

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements of the Group are prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) No.25 “Interim Financial Reporting” and Appendix 16 of the rules governing the listing of securities (the “Listing Rules”) on the Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The accounting policies and basis of presentation used in the preparation of these unaudited interim financial statements are the same as those used in the audited financial statements for the year ended 31 December 2001, except the following new/revised SSAPs have been adopted for the first time in the preparation of the current period’s unaudited condensed consolidated financial statements:

- SSAP 1 (Revised) : “Presentation of financial statements”
- SSAP 11 (Revised) : “Foreign currency translation”
- SSAP 15 (Revised) : “Cash flow statements”
- SSAP 33 : “Discontinuing operations”
- SSAP 34 : “Employee benefits”

A summary of their major effects is as follows:

SSAP 1 (Revised) prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The main revision to this SSAP is to change the requirements from presenting a statement of recognised gains and losses to a statement of changes in equity. The condensed consolidated statement of changes in equity for the current interim period and the comparative figures have been presented in accordance with the revised SSAP.

SSAP 11 (Revised) prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of this revised SSAP on the condensed consolidated financial statements is that the profit and loss account of subsidiaries and associates operating in Mainland China and overseas are translated at an average rate for the period on consolidation, rather than translated at the applicable rates of exchange ruling at the balance sheet date as was previously required. This SSAP is required to be applied retrospectively. The Group has adopted the transitional provision of this SSAP that where the calculation of a prior year adjustment is impractical, these changes in policy are applied only to current and future financial statements and the effect on the results of the current period is not significant.

SSAP 15 (Revised) prescribes the provision of information about the historical changes in cash and cash equivalents by means of a cash flow statement which classifies cash flows during the period into operating, investing and financing activities. The unaudited condensed consolidated cash flow statement for the current interim period and the comparative figures have been presented in accordance with the revised SSAP.

SSAP 33 prescribes the basis for reporting information about discontinuing/discontinued operations. The impact of this SSAP is the inclusion of significant additional disclosure which are set out in note 5 to the unaudited condensed consolidated financial statements.

SSAP 34 prescribes the accounting treatment and disclosures for employee benefits. This SSAP has had no major impact on these unaudited condensed consolidated financial statements.

2. TURNOVER AND SEGMENT INFORMATION

Turnover represents the net invoiced value of goods sold, after allowance for returns and trade discounts and the value of services rendered during the period.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

- (a) the provision of software solutions and e-Commerce services segment is the development of security and geographical information softwares and provision of system and integrated solutions to financial institutions, enterprises and government departments in the PRC which are in the process of computerisation;
- (b) the electronic products segment manufactures weighing scales and lighting products; and
- (c) the electronic components segment manufactures the semi-conductor products.

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the locations of customers.

No intersegment sales and transfers were transacted during the period (2001: Nil).

2. TURNOVER AND SEGMENT INFORMATION (Continued)

(a) Business segments

The following tables present revenue and profit/(loss) for the Group's business segments for the six months ended 30 June.

Group	Provision of software solutions and e-Commerce services				Electronic products		Electronic components (Discontinued)		Consolidated			
	2002		2001		2002		2001		2002		2001	
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000		
Segment revenue:												
Sales to external customers	<u>40,249</u>	<u>20,294</u>	<u>94,414</u>	<u>67,988</u>	<u>48,283</u>	<u>45,298</u>	<u>182,946</u>	<u>133,580</u>				
Segment results	<u>(12,547)</u>	<u>(22,577)</u>	<u>2,260</u>	<u>2,210</u>	<u>(19,449)</u>	<u>3,464</u>	<u>(29,736)</u>	<u>(16,903)</u>				
Interest and other income							<u>3,272</u>	<u>4,580</u>				
Unallocated expenses							<u>(5,548)</u>	<u>(8,739)</u>				
Loss from operating activities							<u>(32,012)</u>	<u>(21,062)</u>				
Finance costs							<u>(3,716)</u>	<u>(4,289)</u>				
Share of profits and losses of associates							<u>2,424</u>	<u>2,974</u>				
Loss before tax							<u>(33,304)</u>	<u>(22,377)</u>				
Tax							<u>(274)</u>	<u>(871)</u>				
Loss before minority interests							<u>(33,578)</u>	<u>(23,248)</u>				
Minority interests							<u>170</u>	<u>1,208</u>				
Net loss from ordinary activities attributable to shareholders							<u>(33,408)</u>	<u>(22,040)</u>				

(b) Geographical segments

The following tables present revenue and profit/(loss) for the Group's geographical segments for the six months ended 30 June.

Group	Elsewhere				United States				United Kingdom		Others		Consolidated			
	Hong Kong		in the PRC		Singapore		of America		2002		2001		2002		2001	
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	
Segment revenue:																
Sales to external customers	<u>19,588</u>	<u>18,653</u>	<u>48,226</u>	<u>29,886</u>	<u>19,731</u>	<u>13,822</u>	<u>77,608</u>	<u>47,630</u>	<u>13,842</u>	<u>17,353</u>	<u>3,951</u>	<u>6,236</u>	<u>182,946</u>	<u>133,580</u>		
Segment results	<u>(8,736)</u>	<u>(2,545)</u>	<u>(14,551)</u>	<u>(19,431)</u>	<u>(7,411)</u>	<u>1,475</u>	<u>1,318</u>	<u>2,500</u>	<u>294</u>	<u>440</u>	<u>(650)</u>	<u>658</u>	<u>(29,736)</u>	<u>(16,903)</u>		

3. OTHER REVENUE

	For the six months ended 30 June	
	2002	2001
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Profit guarantees (Note)	–	10,734
Interest income	365	2,012
Rental income	210	210
Others	2,697	2,358
	<u>3,272</u>	<u>15,314</u>

Note: Pursuant to the Management Agreement dated 17 May 2000, Ricwinco Investment Limited (“Ricwinco”), a substantial shareholder of the Company, should pay a guaranteed amount of approximately HK\$10,734,000 to the Group for the period from 1 January 2001 to 30 June 2001 during which the profit guarantee is effective.

4. LOSS FROM OPERATING ACTIVITIES

The Group’s loss from operating activities is arrived at after charging/(crediting):

	For the six months ended 30 June	
	2002	2001
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Depreciation	6,405	7,330
Operating lease rental	3,477	2,212
Amortisation and write-off of deferred development costs	379	1,005
Staff costs (including directors’ remuneration)	48,977	33,000
Provision for doubtful debts	2,051	1,299
Provision for obsolete stock	4,410	–
Rental income	(210)	(210)
Interest income	<u>(365)</u>	<u>(2,012)</u>

5. DISCONTINUED OPERATION

On 4 April 2002, the Company entered into a conditional Disposal Agreement (“DA”) with Ricwinco. Pursuant to the DA, the Company conditionally agreed to dispose of its entire issued share capital of Yung Wen Investment & Finance Limited (“YWIF”) and to assign the indebtedness due to the Group by YWIF and its subsidiaries (the “YWIF Group”) to Ricwinco for a total cash consideration of HK\$15,000,000. In addition, Ricwinco conditionally agreed to procure the release of the Company from all existing guarantees and undertakings it had given in respect of the liabilities of the YWIF Group except to a trade creditor aggregating HK\$28 million which will be released by no later than 31 March 2003. The principal activity of the YWIF Group is manufacture, marketing and distribution of electronic components.

5. DISCONTINUED OPERATION *(Continued)*

The carrying amounts of the total assets and liabilities relating to the discontinued operation as at 30 June 2002 are as follows. Comparative information for electronic components business in 2001 is included in accordance with SSAP 33 "Discontinuing operations".

	Electronic components	
	As at 30 June 2002 (Unaudited) HK\$'000	As at 31 December 2001 (Audited) HK\$'000
Total assets	104,768	147,649
Total liabilities	(73,557)	(111,038)
Net assets	<u>31,211</u>	<u>36,611</u>

The turnover, other revenue, expenses and result from the ordinary operation of electronic components business for the six months ended 30 June 2002 and 2001 are as follows:

	Electronic components For the six months ended 30 June	
	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
TURNOVER		
Cost of sales	(48,570)	(44,084)
Gross profit/(loss)	(287)	1,214
Other revenue	2,683	12,505
Selling and distribution costs	(1,572)	(630)
Administrative expenses	(2,511)	(7,816)
Loss on disposal of discontinued operation	(15,079)	-
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	(16,766)	5,273
Finance costs	(3,017)	(4,176)
Share of profits of an associate	24	-
PROFIT/(LOSS) BEFORE TAX	(19,759)	1,097
Tax	-	-
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	<u>(19,759)</u>	<u>1,097</u>

5. DISCONTINUED OPERATION *(Continued)*

The net cash flows attributable to the electronic components business for the six months ended 30 June 2002 and 2001 are as follows:

	Electronic components For the six months ended 30 June	
	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
Operating	(2,393)	2,878
Investing	(241)	(1,376)
Financing	1,875	(2,312)
Net cash outflows	<u>(759)</u>	<u>(810)</u>

6. FINANCE COSTS

	For the six months ended 30 June	
	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
Interest on bank loans and overdrafts	1,342	2,145
Interest on other loans wholly repayable within five years	2,320	1,010
Interest on finance leases	54	1,134
Total finance costs	<u>3,716</u>	<u>4,289</u>

7. TAX

No provision for Hong Kong profits tax has been made for the Company and its subsidiaries as they either have no assessable profits or have available tax loss brought forward from prior years to offset against current period estimated assessable profits.

Taxes on profits assessable elsewhere have been calculated at the applicable rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	For the six months ended 30 June	
	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
Share of tax attributable to an associate	<u>274</u>	<u>871</u>
Tax charge for the period	<u>274</u>	<u>871</u>

8. LOSS PER SHARE

The calculation of basic loss per share is based on the unaudited net loss from ordinary activities attributable to shareholders for the six months ended 30 June 2002 of approximately HK\$33,408,000 (2001: HK\$22,040,000), and the weighted average of 820,562,040 (2001: 820,562,040) ordinary shares in issue during the period.

Diluted loss per share for the six months ended 30 June 2002 and 2001 have not been disclosed as the share options outstanding during these periods had anti-dilutive effect on the basic loss per share for these periods.

9. INTERIM DIVIDEND

The Directors do not recommend the payment of any interim dividend for the six months ended 30 June 2002 (2001: Nil).

10. TRADE AND BILLS RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally for a period of 1 month, extending up to 5 months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by senior management.

An aged analysis of the trade receivables as at the balance sheet date, based on invoice date is as follow:

	As at 30 June 2002 (Unaudited) HK\$'000	As at 31 December 2001 (Audited) HK\$'000
1 - 6 months	38,421	50,869
7 - 12 months	9,599	675
13 - 24 months	710	5,324
Over 24 months	22	5,236
	48,752	62,104
Provision	(2,660)	(8,147)
Total net of provision	46,092	53,957

11. TRADE AND BILLS PAYABLES

An aged analysis of trade and bills payables, based on the payment due date, is as follows:

	As at 30 June 2002 (Unaudited) HK\$'000	As at 31 December 2001 (Audited) HK\$'000
1 - 6 months	30,942	59,641
7 - 12 months	4,673	20,966
Over 12 months	1,072	1,955
	<u>36,687</u>	<u>82,562</u>

12. CONTINGENT LIABILITIES

	As at 30 June 2002 (Unaudited) HK\$'000	As at 31 December 2001 (Audited) HK\$'000
Bills discounted with recourse	–	10,288
Guarantees given to banks in connection with facilities granted to subsidiaries	35,000	50,500
Guarantee given to a trade creditor in connection with credit facilities granted to related companies	28,000	–
	<u>63,000</u>	<u>60,788</u>
Extent of the guaranteed facilities utilised by subsidiaries	9,125	24,795
Extent of the guaranteed credit facilities utilised by the related companies	23,885	–
	<u>33,010</u>	<u>24,795</u>

13. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its land and buildings under operating lease arrangements, with leases negotiated for a term of 1 year. The terms of the lease also require the tenant to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 30 June 2002, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	As at 30 June 2002 (Unaudited) HK\$'000	As at 31 December 2001 (Audited) HK\$'000
Within one year	<u>149</u>	<u>380</u>

(b) As lessee

The Group leases certain of its office properties and machinery under operating lease arrangements. Leases for properties are negotiated for terms ranging from 1 to 5 years, and those for machinery for a term of 1 year.

At 30 June 2002, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 30 June 2002 (Unaudited) HK\$'000	As at 31 December 2001 (Audited) HK\$'000
Within one year	5,893	6,563
In the second to fifth years, inclusive	<u>8,104</u>	<u>11,940</u>
	<u>13,997</u>	<u>18,503</u>

14. RELATED PARTY TRANSACTIONS

- (a) During the period, the Group entered into the following transactions with Digital Lighting Holdings Limited and its subsidiaries (the "DL Group") in which a substantial shareholder of the Company, Ricwinco, has significant interest.

		For the six months ended 30 June	
		2002	2001
	<i>Notes</i>	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Sales of finished goods to the DL Group	<i>(i)</i>	–	419
Reimbursement of services charges received from the DL Group	<i>(ii)</i>	–	278
Rental income received from the DL Group	<i>(iii)</i>	198	210

- (i) The sales of finished goods to the DL Group were made at cost plus a mark-up of 1.5%.
- (ii) The reimbursement of service charges received from the DL Group represented the reimbursement of actual general and administrative expenses received from the DL Group.
- (iii) The transactions were conducted at current market prices as determined between the two parties.
- (b) On 4 April 2002, the Company entered into a conditional DA with Ricwinco. Pursuant to the DA, the Company conditionally agreed to dispose of its entire issued share capital of YWIF and to assign the indebtedness due to the Group by YWIF Group to Ricwinco for a total cash consideration of HK\$15,000,000. Further details of the transaction is disclosed in note 5 of the unaudited condensed consolidated interim financial statements.
- (c) During the period, the Group received loan interest from an associate MC.Founder Limited of approximately HK\$152,000 (2001: HK\$577,000). The loans to the associate of HK\$3.45 million and HK\$4.25 million are interest-free and bear interest at Hong Kong dollar prime rate per annum respectively. These loans are unsecured and repayable on demand.
- (d) During the period, raw materials of approximately HK\$23.7 million were purchased from Discrete Association Semiconductors Pte. Limited ("DAS"), an associate of the Company. The Directors consider that the purchases of raw materials were made according to the published prices and conditions similar to those offered to other customers of the supplier.

14. RELATED PARTY TRANSACTIONS *(Continued)*

- (e) During the period, finished goods of approximately HK\$31.4 million were sold to and a commission of approximately HK\$900,000 were paid to DAS, according to the published prices offered to customers of the Group and 2.98% of invoiced amount respectively.
- (f) During the period, Ricwinco guaranteed approximately HK\$9,125,000 (2001: HK\$7,610,000) of the Group's unsecured bank overdrafts and trust receipt loans.
- (g) During the period, the Group paid approximately HK\$1,560,000 (2001: HK\$5,354,000) advertising expenses to a subsidiary of Yahoo! Inc., a substantial shareholder of the Company.

In the opinion of the Directors, the above transactions arose in the ordinary course of business.

15. COMPARATIVE FIGURES

As further explained in note 1 to the unaudited condensed consolidated interim financial statements, due to the adoption of certain new and revised SSAPs during the current period, certain comparative amounts have been reclassified to conform with the current period's presentation.