

## **NOTES ON THE ACCOUNTS**

*(Expressed in Hong Kong dollars)*

### **1 SIGNIFICANT ACCOUNTING POLICIES**

#### **(a) Statement of compliance**

These accounts have been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. The accounts also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

#### **(b) Basis of preparation of the accounts**

The measurement basis used in the preparation of the accounts is historical cost modified by the revaluation of investment properties and land and buildings, and the marking to market of certain investments in securities as explained in the accounting policies set out below.

#### **(c) Basis of consolidation**

- (i) The consolidated accounts include the accounts of the Company and all its subsidiaries made up to 31 December each year. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from or to the date of their acquisition or disposal, as appropriate. All material intercompany transactions and balances are eliminated on consolidation.
- (ii) Goodwill arising on the acquisition of subsidiaries, being the excess of the cost of investments in these companies over the fair value of the Group's share of the separable net assets acquired, is eliminated against reserves in the year of acquisition.

On disposal of a subsidiary during the year, the relevant portion of attributable goodwill previously eliminated against reserves is written back and included in the calculation of the gain or loss on disposal.

- (iii) Losses attributable to minority shareholders of partly owned subsidiaries are accounted for based on the respective equity owned by the minority shareholders up to the amount of the capital contributed by and other reserves attributable to the minority shareholders. Thereafter all further losses are assumed by the Group.

## **NOTES ON THE ACCOUNTS**

*(Expressed in Hong Kong dollars)*

### **1 SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

#### **(d) Investments in subsidiaries**

A subsidiary is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors.

Investments in subsidiaries in the Company's balance sheet are stated at cost less any provisions for diminution in value which is other than temporary as determined by the directors for each subsidiary individually. Any such provisions are recognised as an expense in the profit and loss account.

#### **(e) Associates**

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

Unless the interest in the associate is acquired and held exclusively with a view to subsequent disposal in the near future, an investment in an associate is accounted for in the consolidated accounts under the equity method and is initially recorded at cost and adjusted thereafter for the post-acquisition change in the Group's share of the associate's net assets. The consolidated profit and loss account reflects the Group's share of the post-acquisition results of the associates for the year. Goodwill arising on the acquisition of an associate, being the excess of the cost over the fair value of the Group's share of the separable net assets acquired, is eliminated against reserves in the year of acquisition.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the profit and loss account.

On disposal of an associate during the year, the relevant portion of any attributable amount of purchased goodwill previously eliminated against reserves is included in the calculation of the gain or loss on disposal.

The results of an associate are included in the Company's profit and loss account to the extent of dividends received and receivable, providing the dividend is in respect of a period ending on or before that of the Company and the Company's right to receive the dividend is established before the accounts of the Company are approved by the directors. In the Company's balance sheet, its investments in associates are stated at cost less any provisions for diminution in value which is other than temporary as determined by the directors for each associate individually. Any such provisions are recognised as an expense in the profit and loss account.

## **NOTES ON THE ACCOUNTS**

*(Expressed in Hong Kong dollars)*

### **1 SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

#### **(f) Fixed assets**

- (i) Fixed assets are stated in the balance sheets at cost or valuation less accumulated depreciation.
- (ii) The carrying amount of fixed assets is reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The amount of the reduction is recognised as an expense in the profit and loss account. In determining the recoverable amount, expected future cash flows generated by the fixed assets are not discounted to their present values.

When the circumstances and events that led to the write-down or write-off cease to exist, any subsequent increase in the recoverable amount of an asset is written back to the profit and loss account. The amount written back is reduced by the amount that would have been recognised as depreciation had the write-down or write-off not occurred.

- (iii) Surpluses arising from the revaluation of fixed assets are dealt with in the fixed asset revaluation reserve. Revaluation deficits are charged to the profit and loss account to the extent that they exceed surpluses arising previously on the individual assets. On disposal of a revalued asset, the relevant portion of the fixed asset revaluation reserve realised in respect of previous valuations is included in the calculation of the gain or loss on disposal.
- (iv) Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.
- (v) Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the profit and loss account on the date of retirement or disposal.

## **NOTES ON THE ACCOUNTS**

(Expressed in Hong Kong dollars)

### **1 SIGNIFICANT ACCOUNTING POLICIES** (Continued)

#### **(g) Amortisation and depreciation**

Depreciation is calculated to write off the cost or valuation of fixed assets over their estimated useful lives as follows:

- leasehold land is depreciated on a straight-line basis over the remaining term of the lease;
- buildings are depreciated on a straight-line basis over the shorter of their estimated useful lives, being between 20 and 50 years from the date of completion, and the unexpired terms of the leases; and
- other fixed assets are depreciated on a straight-line basis over their estimated useful lives as follows:

Machinery and equipment	3 - 10 years
Furniture, fixtures, office equipment and motor vehicles	3 - 10 years
Moulds and tools	2 - 10 years

#### **(h) Leased assets**

Leases of assets under which the lessee assumes substantially all the risks and benefits of ownership are classified as finance leases. Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.

##### **(i) Assets acquired under finance leases**

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost of the assets in equal annual amounts over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 1(g) above. Finance charges implicit in the lease payments are charged to the profit and loss account over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are written off as an expense of the accounting period in which they are incurred.

## **NOTES ON THE ACCOUNTS**

*(Expressed in Hong Kong dollars)*

### **1 SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

#### **(h) Leased assets** *(Continued)*

##### **(ii) Operating lease charges**

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the profit and loss account in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the profit and loss account as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the profit and loss account in the accounting period in which they are incurred.

#### **(i) Revenue recognition**

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the profit and loss account as follows:

##### **(i) Sale of goods**

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added or other sales taxes and is after deduction of any trade discounts.

##### **(ii) Interest income**

Interest income from bank deposits and loans receivable is accrued on a time-apportioned basis on the principal outstanding and at the rate applicable.

##### **(iii) Internet related services income**

Income from Internet related services is recognised when services are rendered to customers.

## **NOTES ON THE ACCOUNTS**

*(Expressed in Hong Kong dollars)*

### **1 SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

#### **(j) Inventories**

Inventories are carried at the lower of cost and net realisable value.

Cost is determined on a first-in, first-out basis and in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads based on a normal level of activity.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

#### **(k) Deferred taxation**

Deferred taxation is provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which are expected with reasonable probability to crystallise in the foreseeable future.

Future deferred tax benefits are not recognised unless their realisation is assured beyond reasonable doubt.

#### **(l) Translation of foreign currencies**

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the profit and loss account.

The results of subsidiaries outside Hong Kong are translated into Hong Kong dollars at the average exchange rates for the year, balance sheet items are translated at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in reserves.

## **NOTES ON THE ACCOUNTS**

*(Expressed in Hong Kong dollars)*

### **1 SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

#### **(m) Research and development costs**

Research and development costs comprise all costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities. All research and development costs are recognised as expenses in the period in which they are incurred.

#### **(n) Retirement costs**

The Group operates a defined contribution provident fund scheme for those employees who are eligible and have elected to participate in the scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. Contributions are made by the Group based on a percentage of the participating employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the scheme. When an employee leaves the scheme prior to his/her interest in the employer contributions being vested fully, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions.

#### **(o) Borrowing costs**

Borrowing costs are expensed in the profit and loss account in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditures for the asset are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

#### **(p) Related parties**

For the purposes of these accounts, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

#### **(q) Cash equivalents**

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired.

## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### 2 TURNOVER

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are set out in note 12 on the accounts.

Turnover represents the sales value of goods and services supplied to customers. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	<b>Group</b>	
	<b>2000</b>	1999
	<b>\$'000</b>	\$'000
<b>Continuing operations</b>		
Manufacture and sale of electrical, personal and health care products	<b>43,501</b>	62,500
Manufacture and sale of bathroom products	<b>12,834</b>	34,682
Manufacture and sale of other household products and office equipment	<b>21,196</b>	25,529
Provision of Internet related services	<b>6,300</b>	—
<b>Discontinued operations</b>		
Provision of casing metalisation services ( <i>note</i> )	—	35,633
	<b>83,831</b>	158,344

*Note:* In the financial year 1999, the Group discontinued its operations in respect of the provision of casing metalisation services, the principal market of which was located in Asia. The discontinuance was accomplished by the disposal of the Group's entire investments in the issued share capital of a subsidiary engaged in the electroplating and the trading of related metal products, and the disposal of all of the Group's fixed assets employed by other subsidiaries in these business undertakings. The effective date of the discontinuance for accounting purposes was 30 November 1999.

The resulting loss on disposal of subsidiaries and the gain on the disposal of fixed assets, in the amount of \$487,000 and \$360,000, respectively, have been included in arriving at the operating loss from discontinued operations for the year ended 31 December 1999.



## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### 3 SEGMENTAL INFORMATION

The analysis of the principal activities and geographical locations of the operations of the Company and its subsidiaries during the financial year are as follows:

#### Principal activities

	Group turnover		Contribution to loss from operations	
	2000 \$'000	1999 \$'000	2000 \$'000	1999 \$'000
<b>Continuing operations</b>				
Manufacture and sale of electrical, personal and health care products	<b>43,501</b>	62,500	<b>(20,087)</b>	(39,118)
Manufacture and sale of bathroom products	<b>12,834</b>	34,682	<b>(7,382)</b>	(24,260)
Manufacture and sale of other household products and office equipment	<b>21,196</b>	25,529	<b>(11,467)</b>	(14,349)
Provision of Internet related services	<b>6,300</b>	—	<b>(9,779)</b>	—
<b>Discontinued operations</b>				
Provision of casing metallisation services	—	35,633	—	(6,074)
	<b>83,831</b>	158,344	<b>(48,715)</b>	(83,801)

#### Geographical locations of operations

	Group turnover	
	2000 \$'000	1999 \$'000
Europe	<b>21,359</b>	23,612
North America	<b>42,138</b>	81,425
Asia	<b>18,575</b>	50,891
Others	<b>1,759</b>	2,416
	<b>83,831</b>	158,344

## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### 4 OTHER INCOME

	<b>2000</b>	1999
	<b>\$'000</b>	\$'000
Consultancy income	<b>3,801</b>	—
Interest income	<b>3,474</b>	87
Income from sales of spare parts	<b>3,494</b>	—
Rental income	<b>528</b>	169
Exchange gains	<b>468</b>	535
Others	<b>3,508</b>	2,295
Gain on disposal of fixed assets	<b>—</b>	360
	<b>15,273</b>	3,446

### 5 LOSS FROM ORDINARY ACTIVITIES BEFORE TAXATION

Loss from ordinary activities before taxation is arrived at after charging:

	<b>2000</b>	1999
	<b>\$'000</b>	\$'000
<b>(a) Finance cost:</b>		
Interest on bank advances and other borrowings repayable within five years	<b>4,519</b>	8,062
Interest on other loans	<b>717</b>	—
Finance charges on obligations under finance leases	<b>191</b>	1,016
	<b>5,427</b>	9,078

## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### 5 LOSS FROM ORDINARY ACTIVITIES BEFORE TAXATION (Continued)

#### (b) Other items:

	2000	1999
	\$'000	\$'000
Cost of inventories	<b>71,806</b>	168,963
Staff costs (including retirement costs of \$132,000)	<b>15,510</b>	18,098
Research and development costs	<b>6,555</b>	3,292
Auditors' remuneration	<b>904</b>	750
Depreciation		
— Owned assets	<b>7,562</b>	20,182
— Assets held under finance leases	<b>1,325</b>	1,436
Operating lease charges		
— hire of other assets (including property rentals)	<b>2,091</b>	490
Provision for bad and doubtful debts	<b>4,899</b>	3,255
Loss on disposals of fixed assets	<b>6,792</b>	70
Other assets written off	<b>1,576</b>	—
	<b><u>          </u></b>	<b><u>          </u></b>

Cost of inventories includes \$6,844,000 (1999: \$12,123,000) relating to depreciation expenses, which the amount is also included in the total depreciation amounts disclosed separately above.

As at the balance sheet date, the Group employed approximately 64 (1999: 43) staff in Hong Kong and had approximately 1,021 (1999: 727) employees in the PRC.

### 6 TAXATION

#### (a) Taxation in the consolidated profit and loss account represents:

	2000	1999
	\$'000	\$'000
Provision for Hong Kong Profits Tax		
— current year	—	277
— under-provision in prior years	<b>1,330</b>	—
Taxation outside Hong Kong	—	259
Deferred taxation (note 22)	—	(848)
	<b><u>          </u></b>	<b><u>          </u></b>
	<b>1,330</b>	(312)

The provision for Hong Kong Profits Tax is calculated at 16% (1999: 16%) of the estimated assessable profits for the year ended 31 December 2000. Taxation for subsidiaries outside Hong Kong is similarly charged at the appropriate current rates of taxation ruling in the relevant countries.

## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### 6 TAXATION (Continued)

#### (b) Taxation in the consolidated balance sheet represents:

	<b>2000</b>	1999
	<b>\$'000</b>	\$'000
Provision for Hong Kong Profits Tax		
– current year	–	277
– under-provision in prior year	<b>1,330</b>	–
Balance of Profits Tax provision relating to prior years	<b>4,315</b>	4,725
	<u><b>5,645</b></u>	<u>5,002</u>
Provision for taxation outside Hong Kong		
– current year	<b>193</b>	259
– prior year	<b>583</b>	324
	<u><b>776</b></u>	<u>583</u>
	<u><b>6,421</b></u>	<u>5,585</u>

### 7 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	<b>2000</b>	1999
	<b>\$'000</b>	\$'000
Fees	–	180
Other emoluments	<b>5,459</b>	3,331
	<u><b>5,459</b></u>	<u>3,511</u>

None of the directors or independent non-executive directors received any fees during the year.

The remuneration of the directors is within the following bands:

	<b>2000</b>	1999
\$	<b>Number of directors</b>	Number of directors
Nil – 1,000,000	<b>5</b>	9
1,000,001 – 1,500,000	<b>1</b>	1
1,500,001 – 2,000,000	–	–
2,000,001 – 2,500,000	<b>1</b>	–
	<u><b>7</b></u>	<u>10</u>

## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### 8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (1999: three) are directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other three (1999: two) individuals are as follows:

	<b>2000</b>	1999
	<b>\$'000</b>	\$'000
Salaries and other emoluments	<u><b>2,899</b></u>	<u>661</u>

The emoluments of the three (1999: two) individuals with the highest emoluments are within the following bands:

\$	<b>2000</b>	1999
	<b>Number of</b>	Number of
	<b>individuals</b>	individuals
Nil – 1,000,000	<b>2</b>	2
1,000,001 – 1,500,000	<u><b>1</b></u>	<u>–</u>

### 9 LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The loss from ordinary activities attributable to shareholders dealt with in the accounts of the Company is \$84,156,000 (1999: \$66,662,000).

### 10 LOSS PER SHARE

#### (a) Basic loss per share

The calculation of basic loss per share is based on the net loss attributable to shareholders of \$58,816,000 (1999: \$93,418,000) and the weighted average of 951,514,287 (1999: 278,440,470) ordinary shares, being the weighted average number of ordinary shares in issue during the year. The weighted average number of ordinary shares in issue for 1999 has been retrospectively adjusted for the effects of the share consolidation and the rights issue during 2000.

#### (b) Diluted loss per share

No diluted loss per share is presented as the inclusion of the Company's share options and convertible notes, which were issued during the financial year, would have an anti-dilutive effect.

## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### 11 FIXED ASSETS

#### (a) The Group

	Investment properties \$'000	Leasehold land and buildings \$'000	Fibre optical cable \$'000	Leasehold improve- ments \$'000	Plant and machinery \$'000	Furniture, fixtures, equipment and motor vehicles \$'000	Moulds and tools \$'000	Total \$'000
<b>Cost or valuation:</b>								
At 1 January 2000	—	37,230	—	—	29,940	18,383	36,631	122,184
Reclassification	5,800	(7,729)	—	4,818	2,127	(4,818)	(198)	—
Additions	—	3,634	48,457	6,397	13,581	16,931	1,297	90,297
Disposals	—	(9,800)	—	—	(1,565)	(839)	(13,875)	(26,079)
Deficit on revaluation	(700)	(4,028)	—	(4,862)	—	—	—	(9,590)
At 31 December 2000	5,100	19,307	48,457	6,353	44,083	29,657	23,855	176,812
<b>Representing:</b>								
Cost	—	—	48,457	—	44,083	29,657	23,855	146,052
Valuation – 2000	5,100	19,307	—	6,353	—	—	—	30,760
	5,100	19,307	48,457	6,353	44,083	29,657	23,855	176,812
<b>Accumulated depreciation:</b>								
At 1 January 2000	—	—	—	—	11,593	11,846	27,633	51,072
Reclassification	—	—	—	934	—	(934)	—	—
Charge for the year	—	650	—	1,495	5,533	4,968	308	12,954
Disposals	—	(109)	—	—	(328)	(402)	(9,884)	(10,723)
Written back on revaluation	—	(312)	—	(1,031)	—	—	—	(1,343)
At 31 December 2000	—	229	—	1,398	16,798	15,478	18,057	51,960
<b>Net book value:</b>								
At 31 December 2000	5,100	19,078	48,457	4,955	27,285	14,179	5,798	124,852
At 31 December 1999	—	37,230	—	—	18,347	6,537	8,998	71,112

The major properties of the Group are:—

Location and name	Existing use	Term of lease
Factory premises, Hongye Industrial Area, Tangxia, Dongguan City, Guangdong Province, PRC	Industrial	Medium term
Factory premises, Laokeng Village, Shenzhen City, Guangdong Province, PRC	Investment property	Medium term

## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### 11 FIXED ASSETS (Continued)

#### (a) The Group (Continued)

The Group's investment property and leasehold land and buildings were revalued on 31 December 2000 on an open market existing use basis by Chung Sen Surveyors Limited, an independent firm of professional valuers, at \$5.1 million and HK\$19.3 million respectively. The deficit arising on revaluation was charged to the profit and loss account.

The net book value of fixed assets of the Group held under finance leases amounted to \$1.5 million at 31 December 2000 (1999: \$2.3 million). Had the Group's investment property and leasehold land and building held outside Hong Kong been carried at historical cost less accumulated depreciation, their carrying value would have been approximately \$40,498,000 (1999: \$38,243,000).

#### (b) The analysis of the net book value of leasehold land and buildings is as follows:

	<b>The Group</b>	
	<b>2000</b>	1999
	<b>\$'000</b>	\$'000
Medium-term leases in Hong Kong	—	9,400
Medium-term leases outside Hong Kong	<b>19,078</b>	27,830
	<b>19,078</b>	37,230

### 12 INVESTMENTS IN SUBSIDIARIES

	<b>The Company</b>	
	<b>2000</b>	1999
	<b>\$'000</b>	\$'000
Unlisted shares, at cost	<b>68,891</b>	68,891
Due from subsidiaries	<b>1,425,995</b>	56,941
Due to a subsidiary	<b>(1,434)</b>	(1,159)
	<b>1,493,452</b>	124,673
Less: Provision	<b>(194,011)</b>	(120,929)
	<b>1,299,441</b>	3,744

## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### 12 INVESTMENTS IN SUBSIDIARIES (Continued)

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital and debt securities	Percentage of equity			Principal activity
			Group's effective holding	held by the Company	held by subsidiary	
Anford International Limited	British Virgin Islands ("BVI")	50,000 shares of US\$1 each	100	—	100	Property holding
Archiever Company Limited	BVI	1 share of US\$1 each	100	100	—	Investment holding
Beijing Infohighway Information and Technology Limited*	The People's Republic of China ("PRC")	Registered capital US\$10,000,000	90	—	90	Provision of Internet business in PRC
Cyber Info Management Limited	BVI	1 share of US\$1 each	100	100	—	Investment in optical fibre cable
Dongguan Fairform Manufacturing Company Limited #	PRC	Registered capital \$12,750,000	100	—	100	In liquidation
Dongguan Weihang Electrical Product Company Limited #	PRC	Registered capital US\$8,107,000	100	—	100	Manufacture of electrical personal care appliances
Dynamic Technology Limited	BVI	1 share of US\$1 each	100	100	—	Trademark holding
eForce China Limited	BVI	1 share of US\$1 each	100	100	—	Provision of management services
eForce Management Limited	Hong Kong	2 shares of \$1 each	100	100	—	Provision of management services



## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### 12 INVESTMENTS IN SUBSIDIARIES (Continued)

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital and debt securities	Percentage of equity			Principal activity
			Group's effective holding	held by the Company	held by subsidiary	
Fairform Holdings Limited	Hong Kong	2 shares of \$1 each	100	100	—	Name holding
Fairform Information Technology Limited	Hong Kong	600,000 shares of \$1 each	100	—	100	Trading of electrical and household appliances
Fairform Manufacturing Company Limited	Hong Kong	4,750,000 ordinary shares of \$1 each and 250,000 deferred non-voting shares of \$1 each	100	—	100	Manufacture and trading of electrical and household appliances
Gainford International Inc.	BVI	50 shares of US\$1 each	100	—	100	Investment holding
Gold Fortress Holdings Ltd.	BVI	200 shares of US\$1 each	100	100	—	Investment holding
Gold Landmark Assets Limited	BVI	1 share of US\$1 each	100	—	100	Investment holding
Megabit Telecom Inc.	BVI	10,000 shares of US\$1 each	100	—	100	Investment holding
New Hong Kong Industrial Company Limited	Hong Kong	2 ordinary shares of \$1 each and 300,000 deferred non-voting shares of \$1 each	100	—	100	Investment holding

## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### 12 INVESTMENTS IN SUBSIDIARIES (Continued)

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital and debt securities	Percentage of equity			Principal activity
			Group's effective holding	held by the Company	held by subsidiary	
Oasis Global Limited	BVI	10 shares of US\$1 each	100	—	100	Provision of management services
Outshine Technology Limited	BVI	1 share of US\$1 each	100	100	—	Investment holding
Palm Beach Holdings Limited	Republic of Mauritius	1 share of US\$1 each	100	—	100	Investment holding
Pansy International Limited	BVI	10 shares of US\$1 each	100	—	100	Provision of inspection services
Pro-Tek Electroforming Limited	Hong Kong	200,000 shares of \$1 each	100	—	100	Investment holding
Qesco International (H.K.) Limited	Hong Kong	1,000,000 shares of \$1 each	100	—	100	Trading of electrical and household appliances
Rowland Development Ltd.	BVI	10 shares of US\$1 each	100	—	100	Provision of management services
Shenzhen Fairform Company Limited #	PRC	Registered capital of \$11,000,000	100	—	100	In liquidation
Space Treasure Limited	Hong Kong	2 shares of \$1 each	100	—	100	Web-site construction
Sparkle Development Limited	Hong Kong	1,000,000 shares of \$1 each	100	—	100	Holding ISP Pnet licence

## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### 12 INVESTMENTS IN SUBSIDIARIES (Continued)

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital and debt securities	Percentage of equity			Principal activity
			Group's effective holding	held by the Company	held by subsidiary	
Top Harvest Industrial Limited	Hong Kong	3,300,000 ordinary shares of \$1 each and 2,700,000 deferred non-voting shares of \$1 each	100	—	100	Dormant
Wellrose Profits Limited	BVI	1 share of US\$1 each	100	—	100	Investment holding
Wixford Limited	BVI	1 share of US\$1 each	100	100	—	Investment holding

\* A sino-foreign equity joint venture

# A wholly owned foreign enterprise

### 13 INTEREST IN ASSOCIATES

	The Group		The Company	
	2000 \$'000	1999 \$'000	2000 \$'000	1999 \$'000
Share of net assets/(liabilities)	710	(1,587)	—	—
Amounts due from associates	6,309	349	10	—
Amounts due to associates	(8,776)	—	—	—
Less: Amount included in trade receivables	(6,300)	—	—	—
Add: Amount included in trade payables	6,776	—	—	—
	<b>(1,281)</b>	<b>(1,238)</b>	<b>10</b>	<b>—</b>

The amounts due to and from associates are unsecured, interest free and without fixed terms of repayment.

## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### 13 INTEREST IN ASSOCIATES (Continued)

The following list contains only the particulars of associates, all of which are unlisted corporate entities, which principally affected the results or assets of the Group:

Name of associate	Place of incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest			Principal activity
			Group's effective interest	held by the Company	held by subsidiary	
Cross Information Technology Limited	Hong Kong	100 ordinary shares of \$1 each	20	—	20	Dormant
Dynasty L.L.C.	United States of America	140,000 ordinary shares of US\$1 each	50	—	50	Dormant
Esterham Enterprise Inc.	BVI	2 ordinary shares of US\$1 each	50	—	50	Portal development
Jade Ocean Surface Finishing Company Limited	Hong Kong	10,000 ordinary shares of \$1 each	49	—	49	Dormant
Sinogain Technologies Limited	Hong Kong	98 ordinary shares of \$1 each	50	—	50	Not yet commenced business

The Group's share of the post-acquisition accumulated losses of the associates at 31 December 2000 was \$1,838,000 (1999: \$2,134,000).

### 14 OTHER NON-CURRENT ASSETS

	The Group		The Company	
	2000 \$'000	1999 \$'000	2000 \$'000	1999 \$'000
Deposit	<u>45,102</u>	<u>—</u>	<u>—</u>	<u>—</u>

The deposit represents a quality guarantee deposit relating to a contract. The deposit will be repaid upon expiry of the contract on 21 July 2019. The deposit is non-interest bearing.

## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### 15 INVENTORIES

	The Group	
	2000 \$'000	1999 \$'000
Raw materials	13,116	9,926
Work in progress	6,148	1,038
Finished goods	1,196	2,872
	<u>20,460</u>	<u>13,836</u>

All inventories at 31 December 1999 and 2000 are carried at net realisable value.

### 16 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2000 \$'000	1999 \$'000	2000 \$'000	1999 \$'000
Trade receivables	10,568	10,036	—	—
Other receivables, deposits and prepayments	37,493	6,488	270	—
	<u>48,061</u>	<u>16,524</u>	<u>270</u>	<u>—</u>

All receivables are interest free, unsecured and are expected to be recovered within one year.

Included in trade and other receivables are trade receivables (net of specific provisions for bad and doubtful debts) with the following ageing analysis:

	The Group		The Company	
	2000 \$'000	1999 \$'000	2000 \$'000	1999 \$'000
Current	6,284	4,615	—	—
1 to 3 months overdue	908	3,766	—	—
More than 3 months overdue but less than 12 months overdue	3,376	1,655	—	—
	<u>10,568</u>	<u>10,036</u>	<u>—</u>	<u>—</u>

Trade debts are due up to 30 days from the date of billing. Debtors with balances that are more than 3 months overdue are requested to settle all outstanding balances before any further credit is granted.

## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### 17 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2000 \$'000	1999 \$'000	2000 \$'000	1999 \$'000
Deposits with banks and other financial institutions	<b>141,307</b>	—	<b>406</b>	—
Cash at bank and in hand	<b>6,284</b>	3,165	<b>2,501</b>	34
	<b>147,591</b>	3,165	<b>2,907</b>	34

Bank loans of \$133 million were secured by US dollar bank deposits of US\$18.1 million.

### 18 BANK AND OTHER LOANS

At 31 December 2000, bank and other loans were repayable as follows:

	The Group		The Company	
	2000 \$'000	1999 \$'000	2000 \$'000	1999 \$'000
Within 1 year or on demand	<b>38,510</b>	39,911	<b>23,088</b>	—
After 1 year but within 2 years	<b>152,922</b>	25,000	<b>19,588</b>	—
After 2 years but within 5 years	—	12,221	—	—
After 5 years	—	—	—	—
	<b>152,922</b>	37,221	<b>19,588</b>	—
	<b>191,432</b>	77,132	<b>42,676</b>	—

At 31 December 2000, the bank and other loans may be analysed as follows:

	The Group		The Company	
	2000 \$'000	1999 \$'000	2000 \$'000	1999 \$'000
Bank loans, secured	<b>170,981</b>	65,286	<b>36,176</b>	—
Convertible notes, unsecured	<b>6,500</b>	—	<b>6,500</b>	—
Loan from officers, unsecured	<b>5,988</b>	7,679	—	—
Other interest bearing loan, secured	<b>7,963</b>	4,167	—	—
	<b>191,432</b>	77,132	<b>42,676</b>	—

## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### 18 BANK AND OTHER LOANS (Continued)

Promissory Notes of \$36.2 million at 31 December 2000 were issued to banks as security of the loans granted to the Group, which were secured on the Group's entire shareholding in Gold Fortress Holdings Limited and all assets held by Fairform Manufacturing Company Limited with a carrying value of \$45 million.

A loan of \$8 million at 31 December 2000 was secured over the land and buildings outside Hong Kong with a carrying value of \$19 million.

### 19 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2000 \$'000	1999 \$'000	2000 \$'000	1999 \$'000
Trade payables	26,705	25,894	—	—
Other creditors and accrued charges	41,882	17,103	26,317	3,778
Due to related companies	952	—	—	—
Amount due to ultimate holding company	4,076	—	—	—
Amount due to associates	6,776	—	—	—
Due to directors	1,628	1,783	—	—
	<b>82,019</b>	<b>44,780</b>	<b>26,317</b>	<b>3,778</b>

All trade and other payables are unsecured, interest free and are expected to be settled within twelve months from the balance sheet date.

Included in trade and other payables are trade creditors with the following ageing analysis.

	The Group		The Company	
	2000 \$'000	1999 \$'000	2000 \$'000	1999 \$'000
Due within 1 month or on demand	15,502	11,617	—	—
Due after 1 month but within 3 months	1,807	6,789	—	—
Due after 3 months but within 6 months	2,232	3,960	—	—
Due after 6 months	7,164	3,528	—	—
	<b>26,705</b>	<b>25,894</b>	<b>—</b>	<b>—</b>

## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### 20 NON-CURRENT INTEREST-BEARING BORROWINGS

	The Group		The Company	
	2000 \$'000	1999 \$'000	2000 \$'000	1999 \$'000
Bank loans, secured	<b>146,422</b>	37,221	<b>13,088</b>	—
Convertible notes	<b>6,500</b>	—	<b>6,500</b>	—
	<b><u>152,922</u></b>	<u>37,221</u>	<b><u>19,588</u></b>	<u>—</u>

On 1 February 2000, pursuant to a placing and underwriting agreement dated 16 December 1999, entered into between the Company and independent placing agents, 4% convertible notes with an aggregate principal amount of \$9 million were issued. The convertible notes are convertible to ordinary shares of \$0.05 each of the Company at any time between 1 May 2000 and 27 January 2002. The conversion price was set at \$0.05 but subsequently adjusted to \$0.42 upon the completion of the Company's capital reorganisation and the rights issue in December 2000. During the year, \$2.5 million of convertible notes were converted and \$6.5 million of convertible notes were outstanding at the year end. If the outstanding convertible notes were fully converted, the Company would be required to issue a further 15,476,191 ordinary shares of \$0.05 each. Otherwise, the outstanding amount will be repayable no later than 31 January 2002.

### 21 OBLIGATIONS UNDER FINANCE LEASES

At 31 December 2000, the Group had obligations under finance leases repayable as follows:

	2000 \$'000	1999 \$'000
Within 1 year	<b>931</b>	2,358
After 1 year but within 2 years	<b>—</b>	902
	<b><u>931</u></b>	<u>3,260</u>
Finance charges relating to future period	<b>(34)</b>	(189)
	<b><u>897</u></b>	<u>3,071</u>
Amount due within one year	<b>(897)</b>	(2,203)
	<b><u>—</u></b>	<u>868</u>



## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### 22 DEFERRED TAXATION

(a) Movements on deferred taxation comprise:

	<b>The Group</b>		<b>The Company</b>	
	<b>2000</b>	1999	<b>2000</b>	1999
	<b>\$'000</b>	\$'000	<b>\$'000</b>	\$'000
At 1 January	—	848	—	—
Transfer from/(to) the profit and loss account (note 6)	—	(848)	—	—
At 31 December	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

(b) Major components of deferred tax of the Group are set out below:

	<b>2000</b>		1999	
	<b>Potential assets/ (liabilities)</b>		Potential assets/ (liabilities)	
	<b>Provided</b>	<b>unprovided</b>	Provided	unprovided
	<b>\$'000</b>	<b>\$'000</b>	\$'000	\$'000
Tax losses	—	<b>22,644</b>	—	25,385
Depreciation allowances in excess of related depreciation	—	<b>(1,255)</b>	—	—
	<u>—</u>	<u><b>21,389</b></u>	<u>—</u>	<u>25,385</u>

(c) Major components of deferred tax of the Company are set out below:

	<b>2000</b>		1999	
	<b>Potential assets</b>		Potential assets	
	<b>Provided</b>	<b>unprovided</b>	Provided	unprovided
	<b>\$'000</b>	<b>\$'000</b>	\$'000	\$'000
Tax losses	—	2,432	—	11,044
Depreciation allowances in excess of related depreciation	—	—	—	—
	<u>—</u>	<u>2,432</u>	<u>—</u>	<u>11,044</u>

## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### 23 SHARE CAPITAL

#### (a) Share capital

	2000		1999	
	No. of shares ('000)	Amount \$'000	No. of shares ('000)	Amount \$'000
<b>Authorised:</b>				
Ordinary shares of \$0.1 each	—	—	1,000,000	100,000
Ordinary shares of \$0.05 each	<b>6,000,000</b>	<b>300,000</b>	—	—
	<b><u>6,000,000</u></b>	<b><u>300,000</u></b>	<b><u>1,000,000</u></b>	<b><u>100,000</u></b>
<b>Issued and fully paid:</b>				
At 1 January	<b>306,852</b>	<b>30,685</b>	255,852	25,585
Issued during the year	<b>830,000</b>	<b>41,500</b>	51,000	5,100
Share reductions (notes (i) and (v))	<b>(1,080,009)</b>	<b>(69,342)</b>	—	—
Rights issue	<b>1,080,009</b>	<b>54,000</b>	—	—
At 31 December	<b><u>1,136,852</u></b>	<b><u>56,843</u></b>	<b><u>306,852</u></b>	<b><u>30,685</u></b>

(i) Pursuant to ordinary/special resolutions passed at a special general meeting held on 1 February 2000:

- the nominal value of the Company's issued and authorised ordinary share capital were reduced from \$0.1 each to \$0.05 each. The contributed surplus of \$15,342,000 arising from the cancellation of an amount of \$0.05 per share on the 306,851,606 ordinary shares was applied to eliminate the same amount of the accumulated losses of the Company. In addition, pursuant to the same resolution, the authorised share capital of the Company was re-designated into new ordinary shares of \$0.05 each;

## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### 23 SHARE CAPITAL (Continued)

#### (a) Share capital (Continued)

(i) (Continued)

- the Company's authorised share capital was increased from \$100 million to \$150 million by the creation of an additional 1,000,000,000 new ordinary shares of \$0.05 each in the Company; and
- the Company issued and allotted 600,000,000 new ordinary shares of \$0.05 each in the Company to Tees Corporation ("Tees") at par representing a discount of approximately 93.1% to the closing market price of the share of the Company on 29 October 1999, being the date of a subscription agreement between Tees and the Company. The net proceeds of approximately \$30 million were used to reduce the bank borrowings of the Group and to provide additional working capital for the Group;

- (ii) On 24 February 2000, arrangements were made for a private placement to independent private investors of 120,000,000 ordinary shares of \$0.05 each in the Company held by Tees, the controlling shareholder of the Company, at a price of \$1.10 per share representing a discount of approximately 10.6% to the closing price of the share of the Company on 23 February 2000.

Pursuant to a placing and subscription agreement on the same date, Tees subscribed for 120,000,000 new ordinary shares in the Company at a price of \$1.10 per share. The proceeds were used to finance business acquisitions and to provide additional working capital for the Group. These new ordinary shares were issued under the general mandate granted to the directors at a special general meeting held on 1 February 2000 and rank *pari passu* with other shares in issue in all aspects.

- (iii) Pursuant to a sale and purchase agreement on 2 June 2000, the Company issued 60,000,000 new ordinary shares of \$0.05 each in the Company to Tokatee Internet Limited at a price of \$0.80 per share representing a discount of approximately 3.6% to the closing price of the share of the Company on 2 June 2000 as consideration of \$48 million for acquisition of a section of optical fibre cable in the PRC. These new ordinary shares were issued under the general mandate granted to the directors at a special general meeting held on 1 February 2000 and rank *pari passu* with other shares in issue in all aspects.
- (iv) On 14 July 2000, \$2.5 million convertible notes were converted by the noteholders, resulting in the issue of 50,000,000 new ordinary shares of \$0.05 each in the Company. These new ordinary shares were issued pursuant to an ordinary resolution passed at a special general meeting held on 1 February 2000 and rank *pari passu* with other shares in issue in all aspects.

## **NOTES ON THE ACCOUNTS**

*(Expressed in Hong Kong dollars)*

### **23 SHARE CAPITAL** *(Continued)*

#### **(a) Share capital** *(Continued)*

- (v) Pursuant to ordinary/special resolutions passed at a special general meeting held on 30 November 2000:
- the Company consolidated every twenty issued and unissued shares of \$0.05 each in the capital of the Company into one share of \$1.00 each in the Company;
  - the nominal value of the Company's issued share capital was reduced from \$1.00 each to \$0.05 each. The contributed surplus of \$54,000,000 arising from the cancellation of an amount of \$0.95 per share on the 56,842,580 shares was applied to eliminate the same amount of the accumulated losses of the Company. The Company also subdivided every authorised but unissued share of \$1.00 into twenty new ordinary shares of \$0.05 each;
  - the Company's authorised share capital was increased from \$150 million to \$300 million by the creation of an additional 3,000,000,000 new shares of \$0.05 each in the Company; and
  - the Company issued 1,080,009,020 new ordinary shares of \$0.05 each in the capital of the Company at \$1.05 per share by way of a rights issue in the proportion of nineteen rights shares for every existing share then held. The net proceeds of the rights issue of approximately \$1,110 million were used to finance business acquisition and for general working capital purposes.

#### **(b) Share options**

Pursuant to the Company's share option scheme adopted on 2 June 1997, 55,800,000 share options were granted to certain employees of the Group on 10 July 2000. These share options are exercisable for a period commencing from 10 July 2001 to 9 July 2010 and the holders thereof are entitled to subscribe for ordinary shares of \$0.05 each of the Company at a subscription price of \$0.588 per share. During the year, 2,000,000 share options were cancelled as a result of employees' resignation.

## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### 24 RESERVES

#### (a) The Group

	Share premium \$'000	Contributed surplus \$'000	Exchange reserves \$'000	Land and buildings revaluation reserves \$'000	Accumulated losses \$'000	Total \$'000
At 1 January 1999	29,303	12,401	(3,210)	448	(2,965)	35,977
Exchange differences on disposal of subsidiaries	—	—	(105)	—	—	(105)
Revaluation deficit	—	—	—	(308)	—	(308)
Net loss for the year	—	—	—	—	(93,418)	(93,418)
At 31 December 1999	<u>29,303</u>	<u>12,401</u>	<u>(3,315)</u>	<u>140</u>	<u>(96,383)</u>	<u>(57,854)</u>
At 1 January 2000	29,303	12,401	(3,315)	140	(96,383)	(57,854)
Arising on issue of shares	1,222,291	—	—	—	—	1,222,291
Share reductions (note 23(a))	—	69,342	—	—	—	69,342
Transfer between reserves	—	(81,743)	—	—	81,743	—
Goodwill	—	—	—	—	(1,130,621)	(1,130,621)
Written back on disposal	—	—	—	(140)	—	(140)
Exchange differences on translation of the accounts of subsidiaries outside Hong Kong	—	—	(421)	—	—	(421)
Loss for the year	—	—	—	—	(58,816)	(58,816)
At 31 December 2000	<u>1,251,594</u>	<u>—</u>	<u>(3,736)</u>	<u>—</u>	<u>(1,204,077)</u>	<u>43,781</u>

Included in the figure for the accumulated losses is an amount of \$1,838,000 (1999: \$2,134,000), being the accumulated losses attributable to associates.

The exchange reserves and revaluation reserves have been set up and will be dealt with in accordance with the accounting policies adopted for foreign currency translation and the revaluation of investment properties and land and buildings held for owned use (note 1).

The contributed surplus of the Group arose as a result of the Group's reorganisation carried out on 31 May 1997 and represents the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the Group's reorganisation, over the nominal value of the Company's shares issued in exchange thereof.

## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### 24 RESERVES (Continued)

#### (b) The Company

	Share premium \$'000	Contributed surplus \$'000	Accumulated losses \$'000	Total \$'000
At 1 January 1999	29,303	68,691	(62,017)	35,977
Net loss for the year	—	—	(66,662)	(66,662)
At 31 December 1999	<u>29,303</u>	<u>68,691</u>	<u>(128,679)</u>	<u>(30,685)</u>
At 1 January 2000	29,303	68,691	(128,679)	(30,685)
Arising on issues of shares	1,222,291	—	—	1,222,291
Share reductions (note 23(a))	—	69,342	—	69,342
Transfer between reserves	—	(128,679)	128,679	—
Net loss for the year	—	—	(84,156)	(84,156)
At 31 December 2000	<u>1,251,594</u>	<u>9,354</u>	<u>(84,156)</u>	<u>1,176,792</u>

The contributed surplus of the Company arose as a result of the above Group reorganisation scheme and represents the excess of the then combined net assets of the subsidiaries acquired, over the nominal value of the Company's shares issued in exchange therefor. The movements thereon are as a result of the share reductions, as disclosed in notes 23(a)(i) and (v).

In addition, pursuant to the board resolution dated 29 December 2000, the directors of the Company approved a transfer of the accumulated losses as at 1 January 2000 to the contributed surplus.

Under The Companies Act 1981 of Bermuda, the Company may make distributions to its members out of the contributed surplus under certain circumstances which the Company is currently unable to meet.

## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### 25 NOTES ON THE CONSOLIDATED CASH FLOW STATEMENT

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

	<b>2000</b>	1999
	<b>\$'000</b>	\$'000
Loss from operations	<b>(54,142)</b>	(83,801)
Interest income	<b>(3,474)</b>	(87)
Interest paid	<b>5,427</b>	—
Depreciation	<b>8,887</b>	21,618
Write-off of deferred pre-operating expenses	<b>—</b>	409
Provision for bad and doubtful debts	<b>4,550</b>	3,255
Provision for amounts due from associates	<b>349</b>	1,477
Loss/(gain) on disposal of fixed assets	<b>3,297</b>	(290)
Fixed assets written off	<b>3,495</b>	—
Other assets written off	<b>1,576</b>	—
Loss on disposal of subsidiaries	<b>—</b>	487
Deficit arising from revaluation of leasehold land and buildings	<b>8,247</b>	9,082
(Increase)/decrease in inventories	<b>(6,624)</b>	43,504
Decrease in other debtors, deposits and prepayments	<b>2,113</b>	8,905
Increase/(decrease) in other creditors and accrued charges	<b>905</b>	(2,529)
Increase in bank loans and other bank borrowings incepted for trading activities	<b>—</b>	29,924
Surplus realised on sale of revalued property	<b>(140)</b>	—
(Increase)/decrease in accounts receivable	<b>(4,173)</b>	9,588
Decrease in accounts payable	<b>(120)</b>	(13,588)
Net cash (outflow)/inflow from operating activities	<b><u>(29,827)</u></b>	<b><u>27,954</u></b>

## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### 25 NOTES ON THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

#### (b) Purchase of subsidiaries

	\$'000
Net assets acquired:	
Fixed assets	27,287
Other investments	45,102
Cash and bank balances	141,287
Accounts receivable	909
Prepayments, deposits and other receivables	34,694
Accounts payable	(931)
Accruals and other payables	(23,874)
Shareholder's loan	(83,235)
Bank loans	(133,333)
Finance lease	(43)
Tax payable	(193)
Amount due to a related company	(952)
Amount due to an associated company	(6,776)
Minority interests	(3,392)
	<hr/>
Net tangible assets	(3,450)
Share of pre-acquisition losses	3,640
Share of other pre-acquisition reserves	288
Goodwill on acquisition	1,130,621
	<hr/>
	<u>1,131,099</u>

Pursuant to the agreements for sale and purchase, certain debts amounted to \$35.3 million were assigned to the Group upon the acquisition of a 100% interest in Space Treasure Limited, trading as Chinacon.net and the acquisition of a 20% interest in Megabit Telecom Inc., which were included in the above account captions appropriately.

#### (c) Analysis of net outflow of cash and cash equivalents in respect of the purchase of subsidiaries

	\$'000
Cash consideration	1,130,000
Other acquisition costs	1,099
	<hr/>
	1,131,099
Cash at bank and in hand acquired	(141,287)
Cash at bank balance pledged	138,807
	<hr/>
Net outflow of cash and cash equivalents in respect of the purchase of subsidiaries	<u>1,128,619</u>



## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### 25 NOTES ON THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

#### (d) Analysis of changes in financing

	Bank loans and other bank borrowings \$'000	Finance lease obligations \$'000	Loans from directors, officers And other loans \$'000	Minority interests \$'000	Share capital and premium (including contributed Surplus) \$'000	Convertible notes \$'000
At 1 January 1999	12,107	12,745	2,778	1,182	67,289	—
Cash inflow/(outflow) from financing:						
— Advance of new loans	—	—	10,851	—	—	—
— Issue of new shares	—	—	—	—	5,100	—
— Repayment of bank loans	(1,157)	—	—	—	—	—
— Repayment of finance lease obligation	—	(7,044)	—	—	—	—
— Effect of debt restructuring arrangement on cash and cash equivalents	4,493	—	—	—	—	—
Inception of new finance lease contracts	—	3,540	—	—	—	—
Release of finance lease obligations through assignment	—	(6,170)	—	—	—	—
Minority shareholders' share of profit for the year	—	—	—	51	—	—
Arising on disposal of interests in subsidiaries	—	—	—	(1,233)	—	—
Reclassification effect of debt restructuring arrangement	34,843	—	—	—	—	—
At 31 December 1999	<u>50,286</u>	<u>3,071</u>	<u>13,629</u>	<u>—</u>	<u>72,389</u>	<u>—</u>
At 1 January 2000	50,286	3,071	13,629	—	72,389	—
Cash inflow/(outflow) from financing:						
— Advance of new loans	—	—	9,238	—	—	—
— Issue of new shares	—	—	—	—	1,267,291	—
— Repayment of loans	(12,638)	—	(86,447)	—	—	—
Issue of convertible notes	—	—	—	—	—	9,000
Repayment of finance lease obligations	—	(2,217)	—	—	—	—
Arising on acquisition of interest in subsidiaries	133,333	43	83,235	3,392	—	—
Arising from capital reduction applied to offset against accumulated losses	—	—	—	—	(81,743)	—
Issue of new shares in exchange for interest in optical fibre cable	—	—	—	—	48,000	—
Issue of shares on exercise of convertible notes	—	—	—	—	2,500	(2,500)
At 31 December 2000	<u>170,981</u>	<u>897</u>	<u>19,655</u>	<u>3,392</u>	<u>1,308,437</u>	<u>6,500</u>

## NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

### 25 NOTES ON THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

#### (e) Major non-cash transaction

- (i) During the year, the Group acquired a section of the optical fibre cable for an amount of \$48 million which was satisfied by the issue and allotment of 60 million ordinary shares of \$0.05 each of the Company.
- (ii) During the year, the holders of \$2.5 million convertible notes exercised the right to convert into 50 million ordinary shares of \$0.05 each of the Company.

### 26 COMMITMENTS

- (a) Capital commitments outstanding at 31 December 2000 not provided for in the accounts were as follows:

	The Group		The Company	
	2000	1999	2000	1999
	\$'000	\$'000	\$'000	\$'000
Contracted for:				
Quality guarantee deposit	16,380	—	—	—
Purchases of fixed assets	603	813	—	—
Construction of buildings	—	102	—	—
	<u>16,983</u>	<u>915</u>	<u>—</u>	<u>—</u>

- (b) At 31 December 2000, the Group and the Company had commitments payable in the following year under non-cancellable operating leases in respect of land and buildings as follows:

	The Group		The Company	
	2000	1999	2000	1999
	\$'000	\$'000	\$'000	\$'000
<b>Leases expiring:</b>				
Within 1 year	3,043	360	—	—
After 1 year but with 5 years	1,414	—	—	—
After 5 years	134	439	—	—
	<u>4,591</u>	<u>799</u>	<u>—</u>	<u>—</u>

## **NOTES ON THE ACCOUNTS**

*(Expressed in Hong Kong dollars)*

### **27 MATERIAL RELATED PARTY TRANSACTIONS**

- (a) On 4 October 2000, the Company granted a loan to an associated company, Megabit Telecom Inc. ("Megabit") for an amount of \$15,000,000. The loan is unsecured and carries interest at a fixed rate of 10% per annum. Interest charged to the associated company amounted to \$366,000 during the year ended 31 December 2000. On 21 December 2000, Megabit became a wholly-owned subsidiary of the Group and the amount outstanding as at the balance sheet date has been eliminated on consolidation.
- (b) Pursuant to a management agreement between eForce Management Limited, a wholly owned subsidiary of the Group, and a business partner of the Group, Beijing Infohighway Information and Technology Limited ("BIHW"), entered into on 1 April 2000 and subsequently revised on 16 October 2000, management fees of \$3,801,000 have been charged during the year ended 31 December 2000. Expenses of \$562,000 which have been paid on behalf of BIHW by the Group prior to BIHW becoming a non wholly-owned subsidiary of the Group are outstanding at the balance sheet date. Upon BIHW becoming a non wholly-owned subsidiary of the Group on 21 December 2000, the Company granted a loan of \$2,000,000 and a further amount of \$1,000,000 was granted on 27 December 2000. The loan of \$3,000,000 carries interest at Hong Kong Dollar prime plus 1% per annum and is repayable by 20 December 2001. All other balances outstanding at the balance sheet date amounting to \$562,000, which have been eliminated on consolidation, are unsecured, interest free and have no fixed repayment terms.
- (c) A wholly-owned subsidiary of the Company, eForce Management Limited entered into a lease agreement with the ultimate holding company to lease an office space for a period of 11 months commencing 1 February 2000 to 31 December 2000 at a monthly rental of \$87,000. The total rental payable to the ultimate holding company for the year ended 31 December 2000 amounted to \$961,000. The lease was entered into on normal commercial terms. The Company is aware that this constituted a connected transaction by virtue of Mr. Leung Chung Shan's interest in the ultimate holding company but was exempted under Rule 14.24(5) of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

## **NOTES ON THE ACCOUNTS**

*(Expressed in Hong Kong dollars)*

### **27 MATERIAL RELATED PARTY TRANSACTIONS** *(Continued)*

- (d) During the year, a wholly-owned subsidiary of the Company, eForce Management Limited, was granted advances from the ultimate holding company amounting to \$4,076,000 as additional working capital and for the payment of renovation costs, rates and management fees incurred on the office premises leased from the ultimate holding company. The amount due at the balance sheet date amounted to \$4,076,000, and is unsecured, interest free and has no fixed repayment terms.
- (e) During the year, the Company obtained an interest free loan as additional working capital from the ultimate holding company of \$2,000,000, which was also repaid during the year.
- (f) A wholly-owned subsidiary of the Group, Space Treasure Limited, provides portal development services to an associated company of the Group, Esterham Enterprise Inc. ("Esterham") who in turns provided portal development services to a business partner of the Group, BIHW under the same terms as those provided to other customers. Portal development income for the year ended 31 December 2000 amounted to \$6,300,000. At the balance sheet date, the amount due by the Group to Esterham amounted to \$2,467,000. The amount due is unsecured, interest free and has no fixed repayment terms.
- (g) At the balance sheet date, the amount due to a related party, China Infohighway Communications Co., Ltd. ("IHW") amounted to \$952,000. This represents the net balance of the facility fee charged by BIHW under the Cooperation Agreement and the expenses paid on behalf of BIHW during the year ended 31 December 2000. The amount due is unsecured, interest free and with no fixed repayment terms. Upon BIHW becoming a non wholly-owned subsidiary of the Group on 21 December 2000, the facility fee charged to IHW from 21 December 2000 to 31 December 2000 amounting to \$106,000 constituted a connected transaction by virtue of IHW being a connected person of the Company but was exempted under Rule 14.24(5) of the Rules Governing The Listing of Securities on The Stock Exchange of Hong Kong Limited.

### **28 LITIGATION**

- (a) In October 1999, Mersongate Holdings Limited (the "Plaintiff") commenced an action against (1) Mr. Huen Raico Hing Wah; (2) Central Growth Limited; (3) Bridal Path Corporation and (4) the Company (collectively the "Defendants"), alleging that the Defendants, including the Company, have agreed to certain arrangement in relation to the share capital of the Company, including certain rights of the Plaintiff to participate in the share capital of the Company, and that the Defendants have failed to perform their respective obligations under the arrangement, and claiming specific performance or, alternatively, damages. The Company has no knowledge of and is not a party to the alleged arrangement. The Company considers the claim against it as groundless and has filed a defence against the claim.

## **NOTES ON THE ACCOUNTS**

*(Expressed in Hong Kong dollars)*

### **28 LITIGATION** *(Continued)*

- (b) On 26 May 2000, Mr. Wong Fu Keung, a former director of the Company, instituted proceedings against Fairform Manufacturing Company Limited ("Fairform"), a wholly-owned subsidiary of the Company, claiming repayment of a sum of \$3,183,951.43 which Mr. Wong Fu Keung paid out under a guarantee between him and Standard Chartered Bank for banking facilities granted to Fairform. A defence was filed by Fairform on 26 July 2000. To date no further steps have been taken by Mr. Wong Fu Keung in the proceedings. The amount has been included in trade payables in the accounts.
- (c) On 31 May 2000, Top Harvest Industrial Limited ("Top Harvest"), a wholly-owned subsidiary of the Company, instituted proceedings against Pentagon (EMI) Shielding Limited ("Pentagon") claiming an amount of \$7,661,016.83 being the outstanding amount due to Top Harvest for goods sold and delivered by Top Harvest to Pentagon. Top Harvest and Pentagon have agreed to a general extension for Pentagon to file its defence and for such extension to be terminable up on 14 days' written notice. The amount has been included in trade payables in the accounts. Both parties are negotiating a settlement and in the opinion of directors an adequate provision against this amount has been made on the accounts for the year ended 31 December 2000.
- (d) On 23 June 2000, Pentagon instituted proceedings against Fairform claiming an amount of \$3,548,448.23 being an amount which Pentagon alleges is due for work done and services applied and for goods sold and delivered by Pentagon to Fairform. Pentagon and Fairform have agreed to a general extension for Fairform to file its defence and for such extension to be terminable upon 14 days' written notice. The amount has been included in trade payables in the accounts.
- (e) On 23 February 2001, Winsmooth Holdings Limited instituted proceedings against Fairform claiming an amount of \$252,450 being an amount which Winsmooth Holdings Limited alleges is due for goods sold and delivered by Winsmooth Holdings Limited to Fairform. Fairform has filed a defence against the claim.

### **29 SUBSEQUENT EVENTS**

Subsequent to the balance sheet date, the Group obtained an unsecured loan facility of \$200 million from a financial institution of which \$6 million has been drawn down. The loan facility bears interest at Hong Kong dollar prime plus 3% per annum and is repayable within one year from the date of drawn down.

### **30 ULTIMATE HOLDING COMPANY**

The directors consider the ultimate holding company at 31 December 2000 to be Tees Corporation, which is incorporated in the British Virgin Islands.