

Notes to the Financial Statements

For the year ended 31 December 2000

1. GENERAL

The Company is a public listed company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited.

The principal activity of the Company is investment holding. The principal activities of its major subsidiaries and associates are set out in note 41 to the financial statements.

2. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of certain properties and investment in securities.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December each year, and also incorporate the Group's share of post-acquisition results and reserves of associates. The results of subsidiaries and associates acquired or disposed of during the year are included in the consolidated income statement from or to their effective date of acquisition or disposals respectively.

All significant intra-group transactions and balances have been eliminated on consolidation.

Goodwill arising on consolidation

Goodwill represents the excess of the purchase consideration for subsidiaries and associates over the fair value ascribed to their separable net assets at their respective dates of acquisition and is written off to reserves immediately in the year of acquisition. Negative goodwill, which represents the excess of the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of subsidiaries and associates over the purchase considerations is credited to reserves.

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

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For the year ended 31 December 2000

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Investments in subsidiaries

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

Investments in subsidiaries are included in the Company's balance sheet at cost or valuation less any impairment loss.

Interests in associates

An associate is an enterprise over which the Group is in a position to exercise significant influence, through participation in the financial and operating policy decisions of the investee.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. The carrying amount of such interests is reduced to recognise any decline, other than a temporary decline, in the value of individual investments.

Where a group enterprise transacts with an associate of the Group, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associate, except where unrealised losses provide evidence of an impairment of the asset transferred.

Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the period.

Notes to the Financial Statements

For the year ended 31 December 2000

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Fixed assets

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

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

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

Depreciation is provided to write off the cost of fixed assets, other than investment properties over their estimated useful lives and after taking into account their estimated residual values, using the straight line method, at the following rates per annum:

Leasehold land	Over the unexpired term of lease
Buildings	4% or over the unexpired term of lease, whichever is shorter
Plant and equipment	5% — 10%
Furniture and fixtures	6% — 20%
Motor vehicles	20% — 25%
Computer equipment	15% — 25%

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

Notes to the Financial Statements

For the year ended 31 December 2000

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on independent professional valuations at the balance sheet date. Any surplus or deficit arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance on the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property disposed of is credited in the income statement.

No depreciation is provided on investment properties which are held on leases with an unexpired term of more than 20 years.

Leased assets

Assets held under finance leases are capitalised at their fair value at the date of acquisition. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statements over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Rentals payable under operating leases are charged to income statement on a straight-line basis over the term of the relevant lease.

Properties under development

Land for properties under development is stated at cost, and development expenditure is stated at the aggregate amount of costs, including capitalised interest, incurred at the balance sheet date.

Properties under development are not depreciated. Completed properties are classified to the appropriate accounting categories according to their intended use.

Notes to the Financial Statements

For the year ended 31 December 2000

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Technology license

Technology license represents the consideration paid for the grant of a non-exclusive license to use technology for the manufacture, assembly and sale of broadband communication systems.

Technology license is amortised over 5 years.

Research and development expenses

Research costs are charged to the income statement as incurred.

Development costs are charged to the income statement in the year in which they are incurred except where a major project is undertaken and it is reasonably anticipated that development costs will be recovered through future commercial activity. Development costs recognised as an asset are amortised over the useful economic lives of the project from the date of commencement of commercial operation (subject to a maximum of ten years).

The carrying value of development costs is periodically reviewed by the management and impairments are recognised when there is a permanent diminution in value.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition, are calculated using the weighted average cost method. Net realisable value represents 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.

Cost of properties held for sale includes the land cost, development expenditure, interests and other direct costs attributable to such properties. Net realisable value is determined by reference to management estimates based on prevailing market conditions.

Notes to the Financial Statements

For the year ended 31 December 2000

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Revenue recognition for Intelligent Transportation Systems contracts

Intelligent Transportation Systems (“ITS”) products include products produced or manufactured using the technology of Global Positioning Systems (“GPS”).

When the outcome of an ITS contract can be estimated reliably, revenue from a fixed price contract is recognised on the percentage of completion method, measured by reference to the proportion that costs incurred to date to estimated total costs of that contract. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

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

Other revenue recognition

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

Sales of properties are recognised on execution of legally binding, unconditional and irrevocable contracts.

Service income is recognised when services are rendered.

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

Dividend income from investments is recognised when the shareholder’s rights to receive payment have been established.

Rental income, including rentals invoiced in advance from properties under operating leases, are recognised on a straight-line basis over the term of the relevant lease.

Retirement benefits scheme

In December 2000, the group participated in a retirement benefits scheme, Mandatory Provident Fund (“MPF”). According to the MPF legislation regulated by the Mandatory Provident Fund Schemes Authority in Hong Kong, with effect from 1 December 2000, the Group is required to participate in MPF Scheme operated by approved trustees in Hong Kong and to make contributions for its eligible employees. The contributions borne by the Group are calculated at 5% of the salaries and wages (monthly contribution is limited to 5% of HK\$20,000 for each eligible employee) as calculated under the MPF legislation.

Notes to the Financial Statements

For the year ended 31 December 2000

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Foreign currencies

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

On consolidation, the financial statements of overseas subsidiaries and associates are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. Exchange differences arising thereof are dealt with in the exchange reserve.

Taxation

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

Borrowing costs

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

All other borrowing costs are expensed in the period in which they are incurred.

Cash equivalents

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

Notes to the Financial Statements

For the year ended 31 December 2000

3. TURNOVER

Turnover represents the gross invoiced sales of goods less discounts and returns, revenue from ITS contracts, rental income, investment income, interest income and proceeds on sales of properties.

4. SEGMENTAL INFORMATION

The Group's turnover and contribution to trading results, analysed by principal activity, were as follows:

	Turnover 2000 <i>HK\$'000</i>	Operating results 2000 <i>HK\$'000</i>	Turnover 1999 <i>HK\$'000</i>	Operating results 1999 <i>HK\$'000</i>
(a) By activity:				
Manufacturing	923,941	(147,824)	971,512	(108,118)
Property*	52,768	5,524	117,740	63,853
Trading	22,932	(3,844)	40,331	(87,664)
Finance	60,324	6,903	142,921	23,760
Others	6,054	(90,062)	11,017	(7,840)
	<u>1,066,019</u>	<u>(229,303)</u>	<u>1,283,521</u>	<u>(116,009)</u>
General and administrative expenses not allocated to major activities		(55,669)		(138,008)
Finance costs		(135,155)		(181,172)
Impairment losses recognised on investment securities		(583,215)		—
Share of results of associates		(59,642)		(17,640)
Loss before taxation		<u>(1,062,984)</u>		<u>(452,829)</u>

* Including proceeds on sales of properties amounting to HK\$16,964,000 (1999: HK\$45,552,000).

	Turnover	
	2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
(b) By geographical market:		
Hong Kong	669,355	732,889
The People's Republic of China, excluding Hong Kong (The "PRC")	396,664	550,632
	<u>1,066,019</u>	<u>1,283,521</u>

Operating results by geographical market has not been presented as the operating results of each market is substantially in line with the overall Group ratio of contribution to turnover.

Notes to the Financial Statements

For the year ended 31 December 2000

5. OTHER OPERATING EXPENSES

	2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
Development costs written off	5,326	20,878
Loss on interest rate swap	—	5,645
Project cost written off	—	17,471
Termination fee on interest rate swap contracts	—	10,165
	5,326	54,159

6. LOSS FROM OPERATIONS

	2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss from operations has been arrived at after charging (crediting):		
Amortisation of development costs	6,677	5,773
Amortisation of technology license	1,170	—
Auditors' remuneration	5,093	4,655
Depreciation on		
Owned assets	65,568	59,909
Assets held under finance leases	3,362	3,074
Provision for inventories	79,139	36,900
Rental expenses under operating leases on land and buildings	11,879	18,926
Research expenses	8,078	5,181
Staff costs	137,820	157,133
Gain on disposal of fixed assets	(136)	(37,351)
Rental income from operating leases on		
Land and buildings	(5,600)	(4,922)
Investment properties	(22,309)	(29,406)
	(27,909)	(34,328)
Outgoings	2,584	6,492
	(25,325)	(27,836)
Dividend income from listed investment securities	(2,978)	(24,654)
Interest income	(82,025)	(148,858)
	(82,025)	(148,858)

Notes to the Financial Statements

For the year ended 31 December 2000

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
(a) Directors' fees		
Executives	230	273
Non-executives (<i>excluding independent non-executives</i>)	185	218
Independent non-executives	135	100
	550	591
Other emoluments		
Salaries, housing and other allowances, benefits in kind	5,452	8,256
Bonuses	406	244
Contributions under retirement benefits scheme	5	—
	5,863	8,500
Total emoluments	6,413	9,091

The emoluments paid to the Directors were within the following bands:

Emoluments band	Number of directors	
	2000	1999
Nil - HK\$1,000,000	15	7
HK\$1,000,001 - HK\$1,500,000	1	4
	16	11

Notes to the Financial Statements

For the year ended 31 December 2000

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

(b) Five highest paid individuals

During the year, the five highest paid individuals included three directors (1999: four directors), details of whose emoluments are set out above. The emoluments of the remaining two (1999: one) highest paid individuals were as follows:

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Salaries, housing and other allowances, benefits in kind	2,859	1,200
Contributions under retirement benefits scheme	2	—
	2,861	1,200

Emoluments of these individuals were within the following bands:

Emoluments band	Number of individuals	
	2000	1999
Nil - HK\$1,000,000	1	—
HK\$1,000,001 - HK\$1,500,000	—	1
HK\$1,500,001 - HK\$2,000,000	1	—
	2	1

8. FINANCE COSTS

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Interest expenses on		
Bank loans and overdrafts wholly repayable within five years	73,471	81,101
Bank loans not wholly repayable within five years	21,874	5,067
Finance lease obligations wholly repayable within five years	711	1,792
Other loans wholly repayable within five years	34,893	84,183
Amortisation of issuing expenses	4,206	9,029
	135,155	181,172

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9. TAXATION

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Company and subsidiaries		
Hong Kong profits tax		
Current year's taxation	4,996	1,279
Previous year's overprovision	(378)	(639)
Overseas income tax		
Current year's taxation	4,170	4,390
	8,788	5,030
Associates		
Overseas income tax	78	5
	8,866	5,035

Hong Kong profits tax has been provided at the rate of 16% (1999: 16%) on the estimated assessable profits for the year.

Overseas income tax represent the income tax of the PRC. Pursuant to relevant laws and regulations in the PRC, the Group's subsidiaries and associates are entitled to exemption from income tax under certain tax holidays and concessions. Income tax is calculated at rates given under the concessions.

10. NET LOSS FOR THE YEAR

Of the net loss for the year, a loss of HK\$794,477,000 (1999: loss of HK\$156,173,000) has been dealt with in the financial statements of the Company.

11. LOSS PER SHARE

The calculation of the basic loss per share is based on the following data:

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Loss		
Net loss for the year for calculation of basic loss per share	(1,017,429)	(383,963)
	2000	1999
Number of shares		
Weighted average number of ordinary shares for the calculation of basic loss per share	2,116,010,396	1,785,401,738
	2,116,010,396	1,785,401,738

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12. FIXED ASSETS

	Long term leasehold land and buildings in Hong Kong HK\$'000	Medium term leasehold land and buildings in Hong Kong HK\$'000	Long term leasehold land and buildings in PRC HK\$'000	Medium term leasehold land and buildings in PRC HK\$'000	Short term leasehold land and buildings in PRC HK\$'000	Long term leasehold investment properties in Hong Kong HK\$'000	Medium term leasehold investment properties in Hong Kong HK\$'000	Plant and equipment HK\$'000	Motor vehicles, furniture and other equipment HK\$'000	Total HK\$'000
THE GROUP										
COST OR VALUATION										
At 1 January 2000	28,649	346,607	39,862	358,975	19,369	45,120	409,340	338,778	209,576	1,796,276
Exchange adjustments	—	—	(477)	(3,522)	(11)	—	—	(2,602)	(790)	(7,402)
Reclassifications	—	—	(489)	489	—	—	—	3,573	(3,573)	—
Additions	—	—	168	14,946	—	—	—	41,799	15,708	72,621
Disposals	—	—	(85)	(6,927)	—	—	—	(10,100)	(5,136)	(22,248)
Acquisition of subsidiaries	—	—	—	121	—	—	—	8,084	242	8,447
Disposal of subsidiaries	—	—	—	—	—	—	—	(33)	(6,539)	(6,572)
Deficit on revaluation	—	—	—	—	—	(3,840)	(32,972)	—	—	(36,812)
At 31 December 2000	<u>28,649</u>	<u>346,607</u>	<u>38,979</u>	<u>364,082</u>	<u>19,358</u>	<u>41,280</u>	<u>376,368</u>	<u>379,499</u>	<u>209,488</u>	<u>1,804,310</u>
Representing assets stated:										
At cost	28,649	346,607	38,979	364,082	19,358	—	—	379,499	209,488	1,386,662
At 2000 professional valuation	—	—	—	—	—	41,280	376,368	—	—	417,648
	<u>28,649</u>	<u>346,607</u>	<u>38,979</u>	<u>364,082</u>	<u>19,358</u>	<u>41,280</u>	<u>376,368</u>	<u>379,499</u>	<u>209,488</u>	<u>1,804,310</u>
AGGREGATE DEPRECIATION										
At 1 January 2000	4,564	32,995	7,483	16,718	15,538	—	—	166,011	128,497	371,806
Exchange adjustments	—	—	(89)	(182)	(9)	—	—	(995)	(428)	(1,703)
Reclassifications	—	—	(1,715)	1,715	—	—	—	—	—	—
Charge for the year	573	9,430	1,442	7,664	1,964	—	—	29,928	17,929	68,930
Acquisition of subsidiaries	—	—	—	1	—	—	—	1	37	39
Eliminated on disposals	—	—	(9)	—	—	—	—	(384)	(3,429)	(3,822)
Eliminated on disposal of subsidiaries	—	—	—	—	—	—	—	(14)	(2,481)	(2,495)
At 31 December 2000	<u>5,137</u>	<u>42,425</u>	<u>7,112</u>	<u>25,916</u>	<u>17,493</u>	<u>—</u>	<u>—</u>	<u>194,547</u>	<u>140,125</u>	<u>432,755</u>
NET BOOK VALUES										
At 31 December 2000	<u>23,512</u>	<u>304,182</u>	<u>31,867</u>	<u>338,166</u>	<u>1,865</u>	<u>41,280</u>	<u>376,368</u>	<u>184,952</u>	<u>69,363</u>	<u>1,371,555</u>
At 31 December 1999	<u>24,085</u>	<u>313,612</u>	<u>32,379</u>	<u>342,257</u>	<u>3,831</u>	<u>45,120</u>	<u>409,340</u>	<u>172,767</u>	<u>81,079</u>	<u>1,424,470</u>

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12. FIXED ASSETS (continued)

	Long term leasehold land and buildings in PRC HK\$'000	Medium term leasehold land and buildings in PRC HK\$'000	Short term leasehold land and buildings in PRC HK\$'000	Medium term leasehold land and buildings in Hong Kong HK\$'000	Motor vehicles, furniture and other equipment HK\$'000	Total HK\$'000
THE COMPANY						
COST						
At 1 January 2000	1,113	42,647	18,506	303,254	45,476	410,996
Additions	—	—	—	—	465	465
Disposals	—	—	—	—	(323)	(323)
At 31 December 2000	<u>1,113</u>	<u>42,647</u>	<u>18,506</u>	<u>303,254</u>	<u>45,618</u>	<u>411,138</u>
AGGREGATE						
DEPRECIATION						
At 1 January 2000	352	—	14,805	20,646	24,018	59,821
Charge for the year	45	—	1,850	8,259	4,215	14,369
Eliminated on disposals	—	—	—	—	(231)	(231)
At 31 December 2000	<u>397</u>	<u>—</u>	<u>16,655</u>	<u>28,905</u>	<u>28,002</u>	<u>73,959</u>
NET BOOK VALUES						
At 31 December 2000	<u><u>716</u></u>	<u><u>42,647</u></u>	<u><u>1,851</u></u>	<u><u>274,349</u></u>	<u><u>17,616</u></u>	<u><u>337,179</u></u>
At 31 December 1999	<u><u>761</u></u>	<u><u>42,647</u></u>	<u><u>3,701</u></u>	<u><u>282,608</u></u>	<u><u>21,458</u></u>	<u><u>351,175</u></u>

- (a) The Group's investment properties have been revalued at 31 December 2000 by Dudley Surveyors Limited, a firm of independent professional valuers, on an open market basis. The above-mentioned revaluation has been adopted by the directors in these financial statements and the deficit on revaluation is debited to the investment property revaluation reserve.
- (b) The aggregate net book value of the Group's assets held under finance leases at 31 December 2000 was HK\$34,909,000 (1999: HK\$31,897,000) and the related depreciation charge for the year was HK\$3,362,000 (1999: HK\$3,074,000).
- (c) The gross amount of assets held for use in operating leases and its related aggregate depreciation are HK\$358,768,000 (1999: HK\$359,090,000) and HK\$2,725,000 (1999: HK\$5,444,000), respectively.

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13. PROPERTIES UNDER DEVELOPMENT

	Medium term leasehold land in PRC <i>HK\$'000</i>	Development expenditure <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP			
At 1 January 2000	7,818	110,234	118,052
Exchange adjustment	(631)	(718)	(1,349)
Additions	—	13,030	13,030
	7,187	122,546	129,733
At 31 December 2000	7,187	122,546	129,733

14. DEVELOPMENT COSTS

	<i>HK\$'000</i>
THE GROUP	
COST	
At 1 January 2000	43,363
Additions	5,747
Amounts written off	(5,842)
	43,268
At 31 December 2000	43,268
AMORTISATION	
At 1 January 2000	12,528
Charge for the year	6,677
Eliminated on written off	(516)
	18,689
At 31 December 2000	18,689
NET BOOK VALUES	
At 31 December 2000	24,579
At 31 December 1999	30,835

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15. TECHNOLOGY LICENSE

	<i>HK\$'000</i>
THE GROUP	
COST	
Acquired during the year and balance at 31 December 2000	70,200
AMORTISATION	
Provided for the year and balance at 31 December 2000	1,170
NET BOOK VALUE	
At 31 December 2000	69,030

16. INTERESTS IN SUBSIDIARIES

	The Group		The Company	
	2000	1999	2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost or 1981 valuation (note b)	481	481	554,383	554,383
Amounts due from subsidiaries	17,093	17,093	1,321,536	1,227,042
	17,574	17,574	1,875,919	1,781,425
Provision	(17,569)	(17,569)	(331,081)	(349,495)
	5	5	1,544,838	1,431,930

- (a) Particulars of the principal subsidiaries are shown in note 41.
- (b) Two subsidiaries, Contec Electronics, Inc. and Contec Electronics (HK) Limited have ceased operations since 1984. The directors consider that it would be of no real value to the shareholders of the Group to consolidate these subsidiaries.

The aggregate amount of (losses) profits of these subsidiaries attributable to the Group since acquisition is:

	Year ended	Previous	Total
	31.12.2000	years since	Total
	<i>HK\$'000</i>	acquisition	<i>HK\$'000</i>
		<i>HK\$'000</i>	<i>HK\$'000</i>
Dealt with in the Group's financial statements	—	(12,966)	(12,966)
Not dealt with in the Group's financial statements	(5)	177	172
	(5)	(12,789)	(12,794)

Notes to the Financial Statements

For the year ended 31 December 2000

17. INTERESTS IN ASSOCIATES

	The Group		The Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Unlisted shares, at cost	—	—	118,086	118,086
Share of net assets	354,520	401,986	—	—
Amounts due from associates	82,842	40,000	—	—
	437,362	441,986	118,086	118,086
Provisions	—	—	(65,639)	(4,214)
	437,362	441,986	52,447	113,872

Particulars of associates are shown in note 41.

18. INVESTMENT IN SECURITIES

	The Group		The Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Investment securities				
Listed	241,300	241,300	—	—
Unlisted	568,944	568,944	—	—
	810,244	810,244	—	—
Provisions	(583,215)	—	—	—
	227,029	810,244	—	—
Other investments				
Unlisted	35,128	35,128	23,874	23,874
Provisions	(11,425)	(11,425)	(170)	(170)
	23,703	23,703	23,704	23,704
	250,732	833,947	23,704	23,704
Market value of listed investments	94,380	131,820	—	—

Notes to the Financial Statements

For the year ended 31 December 2000

19. INVENTORIES

	The Group		The Company	
	2000	1999	2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	106,223	130,208	—	—
Work-in-progress	37,594	34,481	—	—
Finished goods	132,856	230,426	—	—
Properties for sale	193,737	186,598	—	—
	<u>470,410</u>	<u>581,713</u>	<u>—</u>	<u>—</u>

Included above are raw materials of HK\$27,726,000 (1999: HK\$22,904,000), work-in-progress of HK\$1,050,000 (1999: HK\$59,000), finished goods of HK\$79,856,000 (1999: HK\$45,242,000) and properties for sale of HK\$10,812,000 (1999: HK\$1,699,000) are carried at net realisable value.

20. TRADE AND OTHER RECEIVABLES

	The Group	
	2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivable	165,178	273,975
Other receivable, deposits and prepayments	<u>137,670</u>	<u>100,054</u>
	<u>302,848</u>	<u>374,029</u>

The Group allows an average credit period of 30 days to 90 days to its trade customers. The following is an aged analysis of trade receivable at 31 December:

	The Group	
	2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 90 days	135,860	166,004
Between 91 - 180 days	14,577	10,934
Between 181 - 365 days	8,850	17,853
Between one to two years	—	32,983
Over 2 years	5,891	46,201
	<u>165,178</u>	<u>273,975</u>

Notes to the Financial Statements

For the year ended 31 December 2000

21. LOANS RECEIVABLE

The major shareholder, China Aerospace Science & Technology Corporation, has undertaken to guarantee the full recovery of all loans receivable.

22. DEPOSITS PLEDGED

Deposits pledged represent bank deposits pledged for bank loans under current liabilities.

23. TRADE AND OTHER PAYABLES

	The Group	
	2000	1999
	HK\$'000	HK\$'000
Trade payable	406,099	341,771
Finance leases payable (<i>note 27</i>)	1,527	5,526
Other payables and accruals	324,734	431,596
	732,360	778,893

The following is an aged analysis of trade payable at 31 December:

	The Group	
	2000	1999
	HK\$'000	HK\$'000
Within 90 days	164,614	100,889
Between 91 - 180 days	24,173	64,971
Between 181 - 365 days	53,249	20,771
Between one to two years	27,947	153,037
Over 2 years	136,116	2,103
	406,099	341,771

Notes to the Financial Statements

For the year ended 31 December 2000

24. OTHER LOANS

	The Group		The Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Repayable:				
Within one year	105,250	756,294	58,450	—
In the second year	163,818	6,731	157,170	—
In the third to fifth year inclusive	—	111,540	—	111,540
	269,068	874,565	215,620	111,540
Amounts included under current liabilities	(105,250)	(756,294)	(58,450)	—
	163,818	118,271	157,170	111,540

Other loans comprise:

	The Group		The Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Loans from third parties (a)	269,068	118,271	215,620	111,540
Guaranteed floating rate notes (b)	—	760,500	—	—
Issue expenses, net of amortisation	—	(4,206)	—	—
	269,068	874,565	215,620	111,540

(a) Loans from third parties are unsecured, interest bearing at 7.5% to 9.5% per annum and repayable in 2001 and 2002.

(b) In 1997, a subsidiary of the Company issued US\$150,000,000 guaranteed floating rate notes due 2000 (the “Notes”) which were in bearer form in the denomination of US\$250,000 each and were mature in July 2000 (the “Maturity Date”). The Notes were interest bearing at 1.3% above London Inter Bank Offer Rate per annum. At a meeting of noteholders held on 24 July 1999, noteholders agreed not to redeem the Notes before the Maturity Date provided that 35% of the principal amount of the Notes were repaid on 30 July 1999 and the rate of interest for all interest period commencing on or after 30 July 1999 should be increased to 2.8% above London Inter Bank Offer Rate per annum. The Notes were fully repaid during the year.

Notes to the Financial Statements

For the year ended 31 December 2000

25. BANK LOANS AND OVERDRAFTS

	The Group		The Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Bank overdrafts and short term				
bank loans				
Secured	26,701	14,918	—	—
Unsecured	207,020	83,354	63,628	78,000
	<u>233,721</u>	<u>98,272</u>	<u>63,628</u>	<u>78,000</u>
Current portion of long term				
bank loans				
Secured	33,813	231,090	23,305	14,224
Unsecured	375,825	433,995	360,668	280,284
	<u>409,638</u>	<u>665,085</u>	<u>383,973</u>	<u>294,508</u>
	<u><u>643,359</u></u>	<u><u>763,357</u></u>	<u><u>447,601</u></u>	<u><u>372,508</u></u>

26. BANK LOANS

	The Group		The Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Repayable:				
Within one year	409,638	665,085	383,973	294,508
In the second year	123,679	132,991	118,317	118,663
In the third to fifth year inclusive	54,690	188,010	36,762	171,119
Over five years	146,025	155,311	113,066	125,780
	<u>734,032</u>	<u>1,141,397</u>	<u>652,118</u>	<u>710,070</u>
Amounts included under current liabilities	<u>(409,638)</u>	<u>(665,085)</u>	<u>(383,973)</u>	<u>(294,508)</u>
	<u><u>324,394</u></u>	<u><u>476,312</u></u>	<u><u>268,145</u></u>	<u><u>415,562</u></u>
Bank loans repayable:				
Secured	249,682	451,365	183,348	183,348
Unsecured	484,350	690,032	468,770	526,722
	<u>734,032</u>	<u>1,141,397</u>	<u>652,118</u>	<u>710,070</u>

Notes to the Financial Statements

For the year ended 31 December 2000

26. BANK LOANS (continued)

The Group's investment properties and land and buildings and equipment with aggregate net book value of HK\$85,890,000 (1999: HK\$91,580,000) and HK\$263,596,000 (1999: HK\$261,949,000), respectively, were pledged to banks.

27. OBLIGATIONS UNDER FINANCE LEASES

	The Group		The Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Repayable:				
Within one year	1,527	5,526	—	—
In the second year	675	2,391	—	—
In the third to fifth year inclusive	1,200	68	—	—
	<u>3,402</u>	<u>7,985</u>	<u>—</u>	<u>—</u>
Amounts included in trade and other payables under current liabilities (note 23)	(1,527)	(5,526)	—	—
	<u>1,875</u>	<u>2,459</u>	<u>—</u>	<u>—</u>

28. SHARE CAPITAL

(a) Share capital

	2000		1999	
	Number of ordinary shares of HK\$1 each '000	Nominal value HK\$'000	Number of ordinary shares of HK\$1 each '000	Nominal value HK\$'000
Authorised:				
At 1 January and 31 December	<u>10,000,000</u>	<u>10,000,000</u>	<u>10,000,000</u>	<u>10,000,000</u>
Issued and fully paid:				
At 1 January	1,785,403	1,785,403	1,785,402	1,785,402
Exercise of warrants	—	—	1	1
Share placement	357,017	357,017	—	—
At 31 December	<u>2,142,420</u>	<u>2,142,420</u>	<u>1,785,403</u>	<u>1,785,403</u>

Notes to the Financial Statements

For the year ended 31 December 2000

28. SHARE CAPITAL (continued)

On 26 January 2000, Burhill Company Limited (the “Vendor”) entered into a placing and underwriting agreement (the “Agreement”) with ING Barings Asia Limited (“ING”) whereby the Vendor had appointed ING as the placing agent and underwriter for the placing of 204,017,400 shares of HK\$1 each (the “Placing Share”) in the capital of the Company at a price of HK\$1.8 per Placing Share to independent investors. In additions, the Vendor also granted ING an over-allocation option to require the Vender to place on a fully underwritten basis an additional 21,373,200 existing shares at the same price (the “Over-allocation Option”) on or before 4 February 2000. The Vendor had also agreed to subscribe (the “Subscription”) for 357,017,400 new shares at a price per share equal to the placing price per share after adjusting for any expenses properly incurred in connection with the placing.

The placing was completed on 28 January 2000 and the Over-allocation Option was fully exercised by ING on 31 January 2000. The Subscription was completed on 8 February 2000.

Net proceeds from the Subscription amounting to about HK\$632 million were used primarily to invest in projects that related to the development of broadband multimedia data transmission and digital video broadcasting services and for the working capital requirements of the Group.

These shares were issued under the general mandate granted to the directors of the Company at the annual general meeting of the Company held on 30 June 1999 and rank pari passu with the existing shares in all respects.

(b) Share option scheme

Under the terms of the share option scheme which became effective on 8 July 1997, the board of directors of the Company may offer to any full time employee of the Company, or any of its subsidiaries, including executive directors of the Company and/or any of its subsidiaries, options to subscribe for shares in the Company at a price not less than the higher of the nominal value of the shares and 80% of the average of the closing price of the shares on the Stock Exchange of Hong Kong Limited on the five trading days immediate preceding the date of the grant of the options, subject to a maximum of 10% of the issued share capital of the Company from time to time.

No option under the scheme was granted or exercised during the year and no options were outstanding at 31 December 2000.

Notes to the Financial Statements

For the year ended 31 December 2000

29. RESERVES

	Share premium account	Investment property revaluation reserve	Special capital reserve (note a)	General reserve (note b)	Goodwill reserve	Exchange reserve	Capital redemption reserve	Revenue reserve	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP									
At 1 January 1999	664,569	92,780	14,044	24,740	(253)	(29,654)	1,080	219,195	986,501
Reversed upon deemed disposal of a subsidiary	—	—	—	(824)	—	—	—	—	(824)
Premium arising on issue of shares	1	—	—	—	—	—	—	—	1
Surplus on revaluation	—	23,383	—	—	—	—	—	—	23,383
Translation of accounts of overseas subsidiaries and associates	—	—	—	—	—	(1,591)	—	—	(1,591)
Reversed upon disposal of a jointly controlled entity	—	—	—	—	600	—	—	—	600
Net loss for the year	—	—	—	—	—	—	—	(383,963)	(383,963)
At 31 December 1999	664,570	116,163	14,044	23,916	347	(31,245)	1,080	(164,768)	624,107
Premium arising on placement of shares	285,614	—	—	—	—	—	—	—	285,614
Share issue expenses	(11,136)	—	—	—	—	—	—	—	(11,136)
Deficit on revaluation	—	(36,812)	—	—	—	—	—	—	(36,812)
Translation of accounts of overseas subsidiaries and associates	—	—	—	—	—	(8,625)	—	—	(8,625)
Goodwill on acquisition of subsidiaries	—	—	—	—	(17,878)	—	—	—	(17,878)
Net loss for the year	—	—	—	—	—	—	—	(1,017,429)	(1,017,429)
At 31 December 2000	<u>939,048</u>	<u>79,351</u>	<u>14,044</u>	<u>23,916</u>	<u>(17,531)</u>	<u>(39,870)</u>	<u>1,080</u>	<u>(1,182,197)</u>	<u>(182,159)</u>
Attributable to:									
The Company and subsidiaries	664,570	116,163	14,044	15,141	347	(26,790)	1,080	(168,614)	615,941
Associates	—	—	—	8,775	—	(4,455)	—	3,846	8,166
At 31 December 1999	<u>664,570</u>	<u>116,163</u>	<u>14,044</u>	<u>23,916</u>	<u>347</u>	<u>(31,245)</u>	<u>1,080</u>	<u>(164,768)</u>	<u>624,107</u>
Attributable to:									
The Company and subsidiaries	939,048	79,351	14,044	15,141	(17,531)	(38,478)	1,080	(1,125,904)	(133,249)
Associates	—	—	—	8,775	—	(1,392)	—	(56,293)	(48,910)
At 31 December 2000	<u>939,048</u>	<u>79,351</u>	<u>14,044</u>	<u>23,916</u>	<u>(17,531)</u>	<u>(39,870)</u>	<u>1,080</u>	<u>(1,182,197)</u>	<u>(182,159)</u>

Notes to the Financial Statements

For the year ended 31 December 2000

29. RESERVES (continued)

	Share premium account <i>HK\$'000</i>	Capital reserve (note c) <i>HK\$'000</i>	Special capital reserve (note a) <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Revenue reserve <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE COMPANY						
At 1 January 1999	664,569	33,943	79,675	1,080	(266,188)	513,079
Premium arising on issue of shares	1	—	—	—	—	1
Provision for investments in subsidiaries written back	—	—	4,981	—	—	4,981
Net loss for the year	—	—	—	—	(156,173)	(156,173)
At 31 December 1999	664,570	33,943	84,656	1,080	(422,361)	361,888
Premium arising on placement of shares	285,614	—	—	—	—	285,614
Share issue expenses	(11,136)	—	—	—	—	(11,136)
Net loss for the year	—	—	—	—	(794,477)	(794,477)
At 31 December 2000	<u>939,048</u>	<u>33,943</u>	<u>84,656</u>	<u>1,080</u>	<u>(1,216,838)</u>	<u>(158,111)</u>

- (a) Under the terms of the court order in the reduction of the share premium account on 11 July 1994 (the “effective date”), the Company had given an undertaking to the court that a sum equal to the amount of the distributable profits of the Company as at 11 July 1994 and any write back of the total provisions which have been made against at the effective date on the investments will be transferred to a special capital reserve account. The Company is unable to distribute the special capital reserve until the actual and contingent liabilities outstanding at the effective date are paid off.
- (b) General reserve is part of the shareholders’ funds and comprises reserve fund and enterprise expansion fund of the subsidiaries and associates in the PRC.
- (c) The capital reserve account of the Company represents the profit on fixed assets transferred to subsidiaries.
- (d) The Company had no reserve available for distribution as at 31 December 2000 (1999: Nil).

Notes to the Financial Statements

For the year ended 31 December 2000

30. NET CASH (OUTFLOW) INFLOW FROM OPERATING ACTIVITIES

Reconciliation of loss before taxation to net cash (outflow) inflow from operating activities:

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Loss before taxation	(1,062,984)	(452,829)
Depreciation	68,930	62,983
Amortisation of deferred expenditure on borrowings	4,206	9,029
Amortisation of development costs	6,677	5,773
Amortisation of technology license	1,170	—
Development costs written off	5,326	20,878
Interest expenses on bank and other borrowings	130,238	170,351
Interest expenses on finance lease obligations	711	1,792
Gain on disposal of fixed assets	(136)	(37,351)
(Profit) loss on disposal of subsidiaries and an associate	(54,366)	23,133
Provision (write back) for amount due from an associate	44,000	(227)
Impairment losses recognised on investment securities	583,215	—
Provision for doubtful debts	98,222	218,605
Provision for inventories	79,139	36,900
Share of results of associates	59,642	17,640
Changes in inventories	32,860	(6,481)
Changes in trade and other receivables	(31,102)	369,687
Changes in amounts due from customers for ITS contracts	—	7,701
Changes in dividend receivable	24,654	(24,654)
Changes in value added tax recoverable/payable	8,984	(7,354)
Changes in trade and other payables	(89,902)	(356,504)
Changes in amounts due from associates	59,670	7,871
Changes in amounts due to associates	10,682	18,299
	<hr/>	<hr/>
Net cash (outflow) inflow from operating activities	<u>(20,164)</u>	<u>85,242</u>

Notes to the Financial Statements

For the year ended 31 December 2000

31. ACQUISITION OF SUBSIDIARIES

	2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net assets acquired:		
Fixed assets	8,408	—
Inventories	2,430	—
Trade and other receivables	1,061	—
Cash and bank balances	1,891	—
Trade and other payables	(3,531)	—
Minority interests	(4,017)	—
	6,242	—
Goodwill	17,878	—
	24,120	—
Total consideration	24,120	—
Satisfied by:		
Cash and bank balances	21,000	—
12% share of equity interest of subsidiaries disposed	3,120	—
	24,120	—
	24,120	—

Analysis of the net outflow of cash and cash equivalents in respect of acquisition of subsidiaries:

	2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash consideration	21,000	—
Cash and bank balances acquired	(1,891)	—
	19,109	—
	19,109	—

The subsidiaries acquired during the year did not contribute significantly to the Group's cash flows or operating results.

Notes to the Financial Statements

For the year ended 31 December 2000

32. DISPOSAL OF SUBSIDIARIES

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Net assets disposed of:		
Fixed assets	4,077	33,531
Inventories	1,734	21,376
Trade and other receivables	5,313	62,391
Taxation	—	(2,330)
Cash and bank balances	570	1,324
Bank loans	—	(8,751)
Trade and other payables	(6,561)	(6,410)
Other loans	—	(935)
Non-current liability - bank loans	—	(1,749)
Minority interests	(221)	(35,598)
	4,912	62,849
Loss on disposal	(3,563)	(31,516)
	1,349	31,333
Satisfied by:		
Cash and bank balances	1,349	31,333

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

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Cash consideration	1,349	31,333
Cash and bank balances disposed of	(570)	(1,324)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	779	30,009

The subsidiaries disposed during the year did not contribute significantly to the Group's cash flows or operating results.

Notes to the Financial Statements

For the year ended 31 December 2000

33. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital and premium <i>HK\$'000</i>	Loans and finance lease obligations <i>HK\$'000</i>	Minority interests <i>HK\$'000</i>	Amounts due to a major shareholder <i>HK\$'000</i>	Amounts due to associates <i>HK\$'000</i>
At 1 January 1999	2,449,971	2,702,278	229,621	299	905
Cash inflow from operating activities	—	—	—	—	6,580
Cash inflow from financing	2	194,395	—	266,031	11,719
Cash outflow from financing	—	(949,604)	(1,811)	—	—
Disposal of a subsidiary	—	(11,435)	(35,598)	—	—
Amortisation of deferred expenditure on borrowings	—	9,029	—	—	—
Minority interests arising upon deemed disposal of a subsidiary	—	—	51,085	—	—
Withdrawal of a minority shareholder	—	—	(15,752)	—	—
Share of loss for the year	—	—	(73,901)	—	—
Exchange adjustments	—	277	92	—	—
	<u>2,449,973</u>	<u>1,944,940</u>	<u>153,736</u>	<u>266,330</u>	<u>19,204</u>
At 31 December 1999	2,449,973	1,944,940	153,736	266,330	19,204
Cash inflow from operating activities	—	—	—	—	10,682
Non cash transactions (note 35)	—	2,317	—	—	—
Cash inflow from financing	642,631	456,522	—	47,856	—
Share issue expenses	(11,136)	—	—	—	—
Cash outflow from financing	—	(1,254,368)	(3,640)	—	—
Disposal of subsidiaries	—	—	(221)	—	—
Amortisation of deferred expenditure on borrowings	—	4,206	—	—	—
Acquisition of subsidiaries	—	—	7,137	—	—
Minority interests arising upon deemed disposal of a subsidiary	—	—	71,917	—	—
Share of loss for the year	—	—	(54,421)	—	—
Exchange adjustments	—	320	(85)	—	—
	<u>3,081,468</u>	<u>1,153,937</u>	<u>174,423</u>	<u>314,186</u>	<u>29,886</u>
At 31 December 2000	<u>3,081,468</u>	<u>1,153,937</u>	<u>174,423</u>	<u>314,186</u>	<u>29,886</u>

Notes to the Financial Statements

For the year ended 31 December 2000

34. ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS

	2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash and bank balances	359,669	653,608
Bank loans and overdrafts	(86,286)	(177,279)
	273,383	476,329
	273,383	476,329

35. MAJOR NON-CASH TRANSACTIONS

During the year, the Group entered into finance lease arrangements in respect of assets with total value at the inception of the leases of HK\$2,317,000 (1999: Nil).

36. DEFERRED TAXATION

As at the balance sheet date, the major components of deferred tax (assets) liabilities which have not been recognised or provided are as follows:

	The Group		The Company	
	2000	1999	2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Tax effect of timing differences because of:				
Excess of tax allowances over depreciation	19,364	16,000	25,321	22,519
Unutilised tax losses	(186,412)	(203,000)	(39,285)	(21,788)
Other timing differences	(45,546)	(12,000)	(398)	(398)
	(212,594)	(199,000)	(14,362)	333
	(212,594)	(199,000)	(14,362)	333

A deferred tax asset has not been recognised in the financial statements as it is not certain that the timing differences will be reversed in the foreseeable future.

Notes to the Financial Statements

For the year ended 31 December 2000

36. DEFERRED TAXATION (continued)

The amounts of unprovided deferred taxation (assets) liabilities for the year are as follows:

	The Group	
	2000	1999
	HK\$'000	HK\$'000
Tax effect of timing differences because of:		
Difference of tax allowances and depreciation	3,364	(20,000)
Utilised (unrelieved) tax losses	16,588	(25,000)
Other timing differences	(33,546)	26,000
	<u>(13,594)</u>	<u>26,000</u>
	<u>(13,594)</u>	<u>(19,000)</u>

Provision for deferred taxation in respect of the surplus arising on revaluation of the Group's investment properties is not required as such surplus does not constitute a timing difference for deferred tax purposes and realisation of this surplus would not give rise to any tax liability.

37. CONTINGENT LIABILITIES

	The Group		The Company	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Guarantees given for banking and finance facilities granted to				
Subsidiaries	—	—	841,992	1,361,325
Third parties	8,000	8,000	8,000	8,000
Guarantee given for floating rate notes issued by subsidiary	—	—	—	1,165,800
Discounted bills with recourse	—	1,841	—	—
	<u>8,000</u>	<u>9,841</u>	<u>849,992</u>	<u>2,535,125</u>
	<u>8,000</u>	<u>9,841</u>	<u>849,992</u>	<u>2,535,125</u>

Notes to the Financial Statements

For the year ended 31 December 2000

38. CAPITAL COMMITMENTS

	The Group		The Company	
	2000	1999	2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Contracted but not provided for				
Capital contribution to investee				
companies	17,613	82,536	110	110
Purchase of fixed assets	4,312	2,307	—	—
Properties under development	18,090	28,353	3,730	3,730
Others	107	520	107	107
	40,122	113,716	3,947	3,947

39. LEASE COMMITMENTS

At the balance sheet date the Group had annual commitments payable under non-cancellable operating leases as set out below:

	2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
Of land and buildings which expire:		
Within one year	867	1,413
In the second to fifth year inclusive	2,145	2,634
	3,012	4,047

Notes to the Financial Statements

For the year ended 31 December 2000

40. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following related party transactions:

	2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
Associates of the Group		
Sales thereto (<i>note a</i>)	—	9,531
Subcontracting-charges paid thereto (<i>note a</i>)	7,793	5,431
Fixed assets disposed of thereto (<i>note b</i>)	—	18,198
Rental of machinery and equipment paid (<i>note c</i>)	3,694	—

- (a) The Group sold certain telecommunication products and paid sub-contracting charges to its associates during the year. The pricing were determined on a cost plus profit basis.
- (b) The disposed of fixed assets to related party were fixed at a cost plus profit basis.
- (c) Rental of machinery and equipment paid to related party was comparable to rents for similar machinery and equipment charged by other parties.
- (d) Amounts due from or to associates and amount due to a major shareholder are unsecured, interest free and with no fixed repayment terms.

Notes to the Financial Statements

For the year ended 31 December 2000

41. PRINCIPAL SUBSIDIARIES AND ASSOCIATES

Name of company	Nominal value of issued ordinary share capital/ registered capital*	Percentage of equity			Principal activities
		held by the Company %	held by Subsidiaries %	attributable to the Group %	
(a) Subsidiaries					
Incorporated and operating in Hong Kong					
CASIL Clearing Limited	HK\$10,000,000	100	—	100	Provision of treasury services
CASIL Development Limited	HK\$1,000,000	—	100	100	Property development and investment
CASIL Electronic Products Limited	HK\$15,000,000	100	—	100	Distribution of electronic products
CASIL Global Development Limited	HK\$100	100	—	100	General trading
CASIL Broadband Limited	HK\$10,000	—	100	51	Broadband business
CASTEL Qihua Hi-Tech Investments Limited (Formerly known as Winfull Hi-Tech Investments Limited)	HK\$8,000,000	—	100	45	Investment holding
CASTEL Intelligent Transportation System Limited (Formerly known as CASIL GPS Engineering Limited)	HK\$11,600,000	—	100	45	ITS business
CASIL Lands Limited	HK\$10,000	—	100	100	Property investment
CASIL Network System Engineering Limited	HK\$2	100	—	100	Investment holding
CASIL (Nominees) Limited	HK\$2	100	—	100	Provision of secretarial services
CASIL Optoelectronic Product Development Limited	HK\$3,000,000	—	100	100	Distribution of optoelectronic products

Notes to the Financial Statements

For the year ended 31 December 2000

41. PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

Name of company	Nominal value of issued ordinary share capital/ registered capital*	Percentage of equity			Principal activities
		held by the Company %	held by Subsidiaries %	attributable to the Group %	
(a) Subsidiaries (continued)					
CASIL Properties Limited	HK\$10,000	100	—	100	Property investment
CASIL Realty Limited	HK\$200	100	—	100	Property investment and management
CASIL Research and Development Company Limited	HK\$8,000,000	100	—	100	Research, development and trading of electronic products
CASIL Satellite Holdings Limited	HK\$88,106,563 (2 ordinary shares of HK\$1 each and 11,295,713 ordinary shares of US\$1 each)	—	100	100	Investment holding
CASIL Semiconductor Limited	HK\$15,000,000	100	—	100	Distribution of liquid crystal displays
Chee Yuen Industrial Company Limited	HK\$20,000,000	100	—	100	Distribution of plastic products and moulds
Fakin Trading Company Limited	HK\$500,000	100	—	100	General trading
Far East United Electronics Limited	HK\$10,000,000	100	—	100	Property investment
Hong Yuen Electronics Limited	HK\$5,000,000	100	—	100	Manufacturing and selling of printed circuit board
Hung Nien Electronics Limited	HK\$30,001,000 (300,000 deferred shares and 10 ordinary shares)	—	100	51	Manufacturing and distribution of telecommunication products
Jecko Paper Limited	HK\$300,000	100	—	100	Import and export of fax and copy paper

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For the year ended 31 December 2000

41. PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

Name of company	Nominal value of issued ordinary share capital/ registered capital*	Percentage of equity			Principal activities
		held by the Company %	held by Subsidiaries %	attributable to the Group %	
(a) Subsidiaries (continued)					
Jeckson Electric Company Limited	HK\$5,000,000	100	—	100	Manufacturing and distribution of electronic components
Jeckwell International Trading Company Limited	HK\$800,000	100	—	100	General trading
Magicsound Company Limited	HK\$10,000	—	100	51	Property investment
Merrycity Company Limited	HK\$380,000	—	100	100	Property investment
Sunshine Land Company Limited	HK\$20	—	100	100	Property investment
Sure Full Investments Limited	HK\$2	100	—	100	Property investment
Well Horn Company Limited	HK\$2	—	100	100	Property investment
Worldwide Polyfoam & Engineering Limited	HK\$3,000,000	100	—	100	General trading

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For the year ended 31 December 2000

41. PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

Name of company	Nominal value of issued ordinary share capital/ registered capital*	Percentage of equity			Principal activities
		held by the Company %	held by Subsidiaries %	attributable to the Group %	
(a) Subsidiaries (continued)					
Incorporated in the British Virgin Islands and operating in Hong Kong					
Astrotech Group Limited	US\$1	100	—	100	Investment holding
Sinolike Investments Limited	US\$1	100	—	100	Investment holding
Incorporated in the Cayman Islands and operating in Hong Kong					
CASIL Telecommunications Holdings Limited	HK\$60,000,000	—	51	51	Investment holding
Incorporated and operating in France					
CXSAT	FRF250,000	—	51	51	Manufacturing and sale of digital TV equipment

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41. PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

Name of company	Nominal value of issued ordinary share capital/ registered capital*	Percentage of equity			Principal activities
		held by the Company %	held by Subsidiaries %	attributable to the Group %	
(a) Subsidiaries (continued)					
Registered and operating in the PRC					
Aerospace Technology (China) Company Limited	US\$5,000,000*	100	—	100	Manufacturing of telecommunication products
CASIL Science and Technology Development (Shenzhen) Company Limited	US\$1,500,000*	100	—	100	Design and distribution of integrated circuits and intelligent automation systems
CASIL Telecommunication (Shenzhen) Company Limited	HK\$5,000,000*	—	100	45	Manufacturing and selling of telecommunications products
Chee Yuen Plastic Products (Huizhou) Company Limited	RMB26,761,000*	—	100	100	Manufacturing of plastic products and moulds
China Aerospace (Huizhou) Industrial Garden Limited	US\$12,000,000*	90	—	90	Property development
Conhui (Huizhou) Electronics Company Limited	RMB131,831,747*	—	100	100	Manufacturing and distribution of electronic products
Conhui (Huizhou) Semiconductor Company Limited	RMB31,229,651*	—	100	100	Manufacturing of liquid crystal displays

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For the year ended 31 December 2000

41. PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

Name of company	Nominal value of issued ordinary share capital/ registered capital*	Percentage of equity			Principal activities
		held by the Company %	held by Subsidiaries %	attributable to the Group %	
(a) Subsidiaries (continued)					
Conhui (Huizhou) Worldwide Polyfoam Limited	RMB3,728,813*	—	100	100	Manufacturing of polyfoam products
Huizhou Jeckson Electric Company Limited	US\$1,000,000*	—	90	90	Subcontractor for the manufacture of electronic products
Huizhou Zhi Fat Metal & Plastic Electroplating Company Limited	US\$400,000*	—	90	90	Manufacturing of electronics and plastic products
Junhan Electronics (Shenzhen) Company Limited	HK\$3,000,000*	—	100	100	Properties investment and management
Qinhuangdao Hungnic Electronics Company Limited	US\$3,538,000*	—	51	26	Manufacturing of telecommunication products
Spacelight Spacial Type of Paper (Huizhou) Company Limited	HK\$13,666,354*	—	90	90	Manufacturing of fax paper
Shenzhen Chee Yuen Plastics Company Limited	RMB22,000,000*	—	80	80	Manufacturing of plastic products
上海恒嘉房地產開發 有限公司	RMB49,500,000*	—	91	82	Property development
惠州市海燕賓館有限公司	RMB7,700,000*	—	51	46	Hotel operation
唐山奇華衛星定位有限公司	RMB1,280,000*	—	51	23	ITS business
北京奇華通訊有限公司	RMB1,239,000*	—	78	35	ITS business

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41. PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

Name of company	Nominal value of issued ordinary share capital/ registered capital*	Percentage of equity			Principal activities
		held by the Company %	held by Subsidiaries %	attributable to the Group %	
(b) Associates					
Incorporated in the British Virgin Islands and operating in Hong Kong					
Aircar Assets Limited	US\$10,000	—	47	47	Investment holding
Registered and operating in the PRC					
Beijing Aerospace Sat-Way Information System Company Limited	US\$6,000,000*	30	—	30	Manufacturing of telecommunication products
Guizhou Huahang Automotive Manufacturing Company Limited	US\$55,680,000*	—	—	45	Assembly of light vehicles
Shandong Kongwei Electronics Limited	US\$2,741,800*	—	46	23	Manufacturing of telecommunication products
Southern Telecommunication Development Company Limited	US\$8,400,000*	—	41	21	Manufacturing and selling of telecommunication products

- (c) A subsidiary of the Company issued US\$6,000,000 1% convertible debentures due 31 December 2002 on 26 January 2000. The debentures carry the right to convert into shares of HK\$0.10¢ each in the share capital of that subsidiary at the conversion price. During the year, debentures of US\$4,900,000 had been converted into 44,955,763 fully paid shares of that subsidiary and the residual amount of US\$1,100,000 was redeemed at US\$1,155,000, equivalent to HK\$9,009,000 on 28 October 2000.

Except for the above, none of the subsidiaries had any loan capital subsisting at the end of the year or at any time during the year.