

# NOTES TO FINANCIAL STATEMENTS

*Year ended 31 December 2000*

## 1. CORPORATE INFORMATION

During the year, the Group was involved in the business of the development, manufacture, and marketing of information and entertainment products for home and automobile. During the year, the Group commenced the development of networking technology and sales of integrated solutions and services for the cable TV industry.

The Group disposed of its 51% equity interest in Orient Power Telecommunication Limited (“OPTL”) during the year. The principal activities of OPTL and its subsidiaries included the development, manufacture and sale of telecommunication products.

The principal activities of the principal subsidiaries and the Group’s jointly-controlled entities and associates are further detailed in notes 15, 16 and 17 to the financial statements, respectively.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### **Basis of preparation**

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the remeasurement of certain fixed assets, as further explained below.

### **Basis of consolidation**

The consolidated financial statements include the audited financial statements of the Company and its subsidiaries for the year ended 31 December 2000. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

### **Subsidiaries**

A subsidiary is a company, other than a jointly-controlled entity, in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(CONTINUED)*

### **Subsidiaries**

Interests in subsidiaries are stated at cost unless, in the opinion of the directors, there have been permanent diminutions in values, when they are written down to values determined by the directors.

### **Joint ventures**

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

Joint venture arrangements which involve the establishment of a separate entity in which the Group and other parties have an interest are referred to as jointly-controlled entities.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any provisions for diminutions in values, other than those considered to be temporary in nature, deemed necessary by the directors.

Where the Group transacts with its jointly-controlled entities, unrealised profits and losses are eliminated to the extent of the Group's interest in the jointly-controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred, when the full amount of the loss is recognised.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(CONTINUED)*

### **Associates**

An associate is a company, not being a subsidiary or a joint venture, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any provisions for diminutions in values, other than those considered to be temporary in nature, deemed necessary by the directors.

Where the Group transacts with its associates, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associate, except where unrealised losses provide evidence of an impairment of the asset transferred, when the full amount of the loss is recognised.

### **Goodwill and capital reserve**

Goodwill arising on consolidation of subsidiaries and on the acquisition of jointly-controlled entities and associates represents the excess purchase consideration paid over the fair values ascribed to the net underlying assets acquired and is eliminated against reserves in the year of acquisition. A capital reserve arising on the consolidation of subsidiaries and on the acquisition of jointly-controlled entities and associates represents the excess of the fair values ascribed to the net underlying assets acquired over the purchase consideration paid.

On the disposal of subsidiaries, jointly-controlled entities or associates, the relevant portion of attributable goodwill or capital reserve previously dealt with in reserves is realised and included in the calculation of the gain or loss on disposal.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Fixed assets and depreciation

Fixed assets are stated at cost or valuation less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Changes in the values of fixed assets are dealt with as movements in the revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On the disposal of a revalued asset, the relevant portion of the revaluation reserve realised in respect of previous valuations is transferred to retained earnings as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset over its estimated useful life, after taking into account their estimated residual value. The principal annual rates used for this purpose are as follows:

Leasehold land	Over the lease terms
Buildings	Over the shorter of the lease terms or 25 years
Leasehold improvements	Over the lease terms
Plant and machinery	10% – 20%
Moulds and tools	20% – 50%
Furniture and equipment	20%
Motor vehicles	20%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(CONTINUED)*

### **Research and development costs**

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred product development costs are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five years, commencing from the date when the products are put into commercial production.

### **Leased assets**

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and is recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and are depreciated over the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms. Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(CONTINUED)*

### **Long term investments**

Long term investments in unlisted equity securities, intended to be held for a continuing strategic or long term purpose, are stated at cost less any provisions for impairments in values deemed necessary by the directors, other than those considered to be temporary in nature, on an individual basis.

When such impairments in values have occurred, the carrying amounts of the securities are reduced to their fair values, as determined by the directors, and the amounts of the impairments are charged to the profit and loss account for the period in which they arise. When the circumstances and events which led to the impairments in values cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairments previously charged is credited to the profit and loss account to the extent of the amounts previously charged.

### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on the estimated selling prices less any estimated costs to be incurred to completion and disposal.

### **Deferred tax**

Deferred tax is provided, using the liability method, on all significant timing differences to the extent that it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(CONTINUED)*

### **Foreign currencies**

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries, jointly-controlled entities and associates are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange equalisation reserve.

### **Provisions for sales returns/warranty costs**

Provision for losses on expected future sales returns and provision for warranty costs arising in the ordinary course of the Group's distribution business are made on an accrual basis by reference to the directors' best estimates of the expenditure required to settle the obligations, and are charged to the profit and loss account in the period in which the related sales are made. Subsequent expenditure on the settlement of such obligations is charged against the provisions made, except where the expenditure exceeds the balance of the provisions, in which case, it is charged to the profit and loss account as incurred.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### **Retirement benefits scheme**

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the “Scheme”) under the Mandatory Provident Fund Schemes Ordinance, for all its employees in Hong Kong. The Scheme became effective from 1 December 2000. Contributions are made based on a percentage of the employees’ basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in an independently-administered fund. The Group’s employer contributions vest fully with the employees when contributed into the Scheme.

For an overseas subsidiary, the Group operates a defined contribution pension scheme for those employees who are eligible. The assets of the scheme are held separately from those of the Group in an independently-administered fund. Contributions are made based on a percentage of the participating employees’ basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the scheme. This pension scheme operates in a similar way to the Mandatory Provident Fund retirement benefits scheme, except that when an employee leaves the scheme prior to his/her interest in the Group’s employer contribution vesting fully, the outgoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions.

### **Revenue recognition**

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) the rendering of services, when the services are provided;
- (c) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and
- (d) rental income, on a time proportion basis over the lease terms.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(CONTINUED)*

### **Related parties**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

### **Cash equivalents**

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

### 3. TURNOVER AND REVENUE

Turnover represents the net invoiced value of goods sold, after allowance for returns and trade discounts. The Group's revenue for the year is analysed as follows:

	<b>Group</b>	
	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Turnover:		
Continuing operations		
Development, manufacture, sale and distribution of:		
– audio products	<b>1,422,178</b>	1,238,194
– in-car electronics products	<b>1,458,062</b>	1,262,850
– video products	<b>946,963</b>	219,309
– network information /entertainment solution	<b>15,730</b>	–
	<b>3,842,933</b>	2,720,353
Discontinued operations		
Development, manufacture and sale of telecommunication products	<b>55,880</b>	385,016
	<b>3,898,813</b>	3,105,369
Other revenue:		
Tooling and repairing service income	<b>11,470</b>	8,440
Interest income	<b>3,194</b>	3,809
Rental income	<b>1,047</b>	1,030
Gain on liquidation of subsidiaries	<b>447</b>	–
Sales of scrap materials	<b>1,036</b>	1,827
Others	<b>333</b>	4,766
	<b>17,527</b>	19,872
Total revenue	<b>3,916,340</b>	3,125,241

#### 4. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

	<b>Group</b>	
	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Cost of inventories sold	<b>3,536,780</b>	2,750,814
Provision for loss in value of inventories included in the above cost of inventories sold	<b>6,950</b>	3,051
Research and development costs:		
Deferred expenditure amortised	<b>13,422</b>	14,378
Deferred expenditure written off	<b>12,775</b>	7,326
Current year's expenditure	<b>15,163</b>	2,691
	<b>41,360</b>	24,395
Depreciation:		
Owned fixed assets	<b>57,803</b>	54,748
Leased and hire purchased fixed assets	<b>9,913</b>	10,216
	<b>67,716</b>	64,964
Operating lease rentals in respect of land and buildings	<b>14,551</b>	19,699
Less: Amounts capitalised	<b>(1,067)</b>	(2,334)
	<b>13,484</b>	17,365
Auditors' remuneration	<b>1,320</b>	1,200
Staff costs (including directors' remuneration – note 6):		
Pension contributions	<b>815</b>	1,280
Less: Forfeited contributions	–	(130)
Net pension contributions*	<b>815</b>	1,150
Wages, salaries and bonuses	<b>149,943</b>	156,914
	<b>150,758</b>	158,064
Less: Amounts capitalised	<b>(25,399)</b>	(27,347)
	<b>125,359</b>	130,717

#### 4. PROFIT/(LOSS) FROM OPERATING ACTIVITIES (CONTINUED)

	Group	
	2000	1999
	HK\$'000	HK\$'000
Exchange losses, net	5,650	2,153
Loss on disposal of fixed assets, net	7,930	7,940
Loss on disposal of subsidiaries	378	–
Deficit on revaluation of land and buildings	–	341
Provision for doubtful trade debts	10,225	3,886
	<u>10,225</u>	<u>3,886</u>

\* At 31 December 2000, there were no forfeited contributions available to the Group to reduce its contributions to the pension scheme in future years (1999: HK\$157,000).

#### 5. FINANCE COSTS

	Group	
	2000	1999
	HK\$'000	HK\$'000
Interest on bank loans, overdrafts, and other borrowings wholly repayable within five years	48,447	36,783
Interest on finance leases and hire purchase contracts	1,931	2,420
	<u>50,378</u>	<u>39,203</u>

#### 6. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Section 161 of the Companies Ordinance is as follows:

	Group	
	2000	1999
	HK\$'000	HK\$'000
Fees	620	120
Other emoluments:		
Salaries, allowances and benefits in kind	8,534	6,080
Bonuses	561	–
	<u>9,715</u>	<u>6,200</u>

## 6. DIRECTORS' REMUNERATION (CONTINUED)

Fees represent amounts paid and payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (1999: Nil).

The remuneration of the directors during the year fell within the following bands:

	Number of directors	
	2000	1999
Nil to HK\$1,000,000	5	5
HK\$1,500,001 to HK\$2,000,000	1	–
HK\$2,500,001 to HK\$3,000,000	–	1
HK\$3,000,001 to HK\$3,500,000	–	1
HK\$3,500,001 to HK\$4,000,000	2	–
	<u>8</u>	<u>7</u>

There was no arrangement under which a director waived or agreed to waive any remuneration during the year. In the prior year, two directors had agreed to waive their basic salaries as provided for in their respective service agreements in the total amount of HK\$1,367,000.

## 7. FIVE HIGHEST PAID EMPLOYEES' REMUNERATION

The five highest paid employees during the year included three (1999: two) directors, details of whose remuneration are set out in note 6 above. The details of the remuneration of the remaining two (1999: three) non-director, highest paid employees are as follows:

	Group	
	2000	1999
	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	<u>2,875</u>	<u>5,622</u>

## 7. FIVE HIGHEST PAID EMPLOYEES' REMUNERATION (CONTINUED)

The remuneration of the non-director, highest paid employees fell within the following bands:

	Number of employees	
	2000	1999
HK\$1,000,001 to HK\$1,500,000	1	–
HK\$1,500,001 to HK\$2,000,000	1	2
HK\$2,500,001 to HK\$3,000,000	–	1
	<u>2</u>	<u>3</u>

No value was included in the remuneration of the non-director, highest paid employees in respect of share options granted by the Company in the prior year because, in the absence of a readily available market value for the options on the Company's shares, the directors were unable to arrive at an accurate assessment of the value of the options granted.

## 8. DISCONTINUED OPERATIONS

On 31 March 2000, the Group disposed of its entire interest in a 51% subsidiary group, Orient Power Telecommunication Limited ("OPTL") and its subsidiaries, to the then 49% shareholder of OPTL in consideration for HK\$26 million, received by way of cash of HK\$6 million and an assignment to the buyer of a HK\$20 million loan previously borrowed by the Group from the disposed group. The principal activities of OPTL and its subsidiaries are the development, manufacture and sale of telecommunication products. As a result of this disposal, the Group's business related to the development, manufacture and sale of telecommunication products was discontinued. The results of the activities and operations carried out by the OPTL group have been included in the Group's consolidated profit and loss account for the year ended 31 December 2000 up to the date of disposal of 31 March 2000 and have been separately disclosed as results from discontinued operations. The assets and liabilities of the OPTL group at 31 March 2000, and the capital reserve that previously arose on the acquisition of the original interest and which was eliminated to reserves, were accounted for in the profit and loss account in determining the net loss on disposal of approximately HK\$378,000 (note 4), after expenses of HK\$195,000.

## 9. TAX

Hong Kong profits tax has been provided at the rate of 16% (1999: 16%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Jointly-controlled entities operating in the People's Republic of China (the "PRC") are entitled to an exemption from PRC income tax for two years from their first year with assessable profits, and thereafter are entitled to a 50% exemption for a further three consecutive years. No tax provision has been made by the jointly-controlled entities for the year, either because they did not generate any assessable profits, or because they were still entitled to their 100% tax exemption.

	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Group:		
Hong Kong	<b>2,762</b>	5,668
Elsewhere	<b>88</b>	160
Underprovision in prior year	<b>3</b>	108
Rebates received related to prior year	–	(274)
Deferred (note 26)	<b>3,239</b>	3,921
	<b>6,092</b>	9,583
Share of tax attributable to associates	<b>763</b>	2,070
Tax charge for the year	<b><u>6,855</u></b>	<b><u>11,653</u></b>

## 10. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is HK\$29,571,000 (1999: HK\$11,470,000).

## 11. DIVIDENDS

	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Interim dividend in scrip form equivalent to HK1.0 cent (1999: HK1.0 cent) per share with a cash option	<b>4,320</b>	3,289
Proposed final dividend in scrip form equivalent to HK2.0 cents (1999: HK2.0 cents) per share with a cash option	<b>8,660</b>	8,000
	<b><u>12,980</u></b>	<b><u>11,289</u></b>

The interim dividend for the year was paid in the form of scrip dividend and cash amounting to HK\$1,614,000 (1999: HK\$2,588,000) and HK\$2,706,000 (1999: HK\$701,000), respectively. The final dividend for the prior year was paid in the form of scrip dividend and cash amounting to HK\$5,867,000 and HK\$2,133,000, respectively.

## 12. EARNINGS PER SHARE

The bases on which basic and diluted earnings per share are calculated as follows:

	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
<b>Earnings</b>		
Net profit from ordinary activities attributable to shareholders used in basic and diluted earnings per share calculation	<b><u>69,222</u></b>	<b><u>52,981</u></b>

## 12. EARNINGS PER SHARE (CONTINUED)

### Shares

	2000	1999
Weighted average number of shares in issue during the year used in basic earnings per share calculation	<b>413,097,765</b>	324,005,432
Weighted average number of shares assumed issued at no consideration on deemed exercise of all share options outstanding during the year	<b>4,162,914</b>	4,309,347
Weighted average number of shares used in diluted earnings per share calculation	<b><u>417,260,679</u></b>	<b><u>328,314,779</u></b>

## 13. FIXED ASSETS

### Group

	Land and buildings HK\$'000	Leasehold improve- ments HK\$'000	Plant, machinery, moulds and tools HK\$'000	Furniture and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost or valuation:						
At beginning of year	52,663	51,482	367,046	58,764	4,242	534,197
Additions	6,017	9,990	92,213	15,337	784	124,341
Disposals	–	(397)	(30,591)	(575)	(466)	(32,029)
Disposal of subsidiaries	(4,150)	(8,218)	(35,208)	(3,293)	(550)	(51,419)
Deficit on revaluation	(700)	–	–	–	–	(700)
Exchange realignments	–	7	5	8	–	20
At 31 December 2000	<u>53,830</u>	<u>52,864</u>	<u>393,465</u>	<u>70,241</u>	<u>4,010</u>	<u>574,410</u>
Analysis of cost or valuation:						
At cost	6,730	52,864	393,465	70,241	4,010	527,310
At 2000 valuation	47,100	–	–	–	–	47,100
	<u>53,830</u>	<u>52,864</u>	<u>393,465</u>	<u>70,241</u>	<u>4,010</u>	<u>574,410</u>

### 13. FIXED ASSETS (CONTINUED)

Accumulated depreciation:

At beginning of year	294	38,147	232,512	40,787	3,583	315,323
Provided during the year	1,372	5,461	52,691	7,895	297	67,716
Disposal	-	(324)	(21,822)	(321)	(466)	(22,933)
Disposal of subsidiaries	(27)	(7,284)	(20,679)	(2,452)	(550)	(30,992)
Written back on revaluation	(1,488)	-	-	-	-	(1,488)
Exchange realignments	-	-	1	3	-	4
	<u>151</u>	<u>36,000</u>	<u>242,703</u>	<u>45,912</u>	<u>2,864</u>	<u>327,630</u>
At 31 December 2000						

Net book value:

At 31 December 2000	<u>53,679</u>	<u>16,864</u>	<u>150,762</u>	<u>24,329</u>	<u>1,146</u>	<u>246,780</u>
At 31 December 1999	<u>52,369</u>	<u>13,335</u>	<u>134,534</u>	<u>17,977</u>	<u>659</u>	<u>218,874</u>

#### Company

**Motor  
vehicle  
HK\$'000**

Cost:

At beginning of year and at 31 December 2000	<u>437</u>
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Accumulated depreciation:

At beginning of year	80
Provided during the year	<u>88</u>

At 31 December 2000	<u>168</u>
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Net book value:

At 31 December 2000	<u><u>269</u></u>
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At 31 December 1999	<u><u>357</u></u>
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### 13. FIXED ASSETS (CONTINUED)

The Group's land and buildings included above are held under the following lease terms:

	<b>Hong Kong</b>	<b>Elsewhere</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000
At cost:			
Medium term leases	—	6,730	6,730
	<hr/>	<hr/>	<hr/>
At valuation:			
Long term leases	4,200	—	4,200
Medium term leases	15,700	27,200	42,900
	<hr/>	<hr/>	<hr/>
	19,900	27,200	47,100
	<hr/>	<hr/>	<hr/>
	19,900	33,930	53,830
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The Group's land and buildings, other than the staff quarters and office premises in the PRC, were revalued individually at the balance sheet date by A.G. Wilkinson & Associates, an independent firm of property valuers, on an open market value, existing use basis. The Group's attributable revaluation surplus of HK\$788,000 (1999: HK\$472,000) and deficits of HK\$Nil (1999: HK\$341,000) resulting from the above valuations have been reflected in the property revaluation reserve and the profit and loss account, respectively. No independent professional valuation has been conducted for the staff quarters and office premises in the PRC because, in the opinion of the directors, the carrying values are not materially different from the fair values.

Had these land and buildings been carried at historical cost less accumulated depreciation, their carrying value would have been approximately HK\$47,036,000 (1999: HK\$52,761,000).

The net book value of the fixed assets of the Group held under finance leases and hire purchase contracts included in the total amount of plant, machinery, moulds and tools at 31 December 2000 amounted to HK\$21,641,000 (1999: HK\$16,112,000).

## 14. DEFERRED PRODUCT DEVELOPMENT COSTS

	Group	
	2000	1999
	HK\$'000	HK\$'000
Cost:		
At beginning of year	70,675	65,356
Additions	29,284	21,163
Written off	(40,057)	(15,844)
Disposal of subsidiaries	(2,113)	–
	<u>57,789</u>	<u>70,675</u>
At 31 December	<u>57,789</u>	<u>70,675</u>
Accumulated amortisation:		
At beginning of year	22,666	16,806
Provided during the year	13,422	14,378
Written off	(27,282)	(8,518)
Disposal of subsidiaries	(581)	–
	<u>8,225</u>	<u>22,666</u>
At 31 December	<u>8,225</u>	<u>22,666</u>
Net book value:		
At 31 December	<u>49,564</u>	<u>48,009</u>

## 15. INTERESTS IN SUBSIDIARIES

	Company	
	2000	1999
	HK\$'000	HK\$'000
Unlisted shares, at cost	35,630	35,630
Due from subsidiaries	308,476	179,249
	<u>344,106</u>	214,879
Provision against amounts due from subsidiaries	(6,648)	(6,263)
	<u>337,458</u>	<u>208,616</u>

## 15. INTERESTS IN SUBSIDIARIES (CONTINUED)

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			2000	1999	
Asian Power Electronics Limited	Hong Kong/ The People's Republic of China ("PRC")	HK\$10,000	100	100	Subcontracting of audio products
Heavy Power Electronics Limited	Hong Kong/ PRC	HK\$2	100	100	Manufacture and sale of audio products
Jiangsu Electronics Industries Limited	British Virgin Islands	US\$4,000,000	100	95	Investment holding and licensing of trademarks
Jiangsu International Limited	Hong Kong	HK\$2	100	95	Trading of audio, video and in-car electronics products
J.S. International, Inc.	The United States of America ("USA")	US\$100	100	95	Distribution of audio, video and in-car electronics products

## 15. INTERESTS IN SUBSIDIARIES (CONTINUED)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			2000	1999	
Maxwin Services Limited	British Virgin Islands/ USA	US\$20	100	100	Provision of warranty services to Group companies
OP Audio Limited	Hong Kong	HK\$2	100	100	Trading of audio products
Orient Power Auto Electronics (HK) Limited	Hong Kong	HK\$2	100	90.5	Investment holding
Orient Power (BVI) Limited	British Virgin Islands	HK\$15,000,000	100	100	Investment holding
Orient Power Car Audio Limited	Hong Kong/ PRC	HK\$2	100	–	Development, manufacture and sale of in-car electronics products
Orient Power Car Stereos Limited	Hong Kong/ PRC	HK\$1,000,000	100	90.5	Development, manufacture and sale of in-car electronics products and investment holding
Orient Power Digital Technology Limited	Bermuda/ Hong Kong	HK\$100,000	100	100	Operation not yet commenced

## 15. INTERESTS IN SUBSIDIARIES (CONTINUED)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			2000	1999	
Orient Power Electronics Limited	Hong Kong/ PRC	Ordinary HK\$1,000 Non-voting deferred HK\$2,000,000	100	100	Development, manufacture and sale of audio products
Orient Power GPS Limited	Hong Kong/ PRC	HK\$2	100	100	Development, manufacture and sale of in-car electronics products
Orient Power Hi-Fi Mfg. Limited	Hong Kong/ PRC	HK\$3,500,000	100	100	Development, manufacture and sale of audio and video products
Orient Power Industrial Limited	Hong Kong/ PRC	HK\$4,500,000	100	100	Manufacture and sale of plastic products and investment holding
Orient Power Injection Moulding Limited	Hong Kong/ PRC	HK\$7,000,000	70	70	Leasing of assets to Group company
Orient Power (Jiangsu) Electronics Limited	Hong Kong/ PRC	HK\$2	100	100	Investment holding, manufacture and sale of audio products

## 15. INTERESTS IN SUBSIDIARIES (CONTINUED)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			2000	1999	
Orient Power Mobile Electronics Ltd.	Hong Kong	HK\$2	100	100	Trading of in-car electronics products
Orient Power Multimedia Limited	Hong Kong	HK\$2	100	100	Development, manufacture and sale of video products
Orient Power-Sunniwell Limited	Hong Kong/ PRC	HK\$2	51	–	Provider of network solution
Orient Power-Sunniwell IT Limited	PRC	RMB15,000,000	51	–	Provider of network solution
Orient Power Technologies Limited	Hong Kong	HK\$1,000,000	100	100	Investment holding
Orient Power Video Manufacturing Limited	Hong Kong	HK\$29,250,000	100	100	Development, manufacture and sale of video products
Surf Power Limited	Hong Kong	HK\$1,000	100	100	Property investment

All subsidiaries are indirectly held by the Company with the exception of Orient Power (BVI) Limited.

## 15. INTERESTS IN SUBSIDIARIES (CONTINUED)

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

## 16. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group	
	2000	1999
	HK\$'000	HK\$'000
Share of net assets	27,694	12,296
Due from jointly-controlled entities	9,798	110
	<u>37,492</u>	<u>12,406</u>

The balances with the jointly-controlled entities are unsecured, interest-free and have no fixed terms of repayment. The amounts due to jointly-controlled entities represent trade payable arising from purchases of finished goods by the Group (note 33).

Particulars of the unlisted jointly-controlled entities are as follows:

Name	Business structure	Place of registration and operations	Percentage of			Principal activities
			Ownership interest	Voting power	Profit sharing	
Jiangsu Orient Power Electronics Company Limited	Corporate	PRC	51	50	51	Manufacture and sale of in-car electronics products
Orient Power Xian GPS Electronics Limited	Corporate	PRC	51	50	51	Research and development of in-car electronics products

## 16. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (CONTINUED)

Name	Business structure	Place of registration and operations	Percentage of			Principal activities
			Ownership interest	Voting power	Profit sharing	
Orient Power (Wuxi) Digital Technology Company Limited*	Corporate	PRC	55	40	55	Manufacture and sale of video products

\* This company was a joint venture (“JV”) newly formed in the current year by a subsidiary of the Company and a PRC JV partner. In accordance with the JV contract, the Group made a capital injection of RMB7,650,000 into the JV which represents 55% of the total registered capital of the JV. Although the existing articles of the JV confer on the Group the right to appoint 3 out of a total of 5 representatives to the board of the JV, the Group has not exercised the right and has only appointed two representatives to the board whereas the JV partner has appointed three of the five board members. It is the intention of the management to change the articles of the JV and keep the representation of the Group in this JV to 50% of the board. Accordingly, the Group’s interest in this JV has been included as an interest in a jointly-controlled entity.

## 17. INTERESTS IN ASSOCIATES

	Group	
	2000 HK\$’000	1999 HK\$’000
Share of net assets	37,993	27,058
Due from an associate	174	38
	<u>38,167</u>	<u>27,096</u>

The amount due from an associate is unsecured, interest-free and has no fixed terms of repayment.

## 17. INTERESTS IN ASSOCIATES (CONTINUED)

Particulars of the unlisted associates are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Percentage of ownership interest attributable to the Group		Principal activities
			2000	1999	
Clarion Orient Co., Limited ("COC")	Corporate	Hong Kong	49.00	44.35	Investment holding and trading of in-car electronics and related products
Dongguan Clarion Orient Electronics Co., Limited ("DCOE")	Corporate	The PRC	49.00	44.35	Manufacture and sale of in-car electronics and related products

DCOE is a wholly-owned subsidiary of COC. The above associates were not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

## 18. LONG TERM INVESTMENT

	Group	
	2000	1999
	HK\$'000	HK\$'000
Unlisted equity investment, at cost	<u>500</u>	<u>—</u>

## 19. TRADE RECEIVABLE

	<b>Group</b>	
	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Trade receivable assigned to factoring agents	<b>185,856</b>	191,735
Less: Advances from factoring agents	<b>(141,815)</b>	(153,719)
	<u><b>44,041</b></u>	<u>38,016</u>
Unfactored trade receivable	<b>321,112</b>	184,706
	<u><b>365,153</b></u>	<u>222,722</u>
Portion classified as current assets	<b>(361,140)</b>	(222,722)
Long term portion	<u><b>4,013</b></u>	<u>–</u>

At 31 December 1999, trade receivable in the amount of HK\$34,676,000 were pledged to secure certain banking facilities granted to the Group (note 31).

The aging analysis of unfactored trade receivable is as follows:

	<b>Group</b>	
	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Current to 90 days	<b>277,504</b>	156,475
91 to 180 days	<b>28,857</b>	21,785
181 to 360 days	<b>14,297</b>	1,246
Over 360 days	<b>454</b>	5,200
	<u><b>321,112</b></u>	<u>184,706</u>

The Group in general allows a credit period of 30 to 240 days to its trade debtors. The long term portion of the trade receivable represents trade receivable which is not receivable within the next twelve months. Such receivable arisen from sales transactions were made to a few customers under exceptional circumstances.

## 20. CASH AND CASH EQUIVALENTS

	Group	
	2000	1999
	HK\$'000	HK\$'000
Cash and bank balances	13,075	48,983
Time deposits	48,312	—
	<u>61,387</u>	<u>48,983</u>

## 21. INVENTORIES

	Group	
	2000	1999
	HK\$'000	HK\$'000
Raw materials	279,571	355,188
Work in progress	23,530	33,492
Finished goods	136,163	107,182
	<u>439,264</u>	<u>495,862</u>

No inventories included above were carried at net realisable value (1999: Nil). Finished goods of HK\$70,372,000 (1999: HK\$45,776,000) were pledged to secure certain banking facilities granted to the Group (note 31).

## 22. TRADE PAYABLE

	Group	
	2000	1999
	HK\$'000	HK\$'000
Current to 90 days	263,152	306,538
91 to 180 days	95,372	52,039
181 to 360 days	1,206	149
Over 360 days	4	—
	<u>359,734</u>	<u>358,726</u>

## 23. TRUST RECEIPT LOANS

	Group	
	2000 HK\$'000	1999 HK\$'000
Secured	–	68,524
Unsecured	<u>35,510</u>	<u>52,581</u>
	<u><b>35,510</b></u>	<u><b>121,105</b></u>

Details of the assets pledged for the secured loans are included in note 31 to the financial statements.

## 24. BANK AND OTHER BORROWINGS

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Bank loans and overdrafts:				
Secured	<b>48,041</b>	6,619	–	–
Unsecured	<u>120,026</u>	<u>266</u>	<u>115,066</u>	<u>–</u>
	<b>168,067</b>	6,885	<b>115,066</b>	–
Other loan:				
Unsecured	<u>181</u>	<u>334</u>	<u>181</u>	<u>334</u>
	<u><b>168,248</b></u>	<u><b>7,219</b></u>	<u><b>115,247</b></u>	<u><b>334</b></u>
Bank loans and overdrafts repayable:				
Within one year or on demand	<b>69,497</b>	3,861	<b>16,496</b>	–
In the second year	<b>65,720</b>	444	<b>65,720</b>	–
In the third to fifth years, inclusive	<b>32,850</b>	1,655	<b>32,850</b>	–
Beyond five years	<u>–</u>	<u>925</u>	<u>–</u>	<u>–</u>
	<u><b>168,067</b></u>	<u><b>6,885</b></u>	<u><b>115,066</b></u>	<u><b>–</b></u>

## 24. BANK AND OTHER BORROWINGS (CONTINUED)

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Other loan repayable:				
Within one year	167	153	167	153
In the second year	14	167	14	167
In the third to fifth years, inclusive	—	14	—	14
	<u>181</u>	<u>334</u>	<u>181</u>	<u>334</u>
Portion classified as current liabilities	<u>(69,664)</u>	<u>(4,014)</u>	<u>(16,663)</u>	<u>(153)</u>
Long term portion	<u><u>98,584</u></u>	<u><u>3,205</u></u>	<u><u>98,584</u></u>	<u><u>181</u></u>

The other loan bears interest at 3-month LIBOR plus 2.75% per annum and is repayable by 36 monthly instalment up to 2002.

Details of the assets pledged for the secured loans are included in note 31 to the financial statements.

## 25. FINANCE LEASE AND HIRE PURCHASE CONTRACT PAYABLES

There were obligations under finance leases and hire purchase contracts at the balance sheet date as follows:

	Group	
	2000 HK\$'000	1999 HK\$'000
Amounts payable:		
Within one year	10,176	12,391
In the second year	4,580	8,735
In the third to fifth years, inclusive	4,381	159
	<u>19,137</u>	<u>21,285</u>
Portion classified as current liabilities	<u>(10,176)</u>	<u>(12,391)</u>
Long term portion	<u>8,961</u>	<u>8,894</u>

## 26. DEFERRED TAX

	Group	
	2000 HK\$'000	1999 HK\$'000
Balance at beginning of year	10,819	6,898
Disposal of subsidiaries	(480)	–
Charge for the year (note 9)	3,239	3,921
At 31 December	<u>13,578</u>	<u>10,819</u>

## 26. DEFERRED TAX (CONTINUED)

The principal components of the Group's provision for deferred tax and the net deferred tax asset position not recognised in the financial statements, calculated at 16% (1999: 16%) of the cumulative timing differences at the balance sheet date, are as follows:

	Provided		Not provided	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Accelerated depreciation allowances	14,593	14,317	529	676
Tax losses	(897)	(3,108)	(2,563)	(2,291)
Others	(118)	(390)	–	125
	<u>13,578</u>	<u>10,819</u>	<u>(2,034)</u>	<u>(1,490)</u>

No provision has been made for deferred tax on the revaluation surplus of the Group's land and buildings in the PRC because the amount involved is insignificant. The revaluation of the Group's land and buildings in Hong Kong does not constitute a timing difference and, consequently, the amount of potential deferred tax thereon has not been quantified.

The Company had no significant potential deferred tax liabilities for which provision has not been made.

## 27. SHARE CAPITAL

### Shares

	Company	
	2000	1999
	HK\$'000	HK\$'000
Authorised:		
800,000,000 (1999: 400,000,000) shares of HK\$0.10 each	<u>80,000</u>	<u>40,000</u>
Issued and fully paid:		
433,008,288 (1999: 399,998,648) shares of HK\$0.10 each	<u>43,301</u>	<u>40,000</u>

## 27. SHARE CAPITAL (CONTINUED)

### Shares (continued)

Pursuant to an ordinary resolution passed on 14 February 2000, the authorised share capital of the Company was increased from HK\$40,000,000 to HK\$80,000,000 by the creation of 400,000,000 additional shares of HK\$0.10 each, ranking pari passu in all respects with the existing share capital of the Company.

During the year, the following movements in the issued capital were recorded:

	Notes	Shares issued	Carrying amount of issued capital HK\$'000
At 1 January 1999		314,419,491	31,442
Share options exercised		2,000,000	200
Scrip dividends		21,091,157	2,109
Placement of shares		62,488,000	6,249
		<hr/>	<hr/>
At 31 December 1999 and beginning of year		399,998,648	40,000
Share options exercised	(a)	4,500,000	450
Scrip dividends	(b) & (c)	28,509,640	2,851
		<hr/>	<hr/>
At 31 December 2000		<u>433,008,288</u>	<u>43,301</u>

There were no changes to the carrying amount or to the number of shares issued during the prior year.

#### Notes:

- (a) The subscription rights attached to these 4,500,000 share options were exercised at subscription prices ranging from HK\$0.23 to HK\$0.26 per share, resulting in the issue of 4,500,000 shares of HK\$0.10 each for a total cash consideration, before expenses, of HK\$1,050,000.
- (b) 23,467,487 shares of HK\$0.10 each were allotted and issued at HK\$0.25 per share as a scrip dividend to the shareholders who elected to receive their final dividend for 1999 in the form of new shares in the Company in lieu of cash.
- (c) 5,042,153 shares of HK\$0.10 each were allotted and issued at HK\$0.32 per share as a scrip dividend to the shareholders who elected to receive their interim dividend for 2000 in the form of new shares in the Company in lieu of cash.

## 27. SHARE CAPITAL (CONTINUED)

### Share options

The share option scheme of the Company (the "Scheme") provides that the directors may, at their discretion, grant options to any employees, including executive directors, of the Company or any of its subsidiaries, to subscribe for shares of HK\$0.10 each in the Company during the period from 13 August 1991 to 12 August 2001 in accordance with the terms of the Scheme.

At 1 January 2000, there were 19,000,000 share options outstanding, 4,500,000 of which were exercised during the year. No options were granted during the year.

At 31 December 2000, the Company had 14,500,000 outstanding share options. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 14,500,000 additional shares of HK\$0.10 each. Details of the outstanding options at the balance sheet date are set out below:

Exercise period	Number of share options		Exercise price	Aggregate subscription price
	Directors	Employees	per share HK\$	price HK\$'000
22 October 1996 to 25 March 2001	3,000,000	–	0.26	780
14 April 1998 to 13 April 2001	–	11,500,000	0.46	5,290
	<u>3,000,000</u>	<u>11,500,000</u>		<u>6,070</u>

All of the share options granted to the directors, remaining outstanding at 31 December 2000, lapsed unexercised upon the expiry of the exercise period subsequent to the balance sheet date.

## 28. RESERVES

### Group

	Share premium account HK\$'000	Property revaluation reserve HK\$'000	Capital reserve/ on (goodwill) consolidation HK\$'000	Exchange equalisation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 1999	118,621	2,258	(8,851)	(12)	192,933	304,949
Issue of shares	32,598	–	–	–	–	32,598
Share issue expenses	(995)	–	–	–	–	(995)
Goodwill arising from acquisition of minority interests in a subsidiary	–	–	(318)	–	–	(318)
Surplus on revaluation	–	472	–	–	–	472
Exchange realignment	–	–	–	(147)	–	(147)
Retained profit for the year	–	–	–	–	41,692	41,692
At 31 December 1999	150,224	2,730	(9,169)	(159)	234,625	378,251
Issue of shares	5,230	–	–	–	–	5,230
Overprovision of prior year's share issue expenses	859	–	–	–	–	859
Goodwill arising from acquisition of minority interests in certain subsidiaries	–	–	(20,010)	–	–	(20,010)
Release of capital reserves upon disposal/liquidation of subsidiaries	–	–	(2,713)	–	–	(2,713)
Surplus on revaluation	–	788	–	–	–	788
Exchange realignments	–	–	–	470	–	470
Retained profit for the year	–	–	–	–	56,242	56,242
At 31 December 2000	<u>156,313</u>	<u>3,518</u>	<u>(31,892)</u>	<u>311</u>	<u>290,867</u>	<u>419,117</u>

## 28. RESERVES (CONTINUED)

	Share premium account HK\$'000	Property revaluation reserve HK\$'000	Capital reserve/ on (goodwill) consolidation HK\$'000	Exchange equalisation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
Reserves retained by:						
Company and subsidiaries	156,313	3,518	(31,892)	311	266,949	395,199
Jointly-controlled entities	-	-	-	-	3,779	3,779
Associates	-	-	-	-	20,139	20,139
	<u>156,313</u>	<u>3,518</u>	<u>(31,892)</u>	<u>311</u>	<u>290,867</u>	<u>419,117</u>
At 31 December 2000	<u>156,313</u>	<u>3,518</u>	<u>(31,892)</u>	<u>311</u>	<u>290,867</u>	<u>419,117</u>
Company and subsidiaries	150,224	2,730	(9,169)	(159)	224,931	368,557
Jointly-controlled entities	-	-	-	-	490	490
Associates	-	-	-	-	9,204	9,204
	<u>150,224</u>	<u>2,730</u>	<u>(9,169)</u>	<u>(159)</u>	<u>234,625</u>	<u>378,251</u>
At 31 December 1999	<u>150,224</u>	<u>2,730</u>	<u>(9,169)</u>	<u>(159)</u>	<u>234,625</u>	<u>378,251</u>

## 28. RESERVES (CONTINUED)

### Company

	Share premium account HK\$'000	Contributed surplus HK\$'000	Retained profits HK\$'000	Total HK\$'000
Balance at 1 January 1999	118,621	20,630	2,320	141,571
Issue of shares	32,598	–	–	32,598
Share issue expenses	(995)	–	–	(995)
Profit for the year	–	–	11,470	11,470
Dividends	–	–	(11,289)	(11,289)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 1999	150,224	20,630	2,501	173,355
Issue of shares	5,230	–	–	5,230
Overprovision of prior year's share issue expenses	859	–	–	859
Profit for the year	–	–	29,571	29,571
Dividends	–	–	(12,980)	(12,980)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2000	<u>156,313</u>	<u>20,630</u>	<u>19,092</u>	<u>196,035</u>

The contributed surplus of the Company represents the excess of the consolidated shareholders' funds of the subsidiaries at the date when they were acquired by the Company over the nominal amount of the Company's shares issued as consideration therefor pursuant to the Group reorganisation implemented prior to the listing of the Company's shares in 1991. Under the Companies Act of 1981 of Bermuda (as amended), the contributed surplus of the Company is distributable to shareholders under certain circumstances.

## 29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

### (a) Reconciliation of profit from operating activities to net cash inflow from operating activities

	Group	
	2000	1999
	HK\$'000	HK\$'000
Profit from operating activities	108,371	104,378
Interest income	(3,194)	(3,809)
Depreciation	67,716	64,964
Amortisation and write off of deferred product development costs	26,197	21,704
Loss on disposal of fixed assets, net	7,930	7,940
Net gain on disposal of subsidiaries/liquidation of subsidiaries	(69)	–
Deficit on revaluation of fixed assets	–	341
Decrease in inventories	27,022	31,457
Increase in trade receivable	(144,347)	(120,529)
Decrease/(increase) in bills receivable	(7,874)	7,934
Increase in prepayments, deposits and other receivables	(4,455)	(18,099)
Increase in trade payable	29,432	53,985
Increase/(decrease) in trust receipt loans	(25,919)	21,212
Increase in other payables and accruals	21,774	14,117
Increase in provisions for sales returns and warranty costs	12,294	6,408
Increase in amounts due to jointly-controlled entities	51,319	16,260
Net cash inflow from operating activities	<u>166,197</u>	<u>208,263</u>

**29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT**  
(CONTINUED)

**(b) Analysis of changes in financing during the year**

	Share capital (including share premium) HK\$'000	Bank and other borrowings HK\$'000	Finance leases and hire purchase contract payables HK\$'000	Minority interests HK\$'000
Balance at 1 January 1999	150,063	4,955	28,853	38,103
Cash inflow/(outflow) from financing activities, net	33,834	2,159	(14,435)	–
Scrip dividends	6,327	–	–	–
Inception of finance leases and hire purchase contracts	–	–	6,867	–
Acquisition of minority interests in certain subsidiaries	–	–	–	(2,550)
Share of profits	–	–	–	10,341
Share of reserves	–	–	–	107
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December 1999	190,224	7,114	21,285	46,001
Cash inflow/(outflow) from financing activities, net	1,050	161,493	(13,836)	6,936
Scrip dividends	7,481	–	–	–
Overprovision of prior year's share issue expenses	859	–	–	–
Disposal of subsidiaries	–	(3,327)	–	(27,607)
Inception of finance leases and hire purchase contracts	–	–	11,688	–
Acquisition of minority interests in certain subsidiaries	–	–	–	(18,122)
Share of profits	–	–	–	(1,314)
Share of reserves	–	–	–	–
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December 2000	<u>199,614</u>	<u>165,280</u>	<u>19,137</u>	<u>5,894</u>

## **29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT**

*(CONTINUED)*

### **(c) Major non-cash transactions**

During the year, the Group entered into finance lease and hire purchase arrangements in respect of fixed assets with a total capital value at the inception of the leases of HK\$11,688,000.

During the year, the Group disposed of its 51% interest in the OPTL group (note 8) for HK\$26 million, out of which HK\$20 million was settled by the assignment to the buyer of the loan in the same amount previously borrowed by the Group from the disposed group (note 29(d)).

**29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT**  
(CONTINUED)

**(d) Disposal/liquidation of subsidiaries**

	<b>2000</b>
	HK\$'000
Net assets disposed of:	
Fixed assets	20,427
Deferred product development costs	1,532
Inventories	29,576
Bills receivable	14,864
Trade receivable	1,916
Prepayments, deposits and other receivables	5,329
Cash and bank balance	17,294
Trade payable	(28,424)
Other payables and accruals	(26,242)
Tax payable	(3,228)
Bank loan	(3,327)
Deferred tax	(480)
Minority interests	(27,607)
Due from group companies	6,819
Loan to a group company	20,000
	28,449
Release of capital reserves*	(2,713)
Gain on disposal	69
	25,805
Satisfied by:	
Cash	6,000
Assignment of loan	20,000
Less: Expenses	(195)
	25,805

\* The amount represents the capital reserve which previously arose from the acquisitions of the disposed/liquidated subsidiaries, and which had been credited against reserves on their acquisition.

## 29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

### (d) Disposal/liquidation of subsidiaries (continued)

The contribution of the disposed subsidiaries to the consolidated turnover and profit before tax of the Group was separately disclosed under discontinued operation in the consolidated profit and loss account.

The subsidiaries disposed of during the year utilised HK\$5,620,000 of the Group's net operating cash flows, contributed HK\$127,000 in respect of returns on investment and servicing of finance, paid HK\$845,000 in respect of tax, paid HK\$486,000 for investing activities and utilised HK\$2,521,000 for financing activities.

The subsidiaries liquidated during the year had no remaining assets or liabilities at the date of liquidation.

Analysis of net outflow of cash and cash equivalents in respect of the disposal of subsidiaries:

	<b>2000</b>
	HK\$'000
Net cash received	5,805
Cash and bank balances disposed of	<u>(17,294)</u>
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	<u><u>(11,489)</u></u>

### 30. CONTINGENT LIABILITIES

- (a) At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bills and post-dated cheques discounted with recourse	108,948	83,900	–	–
Guarantees given to banks in connection with facilities granted to subsidiaries	–	–	1,763,540	788,319
	<u>108,948</u>	<u>83,900</u>	<u>1,763,540</u>	<u>788,319</u>

As at 31 December 2000, the guarantees given to banks in connection with facilities granted to subsidiaries by the Company were utilised to the extent of approximately HK\$145,821,000 (1999: HK\$130,378,000).

- (b) Counter indemnities have been given by the Company to the controlling shareholder of an associate to the extent of approximately HK\$59,143,000 (1999: HK\$59,143,000) for acting as a guarantor in respect of banking facilities granted to the associate.
- (c) As at 31 December 2000, a number of employees of the Group who had completed the required number of years of service under the Hong Kong Employment Ordinance (the “Ordinance”) to be eligible for long service payments upon the termination of their employment. The Group is only liable to make such payments if the termination of employment meets the circumstances which are specified in the Ordinance. Had the employment of all of these eligible employees been terminated on 31 December 2000 under the circumstances specified by the Ordinance, the maximum potential exposure would have been approximately HK\$6,677,000 (1999: HK\$5,372,000). No provision has been made in the financial statements in respect of such long service payments.

### 31. PLEDGE OF ASSETS

Further details of the Group's secured bank loans and borrowings are included in notes 23 and 24 to the financial statements.

At the balance sheet date, the Group had pledged the following assets to banks for facilities granted to the Group:

	<b>Group</b>	
	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Fixed assets	–	24,750
Inventories	<b>70,372</b>	45,776
Trade receivable	–	34,676
Bank deposits	<b>6,850</b>	30,872
	<u>77,222</u>	<u>136,074</u>

### 32. COMMITMENTS

The Company did not have any significant commitments at the balance sheet date. The Group had the following commitments at the balance sheet date:

(a) Capital commitments:

	<b>Group</b>	
	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Unpaid capital contribution:		
Jointly-controlled entities	<b>32,335</b>	1,735
Plant and machinery:		
Contracted, but not provided for	<b>19,991</b>	16,424

### 32. COMMITMENTS (CONTINUED)

(b) Commitments under operating leases

At 31 December 2000, the Group had commitments under non-cancellable operating leases in respect of land and buildings to make payments in the following year as follows:

	Group	
	2000	1999
	HK\$'000	HK\$'000
Group:		
Within one year	2,768	6,570
In the second to fifth years, inclusive	14,185	19,714
After five years	315	—
	<u>17,268</u>	<u>26,284</u>
Share of jointly-controlled entities:		
Within one year	228	189
In the second to fifth years, inclusive	47	—
	<u>275</u>	<u>189</u>
	<u><u>17,543</u></u>	<u><u>26,473</u></u>

(c) At 31 December 2000, the Group had a commitment under a license agreement to pay minimum annual royalties for the right to trade a series of products under a registered brand name as follows:

	Group	
	2000	1999
	HK\$'000	HK\$'000
In the next year	<u><u>3,893</u></u>	<u><u>5,800</u></u>

### 33. RELATED PARTY TRANSACTIONS

The Group had the following material transactions with related parties during the year:

		Group	
		2000	1999
	<i>Notes</i>	HK\$'000	HK\$'000
Purchases of goods from jointly-controlled entities	(i)	<b>565,043</b>	366,113
Sales of raw materials to jointly-controlled entities	(ii)	<b>32,940</b>	122,812
Rental income from associates	(iii)	<b>216</b>	1,030
Management fee income from associates	(iv)	<b>240</b>	240
Interest expense paid to a jointly-controlled entity	(v)	<b>987</b>	—

*Notes:*

- (i) The goods were charged by the jointly-controlled entities at cost to cost plus a margin of 3% (1999: 12%). The balances due to these jointly-controlled entities at 31 December 2000 were HK\$103,912,000 (1999: HK\$52,593,000).
- (ii) The raw materials sold to jointly-controlled entities were charged at cost to cost plus a margin of 3% (1999: 1%).
- (iii) The directors considered that the rental charged was similar to fair market rates.
- (iv) The management fee income was charged at an appropriate allocation of costs incurred by the Group.
- (v) The interest expense paid to a jointly-controlled entity arose from advances therefrom. Interest was charged at a rate of 0.7% per month.

As disclosed in note 30(b), the Company has executed a counter indemnity in favour of the controlling shareholder of an associate, for which no charge was made.

### **34. COMPARATIVE FIGURES**

Certain comparative figures for the year ended 31 December 1999 were reclassified as in the opinion of the directors, such reclassification would produce a more appropriate presentation of the Group's operating results. A summary of the reclassification is as follows:

- (a) Bank charges of HK\$8,313,000, exchange losses of HK\$2,153,000 and certain general and administrative expenses of HK\$10,385,000 for the year ended 31 December 1999 were reclassified from other operating expenses to administrative expenses.
- (b) Royalty expenses of HK\$7,701,000 for the year ended 31 December 1999 were reclassified from other operating expenses to selling expenses.

### **35. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements were approved by the board of directors on 10 April 2001.