

Notes to the Condensed Consolidated Financial Statements

For the six months ended September 30, 2001

(1) Basis of Preparation

The condensed consolidated 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 with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

(2) Principal Accounting Policies

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

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

In the current period, the Group has adopted, for the first time, a number of new and revised Statements of Standard Accounting Practice (“SSAP(s)”) issued by the Hong Kong Society of Accountants:

Dividends proposed or declared after the balance sheet date

In accordance with SSAP 9 (Revised) “Events after the Balance Sheet Date”, dividends proposed or declared after the balance sheet date are not recognized as a liability at the balance sheet date, but are disclosed in the notes to the financial statements. This change in accounting policy has been applied retrospectively, resulting in prior period adjustment which increases the retained profits as at April 1, 2000 by HK\$9,886,000 and as at April 1, 2001 by HK\$9,647,000 (note 14).

Goodwill

In the current period, the Group has adopted SSAP 30 “Business Combinations” and has elected not to restate goodwill (negative goodwill) previously eliminated against (credited to) reserves. However, impairment losses in respect of goodwill that arose between the date of acquisition of the relevant subsidiary or associate and the date of adoption of SSAP 30 have been recognized retrospectively. The effect of this prior period adjustment is to decrease the retained profits as at April 1, 2000 by HK\$173,413,000 and to increase the loss for the year ended March 31, 2001 by HK\$291,430,000 (note 14). Goodwill arising on acquisitions prior to April 1, 2001 continues to be 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 further impairment losses are identified. Negative goodwill arising on acquisitions prior to April 1, 2001 will be credited to income at the time of disposal of the relevant subsidiary or associate.

Goodwill arising on acquisitions after April 1, 2001 is capitalized and amortized over its estimated useful life. Negative goodwill arising on acquisitions after April 1, 2001 is presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

(3) **Segment Information**

The Group's turnover and contribution to operating profit for the six months ended September 30, 2001 analyzed by principal activity and geographical market are as follows:

	Turnover		Contribution to operating profit	
	Six months ended		Six months ended	
	2001	2000	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
By principal activity:				
Sale of goods				
– Computer related products	1,157,989	960,675	44,160	82,454
– Consumer electronic products	572,259	652,744	11,194	12,768
Trading of securities	19,906	149,870	(10,626)	25,602
	<u>1,750,154</u>	<u>1,763,289</u>	<u>44,728</u>	<u>120,824</u>
Interest income			17,973	27,262
Finance costs			(39,174)	(46,488)
Share of results of associates			(3,084)	(12,675)
Net corporate expenses			(13,451)	(23,357)
			<u>6,992</u>	<u>65,566</u>
By geographical market:				
North America	1,451,215	1,497,248	78,880	144,126
South America	–	9,338	–	376
Europe	208,125	91,510	(24,776)	(17,842)
Africa	13,214	8,576	(203)	(4,683)
Pacific Basin and The People's Republic of China	63,035	154,929	(9,021)	(68)
Others	14,565	1,688	(152)	(1,085)
	<u>1,750,154</u>	<u>1,763,289</u>	<u>44,728</u>	<u>120,824</u>
Interest income			17,973	27,262
Finance costs			(39,174)	(46,488)
Share of results of associates			(3,084)	(12,675)
Net corporate expenses			(13,451)	(23,357)
			<u>6,992</u>	<u>65,566</u>

(4) **Other Revenue**

	Six months ended	
	September 30,	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Other revenue includes the following items:		
Unrealized holding gain on other investments	1,261	29,248
Interest income	17,973	27,262
Internet service income	4,998	8,990
Gain on disposal of property, plant and equipment	–	371
	<u>–</u>	<u>371</u>

(5) Profit from Operations

Profit from operations has been arrived at after charging:

	Six months ended	
	September 30,	
	2001	2000
	HK\$'000	HK\$'000
Depreciation and amortization of property, plant and equipment	9,407	7,827
Amortization of intangible assets	5,704	5,704
Amortization of deferred expenditure	-	6,022
Loss on disposal of property, plant and equipment	<u>3,887</u>	<u>-</u>

(6) Taxation

	Six months ended	
	September 30,	
	2001	2000
	HK\$'000	HK\$'000
The charge comprises:		
Overseas taxation	816	1,130
Share of tax on results of an associate	<u>882</u>	<u>-</u>
	<u>1,698</u>	<u>1,130</u>

Overseas taxation is calculated at the rates prevailing in the respective jurisdictions.

No provision for Hong Kong Profits Tax or overseas taxation has been made for the period in respect of certain companies of the Group because these companies either incurred tax losses for the period or had their estimated assessable profits for the period wholly absorbed by tax losses brought forward.

(7) Dividends

	Six months ended	
	September 30,	
	2001	2000
	HK\$'000	HK\$'000
2001 final dividend of HK0.15 cent, with a scrip dividend option (2000 final dividend: HK0.17 cent) per share	<u>9,647</u>	<u>9,886</u>

The directors do not recommend the payment of any interim dividend.

(8) Earnings Per Share

The calculation of the basic and diluted earnings per share for the period is based on the following data:

	Six months ended September 30,	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Earnings:		
Profit attributable to shareholders and earnings for the purposes of basic and diluted earnings per share	<u>2,933</u>	<u>66,250</u>
	<i>'000</i>	<i>'000</i>
Number of shares:		
Weighted average number of shares for the purposes of basic earnings per share	6,429,961	4,101,428
Effect of dilutive potential shares in respect of share options	<u>7,155</u>	<u>19,345</u>
Weighted average number of shares for the purposes of diluted earnings per share	<u>6,437,116</u>	<u>4,120,773</u>

The computation of diluted earnings per share for the six months ended September 30, 2001 and 2000 does not assume the conversion of the Company's outstanding convertible note since its exercise would result in an increase in earnings per share for the period nor the exercise of warrants as the exercise price of warrants was greater than the market price of the Company's shares.

The weighted average number of shares for the purposes of basic and diluted earnings per share for the six months ended September 30, 2000 has been adjusted for the effect of the Company's rights issue in February 2001.

(9) Property, Plant and Equipment

During the current period, the Group spent HK\$4.9 million and HK\$1.7 million respectively on purchase of furniture and equipment and additions of moulds.

(10) Trade and Other Receivables

Included within trade and other receivables is trade debtors balance of HK\$442.1 million (March 31, 2001: HK\$496.8 million). The Group allows an average credit period of 30 to 90 days to its trade customers.

The following is an aged analysis of trade debtors at the reporting date:

	September 30,	March 31,
	2001	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Not yet due	382,815	407,505
Overdue within one month	30,023	73,697
Overdue between one to two months	8,803	9,656
Overdue more than two months	<u>20,420</u>	<u>5,893</u>
	<u>442,061</u>	<u>496,751</u>

(11) Trade and Other Payables

Included within trade and other payables is trade creditors balance of HK\$495.0 million (March 31, 2001: HK\$406.0 million).

The following is an aged analysis of trade creditors at the reporting date:

	September 30, 2001	March 31, 2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Not yet due	181,298	307,653
Overdue within one month	170,493	25,997
Overdue between one to two months	52,424	12,593
Overdue more than two months	90,806	59,774
	<u>495,021</u>	<u>406,017</u>

(12) Borrowings

During the period, the Group obtained additional bank and other loans of approximately HK\$126.7 million and HK\$49.6 million respectively which bear interest at prevailing market rates and are repayable within one year. The borrowings were used for general working capital purposes. The Group also repaid bank and other loans of approximately HK\$37.1 million and HK\$331.8 million respectively.

(13) Share Capital

	Number of shares	Value
		<i>HK\$'000</i>
Shares of HK\$0.025 each		
Issued and fully paid:		
At April 1, 2001	6,431,180,290	160,780
Shares repurchased and cancelled	(20,502,000)	(513)
Issue under scrip dividend scheme	1,372,233	34
	<u>6,412,050,523</u>	<u>160,301</u>
At September 30, 2001		

(14) Reserves

	Share premium HK\$'000	Goodwill reserve HK\$'000	Contributed surplus HK\$'000	Currency translation reserve HK\$'000	Capital redemption reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At April 1, 2000							
- as originally reported	1,521,922	(469,120)	427,064	(4,112)	592	727,404	2,203,750
- prior period adjustment (Note 2)							
- change in accounting policy for dividend recognition	-	-	-	-	-	9,886	9,886
- Retrospective recognition of impairment of goodwill	-	173,413	-	-	-	(173,413)	-
	<u>1,521,922</u>	<u>(295,707)</u>	<u>427,064</u>	<u>(4,112)</u>	<u>592</u>	<u>563,877</u>	<u>2,213,636</u>
- as restated	1,521,922	(295,707)	427,064	(4,112)	592	563,877	2,213,636
Currency realignment	-	-	-	(8,628)	-	-	(8,628)
Premium arising from issue of shares	476,649	-	-	-	-	-	476,649
Expenses in connection with the issue of shares	(8,378)	-	-	-	-	-	(8,378)
Repurchase of shares	(14,840)	-	-	-	-	-	(14,840)
Goodwill arising on acquisition of associates	-	(466,863)	-	-	-	-	(466,863)
Goodwill arising on acquisition of additional interests in a subsidiary	-	(705)	-	-	-	-	(705)
Realized on partial disposal of shareholding in a subsidiary	-	13,008	-	-	-	-	13,008
Realized on deemed disposal of shareholding in a subsidiary	-	14,121	-	-	-	-	14,121
Realized on deemed disposal of shareholding in associates	-	61,759	-	-	-	-	61,759
Realized on disposal of associates	-	4,493	-	-	-	-	4,493
Share of post-acquisition reserves of an associate	-	(2,293)	-	(16)	-	-	(2,309)
Transfer	-	-	(497,000)	-	-	497,000	-
Impairment of goodwill	-	291,430	-	-	-	(291,430)	-
Loss for the year	-	-	-	-	-	(252,825)	(252,825)
Dividends	-	-	-	-	-	(20,605)	(20,605)
	<u>1,975,353</u>	<u>(380,757)</u>	<u>(69,936)</u>	<u>(12,756)</u>	<u>592</u>	<u>496,017</u>	<u>2,008,513</u>
At March 31, 2001 (as restated)	1,975,353	(380,757)	(69,936)	(12,756)	592	496,017	2,008,513
Currency realignment	-	-	-	(2,485)	-	-	(2,485)
Premium arising from issue of shares	106	-	-	-	-	-	106
Repurchase of shares	(920)	-	-	-	-	-	(920)
Realized on disposal of a subsidiary	-	5	-	-	-	-	5
Share of post-acquisition reserve of an associate	-	13	-	-	-	-	13
Profit attributable to shareholders	-	-	-	-	-	2,933	2,933
Dividends	-	-	-	-	-	(9,647)	(9,647)
	<u>1,974,539</u>	<u>(380,739)</u>	<u>(69,936)</u>	<u>(15,241)</u>	<u>592</u>	<u>489,303</u>	<u>1,998,518</u>
At September 30, 2001	<u>1,974,539</u>	<u>(380,739)</u>	<u>(69,936)</u>	<u>(15,241)</u>	<u>592</u>	<u>489,303</u>	<u>1,998,518</u>

(15) Contingencies and Commitments

	September 30, 2001	March 31, 2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Amounts utilized in respect of guarantees given to banks and other financial institutions for facilities granted to an investee company	9,205	12,527
Amounts utilized in respect of guarantees given to banks and other financial institutions for leasing and hire purchases obligations of an investee company	838	3,216
	10,043	15,743

The Group had no significant capital commitments at the balance sheet date.

(16) Pledge of Assets

At the balance sheet date, the following assets were pledged by the Group to secure banking and other financing facilities:

	September 30, 2001	March 31, 2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Investments in securities	306,146	946,733
Trade and other receivables	280,095	287,993
Inventories	44,906	18,000
Land and buildings	21,678	22,592
	652,825	1,275,318

At September 30, 2001, certain of the margin clients' securities with an aggregate market value of HK\$520.1 million (March 31, 2001: HK\$372.3 million) were pledged to banks to secure general banking facilities for a subsidiary.

(17) Transactions and Balances with Related Parties

During the period, the Group had significant transactions with the following related parties, together with balances with them as at the balance sheet date, details of which are as follows:

	September 30, 2001 HK\$'000	March 31, 2001 HK\$'000
Substantial shareholder and its associates:		
Interest paid and payable by the Group (<i>note a</i>)	20,237	25,343
Balances due by the Group at end of the period (<i>note a</i>)	169,286	143,543
Convertible note at end of the period (<i>note c</i>)	385,900	385,900
Loans advanced to the Group during the period (<i>note a</i>)	-	20,000
	<u> </u>	<u> </u>
Associates:		
Loans advanced by the Group during the period (<i>note a</i>)	10,000	37,102
Purchase of finished goods (<i>note b</i>)	459,328	-
Balances due to the Group at end of the period (<i>note a</i>)	133,612	58,313
Trade payable due by the Group at end of the period	115,744	-
Loans advanced to the Group during the period (<i>note a</i>)	-	4,000
Purchase of other investments (<i>note b</i>)	-	121,827
Advances to the Group during the period (<i>note a</i>)	-	3,655
Services fees received and receivable by the Group (<i>note b</i>)	-	2,701
Rent paid by the Group (<i>note b</i>)	-	2,033
	<u> </u>	<u> </u>

Notes:

- a. The loans advanced to/by and the balances due by/to the Group are unsecured, bear interest at prevailing market rates and repayable in accordance with the respective loan agreements.
- b. The transactions were carried out at cost plus a percentage profit mark-up.
- c. On November 9, 1999, the Group entered into an agreement with ITC Corporation Limited, a substantial shareholder of the Company, for the acquisition of the entire interest in Genius Ideas Limited at the consideration of HK\$555,900,000 which was satisfied by the issuance of a convertible note. In January 2000, nominal value in aggregate of the convertible note of HK\$170,000,000 was converted into shares in the Company at a conversion price of HK\$1.25 per share, resulting in the issue of 136,000,000 shares of HK\$0.025 each in the Company.

(18) Post Balance Sheet Events

The following significant events occurred subsequent to September 30, 2001:

On October 16, 2001, the Group accepted an offer to sell the 4,556,976 common shares in the capital of Oxford Properties Group Inc. at a total consideration of CAD108.2 million (equivalent to approximately HK\$537.9 million).

In November 2001, the Group's interests in STAREASTnet.com Corporation were diluted from 22.0% to 13.6% upon its issuance of 1,600 million new shares to China Strategic Holdings Ltd. and Star East Holdings Ltd. for its acquisition of media interests.