

## NOTES TO THE FINANCIAL STATEMENTS

*For the period from 1 August 1999 to 31 December 2000*

### 1. GENERAL

The Company is an exempted company incorporated in Bermuda with limited liability. Its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company and it also provides corporate management services. Its subsidiaries are principally engaged in the design, manufacture and marketing of telecommunication products and the development of an integrated communication system.

At a special general meeting held on 7 September 1999, the Company changed its name from H B International Holdings Limited to SunCorp Technologies Limited with effect from 10 September 1999. The directors of the Company also resolved to change the Company's Chinese name from 錫威國際集團有限公司 to 新確科技有限公司.

In addition, the financial year of the Group was changed from 31 July to 31 December each year commencing from 1 August 1999. As a result, the financial statements for the current period cover the 17 months period ended 31 December 2000. The corresponding amounts shown for the income statement, statements of recognised gains and losses, cash flows and related notes cover a 12 month period from 1 August 1998 to 31 July 1999 and therefore may not be comparable with amounts shown for the current period. The period covered by the current period financial statements is greater than 12 months because the directors of the Company determined to bring the balance sheet date into line with that of the Suncorp Partners Limited, a substantial shareholder of the Company. No further changes to reporting dates are anticipated.

On 9 July 1999, the Company entered into a restructuring agreement (the "Restructuring Agreement") with (i) Suncorp Partners Limited; (ii) the then executive directors of the Company; and (iii) certain banks and financial institutions of the Company and its subsidiaries. Pursuant to the Restructuring Agreement, the Company, inter alia, restructured its capital and its obligations to these banks and financial institutions.

Upon the completion of the Group's restructuring exercise on 10 September 1999, the following events took place:

- (i) The Company's share capital was reduced, subdivided and consolidated. The reduction in capital of the Company of approximately HK\$87 million was used to offset against the Company's deficit;
- (ii) A total of 500,000,000 new shares in the Company were issued for cash at HK\$0.05 per share, raising for the Company approximately HK\$25 million;
- (iii) Of the Group's obligation of approximately HK\$363,961,000 to certain banks and financial institutions in Hong Kong (the "Hong Kong Bankers"); approximately HK\$24,713,000 were repaid by cash; approximately HK\$48,955,000 were converted into share capital of the Company; approximately HK\$39,563,000 were converted into convertible notes of the Company and approximately HK\$250,730,000 were discharged; and
- (iv) The Group's loans from directors of the Company of HK\$7 million were repaid to the directors.

**1. GENERAL (Continued)**

Further details of the restructuring exercise as mentioned in (i) and (ii) above are set out in note 25 and further details of (iii) are set out in note 9.

**2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS**

In preparing the financial statements, the directors have given careful consideration to the future liquidity of the Group. At 31 December 2000, the Group had net current liabilities of approximately HK\$218 million and deficiency of shareholders' funds of approximately HK\$65 million. As explained in note 23, subsequent to 31 December 2000, agreement has been reached with certain banks in the People's Republic of China (the "PRC Bankers") to reschedule the repayment date of borrowings in the sum of approximately HK\$34 million to 2002. The directors remain in discussion with the PRC Bankers with a view to further rescheduling the remaining borrowings. Also, as detailed in note 41, on 18 April 2001, the Group entered into a conditional agreement to raise approximately HK\$17 million by the issue of shares in a subsidiary to an independent third party. At the same time, the directors of the Company are currently exploring additional ways to raise new equity funds.

Provided that (i) agreement can be reached with the PRC Bankers for the further rescheduling of the Group's borrowings; (ii) the agreement to raise approximately HK\$17 million by the issue of new shares in a subsidiary to a third party can be completed; and (iii) the Group can successfully raise additional equity funds, the directors of the Company are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future and have accordingly prepared the financial statements on a going concern basis.

**3. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE**

In the current period, the Group has adopted, for the first time, the following Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants:

SSAP 1 (Revised)	Presentation of financial statements
SSAP 2 (Revised)	Net profit or loss for the period, fundamental errors and changes in accounting policies

SSAP 1 (Revised) and SSAP 2 (Revised) are concerned with the presentation and disclosure of financial information. The presentation in the current period's financial statements has been modified in order to conform with the requirements of these standards. Comparative amounts have been restated in order to achieve a consistent presentation.

In particular:

- additional analyses of income and expenditure have been presented;
- items of income and expenses that were separately identified on the face of the income statement in the prior year as "exceptional items" have been reclassified within an appropriate income or expense classification.

In addition, the description of various components in the financial statements and the terminology used have been updated to reflect the terminology of these SSAPs.

None of the amendments outlined above have affected the results for the current or prior periods.

## Notes to the Financial Statements

For the period from 1 August 1999 to 31 December 2000

### 4. CHANGE IN ACCOUNTING POLICY

In prior years, leasehold land and buildings were stated at cost less depreciation and amortisation. Starting from the current year, leasehold land and buildings are stated at their revalued amounts, being the fair value on the basis of their existing use at the date of revaluation less any subsequent accumulated depreciation and amortisation. In the opinion of the directors, the change in accounting policy better reflects the financial position of the Group.

The change in accounting policy in the current period had the effect of increasing the carrying value of leasehold land and buildings and property revaluation reserve at 31 December 2000 by HK\$52,583,000 (note 14).

### 5. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the valuation of leasehold land and buildings. The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

#### Basis of consolidation

The prior year consolidated financial statements incorporated the financial statements of the Company and its subsidiaries made up to 31 July each year, up to 31 July 1999.

Since the change of the financial year end of the Group from 31 July to 31 December each year on 1 August 1999, the consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

Where a subsidiary operates under severe restrictions which significantly impair control by the Group over its assets and operations for the foreseeable future, the subsidiary is excluded from the consolidation from the date on which the restrictions came into force. When the relevant restrictions are removed, the results of the relevant subsidiary are included in the consolidated income statement from the effective date of removal of restrictions.

The Group's interest in the subsidiary not consolidated is stated in the consolidated financial statements as the amount of the Group's obligations to meet the net liabilities of the subsidiary not consolidated.

The results of subsidiaries acquired or disposed of during the period/year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

**5. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Goodwill**

Goodwill represents the excess of the purchase consideration over the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a subsidiary and is written off to reserves immediately on acquisition. Negative goodwill, which represents the excess of the fair value ascribed to the Group's share of the separable net assets of a subsidiary at the date of acquisition over the purchase consideration is credited to reserves.

On disposal of investments in subsidiaries, the attributable amount of goodwill previously eliminated against or credited to reserves is included in the determination of the profit or loss on disposal of the subsidiary.

**Investments in subsidiaries**

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or where the Company controls the composition of its board of directors or equivalent governing body.

Investments in subsidiaries are included in the Company's balance sheet at cost less provision, if necessary, for permanent diminution in value.

**Property, plant and equipment**

Property, plant and equipment are stated at cost or valuation less depreciation and amortisation at the balance sheet date. 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 asset has been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement 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 the asset.

The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Where the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are not discounted to their present values.

Land and buildings are stated in the balance sheet at their revalued amount, being the fair value on the basis of their existing use at the date of revaluation less any subsequent accumulated depreciation and amortisation. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

## Notes to the Financial Statements

For the period from 1 August 1999 to 31 December 2000

### 5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Property, plant and equipment (Continued)

Any surplus arising on revaluation of property, plant and equipment is credited to the asset revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case this surplus is credited to the consolidated income statement to the extent of the deficit previously charged. A decrease in the net carrying amount arising on revaluation of such assets is charged to the consolidated income statement to the extent that it exceeds the surplus, if any, on the asset revaluation reserve relating to previous revaluation of that particular asset. On the subsequent disposal of such asset, the attributable revaluation surplus not yet transferred to retained profits in prior years is transferred to retained profits.

Depreciation and amortisation is provided to write off the cost of property, plant and equipment over their estimated useful lives, using the straight line method, at the following rates per annum:

Leasehold land	Over the term of the relevant lease
Buildings	Over twenty five years or the remaining period of the relevant lease, whichever is shorter
Leasehold improvements	15%
Plant and machinery	15%-20%
Toolings and moulds	33 $\frac{1}{3}$ %
Furniture, fixtures and equipment	15%
Air conditioners	25%
Telephone and computer systems	30%
Motor vehicles	20%-30%

Prior to 1 August 1999, the Group's plant and machinery was depreciated over five years following the year of acquisition. In the current period, the estimated useful life and physical depreciation of the Group's plant and machinery were reviewed and the respective depreciation policy was reassessed. Starting from the current period, the Group's plant and machinery is depreciated, using the straight line method, over six years from the date of acquisition. In the opinion of the directors, the revised depreciation policy better reflects the useful life of the Group's plant and machinery. The depreciation policy will be reviewed regularly for any expected changes in the future.

The change in accounting estimate on depreciation policy in the current period had the effect of decreasing depreciation charge for the period by approximately HK\$5 million.

Assets held under finance leases are depreciated over their expected useful lives or, where shorter, the term of the relevant lease on the same basis as owned assets.

Assets held under hire purchase contracts are depreciated over their expected useful lives on the same basis as owned assets.

## 5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Assets held under finance leases and hire purchase contracts

Leases are classified as finance leases whenever the terms of the leases transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases and hire purchase contracts are capitalised at their fair value at the date of acquisition. The corresponding principal portions of the finance leases and hire purchase commitments are shown as obligations under finance leases and hire purchase contracts. The finance costs, which represent the difference between the total finance lease and hire purchase commitments and the fair value of the assets acquired, are charged to the income statement on an actuarial basis over the term of the relevant lease or contract so as to produce a constant periodic rate of charge on the remaining balances of the obligations for each accounting period.

All other leases are classified as operating leases and their rentals are charged to the income statement on a straight line basis over the term of the relevant lease.

### Technical knowhow

Technical knowhow is capitalised as an asset and is stated at cost less amortisation and less any impairment loss that is other than temporary. Amortisation is provided to write off the cost of the acquired technical knowhow over its economic useful life, using the straight line method, commencing from the date when the technical knowhow is put into commercial use.

### Product development expenditure

Product development expenditure on a project is charged to the income statement in the period/year in which it is incurred except where the project is clearly defined, the expenditure is separately identifiable and there is reasonable certainty that the project is technically feasible and the costs will be recovered through future commercial activity. Such product development expenditure is deferred and amortised over a period of three years, using the straight line method, commencing from the date when the product is put into commercial use.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average method. Net realisable value represents the estimated selling price less all further costs to completion and costs to be incurred in marketing, selling and distribution.

## Notes to the Financial Statements

For the period from 1 August 1999 to 31 December 2000

### 5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Convertible notes

Convertible notes are separately disclosed and regarded as liabilities unless conversion actually occurs. The finance cost recognised in the income statement in respect of the convertible notes is calculated so as to produce a constant periodic rate of charge on the remaining balance of the convertible bonds for each accounting period. The related finance costs in connection with the issue of convertible notes are charged immediately to the income statement on the date of issue.

#### Turnover

Turnover represents the gross amounts received and receivable for goods sold by the Group to outside customers, less returns and allowances, during the period/year.

#### Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Sub-contracting income is recognised when sub-contracting services are provided.

Interest income on bank deposits is accrued on a time basis, by reference to the principal outstanding and the interest rate applicable.

#### Retirement benefit scheme contributions

Contributions payable by the Group to its retirement benefit scheme are charged to the income statement.

#### Taxation

The charge for taxation is based on the results for the period/year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, are recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

## 5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Foreign currencies

Transactions in currencies other than Hong Kong dollar are translated at the rates ruling on the dates of the transactions or at the contracted settlement rate. Monetary assets and liabilities denominated in currencies other than Hong Kong dollar are re-translated at the rates ruling on the balance sheet date. Profits and losses arising on translation are dealt with in the income statement.

On consolidation, the financial statements of overseas operations which are denominated in currencies other than Hong Kong dollar are translated at the rates ruling on the balance sheet date. All exchange differences arising on consolidation are dealt with in the reserves.

### Cash equivalents

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 which are repayable within three months from the dates of the advances.

## 6. SEGMENT INFORMATION

All of the Group's turnover and contribution to operating results were derived from the design, manufacture and sale of telephones and related equipment.

The Group's turnover and contribution to operating results analysed by geographical market are as follows:

	Turnover		Contribution to operating results	
	1.8.1999 to 31.12.2000 HK\$'000	1.8.1998 to 31.7.1999 HK\$'000	1.8.1999 to 31.12.2000 HK\$'000	1.8.1998 to 31.7.1999 HK\$'000
United Kingdom	361,936	250,010	11,345	(28,056)
Other European countries	78,430	90,395	2,458	(9,401)
Asia Pacific	77,127	46,914	2,418	(4,830)
Others	–	11,163	–	(6,646)
	<b>517,493</b>	<b>398,482</b>	<b>16,221</b>	<b>(48,933)</b>
Other revenue			24,987	12,302
Selling and distribution expense			(18,017)	(17,827)
Administrative expenses			(62,970)	(88,922)
Loss from operations			<b>(39,779)</b>	<b>(143,380)</b>



## Notes to the Financial Statements

For the period from 1 August 1999 to 31 December 2000

### 7. LOSS FROM OPERATIONS

	1.8.1999 to 31.12.2000 HK\$'000	1.8.1998 to 31.7.1999 HK\$'000
Loss from operations has been arrived at after charging:		
Directors' emoluments	6,885	4,912
Retirement benefit scheme contributions	1,389	713
Other staff costs	77,176	51,038
<b>Total staff costs</b>	<b>85,450</b>	<b>56,663</b>
Product development expenditure	13,546	5,826
Less: Amount capitalised	(12,292)	–
	<b>1,254</b>	<b>5,826</b>
Auditors' remuneration	800	600
Depreciation and amortisation on:		
– assets owned by the Group	31,257	40,135
– assets under finance leases and hire purchase contracts	1,242	6,251
Loss on disposal of property, plant and equipment	–	982
Rental payments in respect of land and buildings under operating leases	5,191	2,991
Rental payments in respect of plant and machinery under operating leases	38	–
and after crediting:		
Interest income	595	808

**8. FINANCE COSTS**

	<b>1.8.1999 to 31.12.2000 HK\$'000</b>	<b>1.8.1998 to 31.7.1999 HK\$'000</b>
Interest on:		
– bank borrowings wholly repayable within five years	24,918	29,271
– convertible notes	3,492	–
– finance leases and hire purchase contracts	1,404	1,327
– other borrowings	–	244
	<b>29,814</b>	<b>30,842</b>

**9. BANK BORROWINGS WAIVED BY HONG KONG BANKERS**

Upon completion of the Group's restructuring exercise during the current period described in note 1, the Group's borrowings from the Hong Kong Bankers were either repaid, converted into capital or loan capital of the Company or were discharged.

The amount of bank borrowings waived by the Hong Kong Bankers has been calculated as follows:

	<i>HK\$'000</i>
Bank borrowings with Hong Kong Bankers as at 1 August 1999	363,961
Cash repayment	(24,713)
Repayment by issuance of 326,368,000 new shares at HK\$0.15 per share (note 25 (III))	(48,955)
Repayment by issuance of convertible notes of principal value of HK\$39,563,000 (note 24)	(39,563)
<b>Bank borrowings waived by Hong Kong Bankers</b>	<b>250,730</b>

## Notes to the Financial Statements

For the period from 1 August 1999 to 31 December 2000

### 10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Particulars of the emoluments of the directors and five highest paid individuals for the period/year were as follows:

#### (a) Directors' remuneration

	1.8.1999 to 31.12.2000 HK\$'000	1.8.1998 to 31.7.1999 HK\$'000
Fees:		
Executive directors	–	–
Non-executive directors	330	200
	330	200
Other emoluments:		
Executive directors – salaries and other benefits	6,555	4,712
	6,885	4,912

The emoluments of the directors were within the following bands:

	Number of directors	
	1.8.1999 to 31.12.2000	1.8.1998 to 31.7.1999
Nil to HK\$1,000,000	7	2
HK\$1,000,001 to HK\$1,500,000	1	4
HK\$1,500,001 to HK\$2,000,000	3	–

**10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)****(b) Employees' remuneration**

The five highest paid individuals in the Group for the current period included three (1999: four) directors, and information regarding their emoluments is disclosed in paragraph (a) above. The emoluments of the remaining two (1999: one) individuals were as follows:

	<b>1.8.1999 to 31.12.2000 HK\$'000</b>	<b>1.8.1998 to 31.7.1999 HK\$'000</b>
Salaries and other benefits	<b>4,401</b>	1,988

The emoluments of the employees are within the following bands:

	<b>Number of employees</b>	
	<b>1.8.1999 to 31.12.2000</b>	<b>1.8.1998 to 31.7.1999</b>
HK\$1,000,001 to HK\$1,500,000	<b>1</b>	—
HK\$1,500,001 to HK\$2,000,000	—	<b>1</b>
HK\$2,500,001 to HK\$3,000,000	<b>1</b>	—

During the period ended 31 December 2000 and year ended 31 July 1999, no emoluments were paid by the Group to the five highest period individuals, including directors, as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, during both period/year, no directors waived any emoluments.

**11. TAXATION CREDIT**

The taxation credit for the year ended 31 July 1999 represented the overprovision of Hong Kong Profits Tax in previous years.

No provision for taxation has been made in the financial statements as those companies of the Group which are subject to taxation incurred tax losses for the period/year.

Details of unrecognised deferred taxation are set out in note 28.

## Notes to the Financial Statements

For the period from 1 August 1999 to 31 December 2000

### 12. PROFIT FOR THE PERIOD/YEAR

Of the Group's profit for the current period of approximately HK\$202,139,000 (1999: HK\$2,223,000), a profit of approximately HK\$230,120,000 (1999: loss of HK\$378,570,000) has been dealt with in the financial statements of the Company.

### 13. EARNINGS PER SHARE

- (I) The calculation of the basic and diluted earnings per share for the period from 1 August 1999 to 31 December 2000 is based on the following data:

	<i>HK\$'000</i>
Earnings for the purposes of basic earnings per share	202,139
Effect of dilutive potential ordinary shares:	
Interest on convertible notes	2,183
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Earnings for the purposes of diluted earnings per share	204,322
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Weighted average number of ordinary shares for the purposes of basic earnings per share	1,344,056,007
Effect of dilutive potential ordinary shares in respect of:	
Share options	87,439,599
Convertible notes	143,762,935
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Weighted average number of ordinary shares for the purposes of diluted earnings per share	1,575,258,541
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The above weighed average number of ordinary shares for the purposes of basic earnings per share has been adjusted for the effect of share consolidation on 7 September 1999 and rights issue on 30 September 1999.

The computation of diluted earnings per share does not assume the exercise of the Company's outstanding share options with exercise price of HK\$2.15, HK\$0.2368 and HK\$0.213 as the exercise prices of those options are higher than the average market price of the Company's shares for the current period.

- (II) The calculation of the basic earnings per share for the year ended 31 July 1999 is based on the profit for that year of approximately HK\$2,223,000 and on the weighted average number of 312,353,468 shares in issue during that year as adjusted for the effect of share consolidation on 7 September 1999 and rights issue on 30 September 1999 (detail of which are set out in note 25).
- (III) No diluted earnings per share for the year ended 31 July 1999 is presented as the exercise price of the share options outstanding during the year ended 31 July 1999 was higher than the average market price of the Company's shares during that year.

## Notes to the Financial Statements

For the period from 1 August 1999 to 31 December 2000

### 14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK\$'000	Leasehold improve- ments HK\$'000	Plant and machinery HK\$'000	Toolings and moulds HK\$'000	Furniture, fixtures and equipment HK\$'000	Air conditioners HK\$'000	Telephone and computer systems HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
<b>THE GROUP</b>									
<b>COST OR VALUATION</b>									
At 1 August 1999	104,871	16,651	159,135	26,209	59,377	11,041	6,291	3,439	387,014
Currency realignment	-	-	(8)	-	(49)	-	(19)	(16)	(92)
Acquisition of a subsidiary	-	-	-	-	-	-	805	-	805
Additions	-	2,327	3,932	15	3,999	40	1,261	800	12,374
Disposals	-	-	-	-	-	-	-	(116)	(116)
Surplus on revaluation	37,379	-	-	-	-	-	-	-	37,379
At 31 December 2000	142,250	18,978	163,059	26,224	63,327	11,081	8,338	4,107	437,364
Comprising:									
At cost	-	18,978	163,059	26,224	63,327	11,081	8,338	4,107	295,114
At valuation – 2000	142,250	-	-	-	-	-	-	-	142,250
	142,250	18,978	163,059	26,224	63,327	11,081	8,338	4,107	437,364
<b>DEPRECIATION AND AMORTISATION</b>									
At 1 August 1999	11,466	13,581	133,952	20,931	49,000	10,616	5,594	2,936	248,076
Currency realignment	-	-	(7)	-	(45)	-	(14)	(8)	(74)
Provided for the period	3,738	2,113	12,440	5,186	7,627	211	979	205	32,499
Eliminated on disposals	-	-	-	-	-	-	-	(116)	(116)
Written back on revaluation	(15,204)	-	-	-	-	-	-	-	(15,204)
At 31 December 2000	-	15,694	146,385	26,117	56,582	10,827	6,559	3,017	265,181
<b>NET BOOK VALUE</b>									
At 31 December 2000	142,250	3,284	16,674	107	6,745	254	1,779	1,090	172,183
At 31 July 1999	93,405	3,070	25,183	5,278	10,377	425	697	503	138,938

## Notes to the Financial Statements

For the period from 1 August 1999 to 31 December 2000

### 14. PROPERTY, PLANT AND EQUIPMENT (Continued)

Leasehold land and buildings located in the People's Republic of China, other than Hong Kong (the "PRC") were revalued at 31 December 2000 by Sallmanns (Far East) Limited, a firm of independent professional valuers, on an open market value basis at HK\$142,250,000. The surplus arising on revaluation of these properties has been credited to the property revaluation reserve.

The net book value of the properties held by the Group at the balance sheet date comprises the following:

	<b>31.12.2000</b> <b>HK\$'000</b> <b>(At valuation</b> <b>– 2000)</b>	31.7.1999 <b>HK\$'000</b> <b>(At cost)</b>
Properties situated in the PRC under:		
– long term land use rights	<b>43,200</b>	44,059
– medium term land use rights	<b>83,050</b>	32,948
– short term land use rights	<b>16,000</b>	16,398
	<b>142,250</b>	93,405

The net book value of the Group's property, plant and equipment includes an aggregate amount of approximately HK\$343,000 (1999: HK\$1,223,000) in respect of assets held under finance leases and hire purchase contracts.

At 31 December 2000, had the Group's leasehold land and buildings been carried at cost less accumulated depreciation and amortisation, the carrying value would have been approximately HK\$89,667,000.

At 31 December 2000, the land use rights and property ownership certificates in respect of property interests in the PRC with carrying value of approximately HK\$3,037,000 (1999: HK\$10,962,000) had not been issued by the relevant PRC government authority. The Group has settled the full amount of the purchase consideration and in the opinion of the directors of the Company, (i) the absence of such certificates does not result in an impairment to the value of the relevant properties to the Group; and (ii) such certificates will be issued in due course.

The Company did not have any property, plant and equipment as at the balance sheet date.

**15. INTERESTS IN SUBSIDIARIES**

	<b>THE COMPANY</b>	
	<b>31.12.2000</b>	31.7.1999
	<b>HK\$'000</b>	HK\$'000
Unlisted shares, at cost	<b>86,803</b>	86,803
Amounts due from subsidiaries	<b>474,078</b>	457,820
	<b>560,881</b>	544,623
Less: Provision for impairment in value	<b>(549,326)</b>	(544,623)
	<b>11,555</b>	–

Details of the Company's principal subsidiaries at 31 December 2000 are set out in note 42.

**16. INTEREST IN A SUBSIDIARY NOT CONSOLIDATED**

On 11 December 1998, the directors resolved to place H B Electronics Limited ("HBE"), a wholly-owned subsidiary incorporated in Hong Kong, into liquidation. At the date of these financial statements, the liquidation of HBE has not been completed.

Following negotiations with the creditors of HBE, the Company and other group companies had assumed the obligations of HBE previously guaranteed by them. The Group has no further obligations to satisfy the liabilities of HBE.

The reduction of the Group's liabilities on de-consolidation of HBE in the prior year was calculated as follows:

	<i>HK\$'000</i>
Net liabilities of HBE at 11 December 1998, the date from which HBE was excluded from the consolidation	560,240
Assumption of HBE obligations by the Company and other group companies	
– bank borrowings	(312,587)
– obligations under finance leases and hire purchase contracts	(11,988)
Amounts due from HBE written off	(33,253)
	<b>202,412</b>



## Notes to the Financial Statements

For the period from 1 August 1999 to 31 December 2000

### 17. INTANGIBLE ASSETS

	THE GROUP	
	31.12.2000 HK\$'000	31.7.1999 HK\$'000
COST AND NET BOOK VALUE		
Technical knowhow acquired on acquisition of a subsidiary during the period and balance at end of period	13,000	—
Product development expenditure capitalised during the period and balance at end of period	12,292	—
	<b>25,292</b>	<b>—</b>

In the opinion of the directors of the Company, the intangible assets are worth at least their carrying value. Such intangible assets are not yet put into commercial use as at 31 December 2000.

### 18. INVENTORIES

	THE GROUP	
	1.8.1999 to 31.12.2000 HK\$'000	1.8.1998 to 31.7.1999 HK\$'000
AT COST, LESS PROVISION:		
Raw materials	33,103	32,503
Work in progress	6,169	6,481
Finished goods	2,113	2,830
	<b>41,385</b>	<b>41,814</b>

Included above are raw materials of HK\$17,241,000 (1999: HK\$32,503,000) and finished goods of HK\$285,000 (1999: HK\$1,939,000) which are carried at net realisable value.

At 31 December 2000, the Group did not have any work in progress carried at net realisable value (1999: HK\$6,481,000).

Provision made in prior year against the carrying value of raw materials of HK\$5,000,000 have been released as in the opinion of the directors of the Company, these inventories can be utilized in production in the coming year with minor modifications.

**19. TRADE RECEIVABLES, BILLS RECEIVABLES, DEPOSITS AND PREPAYMENTS**

At 31 December 2000, included in the Group's trade receivables, bills receivables, deposits and prepayments were trade receivables of HK\$26,184,000 (1999: HK\$19,883,000). The Group allows an average credit period of 20 - 30 days to its trade customers. Details of the ageing analysis of trade receivables are as follows:

	THE GROUP	
	31.12.2000 HK\$'000	31.7.1999 HK\$'000
0-30 days	22,653	10,879
31-60 days	1,838	4,170
Over 60 days	1,693	4,834
	<b>26,184</b>	<b>19,883</b>

**20. TRADE PAYABLES, DEPOSITS RECEIVED AND ACCRUED CHARGES**

At 31 December 2000, included in the Group's trade payables, deposits received and accrued charges were trade payables of HK\$57,100,000 (1999: HK\$13,628,000). Details of the ageing analysis of trade payables are as follows:

	THE GROUP	
	31.12.2000 HK\$'000	31.7.1999 HK\$'000
0-30 days	7,652	354
31-60 days	11,886	—
Over 60 days	37,562	13,274
	<b>57,100</b>	<b>13,628</b>

**21. AMOUNTS DUE TO DIRECTORS AND FORMER DIRECTORS**

The amounts are unsecured, non-interest bearing and are repayable on demand.

## Notes to the Financial Statements

For the period from 1 August 1999 to 31 December 2000

### 22. OBLIGATIONS UNDER FINANCE LEASES AND HIRE PURCHASE CONTRACTS

	THE GROUP		THE COMPANY	
	31.12.2000 HK\$'000	31.7.1999 HK\$'000	31.12.2000 HK\$'000	31.7.1999 HK\$'000 (note)
The obligations under finance leases and hire purchase contracts are repayable as follows:				
Within one year	1,552	7,003	–	6,859
More than one year, but not exceeding two years	836	–	–	–
Within two to five years	18	–	–	–
	2,406	7,003	–	6,859
Less: Amounts due within one year and shown under current liabilities	(1,552)	(7,003)	–	(6,859)
Amounts due after one year	854	–	–	–

*Note:* At 31 July 1999, pursuant to guarantees provided by the Company, the Company had assumed HBE's obligations for certain finance leases and hire purchase contracts when HBE was placed into liquidation. No formal repayment arrangements had been agreed by the Company with these finance lease and hire purchase creditors and accordingly, all balances due to them were technically repayable on demand.

During the current period, all finance leases and hire purchase contracts relate to HBE have been renewed under the name of a subsidiary of the Company.

## Notes to the Financial Statements

For the period from 1 August 1999 to 31 December 2000

### 23. BANK AND OTHER BORROWINGS

	THE GROUP		THE COMPANY	
	31.12.2000 HK\$'000	31.7.1999 HK\$'000	31.12.2000 HK\$'000	31.7.1999 HK\$'000
Bank and other borrowings comprise:				
Trust receipts and packing loans	71,089	74,783	—	—
Other bank loans	112,866	480,941	—	363,961
Other borrowings	1,851	—	—	—
	185,806	555,724	—	363,961
Amounts owing to:				
– Hong Kong Bankers (note 1)	—	363,961	—	363,961
– PRC Bankers (note 2)	183,858	191,763	—	—
– Others	1,948	—	—	—
	185,806	555,724	—	363,961
Analysed as:				
Secured	150,715	78,372	—	—
Unsecured	35,091	477,352	—	363,961
	185,806	555,724	—	363,961
The bank and other borrowings are repayable as follows:				
Within one year or on demand	180,335	555,724	—	363,961
More than one year, but not exceeding two years	1,404	—	—	—
More than two years, but not exceeding five years	4,067	—	—	—
	185,806	555,724	—	363,961
Less: Amounts due within one year or on demand and shown under current liabilities	(180,335)	(555,724)	—	(363,961)
Amounts due after one year	5,471	—	—	—

Note:

- (1) At 31 July 1999, the Group was in breach of the terms of facilities granted to it by the Hong Kong Bankers. Accordingly, all balances due to them were repayable on demand. As explained in note 9, the restructuring exercise was completed on 10 September 1999 whereby the balances due to the Hong Kong Bankers were either repaid, converted into share or loan capital of the Company, or were discharged. Details of these are set out in note 9.
- (2) Subsequent to 31 December 2000, agreement has been reached with the PRC Bankers to reschedule the repayment dates of borrowings in the sum of approximately HK\$34 million to 2002.

## Notes to the Financial Statements

For the period from 1 August 1999 to 31 December 2000

### 24. CONVERTIBLE NOTES

	Notes	THE GROUP AND THE COMPANY HK\$'000
Convertible notes issued during the period for settlement of bank borrowings owed to the Hong Kong Bankers ( <i>note 9</i> )	<i>a</i>	39,563
Exercise of conversion rights of convertible notes ( <i>note 25(IX)</i> )	<i>b</i>	(2,505)
Balance at 31 December 2000		37,058
Amount repayable within one year		(7,418)
Amount due after one year		29,640

- (a) Pursuant to the Restructuring Agreement dated 9 July 1999 between the Company and the Hong Kong Bankers, secured convertible notes with an aggregate principal value of approximately HK\$39,563,000 (the "Convertible Notes") were issued by the Company.

The principal amount of the Convertible Notes, which bear interest at 7% per annum payable semi-annually in arrears, are to be repaid by the Company as follows:

- i) HK\$7,417,985 upon expiry of 24 months after the issuance of the Convertible Notes;
- ii) HK\$7,417,985 upon expiry of 30 months after the issuance of the Convertible Notes; and
- iii) The entire outstanding principal balance in the aggregate sum of up to HK\$24,726,617 upon expiry of 36 months after issue of the Convertible Notes.

Conversion of the part of the principal amount of the Convertible Notes referred to in (iii) above can take place at any time during the three-year period commencing on the date of issue of the Convertible Notes at a conversion price of HK\$0.15 per share, subject to adjustment.

Pursuant to the Restructuring Agreement, should the Free Cash Balance as defined in the Restructuring Agreement at the end of each financial period exceeds HK\$15 million, the Company is required to repay to the holders of the Convertible Notes 10% of that balance up to a maximum amount of HK\$3.5 million or the outstanding principal amount of the Convertible Notes, whichever is lower.

The Convertible Notes are secured by the pledge of all of the Company's assets and its entire equity interests in two wholly-owned subsidiaries.

- (b) During the period, principal of approximately HK\$2,505,000 was converted into 16,699,686 shares of the Company at a price of HK\$0.15 per share.

## Notes to the Financial Statements

For the period from 1 August 1999 to 31 December 2000

### 25. SHARE CAPITAL

	Notes	Number of shares	Amounts HK\$'000
AUTHORISED:			
Ordinary shares at HK\$0.1 each at 1 August 1998 and 31 July 1999		2,500,000,000	250,000
Subdivision into 50 shares of HK\$0.002 each	I(ii)	122,500,000,000	–
Ordinary shares at HK\$0.002 each		125,000,000,000	250,000
Share consolidation	I(iii)	(100,000,000,000)	–
Ordinary shares at HK\$0.01 each at 31 December 2000		25,000,000,000	250,000
ISSUED AND FULLY PAID:			
Balance at 1 August 1998, ordinary shares at HK\$0.1 each		889,006,022	88,901
– issued upon exercise of options		3	–
Balance at 31 July 1999, at HK\$0.1 each		889,006,025	88,901
– capital reduction	I(i)	–	(87,123)
Ordinary shares at HK\$0.002 each		889,006,025	1,778
– share consolidation	I(iii)	(711,204,820)	–
Issued and fully paid ordinary shares at HK\$0.01 each		177,801,205	1,778
Issue of new shares to Suncorp Partners Limited	(II)	500,000,000	5,000
Issue of new shares to Hong Kong Bankers	(III)	326,368,000	3,264
Rights issue	(IV)	177,801,205	1,778
Placement	(V)	125,000,000	1,250
Issue of shares to creditors for settlement of debts	(VI)(i)	1,762,000	18
Option exercised by Suncorp Partners Limited	(VII)	40,000,000	400
Shares issued on acquisition of a subsidiary	(VIII)	46,203,909	462
Exercise of conversion rights of convertible notes	(IX)	16,699,686	167
Issue of shares to creditors for settlement of debts	(VI)(ii)	101,514,862	1,015
At 31 December 2000		1,513,150,867	15,132

## Notes to the Financial Statements

For the period from 1 August 1999 to 31 December 2000

### 25. SHARE CAPITAL (Continued)

#### Notes:

(I) Upon restructuring of the Company's share capital on 7 September 1999:

- (i) The par value of each of the then existing 889,006,025 issued shares was reduced from HK\$0.1 to HK\$0.002, resulting in a credit of approximately HK\$87,123,000 which was applied to write off part of the Company's deficit;
- (ii) Each of the then 1,610,993,975 unissued shares of HK\$0.1 each in the capital of the Company was sub-divided into 50 shares of HK\$0.002 each thereby creating 122,500,000,000 unissued shares of HK\$0.002 each; and
- (iii) Every 5 issued and unissued shares of HK\$0.002 each in the capital of the Company was consolidated into one new share of HK\$0.01 (the "New Share").

(II) Subscription of new capital by Suncorp Partners Limited

On 10 September 1999, Suncorp Partners Limited subscribed a total of 500,000,000 New Shares in the Company for cash at HK\$0.05 per New Share, raising for the Company HK\$25 million.

(III) Issue of New Shares to Hong Kong Bankers

On 10 September 1999, the Company issued and allotted an aggregate of 326,368,000 New Shares of HK\$0.01 each at HK\$0.15 per New Share to the Hong Kong Bankers, repaying bank borrowings of approximately HK\$48,955,000.

(IV) Rights issue

Immediate after the completion of the restructuring exercise as mentioned above in (I), the Company issued by way of 177,801,205 rights shares of HK\$0.01 each in the share capital of the Company (the "Rights Shares") on the basis of one Rights Share for every New Share held on the close of business on 7 September 1999 at a subscription price of HK\$0.045 per Rights Share payable in full on acceptance. The rights issue was completed on 30 September 1999 and the Group raised approximately HK\$8 million, which was used as general working capital of the Group.

(V) Placement

Pursuant to a placing agreement dated 21 December 1999 entered into between the Company, Somerley Limited as manager and Somerley Limited and Koffman Securities Limited as underwriters, the Company placed a total of 125,000,000 New Shares of HK\$0.01 each to independent investors at a price of HK\$0.213 per New Share.

## 25. SHARE CAPITAL (Continued)

(VI) Issue of New Shares to creditors for settlement of debts

- (i) Pursuant to an agreement dated 21 December 1999 between the Company and Southern Technologies Pty. Limited ("STP"), an independent creditor, the Company allotted 1,762,000 New Shares of HK\$0.01 each to STP at a price of HK\$0.22 per share, to settle amount owed by the Group to STP of US\$50,000 (approximately HK\$387,500).
- (ii) Pursuant to an agreement dated 6 July 2000 between the Company and Inventel Systemes ("Inventel"), an independent creditor, the Company allotted 101,514,862 New Shares of HK\$0.01 each to Inventel at a price of HK\$0.08 per share, to pay for design and development fees owed by the Group to Inventel of Euros 1,102,000 (approximately HK\$8,121,000).

(VII) Share options exercised by Suncorp Partners Limited

During the period, 40,000,000 New Shares of HK\$0.01 each in the Company were issued at an exercise price of HK\$0.05 per New Share upon the exercise of share options by Suncorp Partners Limited.

(VIII) Shares issued on acquisition of a subsidiary

Pursuant to the stock purchase agreements dated 7 January 2000 between the Company and three independent third parties, the Company acquired from the third parties the entire share capital of First Ministry of Technology, Inc. ("FMOT") and certain shareholder's loans advanced to FMOT of approximately US\$700,000, at a consideration of HK\$10,673,000. The Company issued and allotted to the three independent third parties a total of 46,203,909 New Shares of HK\$0.01 each of the Company at HK\$0.231 per share, credited as fully paid in satisfaction of the consideration payable by the Company.

(IX) Exercise of conversion rights of convertible notes

During the period, the Company issued and allotted an aggregate of 16,699,686 New Shares of HK\$0.01 each at a conversion price of HK\$0.15 per New Shares as a result of the exercise of the conversion rights of the Company's convertible notes by certain Hong Kong Bankers.

All the New Shares issued during the period rank pari passu with the then existing shares in all respects.



## Notes to the Financial Statements

For the period from 1 August 1999 to 31 December 2000

### 26. SHARE OPTIONS

#### (I) Options to employee

Pursuant to a share option scheme of the Company adopted on 19 April 1994 (the "Existing Scheme") and another share option scheme of the Company adopted on 7 September 1999 (the "New Scheme"), the board of directors of the Company may, at their discretion, grant options to any employees of the Company and its subsidiaries, including executive directors of any of such companies, to subscribe for shares in the Company.

The subscription price of the option shares shall be a price to be determined by the directors of the Company being not less than 80% of the average of the closing prices of the Company's shares traded on the Stock Exchange for the five trading days immediately preceding the date of offer of the option or the nominal value of the shares of the Company, whichever is higher.

The options of the Existing Scheme can be exercised at any time subject to certain restrictions contained in the offer letters, within a period of ten years commencing from the date of adoption of the Existing Scheme.

The options of the New Scheme can be exercised at any time subject to certain restrictions contained in the offer letter, within a period of three years commencing on the date falling twelve months after the date of acceptance of an option.

The maximum number of shares in respect of which options may be granted under both schemes shall not exceed 10% of the issued share capital of the Company from time to time.

#### (II) Options to Suncorp Partners Limited

During the current period, the Company granted options to Suncorp Partners Limited entitling Suncorp Partners Limited to subscribe a total sum of HK\$7,500,000 for option shares at a subscription price of HK\$0.05 per option share, subject to adjustment, at any time within three years from 10 September 1999. During the current period, 40,000,000 option shares were issued.

#### (III) Options to Somerley Limited and its nominees

In addition, the Company granted options to Somerley Limited and its nominees, independent investors, entitling Somerley Limited and its nominees to subscribe for a total of 100,000,000 option shares at a subscription price of HK\$0.213 per option share, subject to adjustment, at any time on or before 31 March 2001. No options were exercised during the current period.

## 26. SHARE OPTIONS (Continued)

The movement of the share options granted by the Company to (i) the directors and full time employees of the Company or any of its subsidiaries; (ii) Suncorp Partners Limited; and (iii) Somerley Limited and its nominees, to subscribe for shares in the Company during the current period were as follows:

Month of grant	Notes	Exercise price HK\$	Balance at 1.8.1999	Number of shares to be issued upon exercise of the share options			Cancelled during the period	Balance at 31.12.2000
				Granted during the period	Adjustment (Note a)	Exercised during the period		
Options to employees:								
June 1997	(a)	2.1500	60,679,997	-	(35,519,999)	-	(12,136,000)	13,023,898
January 2000		0.2368	-	4,000,000	-	-	-	4,000,000
June 2000		0.0850	-	86,970,000	-	-	(1,000,000)	85,970,000
July 2000		0.0850	-	17,690,000	-	-	(480,000)	17,210,000
September 2000		0.0850	-	1,000,000	-	-	-	1,000,000
October 2000		0.0850	-	11,890,000	-	-	-	11,890,000
November 2000		0.0850	-	400,000	-	-	-	400,000
	(b)		60,679,997	121,950,000	(35,519,999)	-	(13,616,000)	133,493,998
Options to Suncorp Partners Limited								
in September 2000		0.0500	-	150,000,000	-	(40,000,000)	-	110,000,000
Options to Somerley Limited and its nominees in								
January 2000		0.2130	-	100,000,000	-	-	-	100,000,000
			60,679,997	371,950,000	(35,519,999)	(40,000,000)	(13,616,000)	343,493,998

## Notes:

- (a) The number and exercise price of the share options granted were adjusted as a result of the share consolidation and the rights issue of shares in the Company on 7 September 1999 and 30 September 1999 respectively, as set out in note 25. The exercise price shown above represent the adjusted exercise price as at 31 December 2000.
- (b) An aggregate consideration of HK\$78 was received by the Company for options granted during the current period.

## Notes to the Financial Statements

For the period from 1 August 1999 to 31 December 2000

### 27. RESERVES AND DEFICIT

	Share premium HK\$'000	Contributed surplus HK\$'000	Capital reserve on consolidation HK\$'000	Other capital reserve HK\$'000	Property revaluation reserve HK\$'000	Translation reserve HK\$'000	Deficit HK\$'000	Total HK\$'000
<b>THE GROUP</b>								
At 1 August 1998	253,453	-	-	14,945	-	(60)	(789,046)	(520,708)
Exchange differences arising from translation of overseas operations	-	-	-	-	-	(393)	-	(393)
Profit for the year	-	-	-	-	-	-	2,223	2,223
At 31 July 1999	253,453	-	-	14,945	-	(453)	(786,823)	(518,878)
Shares issued at premium	118,914	-	-	-	-	-	-	118,914
Share issued expenses	(2,949)	-	-	-	-	-	-	(2,949)
Capital reduction (note 25 (I)(i))	-	-	-	-	-	-	87,123	87,123
Acquisition of a subsidiary	-	-	1,506	-	-	-	-	1,506
Exchange differences arising from translation of overseas operations	-	-	-	-	-	1	-	1
Surplus arising on revaluation, net of minority interests' share	-	-	-	-	31,550	-	-	31,550
Profit for the period	-	-	-	-	-	-	202,139	202,139
At 31 December 2000	369,418	-	1,506	14,945	31,550	(452)	(497,561)	(80,594)
<b>THE COMPANY</b>								
At 1 August 1998	253,453	80,851	-	-	-	-	(431,750)	(97,446)
Loss for the year	-	-	-	-	-	-	(378,570)	(378,570)
At 31 July 1999	253,453	80,851	-	-	-	-	(810,320)	(476,016)
Shares issued at premium	118,914	-	-	-	-	-	-	118,914
Share issued expenses	(2,949)	-	-	-	-	-	-	(2,949)
Capital reduction (note 25(I)(i))	-	-	-	-	-	-	87,123	87,123
Profit for the period	-	-	-	-	-	-	230,120	230,120
At 31 December 2000	369,418	80,851	-	-	-	-	(493,077)	(42,808)

**27. RESERVES AND DEFICIT (Continued)**

Other capital reserve of the Group represents the difference between the nominal value of the share capital and share premium of the subsidiaries at the date on which they were acquired by the Group and the nominal value of the share capital issued as consideration for the acquisition.

The contributed surplus of the Company represents the difference between the underlying net assets of the subsidiaries at the date on which they were acquired by the Company and the nominal value of the share capital issued by the Company as consideration for the acquisition at the time of a group reorganisation in 1994.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, a company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if:

- (a) the company is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

In the opinion of the directors, the Company did not have any reserves available for distribution to shareholders as at the balance sheet date.

**28. UNRECOGNISED DEFERRED TAXATION**

The components of deferred taxation credit (charge) not recognised for the period/year are as follows:

	THE GROUP		THE COMPANY	
	1.8.1999 to 31.12.2000 HK\$'000	1.8.1998 to 31.7.1999 HK\$'000	1.8.1999 to 31.12.2000 HK\$'000	1.8.1998 to 31.7.1999 HK\$'000
Tax effect of timing differences attributable to:				
Excess of tax allowances over depreciation	(58)	121	—	—
Tax losses	7,621	6,069	1,216	1,557
General provision for doubtful debts	—	(1,474)	—	—
	<b>7,563</b>	<b>4,716</b>	<b>1,216</b>	<b>1,557</b>

## Notes to the Financial Statements

For the period from 1 August 1999 to 31 December 2000

### 28. UNRECOGNISED DEFERRED TAXATION (Continued)

The major components of potential deferred taxation asset (liability) at the balance sheet date not recognised in the financial statements are as follows:

	THE GROUP		THE COMPANY	
	1.8.1999 to 31.12.2000 HK\$'000	1.8.1998 to 31.7.1999 HK\$'000	1.8.1999 to 31.12.2000 HK\$'000	1.8.1998 to 31.7.1999 HK\$'000
Tax effect of timing differences attributable to:				
Excess of tax allowances over depreciation	(84)	(26)	—	—
Unutilised tax losses	14,988	7,367	3,749	2,533
	14,904	7,341	3,749	2,533

During the prior year, upon de-consolidation of HBE, the unprovided deferred tax asset was reduced by approximately HK\$46,031,000.

The potential net deferred tax asset has not been recognised in the financial statements as it is not certain that the benefit will be realised in the foreseeable future.

### 29. RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	1.8.1999 to 31.12.2000 HK\$'000	1.8.1998 to 31.7.1999 HK\$'000
Profit before taxation	181,137	1,864
Bank borrowings waived by Hong Kong Bankers	(250,730)	—
Reduction of the Group's net liabilities upon de-consolidation of HBE, after taking into account assumption of HBE obligations guaranteed by members of the Group	—	(202,412)
Loss on pledged properties surrendered to a bank	—	26,326
Provision for inventories	—	71,141
Product development expenditure	1,254	5,826
Interest expenses	29,814	30,842
Interest income	(595)	(808)
Depreciation and amortisation	32,499	46,386
Loss on disposal of property, plant and equipment	—	982
Decrease in inventories	429	51,801
Increase in trade receivables, bills receivable, deposits and prepayments	(9,846)	(2,704)
Increase in trade payables, deposits received and accrued charges	41,998	11,964
Net cash inflow from operating activities	25,960	41,208

**30. MAJOR NON-CASH TRANSACTIONS**

- (a) During the current period, of the Group's total obligations of approximately HK\$363,961,000 to the Hong Kong Bankers, approximately HK\$48,955,000 were converted into share capital of the Company; approximately HK\$39,563,000 were converted into Convertible Notes of the Company and approximately HK\$250,730,000 were discharged (*note 9*).
- (b) During the current period, the Group's obligations to creditors of US\$50,000 (approximately HK\$387,500) and Euros 1,102,000 (approximately HK\$8,121,000) were settled by issuance of new shares (*note 25 (VI)*).
- (c) During the year ended 31 July 1999, the following amounts have been removed from the consolidated balance sheet of the Group upon the de-consolidation of a subsidiary:

HK\$'000

Property, plant and equipment	8,477
Inventories	216
Debtors, deposits and prepayments	23,451
Bank balances and cash	3,197
Creditors and accrued charges	(215,264)
Amounts due to directors	(800)
Short-term bank borrowings	(21,445)
Minority interests	(244)
	(202,412)

Analysis of the outflow of cash and cash equivalents in respect of the de-consolidation of the above subsidiary is as follows:

Bank balances and cash	(3,197)
------------------------	---------

The subsidiary de-consolidated during the year ended 31 July 1999 contributed a loss of approximately HK\$24 million to the Group's operating results for that year and a net operating cash inflow of approximately HK\$8,594,000, paid a net cash outflow of approximately HK\$3,643,000 in respect of net returns on investments and servicing of finance and paid a cash outflow of approximately HK\$7,694,000 in respect of financing activities for the year ended 31 July 1999.

## Notes to the Financial Statements

For the period from 1 August 1999 to 31 December 2000

### 30. MAJOR NON-CASH TRANSACTIONS (Continued)

- (d) In addition, the Group had the following major non-cash transactions during the year ended 31 July 1999:
- (i) Certain properties of the Group situated in Hong Kong were surrendered to a bank for partial settlement of amounts due to the bank of approximately HK\$21,045,000, resulting in a loss of approximately HK\$26,326,000 to the Group.
  - (ii) The Company assumed obligations of approximately HK\$325 million to financial institutions upon liquidation of HBE.

### 31. PURCHASE OF A SUBSIDIARY

	2000 HK\$'000	1999 HK\$'000
Net assets acquired:		
Intangible assets	13,000	—
Property, plant and equipment	805	—
Trade and other receivables	27	—
Bank balance and cash	6	—
Trade and other payables	(1,659)	—
	12,179	—
Capital reserve	1,506	—
	10,673	—
Satisfied by:		
Issuance and allotment of new ordinary shares (note 25(VIII))	10,673	—
Net cash outflow of cash and cash equivalents arising on acquisition:		
Cash consideration	—	—
Bank balance and cash acquired	6	—
	6	—

The subsidiary acquired during the current period did not make a significant contribution to the net cash flows or results of the Group for the current period.

## Notes to the Financial Statements

For the period from 1 August 1999 to 31 December 2000

### 32. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital and premium HK\$'000	Bank and other borrowings with more than three months of maturity when raised HK\$'000	Obligations under finance leases and hire purchase contracts HK\$'000	Amounts due to directors and former directors HK\$'000	Amount due to minority shareholders HK\$'000
At 1 August 1998	342,354	200,219	16,255	11,931	21,770
Transfer from cash and cash equivalents (note 33)	—	349,860	—	—	—
Amounts advanced from directors	—	—	—	11,935	—
New bank borrowings raised	—	17,617	—	—	—
Inception of finance leases and hire purchase contracts	—	—	88	—	—
Transfer to other creditors	—	—	—	—	(732)
Repayment during the year	—	(10,002)	(9,340)	(11,780)	(6,357)
Repayment by surrender of pledged properties	—	(21,045)	—	—	—
Eliminated on de-consolidation of a subsidiary	—	(21,445)	—	(800)	—
At 31 July 1999	342,354	515,204	7,003	11,286	14,681
Transfer from cash and cash equivalent (note 33)	—	40,520	—	—	—
Repayment by issuance of new shares to Hong Kong Bankers (note 25 (III))	48,955	(48,955)	—	—	—
Repayment by issuance of convertible notes to Hong Kong Bankers (note 24)	—	(39,563)	—	—	—
Bank borrowings waived by Hong Kong Bankers (note 9)	—	(250,730)	—	—	—
Capital reduction (note 25(I)(i))	(87,123)	—	—	—	—
Issue of new shares for cash, net of expenses	58,677	—	—	—	—
Issue of new shares for repayment of debts to creditors	8,509	—	—	—	—
Issue of new shares for acquisition of a subsidiary (note 31)	10,673	—	—	—	—
Exercise of conversion rights of convertible notes	2,505	—	—	—	—
Amount advanced from a director	—	—	—	2,015	—
New bank and borrowings raised	—	20,448	—	—	—
Inception of finance leases and hire purchase contracts	—	—	362	—	—
Repayment during the period	—	(51,118)	(4,959)	(9,878)	(5,811)
At 31 December 2000	384,550	185,806	2,406	3,423	8,870



## Notes to the Financial Statements

For the period from 1 August 1999 to 31 December 2000

### 33. TRANSFER OF CASH AND CASH EQUIVALENTS

During the year ended 31 July 1999, the Group's bank loans of HK\$349,860,000 were restructured and transferred from cash and cash equivalent to bank loans pursuant to the Restructuring Agreement.

During the current period, the Group's bank loans of HK\$40,520,000 were restructured and transferred from cash and cash equivalent to bank loans pursuant to a new loan agreement.

### 34. ANALYSIS OF CASH AND CASH EQUIVALENTS

	31.12.2000 HK\$'000	31.7.1999 HK\$'000
Bank balances and cash	14,057	32,321
Short-term bank borrowings with less than three months of maturity when raised	—	(40,520)
	<b>14,057</b>	<b>(8,199)</b>

### 35. OPERATING LEASE COMMITMENTS

As at the balance sheet date, the Group has committed to make payments in the following year under non-cancellable operating leases in respect of land and buildings, as follows:

	THE GROUP	
	31.12.2000 HK\$'000	31.7.1999 HK\$'000
Operating leases which expire:		
Within one year	1,244	533
In the second to fifth year inclusive	1,105	2,705
	<b>2,349</b>	<b>3,238</b>

The Company did not have any significant commitments under non-cancellable operating leases as at the balance sheet date.

### 36. CAPITAL COMMITMENT

At 31 December 2000, the Group had capital commitment authorised but not contracted for the acquisition of property, plant and equipment of HK\$499,000 (At 31 July 1999: Nil).

**37. RETIREMENT BENEFITS SCHEME**

In last year, the Company and its subsidiaries in Hong Kong and overseas do not operate any retirement benefits scheme.

With effective from 1 December 2000, the Group has joined a Mandatory Provident Fund Scheme ("MPF Scheme") for all employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rate specified in the rules. The only obligation of the Group with respect of MPF Scheme is to make the required contributions under the scheme. During the period or at the balance sheet date, no forfeited contribution is available to reduce the contribution payable in the future years.

The retirement benefit scheme contributions arising from the MPF Scheme charged to the income statement represent contributions payable to the funds by the Group at rates specified in the rules of the schemes.

The Group's employees who are employed by the subsidiaries in the PRC are members of a state-managed retirement benefits scheme operated by the PRC government. These subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

During the period or at the balance sheet date, there was no forfeited contributions, which arose upon employees leaving the retirement benefits scheme, available to reduce the contribution payable in the future years.

**38. CONTINGENT LIABILITIES**

	THE GROUP		THE COMPANY	
	31.12.2000 HK\$'000	31.7.1999 HK\$'000	31.12.2000 HK\$'000	31.7.1999 HK\$'000
Guarantees given to banks in respect of bank facilities granted to subsidiaries	—	—	88,722	87,755
Bills discounted with recourse	6,318	—	—	—
	6,318	—	88,722	87,755

## Notes to the Financial Statements

For the period from 1 August 1999 to 31 December 2000

### 38. CONTINGENT LIABILITIES (Continued)

As at the balance sheet date, the Group had a number of employees who have completed the required number of years of service under the Employment Ordinance in Hong Kong (the "Ordinance") to be eligible for long service payments on 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 eligible employees been terminated on 31 December 2000 and the long service payments been paid under the Ordinance, the amount payable would have been approximately HK\$788,000 (1999: HK\$347,000). No provision has been made in the financial statements in respect of such long service payments.

In addition, a subsidiary of the Company which is established in the PRC has been named as defendants in various legal actions for non-payment of goods delivered. The aggregate claims against the subsidiary amounted to approximately HK\$3.1 million, of which HK\$1.5 million has been paid during the period. No provision has been made in the financial statements in respect of the difference of HK\$1.6 million as in the opinion of the directors, eventual resolution of these legal actions is unlikely to result in further payment by the Group.

### 39. PLEDGE OF ASSETS

At the balance sheet date, the Group pledged leasehold land and buildings with an aggregate net book value of HK\$142,250,000 (1999: HK\$82,606,000), plant and machinery with an aggregate net book value of HK\$16,674,000 (1999: Nil) and a bank deposit of HK\$775,000 (1999: Nil) to secure credit facilities granted to the Group.

As at 31 December 2000, all of the Company's assets and its entire equity interests in two wholly-owned subsidiaries were pledged to secure the Convertible Notes issued by the Company during the current period.

### 40. RELATED PARTY DISCLOSURES

#### (I) Directors' advances

In the year ended 31 July 1999, unsecured and interest-free loans of HK\$7 million were advanced from Messrs Malcolm PATON, LEUNG Shek Kong, LEE Kin Sing and AU YEUNG Kam Hay, Henry, directors and former directors of the Company. These loans were fully repaid during the current period.

Further unsecured and interest-free loans of HK\$3,872,000 advanced from Mr LEUNG Shek Kong and HK\$414,000 advanced from Mr Malcolm PATON in prior year of which HK\$1,408,000 due to Mr LEUNG Shek Kong remained outstanding at 31 December 2000.

In addition, during the current period, a loan of HK\$2,015,000 was advanced from Mr Peter AMOUR, director of the Company.

#### 40. RELATED PARTY DISCLOSURES (Continued)

##### (II) Other related party transactions

As at 31 December 2000, certain of the Group's bank borrowings amounting to HK\$55,261,000 were guaranteed by a minority shareholder of a subsidiary of the Group (1999: HK\$57,238,000).

The amounts due to the minority shareholders of a subsidiary of HK\$8,870,000 (1999: HK\$14,681,000) at 31 December 2000 are unsecured, interest-free and have no fixed repayment terms. In the opinion of the directors of the Company, no repayment will be required within twelve months from the balance sheet date. Accordingly, the amounts were classified as non-current.

#### 41. POST BALANCE SHEET EVENTS

On 18 April 2001, the Group entered into a conditional agreement with an independent investor, pursuant to which the Group agreed to, among others, procure a subsidiary of the Company to issue new shares to the independent investor and the independent investor agreed to inject a total sum of HK\$17,250,000 by way of cash in five tranches over the next three months in four stages to subscribe for a 35% interest in that subsidiary.

On 18 April 2001, simultaneously with the execution of the conditional agreement, the Company entered into a further agreement with the above independent investor, whereby that independent investor is granted a put option to require the Company to purchase (or procure the purchase) from this independent investor shares representing a 5% interest in that subsidiary at an amount of HK\$2,750,000, which shall be satisfied by the allotment and issue of shares in the Company at a price based on prevailing market price or at par, if higher.

#### 42. SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2000 are as follows:

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share/ registered capital	Proportion of nominal share of issued capital/ registered capital held by the Company %	Principal activities
First Ministry of Technology, Inc.	The United States	US\$600,000 common shares	100	Development of integrated communication system
H B Electronics (China) Limited	British Virgin Islands	US\$1 ordinary share	100	Investment holding and provision of telecommunications products procurement services

## Notes to the Financial Statements

For the period from 1 August 1999 to 31 December 2000

### 42. SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share/ registered capital	Proportion of nominal share of issued capital/ registered capital held by the Company %	Principal activities
MONDIAL Communications Limited	Hong Kong	HK\$2 ordinary shares	100	Research, development and marketing of mobile handsets
MONDIAL Communications (Europe) Limited	England and Wales	£10,000 ordinary shares	100	European marketing and customer liaison of mobile handsets
Shenzhen Guo Wei Electronics Co., Ltd.	PRC	RMB50,000,000 registered capital	60	Manufacture of telephones and related equipment
SunCorp Communications (Europe) Limited (formerly known as HB Europe Limited)	England and Wales	£500,000 ordinary shares	100	European, African and Middle East marketing and customer liaison
SunCorp Communications Limited (formerly known as Sound Wealth Development Limited)	Hong Kong	HK\$75,000 ordinary shares	100	Marketing and provision of administrative services
		HK\$225,000 non-voting deferred shares (note)	100	
SunCorp Information Technologies Limited	Hong Kong	HK\$600,000 ordinary shares	100	Investment holding

## 42. SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share/ registered capital	Proportion of nominal share of issued capital/ registered capital held by the Company %	Principal activities
SunCorp Information Technologies (Asia) Limited	Hong Kong	HK\$2 ordinary shares	100	Investment holding and development of integrated communication system
SunCorp Industrial Limited (formerly known as HB Annet Company Limited)	Hong Kong	HK\$100 ordinary shares	100	Raw materials sourcing
SunCorp (Service & Distribution) Limited (formerly known as H B Browns (Service & Distribution) Limited)	England and Wales	£1,750 ordinary shares	97	Warranty, co-ordination, repair and servicing of telephones and related equipment

*Note:* The deferred shares practically carry no rights to dividends or to receive notice of or to attend or vote at any general meeting of the respective companies or to participate in any distribution on winding up.

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

All the above active subsidiaries operate principally in their respective place of incorporation or establishment.

All of the above subsidiaries are held indirectly by the Company.

None of the subsidiaries had any loan capital outstanding at the end of the period, or at any time during the period.