

1. CORPORATE INFORMATION

During the year, the Group was engaged in the design, manufacture and marketing of a wide range of electronic consumer products, including pagers, calculators and electronic toys.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

Basis of consolidation

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

Subsidiaries

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

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

Associates

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

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

Associates (*continued*)

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any provisions for diminutions in values other than those considered to be temporary in nature deemed necessary by the directors.

The results of associates are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in associates are stated at cost less any provisions for diminutions in values other than those considered to be temporary in nature deemed necessary by the directors.

Goodwill

Goodwill arising on the consolidation of subsidiaries and on the acquisition of associates represents the excess of purchase consideration paid over the fair values ascribed to the net underlying assets acquired and is eliminated against reserves in the year of acquisition. Impairment in the carrying amount of goodwill previously eliminated against reserves is charged to profit and loss account as and when such impairment arises. On disposal of subsidiaries or associates, the relevant portion of attributable goodwill eliminated against reserves is written back and included in the calculation of the gain or loss on disposal.

Fixed assets and depreciation

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

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

Fixed assets and depreciation (*continued*)

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life as follows:

Leasehold land	Over the unexpired term of the lease
Leasehold buildings	50 years or over the term of the relevant lease, whichever is shorter
Plant and machinery	6 ² / ₃ years
Moulds	5 years
Motor vehicles	4 years
Furniture, fixtures and fittings	10 years
Computer and office equipment	3 to 6 ² / ₃ years

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

Research and development costs

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

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five years, commencing from the date when the products are put into commercial production.

Short term investments

Short term investments are investments in equity securities held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the profit and loss account for the period in which they arise.

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on the estimated selling prices less any estimated costs to be incurred to completion and disposal.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent that it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Operating leases

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

Retirement benefits scheme

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

Foreign currencies

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

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

Foreign currencies (*continued*)

On consolidation, the financial statements of the Group's subsidiaries registered in the People's Republic of China ("PRC"), which are maintained in Renminbi, are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

Revenue recognition

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

- (a) the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and
- (c) dividends, when the shareholders' right to receive payment is established.

Related parties

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

Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash and bank balances represent assets which are not restricted as to use.

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3. TURNOVER

Turnover represents the net invoiced value of goods sold, after allowance for returns and trade discounts.

4. LOSS FROM OPERATING ACTIVITIES

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

	2000 HK\$	1999 HK\$
Auditors' remuneration	850,000	700,000
Staff costs (including directors' remuneration-note 6):		
Wages and salaries	28,781,771	28,693,386
Depreciation	5,998,616	9,833,011
Operating lease rentals in respect of land and buildings	1,866,308	2,348,602
Research and development costs	353,942	275,504
Loss on disposal of fixed assets	281,700	1,091,531
Provision for trade receivables	1,578,206	1,728,340
Provision for amount receivable upon the termination of investment in a potential investee company	-	3,500,000
Unrealised holding loss/(gain) on short term investments	1,337,600	(2,042,857)
Exchange losses, net	654,153	621,731
Gain on winding up of an associate	(90,924)	-
Gain on disposal of short term investments	-	(2,323,037)
Interest income	(518,178)	(823,158)
	<u> </u>	<u> </u>

5. FINANCE COSTS

	Group	
	2000 HK\$	1999 HK\$
Interest on bank loans and other loans wholly repayable within five years	328,944	1,144,403
	<u> </u>	<u> </u>

Notes to the Financial Statements

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6. DIRECTORS' REMUNERATION

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

	2000	1999
	HK\$	HK\$
Directors' fees:		
Executive	-	-
Independent non-executive	24,000	12,000
	24,000	12,000
Other emoluments:		
Executive:		
Salaries and other benefits	1,310,350	1,990,929
Independent non-executive	-	-
	1,334,350	2,002,929

The remuneration of each of the directors fell within the range of Nil to HK\$1,000,000.

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

7. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one (1999: One) director, details of whose emoluments are included in note 6 above. The details of the remuneration of the remaining four (1999: Four) non-director, highest paid employees are as follows:

	Group	
	2000	1999
	HK\$	HK\$
Salaries and other benefits	3,067,696	2,987,734

The remuneration of the non-director, highest paid employees each fell within the range of Nil to HK\$1,000,000.

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8. TAX

No provision for Hong Kong profits tax has been made for the current year (1999: Nil) because the Group did not have any assessable profits arising in Hong Kong.

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2000	1999
	HK\$	HK\$
Company and subsidiaries:		
Overprovision in prior year	-	(105,313)
Share of tax of associates	<u>5,117,370</u>	<u>5,675,424</u>
Tax charge for the year	<u>5,117,370</u>	<u>5,570,111</u>

9. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is HK\$582,009 (1999: HK\$110,458,317).

The Group's share of aggregate profits less losses retained by its associates for the year amounted to HK\$20,995,231 (1999: HK\$10,218,013).

10. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss attributable to shareholders for the year of HK\$13,985,214 (1999: HK\$72,357,135) and the weighted average of 904,074,213 (1999: 837,000,716) ordinary shares in issue during the year.

The diluted loss per share for the years ended 31 December 2000 and 1999 has not been presented as the effects arising from the exercise of the Company's share options would have been anti-dilutive.

Notes to the Financial Statements

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11. FIXED ASSETS

Group

	Leasehold land and buildings	Plant and machinery	Moulds	Motor vehicles	Furniture, fixtures and fittings	Computer and office equipment	Total
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Cost:							
At beginning of year	42,487,149	42,644,231	24,583,141	4,401,079	14,599,346	3,516,350	132,231,296
Additions	-	414,207	487,300	-	9,422	242,366	1,153,295
Disposals	-	(319,520)	(993,400)	(172,000)	-	(89,720)	(1,574,640)
Written-off	-	-	(20,149,592)	-	-	-	(20,149,592)
At 31 December 2000	42,487,149	42,738,918	3,927,449	4,229,079	14,608,768	3,668,996	111,660,359
Accumulated depreciation:							
At beginning of year	5,254,734	37,488,095	22,058,160	4,091,092	12,066,176	2,704,402	83,662,659
Provided for the year	944,163	2,637,969	1,279,401	122,051	636,421	378,611	5,998,616
Disposals	-	(319,520)	(784,149)	(172,000)	-	(17,271)	(1,292,940)
Written-off	-	-	(20,149,592)	-	-	-	(20,149,592)
At 31 December 2000	6,198,897	39,806,544	2,403,820	4,041,143	12,702,597	3,065,742	68,218,743
Net book value:							
At 31 December 2000	36,288,252	2,932,374	1,523,629	187,936	1,906,171	603,254	43,441,616
At 31 December 1999	37,232,415	5,156,136	2,524,981	309,987	2,533,170	811,948	48,568,637

Notes to the Financial Statements

31 December 2000

11. FIXED ASSETS (continued)

The leasehold land and buildings included above are held under the following lease term:

	Hong Kong HK\$	Mainland China HK\$	Total HK\$
Medium term leases	<u>13,645,467</u>	<u>22,642,785</u>	<u>36,288,252</u>

The leasehold land and buildings in Hong Kong were pledged to a bank to secure banking facilities granted to the Group.

Company

	Furniture, fixtures and fittings HK\$	Computer and office equipment HK\$	Total HK\$
Cost:			
At beginning of year	80,324	332,759	413,083
Additions	-	3,700	3,700
At 31 December 2000	<u>80,324</u>	<u>336,459</u>	<u>416,783</u>
Accumulated depreciation:			
At beginning of year	17,389	157,250	174,639
Provided for the year	8,032	64,258	72,290
At 31 December 2000	<u>25,421</u>	<u>221,508</u>	<u>246,929</u>
Net book value:			
At 31 December 2000	<u>54,903</u>	<u>114,951</u>	<u>169,854</u>
At 31 December 1999	<u>62,935</u>	<u>175,509</u>	<u>238,444</u>

Notes to the Financial Statements

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12. INTERESTS IN SUBSIDIARIES

	Company	
	2000	1999
	HK\$	HK\$
Unlisted shares, at directors' valuation	8,152,027	8,152,027
Unlisted shares, at cost	1,200,818	1,200,818
	9,352,845	9,352,845
Due from subsidiaries	393,427,988	391,875,327
Due to a subsidiary	(714,700)	(722,399)
	402,066,133	400,505,773
Less: Provisions for permanent diminutions in values	(298,400,000)	(298,400,000)
	103,666,133	102,105,773

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

The directors' valuation of certain subsidiaries was made on the basis of the book value of the underlying separable net assets of the subsidiaries attributable to the Company, as at the date on which the Company became the ultimate holding company of the Group, under the group reorganisation on 29 September 1989, less any dividends distributed from the retained profits of the subsidiaries, prior to the reorganisation.

Notes to the Financial Statements

31 December 2000

12. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity interest attributable to the Company		Principal activities
			2000	1999	
Artwin Electronics Limited *	Hong Kong	HK\$1,000,000	100	100	Trading of electronic products
National Infotech Company Limited	Hong Kong	HK\$1,000,000	100	100	Trading of electronic products
Prod-Art Company Limited	Hong Kong	HK\$100 ordinary shares and HK\$300,000 fixed-rate participating shares (note 1)	100	100	Investment holding and trading of electronic products
Prod-Art Marketing (International) Limited	Hong Kong	HK\$200,000	100	100	Dormant
Prod-Art (Warehouse) Company Limited	Cayman Islands/ Hong Kong	HK\$10	100	100	Property holding
Screwfix Services Limited	British Virgin Islands/PRC	US\$100	100	100	Dormant
Shenzhen GTP Telecom & Electronics Ltd. ("Shenzhen GTP") *	PRC	HK\$35,000,000 (note 2)	90	90	Dormant
Shenzhen Prod-Art Electronics & Telecom Co. Ltd. ("Shenzhen Prod-Art") *	PRC	HK\$35,000,000	(note 3)		Development, production and marketing of electronic products

Notes to the Financial Statements

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12. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity interest attributable to the Company		Principal activities
			2000	1999	
Sino Communications Limited	British Virgin Islands/ Hong Kong	US\$1	100	100	Investment holding
Sino Foundations Finance Company Limited	Hong Kong	HK\$2	100	100	Dormant
Sino Foundations Network Limited	British Virgin Islands/ Hong Kong	US\$1	100	100	Dormant
Sino Telecommunications Limited	British Virgin Islands/ Hong Kong	US\$1	100	100	Trading of marketable securities
SDM Technology Limited	Hong Kong	HK\$2	100	100	Dormant

* Indirectly held

Notes:

- (1) All of the fixed-rate participating shares in Prod-Art Company Limited are held by two former directors, Chan Suk Ping and Chan Suk Sing. These shares carry no rights to vote or to participate in a distribution of profits and, on liquidation, have very limited rights to the repayment of the amount paid up on the shares.
- (2) Shenzhen GTP is an equity joint venture company formed by the Group and a company in the PRC (the "PRC party"). The Group has an agreement with the PRC party pursuant to which the PRC party agreed to accept an annual guaranteed sum in lieu of its 10% share of the operating results of Shenzhen GTP. The PRC party will not be required to make any further capital contribution or to accept further liabilities. Other than the return of the registered capital paid up by the PRC party, the Group will be entitled to all remaining assets upon liquidation of Shenzhen GTP.

Accordingly, the Group has included in its results the entire operating results of Shenzhen GTP and has accounted for the annual guaranteed sum as an annual expense.

- (3) Shenzhen Prod-Art is a cooperative joint venture company formed by the Group and a company in the PRC (the "PRC partner"). Pursuant to the joint venture agreement, the PRC partner is entitled to an annual guaranteed sum and the Group is entitled to the entire results of Shenzhen Prod-Art. Accordingly, Shenzhen Prod-Art is treated by the Group as a wholly-owned subsidiary for accounting purposes and the annual guaranteed sum is treated as an annual expense.

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13. INTERESTS IN ASSOCIATES

	Group		Company	
	2000 HK\$	1999 HK\$	2000 HK\$	1999 HK\$
Unlisted shares, at cost	-	-	-	250,000
Share of net assets	73,222,039	50,059,195	-	-
	73,222,039	50,059,195	-	250,000

Particulars of the associates are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Percentage of equity interest attributable to the Group		Principal activities
			2000	1999	
GTP (Guangdong) Telecom Limited #	Corporate	Hong Kong	-	25	Dormant
Shenzhen SED Telecommunication Technology Co., Ltd. #	Corporate	PRC	47.5	47.5	Development, production and marketing of communication network equipment
Wu Holdings Limited #	Corporate	British Virgin Islands/PRC	28.84	28.84	Investment holding

Not audited by Ernst & Young

Notes to the Financial Statements

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13. INTERESTS IN ASSOCIATES (continued)

The principal activities of the material associate of the Group, Wu Holdings Limited and its subsidiaries, are the development, production and marketing of electronic products. A summary of the results and the net assets as at the balance sheet date of Wu Holdings Limited group is set out below:

(a) Results for the year:

	2000 HK\$'000	1999 HK\$'000
Turnover	<u>370,310</u>	<u>358,534</u>
Operating profit	53,881	76,129
Gain on dilution of interest in a subsidiary (note)	<u>53,998</u>	<u>12,146</u>
Profit before tax	107,879	88,275
Tax	<u>(17,744)</u>	<u>(19,678)</u>
Profit before minority interests	90,135	68,597
Minority interests	<u>(17,336)</u>	<u>(19,435)</u>
Net profit from ordinary activities attributable to shareholders	<u>72,799</u>	<u>49,162</u>

(note) The Group's share of gain on dilution of the interest of Wu Holdings Limited in its subsidiary amounting to HK\$15,573,023 is included in the share of profits less losses of associates for the year.

(b) Net assets at 31 December:

	2000 HK\$'000	1999 HK\$'000
Non-current assets	427,911	252,934
Current assets	479,040	303,936
Current liabilities	(364,574)	(268,553)
Non-current liabilities	(59,027)	(23,885)
Minority interests	<u>(229,459)</u>	<u>(91,788)</u>
Shareholders' equity	<u>253,891</u>	<u>172,644</u>

Notes to the Financial Statements

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14. SHORT TERM INVESTMENTS

	Group	
	2000 HK\$	1999 HK\$
Listed equity investments in Hong Kong, at market value	<u>2,164,480</u>	<u>3,502,080</u>

15. INVENTORIES

	Group	
	2000 HK\$	1999 HK\$
Raw materials	23,167,206	33,610,700
Work in progress	4,239,763	1,864,015
Finished goods	8,189,261	10,820,952
	<u>35,596,230</u>	<u>46,295,667</u>

The carrying amount of inventories included in the above at the balance sheet date carried at net realisable value amounted to HK\$1,343,396 (1999: HK\$1,844,736).

16. TRADE RECEIVABLES

The ageing analysis of the Group's trade receivables is as follows:

	2000		1999	
	HK\$	Percentage	HK\$	Percentage
Within two months	4,618,431	39	17,666,923	55
Within two to four months	2,029,338	17	1,526,686	5
Within four months to one year	1,931,196	17	4,439,458	14
Over one year	3,150,214	27	8,252,489	26
	<u>11,729,179</u>	<u>100</u>	31,885,556	<u>100</u>
Less: Provision	<u>(5,358,339)</u>		<u>(12,292,249)</u>	
Total after provision	<u>6,370,840</u>		<u>19,593,307</u>	

The normal credit period granted by the Group is within two months from the date of recognition of the sale.

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17. PLEDGED DEPOSITS

The balance represents cash deposits pledged to a bank to secure banking facilities granted to the Group. As at 31 December 2000, such facilities were utilised as to HK\$3,711,807 (1999: HK\$5,178,283).

18. TRADE AND BILLS PAYABLES

The ageing analysis of the Group's trade and bills payables is as follows:

	2000		1999	
	HK\$	Percentage	HK\$	Percentage
Within two months	10,268,994	48	21,379,479	70
Within two to four months	7,834,835	36	5,809,043	19
Within four months to one year	1,978,567	9	1,589,436	5
Over one year	1,433,041	7	1,894,622	6
	<u>21,515,437</u>	<u>100</u>	<u>30,672,580</u>	<u>100</u>

19. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Group	
	2000	1999
	HK\$	HK\$
Repayable within one year or on demand:		
Trust receipt loans, secured	3,711,807	5,178,283
Other loans, unsecured	-	11,800,000
	<u>3,711,807</u>	<u>16,978,283</u>

The trust receipt loans were secured by time deposits and certain leasehold land and buildings of the Group.

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20. SHARE CAPITAL

	2000	1999
	HK\$	HK\$
Shares		
<i>Authorised:</i>		
3,000,000,000 ordinary shares of HK\$0.10 each	300,000,000	300,000,000
<i>Issued and fully paid:</i>		
904,075,000 (1999: 904,071,000) ordinary shares of HK\$0.10 each	90,407,500	90,407,100

A summary of the movement in the Company's ordinary share capital during the year is as follows:

	Number of shares in issue	Nominal value of shares in issue HK\$
At 1 January 1999	752,177,000	75,217,700
Share options exercised	1,460,000	146,000
Issue of shares	150,434,000	15,043,400
At 31 December 1999 and 1 January 2000	904,071,000	90,407,100
Share options exercised	4,000	400
At 31 December 2000	904,075,000	90,407,500

During the year, the subscription rights attaching to 4,000 share options were exercised at the subscription price of HK\$0.22 per share, resulting in the issue of 4,000 shares of HK\$0.10 each for a total consideration, before expenses, of HK\$880.

As further disclosed in note 26 to the financial statements, subsequent to the balance sheet date, the Company allotted 100,452,778 new ordinary shares of HK\$0.10 each for cash consideration of HK\$11.9 million.

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20. SHARE CAPITAL (continued)

Share options

Pursuant to the share option scheme (the "Scheme") of the Company adopted on 3 December 1992, the board of directors of the Company is authorised to grant options to any full-time executive directors or full-time employees of the Company or any of its subsidiaries to subscribe for shares in the Company at a price of not less than 80% of the average closing price of the Company's shares on the five trading days immediately preceding the offer of the options. The maximum number of shares in respect of which options may be granted under the Scheme cannot exceed 10% of the issued share capital of the Company from time to time.

Details of the share options granted during the year and the movements in the number of share options outstanding under the Scheme are as follows:

Date of grant	Exercise price HK\$	Exercisable period	Number of share options				Balance in issue at 31 December 2000
			Balance in issue at 1 January 2000	Granted during the year	Exercised during the year	Cancelled during the year	
5 May 1998	0.220	5 May 1999- 4 May 2003	4,000	-	(4,000)	-	-
31 August 1999	0.225	31 August 2000- 30 August 2004	7,600,000	-	-	(1,200,000)	6,400,000
9 May 2000	0.316	15 May 2001- 8 May 2005	-	800,000	-	-	800,000
			<u>7,604,000</u>	<u>800,000</u>	<u>(4,000)</u>	<u>(1,200,000)</u>	<u>7,200,000</u>

A total of 4,000 share options was exercised during the year and the Company had 7,200,000 share options outstanding at the balance sheet date. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 7,200,000 additional ordinary shares and would generate cash proceeds, before the related issue expenses, of approximately HK\$1,692,800 for the Company.

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21. RESERVES

Group

	Share premium HK\$	Capital reserves # HK\$	Reserve on consolidation HK\$	Exchange translation reserve HK\$	Retained profits/ (accumulated losses) HK\$	Total HK\$
At 1 January 1999	271,173,700	178,000	(8,929,000)	1,000	(167,056,129)	95,367,571
Issue of shares	27,253,320	-	-	-	-	27,253,320
Share issue expenses	(1,872,144)	-	-	-	-	(1,872,144)
Goodwill arising on acquisition of an associate	-	-	(14,044,318)	-	-	(14,044,318)
Net loss for the year	-	-	-	-	(72,357,135)	(72,357,135)
Share of movements in reserves of associates	-	3,960,308	-	(1,442)	-	3,958,866
At 31 December 1999 and at 1 January 2000	296,554,876	4,138,308	(22,973,318)	(442)	(239,413,264)	38,306,160
Issue of shares	480	-	-	-	-	480
Net loss for the year	-	-	-	-	(13,985,214)	(13,985,214)
Share of movements in reserves of associates (Note)	-	17,838,982	-	15,285	(15,887,379)	1,966,888
Exchange realignment	-	-	-	470,041	-	470,041
Impairment in value of goodwill previously eliminated directly against reserves at the time of acquisition, charged to profit and loss account	-	-	14,044,318	-	-	14,044,318
At 31 December 2000	296,555,356	21,977,290	(8,929,000)	484,884	(269,285,857)	40,802,673
Attributable to:						
Company and subsidiaries	296,555,356	-	(8,929,000)	-	(288,974,722)	(1,348,366)
Associates	-	21,977,290	-	484,884	19,688,865	42,151,039
At 31 December 2000	296,555,356	21,977,290	(8,929,000)	484,884	(269,285,857)	40,802,673

Notes to the Financial Statements

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21. RESERVES (continued)

Notes: The transfer to capital reserves included:

- (i) gain on dilution of the interest of an associate, Wu Holdings Limited, in its subsidiary amounting to HK\$15,573,023 transferred from retained profits;
- (ii) statutory and discretionary surplus reserves of Wu Holdings Limited amounting to HK\$314,356 transferred from retained profits; and
- (iii) share of reserves arising from the issuance of convertible debentures by Wu Holdings Limited amounting to HK\$1,951,603.

Capital reserves represent the non-distributable reserves of an associate.

Company

	Share premium HK\$	Accumulated losses HK\$	Total HK\$
At 1 January 1999	271,173,700	(170,799,301)	100,374,399
Issue of shares	27,253,320	-	27,253,320
Share issue expenses	(1,872,144)	-	(1,872,144)
Net loss for the year	-	(110,458,317)	(110,458,317)
	<u> </u>	<u> </u>	<u> </u>
At 31 December 1999 and at 1 January 2000	296,554,876	(281,257,618)	15,297,258
Issue of shares	480	-	480
Net loss for the year	-	(582,009)	(582,009)
	<u> </u>	<u> </u>	<u> </u>
At 31 December 2000	<u>296,555,356</u>	<u>(281,839,627)</u>	<u>14,715,729</u>

22. DEFERRED TAX

The principal components of the Group's deferred tax asset not recognised in the financial statements are as follows:

	2000 HK\$'000	1999 HK\$'000
Accelerated depreciation allowances	127,270	359,638
Tax losses	(14,039,533)	(12,735,486)
	<u> </u>	<u> </u>
At 31 December	<u>(13,912,263)</u>	<u>(12,375,848)</u>

Net deferred tax asset has not been recognised in the financial statements because it is uncertain whether the tax losses will be utilised in the foreseeable future.

Notes to the Financial Statements

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23. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2000 HK\$	1999 HK\$
Loss from operating activities	(20,607,183)	(81,536,058)
Interest income	(518,178)	(823,158)
Depreciation	5,998,616	9,833,011
Unrealised holding loss/(gain) on short term investments	1,337,600	(2,042,857)
Loss on disposal of fixed assets	281,700	1,091,531
Gain on winding up of an associate	(90,924)	-
Gain on disposal of short term investments	-	(2,323,037)
Provision for trade receivables	1,578,206	1,728,340
Decrease in inventories	10,699,437	25,300,295
Decrease/(increase) in trade receivables	11,644,261	(12,458,581)
Decrease in other receivables	1,003,819	10,003,752
Increase/(decrease) in trade and bills payables	(9,157,143)	7,424,072
Increase/(decrease) in other payables and accruals	1,920,117	(744,275)
	<hr/>	<hr/>
Net cash inflow/(outflow) from operating activities	4,090,328	(44,546,965)

Notes to the Financial Statements

31 December 2000

23. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Analysis of changes in financing activities during the year

	Other loans HK\$	Share capital and share premium HK\$
At 1 January 1999	-	346,391,400
Issue of shares	-	42,442,720
Share issue expenses	-	(1,872,144)
Net cash inflow from financing	<u>11,800,000</u>	<u>-</u>
At 31 December 1999 and 1 January 2000	11,800,000	386,961,976
Issue of shares	-	880
Net cash outflow from financing	<u>(11,800,000)</u>	<u>-</u>
At 31 December 2000	<u>-</u>	<u>386,962,856</u>

24. COMMITMENTS

At the balance sheet date, the Group's had annual commitments payable in the following year under non-cancellable operating leases expiring in the second to fifth years, inclusive, in respect of land and buildings amounting to HK\$1,717,570 (1999: HK\$1,289,809).

The Company had no significant commitments as at 31 December 2000 (1999: Nil).

25. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at the balance sheet date.

The Company has given a guarantee to a bank in respect of banking facilities granted to a subsidiary. Facilities amounting to HK\$3,711,807 (1999: HK\$5,178,283) were utilised by the subsidiary as at 31 December 2000.

Notes to the Financial Statements

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26. POST BALANCE SHEET EVENT

Subsequent to the balance sheet date, on 19 March 2001, the Company entered into a subscription agreement with United Home Limited, a shareholder of the Company, pursuant to which United Home Limited agreed to subscribe in cash for a total of 100,452,778 new shares at a subscription price of HK\$0.11835 for each new share. The Company allotted its shares to United Home Limited on 29 May 2001. The total consideration for the subscription was approximately HK\$11.9 million.

27. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 19 July 2001.