance sheet. Convertible bonds are currently regarded as compound instruments, consisting of a liability component and an equity component, or in the case of the conversion options which are not settled by the exchange of a fixed amount for fixed number of equity instrument, the accounting standard requires the issuer to recognise the compound financial instrument in the form of financial liability with embedded derivatives. Derivatives embedded in a financial instrument are treated as separated derivatives when their economic risks and characteristics are not closely related to those of the host contract (the liability component) and the host contract is not carried at fair value through profit or loss.

On 1 July 2005, the Group has elected to designate its convertible bonds with embedded derivatives as a whole as financial liabilities at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, the entire convertible bonds are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. In accordance with relevant transitional provisions of HKAS 39, convertible bonds as at 1 July 2005 was increased by approximately HK\$8,610,000 with a corresponding decrease in retained profits, being the fair value adjustment on 1 July 2005 (see Note 3 for the financial impact). The equity component of the subscription rights amounting to HK\$1,850,000, represented by the option to subscribe the ordinary shares of the Company, will remain in convertible bonds reserve until the embedded option is exercised (in which case the balance stated in convertible bonds reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible bonds reserve will be released to the retained earnings. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Transaction costs that are directly attributable to the issue of the convertible bonds designated as financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

*Classification and measurement of financial assets and financial liabilities*

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

By 30 June 2005, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 (SSAP 24). Under SSAP 24, investments in debt or equity securities are classified as “investment securities”, “other investments” or “held-to-maturity investments” as appropriate. “Investment securities” are carried at cost less impairment losses (if any) while “other investments” are measured at fair value, with unrealised gains or losses included in the profit or loss. Held-to-maturity investments are carried at amortised cost less impairment losses (if any). From 1 July 2005 onwards, the Group classifies and measures its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as “financial assets at fair value through profit or loss”, “available-for-sale financial assets”, “loans and receivables”, or “held-to-maturity financial assets”. “Financial assets at fair value through profit or loss” and “available-for-sale financial assets” are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. Available-for-sale equity investments that do not have quoted market prices in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost less impairment after initial recognition. “Loans and receivables” and “held-to-maturity financial assets” are measured at amortised cost using the effective interest method.

On 1 July 2005, the Group classified and measured its debt and equity securities in accordance with the requirements of HKAS 39. As a result of the adoption of HKAS 39, the Group reclassified “Interest in e-commerce projects” and “Investments” recorded in the consolidated balance sheet at 1 July 2005 amounting to HK\$72,818,000 and HK\$129,467,000 respectively as “Available-for-sale investments”. The changes have not had any significant impact on the results for the current or prior periods. No prior period adjustments were required.

*Financial assets and financial liabilities other than debt and equity securities*

From 1 July 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of Statement of Standard Accounting Practice 24) in accordance with the requirements of HKAS 39. Financial assets under HKAS 39 are classified as “financial assets at fair value through profit or loss”, “available-for-sale financial assets”, “loans and receivables” or “held-to-maturity financial assets”. Financial liabilities are generally classified as “financial liabilities at fair value through profit or loss” or “financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)”. “Other financial liabilities” are carried at amortised cost using the effective interest method. Except for the convertible bonds mentioned above, the adoption of HKAS 39 has had no material effect on the Group’s results for current and prior accounting periods.

### **Owner-occupied leasehold land**

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current period, the Group has applied HKAS 17 “Leases”. Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. The adoption of this standard has had no material effect on how the results for the current or prior accounting periods are prepared and presented.

### **Business Combinations**

In the current period, the Group has applied HKFRS 3 “Business Combinations” which is effective for business combinations for which the agreement date is on or after 1 January 2005. The principal effect of the application of HKFRS 3 to the Group is summarised below.

#### *Goodwill*

In previous periods, goodwill arising on acquisitions prior to 1 July 2001 was held in reserves and goodwill arising on acquisitions after 1 July 2001 was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. Goodwill previously recognised in reserves of approximately HK\$44,036,000 has been transferred to the Group’s retained earnings on 1 July 2005 (see Note 3 for the financial impact).

Goodwill arising on the acquisition after 1 January 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current period.

In the current period, the Group has also applied HKAS 21 “The Effects of Changes in Foreign Exchange Rates” which requires goodwill to be treated as assets and liabilities of the foreign operation and translated at closing rate at each balance sheet date. Previously, goodwill arising on acquisitions of foreign operations was reported at the historical rate at each balance sheet date. In accordance with the relevant transitional provisions in HKAS 21, goodwill arising on acquisitions prior to 1 January 2005 is treated as a non-monetary foreign currency item. Therefore, no prior period adjustment has been made. In the current period, the Group acquired a foreign operation, and goodwill arose on the acquisition of that foreign operation has been translated at the closing rate at 31 December 2005, which has insignificant effect in the balance of translation reserves as 31 December 2005.

### Potential Impact on New HKFRSs Not Yet Effective

The Group has commenced considering the potential impact of the following new standards or interpretations that have been issued but are not yet effective, but is not yet in a position to determine whether these standards or interpretations would have a significant impact on how its results of operations and financial position are prepared and presented. These standards and interpretations may result in changes in the future as to how the results and financial position are prepared and presented.

HKAS 1 (Amendment)	Capital Disclosures <sup>1</sup>
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures <sup>2</sup>
HKAS 21 (Amendment)	Net Investment in a Foreign Operation <sup>2</sup>
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions <sup>2</sup>
HKAS 39 (Amendment)	The Fair Value Option <sup>2</sup>
HKAS 39 & HKFRS 4 (Amendments)	Financial Guarantee Contracts <sup>2</sup>
HKFRS 6	Exploration for and Evaluation of Mineral Resources <sup>2</sup>
HKFRS 7	Financial Instruments: Disclosures <sup>1</sup>
HK(IFRIC) – INT 4	Determining whether an Arrangement Contains a Lease <sup>2</sup>
HK(IFRIC) – INT 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds <sup>2</sup>
HK(IFRIC) – INT 6	Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment <sup>3</sup>
HK(IFRIC) – INT 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2007.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2006.

<sup>3</sup> Effective for annual periods beginning on or after 1 December 2005.

<sup>4</sup> Effective for annual periods beginning on or after 1 March 2006.

## 3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

- (i) The effects of the changes in the accounting policies described above on the Group's results for the current and prior period are as follows:

	Six months ended 31 December	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Change in fair value of convertible bonds carried at fair value through profit or loss	<b>(25,901)</b>	–
Interest paid for convertible bonds	<b>179</b>	–
Decrease in profit for the period	<b><u>(25,722)</u></b>	<b><u>–</u></b>

- (ii) The cumulative effects of the application of the new HKFRSs as at 30 June 2005 and 1 July 2005 are summarised below:

	As at 30.6.2005 (originally stated) <i>HK\$'000</i>	Effect of HKFRS 3 <i>HK\$'000</i>	Effect of HKAS 39 <i>HK\$'000</i>	Total effects <i>HK\$'000</i>	As at 1.7.2005 (restated) <i>HK\$'000</i>
Available-for-sale investments	–	–	202,285	202,285	<b>202,285</b>
Interest in e-commerce projects	<b>72,818</b>	–	(72,818)	(72,818)	–
Investments	<b>129,467</b>	–	(129,467)	(129,467)	–
Convertible bonds	<b>(62,400)</b>	–	(8,610)	(8,610)	<b>(71,010)</b>
Total effects on assets and liabilities	<b><u>139,885</u></b>	<b><u>–</u></b>	<b><u>(8,610)</u></b>	<b><u>(8,610)</u></b>	<b><u>131,275</u></b>
Goodwill reserve	<b>(44,036)</b>	44,036	–	44,036	–
Convertible bonds reserve	–	–	1,850	1,850	<b>1,850</b>
Accumulated profits	<b>845,534</b>	(44,036)	(10,460)	(54,496)	<b>791,038</b>
Total effects on equity	<b><u>801,498</u></b>	<b><u>–</u></b>	<b><u>(8,610)</u></b>	<b><u>(8,610)</u></b>	<b><u>792,888</u></b>

#### 4. TURNOVER AND SEGMENT INFORMATION

For management purposes, the Group is currently organised into five main operating business – sales of general systems products, provision of services and software licensing, leasing of systems products, investments in e-commerce projects and holding strategic investments in advanced technology product development companies. These businesses are the basis on which the Group reports its primary segment information.

	Sales of general systems products <i>HK\$'000</i>	Provision of services and software licensing <i>HK\$'000</i>	Leasing of systems products <i>HK\$'000</i>	Investments in e-commerce Projects <i>HK\$'000</i>	Strategic investments <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>Six months ended 31 December 2005</b>						
<b>TURNOVER</b>						
External and total revenue	430,351	209,261	8,294	3,641	6,473	658,020
<b>RESULTS</b>						
Segment result	71,859	97,128	5,641	3,496	6,217	184,341
Interest income						5,052
Unallocated corporate expenses						(3,917)
Change in fair value of convertible bonds carried at fair value through profit or loss						(25,901)
Finance costs						(2,604)
Profit before taxation						156,971
Taxation						(268)
Profit for the period						156,703
<b>Six months ended 31 December 2004</b>						
<b>TURNOVER</b>						
External and total revenue	358,970	152,658	7,826	4,494	6,115	530,063
<b>RESULTS</b>						
Segment result	47,232	65,465	5,791	4,347	5,914	128,749
Interest income						2,893
Unallocated corporate expenses						(502)
Finance costs						(3,531)
Profit before taxation						127,609
Taxation						(339)
Profit for the period						127,270

**5. DEPRECIATION AND AMORTISATION**

	<b>Six months ended</b>	
	<b>31 December</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	<b>HK\$'000</b>
Amortisation of systems and networks	<b>48,838</b>	26,440
Depreciation and amortisation of property, plant and equipment and amortisation of prepaid lease payments	<b>6,173</b>	8,474
	<b><u>55,011</u></b>	<b><u>34,914</u></b>

**6. TAXATION**

	<b>Six months ended</b>	
	<b>31 December</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	<b>HK\$'000</b>
The charge comprises:		
Hong Kong Profits Tax		
– current year	–	77
– underprovision in prior years	<b>12</b>	–
Taxation in other jurisdictions	<b>256</b>	262
	<b><u>268</u></b>	<b><u>339</u></b>

Hong Kong Profits Tax is calculated at 17.5% (2004: 17.5%) on the estimated assessable profits derived from Hong Kong. Taxation in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The low effective tax rate is attributable to the fact that a substantial portion of the Group's profit neither arises in, nor is derived from, Hong Kong and is accordingly not subject to Hong Kong Profits Tax and such profit is either exempted or not subject to taxation in any other jurisdictions.

**7. DIVIDENDS**

Dividends represents interim dividend of HK1.1 cents (2004: HK1 cents) per share, in scrip form with a cash option.

The interim dividend is based on 2,707,283,895 shares in issue at 31 December 2005.



**8. EARNINGS PER SHARE**

The calculation of the basic earnings per share is based on the following data:

	<b>Six months ended 31 December</b>	
	<b>2005</b>	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Earnings:		
Earnings for the purposes of calculating basic earnings per share	<u><b>157,742</b></u>	<u>127,270</u>
	<i>'000</i>	<i>'000</i>
Number of shares:		
Weighted average number of shares for the purposes of calculating basic earnings per share	<u><b>2,516,528</b></u>	<u>2,308,341</u>

The conversion of the Company's outstanding convertible bonds did not have dilution effect on earnings per share for the period since the conversion would result in an increases in profit per share.

There was no dilution effect on earnings per share for 2004 as there were no dilutive potential ordinary shares in issue in that period.

The adjustment to basic earnings per share, arising from the changes in accounting policies is as follows:

	<b>Basic HK cents</b>
Reconciliation of earnings per share for the six months ended 31 December 2005:	
Before adjustment	7.30
Adjustments arising from the changes in accounting policies	
– Convertible bonds	<u>(1.03)</u>
As restated	<u><b>6.27</b></u>

**9. PROPERTY, PLANT AND EQUIPMENT AND PREPAID LEASE PAYMENTS**

	<i>HK\$'000</i>
Net book value at 1 July 2005	44,317
Currency realignment	(1,718)
Acquired on acquisition of subsidiaries	1,627
Addition	3,084
Disposals	(97)
Depreciation	(6,100)
	<hr/>
<b>Net book value at 31 December 2005</b>	<b><u><u>41,113</u></u></b>

At 31 December 2005, certain land and buildings of the Group with a net book value of HK\$9,719,000 (30 June 2005: HK\$10,277,000) were pledged to a bank as security for banking facilities granted to the Group. Gain on disposal of property, plant and equipment of the Group amounted to HK\$33,000 for the period.

**10. TRADE AND OTHER RECEIVABLES**

The aging analysis of trade debtors at the balance sheet date is as follows:

	<b>31 December 2005 <i>HK\$'000</i></b>	30 June 2005 <i>HK\$'000</i>
0-60 days	<b>168,238</b>	217,558
61-90 days	<b>23,358</b>	17,811
91-180 days	<b>956</b>	1,724
> 180 days	<b>5,021</b>	6,807
	<hr/>	<hr/>
	<b><u><u>197,573</u></u></b>	<b><u><u>243,900</u></u></b>

The Group allows an average credit period ranging from 30 days to 180 days to its trade customers dependent on their credit worthiness, nature of services and condition of the market.

**11. TRADE AND OTHER PAYABLES**

The aging analysis of trade payables at the balance sheet date is as follows:

	<b>31 December 2005 HK\$'000</b>	30 June 2005 HK\$'000
0-60 days	2,882	5,877
61-90 days	4,096	622
91-180 days	510	1,300
> 180 days	3,411	2,833
	<u>10,899</u>	<u>10,632</u>

**12. WARRANTY PROVISION**

	<i>HK\$'000</i>
At 1 July 2005	1,716
Currency realignment	(73)
Additional provision	797
Utilisation of provision	<u>(758)</u>
<b>At 31 December 2005</b>	<b><u>1,682</u></b>

The warranty provision represents the management's best estimate of the Group's liability under 12-month warranties granted on manufactured products, based on prior experience and industry average for defective products.

**13. CONVERTIBLE BONDS**

	<b>31 December 2005 HK\$'000</b>	30 June 2005 HK\$'000
1% convertible bonds – unlisted	<b><u>67,620</u></b>	<b><u>62,400</u></b>

On 1 April 2005, the Company issued the 1% original tranche 1 convertible bonds of US\$8,000,000 due 2008 (the “Convertible Bonds”). The Convertible Bonds bear interest at the rate of 1% per annum and interest will be payable semi-annually in arrears in June and December each year. During the period, US\$3,400,000 of the issued Convertible Bonds were converted into 74,160,000 shares of HK\$0.1 each of the Company at a price ranged from HK\$0.3274 to HK\$0.3637 per share. At 31 December 2005, US\$4,600,000 of the Convertible Bonds remained outstanding.

Following the adoption of HKAS 39 on 1 July 2005, the Convertible Bonds were redesignated as financial liabilities through profit or loss on initial recognition. There was no such redesignation on 30 June 2005 as retrospective application of HKAS39 is not required.

The fair value change during the period is HK\$25,901,000, including coupon payment of HK\$179,000.

**14. SHARE CAPITAL**

	<b>Number of shares '000</b>	<b>Amount HK\$'000</b>
Ordinary shares of HK\$0.10 each		
Authorised:		
At 1 July 2005 and 31 December 2005	<b><u>3,000,000</u></b>	<b><u>300,000</u></b>
Issued and fully paid:		
At 1 July 2005	<b>2,393,124</b>	<b>239,312</b>
Issue of shares upon conversion of convertible bonds	<b>74,160</b>	<b>7,416</b>
Issue of shares upon placement	<b><u>240,000</u></b>	<b><u>24,000</u></b>
At 31 December 2005	<b><u>2,707,284</u></b>	<b><u>270,728</u></b>

**15. CAPITAL COMMITMENTS**

	<b>31 December 2005 HK\$'000</b>	30 June 2005 HK\$'000
Capital expenditure in respect of property, plant and equipment, and systems and networks		
Contracted but not provided in the financial statements	<b>20</b>	–
Authorised but not contracted for	<b>170,500</b>	112,375
	<b><u>170,520</u></b>	<b><u>112,375</u></b>

**16. OPERATING LEASE ARRANGEMENTS****The Group as lessee**

The Group had future minimum lease payments payable under non-cancellable operating leases in respect of rented premises and machinery and equipment which fall due as follows:

	As at <b>31 December 2005</b>		As at 30 June 2005	
	<b>Land and buildings HK\$'000</b>	<b>Machinery and equipment HK\$'000</b>	Land and buildings HK\$'000	Machinery and equipment HK\$'000
Within one year	<b>298</b>	<b>873</b>	190	274
In the second to fifth years inclusive	<b>2,485</b>	<b>4,720</b>	1,333	1,238
	<b><u>2,783</u></b>	<b><u>5,593</u></b>	<b><u>1,523</u></b>	<b><u>1,512</u></b>

Leases are negotiated for terms of one to four years and rentals are fixed for terms of one to four years.

**The Group as lessor**

	<b>As at 31 December 2005 HK\$'000</b>	As at 30 June 2005 HK\$'000
Within one year	<b>15,090</b>	11,236
In the second to fifth years inclusive	<b>16,296</b>	18,855
Over five year	<b>1,422</b>	2,017
	<b><u>32,808</u></b>	<b><u>32,108</u></b>

**17. ACQUISITION OF SUBSIDIARIES**

On 4 October 2005, the Group acquired 60% of the issued share capital of Aspire Management Limited and its subsidiaries (the “AML Group”) for cash consideration of HK\$70 million. This transaction has been accounted for using the purchase method of accounting.

The book value and fair value of net assets of subsidiaries acquired and the goodwill during the period are as follows:

	<i>HK\$ '000</i>
Net assets acquired:	
Property, plant and equipment and prepaid lease payments	1,627
Systems and networks	4,775
Inventories	203
Trade and other receivables	1,459
Bank and cash balances	33,520
Trade and other payables	(2,898)
Taxation payable	(16)
	38,670
Minority interests	(18,426)
Goodwill	49,756
	70,000
Net cash outflow arising on acquisition:	
Cash consideration paid	(70,000)
Cash and cash equivalents acquired	33,520
	(36,480)

The goodwill arising on the acquisition of the AML Group is attributable to the anticipated profitability of the growing e-lottery business in the People’s Republic of China and the anticipated future operating synergies from the combination.

AML Group contributed HK\$1.7 million to the Group’s revenue and HK\$0.4 million to the Group’s profit after tax for the period between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1 July 2005, total group revenue for the period would have been HK\$661 million and profit for the period would have been HK\$158.2 million. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 July 2005, nor is intended to be a projection of future results.