

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2002**

1. BASIS OF PREPARATION

The unaudited condensed financial statements have been prepared in accordance with the Statement of Standard Accounting Practice No. 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants.

2. PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed financial statements have been prepared under the historical cost convention.

The accounting policies adopted are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 30 June 2002, except as described below.

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

SSAP 1 (Revised)	Presentation of Financial Statements
SSAP 11 (Revised)	Foreign Currency Translation
SSAP 15 (Revised)	Cash Flow Statements
SSAP 34	Employee Benefits

The Group has adopted the new SSAP 34 on “Employee Benefits” issued by the Hong Kong Society of Accountants, which became effective for the accounting period beginning on or after 1 January 2002. As a result of the adoption of SSAP 34, it was necessary to change the Group’s accounting policy in respect of the pension expenses of defined benefit plans. The change has been applied retrospectively, resulting in prior period adjustments with the opening balances of the accumulated profit as at 1 July 2001 and 1 July 2002 restated by reductions of approximately HK\$2.2 million and HK\$27.8 million respectively. The opening balance of the translation reserve as at 1 July 2002 has been restated by reduction of approximately HK\$0.9 million accordingly.

3. 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 and investments in telecommunications networks and e-commerce projects. These businesses are the basis on which the Group reports its primary segment information.

	Sales of general systems products <i>HK\$'000</i> (Unaudited)	Provision of services and software licensing <i>HK\$'000</i> (Unaudited)	Leasing of systems products <i>HK\$'000</i> (Unaudited)	Investments in telecommuni- cations projects <i>HK\$'000</i> (Unaudited)	Investments in e-commerce projects <i>HK\$'000</i> (Unaudited)	Consolidated <i>HK\$'000</i> (Unaudited)
Six months ended 31 December 2002						
TURNOVER						
External and total revenue	<u>601,447</u>	<u>223,323</u>	<u>9,321</u>	<u>64,005</u>	<u>39,134</u>	<u>937,230</u>
RESULTS						
Segment result	<u>63,197</u>	<u>91,145</u>	<u>(1,028)</u>	<u>26,496</u>	<u>(43,148)</u>	136,662
Interest income						5,931
Unallocated corporate expenses						(6,439)
Profit from operations						<u>136,154</u>
Finance costs						(14,279)
Profit before taxation						<u>121,875</u>
Taxation						(754)
Profit before minority interests						<u>121,121</u>
Minority interests						(14,468)
Net profit for the period						<u>106,653</u>

	Sales of general systems products <i>HK\$'000</i> (Unaudited)	Provision of services and software licensing <i>HK\$'000</i> (Unaudited)	Leasing of systems products <i>HK\$'000</i> (Unaudited)	Investments in telecommuni- cations projects <i>HK\$'000</i> (Unaudited)	Investments in e-commerce projects <i>HK\$'000</i> (Unaudited)	Consolidated <i>HK\$'000</i> (Unaudited)
Six months ended 31 December 2001						
TURNOVER						
External and total revenue	<u>437,678</u>	<u>236,516</u>	<u>22,470</u>	<u>61,510</u>	<u>24,125</u>	<u>782,299</u>
RESULTS						
Segment result	<u>54,723</u>	<u>82,071</u>	<u>(592)</u>	<u>35,364</u>	<u>(37,662)</u>	133,904
Interest income						6,670
Unallocated corporate expenses						(9,149)
Profit from operations						<u>131,425</u>
Finance costs						(15,272)
Profit before taxation						<u>116,153</u>
Taxation						(921)
Profit before minority interests						<u>115,232</u>
Minority interests						(13,747)
Net profit for the period						<u>101,485</u>

4. DEPRECIATION AND AMORTISATION

	Six months ended	
	31 December	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Amortisation of investments in e-commerce projects	82,177	60,934
Amortisation of investments in telecommunications projects	54,408	23,440
Amortisation of systems and networks	64,429	2,725
Depreciation on:		
Owned assets	39,577	41,762
Assets under finance leases	809	879
	241,400	129,740

5. TAXATION

	Six months ended	
	31 December	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
The charge comprises:		
Hong Kong Profits Tax	687	685
Taxation in other jurisdictions	67	236
	754	921

Hong Kong Profits Tax is calculated at 17.5% (2001: 16%) 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 is not subject to taxation in any other jurisdictions.

6. DIVIDENDS

Dividend represents proposed interim dividend in scrip form equivalent to HK1.6 cents per share (2001: HK0.0625 cents per share before the adjustment for the share consolidation of 25 shares into 1 share in May 2002), with a cash option.

7. EARNINGS PER SHARE

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

	Six months ended	
	31 December	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Earnings for the purpose of calculating basic earnings per share	106,653	101,485
Effect of dilutive potential ordinary shares:		
Interest on convertible bonds	442	–
Earnings for the purpose of calculating diluted earnings per share	107,095	101,485
	Number of shares	
	As at 31 December	
	2002	2001
	<i>'000</i>	<i>'000</i>
Weighted average number of shares for the purpose of calculating basic earnings per share	576,853	483,177
Effect of dilutive potential ordinary shares		
Options	–	40
Warrants	–	96
Convertible bonds	58,809	–
	58,809	136
Weighted average number of shares for the purpose of calculating diluted earnings per share	635,662	483,313
Diluted earnings per share	16.8 cents	21.0 cents

The comparative figures have been adjusted for the share consolidation in May 2002.

8. PROPERTY, PLANT AND EQUIPMENT

	<i>HK\$'000</i>
Net book value at 1 July 2002	158,909
Currency realignment	2,207
Additions	1,066
Transfer to stock	(5)
Disposals	(115)
Depreciation	(40,386)
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Net book value at 31 December 2002	121,676

At 31 December 2002, certain land and buildings of the Group with a net book value of HK\$8,776,000 (30 June 2002: HK\$8,952,000) 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\$61,000 for the period.

9. TRADE AND OTHER RECEIVABLES

At 31 December 2002, the balance of trade and other receivables included trade receivables of HK\$438,029,000 (30 June 2002: HK\$314,494,000). The aged analysis of trade receivables at the reporting date is as follows:

	31 December 2002 HK\$'000 (Unaudited)	30 June 2002 HK\$'000 (Audited)
0 – 60 days	378,486	258,668
61 – 90 days	36,503	31,308
91 – 180 days	6,915	11,414
> 180 days	16,125	13,104
	<hr/>	<hr/>
	438,029	314,494

The Group maintains a well-defined credit policy regarding its trade customers dependent on their credit worthiness, nature of services and products, industry practice and condition of the market with credit period ranging from 30 to 180 days.

10. TRADE AND OTHER PAYABLES

At 31 December 2002, the balance of trade and other payables included trade payables of HK\$22,222,000 (30 June 2002: HK\$21,237,000). The aged analysis of trade payables at the reporting date is as follows:

	31 December 2002 HK\$'000 (Unaudited)	30 June 2002 HK\$'000 (Audited)
0 – 60 days	13,567	13,934
61 – 90 days	3,313	2,576
91 – 180 days	3,839	3,754
> 180 days	1,503	973
	<hr/> 22,222 <hr/>	<hr/> 21,237 <hr/>

11. WARRANTY PROVISION

	<i>HK\$'000</i>
At 1 July 2002	1,959
Currency realignment	111
Additional provision	1,006
Utilisation of provision	<hr/> (761) <hr/>
At 31 December 2002	<hr/> 2,315 <hr/>

The warranty provision represents 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.

12. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Authorised share capital of HK\$0.10 each:		
Balance at 1 July 2002	12,000,000,000	1,200,000
Increase in share capital	18,000,000,000	1,800,000
	<hr/>	<hr/>
Balance at 31 December 2002	30,000,000,000	3,000,000
	<hr/>	<hr/>
Issued and fully paid share capital of HK\$0.10 each:		
Balance at 1 July 2002	569,784,884	56,978
Issue of shares upon conversion of convertible bonds	3,806,314	381
Issue of shares as consideration to acquire an investment in securities	57,000,000	5,700
Issue of shares upon exercise of warrants	2,400	–
	<hr/>	<hr/>
Balance at 31 December 2002	630,593,598	63,059
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During the period, the following changes in the issued and fully paid share capital of the Company took place:

- (a) on 22 August 2002, US\$500,000 of the issued convertible bonds were converted into 3,806,314 shares of HK\$0.10 each of the Company at a price of HK\$1.0245 per share;
- (b) on 18 December 2002, the Company issued 57,000,000 shares to E-Giga Technology Limited as consideration for the acquisition of 15% interest in 4G1 Inc., and
- (c) 2,400 shares were issued at HK\$2.95 per share pursuant to the exercise of subscription rights under the warrants of the Company, which expired on 6 January 2003.

All shares issued rank pari passu each other in all respects.

Warrants

On 11 December 2002, the Company announced a bonus issue of new warrants to its shareholders on the register of members on 30 December 2002. A total of 121,168,814 units of warrants with subscription rights of HK\$140,737,577 were issued on 7 January 2003. Each unit of warrant entitles its holder to subscribe for shares of the Company at an initial subscription price of HK\$1.1615 per share of HK\$ 0.10, subject to adjustment, from the date of issue thereof until 12 January 2004.

13. RESERVES

	Share premium	Dividend reserve	Capital redemption reserve	General reserve	Capital reserve	Goodwill reserve	Merger reserve	Translation reserve	Acc- umulated profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 July 2002										
- as originally stated	320,577	14,245	50	1,366,003	105,495	(396,184)	8,358	4,021	1,503,492	2,926,057
- prior period adjustment in respect of defined benefit scheme (note 2)	-	-	-	-	-	-	-	(862)	(27,815)	(28,677)
- as restated	320,577	14,245	50	1,366,003	105,495	(396,184)	8,358	3,159	1,475,677	2,897,380
Premium arising from issue of shares										
- upon conversion of convertible bonds	3,519	-	-	-	-	-	-	-	-	3,519
- as consideration to acquire an investment in securities	62,700	-	-	-	-	-	-	-	-	62,700
- upon exercise of warrants	7	-	-	-	-	-	-	-	-	7
Exchange difference arising on translation of operations outside Hong Kong	-	-	-	-	-	-	-	(1,737)	-	(1,737)
Net profit for the period	-	-	-	-	-	-	-	-	106,653	106,653
Dividend for the period	-	10,089	-	-	-	-	-	-	(10,089)	-
At 31 December 2002	386,803	24,334	50	1,366,003	105,495	(396,184)	8,358	1,422	1,572,241	3,068,522

14. CAPITAL COMMITMENTS

	31 December 2002 HK\$'000 (Unaudited)	30 June 2002 HK\$'000 (Audited)
Capital expenditure in respect of property, plant and equipment:		
Contracted for but not provided in the financial statements	42,975	44,140
Authorised but not contracted for	112,700	113,822
	155,675	157,962

15. 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:

	31 December 2002		30 June 2002	
	Land and buildings	Machinery and equipment	Land and buildings	Machinery and equipment
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)	(Audited)	(Audited)
Operating leases which expire:				
Within one year	1,840	2,787	2,735	2,980
In the second to fifth years inclusive	2,430	1,252	3,104	5,796
	<u>4,270</u>	<u>4,039</u>	<u>5,839</u>	<u>8,776</u>

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

The Group had contracted with tenants in respect of plant and machinery and telecommunications networks which fall due as follows:

	31 December 2002	30 June 2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Operating leases which expire:		
Within one year	6,950	5,439
In the second to fifth years inclusive	12,646	11,583
After five years	1,267	–
	<u>20,863</u>	<u>17,022</u>