

Notes to Financial Statements (continued)

31 December 2000

21. SHARE CAPITAL (continued)

Share options (continued)

(c) 70,000 options granted were cancelled upon the resignation of an employee during the year.

At the balance sheet date, the outstanding share options were exercisable during the period from 23 August 2000 to 25 October 2001 at an exercise price of HK\$1.81 per ordinary share.

Subsequent to the balance sheet date, the existing share option scheme was cancelled and was replaced by a new share option scheme, and certain share options were issued and exercised, as detailed in notes 28 (b) and (c) to the financial statements.

22. RESERVES

	Share premium account <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Retained profits/ (accumulated losses) <i>HK\$'000</i>	Total <i>HK\$'000</i>
Group					
At 1 January 1999	55,796	33,474	198	33,510	122,978
Net loss for the year	—	—	—	(45,622)	(45,622)
At 31 December 1999 and 1 January 2000	55,796	33,474	198	(12,112)	77,356
Issue of new shares	41,940	—	—	—	41,940
Share issue expenses	(2,516)	—	—	—	(2,516)
Net loss for the year	—	—	—	(43,714)	(43,714)
At 31 December 2000	95,220	33,474	198	(55,826)	73,066
Retained by:					
Company and subsidiaries					
At 31 December 2000	95,220	33,474	198	(55,826)	73,066
Company and subsidiaries					
At 31 December 1999	55,796	33,474	198	(12,112)	77,356

Notes to Financial Statements (continued)

31 December 2000

22. RESERVES (continued)

	Share premium account <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
Company				
At 1 January 1999	55,796	76,838	(14,490)	118,144
Net loss for the year	–	–	(40,803)	(40,803)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 1999 and 1 January 2000	55,796	76,838	(55,293)	77,341
Issue of new shares	41,940	–	–	41,940
Share issue expenses	(2,516)	–	–	(2,516)
Net loss for the year	–	–	(43,723)	(43,723)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2000	95,220	76,838	(99,016)	73,042

The Company's contributed surplus is derived from the difference between the fair value of the shares of the subsidiaries acquired and the nominal value of the Company's shares issued in exchange therefor pursuant to the Group reorganisation in 1991. Under the Companies Act 1981 of Bermuda, a company may make a distribution to its members out of its contributed surplus under certain circumstances.

The Group's contributed surplus is derived from the difference between the nominal value of the Company's shares issued pursuant to the same reorganisation and the nominal value of the shares acquired.

Notes to Financial Statements (continued)

31 December 2000

23. NOTES TO THE CASH FLOW STATEMENT

(a) Reconciliation of loss from operating activities to net cash inflow from operating activities:

	Group	
	2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss from operating activities	(37,158)	(39,616)
Provisions against inventories	4,697	7,706
Provisions for doubtful debts	3,051	2,022
Provisions for impairment in value of fixed assets	1,601	5,879
Interest income	(939)	(1,047)
Depreciation	16,524	21,043
Amortisation/write off of deferred development costs	7,998	5,582
Gain on disposal of an associate	–	(382)
Loss on disposal of a subsidiary	541	–
Loss on disposal of fixed assets	927	3,698
Decrease in inventories	15,152	3,599
Decrease in accounts receivable	2,309	17,284
Increase in prepayments and other receivables	(4,278)	(639)
Decrease in accounts payable	(10,317)	(4,558)
Increase/(decrease) in other payables and accruals	(330)	4,468
Increase in amounts due to related companies	531	97
Increase/(decrease) in trust receipt and export loans with maturity over three months	3,364	(1,850)
Net cash inflow from operating activities	<u>3,673</u>	<u>23,286</u>

Notes to Financial Statements (continued)

31 December 2000

23. NOTES TO THE CASH FLOW STATEMENT (continued)

(b) Disposal of a subsidiary:

	Group	
	2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net asset disposed of:		
Fixed assets, at net book value	12,188	–
Loss on disposal of a subsidiary	(541)	–
	<u>11,647</u>	<u>–</u>
Satisfied by:		
Cash proceeds	<u>11,647</u>	<u>–</u>

The cash flows contributed and utilised by the subsidiary disposed of during the year were not significant and the effect of the subsidiary disposed of on the results for the year was not material.

(c) Analysis of changes in financing during the year:

	Finance lease payables	Loans and deposit pledged	Minority interests	Share capital, including share premium
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Balance at 1 January 1999	–	1,667	1,891	104,971
Net cash outflow from financing	(981)	(589)	–	–
Inception of finance leases	3,027	–	–	–
Offset of an other borrowing against consideration on disposal of an associate	–	(12,000)	–	–
Share of net profit for the year	–	–	1,264	–
Dividends paid to minority shareholders	–	–	(1,590)	–
	<u>–</u>	<u>–</u>	<u>(1,590)</u>	<u>–</u>
Balance at 31 December 1999 and 1 January 2000	2,046	(10,922)	1,565	104,971
Net cash inflow/(outflow) from financing	(762)	352	–	104,624
Share of net profit for the year	–	–	1,001	–
Dividends paid to minority shareholders	–	–	(780)	–
	<u>–</u>	<u>–</u>	<u>(780)</u>	<u>–</u>
Balance at 31 December 2000	<u>1,284</u>	<u>(10,570)</u>	<u>1,786</u>	<u>209,595</u>

Notes to Financial Statements (continued)

31 December 2000

23. NOTES TO THE CASH FLOW STATEMENT (continued)

(d) Major non-cash transactions:

In the prior year, the Group entered into finance lease arrangements in respect of fixed assets with a total capital value at the inception of the leases of HK\$3,027,000.

In the prior year, the Group disposed of its interest in an associate at a consideration of HK\$12,000,000 which was offset against an other borrowing of the same amount.

24. CONTINGENT LIABILITIES

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Guarantee of credit facilities				
granted to subsidiaries	–	–	50,000	69,000
Bills discounted with recourse	13,724	8,573	–	–
	<u>13,724</u>	<u>8,573</u>	<u>50,000</u>	<u>69,000</u>

As at 31 December 2000, credit facilities utilised by the subsidiaries under the Company's guarantee amounted to HK\$47,755,000 (1999: HK\$36,578,000).

25. COMMITMENTS

	Group	
	2000 HK\$'000	1999 HK\$'000
Annual commitments under non-cancellable operating leases		
in respect of land and buildings expiring:		
Within one year	2,196	1,405
In the second to fifth years, inclusive	2,467	1,058
Beyond five years	5,336	5,815
	<u>9,999</u>	<u>8,278</u>

The Company did not have any operating lease or capital commitments at the balance sheet date (1999: Nil).

Notes to Financial Statements (continued)

31 December 2000

26. SEGMENTAL INFORMATION

The following segmental information is disclosed pursuant to the Appendix 16 to the Listing Rules:

	2000		1999	
	Turnover	Contribution	Turnover	Contribution
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
By activity:				
Manufacture and trading of:				
– CD/VCD players and mechanisms, amplifiers, computer peripherals	114,746	(25,703)	123,777	(27,127)
– Car audio mechanisms, cassette deck mechanisms and related products	111,320	(13,144)	107,357	(14,598)
– Personal office appliances and medical devices	62,847	1,689	94,817	2,109
	<u>288,913</u>	<u>(37,158)</u>	<u>325,951</u>	<u>(39,616)</u>
By geographical area:				
Asia				
Hong Kong	83,614	(12,826)	80,382	(13,329)
Singapore	11,878	(2,661)	13,596	(2,980)
Other countries	66,699	(7,164)	108,370	(12,034)
Europe	59,657	(10,954)	44,883	(9,817)
America	67,065	(3,553)	78,720	(1,456)
	<u>288,913</u>	<u>(37,158)</u>	<u>325,951</u>	<u>(39,616)</u>

Notes to Financial Statements (continued)

31 December 2000

27. CONNECTED AND RELATED PARTY TRANSACTIONS

Set out below are related party transactions disclosed in accordance with SSAP 20 issued by the Hong Kong Society of Accountants. The transactions disclosed below also constituted connected transactions under the Listing Rules.

		2000	Group
	Notes	HK\$'000	1999
			HK\$'000
Purchases of raw materials from a related company:			
Simple Link Company Limited ("Simple Link")	(a)	1,426	1,754
Rentals paid to related companies:			
Bestbond Company Limited	(b)	1,913	2,100
Well Hero Industrial Limited	(b)	216	216
Kamga Investment Limited	(b)	216	216
Rental paid to a director:			
Leung Wah Chai	(b)	732	738
Consultancy fees paid/payable to a related company:			
WorldVest Capital Limited	(c)	900	–

- (a) The directors consider that the purchases of raw materials were made at prices and conditions similar to those offered by other independent suppliers of the Group. The balance due to Simple Link at 31 December 2000 amounted to HK\$210,000 (1999: HK\$381,000). The balance due is unsecured, interest-free and has no fixed terms of repayment.

In a special general meeting of the Company held on 30 November 1995, two ordinary resolutions were passed whereby the Group's purchases of lathe parts (the "Purchases") from Simple Link, a company of which Leung Wah Chai was a director and controlling shareholder for the period from 1 January 1992 up to 30 November 1995, were approved, ratified and confirmed. In addition, it was stipulated that the aggregate amount of the Purchases for the year ended 31 December 1995 and for each subsequent financial year should not exceed 3% of the annual purchases of the Group.

The independent non-executive directors of the Company have reviewed the Purchases for the year ended 31 December 2000 and confirmed to the board that, in their opinion, the Purchases have been conducted in the ordinary and usual course of the Group's business and were fair and reasonable so far as the shareholders of the Company were concerned, and that the aggregate value of the Purchases did not exceed 3% of the total purchases of the Group for the year then ended.

31 December 2000

27. CONNECTED AND RELATED PARTY TRANSACTIONS (continued)

- (b) The rental expenses related to properties rented for the purpose of providing quarters to the directors and for office purposes, and were charged in accordance with the terms of the rental agreements.
- (c) The consultancy fees were charged in accordance with the terms of the service agreement. The balance due to WorldVest Capital Limited at 31 December 2000 was HK\$702,000 (1999: Nil). The balance due is unsecured, interest-free and has no fixed terms of repayment.

Leung Wah Chai is a director and controlling shareholder of Simple Link and Bestbond Company Limited. Leung Wah Chai and Butt Wing Han are directors and controlling shareholders of Well Hero Industrial Limited and Kamga Investment Limited. Cheng Shu Wing, Guo Duen How, Tom and Wu Fred Fong are the directors of WorldVest Capital Limited.

28. POST BALANCE SHEET EVENTS

- (a) Pursuant to an ordinary resolution passed on 30 January 2001, the authorised share capital of the Company was increased from HK\$250,000,000 to HK\$500,000,000 by the creation of 500,000,000 new shares of HK\$0.50 each, ranking *pari passu* in all respects with the then existing ordinary shares of the Company.
- (b) Pursuant to an ordinary resolution passed on 30 January 2001, the Company approved the adoption of a new share option scheme (the "New Scheme") and the cancellation of the then existing share option scheme (the "Old Scheme") adopted on 30 September 1991. Under the New Scheme, the directors may, at their discretion, invite any eligible employee or executive director of the Group to take up options to subscribe for shares in the capital of the Company. The maximum number of shares in respect of which options may be granted under the scheme may not exceed 10% of the issued share capital of the Company from time to time.

The New Scheme is effective for the period from 30 January 2001 to 29 January 2011. The options granted under the Old Scheme that remain unexercised will expire on 25 October 2001 if not exercised before then.

- (c) On 6 February 2001, the Company granted a total of 22,800,000 share options to certain employees and directors at a cash consideration of HK\$1 per grantee, which entitle the holders to subscribe for shares of the Company at any time during the period from 26 February 2001 to 25 February 2002. The exercise price payable upon the exercise of each option is HK\$0.61, subject to adjustment.

Pursuant to the exercise of share options granted to certain employees and directors, the Company issued and allotted 22,800,000 new ordinary shares with a par value of HK\$0.50 each at exercise price of HK\$0.61 per share for a total cash consideration of HK\$13,908,000.

31 December 2000

28. POST BALANCE SHEET EVENTS (continued)

- (d) Pursuant to a placing agreement entered into between the Company and Dao Heng Securities Limited on 7 February 2001, a total of 45,600,000 ordinary shares of HK\$0.50 each were issued and allotted to independent institutional investors, for cash, at a price of HK\$0.68 per placing share. The net proceeds of HK\$30.5 million were used to finance the acquisition of a 100% interest in Kongnet Group Limited, as detailed in note 28(e) to the financial statements.
- (e) On 21 February 2001, the Company entered into an agreement to acquire the entire equity interest in Kongnet Group Limited for a cash consideration of HK\$35 million. Kongnet Group Limited is an investment holding company incorporated in the British Virgin Islands. It holds 90% interest in a sino-foreign enterprise which is engaged in the Internet phone business in the People's Republic of China.
- (f) Pursuant to a placing agreement entered into between the Company and Dao Heng Securities Limited on 12 March 2001, a total of 200,000,000 ordinary shares of HK\$0.50 each are to be issued and allotted to independent institutional investors, for cash, at a price of HK\$1.25 per placing share. The net proceeds of HK\$247 million are to be used for business expansion and acquisition of growth oriented projects and as general working capital for the Group. It is expected that the placing will be completed on or before the end of May 2001.
- (g) On 29 March 2001, the Company entered into an agreement to acquire an additional 4% equity interest in Global Cyber for a cash consideration of HK\$40 million. It is expected that the acquisition will be completed on or before the end of April 2001.

29. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 17 April 2001.