

# NOTES TO FINANCIAL STATEMENTS

31 December 2000

## 1. CORPORATE INFORMATION

The Company was incorporated in Hong Kong with limited liability. The registered office of the Company is located at Room 6301-06, The Centre, 99 Queen's Road Central, Hong Kong. During the year, the Group was involved in the following principal activities:

- Trading of digital broadcasting equipment and related products
- Retail and distribution of home audio and video equipment
- Provision of financial market information and consumer data services
- Sale of electronic payment and collection systems

During the year, the Group has discontinued its businesses of the manufacture and distribution of telecommunication and video-media products, and the trading of computer monitors and related products.

In the opinion of the directors, the ultimate holding company is Kwan Wing Holdings Limited ("Kwan Wing"), a company incorporated in the British Virgin Islands.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### **Basis of preparation**

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

### **Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and all its subsidiaries for the year ended 31 December 2000. The results of subsidiaries acquired or disposed of are included or excluded from or to the effective dates of their acquisition or disposal, as applicable. All significant intercompany transactions and balances are eliminated on consolidation.

### **Subsidiaries**

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

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

## NOTES TO FINANCIAL STATEMENTS

31 December 2000

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

#### Associates

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

The Group's share of the post-acquisition results and reserves of its associate is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interest in the associate is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any provision for diminution in value other than that considered to be temporary in nature deemed necessary by the directors.

#### Jointly-controlled entity

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

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

The Group's share of the post acquisition results and reserves of its jointly-controlled entity is included in the consolidated profit and loss account and consolidated reserves, respectively. Where the profit sharing ratio is different to the Group's equity interest, the share of post acquisition results of the jointly-controlled entity is determined based on the agreed profit sharing ratio. The Group's interest in the jointly-controlled entity is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any provision for diminution in value other than that considered to be temporary in nature deemed necessary by the directors.

#### Goodwill

Goodwill arising on consolidation of subsidiaries and on acquisition of associate and jointly-controlled entity represents the excess purchase consideration paid over the fair values ascribed to the net underlying assets acquired and is amortised on a straight-line basis over the useful lives of the assets not exceeding ten years.

During the year, the Group revised the amortisation life of goodwill from forty years to ten years. In the opinion of the directors, the revised life reflects more accurately the useful life of the goodwill. Had the amortisation life of the goodwill remained unchanged from that of prior year, the amortisation charge for the year would have been reduced by HK\$1,053,000.

Upon disposal of subsidiaries, associate or jointly-controlled entity, the relevant portion of attributable goodwill previously eliminated against reserves is realised and accounted for in arriving at the gain or loss on disposal.



# NOTES TO FINANCIAL STATEMENTS

31 December 2000

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

### Fixed assets and depreciation

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

Advantage has been taken of the transitional provisions set out in paragraph 72 of SSAP 17 "Property, Plant and Equipment" from the requirement to make revaluation on a regular basis of the leasehold land and buildings of the Group and the Company. Accordingly, no further revaluation of these fixed assets will be carried out.

On disposal of a revalued asset, the relevant portion of the revaluation reserve realised in respect of previous valuations is transferred to retained earnings as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset over the following estimated useful lives:

Medium term leasehold land in Hong Kong	Over the lease terms
Medium term leasehold buildings in Hong Kong	25 years
Long and medium term leasehold land and buildings outside Hong Kong	25 to 50 years or over the lease terms, whichever is shorter
Plant, equipment and other assets	2 to 15 years
Moulds	4 to 10 years

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

### Research and development costs

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

Expenditure incurred on projects in developing new products is capitalised and deferred only when the projects are clearly defined, the expenditure is separately identifiable and there is reasonable certainty that the projects are technically feasible and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are amortised, using the straight-line method, over the expected useful lives of the products of generally two to five years, commencing in the year when the products are put into commercial production.

## NOTES TO FINANCIAL STATEMENTS

31 December 2000

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

#### **Deferred pre-operating expenses**

Deferred pre-operating expenses represent expenses incurred prior to the commencement of commercial operations and are charged to the profit and loss account as incurred.

#### **Film rights**

Expenditure incurred for the acquisition of film rights is capitalised and stated at cost less accumulated amortisation. Amortisation is provided using the sum-of-digit method to write off the cost of the licensed film rights over the terms of the licensing period.

#### **Leased assets**

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and 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 produce a constant periodic rate of charge over the lease terms.

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

#### **Investments**

Investments in listed and unlisted equity securities which are intended to be held for a continuing strategic or long-term purpose are classified as investment securities, and are stated at costs, less any provisions for impairments in values deemed necessary by the directors, other than temporary in nature, on an individual basis.

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

Investments other than investment securities are classified as short-term investments, and are carried at their fair values as at the balance sheet date. The unrealised gains or losses arising from changes in fair values of these investments are included in the profit and loss account for the period in which they arise.



# NOTES TO FINANCIAL STATEMENTS

31 December 2000

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

### **Inventories**

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

### **Contract work in progress**

Contract work in progress is stated at cost less foreseeable losses and progress payments received and receivable. Cost includes all direct materials, labour, subcontracting costs, and an appropriate proportion of overheads attributable to bringing the contract work in progress to its present condition.

The Group makes claims for additional work done which may arise either under specific circumstances provided for in its contract or due to variations to the contract specifications made by the customer. Where the amounts of such claims have not been formally agreed at the balance sheet date, the likely amounts receivable as estimated by management, based on all the information available at the time, have been included in the contract value in determining the foreseeable loss on the contract. Foreseeable losses are fully provided for when they are identified.

### **Deferred tax**

Deferred tax is provided, using the liability method, on all significant timing differences, in the recognition of revenue and expenses for tax and financial reporting purposes, to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised unless its realisation is assured beyond reasonable doubt.

### **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 rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries 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 currency translation reserve.

### **Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

## NOTES TO FINANCIAL STATEMENTS

31 December 2000

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

#### Retirement benefits scheme

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

Prior to the Scheme being effective, the Group operated a defined contributions retirement benefits scheme for those employees who were eligible to participate in the scheme. This scheme operated in a similar way as Mandatory Provident Fund retirement benefits scheme, except that when an employee left the scheme prior to his/her interest in the Group's employee contributions vesting fully, the ongoing contributions payable by the Group were reduced by the relevant amount of forfeited contributions. With effect from 1 December 2000 this scheme was terminated.

The Company's subsidiaries in the People's Republic of China except Hong Kong (the "PRC") are members of the state-managed retirement benefits scheme operated by the PRC government. The retirement scheme contributions, which are based on a certain percentage of the salaries of the PRC subsidiaries' employees, are charged to the profit and loss account in the period to which they relate and represent the amount of contributions payable by these subsidiaries to the scheme.

#### Revenue recognition

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

- from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer;
- for the rendering of services, when the services are performed; and
- interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

#### Related parties

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



# NOTES TO FINANCIAL STATEMENTS

31 December 2000

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

### Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advances.

## 3. RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

During the year, the Group has entered into the following related party transactions in addition to those disclosed elsewhere in these financial statements:

- (a) On 3 June 1999, the Company entered into an agreement with DVN (Group) Limited (formerly DVB (Group) Limited) ("DVN (Group)"), a wholly-owned subsidiary of DVN (Holdings) Limited ("DVN") which is a non-wholly owned subsidiary and listed on the Stock Exchange of Hong Kong Limited (the "SEHK"), to grant DVN (Group) the rights to design and to authorise the manufacture of set top boxes, and to provide certain broadcasting centre and telephone banking and subscriber management services to DVN (Group). In accordance with the agreement, a deposit of US\$770,000 (equivalent to approximately HK\$6,022,000) was received by the Group from DVN (Group) in last year. During the year, a further amount of US\$83,000 (equivalent to approximately HK\$643,000) was received.

Further, in accordance with the agreement, a licensing fee of US\$200,000 (equivalent to HK\$1,560,000) and a royalty fee of US\$50,000 (equivalent to HK\$390,000) were received during the year.

- (b) During the year, the Group received a corporate management fee of HK\$750,000 from a wholly-owned subsidiary of DVN.
- (c) During the year, the Group paid rentals amounting to HK\$192,000 and sold materials amounting to HK\$660,000 to Bali (Zhuhai) Electronics Limited ("Bali"), a wholly-owned subsidiary of netalone.com Limited ("Netalone"), an investee company of the Group listed on the SEHK, in which a director of Company is also a director. The Group also received HK\$160,000 from Bali for maintaining and upgrading the computer system of Bali.
- (d) During the year, the Group made advances amounting to HK\$14 million in aggregate to certain subsidiaries of Netalone. The maximum amount outstanding during the year amounted to HK\$14 million.

The Group also received advances from certain subsidiaries of Netalone. The balances at 31 December 2000 amounted to HK\$476,000.

The balances due from/to the subsidiaries of Netalone are unsecured, bear interest at Hong Kong dollar prime rate plus 2% per annum and have no fixed terms of repayment. The Group paid interest expense amounting to HK\$647,000 and received interest income amounting to HK\$1,232,000 on advances from/to certain Netalone subsidiaries.

## NOTES TO FINANCIAL STATEMENTS

31 December 2000

### 3. RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS *(continued)*

- (e) During the year, a wholly-owned subsidiary of Kwan Wing had made advances to the maximum amount of approximately HK\$28 million to the Group (note 29).

The balance due to the above-mentioned fellow subsidiary is unsecured, bears interest at Hong Kong dollar prime rate plus 2.5% per annum and has no fixed terms of repayment. The total interest paid on the advances amounted to HK\$1,379,000.

- (f) During the year, the Group received advances amounting to HK\$28 million in aggregate from a fellow subsidiary. The balance is unsecured, interest-free and repayable beyond one year (note 31).

- (g) During the year, the Group sold finished goods amounting to HK\$1,970,000 to a former associate. These sales were made according to the price and conditions similar to those of non-related customers.

The transactions of (a), (b), (e), (f) and (g) are connected transactions.

The directors, including the independent non-executive directors, of the Company are of the opinion and have confirmed to the Company that the above transactions were carried out in the ordinary and normal course of business of the Group.

### 4. TURNOVER

Turnover represents the net invoiced value of products sold after allowances for returns and trade discounts, and service fees received for the provision of international financial market information and selective consumer data services.

Revenue from the following activities has been included in the Group's turnover:

	<b>2000</b> <b>HK\$'000</b>	1999 HK\$'000
Continuing operations:		
Sales of goods	<b>73,974</b>	15,722
Provision of international financial market information and selective consumer data services	<b>15,779</b>	16,722
	<b>89,753</b>	32,451
Discontinued operations:		
Sales of goods	<b>29,522</b>	695,275
Total	<b>119,275</b>	727,726



# NOTES TO FINANCIAL STATEMENTS

31 December 2000

## 5. LOSS FROM OPERATING ACTIVITIES

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

	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Cost of inventories sold	<b>121,593</b>	880,495
Cost of services provided	<b>8,343</b>	8,124
Depreciation:		
Owned assets	<b>14,761</b>	33,174
Assets held under finance leases	<b>500</b>	433
Less: Amount capitalised as deferred development costs	<b>—</b>	(2,422)
	<b>15,261</b>	31,185
Provision against inventories	<b>1,878</b>	89,396
Auditors' remuneration	<b>2,700</b>	1,615
Staff costs (excluding directors' remuneration — note 7):		
Wages and salaries	<b>52,773</b>	66,628
Pension contributions	<b>146</b>	745
Less: Forfeited contributions	<b>(1,023)</b>	(338)
	<b>51,896</b>	67,035
Operating lease rentals:		
Land and buildings	<b>16,143</b>	16,686
Equipment	<b>1,137</b>	219
	<b>17,280</b>	16,905
Other operating expenses including:		
Amortisation of film rights	<b>7,372</b>	—
Amortisation of goodwill	<b>3,340</b>	3,894
Provision for impairment of goodwill	<b>94,862</b>	56,725
Write off of fixed assets	<b>3,950</b>	4,552
Provision for legal costs	<b>—</b>	15,500
Write off of inventories	<b>3,437</b>	9,406
Provision for bad and doubtful debts	<b>44,230</b>	108,621
Research and development costs:		
Amortisation of deferred development costs (note 14)	<b>3,195</b>	13,490
Current year expenditure	<b>3,313</b>	5,275
Write off of deferred development costs (note 14)	<b>1,582</b>	10,675
	<b>8,090</b>	29,440

## NOTES TO FINANCIAL STATEMENTS

31 December 2000

### 5. LOSS FROM OPERATING ACTIVITIES (continued)

	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Provision for losses on contract work in progress	—	2,789
Loss on partial divestment of subsidiaries	—	5,596
Net unrealised holding loss of short-term investments	<b>294,132</b>	16,742
Loss on disposal of short-term investments	<b>8,821</b>	4,431
Net loss/(gain) on dilution of interest in subsidiaries	<b>3,922</b>	(1,272)
Gain on conversion of investment in preference shares	<b>(27,200)</b>	—
Net gain on disposal of investment in preference shares	<b>(40,745)</b>	—
Gain on disposal of fixed assets	<b>(496)</b>	(943)
Net gain on disposal of subsidiaries	<b>(10,876)</b>	(430,296)
Gain on disposal of an associate	<b>(7,679)</b>	—
Interest income	<b>(7,213)</b>	(3,719)
Dividend income from preference shares of a listed company	<b>(1,609)</b>	—
Exchange losses, net	<b>3,981</b>	894
Loss/(gain) on discontinued operations:		
Net loss/(gain) on disposal of subsidiaries (note 9)	<b>14,177</b>	(101,319)
Write off of fixed assets, inventories and deferred development costs	<b>7,084</b>	—
Loss on disposal of scrap inventories	<b>18,888</b>	—
	<b><u>40,149</u></b>	<b><u>(101,319)</u></b>

# NOTES TO FINANCIAL STATEMENTS

31 December 2000

## 6. FINANCE COSTS

	<b>Group</b>	
	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Interest expense on:		
Bank loans and overdrafts wholly repayable within five years	<b>1,161</b>	7,301
Other loans wholly repayable within five years (note (a) below)	<b>3,810</b>	72
Amount due to an investee company (note (b) below)	—	2,074
Finance leases	<b>80</b>	176
Amount due to a fellow subsidiary	<b>1,379</b>	—
Amounts due to related companies – note 3(d)	<b>647</b>	—
	<hr/> <b>7,077</b> <hr/>	<hr/> 9,623 <hr/>
Total finance costs	<b>7,077</b>	9,623

Notes:

- (a) Interest on other loans represent HK\$3,810,000 paid for a loan raised from a financial institution during the year to finance the subscription of new shares of a subsidiary. The loan bore interest at 1.5% per month and was fully repaid during the year.
- (b) Last year's balance represented interest paid to an investee company, the investment in which was disposed of during the year.

## 7. DIRECTORS' REMUNERATION

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

	<b>Group</b>	
	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Fees:		
Executive	—	—
Non-executive	—	—
Independent non-executive	<b>141</b>	234
Other emoluments of executive directors:		
Basic salaries, housing, other allowances and benefits in kind	<b>5,678</b>	4,845
	<hr/> <b>5,819</b> <hr/>	<hr/> 5,079 <hr/>

## NOTES TO FINANCIAL STATEMENTS

31 December 2000

### 7. DIRECTORS' REMUNERATION (continued)

The number of directors whose remuneration fell within the bands set out below is as follows:

	<b>2000</b>	1999
	<b>Number of</b>	Number of
	<b>directors</b>	directors
Nil - HK\$1,000,000	<b>6</b>	6
HK\$1,000,001 - HK\$1,500,000	—	1
HK\$1,500,001 - HK\$2,000,000	<b>1</b>	1
HK\$3,000,001 - HK\$4,000,000	<b>1</b>	—
	<b>8</b>	<b>8</b>

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

No value is included in directors' remuneration in respect of share options granted during the year because, in the absence of a readily available market value for the options on the Company's shares, the directors are unable to arrive at an accurate assessment of the value of the options granted. Details of the options granted to the directors during the year are set out in the section "Directors' rights to acquire shares or debentures" in the Report of the Directors on page 22.

### 8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid individuals included two (1999: two) directors, details of whose remuneration are set out in note 7 to the financial statements. The remuneration of the remaining three (1999: three) non-director, highest paid individuals is analysed as follows:

	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Basic salaries, housing, other allowances and benefits in kind	<b>3,392</b>	4,540
Retirement scheme contribution	<b>1</b>	—
	<b>3,393</b>	<b>4,540</b>

## NOTES TO FINANCIAL STATEMENTS

31 December 2000

### 8. FIVE HIGHEST PAID EMPLOYEES (continued)

The number of non-director, highest paid employees fell within the bands set out below is as follows:

	<b>2000</b> <b>Number</b> <b>of employees</b>	1999 Number of employees
HK\$1,000,001 - HK\$1,500,000	<b>3</b>	2
HK\$1,500,001 - HK\$2,000,000	—	1
	<b><u>3</u></b>	<b><u>3</u></b>

There was no share option granted to the above three employees during the year.

### 9. DISCONTINUED OPERATIONS

During the year, the Group discontinued its operations in the manufacture and distribution of telecommunication and video-media products business and the trading of computer monitors business. The discontinuance was accomplished by the disposal of the Group's entire investments in the issued share capital in Jumpec Technology Limited, a then wholly-owned subsidiary of the Company and the holding company of Bali (Zhuhai) Telephone Technology Company Limited, and Capetronic Computer Products (PRC) Limited, a wholly-owned subsidiary of DVN (the "Disposed Subsidiaries"), and by cessation of the operations of other group companies in relation to the businesses. The net loss on disposal of the subsidiaries, which represents the aggregate sale proceeds less the net assets in respect of the Disposed Subsidiaries as at the respective dates of disposals, with due allowance for the expenses incurred for the disposals, amounted to HK\$14,177,000 (note 5).

In August 1998, the Group discontinued its operations in the trading and manufacture of printed circuit boards ("PCB Business"). The discontinuance was accomplished by the disposal of the Group's entire investments in the issued share capital in, and the net shareholder's loans and/or advances to, Valenta Holdings Limited, the then wholly-owned subsidiary of the Company and the then holding company of a group of companies being disposed of (the "Disposed Group"). In addition to the initial consideration of HK\$344.8 million, the Group was also entitled to a deferred consideration of not more than HK\$345.2 million, which was basically calculated by reference to the results of the PCB Business for the 12 months ended 31 August 1999. Further details of this major transaction were set out in a circular issued by the Company dated 14 September 1998 (the "Circular").

The gain on the disposal of the subsidiaries, which represented the sale proceeds (being the initial consideration of HK\$344.8 million received and the first instalment payment of the deferred consideration of HK\$69.8 million receivable) less the consolidated net assets and the unamortised goodwill in respect of the Disposed Group as at the date of disposal, with due allowance for the expenses incurred for the disposal, amounted to HK\$123,829,000 (restated) was taken up in 1998. The remaining net balances of the deferred consideration amounted to HK\$101,319,000 was received and taken up as in 1999.

## NOTES TO FINANCIAL STATEMENTS

31 December 2000

### 10. TAX

Hong Kong profits tax has not been provided (1999: Nil) as the Group did not generate any assessable profits arising in Hong Kong during the year. The tax credit for the year represents Hong Kong profits tax over-provided in the prior years. Overseas profits tax has not been provided (1999: Nil) as the foreign subsidiaries did not generate any assessable profits attributable to their operations in their respective countries of operation or are still exempted from income tax during the year.

No deferred tax has been provided for the Company and the Group because there were no significant timing differences at the balance sheet date.

The principal components of deferred tax assets/(liabilities) of the Group and the Company provided for and not provided for at the balance sheet date were as follows:

	<b>Group</b>			
	<b>Provided</b>		<b>Not provided</b>	
	<b>2000</b>	1999	<b>2000</b>	1999
	<b>HK\$ '000</b>	<i>HK\$ '000</i>	<b>HK\$ '000</b>	<i>HK\$ '000</i>
Accelerated depreciation allowances	—	—	<b>(982)</b>	(213)
Tax losses carried forward	—	—	<b>83,611</b>	40,970
At 31 December	<u>—</u>	<u>—</u>	<u><b>82,629</b></u>	<u>40,757</u>
	<b>Company</b>			
	<b>Provided</b>		<b>Not provided</b>	
	<b>2000</b>	1999	<b>2000</b>	1999
	<b>HK\$ '000</b>	<i>HK\$ '000</i>	<b>HK\$ '000</b>	<i>HK\$ '000</i>
Tax losses carried forward at 31 December	<u>—</u>	<u>—</u>	<u><b>21,762</b></u>	<u>21,923</u>

### 11. NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company for the year ended 31 December 2000 was HK\$273,305,000 (1999: HK\$159,566,000).

## NOTES TO FINANCIAL STATEMENTS

31 December 2000

### 12. EARNINGS/(LOSS) PER SHARE

The calculation of basic loss (1999: earnings) per share for the year ended 31 December 2000 is based on the net loss attributable to shareholders of HK\$492,869,000 (1999: net profit of HK\$70,559,000) and the weighted average number of 2,710,537,000 (1999: 2,168,341,486) ordinary shares deemed to have been in issue during the year.

There were no dilutive potential ordinary shares in 1999 and 2000 and therefore, no diluted earnings/(loss) per share for the years is shown.

### 13. FIXED ASSETS

<b>Group</b>	<b>Leasehold land and buildings</b>	<b>Plant, equipment and other assets</b>	<b>Moulds</b>	<b>Total</b>
	<i>HK\$ '000</i>	<i>HK\$ '000</i>	<i>HK\$ '000</i>	<i>HK\$ '000</i>
Cost or valuation:				
At beginning of year	4,657	136,519	10,001	151,177
Additions	—	65,180	72	65,252
Disposals	(1,750)	(35,226)	—	(36,976)
Write off	—	(42,761)	(8,814)	(51,575)
Transfer	—	(14,312)	—	(14,312)
Disposal of subsidiaries — note 35(c)	—	(42,309)	(1,259)	(43,568)
At 31 December 2000	<u>2,907</u>	<u>67,091</u>	<u>—</u>	<u>69,998</u>
Accumulated depreciation:				
At beginning of year	443	76,464	4,673	81,580
Provided during the year	139	13,569	1,553	15,261
Disposals	(234)	(5,036)	—	(5,270)
Write off	—	(41,714)	(5,911)	(47,625)
Write back on transfer	—	(3,072)	—	(3,072)
Disposal of subsidiaries — note 35(c)	—	(13,774)	(315)	(14,089)
At 31 December 2000	<u>348</u>	<u>26,437</u>	<u>—</u>	<u>26,785</u>
Net book value:				
At 31 December 2000	<u>2,559</u>	<u>40,654</u>	<u>—</u>	<u>43,213</u>
At 31 December 1999	<u>4,214</u>	<u>60,055</u>	<u>5,328</u>	<u>69,597</u>

The net book value of assets held under finance leases included in the total amount of fixed assets as at 31 December 2000 amounted to Nil (1999: HK\$1,685,000).

## NOTES TO FINANCIAL STATEMENTS

31 December 2000

### 13. Fixed ASSETS (continued)

#### Company

	<b>Leasehold land and buildings</b> <i>HK\$ '000</i>
Valuation:	
At beginning of year	1,750
Disposal	<u>(1,750)</u>
At 31 December 2000	<u>—</u>
Accumulated depreciation:	
At beginning of year	211
Provided during the year	23
Disposal	<u>(234)</u>
At 31 December 2000	<u>—</u>
Net book value:	
At 31 December 2000	<u>—</u>
At 31 December 1999	<u>1,539</u>

The cost or valuation of leasehold land and buildings comprises:

	<b>Group</b>		<b>Company</b>	
	<b>2000</b>	1999	<b>2000</b>	1999
	<b>HK\$ '000</b>	<i>HK\$ '000</i>	<b>HK\$ '000</b>	<i>HK\$ '000</i>
Medium-term leasehold land and buildings in Hong Kong, at 1989 valuation	—	1,750	—	1,750
Long-term leasehold land and buildings outside Hong Kong, at cost	<u>2,907</u>	<u>2,907</u>	<u>—</u>	<u>—</u>
Total cost or valuation	<u>2,907</u>	<u>4,657</u>	<u>—</u>	<u>1,750</u>

Had all leasehold land and buildings as at 31 December 1999 been stated at cost less accumulated depreciation, their carrying value would have been restated as HK\$4,031,000.



# NOTES TO FINANCIAL STATEMENTS

31 December 2000

## 14. DEFERRED DEVELOPMENT COSTS

	<b>Group</b>	
	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
At beginning of year	<b>14,009</b>	15,822
Additions	<b>6,468</b>	28,241
Write off — note 5	<b>(1,582)</b>	(10,675)
Disposal of subsidiaries — note 35(c)	—	(5,889)
Amortisation for the year — note 5	<b>(3,195)</b>	(13,490)
At 31 December	<b><u>15,700</u></b>	<u>14,009</u>

## 15. Film rights

<b>Group</b>	
	HK\$'000
At cost:	
Additions during the year and at 31 December 2000	15,168
Accumulated amortisation:	
Provided during the year and at 31 December 2000	<u>7,372</u>
Net book value:	
At 31 December 2000	<u><u>7,796</u></u>

## NOTES TO FINANCIAL STATEMENTS

31 December 2000

### 16. Goodwill

#### Group

	<i>HK\$ '000</i>
Cost:	
At beginning of year	117,492
Additions	35,603
Reversal on dilution of interest in a subsidiary	(6,801)
Write off	(94,862)
	<u>51,432</u>
At 31 December 2000	<u>51,432</u>
Accumulated amortisation:	
At beginning of year	2,059
Provided during the year	3,340
Reversal on dilution of interest in a subsidiary	(128)
	<u>5,271</u>
At 31 December 2000	<u>5,271</u>
Net book value:	
At 31 December 2000	<u>46,161</u>
At 31 December 1999	<u>115,433</u>

### 17. INTERESTS IN SUBSIDIARIES

	<b>Company</b>	
	<b>2000</b>	1999
	<b>HK\$ '000</b>	<i>HK\$ '000</i>
Listed shares in Hong Kong, at cost	<b>117,440</b>	93,000
Unlisted shares, at cost	<b>116,435</b>	116,429
Due from subsidiaries	<b>1,021,384</b>	735,059
Due to subsidiaries	<b>(26,000)</b>	—
Provisions for diminutions in values	<b>(891,561)</b>	(620,561)
	<u><b>337,698</b></u>	<u>323,927</u>
Market value of listed shares	<u><b>60,824</b></u>	<u>97,043</u>

Balances with subsidiaries are unsecured, interest-free and are repayable on demand.



## NOTES TO FINANCIAL STATEMENTS

31 December 2000

### 17. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries at the balance sheet date are as follows:

Name	Place of incorporation/ registration/ (operations)	Issued and paid-up share capital/ registered capital	Percentage held by the Company		Principal activities
			Direct	Indirect	
Beijing E-Pay Net Technology Co. Ltd.	People's Republic of China (PRC)	US\$2,680,000	70%	—	Provision of communication services
Central Base Enterprises Limited #	Hong Kong	HK\$2,000,000	—	100%	Sourcing of materials for manufacturing of consumer products
Cybertech Communications Company Limited (Formerly Kao Yao Printing Company Limited) #	Hong Kong	HK\$1,000,000	100%	—	Design, manufacturing and marketing of tele- communication products
Rich Asia Holdings Limited	Hong Kong	HK\$10,000	100%	—	Investment holding
Smart Asia Limited	Hong Kong (PRC)	HK\$10,000	100%	—	Provision of internet related services
Smoothline Limited ##	Hong Kong	HK\$7,500,000	—	100%	Design, manufacturing and marketing of tele- communication products

## NOTES TO FINANCIAL STATEMENTS

31 December 2000

### 17. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration/ (operations)	Issued and paid-up share capital/ registered capital	Percentage held by the Company		Principal activities
			Direct	Indirect	
Sound View International Limited	Hong Kong	HK\$10,000	—	50%	Marketing and sales of home audio/video products
Systems Asia Limited	Hong Kong	HK\$10,000	100%	—	Provision of administrative services
Celestial Electric Manufacturing Co. Ltd.	Hong Kong	HK\$2,000,000	—	100%	Trading of electronic component
Multinet Technology Limited * #	British Virgin Islands ("BVI") (Hong Kong)	US\$1	—	100%	Sourcing of materials for manufacturing of consumer products
Multinet Digital Media Limited * #	Hong Kong	US\$2	—	100%	Provision of administrative services
Systems Asia Technology Limited	BVI	US\$100	100%	—	Investment holding
Million Way Enterprises Limited *	BVI	US\$1	100%	—	Investment holding
Webway Communications Holdings Inc. *	BVI	HK\$15,340,000	—	78%	Investment holding
Webway Communications (HK) Limited *	Hong Kong	HK\$6,000,000	—	78%	Provision of marketing services
Webway Communications (ETS) Limited *	Hong Kong	HK\$2,000,000	—	78%	Provision of integrated communication services

# NOTES TO FINANCIAL STATEMENTS

31 December 2000

## 17. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration/ (operations)	Issued and paid-up share capital/ registered capital	Percentage held by the Company		Principal activities
			Direct	Indirect	
Webway Communications LLC *	United States of America	US\$300,000	—	78%	Provision of communication services
Unitech Holdings Limited #	Hong Kong	HK\$2	100%	—	Provision of research and development and technical support services
Galvin Associates Limited	BVI	US\$1	100%	—	Investment holding
Greatsino Electronic Limited ##	BVI	US\$1	—	100%	Design, manufacturing and marketing of consumer electronic products
Tecbond Manufacturing Limited	BVI	US\$1,000	100%	—	Investment holding
Super China Development Limited	BVI	US\$1	100%	—	Investment holding
Prime Pacific International Limited	BVI	US\$50,000	—	67%	Investment holding
DVN (Holdings) Limited (Formerly DVB (Holdings) Limited)	Bermuda	HK\$406,779,647 ordinary HK\$71,004,136 preference	11.44%	38.20%**	Investment holding

## NOTES TO FINANCIAL STATEMENTS

31 December 2000

### 17. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration/ (operations)	Issued and paid-up share capital/ registered capital	Percentage held by the Company		Principal activities
			Direct	Indirect	
DVN (Group) Limited (Formerly DVB (Group) Limited)	BVI	US\$10 ordinary US\$15,000,000 preference (note (ii))	—	37.03%**	Investment holding
Dynamic Network Limited	BVI	US\$1	—	37.03%**	Investment holding
DVN (Management) Limited (Formerly DVB (Management) Limited)	Hong Kong	HK\$2	—	37.03%**	Provision of administrative services
Cyber Cinema Technology Co., Ltd.	Hong Kong	HK\$2	—	37.03%**	Investment holding
Telequote Data International Limited	Hong Kong	HK\$10,000	—	37.03%**	Provision of international financial market information and selective consumer data services
DVN Technology Ltd. * (Formerly SilkroadOnNet.com Company Limited)	Hong Kong	HK\$2	—	37.03% **	Trading of digital broadcasting equipment and related products



# NOTES TO FINANCIAL STATEMENTS

31 December 2000

## 17. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration/ (operations)	Issued and paid-up share capital/ registered capital	Percentage held by the Company		Principal activities
			Direct	Indirect	
DVB Technology (Suzhou) Co. Limited	PRC (note (i))	RMB100,000,000	—	25.92%**	Digital sound transmission and related software business
DVB Education Technology(Suzhou) Co., Limited	PRC (note (i))	US\$800,000	—	25.92%**	Provision of Internet based VOD and financial data services
Digital Video Networks Company Limited (Formerly DVB Media.com Technology. (Suzhou) Co., Limited)	PRC (note (i))	US\$1,600,000	—	37.03%**	Provision of Internet based VOD and financial data services

\* Subsidiaries established / acquired during the year.

\*\* These companies are subsidiaries of non-wholly-owned subsidiaries of the Company and, accordingly, are accounted for as subsidiaries by virtue of the effective control over the entities.

# Companies ceased operations and became dormant during the year.

## Companies ceased manufacturing operations and became dormant during the year.

*Notes:*

(i) Companies registered in the PRC have registered capital. All other companies' issued and paid-up share capital is ordinary unless otherwise stated.

(ii) The convertible non-voting preference shares of DVN and DVN (Group) Limited are convertible/exchangeable into ordinary shares of DVN at a price of HK\$1.5 and HK\$4.8, respectively, subject to adjustment.

The above table lists the subsidiaries of the Company as at 31 December 2000 which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of the other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

The subsidiaries disposed of during the year contributed HK\$383,000 to the Group's turnover and a net loss of HK\$12,082,000 to the Group's results.

## NOTES TO FINANCIAL STATEMENTS

31 December 2000

### 18. INTEREST IN AN ASSOCIATE

	<b>Group</b>	
	<b>2000</b>	1999
	<b>HK\$'000</b>	<b>HK\$'000</b>
Unlisted shares, at cost	—	3,600
Share of net assets	—	9
	<u>—</u>	<u>3,609</u>
	<u>—</u>	<u>3,609</u>

The prior year's balance represented the Group's 33.3% equity interests in HiTV Limited ("HiTV").

On 14 March 2000, the Group's interest in HiTV increased from 33.3% to 36.4% through the subscription of 1,200,000 new shares of HiTV for HK\$120,000,000. Further details of the transaction are disclosed in a press announcement of DVN dated 15 March 2000.

On 12 December 2000, the Group entered into a sales and purchase agreement (the "Agreement") with an independent third party (the "Buyer"), for the disposal of the Group's 24.3% equity interests in HiTV at a consideration of approximately HK\$81,256,000.

Pursuant to the terms of the Agreement, the consideration consisted of HK\$5,000,000 in cash, a HK\$25,000,000 interest-free promissory note issued by the Buyer due on 11 March 2001, the rights to a film library of HK\$17,060,000, valued at cost and beneficially owned by the Buyer, and the assumption by the Buyer of a debt owed by the Group to HiTV of HK\$34,196,000. Further details of the transaction are disclosed in a press announcement of DVN dated 12 December 2000.

On 27 December 2000, the Group entered into a share swap agreement with another independent third party (the "Purchaser"), to exchange the Group's remaining 12.1% interests in HiTV for a 9.9% equity interest in a company at a consideration of HK\$35,000,000. Further details of the Group's 9.9% equity interests in such unlisted shares are set out in note 20 below.

After the completion of the above disposal transactions, the Group has disposed of all its interests in HiTV and had no further interests in any associate as at 31 December 2000.

During the year, the Group's share of net loss of HiTV for the year amounted to HK\$15,032,000 (1999: net profit of HK\$9,000).





# NOTES TO FINANCIAL STATEMENTS

31 December 2000

## 19. INTEREST IN A JOINTLY-CONTROLLED ENTITY

	<b>Group</b>	
	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Share of net assets	<u><b>6,735</b></u>	<u>10,363</u>

The amount due from a jointly-controlled entity is unsecured, interest-free and has no fixed terms of repayment.

Particulars of the jointly-controlled entity are as follows:

<b>Name</b>	<b>Business structure</b>	<b>Place of registration and operations</b>	<b>Percentage of</b>			<b>Principal activity</b>
			<b>Ownership interest</b>	<b>Voting power</b>	<b>Profit sharing</b>	
Beijing Jiya Telecommunication Engineering Co. Limited	Corporate	PRC	(Note)	57%	(Note)	Provision of telecommunication programming services

The interest in a jointly-controlled entity is indirectly held by the Company.

*Note:*

Under the terms of the original joint venture agreement, the Group is entitled to 70% of the results of the jointly-controlled entity for the first five years from 26 November 1994, the date of the issuance of business licence, and 51% of the results for the remaining tenure of the joint venture. The tenure of the joint venture is 30 years. During this period, in the event of dissolution, the Group is entitled to share the net assets of the jointly-controlled entity in accordance with the above-mentioned prevailing profit sharing ratio. Upon the expiry of the tenure of the joint venture, all the fixed assets and 49% of the net current assets of the joint venture will be vested on the PRC joint venture partner and the Group will only be entitled to 51% of the net current assets.

On 6 September 1996, the joint venture partner entered into a supplementary agreement whereby the profit sharing ratio between the Group and the PRC joint venture partner was amended. In accordance with the supplementary agreement, the Group is entitled to 80% of the results of the jointly-controlled entity up to and until the full recovery of the capital contributed by the Group to the jointly-controlled entity, and thereafter 70% of the results of the jointly-controlled entity until the end of its tenure.

According to the joint venture agreement, the board of directors of the jointly-controlled entity consists of seven directors, of which four were nominated by the Group. The joint venture agreement stipulates that certain major operating and financing decisions require the approval of at least two thirds of the directors in a board meeting. As the Group does not have unilateral control on the financial and operating policies of the jointly-controlled entity, the jointly-controlled entity has not been accounted for as a subsidiary and is equity accounted for in accordance with SSAP 21 "Accounting for Interests in Joint Ventures".

## NOTES TO FINANCIAL STATEMENTS

31 December 2000

### 20. INVESTMENT SECURITIES

	<b>Group</b>	
	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Investment securities:		
Listed equity investment outside Hong Kong, at cost (note a)	<b>23,414</b>	—
Unlisted equity investment, at cost (note b)	<b>6,884</b>	6,884
Less: Provision for impairment in value	<b>(6,884)</b>	(6,884)
	—	—
Unlisted equity investment outside Hong Kong, at cost (note c)	<b>35,000</b>	—
Unlisted preference shares (note 27)	—	32,055
	<b>58,414</b>	32,055
Listed equity investment outside Hong Kong, at market value (note a)	<b>34,875</b>	—

Notes:

- (a) The listed equity investment outside Hong Kong represents investment in 1,500,000 shares, representing 6.8% of the common stock of a company which was incorporated in the the United States of America and was listed on the National Association of Securities Dealer Over-The-Counter Bulletin Board ("OTCBB"). The investee company has been temporarily delisted on OTCBB since 3 October 1998. The market value of the investment was based on US\$3 per share as at 3 October 1998, the date on which the investee company was delisted on the OTCBB.

# NOTES TO FINANCIAL STATEMENTS

31 December 2000

## 20. INVESTMENT SECURITIES (continued)

Notes: (continued)

- (b) The investment represents the equity shares of an investee company in which the percentage of equity attributable to the Group amounted to over 20%. The investment, however, has not been equity accounted for in accordance with SSAP 10 "Accounting for Investments in Associates" as the investment has been fully provided for and the Group has no significant influence on the investee company. In addition, the Group neither intends to provide further financial support to the investee company, nor has any further guarantees or obligations in respect of the operations of the investee company.

The particulars of the investee company are as follows:

Name	Place of incorporation	Issued share capital	Percentage of equity attributable to the Company	Principal activity
Beijing United International Limited	BVI	HK\$12,500,000	40%	Investment holding

- (c) The unlisted equity investment outside Hong Kong represents investment in 990 ordinary shares, representing approximately 9.9% equity interest in a company as at 31 December 2000. During the year, the Group had entered into the following transactions with the investee company:

	Notes	2000 HK\$'000	1999 HK\$'000
Loan to the investee company	(i)	23,000	—
Interest income from loan to the investee company	(i)	1,718	—
Sales of digital broadcasting equipment and related products to the investee company	(ii)	<u>8,233</u>	<u>—</u>

- (i) During the year, the Group advanced HK\$23,000,000 to the investee company. Out of the total loan advance of HK\$23,000,000, HK\$3,000,000 was unsecured, bore interest at 9.5% per annum and was repaid by the investee company during the year. The remaining balance of HK\$20,000,000 was secured, bore interest at 1.5% above Hong Kong dollar prime rate per annum and was due on 30 June 2001. Interest income of HK\$1,718,000 was earned by the Group during the year.
- (ii) The sales to the investee company during the year amounted to HK\$8,233,000 and were made according to the prices and conditions negotiated at arm's length.

## NOTES TO FINANCIAL STATEMENTS

31 December 2000

### 21. OTHER ASSETS

	<b>Group</b>	
	<b>2000</b>	1999
	<b>HK\$'000</b>	<i>HK\$'000</i>
Deposit for purchasing of film rights	<b>37,862</b>	39,750
Deposit for film library	<b>17,060</b>	—
Deposit for film distribution rights	<b>10,000</b>	10,000
Loan receivable from an investee company	—	25,140
Club debentures	<b>2,065</b>	2,065
	<b><u>66,987</u></b>	<u>76,955</u>

The loan receivable from an investee company is unsecured, interest bearing and is repayable beyond one year. A full provision has been made for this loan receivable.

The deposit for film library represents part of the consideration for the disposal of HiTV. Further details regarding the disposal of HiTV are set out in note 18.

### 22. PROMISSORY NOTE RECEIVABLE

The promissory note receivable was interest-free and secured by preference shares of an investee company. The promissory note was fully repaid during the year.

### 23. INVENTORIES

	<b>Group</b>	
	<b>2000</b>	1999
	<b>HK\$'000</b>	<i>HK\$'000</i>
Raw materials	<b>11,990</b>	18,533
Work in progress	—	15,691
Finished goods	<b>66,841</b>	14,163
	<b><u>78,831</u></b>	<u>48,387</u>

There was no significant amount (1999: HK\$33,005,000) of inventories included in the above that are carried at net realisable value as at 31 December 2000.

## NOTES TO FINANCIAL STATEMENTS

31 December 2000

### 24. CONTRACT WORK IN PROGRESS

	<b>Group</b>	
	<b>2000</b>	1999
	<b>HK\$'000</b>	<b>HK\$'000</b>
Costs plus recognised profits		
less foreseeable losses	—	15,727
Progress payments received and receivable	—	(13,079)
	<u>—</u>	<u>2,648</u>

### 25. ACCOUNTS AND BILLS RECEIVABLE

The ageing analysis of accounts and bills receivable (net of provisions for bad and doubtful debts) is as follows:

	<b>Group</b>	
	<b>2000</b>	1999
	<b>HK\$'000</b>	<b>HK\$'000</b>
0-3 months	<b>39,481</b>	6,150
4-6 months	<b>3,586</b>	256
Over 6 months	<b>835</b>	441
	<u><b>43,902</b></u>	<u>6,847</u>

Trading terms with customers are largely on credit, except for retail or new customers where cash on sale or payment in advance is normally required. Invoices are normally payable from 30 to 60 days of issuance, except for certain well established customers, for whom the credit terms are extended to 90 days. Each customer has a credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimize credit risk. Overdue balances are regularly reviewed by senior management.

The credit terms given to the customers vary and are generally based on the financial strengths of individual customers. In order to effectively manage the credit risks associated with trade debtors, credit evaluations of customers are performed periodically.

## NOTES TO FINANCIAL STATEMENTS

31 December 2000

### 26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

The following balances were included in the Group's prepayments, deposits and other receivables as at 31 December 2000:

- (i) A HK\$25,000,000 interest-free promissory note from the Buyer arising in connection with the disposal of a 24.3% equity interest in HiTV by the Group as set out in note 18 above. The promissory note was secured, interest-free and due on 11 March 2001. Subsequent to the balance sheet date, on 2 April 2001, a revised repayment schedule was agreed between the Group and the Buyer. Under the revised repayment schedule, the full amount is to be repaid on or before 2 October 2001. Subsequent to the balance sheet date, HK\$12,000,000 has been repaid and a provision of approximately HK\$6,500,000 against the receivable was made as at 31 December 2000.
- (ii) A receivable of approximately HK\$16,600,000 in relation to the disposal of as set out in note 27 below. The receivable was unsecured, interest-free and due on 17 April 2000. Subsequent to the balance sheet date, a revised repayment schedule was agreed between the the parties to repay in full on or before 31 December 2001, bearing interest at 15% per annum. HK\$2,000,000 has been repaid in accordance with the revised repayment schedule. A provision of approximately HK\$7,300,000 against the receivable was made as at 31 December 2000.
- (iii) A HK\$20,000,000 loan advanced to a company of which the Group held 9.9% equity interests, the details of which are set out in note 20(c) above.

### 27. SHORT-TERM INVESTMENTS

	<b>Group</b>	
	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Listed equity shares, at market value:		
Hong Kong	<b>20,621</b>	431,633
Elsewhere	—	51,248
	<b>20,621</b>	482,881
Unlisted preference shares	<b>18,345</b>	—
	<b>38,966</b>	482,881



## NOTES TO FINANCIAL STATEMENTS

31 December 2000

### 27. SHORT-TERM INVESTMENTS (continued)

Unlisted preference shares represent convertible cumulative non-voting preference shares of Netalone. The preference shares, which will expire on 22 October 2001, have a dividend rate of 5% per annum for the year ended on 22 October 1999 and the year ended on 22 October 2000 and 15% per annum for the year ending on 22 October 2001. These preference shares are convertible into ordinary shares of Netalone at the adjusted conversion rate of one ordinary share for every HK\$0.22 nominal amount of preference shares, subject to further adjustments.

At the date of approval of the financial statements, the Group held 127,289,300 ordinary shares, representing 17.15% equity interest in Netalone, with an aggregate market value of approximately HK\$26,731,000.

Particulars of the investee companies included in short-term investments are as follows:

Name	Place of incorporation/ (operations)	Issued share capital	Percentage of equity attributable to the Group		Nature of business
			2000	1999	
netalone.com Limited	Bermuda (Hong Kong)	Ordinary shares HK\$7,421,000	<b>17.15%</b>	42.9%	Investment holding
		Convertible preference shares (HK\$1 each) HK\$24,178,700	<b>99.9%</b>	99.9%	
		Convertible preference shares (HK\$0.10 each) HK\$118,333,333	—	—	
Capetronic International (Thailand) Public Company Limited ("CITL")	Thailand	Baht 2,686,849,250	—	14%	Manufacture of computer monitors
Capetronic Computer Products Holdings Limited ("CCPH")	BVI	US\$50,000	—	19%	Investment holding

During the year, the Group had disposed of its entire equity interests in both CITL and CCPH.

## NOTES TO FINANCIAL STATEMENTS

31 December 2000

### 28. ACCOUNTS AND BILLS PAYABLE

The ageing analysis of accounts and bills payable is as follows:

	Group	
	2000 HK\$'000	1999 HK\$'000
0-3 months	6,580	22,668
4-6 months	1,069	2,898
Over 6 months	2,976	3,910
	<u>10,625</u>	<u>29,476</u>

### 29. ACCRUED LIABILITIES AND OTHER PAYABLES

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Deposits received, accrued charges and other payables	67,407	111,233	2,537	1,990
Due to a former minority shareholder of a subsidiary	2,480	4,960	—	4,960
Due to fellow subsidiaries	1,115	20,961	1,115	13,461
Due to a shareholder	—	11,833	—	—
Due to a minority shareholder of a subsidiary	—	12,776	—	—
	<u>71,002</u>	<u>161,763</u>	<u>3,652</u>	<u>20,411</u>

The balances with a former minority shareholder of a subsidiary and fellow subsidiaries are unsecured, interest-free and have no fixed terms of repayment, except for an amount due to a fellow subsidiary of HK\$1,115,000 in the current year which bears interest at Hong Kong dollar prime rate plus 2.5% per annum.

The amount due to a shareholder and a minority shareholder of a subsidiary were unsecured, interest-free and had no fixed terms of repayment.



## NOTES TO FINANCIAL STATEMENTS

31 December 2000

### 30. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Notes	Group	
		2000 HK\$'000	1999 HK\$'000
Bank loans — secured		<b>6,075</b>	12,430
Bank overdrafts — unsecured		—	3,276
Trust receipt loans — secured	39	<b>5,512</b>	28,429
Current portion of finance lease payables	32	<b>573</b>	605
		<b>12,160</b>	<b>44,740</b>

The bank loans and overdrafts and trust receipt loans are secured by bank deposits amounting to HK\$10,337,000 (1999: HK\$12,186,000).

### 31. DUE TO A SHAREHOLDER OF A SUBSIDIARY AND A FELLOW SUBSIDIARY

The balances due to a shareholder of a subsidiary and a fellow subsidiary are unsecured, interest-free and are repayable beyond one year.

### 32. FINANCE LEASE PAYABLES

There are non-cancellable commitments under finance leases at the balance sheet date as set out below:

	Group	
	2000 HK\$'000	1999 HK\$'000
Amounts payable:		
Within one year	<b>616</b>	704
In the second to fifth years, inclusive	<b>186</b>	806
Total minimum lease payments	<b>802</b>	1,510
Future finance charges	<b>(46)</b>	(149)
Total net finance lease payables	<b>756</b>	1,361
Portion classified as current liabilities — note 30	<b>(573)</b>	(605)
Long-term portion of finance lease payables	<b>183</b>	756

## NOTES TO FINANCIAL STATEMENTS

31 December 2000

### 33. SHARE CAPITAL

	Number of ordinary shares of HK\$0.18 each		Number of preference shares of HK\$0.18 each		Amount	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Authorised:						
At beginning of year	<b>3,409,240</b>	2,500,000	<b>240,760</b>	—	<b>657,000</b>	450,000
Increase in authorised capital	—	909,240	—	240,760	—	207,000
At 31 December	<b>3,409,240</b>	3,409,240	<b>240,760</b>	240,760	<b>657,000</b>	657,000
Issued and fully paid:						
At beginning of year	<b>2,378,843</b>	1,983,689	<b>240,760</b>	—	<b>471,529</b>	357,064
Exercise of share options	<b>5,450</b>	—	—	—	<b>981</b>	—
Issued pursuant to a subscription agreement	<b>390,000</b>	312,500	—	—	<b>70,200</b>	56,250
Issued on acquisition of additional interest in subsidiaries	—	82,654	—	240,760	—	58,215
At 31 December	<b><u>2,774,293</u></b>	<u>2,378,843</u>	<b><u>240,760</u></b>	<u>240,760</u>	<b><u>542,710</u></b>	<u>471,529</u>

On 16 February 2000, arrangements were made by Techral Holdings Limited ("Techral"), a substantial shareholder of the Company, for a private placement of 390,000,000 ordinary shares of the Company of HK\$0.18 each at a price of HK\$0.60 per share to independent private investors. On the same date, the Company entered into a subscription agreement for the allotment of 390,000,000 new ordinary shares of HK\$0.18 each of the Company at a price of HK\$0.60 per share to Techral.

On 1 March 2000, 390,000,000 new ordinary shares of HK\$0.18 each were issued to Techral pursuant to the subscription agreement. The excess of the shares issue proceeds over the nominal value of the shares issued, net of share issue expenses of approximately HK\$5,992,000, amounting to HK\$157,808,000 was credited to the share premium account (note 34).



# NOTES TO FINANCIAL STATEMENTS

31 December 2000

## 33. SHARE CAPITAL *(continued)*

### **Preference shares**

The preference shares were issued on 4 August 1999. The preference shareholders are entitled to convert a specific number of their preference shares into ordinary shares of the Company on a one-for-one basis (subject to adjustments) during the specified periods. The preference shareholders are also entitled to receive a non-cumulative cash dividend which will be paid at the same rate and at the same time as any dividend declared by the Company in respect of the ordinary shares. Further details of the terms are set out in the circular dated 12 July 1999 issued by the Company to its shareholders.

### **Share options**

Pursuant to a share option scheme adopted on 4 August 1999, the board of directors of the Company may grant options to eligible employees of the Group, including executive directors, to subscribe for shares in the Company. The subscription price is the higher of the nominal value of the Company's shares and 80% of the average of the closing prices of the Company's shares on SEHK for the five trading days immediately preceding the offer of the option. The maximum number of shares in respect of which options may be granted under the scheme is limited to 10% of the number of issued shares in the Company from time to time. In addition, no eligible employee may be granted an option or options where the number of options would exceed 25% of the aggregate number of total option granted at time of issue.

125,950,000 options were granted to certain directors and employees of the Group in 1999 for subscription in the ordinary shares in the Company at HK\$0.26 per share.

25,000,000 share options were granted to a director of the Company in February 2000, at a cash consideration of HK\$1 for subscription in the ordinary shares of HK\$0.18 each in the Company at HK\$0.31 per share.

145,500,000 (1999: 125,950,000) share options were outstanding at 31 December 2000. The exercise in full of such share options would, under the present capital structure of the Company, result in the issue of 145,500,000 (1999: 125,950,000) additional ordinary shares of HK\$0.18 each in the Company.

## NOTES TO FINANCIAL STATEMENTS

31 December 2000

### 34. RESERVES/(DEFICIT)

Group	Share	Capital	Revaluation	Currency	Accumulated	Total
	premium	reserve		translation		
	consolidation	arising on	reserve	reserve		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 1999	267,531	43	426	464	(276,427)	(7,963)
Issue of shares	43,750	—	—	—	—	43,750
Acquisitions of additional interests in subsidiaries	43,785	10	—	—	—	43,795
Issue of share expenses	(2,440)	—	—	—	—	(2,440)
Disposals of subsidiaries	—	(10)	—	—	—	(10)
Divestment and dilution of interests in subsidiaries	—	(43)	—	(276)	—	(319)
Net profit for the year	—	—	—	—	70,559	70,559
At 31 December 1999	352,626	—	426	188	(205,868)	147,372
Issue of shares	163,800	—	—	—	—	163,800
Issue of share expenses	(5,992)	—	—	—	—	(5,992)
Released on disposal of property	—	—	(426)	—	—	(426)
Arising on exercise of options	436	—	—	—	—	436
Net loss for the year	—	—	—	—	(492,869)	(492,869)
Exchange realignments	—	—	—	(86)	—	(86)
At 31 December 2000	<u>510,870</u>	<u>—</u>	<u>—</u>	<u>102</u>	<u>(698,737)</u>	<u>(187,765)</u>
Reserves retained by:						
Company and subsidiaries	510,870	—	—	102	(697,150)	(186,178)
Jointly-controlled entity	—	—	—	—	(1,587)	(1,587)
At 31 December 2000	<u>510,870</u>	<u>—</u>	<u>—</u>	<u>102</u>	<u>(698,737)</u>	<u>(187,765)</u>
Company and subsidiaries	352,626	—	426	188	(207,918)	145,322
Jointly-controlled entity	—	—	—	—	2,041	2,041
Associate	—	—	—	—	9	9
At 31 December 1999	<u>352,626</u>	<u>—</u>	<u>426</u>	<u>188</u>	<u>(205,868)</u>	<u>147,372</u>

## NOTES TO FINANCIAL STATEMENTS

31 December 2000

### 34. RESERVES/(DEFICIT) (continued)

<b>Company</b>	<b>Share premium</b> <i>HK\$'000</i>	<b>Revaluation reserve</b> <i>HK\$'000</i>	<b>Accumulated deficit</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
At 1 January 1999	267,531	426	(266,408)	1,549
Issue of shares	43,750	—	—	43,750
Acquisition of additional interest in subsidiaries	43,785	—	—	43,785
Share issue expenses	(2,440)	—	—	(2,440)
Net loss for the year	—	—	(159,566)	(159,566)
At 31 December 1999 and at beginning of year	352,626	426	(425,974)	(72,922)
Issue of shares	163,800	—	—	163,800
Share issue expenses	(5,992)	—	—	(5,992)
Arising on exercise of options	436	—	—	436
Release on sale of property	—	(426)	—	(426)
Net loss for the year	—	—	(273,305)	(273,305)
At 31 December 2000	<u>510,870</u>	<u>—</u>	<u>(699,279)</u>	<u>(188,409)</u>

## NOTES TO FINANCIAL STATEMENTS

31 December 2000

### 35. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

#### (a) Reconciliation of operating loss to net cash outflow from operating activities

	2000 HK\$ '000	1999 HK\$ '000
Loss from operating activities	<b>(559,319)</b>	(1,236)
Interest income	<b>(7,213)</b>	(3,719)
Depreciation	<b>15,261</b>	31,185
Amortisation of deferred development costs	<b>3,195</b>	13,490
Write off of deferred development costs	<b>1,582</b>	10,675
Amortisation of goodwill	<b>3,340</b>	3,894
Provisions for impairment of goodwill	<b>94,862</b>	56,725
Deferred consideration on disposal of subsidiaries	—	(101,319)
Net loss recognised on contract work in progress	—	2,789
Provisions against inventories	<b>1,878</b>	89,396
Gain on disposal of an associate	<b>(7,679)</b>	—
Write off of inventories	<b>3,437</b>	9,406
Amortisation of film rights	<b>7,372</b>	—
Provisions for bad and doubtful debts	<b>44,230</b>	108,621
Write off of fixed assets	<b>3,950</b>	4,552
Net gain on disposal of fixed assets	<b>(496)</b>	(943)
Gain on disposal of subsidiaries	<b>1,591</b>	(430,296)
Loss on disposal of short-term investments	<b>8,821</b>	4,413
Net loss/(gain) on dilution of interests in subsidiaries	<b>3,922</b>	(1,272)
Loss on partial divestment of subsidiaries	—	5,596
Gain on waiver of debt due to a former minority shareholder	—	(4,375)
Loss on transfer of current assets to interests in a jointly-controlled entity	—	1,898
Amortisation of investment cost in a jointly-controlled entity	—	195
Write down of value of property held for sale	—	2,000
Provisions for diminution in values of club debentures	—	280
Net unrealised holding loss of short-term investments	<b>294,132</b>	16,742
Payments for costs of construction work	—	(47,620)
Reimbursement of costs of construction work	<b>2,648</b>	54,665
Increase in an amount due to a jointly-controlled entity	<b>(13,533)</b>	(5,887)
Decrease/(increase) in inventories	<b>(26,540)</b>	21,393
Decrease/(increase) in accounts and bills receivable	<b>(37,793)</b>	17,386
Decrease in deposits, prepayments and other receivables	<b>30,826</b>	110,043
Decrease in accounts and bills payable	<b>(13,240)</b>	(100,580)
Increase/(decrease) in accrued liabilities and other payables	<b>44,267</b>	(68,876)
Increase/(decrease) in trust receipt loans	<b>445</b>	(89,519)
Gain on disposal of investment in preference shares	<b>(40,745)</b>	—
Gain on conversion of preference shares	<b>(27,200)</b>	—
Net cash outflow from operating activities	<b><u>(167,999)</u></b>	<b><u>(290,298)</u></b>

# NOTES TO FINANCIAL STATEMENTS

31 December 2000

## 35. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (continued)

### (b) Acquisitions of subsidiaries

	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Net assets acquired:		
Fixed assets	—	188
Loan receivable from an investee company	—	25,140
Due from an investee company	—	79,101
Inventories	—	7,987
Accounts and bills receivable	—	74,491
Deposits, prepayments and other receivables	—	213
Short term investments	—	90,438
Cash and bank balances	—	547
Trade and bills payable	—	(15,809)
Accrued liabilities and other payables	—	(21,400)
Amount due to an investee company	—	(48,856)
Bank overdrafts	—	(73)
Minority interests	—	(154,456)
	—	37,511
Goodwill arising on acquisition	—	17,481
	<u>—</u>	<u>54,992</u>
Satisfied by:		
Cash consideration	—	13,500
Accounts and bills receivable	—	16,883
Due to a minority shareholder	—	12,776
Due to a shareholder	—	11,833
	<u>—</u>	<u>54,992</u>

## NOTES TO FINANCIAL STATEMENTS

31 December 2000

### 35. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (continued)

#### (b) Acquisitions of subsidiaries (continued)

The subsidiaries acquired in prior year utilised HK\$64,522,000 of the Group's net operating cash outflow, received HK\$743,000 in respect of net returns on investments and servicing of finance, utilised HK\$56,411,000 in respect of investing activities and contributed HK\$139,410,000 to financing activities.

An analysis of the net inflow of cash and cash equivalents in respect of the acquisitions of subsidiaries is as follows:

	<b>2000</b> <b>HK\$'000</b>	1999 HK\$'000
Cash consideration paid	—	13,500
Cash and bank balances of acquired subsidiaries	—	(547)
Bank overdrafts of acquired subsidiaries	—	73
	<u>—</u>	<u>13,026</u>



# NOTES TO FINANCIAL STATEMENTS

31 December 2000

## 35. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (continued)

### (c) Disposals of subsidiaries

	<b>2000</b> <b>HK\$'000</b>	1999 <b>HK\$'000</b>
Net assets disposed of:		
Fixed assets	<b>29,479</b>	157,996
Technical know-how	—	28,400
Deferred development costs	—	5,889
Property held for sale	—	21,000
Inventories	<b>2,021</b>	30,489
Accounts and bills receivable	<b>738</b>	42,218
Deposits, prepayments and other receivables	<b>4,242</b>	6,640
Cash and bank balances	<b>159</b>	36,436
Trade and bills payable	<b>(5,611)</b>	(16,318)
Accrued liabilities and other payables	<b>(24,601)</b>	(56,981)
Due to a related company	—	(9,000)
Bank loans	—	(37,383)
Minority interests	<b>(128)</b>	(51,030)
	<b>6,299</b>	158,356
Goodwill	—	19,597
Reserve released on disposal:		
— Capital reserve previously deducted on consolidation as included in goodwill	—	(10,123)
— Capital reserve	—	(10)
Gain/(Loss) on disposals	<b>(1,591)</b>	430,296
	<b>4,708</b>	598,116
Represented by:		
Cash consideration	<b>655</b>	7,452
Long-term investments	—	32,055
Promissory note receivable	—	87,724
Other receivable	<b>4,053</b>	30,143
Short-term investments	—	446,765
Accrued liabilities and other payables	—	(6,023)
	<b>4,708</b>	598,116

## NOTES TO FINANCIAL STATEMENTS

31 December 2000

### 35. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (continued)

#### (c) Disposals of subsidiaries (continued)

An analysis of the net inflow/(outflow) of cash and cash equivalents in respect of the disposals of subsidiaries is as follows:

	2000 HK\$'000	1999 HK\$'000
Cash consideration received	655	7,452
Cash and bank balances of disposed subsidiaries	<u>(159)</u>	<u>(36,436)</u>
	<u>496</u>	<u>(28,984)</u>

The subsidiaries disposed of during the year ended 31 December 2000 utilised HK\$9,768,000 (1999: HK\$28,384,000) of the Group's net operating cash flows, received HK\$395,000 (1999: paid HK\$1,757,000) in respect of net returns on investments and servicing of finance, utilised HK\$5,867,000 (1999: HK\$57,145,000) in respect of investing activities and contributed HK\$128,000 (1999: HK\$114,632,000) to financing activities.

#### (d) Analysis of changes in financing during the year

	Share capital and share premium HK\$'000	Finance lease obligations HK\$'000	Bank loans and other loans HK\$'000	Loan from a shareholder of a subsidiary HK\$'000	Loan from a related company HK\$'000	Advance from fellow subsidiaries HK\$'000	Minority interests HK\$'000	Pledged bank deposits HK\$'000	Loan from a shareholder HK\$'000	Loan from a minority shareholder of a subsidiary HK\$'000
At 1 January 1999	624,595	1,474	6,542	—	8,930	7,069	33,243	—	—	—
Net cash inflow/(outflow) from financing	97,560	(1,595)	43,271	—	70	13,892	167,976	(12,186)	—	—
Inception of new finance lease contracts	—	1,482	—	—	—	—	—	—	—	—
Arising on acquisition of subsidiaries	—	—	—	—	—	—	154,456	—	11,833	12,776
Acquisitions of additional interests in subsidiaries	102,000	—	—	—	—	—	2,058	—	—	—
Share of capital reserve	—	—	—	—	—	—	6	—	—	—
Arising on dilution of interests in subsidiaries	—	—	—	—	—	—	(21,826)	—	—	—
Share of net loss for the year	—	—	—	—	—	—	(78,204)	—	—	—
Arising on disposal of subsidiaries	—	—	(37,383)	—	(9,000)	—	(51,030)	—	—	—
At 31 December 1999	<u>824,155</u>	<u>1,361</u>	<u>12,430</u>	<u>—</u>	<u>—</u>	<u>20,961</u>	<u>206,679</u>	<u>(12,186)</u>	<u>11,833</u>	<u>12,776</u>

# NOTES TO FINANCIAL STATEMENTS

31 December 2000

## 35. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (continued)

### (d) Analysis of changes in financing during the year (continued)

	Share capital and share premium	Finance lease obligations	Bank loans and other loans	Loan from a shareholder of a subsidiary	Loan from a related company	Advance from fellow subsidiaries	Minority interests	Pledged bank deposits	Loan from a shareholder	Loan from a minority shareholder of a subsidiary
	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000
At 1 January 2000	824,155	1,361	12,430	—	—	20,961	206,679	(12,186)	11,833	12,776
Net cash inflow/(outflow) from financing	229,425	(605)	(6,355)	3,989	—	8,325	109,781	1,849	(11,833)	—
Share of net loss for the year	—	—	—	—	—	—	(91,542)	—	—	—
Issue of preference shares of a subsidiary	—	—	—	—	—	—	(116,250)	—	—	—
Capital contribution on exercise of share options	—	—	—	—	—	—	5,241	—	—	—
Arising on dilution of interests in subsidiaries	—	—	—	—	—	—	(2,751)	—	—	—
Arising on disposals of subsidiaries	—	—	—	—	—	—	(128)	—	—	—
Transfer to advance from fellow subsidiaries	—	—	—	—	—	12,776	—	—	—	(12,776)
At 31 December 2000	<u>1,053,580</u>	<u>756</u>	<u>6,075</u>	<u>3,989</u>	<u>—</u>	<u>42,062</u>	<u>111,030</u>	<u>(10,337)</u>	<u>—</u>	<u>—</u>

### (e) Major non-cash transactions

- (1) As further detailed in note 18, the Group disposed of its 24.3% equity interests in HiTV to the Buyer, at a consideration of approximately HK\$81,256,000. Part of the consideration is to be settled by the Buyer (i) by transferring the rights in a film library valued at HK\$17,060,000, based on its original cost, and (ii) the assumption by the Buyer of a debt owed to HiTV by the Group of HK\$34,196,000.
- (2) As further detailed in note 18, the Group disposed of its remaining 12.1% equity interests in HiTV to the Purchaser through a share swap arrangement in exchange for a 9.9% equity interests in a company incorporated in the BVI at a consideration of HK\$35,000,000.
- (3) The proceeds from disposal of fixed assets amounting to HK\$29,297,000 were settled through the current account with HiTV.

## NOTES TO FINANCIAL STATEMENTS

31 December 2000

### 36. COMMITMENTS

At the balance sheet date, the Group had the following commitments:

	<b>Group</b>	
	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
(a) Payment for non-cancellable operating leases committed to be made during the next year by the Group in respect of land and buildings expiring:		
Within one year	<b>1,619</b>	4,692
In the second to fifth years, inclusive	<b>11,607</b>	6,756
	<b><u>13,226</u></b>	<u>11,448</u>
(b) Capital commitments:		
Contracted for (Note)	<b>21,431</b>	94,503
Authorised, but not contracted for	<b>6,820</b>	—
	<b><u>28,251</u></b>	<u>94,503</u>

Note:

At the balance sheet date, the Group had uncontributed registered capital commitments in two (1999: three) PRC subsidiaries of an aggregate amount of RMB17,243,000 (approximately HK\$16,115,000), (1999: HK\$94,503,000), of which RMB13,905,328 (approximately HK\$12,996,000) was paid before the balance sheet date. The capital verification process has not been completed and accordingly, the corresponding amount was disclosed as a commitment to the Group.

As at 31 December 2000, the Company did not have any significant commitments.

### 37. CONTINGENT LIABILITIES

	<b>Group</b>		<b>Company</b>	
	<b>2000</b>	1999	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
Guarantees for banking facilities utilised by subsidiaries	<u>—</u>	<u>—</u>	<b><u>5,512</u></b>	<u>90,000</u>



# NOTES TO FINANCIAL STATEMENTS

31 December 2000

## 38. PENDING LITIGATION

- (a) On 24 August 1997, Smoothline Limited ("Smoothline"), a wholly-owned subsidiary of the Company, received a Demand for Arbitration from a customer (the "Customer") for resolution of a dispute by arbitration before the American Arbitration Association ("AAA") in New York. The dispute relates to the sale of certain cordless telephones by certain suppliers (collectively referred to as the "Supplier") to the Customer under an agreement dated 31 March 1993 in which Smoothline had certain secondary obligations as one of the guarantors for the Supplier's performance. The Customer had previously issued a Demand for Arbitration to the Supplier on 2 October 1996 for breach of contract.

As the dispute at issue is primarily between and among the Customer and the Supplier, a finding of liability on the part of Smoothline is necessarily dependent upon a prior finding of liability on the part of the Supplier and, further, upon the failure of the Supplier to satisfy such a judgement.

Accordingly, Smoothline has, in response to the Customer's arbitration demand, advised the AAA that the Customer's demand for arbitration against Smoothline should be heard, if at all, only after the Customer has obtained an award against the Supplier, and only to the extent that such award remains unsatisfied.

Counsel for both parties have agreed to wait for the outcome of other issues mentioned in paragraph (d) below before proceeding to arbitration, if at all. Having considered legal counsel's advice, the directors believe that the Group has substantial legal and factual defences against the claim. Accordingly, the directors consider that provision for the claim is not necessary.

- (b) On 9 September 1998, Smoothline was notified that the Customer and a party holding certain patents had agreed to settle a patent infringement dispute relating to the distribution of certain products, including certain cordless telephones manufactured by Smoothline, by payment by the Customer of US\$1.25 million (equivalent to approximately HK\$9.7 million) and the granting by such party to the Customer and its suppliers (including Smoothline) of a licence for such products. Smoothline has been requested by the Customer to contribute a portion of the costs associated with the granting of the licence and related legal costs of approximately US\$800,000 (equivalent to approximately HK\$6.2 million). The directors believe that the Group has valid defences against the claim. Accordingly, the directors consider that a provision for the claim is not necessary as this matter has been dormant for over three years.
- (c) On 12 October 1999, Cybiotronics Limited. ("Cybiotronics"), a Hong Kong company commenced litigation in the United States District Court, Central District of California, claiming that, inter alia, Smoothline had infringed certain patents relating to telephones and consequential damages, and injunctive relief. On 12 February 2001, Smoothline obtained a summary judgement against Cybiotronics on the claim for patent infringement. The case can therefore be considered closed, except in so far as Smoothline is seeking recovery of legal costs. In the circumstances the directors do not consider any provision for this claim necessary.

## NOTES TO FINANCIAL STATEMENTS

31 December 2000

### 38. PENDING LITIGATION (continued)

- (d) On 21 December 1999, in relation to the Customer referred to note 38(a) above, two subsidiaries of the Group sought to clarify their obligations relating to the Customer and issued mediation proceedings seeking leave to commence an action in The Princely District Court of Liechtenstein against both the Customer and FHA Handelsanstalt ("FHA"). Leave to issue an action was duly granted on 10 March 2000 with costs awarded in favour of the two subsidiaries against the Customer and FHA. The two subsidiaries filed their full pleadings in Liechtenstein on or before 10 May 2000. On 14 March 2000, in connection with the Liechtenstein proceedings the two subsidiaries petitioned The District Court of The Southern District of New York for a discovery order pursuant to 28 U.S.C. 1782 against the Customer. The petition was granted but has been opposed by the Customer who also seeks to refer some of the matters raised in the Liechtenstein action to arbitration under AAA in New York. As the two subsidiaries claim damages of US\$14 million and Declaratory judgement in Liechtenstein the directors do not consider any provision for this claim necessary.

### 39. BANKING FACILITIES

As at 31 December 2000, the Group's banking facilities were secured by the following:

- (a) corporate guarantees to the extent of HK\$178,000,000 executed by the Company in respect of banking facilities utilised by three of its subsidiaries amounting to HK\$5,512,000; and
- (b) pledges of bank deposits aggregating HK\$10,337,000.

### 40. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, during the period from 5 March 2001 to 12 March 2001, the Group purchased 2,956,000 ordinary shares of DVN thereby raising its shareholding from 49.6% to 50.7%.

Subsequent to the balance sheet date, the Company had undertaken to provide financial support to a non-wholly owned subsidiary up to the amount of HK\$20,000,000 during the period up to 20 April 2002.

### 41. COMPARATIVE AMOUNTS

Provision of bad and doubtful debts, write off and amortisation of goodwill totalling HK\$112,945,000 has been reclassified from administrative expenses to other operating expenses for the 1999 comparative amounts. In the opinion of the directors, the reclassification provides a better presentation of these expenses and is consistent with the presentation adopted for the current year.

### 42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 25 April 2001.

