

Notes to the Financial Statements

31st December, 2000

1. CORPORATE INFORMATION

During the year, the Group was engaged in the following activities:

- Design, manufacture and sale of consumer electronics products, components and other products;
- Investment holding;
- Investment property holding; and
- Money lending.

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

Basis of accounting

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, modified with respect to the measurement of investment properties, certain fixed assets and other investments, as explained in the respective accounting policies below.

Basis of consolidation

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

Goodwill on consolidation

Goodwill arising on consolidation of subsidiaries is eliminated against Group reserves in the year in which it arises. Upon the disposal of interests in subsidiaries, the relevant portion of the goodwill previously eliminated at the time of acquisition is released from the Group reserves to the consolidated profit and loss account.

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 in the Company's balance sheet 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.

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2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES *(continued)*

Associates

An associate is a company, not being a subsidiary, in which the Group holds a substantial long-term interest in the equity share capital and over which the Group is in a position to exercise significant management influence.

The consolidated profit and loss account includes the Group's share of results of associates as reported in their financial statements made up to 31st December. In the consolidated balance sheet, interests in associates represent the Group's share of net assets, less any provisions for diminutions in values other than temporary in nature deemed necessary by the directors.

Properties, plant and equipment

Properties, plant and equipment, other than investment properties, are stated at cost or valuation less accumulated depreciation and any diminution in value. The Group has adopted the transitional provisions of the Hong Kong Statement of Standard Accounting Practice No. 17 "Property, plant and equipment" of not making regular revaluations of its properties, plant and equipment.

The cost of an item of property, plant and equipment (an "Item") 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 Item 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 Item, the expenditure is capitalised as an additional cost of the Item.

Where, in the opinion of the directors, the recoverable amounts of properties, plant and equipment have declined below their carrying amounts, provisions are made to write down the carrying amounts of such assets to their recoverable amounts. Reductions of the carrying value are charged to the profit and loss account, except to the extent that they reverse previous revaluation surpluses in respect of the same items, when they are charged to the revaluation reserve.

The gain or loss on disposal or retirement of an Item recognised in the profit and loss account is the difference between the sale proceeds and the carrying amount of the relevant Item. On disposal of a revalued Item, the relevant portion of the revaluation reserve realised in respect of the previous valuations is transferred to retained profits as a movement in reserves.

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2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES *(continued)*

Properties, plant and equipment *(continued)*

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

Leasehold land	Over unexpired lease terms
Buildings	2% – 5%
Plant and machinery	10% – 25%
Furniture and equipment	12.5% – 30%
Motor vehicles	20% – 33%
Leased assets	Over the terms of the leases or the estimated useful lives, whichever is shorter

Freehold land is not depreciated.

Investment properties

Investment properties are those properties which are held for their investment potential, are income producing and are intended to be held on a long term basis. They are stated at their open market values on the basis of annual valuations. Any surplus or deficit on revaluation is taken to the investment properties revaluation reserve unless the total of this reserve is insufficient to cover a deficit, in which case the amount by which the deficit exceeds the amount in the reserve is charged to the profit and loss account. Where a deficit has previously been charged to the profit and loss account and a revaluation surplus subsequently arises, the surplus is credited to the profit and loss account to the extent of the deficit previously charged.

The gain or loss on disposal of an investment property, representing the difference between the net sales proceeds and the carrying amount of the relevant asset, is recognised in the profit and loss account. Any revaluation reserve balance attributable to the relevant asset being sold is transferred to retained profits upon disposal of the asset.

No depreciation is provided in respect of investment properties with an unexpired lease term of more than 20 years since the valuations take into account the state of the buildings.

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2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES *(continued)*

Short-term investments

Short-term investments are listed and unlisted investments in equity securities not held for any identified long-term purposes. Listed investments are stated at their fair values on the basis of their quoted market prices at the balance sheet date on an individual investment basis. Unlisted investments are stated at their estimated fair values on an individual basis and these amounts are determined by directors. The gains or losses arising from changes in the fair value of a security are credited or charged to the profit and loss account for the period in which they arise.

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 properties, plant and equipment and 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 leasing company 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.

Inventories

Inventories are valued at the lower of cost, on the first-in, first-out basis, and net realisable value after making due allowance for any obsolete or slow moving items. In the case of finished goods and work in progress, cost includes direct materials, direct labour, sub-contracting charges and, where applicable, production overheads. Net realisable value is determined by reference to estimated selling prices less all further costs to be incurred in selling and distribution.

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2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES *(continued)*

Revenue

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

- (a) the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement associated with ownership, nor effective control over the goods sold;
- (b) proceeds on disposals of investments, including interests in subsidiaries, associates, investments in listed and unlisted shares and disposals of investment properties and fixed assets, when all conditions for disposal have been met and the risks and rewards of ownership have been transferred to the buyer;
- (c) rental income, on the straight-line basis over the lease terms;
- (d) interest, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and
- (e) dividends, when the shareholders' right to receive payment is established.

Foreign currencies

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

On consolidation, the financial statements of subsidiaries and associates operating outside Hong Kong are translated to 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.

Borrowing costs

Borrowing costs are interest and other costs incurred in connection with the borrowing of funds. All borrowing costs are charged to the profit and loss account in the year in which they are incurred.

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2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES *(continued)*

Deferred tax

Provision is made for deferred tax, 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.

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.

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 to use.

3. TURNOVER

Turnover represents the aggregate of the net invoiced value of goods sold, interest income from money lending and rental income but excludes intra-group transactions. Revenue from the following activities has been included in turnover: –

	Group	
	2000 HK\$'000	1999 HK\$'000
Sale of consumer electronics products	1,405,689	2,797,421
Sale of components and related products	279,947	1,341,753
Others	88,910	–
	1,774,546	4,139,174

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4. RELATED PARTY TRANSACTIONS

In addition to the related party transactions detailed elsewhere in the financial statements, the Group had the following material transactions with related parties during the year:–

	Notes	Group	
		2000 HK\$'000	1999 HK\$'000
Sales of components and related products to The Grande Holdings Limited and its associates (the "Grande group"), a substantial shareholder of the Company during the year	(a)	25,461	15,709
Purchases of various components, raw materials and packaging materials from the Grande group	(a)	598	–
General and administrative expenses charged by the Grande group	(c)	14,312	5,850
Interest and similar charges payable to the Grande group	(d)	103,751	4,488
Sales of various components, accessories and finished goods of consumer products to Akai Holdings Limited and its associates, (the "Akai group"), a substantial shareholder of the Company in 1999	(a)	–	40,437
Purchases of various components, raw materials and packaging materials from the Akai group	(a)	–	6,741
Rental income for the leasing of machinery received from the Akai group	(b)	–	61
Sub-contracting fees for services rendered by the Akai group	(c)	–	599

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4. RELATED PARTY TRANSACTIONS *(continued)*

Notes:

- (a) Considerations for these sales and purchase transactions were determined through negotiations between the respective parties with reference to, among other things, the price lists and the volume of the transactions on a case-by-case basis.
- (b) Rental income was calculated at 2% of net sales of the products the Akai group manufactured using the fixed assets leased by the Group.
- (c) The considerations were determined through negotiations between the respective parties.
- (d) Interest expense was charged at prime rate plus 2% to 3% per annum.

On 31st December, 2000, the net balance due to the Grande group was HK\$512,990,000 (1999: HK\$269,954,000). The balance due is unsecured, repayable on normal trading terms and bears interest at prime rate plus 2% to 3% per annum.

5. DISCONTINUED OPERATIONS

During the year, the Group disposed of Tomei International (BVI) Limited ("Tomei BVI"), a wholly owned subsidiary of the company, for a cash consideration of HK\$181,429,000. The principal activities of Tomei BVI and its subsidiaries (the "Tomei BVI Group") were the manufacture and sale of consumer electronics products. The effective date of discontinuance for accounting purposes was 31st May, 2000.

A profit of HK\$108,528,000 arose on the disposal of Tomei BVI, being the proceeds of disposal less the carrying amount of the subsidiary' net assets and goodwill release on disposal. No tax charge or credit arose from the transaction.

The operations of Tomei BVI Group from 1st January, 2000 to 31st May, 2000 and for the year ended 31st December, 1999 have been consolidated to the Group's consolidated financial statements. The related turnover and profit for the period from 1st January, 2000 to 31st May, 2000 were HK\$1,405,689,000 and HK\$10,287,000, respectively (year ended 31st December, 1999: HK\$3,240,860,000 and HK\$9,854,000, respectively).

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6. LOSS FROM OPERATING ACTIVITIES

This is arrived at after crediting:

	Group	
	2000 HK\$'000	1999 HK\$'000
Gross rental income	2,999	3,168
Less: outgoings	(187)	(1,205)
Net rental income	2,812	1,963
Dividend income from other investments	565	–
Other interest income	11,167	34,974
Profit on disposal of subsidiaries	111,982	–
Exchange gains, net	444	–
and after charging:		
Depreciation:		
Owned properties, plant and equipment	24,660	88,711
Leased properties, plant and equipment	–	338
Auditors' remuneration:		
Hong Kong	800	3,200
Overseas	21	131
Prior year underprovision/(overprovision)	1	(232)
Write-off of deferred pre-operating expenses	–	5,032
Write-off of product development costs	–	3,323
Amortisation of intellectual property rights	–	1,375
Amortisation of deferred pre-operating expenses	–	4,829
Amortisation of product development costs	–	5,124
Operating lease rentals for land and buildings	8,849	20,057
Exchange losses, net	–	10,485

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6. LOSS FROM OPERATING ACTIVITIES *(continued)*

	Group	
	2000	1999
	HK\$'000	HK\$'000
Staff costs:		
Wages and salaries	33,760	218,783
Pension contributions	–	2,592
Less: forfeited contributions	(89)	(705)
Net pension contributions	(89)	1,887
	33,671	220,670
Provision for doubtful debts	367,285	–
Provision for diminution in value of interests in associates	36,572	122,994
Provision for diminution in value of long term investments	–	65,503
Loss on disposal of interest in an associate	3	18,636
Loss on disposal of investment properties	599	–
Loss on disposal of properties, plant and equipment, net	5,202	63,380
Loss on disposal/liquidation of interests in subsidiaries	–	172,881
Deficit on revaluation of investment properties	690	8,586
Impairment of properties, plant and equipment	16,978	83,489
Loss arising from closure of subsidiaries and business restructuring	–	24,198

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7. FINANCE COSTS

	Group	
	2000	1999
	HK\$'000	HK\$'000
Interest and similar charges on:		
Bank loans and overdrafts wholly repayable within five years	7,481	26,195
Other	43,123	5,443
Finance leases	–	59
	50,604	31,697

8. DIRECTORS' EMOLUMENTS

(a) Directors' emoluments

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

	Group	
	2000	1999
	HK\$'000	HK\$'000
Fees	102	200
Salaries and other benefits	636	5,522
Inducement fees	6,000	–
	6,738	5,722

Emoluments paid to independent non-executive directors during the year were HK\$102,000 (1999: HK\$200,000).

There were no arrangements under which a director waived or agreed to waive any emolument.

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8. DIRECTORS' EMOLUMENTS *(continued)*

(a) Directors' emoluments *(continued)*

Emoluments of the directors fell within the following bands:

	Group	
	2000 Number of directors	1999 Number of directors
HK\$Nil to HK\$1,000,000	21	15
HK\$1,500,001 to HK\$2,000,000	–	1
HK\$6,000,001 to HK\$6,500,000	1	–
	22	16

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, one was a director of the company whose emoluments have been included in note 8(a) above (1999: nil). The emoluments of the remaining four individuals are as follows (1999: five): –

	Group	
	2000 HK\$'000	1999 HK\$'000
Salaries and other benefits	6,292	8,140
Performance related incentive payments	–	6,069
	6,292	14,209

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8. DIRECTORS' EMOLUMENTS *(continued)*

(b) Employees' emoluments *(continued)*

Emoluments of the four highest paid individuals fell within the following bands (1999: five):

	Group	
	2000	1999
	Number of individuals	Number of individuals
HK\$1,000,001 to HK\$1,500,000	2	1
HK\$2,000,001 to HK\$2,500,000	2	1
HK\$2,500,001 to HK\$3,000,000	–	1
HK\$3,500,001 to HK\$4,000,000	–	1
HK\$4,000,001 to HK\$4,500,000	–	1
	4	5

9. PENSION COSTS

Effective 31st December, 1999, the Group had suspended to make contributions towards the employees' retirement scheme as a result of the implementation of the new mandatory provident fund scheme in Year 2000. During the year, the Group received forfeited contributions of HK\$89,000 in respect of prior years (1999: HK\$705,000).

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10. 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 outside Hong Kong have been calculated at the rates of taxation prevailing in the countries in which the Group operates, based on existing law, practice and interpretation thereof.

	Group	
	2000	1999
	HK\$'000	HK\$'000
Current year provision:		
Hong Kong	1,191	3,186
Outside Hong Kong	–	2,026
	1,191	5,212
Prior year under/(over) provision:		
Hong Kong	1,142	(1,655)
Outside Hong Kong	–	1,664
	1,142	9
	2,333	5,221
Share of tax in associates	–	659
Deferred tax – note 23	(2,209)	4,555
Tax charge for the year	124	10,435

11. NET LOSS ATTRIBUTABLE TO SHAREHOLDERS

The net loss attributable to shareholders dealt with in the financial statements of the Company is HK\$458,651,000 (1999: HK\$622,059,000).

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12. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss attributable to shareholders of HK\$324,943,000 (1999: HK\$611,493,000) and the weighted average of 3,447,624,909 (1999: 2,748,669,151) shares in issue during the year.

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

13. PROPERTIES, PLANT AND EQUIPMENT

Group

	Land and buildings HK\$'000	Plant and machinery HK\$'000	Furniture and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost					
1st January, 2000	387,040	454,910	97,073	12,690	951,713
Exchange realignments	–	850	262	–	1,112
Additions	26,634	10,827	201	795	38,457
Disposals	(383,991)	(371,605)	(78,127)	(11,557)	(845,280)
31st December, 2000	29,683	94,982	19,409	1,928	146,002
Accumulated depreciation					
1st January, 2000	248,995	257,514	63,221	9,620	579,350
Exchange realignments	490	618	261	–	1,369
Charge for the year	1,169	19,086	3,878	527	24,660
Impairment	3,779	12,443	699	57	16,978
On disposals	(236,450)	(202,621)	(49,598)	(8,319)	(496,988)
31st December, 2000	17,983	87,040	18,461	1,885	125,369
Net book value					
31st December, 2000	11,700	7,942	948	43	20,633
31st December, 1999	138,045	197,396	33,852	3,070	372,363

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13. PROPERTIES, PLANT AND EQUIPMENT *(continued)*

The carrying amount of land and buildings is analysed as follows:–

	Group	
	2000 HK\$'000	1999 HK\$'000
Freehold properties situated outside Hong Kong	–	5,131
Medium term leasehold properties situated:		
In Hong Kong	11,700	56,914
Outside Hong Kong	–	76,000
	11,700	138,045

Impairment of certain leasehold properties of the Group was provided by reference to appraisals made by Dudley Surveyors Limited, registered professional surveyors, on an open market value basis based on their existing use on 31st December, 2000.

Included in the net book value of properties, plant and equipment are the following assets held under finance leases:

	Group	
	2000 HK\$'000	1999 HK\$'000
Furniture and equipment	–	96

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14. INVESTMENT PROPERTIES

	Group	
	2000 HK\$'000	1999 HK\$'000
1st January, at valuation	32,558	16,250
Additions, at cost	–	24,894
Disposals	(7,058)	–
Revaluation deficit	(690)	(8,586)
31st December, at valuation	24,810	32,558
Analysed by lease term and geographical location:		
Medium term leasehold properties situated in Hong Kong	650	7,658
Medium term leasehold properties situated outside Hong Kong	24,160	24,900
	24,810	32,558

The investment properties were revalued by Dudley Surveyors Limited, registered professional surveyors, on an open market value basis based on their existing use on 31st December, 2000.

15. INTERESTS IN ASSOCIATES

	Group	
	2000 HK\$'000	1999 HK\$'000
Share of net assets, including goodwill	216,836	375,325
Provision for diminution in value	(36,572)	(375,250)
	180,264	75

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15. INTERESTS IN ASSOCIATES (continued)

Particulars of the Group's principal associates are as follows: –

Company	Class of shares held	Place of incorporation/ operation	Equity interest owned by the Group		Principal activities
			2000	1999	
Bizipoint.com Limited	Ordinary	British Virgin Islands	50%	–	E-business consulting services
Bizipoint Company Limited	Ordinary	Hong Kong	50%	–	E-business consulting services
Beijing Zhong Shang Hui Xin Network Technology Development Company Limited	Ordinary	People's Republic of China	45%	–	E-business consulting services

The above table lists the principal associates of the Group which, in the opinion of the directors, principally affected the results of the year, or formed a substantial portion of the net assets of the Group.

On 7th March, 2000, the Company entered into an agreement to acquire a 100% interest in Asia eMarket Limited ("Asia eMarket") at a total consideration of HK\$220,000,000. Asia eMarket has a 50% interest in Bizipoint.com Limited which is principally engaged in the operation of a vertical business-to-business trade and business application portal in the computer and electronics industries.

A provision of HK\$36,500,000 was made at the balance sheet date against the investment in Bizipoint.com Limited to reflect the diminution in the fair value of the associate as at 31st December, 2000 by reference to appraisals made by American Appraisal Hongkong Limited, registered professional surveyors.

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16. INTERESTS IN SUBSIDIARIES

	Company	
	2000 HK\$'000	1999 HK\$'000
Unlisted shares, at cost	221,374	512,127
Due from subsidiaries	1,976,391	1,397,263
Due to subsidiaries	(243,803)	(83,388)
	1,953,962	1,826,002
Provision for diminution in value	(1,101,139)	(1,040,324)
	852,823	785,678

Balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the principal subsidiaries are as follows: –

Company	Place of incorporation/ registration	Total issued ordinary/ registered and paid-up capital	Equity interest owned by the Group		Principal activities
			2000	1999	
Directly held:					
Tomei Investment (Holdings) Limited	British Virgin Islands	US\$1	100%	100%	Investment holding
Quality Demand Limited	British Virgin Islands	US\$1	100%	100%	Investment holding
Asia eMarket Limited	British Virgin Islands	US\$1	100%	–	Investment holding

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16. INTERESTS IN SUBSIDIARIES *(continued)*

Company	Place of incorporation/ registration	Total issued ordinary/ registered and paid-up capital	Equity interest owned by the Group		Principal activities
			2000	1999	
Directly held: <i>(continued)</i>					
O2New Technology Limited	British Virgin Islands	US\$1	100%	–	Investment holding
Indirectly held:					
Broadly Enterprises Limited	Hong Kong	HK\$900	100%	100%	Manufacture and trading of cassette tapes
T. Trec Industrial Limited	Hong Kong	HK\$5,000,000	65%	65%	Manufacture and trading of electronic components
Tomei Components Limited	Hong Kong	HK\$2,000,000	100%	100%	Manufacture and trading of electronic components
Prosperous Finance Limited	Hong Kong	HK\$100,000	100%	100%	Money lending
Prosperous Returns Limited	Hong Kong	HK\$2	100%	–	Corporate services

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16. INTERESTS IN SUBSIDIARIES *(continued)*

Company	Place of incorporation/registration	Total issued ordinary/registered and paid-up capital	Equity interest owned by the Group		Principal activities
			2000	1999	
Indirectly held: <i>(continued)</i>					
Dexken Limited	Hong Kong	HK\$2	100%	100%	Properties holding
Rabco Investments Limited	Hong Kong	HK\$20	100%	100%	Properties holding
Union Sino Limited	Hong Kong	HK\$2	100%	100%	Properties holding
Villa Fontes Limited	Hong Kong	HK\$20	100%	100%	Properties holding

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

All principal subsidiaries operate in their respective places of incorporation/registration, except for Dexken Limited, which operates principally in Macau.

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17. INVENTORIES

	Group	
	2000 HK\$'000	1999 HK\$'000
Raw materials	17,141	246,532
Work in progress	900	33,524
Finished goods	2,636	44,980
	20,677	325,036

The amount of inventories stated at net realisable value is HK\$15,753,000 (1999: HK\$216,188,000).

18. TRADE AND OTHER RECEIVABLES

- (a) Included in the balance are advances to be realised, net of provisions, amounting to HK\$600,000,000, arising from the rescue of the Akai Group (1999: HK\$655,305,000).

As disclosed in last year's annual report, the amounts were initially advanced to the Akai Group under a loan agreement entered into on 15th November, 1999 by the Company and the Akai Group in which the Company agreed to extend an on demand revolving facility of up to HK\$630,000,000 to the Akai Group ("The Revolving Facility"). The amounts were secured by certain listed and unlisted shares, trademarks and certain tangible assets. As disclosed in an announcement on 26th August, 2000, the net amounts outstanding increased to HK\$767,000,000 as at 30th June, 2000.

As further disclosed in the interim announcement of the Company on 29th August, 2000, an order was issued by the High Court of the Hong Kong Special Administrative Region on 23rd August, 2000 for compulsory winding up of Akai Holdings Limited and its associate, Kong Wah Holdings Limited, and consequently a preliminary provision of HK\$220,000,000 ("The Interim Provision") was made.

As a result of the winding up order, the Company demanded repayment of the amounts advanced under the aforementioned Revolving Facility and, failing to receive repayment from the Akai Group, exercised its rights under the security documents.

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18. TRADE AND OTHER RECEIVABLES *(continued)*

(a) *(continued)*

Based on current estimation of the potential realisation and valuation of the relevant securities, a total of HK\$308,600,000 (including the Interim Provision of HK\$220,000,000) has been provided against the amounts outstanding as at 31st December, 2000.

As reported in last year's annual report, the rescue of Akai was funded by internal resources and financing from The Grande Group, the former parent of the Company. As at the balance sheet date, the amount due to The Grande Group for this purpose was approximately HK\$425,000,000 (1999: HK\$238,000,000).

(b) The aging analysis of trade and other receivables (net of provision for doubtful debts) is as follows:—

	Group	
	2000	1999
	HK\$'000	HK\$'000
Current	25,636	826,416
One to three months	653	59,342
More than three months	602,894	22,311
	629,183	908,069

The Group allows an average credit period of 30 to 45 days to its trade customers.

19. SHORT TERM INVESTMENTS

	Group	
	2000	1999
	HK\$'000	HK\$'000
Listed equity investments at market value:		
In Hong Kong	—	18,940

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20. CASH AND CASH EQUIVALENTS

Cash and cash equivalents represent cash and bank balances with no restriction as to use.

21. TRADE AND OTHER PAYABLES

- (a) Included in the balance is an amount due to The Grande Group of HK\$512,990,000, which is unsecured, repayable on normal trading terms and bears interest at prime rate plus 2% to 3% per annum. This balance is included as current liability in the aging analysis.
- (b) The aging analysis of trade and other payables is as follows:—

	Group	
	2000 HK\$'000	1999 HK\$'000
Current	547,622	382,076
One to three months	10,479	345,621
More than three months	14,247	50,338
	572,348	778,035

22. INTEREST BEARING BANK BORROWINGS

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Due within one year:				
Bank loans	—	25,060	—	25,059
Finance lease obligations	—	97	—	—
	—	25,157	—	25,059
Bank overdrafts	—	4,338	—	—
Total borrowings	—	29,495	—	25,059

The bank borrowings in 1999 were unsecured.

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23. DEFERRED TAX

	Group	
	2000 HK\$'000	1999 HK\$'000
1st January	9,230	6,552
(Release)/charge to profit and loss account – note 10	(2,209)	4,555
Disposal of subsidiaries	(4,952)	(1,877)
31st December	2,069	9,230

The principal components of the Group's deferred tax liabilities provided for/(deferred tax assets recognised), and the amounts not provided/(not recognised) are as follows:

	Group			
	Provided		Not provided	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Accelerated capital allowances	2,069	9,230	(73)	28
Tax losses	–	–	(29,841)	(34,512)
	2,069	9,230	(29,914)	(34,484)

The revaluation of the Group's investment properties and land and buildings does not constitute a timing difference and, consequently, the amount of potential deferred tax thereon has not been quantified.

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24. SHARE CAPITAL

Ordinary shares

	Number of ordinary shares of HK\$0.01 each	Amount HK\$'000
Authorised:		
1st January, 2000 and 31st December, 2000	5,000,000,000	50,000
Issued and fully paid:		
1st January, 2000	3,148,676,822	31,487
Issue of new shares	395,000,000	3,950
31st December, 2000	3,543,676,822	35,437

On 30th March, 2000, 395,000,000 new shares were issued at HK\$0.20 per share. The shares were issued as part of the consideration in the acquisition of Asia eMarket Limited, which owns a 50% interest in Bizipoint.com Limited.

Subsequent to the balance sheet date, on 9th February, 2001, the Company entered into a placing agreement with Kim Eng Securities (Hong Kong) Limited for "Placing of Existing Shares and Subscription for New Shares", by issuing 250,000,000 new shares of HK\$0.01 per share at HK\$0.08 per share to independent third parties in order to provide additional working capital of HK\$20,000,000 for the company.

Share options

At 1st January, 2000, the Company had 24,407,500 outstanding share options with an aggregate subscription value of HK\$9,177,220. These share options, which were granted on 2nd June, 1997 pursuant to the Company's share option scheme, expired on 1st June, 2000. At the balance sheet date, no share options were outstanding.

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25. RESERVES

Group

	Share premium account HK\$'000	Contributed surplus HK\$'000	Other fixed assets revaluation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits/ (losses) HK\$'000	Total HK\$'000
1st January, 1999	563,047	153,603	160,731	1,577	230,852	1,109,810
Issue of new shares	90,000	-	-	-	-	90,000
Exercise of warrants	8	-	-	-	-	8
Share issue expenses	(250)	-	-	-	-	(250)
Goodwill arising on acquisition of additional interest in a subsidiary	-	(25)	-	-	-	(25)
Release on disposal of subsidiaries	-	25,909	(2,374)	(3,309)	-	20,226
Release on disposal of associates	-	51,517	-	7,339	-	58,856
Release on provision for diminution in value of investments	-	10,191	-	-	-	10,191
Exchange translation differences on consolidation	-	-	-	247	-	247
Impairment on properties, plant and equipment	-	-	(132,718)	-	-	(132,718)
Transfer upon disposal of a revalued property	-	-	(12,901)	-	12,901	-
Loss for the year	-	-	-	-	(611,493)	(611,493)
31st December, 1999 and 1st January, 2000	652,805	241,195	12,738	5,854	(367,740)	544,852
Issue of new shares	75,050	-	-	-	-	75,050
Transfer on disposal of subsidiaries	-	212,873	-	-	(212,873)	-
Release on disposal of subsidiaries	-	6,006	(66)	6,108	-	12,048
Exchange translation differences on consolidation	-	-	-	202	-	202
Surplus arising on revaluation of land and buildings	-	-	2,034	-	-	2,034
Impairment on properties, plant and equipment	-	-	(1,461)	-	-	(1,461)
Transfer upon disposal of a revalued property	-	-	(11,211)	-	11,211	-
Loss for the year	-	-	-	-	(324,943)	(324,943)
31st December, 2000	727,855	460,074	2,034	12,164	(894,345)	307,782

Included in retained losses at 31st December, 2000 were losses of HK\$3,236,000 retained by associates (1999: nil).

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25. RESERVES (continued)

Company

	Share premium account HK\$'000	Contributed surplus HK\$'000	Retained profits/ (losses) HK\$'000	Total HK\$'000
1st January, 1999	563,047	502,176	161,697	1,226,920
Issue of new shares	90,000	–	–	90,000
Exercise of warrants	8	–	–	8
Share issue expenses	(250)	–	–	(250)
Loss for the year	–	–	(622,059)	(622,059)
<hr/>				
31st December, 1999 and 1st January, 2000	652,805	502,176	(460,362)	694,619
Issue of new shares	75,050	–	–	75,050
Loss for the year	–	–	(458,651)	(458,651)
<hr/>				
31st December, 2000	727,855	502,176	(919,013)	311,018

The Company's contributed surplus, which arose from the Group reorganisation on 2nd July, 1991, represents the difference between the nominal value of the Company's shares issued under the reorganisation scheme, in exchange for the shares in the subsidiaries and the fair value of the consolidated net asset value of the acquired subsidiaries, reduced by distributions to shareholders.

Under the Companies Act of Bermuda and the Bye-Laws of the Company, the contributed surplus is distributable to shareholders. The Companies Act of Bermuda also stipulates that a company shall not declare or pay a dividend, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that (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 capital and share premium account.

Notes to the Financial Statements

31st December, 2000

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of loss before tax to net cash (outflow)/inflow from operating activities

	Group	
	2000 HK\$'000	1999 HK\$'000
Loss before tax	(325,197)	(602,304)
Interest income	(11,167)	(34,974)
Interest expenses	50,604	31,697
Depreciation	24,660	89,049
Amortisation of intangible assets	–	11,328
Write-off of intangible assets	–	8,355
Provision for doubtful debts	367,285	–
Provision for diminution in value of interests in associates	36,572	122,994
Provision for diminution in value of long term investments	–	65,503
(Profit)/loss on disposal/liquidation of subsidiaries	(111,982)	172,881
Loss on disposal of interest in an associate	3	18,636
Loss on disposal of investment properties	599	–
Loss on disposal of properties, plant and equipment, net	5,202	63,380
Deficit on revaluation of investment properties	690	8,586
Impairment of properties, plant and equipment	16,978	83,489
Loss arising from closure of subsidiaries and business restructuring	–	24,198
Share of results of associates	3,236	(3,016)
(Increase)/decrease in inventories	(211,412)	48,580
Increase in trade and other receivables	(469,758)	(569,350)
Decrease/(increase) in amounts due from fellow subsidiaries	6,769	(6,769)
Increase in prepayments and deposits paid	(19,679)	–
Decrease in short term investments	18,940	18,150
Increase in trade and other payables	733,903	237,074
(Decrease)/increase in amounts due to fellow subsidiaries	(276,723)	276,723
Increase/(decrease) in trust receipt loans	82,611	(16,352)
Increase/(decrease) in deposits received	3,002	(4,602)
Net cash (outflow)/inflow from operating activities	(74,864)	43,256

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26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(b) Analysis of changes in financing during the year

	Share capital (including share premium) HK\$'000	Interest- bearing bank borrowings HK\$'000	Minority interests HK\$'000
1st January, 1999	584,534	207,037	44,355
Net cash inflows/(outflows) from financing	99,758	(178,942)	–
Share of losses for the year	–	–	(1,246)
Disposal of subsidiaries	–	(2,938)	(32,579)
31st December, 1999 and 1st January, 2000	684,292	25,157	10,530
Net cash inflows/(outflows) from financing	–	(25,076)	–
Issue of shares	79,000	–	–
Share of losses for the year	–	–	(378)
Disposal of subsidiaries	–	(81)	(9,843)
31st December, 2000	763,292	–	309

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26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(c) Disposal of subsidiaries

	Group	
	2000 HK\$'000	1999 HK\$'000
Net assets disposed of:-		
Properties, plant and equipment	251,233	106,690
Investments	-	41
Interests in associates	-	2,471
Intangible assets	4	62,131
Inventories	515,771	125,026
Trade and other receivables	381,359	92,772
Prepayments and deposits paid	12,304	6,559
Tax recoverable	-	527
Cash and cash equivalents	10,334	11,210
Trade and other payables	(895,798)	(205,616)
Trust receipt loans	(182,020)	(35,461)
Deposits received	(3,941)	(2,030)
Tax provision	(2,502)	-
Interest bearing bank borrowings	(81)	(2,938)
Bank overdrafts	(14,469)	(5,538)
Deferred tax	(4,952)	(1,877)
Minority interests	(9,843)	(32,579)
	57,399	121,388
Goodwill on consolidation released	6,006	25,909
	63,405	147,297
Represented by:		
Cash received	181,429	32,579
(Profit)/loss on disposal/dissolution	(111,982)	172,881
Provision for contingent liabilities	-	(63,846)
Revaluation reserves released	66	2,374
Exchange fluctuation reserves released	(6,108)	3,309
	63,405	147,297

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26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(c) Disposal of subsidiaries *(continued)*

The subsidiaries disposed of during the year contributed HK\$144,391,000 to the Group's net cash outflow from operating activities, paid HK\$5,932,000 in respect of net returns on investments and servicing of finance, paid HK\$2,202,000 in respect of taxation, and utilised HK\$1,816,000 for investing activities.

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

	2000 HK\$'000	1999 HK\$'000
Cash received	181,429	32,579
Cash and cash equivalents of disposed subsidiaries	(10,334)	(11,210)
Bank overdrafts of disposed subsidiaries	14,469	5,538
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	185,564	26,907

(d) Major non-cash transactions

During the year, the Company entered into an agreement to acquire a 100% interest in Asia eMarket Limited at a total consideration of HK\$220 million, which comprised of the issue of 395 million new shares in the Company at an issue price of HK\$0.20 per share and the payment of HK\$141 million in cash by instalments.

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27. CONTINGENT LIABILITIES

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Guarantees in respect of banking facilities granted to subsidiaries	–	–	–	280,000
Bills discounted with recourse	4,168	27,650	–	–
Guarantees in respect of banking facilities granted to a subsidiary disposed of during the year	–	20,989	–	–
	4,168	48,639	–	280,000

At 31st December, 1999, HK\$249,843,000 had been utilised for banking facilities granted to subsidiaries guaranteed by the Company.

28. COMMITMENTS

	Group	
	2000 HK\$'000	1999 HK\$'000
Capital commitments		
– contracted for	156	673
– authorised but not contracted for	–	343
	156	1,016
Annual commitments payable in the following year under non-cancellable operating leases for land and buildings expiring:		
Within one year	186	3,863
In the second to fifth years, inclusive	1,533	3,198
After five years	450	–
	2,169	7,061

The Company has no other capital commitments or annual commitments for operating leases (1999: Nil).

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29. SUBSEQUENT EVENTS

- (a) On 31st January, 2001, the Group, through a wholly-owned subsidiary entered into an agreement with independent third parties to acquire 100% interest in a Hong Kong private company which holds as its principal asset a 25% equity interest in a leading electrical household appliance manufacturer in the People's Republic of China. The purchase consideration of HK\$50,000,000 was based on an arms length negotiation and by reference to the net asset value and profit history of the electrical household appliance manufacturer. A deposit of HK\$5,000,000 had been paid by the Group as of 31st December, 2000. The acquisition was completed in March 2001.
- (b) On 9th February, 2001, the Company entered into a placing agreement with Kim Eng Securities (Hong Kong) Limited for "Placing of Existing Shares and Subscription for New Shares", by issuing 250,000,000 new shares of HK\$0.01 per share at HK\$0.08 per share to independent third parties in order to provide additional working capital of HK\$20,000,000 for the company.

30. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 24th April, 2001.