



31 December 2000

1. CORPORATE INFORMATION

During the year, the principal activities of the Group consisted of the manufacture and trading of compact disc ("CD") players, video CD ("VCD") players, CD and VCD player mechanisms, amplifiers, computer peripherals, car audio mechanisms, cassette deck mechanisms and related products, and non-audio products including personal office appliances and medical devices. Through a long term investment, the Group's activities are broaden and indirectly include engagement in the research and development and installation of video-on-demand system in the People's Republic of China which may have mass broadcasting, multi-media and telecommunication applications.

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.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and all of 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 have been eliminated on consolidation.

Subsidiaries

A subsidiary is a company 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.

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.

Goodwill

Goodwill arising on consolidation of subsidiaries 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. On disposal of subsidiaries, the relevant portion of attributable goodwill previously eliminated against reserves is written back and included in the calculation of the gain or loss on disposal.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Fixed assets and depreciation**

Fixed assets are stated at cost less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to the working condition and location for its intended use. Expenditure incurred after the asset has 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 asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land	Over unexpired lease terms
Leasehold buildings	2%
Plant, machinery and equipment	10% – 15%
Furniture and fixtures	10%
Moulds and tools	10%
Motor vehicles	10% – 15%

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 value of the relevant asset.

Where, in the opinion of the directors, the recoverable amounts of fixed assets have declined below their carrying amounts, provisions are made to write down the carrying amounts of such assets to their recoverable amounts. Recoverable amounts are not determined using discounted cash flows. Reductions of recoverable amounts are charged to the profit and loss account.

Deferred development costs

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 charged to profit and loss account as incurred.

Deferred development costs are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding two years, commencing from the date when sales of the related products commence.

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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 estimated 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 amounts of the impairments previously charged are 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 a 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 estimated selling prices less any estimated costs to be incurred to completion and disposal.

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 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 shorter of the lease terms and 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.

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.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent 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.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange prevailing 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 subsidiaries denominated in foreign currencies 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 fluctuation reserve.

Retirement benefit costs

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the Scheme. 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. Prior to the Scheme being effective, the Group did not have any pension arrangements for its employees.

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:

- (i) 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; and
- (ii) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

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.

Notes to Financial Statements (continued)

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 goods returned and trade discounts. An analysis of turnover and revenue is as follows:

	2000	Group 1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	288,913	325,951
Interest income	939	1,047
Other income	1,101	504
Other revenue	2,040	1,551
Total revenue	290,953	327,502

Notes to Financial Statements (continued)

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4. LOSS FROM OPERATING ACTIVITIES

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

	2000	Group
	HK\$'000	1999
		HK\$'000
Cost of inventories sold	248,305	277,658
Provisions against inventories	4,697	7,706
Amortisation/write off of deferred development costs	7,998	5,582
Depreciation:		
Owned fixed assets	16,189	20,780
Leased fixed assets	335	263
	<u>16,524</u>	<u>21,043</u>
Operating lease rentals for land and buildings	8,607	10,290
Less: Amount capitalised	(759)	(953)
	<u>7,848</u>	<u>9,337</u>
Auditors' remuneration	780	720
Staff costs (including directors' remuneration)		
Salaries and wages	43,302	49,422
Mandatory Provident Fund contributions	52	–
Less: Amount capitalised	(2,704)	(4,680)
	<u>40,650</u>	<u>44,742</u>
Provisions for doubtful debts	3,051	2,022
Provisions for impairment in value of fixed assets	1,601	5,879
Loss on disposal of fixed assets	927	3,698
Loss on disposal of a subsidiary	541	–
Exchange losses, net	1,030	2,340
Gain on disposal of an associate	–	(382)

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5. REMUNERATION OF DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

Directors' remuneration disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance is as follows:

	2000	Group
	<i>HK\$'000</i>	1999
		<i>HK\$'000</i>
Fees	263	250
Basic salaries, housing, other allowances and benefits in kind	9,682	9,649
Bonus paid and payable	769	338
Mandatory Provident Fund contributions	7	–
	<u>10,721</u>	<u>10,237</u>

Fees include HK\$162,500 (1999: HK\$150,000) 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 fell within the following bands:

	Number of directors	
	2000	1999
Nil – HK\$1,000,000	11	5
HK\$1,000,001 – HK\$1,500,000	2	2
HK\$2,000,001 – HK\$2,500,000	–	1
HK\$2,500,001 – HK\$3,000,000	1	–
HK\$3,000,001 – HK\$3,500,000	–	1
HK\$3,500,001 – HK\$4,000,000	1	–
	<u>15</u>	<u>9</u>

No value is included in directors' remuneration in respect of share options granted during the year because, in the absence of a readily available market value for the options on the Company's shares, the directors are unable to arrive at an accurate assessment of the value of the options granted. Details of the options granted to the directors during the year are set out in the section "Directors' rights to acquire shares" in the Report of the Directors.

There were no arrangements under which a director waived or agreed to waive any remuneration during the year.

The five highest paid individuals during the year were all directors whose remuneration is disclosed above.

Notes to Financial Statements (continued)

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6. FINANCE COSTS

	2000	Group
	<i>HK\$'000</i>	<i>1999</i>
		<i>HK\$'000</i>
Interest on bank loans, overdrafts and other borrowings		
wholly repayable within five years	4,184	5,129
Interest on finance leases	215	184
	<u>4,399</u>	<u>5,313</u>

7. 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.

	2000	Group
	<i>HK\$'000</i>	<i>1999</i>
		<i>HK\$'000</i>
Current year provision for profits tax:		
The People's Republic of China:		
Hong Kong	409	430
Elsewhere	747	840
Prior year overprovision for profits tax:		
The People's Republic of China:		
Hong Kong	-	(1,662)
Tax charge/(credit) for the year	<u>1,156</u>	<u>(392)</u>

8. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is HK\$43,723,000 (1999: HK\$40,803,000).

Notes to Financial Statements (continued)

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9. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the year of HK\$43,714,000 (1999: HK\$45,622,000) and the weighted average of 137,237,941 (1999: 98,350,673) ordinary shares in issue during the year.

The diluted loss per share for the year ended 31 December 2000 and 1999 have not been shown as the share options outstanding during these years had an anti-dilutive effect on the basic loss per share for these years.

10. FIXED ASSETS

Group

	Leasehold land and buildings		Plant, machinery and equipment	Furniture and fixtures	Moulds and tools	Motor vehicles	Total
	Hong Kong	Elsewhere					
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Cost:							
At beginning of year	11,113	14,236	103,877	39,496	79,669	6,812	255,203
Additions	–	–	1,294	1,633	5,928	–	8,855
Disposal	–	–	–	–	(3,300)	–	(3,300)
Provisions for impairment in values	–	–	–	–	(1,601)	–	(1,601)
Arising from disposal of a subsidiary	–	(14,236)	–	–	–	–	(14,236)
At 31 December 2000	11,113	–	105,171	41,129	80,696	6,812	244,921
Accumulated depreciation:							
At beginning of year	2,421	1,906	78,305	31,010	38,557	4,227	156,426
Charge for the year	394	142	6,679	2,468	6,207	634	16,524
Disposal	–	–	–	–	(745)	–	(745)
Arising from disposal of a subsidiary	–	(2,048)	–	–	–	–	(2,048)
At 31 December 2000	2,815	–	84,984	33,478	44,019	4,861	170,157
Net book value:							
At 31 December 2000	<u>8,298</u>	<u>–</u>	<u>20,187</u>	<u>7,651</u>	<u>36,677</u>	<u>1,951</u>	<u>74,764</u>
At 31 December 1999	<u>8,692</u>	<u>12,330</u>	<u>25,572</u>	<u>8,486</u>	<u>41,112</u>	<u>2,585</u>	<u>98,777</u>