

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. 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 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 of its subsidiaries made up to 31st December each year. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from or to the date of their acquisition or disposal, as appropriate. All material intercompany transactions and balances are eliminated on consolidation.
- (ii) Capital reserve or goodwill on the acquisition of subsidiaries represents the shortfall or excess of the purchase consideration over the fair value of the Group's share of the separable net assets of subsidiaries acquired. Capital reserve or goodwill are credited or written off directly to reserves in the year of acquisition. On disposal of a subsidiary, the attributable amount of capital reserve or goodwill which has previously been dealt with as a movement on Group reserves is included in calculating the profit or loss on disposal.

(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 income statement.

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(e) Associated companies

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

In the consolidated balance sheet, investments in associated companies are accounted for under the equity method and are initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associated company's net assets. The consolidated income statement includes the Group's share of the post-acquisition results of its associated companies for the year. Capital reserve or goodwill on the acquisition of associated companies represents the shortfall or excess of the purchase consideration over the fair value of the Group's share of the separable net assets of the associated companies acquired. Capital reserve or goodwill are credited or written off directly to reserves in the year of acquisition.

Unrealised profits and losses resulting from transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated company, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the income statement.

On disposal of an associated company during the year, any attributable amount of purchased goodwill which has previously been dealt with as a movement on group reserves is included in the calculation of the profit or loss on disposal.

The results of associated companies are included in the Company's income statement 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, investments in associated companies are stated at cost less provisions for diminution in value which is other than temporary as determined by the directors for each associated company individually. Any such provisions are recognised as an expense in the income statement.

(f) Other investments in securities

The Group's and the Company's policies for investments in securities other than investments in subsidiaries and associated companies are as follows:

- (i) Trading securities are stated in the balance sheet at fair value. Changes in fair value are recognised in the income statement as they arise. Securities are presented as trading securities when they were acquired principally for the purpose of generating a profit from short term fluctuations in price or dealers' margin.

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(f) Other investments in securities (Cont'd)

- (ii) Non-trading securities are stated in the balance sheet at fair value. Changes in fair value are recognised in the investment revaluation reserve until the security is sold, collected, or otherwise disposed of, or until there is objective evidence that the security is impaired, at which time the relevant cumulative gain or loss is transferred from the investment revaluation reserve to the income statement.
- (iii) Transfers from the investment revaluation reserve to the income statement as a result of impairments are reversed when the circumstances and events that led to the impairment cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.
- (iv) Profits or losses on disposal of investments in securities are determined as the differences between the estimated net disposal proceeds and the carrying amount of the investments and are accounted for in the income statement as they arise. In the case of non-trading securities, the profit or loss includes any amount previously held in the investment revaluation reserve in respect of that security.

(g) Property, plant and equipment

- (i) Land and buildings held for own use and other fixed assets are stated in the balance sheet at cost less accumulated depreciation.
- (ii) The carrying amount of property, plant and equipment 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 income statement. In determining the recoverable amount, expected future cash flows generated by the property, plant and equipment 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 income statement. 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) 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 enterprise. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.
- (iv) Gains or losses arising from the retirement or disposal of a property, plant and equipment are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the income statement on the date of retirement or disposal. Any related revaluation surplus is transferred from the revaluation reserve to retained profits.

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(h) Investment properties

Investment properties with an unexpired lease term of more than 20 years are stated in the balance sheet at their open market value which is assessed annually by qualified external valuers. Surpluses arising on revaluations are credited on a portfolio basis to the income statement to the extent of any deficit arising on revaluation previously charged to the income statement and are thereafter taken to the investment properties revaluation reserve; deficits arising on revaluations are firstly set off against any previous revaluation surpluses and thereafter charged to the income statement.

On disposal of an investment property, the related portion of surpluses or deficits previously taken to the investment properties revaluation reserve is transferred to the income statement for the year.

Investment properties with an unexpired lease term of 20 years or less are stated at valuation less accumulated depreciation.

(i) Amortisation and depreciation

Depreciation is calculated to write off the cost or valuation of property, plant and equipment over their estimated useful lives on a straight-line basis as follows:

Land in Hong Kong held under long term lease	— Over the remaining lease term
Buildings in Hong Kong	— 50 years
Land use rights and buildings outside Hong Kong in the PRC held under short to medium term lease	— Over the period of the lease
Properties under development	— Nil
Furniture, fixtures and fittings	— 3 to 20 years
Plant, machinery and equipment	— 2 to 10 years
Motor vehicles	— 3 to 10 years
Investment properties	
— unexpired lease term of more than 20 years	— Nil
— unexpired lease term of 20 years or less	— Over the remaining lease term

(j) 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 income statement as follows:

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(j) Revenue recognition (Cont'd)

(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) Contract revenue

When the outcome of contract work can be estimated reliably:

- revenue from a fixed price contract is recognised using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to estimated total contract costs for the contract; and
- revenue from a cost plus contract is recognised by reference to the recoverable costs incurred during the period plus the fee earned, measured by the proportion that costs incurred to date bear to the estimated total costs of the contract.

When the outcome of contract work cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

(iii) Rental income from operating leases

Rental income receivable under operating leases is recognised on a straight-line basis over the term of the respective leases.

(iv) Dividends

- dividend income from unlisted investments other than associated companies is recognised when the shareholder's right to receive payment is established.
- dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

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

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(k) Inventories

(i) Trading and manufacturing

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

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

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.

(ii) Property development

Properties under development are stated at specifically identified cost, including borrowing costs capitalised, aggregate cost of development, materials and supplies, wages and other direct expenses, less any provisions considered necessary by the directors.

Properties held for sale are stated at the lower of cost and the estimated net realisable value. In the case of properties developed by the Group, cost is determined by apportionment of the total development costs for that development project, including borrowing costs capitalised, attributable to the unsold properties. Net realisable value represents the estimated selling price less costs to be incurred in selling the property.

(l) Intangible asset

Intangible asset represents patent right for software development acquired by the Group and is stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to the income statement on a straight-line basis over its estimated useful life which is taken to be 10 years.

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(m) 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.

(n) 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 income statement.

The results of subsidiaries in other parts of the PRC are translated into Hong Kong dollars at the average exchange rates for the year; balance sheet items are retranslated at the rates of exchange ruling at the balance sheet date. The exchange differences are dealt with as a movement in reserves.

(o) Operating leases

Rentals payable under operating leases are accounted for in the income statement on a straight-line basis over the periods of the respective leases.

(p) 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. Research costs are recognised as an expense in the period in which they are incurred. Development costs are recognised as an expense in the period in which they are incurred except those development costs which relate to a clearly defined project and the future benefits therefrom are reasonably assured.

(q) Retirement costs

The amount of the contribution payable to the Group's retirement scheme is charged to the income statement when incurred.

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(r) Borrowing costs

Borrowing costs are expensed in the income statement 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.

(s) 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.

(t) 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. For the purposes of the cash flow statement, cash equivalents would also include advances from banks repayable within three months from the date of the advance.

(u) Forward exchange contracts

Exchange differences arising on non-speculative contracts which are used as hedges of firm commitments are added to, or deducted from, the amount of the relevant transaction. These outstanding contracts are revalued at the exchange rates ruling at the balance sheet date.

2. TURNOVER

The principal activity of the Company is investment holding. The principal activities of its subsidiaries and associated companies are the manufacture, distribution and sale of electronic and electrical products, office equipment and software development and integration. The principal activities of the subsidiaries are set out in note 33 on the accounts.

Turnover represents the invoiced value of goods sold and services supplied to customers by the Group less returns, discounts and value added tax, and revenue from software development and integration. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2000 \$'000	1999 \$'000
Manufacture, distribution and sale of electronic and electrical products and office equipment	1,114,469	993,566
Revenue from software development and integration	22,038	—
	<u>1,136,507</u>	<u>993,566</u>

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

2. TURNOVER (Cont'd)

The Group's turnover and profit are almost entirely attributable to manufacturing, distribution and sale of electronic and electrical products and office equipment in the PRC. Turnover and contributions to the Group's profit from Hong Kong activities are insignificant. Accordingly, no analyses by principal activities and geographical areas are provided.

3. (LOSS)/PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

(Loss)/profit from ordinary activities before taxation is arrived at after charging/(crediting):—

(a) Finance cost

	2000 \$'000	1999 \$'000
Interest on bank advances and other borrowings repayable within five years	7,555	14,403
Interest on other loans	747	2,597
Other borrowing costs	406	620
	<u>8,708</u>	<u>17,620</u>

(b) Other items

	2000 \$'000	1999 \$'000
Auditors' remuneration	2,000	1,800
Amortisation and depreciation	12,384	15,815
Cost of inventories	1,023,149	911,166
Management fees	2,589	2,608
Operating lease charges for land and buildings	9,667	13,372
Research and development costs	266	1,443
Staff costs (including retirement costs of \$6,094,000) (1999: \$5,459,000)	49,681	54,873
Loss on disposal of property, plant and equipment	2,544	2,360
Exchange (gain)/loss	(2,975)	7,317
Interest income	(15,808)	(9,109)
Rental received from investment properties less outgoings of \$960,000 (1999: \$553,000)	(4,893)	(3,687)
Dividend income from listed investments	(4)	(1)
Dividend income from unlisted investments	(62)	(69)
Impairment loss on non-trading equity securities	5,676	94,744
Unrealised loss/(gain) on equity securities	<u>196,558</u>	<u>(261,543)</u>

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

4. DIRECTORS' REMUNERATION

Directors' remuneration, excluding emoluments waived, disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance is as follows:

	2000 \$'000	1999 \$'000
Fees	—	—
Salaries and other emoluments	8,624	3,226
Retirement scheme contributions	51	162
	<u>8,675</u>	<u>3,388</u>

In addition, directors are eligible under the Company's share option scheme, as detailed in note 25, to subscribe for shares in the Company at discounted price. During the year, 13,090,000 options have been granted to the directors. In the absence of a ready market for the options granted on the shares of the Company, the directors are unable to arrive at an accurate assessment of the value of the options granted to the respective directors.

The directors' remuneration is within the following bands:

	2000 Number of directors	1999 Number of directors
\$ 0 — \$ 1,000,000	2	5
\$ 1,000,001 — \$ 1,500,000	2	—
\$ 1,500,001 — \$ 2,000,000	2	1
\$ 2,000,001 — \$ 2,500,000	1	—

The above number of directors include the Company's independent non-executive directors, who did not receive any fees or emoluments in 2000 and 1999.

During the year ended 31st December, 2000, four directors agreed to waive part of their emoluments totalling \$8,273,000 (1999: \$9,632,000) to which they are entitled under the service contracts entered into with the Company.

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

5. FIVE HIGHEST PAID INDIVIDUALS

During the year, the five individuals with the highest emoluments are directors and in 1999, the five individuals with the highest emoluments comprised three directors, whose emoluments are disclosed in note 4. Details of the emoluments in respect of the other two individuals in 1999 are as follows:

	2000 \$'000	1999 \$'000
Salary, housing and other emoluments	<u>—</u>	<u>1,173</u>

The emolument of the above employees is within the following band:

	2000 Number of employee	1999 Number of employee
\$ 0 — \$ 1,000,000	<u>—</u>	<u>2</u>

6. TAXATION

(a) Taxation in the consolidated income statement represents:

	2000 \$'000	1999 \$'000
Hong Kong profits tax		
— current year	8	8
— prior year	—	(669)
Income tax outside Hong Kong in the PRC (“PRC income tax”)	4,868	3,629
Share of associated companies’ PRC income tax	115	43
Deferred taxation (<i>Note 23(a)</i>)	<u>(24,729)</u>	<u>37,412</u>
	<u>(19,738)</u>	<u>40,423</u>

The provision for Hong Kong profits tax is calculated at the rate of 16% (1999: 16%) on the estimated assessable profits for the year. PRC income tax is calculated at the applicable rates on the estimated taxable income outside Hong Kong in the PRC.

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

6. TAXATION (Cont'd)

(b) Taxation in the balance sheets represents:

	Group		Company	
	2000 \$'000	1999 \$'000	2000 \$'000	1999 \$'000
Provision for Hong Kong profits tax				
— current year	8	8	—	(389)
— balance of profits tax recoverable relating to prior years	(1,728)	(1,901)	—	—
— provisional profits tax paid	(3)	(1,002)	—	—
Provision for PRC income tax	3,632	2,810	—	—
Transfer from deferred tax (Note 23(a))	15,127	—	—	—
	<u>17,036</u>	<u>(85)</u>	<u>—</u>	<u>(389)</u>

7. (LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The (loss)/profit attributable to shareholders includes a loss of \$116,296,000 (1999: \$5,011,000) which has been dealt with in the accounts of the Company.

8. DIVIDEND

The directors do not recommend payment of a dividend for the year ended 31st December, 2000 (1999: nil).

9. (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss attributable to shareholders of \$216,265,000 (1999: profit of \$1,394,000) and on the weighted average of 1,044,642,000 shares (1999: 899,690,000 shares) in issue during the year.

(b) Diluted (loss)/earnings per share

Diluted loss per share for the year is not shown as the potential ordinary shares are anti-dilutive. The calculation of diluted earnings per share for the year 1999 is based on the profit attributable to ordinary shareholders of \$1,394,000 and the weighted average number of ordinary shares of 921,415,000 shares after adjusting for the effects of all dilutive potential ordinary shares.

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

9. (LOSS)/EARNINGS PER SHARE (Cont'd)

(c) Reconciliations

	1999 Number of shares
Weighted average number of ordinary shares used in calculating basic earnings per share	899,690,000
Deemed issue of ordinary shares for no consideration	<u>21,725,000</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>921,415,000</u>

10. RETIREMENT SCHEME

The Company has a defined contribution retirement scheme (the "Scheme") which was registered in May 1995 under the Occupational Retirement Schemes Ordinance for all qualified employees in Hong Kong. The assets of the scheme are held separately under a provident fund managed by an independent trustee. Pursuant to the rules of the Scheme, the employer is required to make contributions to the Scheme calculated at 5% of the employees' basic salaries on a monthly basis, whereas the employees' contributions are at 5% which is optional, at their own discretion. The employees are entitled to 100% of the employer's contributions and the accrued interest after 10 complete years of service, or at an increasing scale of between 30% to 90% after completion of three to nine years of service.

Where there are employees who leave the scheme prior to vesting fully in the contributions, in accordance with the rules of the Scheme, the forfeited employer's contributions shall be used to reduce the future contributions of the employer.

At 31st December, 2000 and 1999, there were no material forfeited contributions which arose when employees left the Scheme before they were fully vested in the contributions and which were available to reduce the contributions payable by the Company in the future years.

At 31st December, 2000, the Company established a mandatory provident fund scheme (the "MPF Scheme") for employees not previously covered by the Company's Scheme. Members of the Scheme were given an option to join the MPF Scheme or to stay in the Scheme. Out of the total of 30 members, all had elected to join the MPF Scheme.

The Company's and employees' contributions to the MPF Scheme are based on 5% of the relevant income of the relevant staff and in accordance the requirements of the Mandatory Provident Fund Schemes Ordinance and related guidelines. The Company's contributions payable to the two schemes are charged to the income statement. Retirement costs for the year is \$6,094,000 (1999: \$5,459,000).

The employees of the subsidiaries in the PRC are members of the Central Pension Scheme operated by the Government of the PRC. The subsidiaries are required to contribute a certain percentage of their payroll to the Central Pension Scheme to fund the benefits. The only obligation for the Group with respect to the Central Pension Scheme is the required contributions under the Central Pension Scheme.

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

11. INTANGIBLE ASSET

The Group	Computer software \$'000
Cost:	
At 1st January, 2000	—
Additions through acquisition of a subsidiary	<u>10,169</u>
At 31st December, 2000	<u><u>10,169</u></u>
Accumulated amortisation	
At 1st January, 2000	—
Additions through acquisition of a subsidiary	1,695
Charge for the year	<u>254</u>
At 31st December, 2000	<u><u>1,949</u></u>
Net book value:	
At 31st December, 2000	<u><u>8,220</u></u>
At 31st December, 1999	<u><u>—</u></u>

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

12. PROPERTY, PLANT AND EQUIPMENT

(a) The Group

	Land and buildings held for own use \$'000	Furniture, fixtures and fittings \$'000	Plant, machinery and equipment \$'000	Motor vehicles \$'000	Total \$'000
Cost or valuation:					
At 1st January, 2000	101,732	6,313	36,023	26,967	171,035
Exchange adjustments	149	10	99	71	329
Additions through acquisition of a subsidiary	—	—	3,325	909	4,234
Other additions	—	265	4,647	9,255	14,167
Transfer from investment properties (Note 13)	11,680	—	—	—	11,680
Transfer to investment properties (Note 13)	(1,800)	—	—	—	(1,800)
Reduction through disposal of subsidiaries	—	(3,201)	(2,435)	(2,763)	(8,399)
Other disposals	—	(208)	(9,309)	(7,329)	(16,846)
At 31st December, 2000	111,761	3,179	32,350	27,110	174,400
Representing:					
Cost	111,068	3,179	32,350	27,110	173,707
Valuation in 1992	693	—	—	—	693
	111,761	3,179	32,350	27,110	174,400
Accumulated amortisation and depreciation:					
At 1st January, 2000	25,376	3,032	27,442	19,251	75,101
Exchange adjustments	57	5	75	49	186
Charge for the year	3,806	253	3,350	3,634	11,043
Impairment loss	26,968	—	—	—	26,968
Additions through acquisition of a subsidiary	—	—	619	287	906
Reduction through disposal of subsidiaries	—	(945)	(1,674)	(2,047)	(4,666)
Transfer to investment properties (Note 13)	(223)	—	—	—	(223)
Written back on disposal	—	(192)	(5,981)	(3,956)	(10,129)
At 31st December, 2000	55,984	2,153	23,831	17,218	99,186
Net book value:					
At 31st December, 2000	55,777	1,026	8,519	9,892	75,214
At 31st December, 1999	76,356	3,281	8,581	7,716	95,934

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

12. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

(b) The Company

	Furniture, fixtures and fittings \$'000	Motor vehicles \$'000	Total \$'000
Cost or valuation:			
At 1st January, 2000	1,512	1,869	3,381
Additions	167	—	167
Disposals	(328)	—	(328)
	<u>1,351</u>	<u>1,869</u>	<u>3,220</u>
At 31st December, 2000			
Accumulated amortisation and depreciation:			
At 1st January, 2000	1,385	1,869	3,254
Charge for the year	74	—	74
Written back on disposal	(328)	—	(328)
	<u>1,131</u>	<u>1,869</u>	<u>3,000</u>
At 31st December, 2000			
Net book value:			
At 31st December, 2000	<u>220</u>	<u>—</u>	<u>220</u>
At 31st December, 1999	<u>127</u>	<u>—</u>	<u>127</u>

(c) The analysis of cost or valuation of land and buildings is as follows:—

	Group	
	2000 \$'000	1999 \$'000
Held in Hong Kong under long term leases	47,084	48,884
Held outside Hong Kong in the PRC under medium term leases	57,532	45,724
Held outside Hong Kong in the PRC under short term leases	7,145	7,124
	<u>111,761</u>	<u>101,732</u>

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

13. INVESTMENT PROPERTIES

	The Group	
	2000 \$'000	1999 \$'000
Valuation		
At 1st January	89,907	87,585
Exchange adjustments	37	256
Surplus/(deficit) on revaluation	2,555	(10,538)
Transfer (to)/from fixed assets (Note 12)	(10,103)	12,604
	<u>82,396</u>	<u>89,907</u>
At 31st December		
Accumulated depreciation		
At 1st January	1,981	959
Exchange adjustments	5	4
Charge for the year	1,087	1,018
	<u>3,073</u>	<u>1,981</u>
At 31st December		
Net book value		
At 31st December	<u><u>79,323</u></u>	<u><u>87,926</u></u>

(a) The analysis of valuation of investment properties is as follows:—

	Group	
	2000 \$'000	1999 \$'000
Held in Hong Kong under long term lease	2,910	2,410
Held outside Hong Kong in the PRC under medium term lease	79,486	87,497
	<u><u>82,396</u></u>	<u><u>89,907</u></u>

(b) The investment properties held in Hong Kong and outside Hong Kong in the PRC were revalued at 31st December, 2000 by Jointgoal Surveyors and DTZ Debenham Tie Leung Limited respectively who have among their staff Fellows of the Hong Kong Institute of Surveyors, on an open market value basis. The revaluation surplus of \$2,555,000 (1999: deficit of \$10,538,000) has been transferred to the consolidated income statement.

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

14. INTEREST IN SUBSIDIARIES

	Company	
	2000 \$'000	1999 \$'000
Unlisted investments, at cost	108,352	68,751
Amounts due from subsidiaries	578,571	636,874
Amounts due to subsidiaries	(4,936)	(7,001)
	<u>681,987</u>	<u>698,624</u>

Details of the principal subsidiaries are set out in note 33 on the accounts.

15. INTEREST IN ASSOCIATED COMPANIES

	Group		Company	
	2000 \$'000	1999 \$'000	2000 \$'000	1999 \$'000
Unlisted investments, at cost	—	—	137,065	137,065
Share of net assets	128,739	103,921	—	—
	<u>128,739</u>	<u>103,921</u>	<u>137,065</u>	<u>137,065</u>

- (a) In December 2000, the Company entered into a conditional agreement with Matsushita Electric Works, Ltd. ("Matsushita") to dispose of its entire interest of 35% in Beijing Stone Matsushita Electric Works, Ltd. ("Stone Matsushita") to Matsushita for a consideration of US\$17,350,000 (equivalent to \$135,330,000). Details of the disposal were set out in the circular dated 23rd December, 2000. As at 31st December, 2000, the Company was still awaiting the approvals from the relevant PRC government authority approving the transaction contemplated under the agreement.

At 31st December, 2000, the Group's share of net assets of Stone Matsushita amounted to \$93,544,000.

- (b) Details of the principal associated companies are set out in note 34 on the accounts.

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

16. CURRENT INVESTMENTS

	Group		Company	
	2000 \$'000	1999 \$'000	2000 \$'000	1999 \$'000
Equity securities				
— Listed	78,301	—	44,369	—
— Unlisted	—	274,667	—	155,638
	<u>78,301</u>	<u>274,667</u>	<u>44,369</u>	<u>155,638</u>

At 31st December, 2000, the fair value of the investment was \$78,301,000 and the unrealised loss of \$196,558,000 has been charged to the consolidated income statement. As at the date when the accounts are approved by the directors, the market value of the Group's and the Company's investment in listed equity securities was \$40,842,000 and \$23,143,000 respectively. These represent diminutions in value of \$37,459,000 and \$21,226,000 respectively, when compared to the market value at 31st December, 2000 as included in the balance sheet.

17. INVENTORIES

	Group	
	2000 \$'000	1999 \$'000
<i>Trading and manufacturing</i>		
Raw materials	58,984	37,253
Work in progress	9,932	7,904
Finished goods	181,199	189,485
	<u>250,115</u>	<u>234,642</u>
<i>Property development</i>		
Properties held for sale	30,132	—
Properties under development	—	30,047
	<u>30,132</u>	<u>30,047</u>
	<u>280,247</u>	<u>264,689</u>

The amount of trading and manufacturing inventories, included above, carried at net realisable value is \$33,863,000 (1999: \$39,787,000).

Properties under development was reclassified as properties held for sale upon the completion of construction during the year. As at 31st December, 2000, properties held for sale are carried at net realisable value based on management estimate by reference to prevailing market conditions.

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

18. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2000 \$'000	1999 \$'000	2000 \$'000	1999 \$'000
Debtors, prepayments and other receivables	128,579	136,158	37,207	369
Gross amount due from customers for contract work	9,046	—	—	—
Amounts due from associated companies	2,104	4,475	—	—
Amounts due from related companies (Note 30(h))	46,076	13,700	30,443	—
	<u>185,805</u>	<u>154,333</u>	<u>67,650</u>	<u>369</u>

All of the trade and other receivables are expected to be recovered within one year.

Included in the Group's and the Company's debtors, prepayments and other receivables is a deposit of \$30,000,000 for the acquisition of an unlisted equity investment, the completion of which is expected to be within one year.

Included in the Group's debtors, prepayments and other receivables are trade debtors (net of specific provisions for bad and doubtful debts) with the following ageing analysis:

	Group	
	2000 \$'000	1999 \$'000
Current	29,913	37,144
Due over 6 months but within 12 months	2,711	8,132
Due over 12 months but within 24 months	6,224	17,229
Due over 24 months but within 36 months	—	3,870
Due over 36 months	14,760	15,555
	<u>53,608</u>	<u>81,930</u>

Debts are due within 90 days from the date of billing. Included in trade debtors are debts of \$14,760,000 (1999: \$14,760,000) guaranteed by Stone Group Corporation (Note 30(e)).

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

19. PLEDGED DEPOSITS

	Group		Company	
	2000	1999	2000	1999
	\$'000	\$'000	\$'000	\$'000
Pledged deposits with banks	<u>49,495</u>	<u>36,762</u>	<u>—</u>	<u>—</u>

Fixed deposits with banks of \$38,797,000 (1999: \$36,762,000) were pledged as a security against general banking facilities of certain subsidiaries and fixed deposits of \$10,698,000 (1999: \$nil) were secured for the banks' guarantees issued to a customer of a subsidiary.

20. CASH AND CASH EQUIVALENTS

	Group		Company	
	2000	1999	2000	1999
	\$'000	\$'000	\$'000	\$'000
Deposits with banks and other financial institutions	20,919	244,973	—	37,027
Cash at bank and in hand	<u>315,034</u>	<u>193,392</u>	<u>2,318</u>	<u>217</u>
	<u>335,953</u>	<u>438,365</u>	<u>2,318</u>	<u>37,244</u>

21. BANK LOANS AND OVERDRAFTS

	Group		Company	
	2000	1999	2000	1999
	\$'000	\$'000	\$'000	\$'000
Secured	48,959	82,257	—	15,714
Unsecured	<u>9,887</u>	<u>65,408</u>	<u>—</u>	<u>—</u>
	<u>58,846</u>	<u>147,665</u>	<u>—</u>	<u>15,714</u>

Bank loans and overdrafts are repayable as follows:—

Within 1 year or on demand	53,458	147,665	—	15,714
Between 1 year and 2 years	<u>5,388</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>58,846</u>	<u>147,665</u>	<u>—</u>	<u>15,714</u>

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

21. BANK LOANS AND OVERDRAFTS (Cont'd)

The secured bank loans and overdrafts are secured by bank deposits of \$38,797,000 (1999: \$36,762,000) and the pledge of properties of certain subsidiaries with an aggregate carrying value of \$22,234,000 (1999: \$41,259,000) and the Company's dividend rights in one of its non-wholly owned subsidiaries.

22. TRADE AND OTHER PAYABLES

	Group		Company	
	2000 \$'000	1999 \$'000	2000 \$'000	1999 \$'000
Creditors, accruals and other payables	274,097	164,828	7,868	3,722
Amounts due to associated companies	5,616	36,097	—	—
Amounts due to related companies	20,328	24,536	—	1,883
	<u>300,041</u>	<u>225,461</u>	<u>7,868</u>	<u>5,605</u>

The creditors, accruals and other payables include bills payable of \$21,231,000 (1999: \$6,247,000) which are secured by the pledge of properties of certain subsidiaries. All of the trade and other payables are expected to be settled within one year.

Included in the Group's creditors, accruals and other payables are trade creditors and bills payable with the following ageing analysis:

	Group	
	2000 \$'000	1999 \$'000
Due within 6 months or on demand	186,360	124,482
Due after 6 months but within 12 months	6,397	2,321
Due after 12 months but within 24 months	2,692	—
	<u>195,449</u>	<u>126,803</u>

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

23. DEFERRED TAXATION

(a) Movements on deferred taxation comprise:

	Group	
	2000	1999
	\$'000	\$'000
Balance at 1st January	39,850	2,438
Transfer (to)/from income statement (Note 6(a))	(24,729)	37,412
Exchange adjustment	6	—
Transfer to current taxation (Note 6(b))	(15,127)	—
	<u>—</u>	<u>—</u>
Balance at 31st December	<u>—</u>	<u>39,850</u>

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

	Group	
	2000	1999
	\$'000	\$'000
Unrealised gain on equity securities	—	37,402
Others	—	2,448
	<u>—</u>	<u>39,850</u>

Deferred taxation provided in 1999 on the unrealised gain on equity securities was transferred to current taxation upon the disposal of such securities by a PRC subsidiary to a Hong Kong subsidiary within the Group during the year. Overprovision of deferred taxation resulted from the reduction of fair value of equity securities was transferred to income statement.

(c) There is no significant deferred tax liability for which provision has not been made.

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

24. SHARE CAPITAL

	2000		1999	
	Number of Shares (’000)	\$’000	Number of Shares (’000)	\$’000
Authorised:				
Ordinary shares of \$0.1 each	<u>2,000,000</u>	<u>200,000</u>	<u>1,500,000</u>	<u>150,000</u>
Issued and fully paid:				
At 1st January	1,039,601	103,960	887,550	88,755
Shares issued under private placement	—	—	115,000	11,500
Shares issued under share option scheme	—	—	37,051	3,705
Shares issued upon acquisition of a subsidiary	<u>15,910</u>	<u>1,591</u>	—	—
At 31st December	<u>1,055,511</u>	<u>105,551</u>	<u>1,039,601</u>	<u>103,960</u>

- (a) During the year ended 31st December, 2000, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities.
- (b) Pursuant to an ordinary resolution passed at the extraordinary general meeting held on 25th October, 2000, the authorized share capital of the Company was increased from \$150,000,000 to \$200,000,000 by the creation of an additional 500,000,000 shares of \$0.1 each ranking pari passu with the existing issued shares in all respects.
- (c) On 6th September, 2000, 15,910,146 new shares of \$0.1 each in the Company were allotted and issued to Stone Group Corporation at a price of \$1.778 per share for a consideration of approximately \$28,288,000. The proceed was a partial consideration for the acquisition from Stone Group Corporation of a 71% interest in Shanghai Stone - MTI Computer System Engineering Co. Ltd. (“SMTI”). The new shares rank pari passu with the then existing shares in all respects.

25. SHARE OPTION SCHEME

Pursuant to resolutions passed on 23rd July, 1993, a Share Option Scheme for employees was approved and the directors may, at their discretion, invite any employee or director of any member of the Group to take up options to subscribe for shares at a price determined by the board and notified to each grantee and will not be less than 80 per cent of the average of the closing prices of the shares on The Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the date of offer of the options granted to such grantee or the nominal value of the shares, whichever is higher. Any options granted are exercisable up to three years commencing on the expiry of six months after the date on which the option is accepted or to the expiry date of the Scheme, whichever is earlier.

The maximum number of shares in respect of which options may be granted (together with options exercised and options then outstanding) under the Share Option Scheme may not exceed 10 per cent of the issued capital of the Company, excluding any shares issued on exercise of options from time to time. The Share Option Scheme will remain in force for a period of 10 years commencing on 23rd July, 1993.

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

25. SHARE OPTION SCHEME (Cont'd)

As at 31st December, 2000, the number of share options outstanding under the Scheme are as follow:

Date of grant	Subscription price per share (\$)	Number of shares to be issued upon the exercise of share options
29/2/2000	2.796	11,500,000
21/10/2000	0.632	1,590,000

26. RESERVES

Group	Capital	Share	Exchange	Retained	Total	
	redemption		Capital			fluctuation
	reserve	premium	reserve	profits	\$'000	
	\$'000	\$'000	\$'000	\$'000	\$'000	
At 1st January, 2000	151	847,338	(56,399)	(4,295)	121,191	907,986
Share premium on issue of shares	—	26,633	—	—	—	26,633
Goodwill arising on acquisition of subsidiary and associated company	—	—	(18,391)	—	—	(18,391)
Capital reserve released on disposal of subsidiaries	—	—	(51)	—	—	(51)
Exchange differences arising on consolidation	—	—	—	315	—	315
Loss for the year	—	—	—	—	(216,265)	(216,265)
At 31st December, 2000	151	873,971	(74,841)	(3,980)	(95,074)	700,227
Attributable to:						
The Company and subsidiaries	151	873,971	(74,841)	(7,280)	(99,782)	692,219
Associated companies	—	—	—	3,300	4,708	8,008
	151	873,971	(74,841)	(3,980)	(95,074)	700,227

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

26. RESERVES (Cont'd)

	Capital	Share	Exchange		Retained	Total
	redemption		Capital	fluctuation		
	reserve	premium	reserve	reserve	\$'000	\$'000
	\$'000	\$'000	\$'000	\$'000		
Group						
At 1st January, 1999	151	582,395	(57,290)	(5,488)	119,797	639,565
Share premium on issue of shares						
— under share option scheme	—	41,654	—	—	—	41,654
— under private placement	—	223,289	—	—	—	223,289
Capital reserve upon acquisition of a subsidiary	—	—	856	—	—	856
Goodwill released on disposal of subsidiaries	—	—	7	—	—	7
Adjustment on consideration paid in respect of subsidiary disposed of in prior year	—	—	28	—	—	28
Exchange differences arising on consolidation	—	—	—	1,193	—	1,193
Profit for the year	—	—	—	—	1,394	1,394
	<u>151</u>	<u>847,338</u>	<u>(56,399)</u>	<u>(4,295)</u>	<u>121,191</u>	<u>907,986</u>
At 31st December, 1999						
Attributable to:						
The Company and subsidiaries	151	847,338	(56,399)	(7,349)	121,287	905,028
Associated companies	—	—	—	3,054	(96)	2,958
	<u>151</u>	<u>847,338</u>	<u>(56,399)</u>	<u>(4,295)</u>	<u>121,191</u>	<u>907,986</u>

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

26. RESERVES (Cont'd)

	Capital redemption reserve \$'000	Share premium \$'000	Retained profits \$'000	Total \$'000
Company				
At 1st January, 2000	151	847,338	62,366	909,855
Share premium on issue of shares	—	26,633	—	26,633
Loss for the year	—	—	(116,296)	(116,296)
	<u>151</u>	<u>873,971</u>	<u>(53,930)</u>	<u>820,192</u>
At 31st December, 2000	<u>151</u>	<u>873,971</u>	<u>(53,930)</u>	<u>820,192</u>
	Capital redemption reserve \$'000	Share premium \$'000	Retained profits \$'000	Total \$'000
Company				
At 1st January, 1999	151	582,395	67,377	649,923
Share premium on issue of shares				
— under share option scheme	—	41,654	—	41,654
— under private placement	—	223,289	—	223,289
Loss for the year	—	—	(5,011)	(5,011)
	<u>151</u>	<u>847,338</u>	<u>62,366</u>	<u>909,855</u>
At 31st December, 1999	<u>151</u>	<u>847,338</u>	<u>62,366</u>	<u>909,855</u>

There is no distributable reserve of the Company as at 31st December, 2000 (1999: \$62,366,000).

The application of the share premium account and the capital redemption reserve is governed by Sections 48B and 49H respectively of the Hong Kong Companies Ordinance.

The capital reserve and exchange fluctuation reserve have been set up and will be dealt with in accordance with the accounting policies adopted for goodwill arising on subsidiaries and associated companies and foreign currency translation.

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of (loss)/profit from ordinary activities before share of profits and losses of associated companies to net cash outflow from operating activities

	2000	1999
	\$'000	\$'000
(Loss)/profit from operations ordinary activities before share of profits and losses of associated companies	(266,011)	49,688
Interest charges	8,302	17,000
Interest income	(15,808)	(9,109)
Income from listed investments	(4)	(1)
Income from unlisted investments	(62)	(69)
Amortisation and depreciation	12,384	15,815
Loss on sale of investment	18	—
Loss on disposal of interests in subsidiaries	4,818	3,427
Loss on sale of property, plant and equipment	2,544	2,360
Revaluation (surplus)/deficit on investment properties	(2,555)	10,538
Impairment loss on non-trading equity securities	5,676	94,744
Unrealised loss/(gain) on equity securities	196,558	(261,543)
Impairment loss on properties	26,968	—
Decrease in amounts due to/due from associated companies (net)	(28,110)	(3,720)
Decrease in inventories	3,041	43,730
(Increase)/decrease in debtors, prepayments and other receivables	(3,412)	89,222
Increase in gross amount due from customers for contract work	(9,046)	—
Increase in pledged deposits	(2,035)	(36,762)
(Increase)/decrease in amounts due from related companies	(15,559)	30,570
Increase/(decrease) in creditors, accruals and other payables	100,514	(91,997)
(Decrease)/increase in amounts due to ultimate holding company and fellow subsidiaries	(37,928)	1,147
Foreign exchange	(373)	(280)
Net cash outflow from operating activities	<u>(20,080)</u>	<u>(45,240)</u>

(b) Analysis of the balances of cash and cash equivalents as shown in the consolidated balance sheet

	2000	1999
	\$'000	\$'000
Cash and bank balances	335,953	438,365
Bank loans and overdrafts repayable within three months	(4,582)	(300)
	<u>331,371</u>	<u>438,065</u>

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

(c) Acquisition of subsidiaries

	2000 \$'000	1999 \$'000
Net assets acquired:		
Property, plant and equipment	3,328	712
Inventories	37,360	9,988
Intangible asset	8,474	—
Debtors, prepayments and other receivables	43,715	1,116
Pledged deposits	10,698	—
Cash at bank and in hand	24,970	5,669
Amount due to group companies	(18,771)	(11)
Creditors, accruals and other payables	(23,697)	(1,229)
Minority shareholders' interest	(26,468)	(8,961)
	<u>59,609</u>	<u>7,284</u>
Capital reserve on acquisition of subsidiary	18,598	(856)
Total consideration	<u><u>78,207</u></u>	<u><u>6,428</u></u>
Satisfied by:		
Shares allotted	28,288	—
Cash paid	11,313	1,284
Current account	38,606	—
Decrease in interest in associated company	—	5,144
	<u><u>78,207</u></u>	<u><u>6,428</u></u>

Subsidiaries acquired paid \$29,243,000 of the Group's net operating cash flows and contributed \$11,023,000 in respect of investing activities.

(d) Analysis of the net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries

	2000 \$'000	1999 \$'000
Cash consideration	(11,313)	(1,284)
Cash at bank and in hand acquired	<u>24,970</u>	<u>5,669</u>
Net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	<u><u>13,657</u></u>	<u><u>4,385</u></u>

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

(e) Disposal of interests in subsidiaries

	2000 \$'000	1999 \$'000
Net assets disposed of:		
Property, plant and equipment	3,733	3,781
Inventories	18,846	7,450
Debtors, prepayments and other receivables	38,658	14,661
Cash at bank and in hand	2,559	32,401
Bank loans	(14,134)	(3,474)
Creditors, accruals and other payables	(38,667)	(11,735)
Minority shareholders' interests	(476)	(27,205)
	<u>10,519</u>	<u>15,879</u>
(Capital reserve)/goodwill released on disposal	(51)	7
Loss on disposal	(4,818)	(3,427)
Reclassified to equity securities	—	(11,971)
	<u>5,650</u>	<u>488</u>
Satisfied by:		
— increase in interest in associated companies	5,650	—
— cash	—	488
	<u>5,650</u>	<u>488</u>

The interests in subsidiaries disposed of during the year utilised \$85,000 of the Group's net operating cash flows and \$238,000 in respect of investing activities.

(f) Analysis of the net outflow of cash and cash equivalents in respect of the disposal of interests in subsidiaries

	2000 \$'000	1999 \$'000
Cash consideration	—	488
Cash at bank and in hand disposed	(2,559)	(32,401)
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	<u>(2,559)</u>	<u>(31,913)</u>

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

(g) Analysis of changes in financing during the year

	Share capital (including premium) \$'000	Bank loans \$'000
Balance at 1st January, 2000	951,298	147,365
Cash outflow from financing	—	(79,277)
Shares issued for non-cash consideration	28,224	—
Bank loans of subsidiaries disposed	—	(14,134)
Effect of foreign exchange rates	—	310
	<u>979,522</u>	<u>54,264</u>
Balance at 31st December, 2000	<u>979,522</u>	<u>54,264</u>
	Share capital (including premium) \$'000	Bank loans \$'000
Balance at 1st January, 1999	671,150	229,277
Cash inflow/(outflow) from financing	280,148	(79,070)
Bank loans of subsidiaries disposed	—	(3,474)
Effect of foreign exchange rates	—	632
	<u>951,298</u>	<u>147,365</u>
Balance at 31st December, 1999	<u>951,298</u>	<u>147,365</u>

(h) Major non-cash transaction

As detailed in note 30, 15,910,146 new shares of the Company were issued at \$1.778 each to Stone Group Corporation as part of the consideration for the acquisition 71% interest in SMTI.

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

28. COMMITMENTS

(a) Operating leases commitments

At 31st December, the Group and the Company had commitments under operating leases to make payments for land and buildings in the next year as follows:

	Group		Company	
	2000 \$'000	1999 \$'000	2000 \$'000	1999 \$'000
Leases expiring:				
Within 1 year	2,174	1,467	30	—
After 1 year but within 5 years	1,102	3,295	—	180
After 5 years	2,236	3,996	—	—
	<u>5,512</u>	<u>8,758</u>	<u>30</u>	<u>180</u>

(b) Other commitments

At 31st December, 2000, the Group had commitments under forward exchange contracts for hedging purposes to buy Japanese Yen 520,032,000 (1999: buy Japanese Yen 189,249,000) during 2001.

29. CONTINGENT LIABILITIES

	Group		Company	
	2000 \$'000	1999 \$'000	2000 \$'000	1999 \$'000
Guarantees given to banks in respect of credit facilities granted to:				
Subsidiaries	—	—	143,546	242,203
Others	—	2,817	—	—
	<u>—</u>	<u>2,817</u>	<u>143,546</u>	<u>242,203</u>

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

30. MATERIAL RELATED PARTY TRANSACTIONS

The following material transactions with related parties were, in the opinion of the directors, carried out in the ordinary course of business and on normal commercial terms:

- (a) Transactions with and amounts paid to or received from Stone Group Corporation, which owns 49% equity interest in the Company's immediate holding company and its subsidiaries:

	2000 \$'000	1999 \$'000
Sale of traded products	26,421	25,688
Purchase of traded products and component parts	1,157	2,379
Management fees (based on actual cost incurred) paid in relation to training, secretarial and general administrative services (<i>Note 1</i>)	2,589	2,582
Interest paid	1,157	25
Interest received	2,259	856
Rental paid for staff quarters	240	240
Rental income on properties (<i>Note 2</i>)	1,523	1,509
Handling fee (<i>Note 3</i>)	1,391	1,761
Purchase of lighting fixtures (<i>Note 4</i>)	14,597	4,616
(b) Purchases of traded products and component parts from a minority shareholder of a subsidiary	131,988	140,993
(c) Transactions with non-wholly owned subsidiaries of the Company Guarantees given to banks in respect of credit facilities granted to the extent of the Company's proportional equity interest held (<i>Note 5</i>)	—	20,363
(d) Transactions with associated companies of the Group		
Sales of traded products	35,144	27,380
Purchases of traded products and component parts	167,028	159,349

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

30. MATERIAL RELATED PARTY TRANSACTIONS (Cont'd)

- (e) Stone Group Corporation guarantees the settlement of certain debtors of a non-wholly owned subsidiary of the Group amounting to \$14,760,000 (1999: \$14,760,000) (Note 18).
- (f) One of the subsidiaries of the Stone Group Corporation ("SGC Company") entered into an agreement with a non-wholly owned subsidiary of the Group, whereby certain units of the investment property owned by this subsidiary are leased to SGC Company. SGC Company may sub-lease the units and will bear all the expenses of the investment property. The Group is entitled to share a portion of the net profit but not the loss, after deduction of expenses and relevant taxes, generated by SGC Company.
- (g) The Group placed deposits totalling \$5,019,000 (1999: \$1,268,000) as at 31st December 2000 with Beijing Stone Finance Company, a subsidiary of Stone Group Corporation and a licensed financial company in the PRC.
- (h) In July 2000, the Company entered into a conditional agreement with Stone Group Corporation (the "Acquisition Agreement") to acquire from Stone Group Corporation 71% interest in SMTI for a consideration of \$68,288,000. The consideration was satisfied as to \$40,000,000 in cash and the balance of \$28,288,000 by way of the issue and allotment of 15,910,146 new shares of \$0.1 each in the Company at a price of \$1.778 per share to Stone Group Corporation. Details of the acquisition were set out in the circular dated 25th July, 2000 issued to the shareholders.

Pursuant to the Acquisition Agreement, the audited profit after taxation of SMTI for the year ended 31st December, 2000 was guaranteed by Stone Group Corporation to be not less than RMB12,780,000 (equivalent to \$12,034,000) (the "Guaranteed Profit"). In the event that the Guaranteed Profit is less than RMB12,780,000, an amount which is equivalent to 71% of 8 times of the shortfall shall be paid by Stone Group Corporation to the Company in cash. The audited profit after taxation of SMTI for the year ended 31st December, 2000 amounted to RMB7,269,000 (equivalent to \$6,845,000). Accordingly, the compensation payable by Stone Group Corporation of \$29,477,000 pursuant to the Acquisition Agreement has been included in the amounts due from related parties at 31st December, 2000 (Note 18).

Notes:

1. In August 1998, the Company entered into a management contract with Stone Group Corporation, pursuant to which Stone Group Corporation agreed to provide secretarial and other related services and the use of office equipment to the Group at reimbursement cost which shall not exceed \$2,750,000 per annum for a term of five years commencing from 23rd July, 1998.
2. Rental income on properties include amount of \$1,499,000 in respect of properties in Beijing receivable from Stone Group Corporation and its subsidiaries.

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

30. MATERIAL RELATED PARTY TRANSACTIONS (Cont'd)

A subsidiary of the Company acquired the Stone Building situated in Beijing from Stone Group Corporation during 1996 and leased various units of the Stone Building to Stone Group Corporation for a lease term of three years commencing 1st August, 1996. The lease term was renewed for a year thereafter. The rental income received for the year ended 31st December, 2000 was calculated at a daily rate of RMB7 per square metre which was considered to be not materially different from the then market rental.

3. In March 1999, Beijing Stone New Technology Industrial Company Limited ("Beijing New Technology") entered into an agreement with Stone Group Corporation, pursuant to which Beijing New Technology appointed Stone Group Corporation to act as its agent to deal with all import procedural matters during the year 2000. A handling fee was payable to Stone Group Corporation pursuant to the Agreement and was calculated at 1.3% of the cost of goods shipped which was considered to be not materially different from the then market price.
4. During the year, Beijing New Technology had from time to time purchased lighting fixtures from Shanghai Stone Hu Guang Electric Shareholding Company Limited, which is a 51% owned subsidiary of Stone Group Corporation.
5. The Company issued two corporate guarantees for \$19,120,000 and US\$160,000 on 26th December, 1994, and 20th November, 1997 respectively to a bank, representing 80% of the trade finance facilities granted by such a bank to Beta-One Enterprise Limited ("Beta-One"). The purpose of the transaction was to provide support to enable the subsidiary to obtain trade finance facilities for its daily trading operations in the past. During the year, such corporate guarantees were withdrawn from the bank.

Beta-One is 80% owned by the Company and 20% owned by independent parties unrelated to the Group.

6. Sale of traded products and component parts by the Group's wholly-owned subsidiaries to non-wholly owned subsidiaries and their year end trade balances thereof have been eliminated on consolidation.

31. POST BALANCE SHEET EVENT

In September 2000, the Company entered into a conditional agreement with Stone Group Corporation to acquire from Stone Group Corporation 25% equity interest in Mitsubishi Stone Semiconductor Company Ltd. at a consideration of \$103,892,000. 76,464,267 new shares of \$0.1 each in the Company at an issue price of \$1.3587 per share were issued to Stone Group Corporation for the satisfaction of the consideration. Details of the acquisition were set out in the circular dated 9th October, 2000 issued to the shareholders. This transaction was completed on 18th April, 2001.

32. ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company at 31st December, 2000 to be Beijing Stone Investment Company Limited, a company established in the PRC.

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

33. SUBSIDIARIES

Details of the principal subsidiaries, which materially affected the results or assets of the Group at 31st December, 2000, are as follows:—

Name of company	Country of incorporation/ establishment and operation	Issued and fully paid capital/ registered capital	Attributable interest	Principal activities
Stone Advance Technology Limited	Hong Kong	\$1,000,000	100%	Sourcing of electronic and office equipment, and component parts
Stone Potant Limited	Hong Kong	\$1,000,000	100%	Sourcing of electronic and office equipment, and component parts
Wealth Fountain Limited	Hong Kong	\$100,000	100%	Sourcing of component parts for the manufacture of Sales Tax electronic cash registers and Value Added Tax invoice processors
Prexton Investment Limited	Hong Kong	\$10,000	100%	Property investment
Beta-One Enterprise Limited	Hong Kong	\$1,000,000	80%	Trading of telecommunication products
Beijing Stone Office Equipment Technology Co., Ltd. ("Beijing Sotec")	PRC	US\$4,800,000	70%	Manufacture of Sales Tax electronic cash registers and Value Added Tax invoice processors

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

33. SUBSIDIARIES (Cont'd)

Name of company	Country of incorporation/ establishment and operation	Issued and fully paid capital/ registered capital	Attributable interest	Principal activities
Shenzhen SOTEC Electronic Co., Ltd.	PRC	RMB11,195,565	70%	Manufacture of other electronic products
Beijing Stone Electronic Technology Co., Ltd.	PRC	US\$10,000,000	75%	Investment holding
Beijing Stone New Technology Industrial Company Limited* ("Beijing New Technology")	PRC	RMB70,000,000	75%	Investment holding and distribution and sale of electronic and electrical products and office equipment and engagement in e-commerce business
Shenzhen Shentong Printing Equipment Co., Ltd.*	PRC	US\$3,000,000	**45.7%	Manufacture of printers and related parts
Shanghai Stone-MTI Computer Engineering Company Limited	PRC	RMB30,800,000	71%	Provision of comprehensive GIS solutions, software development and integration
Beijing Stone Industrial Control Technology Company Limited*	PRC	RMB30,000,000	***46.25%	Sale of industrial controllers products
Shenyang Stone Limited Liability Company*	PRC	RMB5,150,723	≠48.75%	Sale of electronic and electrical products and office equipment

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

33. SUBSIDIARIES (Cont'd)

Name of company	Country of incorporation/ establishment and operation	Issued and fully paid capital/ registered capital	Attributable interest	Principal activities
Tianjin Stone Computer Equipment Corporation Limited*	PRC	US\$800,000	56.25%	Manufacture and sale of fluorescent electronic ballasts
Beijing Stone Electrical Marketing Co., Ltd.*	PRC	RMB30,000,000	56.25%	Sale of lighting and electric products

* Indirect holding.

This subsidiary is 60% owned by Beijing New Technology in which the Company has 75% indirect interest.

This subsidiary is 65% owned by Beijing New Technology in which the Company has 75% indirect interest.

** This subsidiary is 24% directly owned by the Company and 31% directly owned by Beijing Sotec in which the Company has 70% direct interest.

*** This subsidiary is 61.67% owned by Beijing New Technology in which the Company has 75% indirect interest.

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

34. ASSOCIATED COMPANIES

Details of the principal associated companies, which materially affected the results or assets of the Group at 31st December, 2000, are as follows:

Name of company	Country of incorporation/ establishment and operation	Issued and fully paid capital/ registered capital	Attributable interest	Principal activities
Beijing Stone Matsushita Electric Works, Ltd.	PRC	US\$40,000,000	35%	Manufacture of lighting and electronic equipment
Zhengzhou Stone Company*	PRC	RMB200,000	37.50%	Sale of electronic and office equipment
Jinan Stone Company*	PRC	RMB360,000	25.50%	Sale of electronic and electrical products, and office equipment
Beijing Stone Instrument Co., Ltd.*	PRC	US\$1,500,000	37.50%	Sale of electrical instruments and meters
Beijing Bailu Office Article Co., Ltd.*	PRC	RMB4,497,527	22.50%	Manufacture and sale of office furniture
Beijing GOT Business Computer Systems Co., Ltd.*	PRC	US\$5,000,000	*15%	Manufacture of electronic cash registers
Beijing Stone Zhi Neng Construction System Company*	PRC	RMB15,000,000	30%	Installation of intelligent system for housing estates and commercial buildings
Beijing Stone Electronic Commerce Technology Co., Ltd.*	PRC	RMB50,000,000	22.50%	Provision for electronic commerce service

* Indirect holding

This associated company is 20% owned by Beijing New Technology in which the Company has 75% indirect interest.