UNIVERSAL APPLIANCES LIMITED

2001

Interim Report

Content

Pages

2	Management commentary
10	Condensed consolidated profit and loss account
11	Condensed consolidated balance sheet
13	Condensed consolidated cash flow statement
14	Notes to the accounts

The directors are pleased to present the Group's Interim Report and condensed accounts for the six-months ended 30 June 2001. The consolidated results and consolidated cash flow statement for the Group for the six-months ended 30 June 2001, and the consolidated balance sheet as at 30 June 2001 of the Group, all of which are unaudited and condensed, along with selected explanatory notes, are set out on pages 10 to 26 of this report.

BUSINESS REVIEW

The Group's loss attributable to shareholders for the six months ended 30 June 2001 is HK$41,360,000 representing a 79% decrease from the last corresponding period. The Group's consolidated turnover for the period is HK$69,220,000, an increase of 10% from the last corresponding period.

The Group has revamped its business and has focused on its media transmission and communication businesses in Mainland China. With China's expected accession to WTO, such development in these industries should accelerate. Further discussions on these business units are detailed below.

Our high-end audio products business continues to expand its operations in Greater China. The operation has struggled recently due to a slow down in consumer spending, which is continuing. However, we will increase our product base and mix to weather the uncertain future.

Digital Media Transmission Business

Our subsidiary DVN (Holdings) Limited ("DVN") has spent the last six months working to accomplish its mission of being a leading developer of digital video broadcasting systems providing the support and services necessary to make digital Pay TV a reality in China.

DVN has rolled out its services in the following areas:

City/Province	Customer	Service provided
Suzhou	Expatriate	Satellite broadcast, online data, financial news
Suzhou	Local	Online data, financial news
Hebei	All	Pay TV, online data, financial news

The sales of the set top boxes have been encouraging in the areas in which digital services have been rolled out. In fact, DVN received advanced orders from the Shandong and Hebei operations of more than 15,000 set top boxes, prior to actual roll out of the operation. Overall, marketing efforts are focused at increasing DVN's penetration into the existing analog cable subscriber base.

During the period, DVN's local partners in Hebei and Shandong received the first two formal approvals from China's State Administration of Radio, Film and TV ("SARFT") to provide digital Pay TV services in their respective provinces. Hebei TV launched its Pay TV service in August and named the service, Station 5. Station 5 provides, in addition to the local analogue channels, 13 channels of premium content that include multiple movie channels, on-line stock information and news, documentaries and cultural programs. Station 5 was launched amid great publicity and fanfare, receiving national coverage, and is perceived as a pilot service that serves as a role model for other operations throughout the country. Shandong is expected to launch their services later this year.

DVN will continue to work with its partners to further roll out Pay TV services throughout China. In following its mission to become a leading developer of digital video broadcasting systems providing the support and services necessary to make Pay TV a reality in China, DVN is now, in conjunction with its partners, developing, adjusting and rolling out Pay TV services that meet the demands of the China market. The requirements have now shifted, after installing our headend equipment in 2000, to marketing, operational and technical support of the cable TV stations as well as continuous research and development to provide modern and flexible technology.

Communication Business

Our telecommunication business in China is expanding its operations. Our subsidiary Beijing E-pay Net Technology Co, Limited ("Epay") manages the daily operation and customer database of "299" telephone bill pay-by-phone service jointly provided by Bank of China and Beijing Telecom in Beijing. Epay is continuing negotiating with other major carriers in major cities for marketing agency agreements.

Outside of China, Webway Communication Holdings Inc. ("Webway") our Integrated Communication Service Provider has handled significant volume in VOIP traffic recently. Such increase in business volume provides the foundation for launching our VPN ("Virtual Private Networks") services based on IP technology catering to Multinational companies and Small to Medium Size Enterprises. New management has been recruited to strengthen marketing and operational efforts, and accelerate the execution of VPN business. In the long term, management views costs savings of the VOIP technology compared to traditional circuit-switch network as a prime factor for enterprises switching to the Internet based technology.

Future

The digital media business is evolving into an infotainment business, in bringing about the convergence of interactive data, video and audio creates unlimited opportunities and potential. Although this industry is still in its infancy, DVN has positioned itself to take advantage of this potential with minimal risks and maximum upside. It has implemented a flexible business model that permits and rewards both proactive initiative as well as defensive manoeuvres to changes in the industry as it matures. We are confident about its future and provides opportunities to get in on ground level in the immensely interesting and potentially lucrative infotainment industry.

Similarly, our communication business uses the same business strategy of leveraging on existing communication infrastructure to deliver the most costs competitive services. In view of the slow down in the global economy, we expect increase in demand for services offered by Epay and Webway that provide for a cost effective solution to reduce communication costs to corporations.

Our people are up to the challenges ahead. We will diligently implement our business plans and seek out partners or investors to strengthen our capital and knowledge base of our Group.

FINANCIAL REVIEW

Liquidity and financial resources

As at 30 June 2001, the Group held cash deposits including pledged deposits totalling HK$76.0 million, an increase of HK$1.8 million compared with that of 31 December 2000. Current ratio and gearing ratio, representing long term liabilities to net worth, as at 30 June 2001 were 1.90 and 0.16 respectively as compared to 3.78 and 0.13 as at 31 December 2000 respectively.

In addition to the internal generated cash flows, the Group also made use of import banking facilities to finance its operations during the period. To deal with the temporary foreign currency exposure to Renmibi, the Group borrowed Renmibi loans with US dollar pledged deposits. Other than the Renmibi loan, most of the other bank borrowings as at 30 June 2001 were denominated in US dollars, there were no significant exposures so foreign currency fluctuations. All bank borrowings as at 30 June 2001 were based on current market interest rate.

Significant investments held

During the period, our major subsidiary, DVN increased its investment holdings through an acquisition of HK$20.28 million of convertible redeemable preference shares issued by a company with which DVN maintains a strategic business relationship. DVN's increased holding in this company will allow DVN to leverage its resources to accelerate the expansion of DVN's China-based operations and expedite the rollout of digital broadcasts throughout China.

Save as the aforesaid, there was no significant change in investments held during the period. As the Group values short-term investment in listed shares at market value in accordance with Hong Kong Statement of Standard Accounting Practice 24 "Accounting for investments in securities", the Group is exposed to fluctuation in the equity value of the company in which it has invested. In addition, the value of the Group's short-term investment may be impacted by sentiment towards the equity market as well as the stock itself.

Number and remuneration of employees, remuneration policies, bonus and share option schemes and training schemes

Including the directors of the Group, as at 30 June 2001, the Group employed a total of 480 full-time employees. The Group operates different remuneration schemes for sales and non-sales employees. Sales personnel are remunerated on the basis of on-target-earning packages comprising salary and sales commission. Non-sales personnel including engineering and product development are offered discretionary year-end bonuses based on individual merit. The Group also provides in-house training programmes for all staff. Details of share option schemes were disclosed in the 2000 annual report.

Contingent Liabilities

The Group did not have any material contingent liabilities as at 30 June 2001.

Purchase, sale or redemption of shares

The Company has not redeemed any of it shares during the period. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the period.

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

At 30 June 2001, the interests of the directors and chief executive in the shares, warrants and options of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")), as recorded in the register maintained by the Company under Section 29 of the Securities (Disclosure of Interests) Ordinance or as notified to the Company were as follows:

(A) The Company

		Number of ordinary shares of HK$0.18 each			
Names	*Note*	**Personal interests**	**Family interests**	**Corporate interests**	**Outstanding share options**
Mr. Ko Chun Shun, Johnson ("Mr. Ko")	*(i)*	18,640,000	—	1,000,437,150	18,000,000
Mr. Lui Pan ("Mr. Lui")		—	—	—	34,000,000

(B) DVN (Holdings) Limited ("DVN")

		Number of ordinary shares of HK$1.50 each			
Names	*Note*	**Personal interests**	**Family interests**	**Corporate interests**	**Outstanding share options**
Mr. Ko	*(ii)*	343,000	—	143,557,940	2,450,000
Mr. Lui		198,000	—	—	5,250,000

		Number of convertible preference shares of HK$1.50 each		
Name	*Note*	**Personal interests**	**Family interests**	**Corporate interests**
Mr. Ko	*(iii)*	—	2,000,000	—

(C) DVN (Group) Ltd., a wholly-owned subsidiary of DVN

		Number of convertible preference shares of US$1 each		
Name	*Note*	**Personal interests**	**Family interests**	**Corporate interests**
Mr. Ko	*(iv)*	—	—	15,000,000

Notes:

(i) Kwan Wing Holdings Limited ("Kwan Wing") and Techral Holdings Limited ("Techral"), a subsidiary of Kwan Wing, beneficially owned 360,399,000 and 640,038,150 ordinary shares in the Company, respectively. Mr. Ko has 100% direct interest in Kwan Wing and approximately 96% beneficial interest in Techral.

(ii) 103,603,418 ordinary shares of DVN are held by Prime Pacific International Limited, which is owned as to 67% by Gold Pagoda Incorporated, a wholly-owned subsidiary of the Company which in turn is controlled by Mr. Ko and as to 33% by Prime Gold International Limited in which Mr. Ko has a 82.45% beneficial interest. 31,032,522 shares and 2,956,000 are held by the Company and All Mark Limited, a wholly-owned subsidiary of the Company. Kwan Wing also own 3,144,000 shares. Two wholly-owned companies of Mr. Ko. Peninsula Resources Limited and First Gain International Limited also hold 1,600,000 and 1,222,000 shares respectively.

(iii) These convertible preference shares of DVN are held by Ms. Cheung Yat Kwan, the spouse of Mr. Ko.

(iv) These non-voting cumulative exchangeable preference shares are held by Million Way Enterprises Limited, a wholly-owned subsidiary of the Company. These preference shares are exchangeable to approximately 24,218,750 ordinary shares of DVN.

Save as disclosed above and other than certain nominee shares in the subsidiaries held in trust for the Group by certain directors, at 30 June 2001, none of the directors, the chief executive or their associates had any personal, family, corporate or other interests in any securities of the Company, its holding company or any of its associated corporations which were recorded in the Register as defined in the SDI Ordinance.

SUBSTANTIAL SHAREHOLDERS

At 30 June 2001, save as disclosed in Directors' Interests in equity or debt securities above, no other person had registered an interest of 10% or more in the issued share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

None of the directors of the Company is aware of any information which would indicate that the Group is not, or was not, in compliance with the Code of Best Practice as set out in Appendix 14 of in the Listing Rules of The Stock Exchange of Hong Kong Limited at any time during the six months ended 30 June 2001.

AUDIT COMMITTEE

The Audit Committee has reviewed with the directors and management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including a review of the unaudited interim accounts for the six months ended 30 June 2001.

By order of the Board
Ko Chun Shun, Johnson
Chairman

Hong Kong, 21 September 2001

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For The Six Months Ended 30 June 2001

		Unaudited	
		30 June 2001	30 June 2000
	Note	***HK$'000***	*HK$'000*
TURNOVER		**69,220**	62,741
Cost of sales		**(39,750)**	(53,207)
Gross profit		**29,470**	9,534
Other revenues		**4,920**	7,737
Distribution expenses		**(5,697)**	(1,496)
Administrative expenses		**(80,155)**	(64,682)
Unrealised holding gain/(loss) on short term investment		**4,468**	(197,902)
Other operating (expenses)/income		**(6,985)**	54,218
LOSS FROM OPERATING ACTIVITIES	*3*	**(53,979)**	(192,591)
Finance costs		**(851)**	(1,523)
Share of losses of			
Jointly Controlled Entity		**(483)**	(762)
Associates		**—**	(8,818)
LOSS BEFORE TAX		**(55,313)**	(203,694)
Tax	*4*	**—**	—
LOSS BEFORE MINORITY INTERESTS		**(55,313)**	(203,694)
Minority interests		**13,953**	2,706
LOSS ATTRIBUTABLE TO SHAREHOLDERS		**(41,360)**	(200,988)
LOSS PER SHARE	*5*		
Basic		**HK Cents 1.50**	HK Cents 7.61
Diluted		**N/A**	N/A

Other than the net loss for the period attributable to shareholders, the Group had no recognised gains or losses. Accordingly, a consolidated statement of recognised gains and losses is not presented in the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS

As At 30 June 2001 And 31 December 2000

	Note	**Unaudited 30 June 2001 *HK$'000***	31 December 2000 *HK$'000*
NON-CURRENT ASSETS			
Fixed assets	*6*	**70,966**	43,213
Intangible assets	*7*	**67,907**	69,657
Interest in a jointly-controlled entity		**6,252**	6,735
Investment securities		**78,694**	58,414
Other assets		**66,875**	66,987
		290,694	245,006
CURRENTS ASSETS			
Due from a jointly-controlled entity		**19,510**	19,420
Pledged deposits		**27,173**	10,337
Inventories		**90,104**	78,831
Accounts receivables	*8*	**57,186**	43,902
Deposits, prepayments and other receivables		**69,128**	106,660
Short-term investments	*9*	**43,434**	38,966
Bank balances and cash		**48,789**	63,841
		355,324	361,957
CURRENT LIABILITES			
Accounts payable	*10*	**35,841**	10,625
Tax payable		**2,087**	2,082
Accrued liabilities and other payables		**95,961**	71,002
Due to a fellow subsidiary		**12,500**	—
Interest-bearing bank and other borrowings	*11*	**41,105**	12,160
		187,494	95,869
NET CURRENT ASSETS		**167,830**	266,088
TOTAL ASSETS LESS CURRENT LIABILITIES		**458,524**	511,094

	Note	Unaudited 30 June 2001 HK$'000	31 December 2000 HK$'000
NON-CURRENT LIABILITES			
Due to a shareholder of a subsidiary		**7,995**	3,989
Due to a fellow subsidiary		**40,947**	40,947
Finance lease payables	*12*	**—**	183
		409,582	465,975
Minority interests		**96,053**	111,030
		313,529	354,945
CAPITAL AND DEFICIT			
Issued capital	*13*	**542,710**	542,710
Deficit	*14*	**(229,181)**	(187,765)
		313,529	354,945

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For The Six Months Ended 30 June 2001

	Period ended 30 June 2001 *HK$'000*
Net cash outflow from operating activities	**(8,428)**
Net cash inflow from returns on investments and servicing of finance	**2,308**
Hong Kong profits tax paid	**(5)**
Net cash outflow from investing activities	**(18,600)**
Net cash outflow from financing	**(2,622)**
Decrease in cash and cash equivalents	**(27,347)**
Cash and cash equivalents at 1st January 2001	**61,747**
Effect of foreign exchange rate changes	**—**
Cash and cash equivalents at 30 June 2001	**34,400**
Analysis of balances of cash and cash equivalents:	
Bank balances and cash	**48,789**
Bank overdrafts	**(295)**
Trust receipt loans of original maturity of less than three months	**(14,094)**
	34,400

NOTES TO CONDENSED INTERIM ACCOUNTS

1. Basis of preparation and accounting policies

These unaudited consolidated condensed interim accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25, Interim Financial Reporting, issued by the Hong Kong Society of Accountants, except that, in the first year of implementation of the standard, as permitted by the Hong Kong Stock Exchange Listing Rules, no comparative figure have been presented for the condensed cash flow statement.

These condensed interim accounts should be read in conjunction with the 2000 annual financial statements.

The accounting policies and methods of computation used in the preparation of these condensed interim accounts are consistent with those used in the annual accounts for the year ended 31 December 2000 except that the Group has changed certain of its accounting policies following its adoption of the following Statements of Standard Accounting Practice (SSAP's) issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1 January 2001:

SSAP 9 (revised):	Events after the balance sheet date
SSAP 14 (revised):	Leases (effective for periods commencing on or after 1 July 2000)
SSAP 26:	Segment reporting
SSAP 28:	Provisions, contingent liabilities and contingent assets
SSAP 29:	Intangible assets
SSAP 30:	Business combinations
SSAP 31:	Impairment of assets
SSAP 32:	Consolidated financial statements and accounting for investments in subsidiaries

The changes to the Group's accounting policies and the effect of adopting these new policies is set out below:

(a) SSAP 26: Segment Reporting

In Note 2 to these condensed interim accounts the Group has disclosed segment revenue and results as defined under SSAP 26. In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format. Comparative information has been given.

(b) SSAP 28: Provisions, contingent liabilities and contingent assets

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(c) SSAP 29: Intangibles

Expenditure on acquired patents, trademarks and licenses is capitalised and amortised using the straight-line method over their useful lives, but not exceeding 20 years.

Intangible assets are not revalued.

(d) SSAP 30 Business Combinations

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary/associated company/joint venture at the date of acquisition. Goodwill is included in intangible assets and is amortised using the straight-line method over its estimated useful life. However any impairment arising on such goodwill is accounted for in accordance with SSAP 31 "Impairment of Assets".

Goodwill arising on major strategic acquisitions of the Group to expand its product or geographical market coverage is amortised over a maximum period of 20 years. For all other acquisitions goodwill is generally amortised over 5 years.

The gain or loss on disposal of an entity includes the unamortised balance of goodwill relating to the entity disposed of or, for pre 1 January 2001 acquisitions, the related goodwill written off against reserves to the extent it has not previously been realised in the profit and loss account.

(e) SSAP31 Impairment of assets

SSAP 31 "Impairment of assets" has introduced a formal framework for the recognition of impairment losses in respect of the Group's assets other than financial assets.

The adoption of the above standards has had no material effect on amounts reported in prior years.

2. Segment information

The Group is principally engaged in trading of digital broadcasting equipment and related products, retail and distribution of home audio and video equipment, the provision of international financial market information and selective customer data services and the provision of IP Telephony and related services.

An analysis of the Group's revenue and results for the period by business segments and by geographical segments, are as follows:

By Business Segments:

	Six months ended 30 June 2001				
	Broadcasting Equipment	**Home audio**	**Financial Market Information**	**IP Telephony**	**Group**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenues	30,937	26,013	7,948	4,322	69,220
Segment results	(18,663)	(6,265)	(430)	(8,295)	(33,653)
Unallocated costs					(20,326)
Operating loss					(53,979)

	Six months ended 30 June 2000					
	Telephone Manufacturing	**Broadcasting Equipment**	**Home audio**	**Financial Market Information**	**IP Telephony**	**Group**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenues	6,972	23,300	10,181	8,258	14,030	62,741
Segment results	(14,821)	(22,325)	(2,096)	(1,125)	738	(39,629)
Unallocated costs						(152,962)
Operating loss						(192,591)

By Geographical Segments:

	Six months ended 30 June 2001				
	Hong Kong	**Mainland China**	**USA**	**Other Southeast Asia**	**Group**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenues	31,779	31,504	3,734	2,203	69,220
Segment results	(28,749)	(4,699)	(257)	52	(33,653)
Unallocated costs					(20,326)
Operating loss					(53,979)

	Six months ended 30 June 2000				
	Hong Kong	**Mainland China**	**USA**	**Other Southeast Asia**	**Group**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenues	15,881	37,330	6,972	2,558	62,741
Segment results	(18,350)	(7,047)	(14,821)	589	(39,629)
Unallocated costs					(152,962)
Operating loss					(192,591)

There are no sales or other transactions between the business segments. Unallocated costs represent corporate expenses.

3. Loss from operating activities

Loss from operating activities is stated after crediting and charging the following:

	6 months ended 30 June	
	2001	2000
	HK$'000	*HK$'000*
Crediting		
Gain on disposal of investment securities	**—**	(59,317)
Charging		
Depreciation:		
Owned fixed assets	**6,091**	4,423
Leased fixed assets	**20**	20
Amortisation of goodwill	**1,252**	1,689
Amortisation of development costs, patents and trademarks	**4,322**	940
Provision for inventory	**4,000**	—
Provision for doubtful debts	**10,149**	—

4. Tax

Hong Kong profits tax has not been provided (2000: nil) as the Group did not generate any assessable profits arising in Hong Kong for the period. Overseas profits tax has not been provided (2000: nil) as the foreign subsidiaries did not generate any assessable profits attributable to their operations in their operations in their respective countries of operation or are still exempted from income tax during the year.

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

5. Loss per share

The calculation of basic loss per share for the period ended 30 June 2001 is based on the net loss attributable to shareholders of HK$41,360,000 (2000: net loss of HK$200,988,000) and the weighted average number of 2,774,293,157 (2000: 2,642,116,509) ordinary shares deemed to have been in issue during the period.

There were no dilutive potential ordinary shares in 2000 and 2001 and therefore, no diluted loss per share for the period is shown.

6. Fixed Assets

Six months ended 30 June 2001	Owned Assets *HK$'000*	Leased Assets *HK$'000*	Total *HK$'000*
Opening net book amount	43,170	43	43,213
Additions	34,134	—	34,134
Disposals	(270)	—	(270)
Depreciation/amortisation	(6,091)	(20)	(6,111)
	70,943	23	70,966

7. Intangible assets

6 months ended 30 June 2001	Goodwill *HK$'000*	Development Costs *HK$'000*	Patents and Trademarks *HK$'000*	Total *HK$'000*
Opening net book amount, as previously reported	46,161	15,700	7,796	69,657
Acquisition of subsidiary	7,798	—	—	7,798
Intangibles recognised as an asset	—	743	167	910
Disposal/Impairment	(4,214)	(4,884)	—	(9,098)
Amortisation charge/written back	2,962	(1,737)	(2,585)	(1,360)
Closing net book amount	52,707	9,822	5,378	67,907
At 30 June 2001				
Cost	55,016	15,737	15,335	86,088
Accumulated amortisation	(2,309)	(5,915)	(9,957)	(18,181)
Net book amount	52,707	9,822	5,378	67,907
At 31 December 2000				
Cost	51,432	19,878	15,168	86,478
Accumulated amortisation	(5,271)	(4,178)	(7,372)	(16,821)
Net book amount	46,161	15,700	7,796	69,657

8. Accounts receivables

Included in accounts receivables are trade debtors and their ageing analysis is as follows:

	0-3 months	4-6 months	Over 6 months	Total
	HK'000	*HK'000*	*HK'000*	*HK'000*
Balance at 30 June 2001	38,994	1,706	16,486	57,186
Balance at 31 December 2000	39,481	3,586	835	43,902

The majority of the Group's sales are on credit with credit terms of 30-90 days.

9. Short term investments

Unlisted preference shares represent convertible cumulative non-voting preference shares of netalone.com Limited, a company listed on the Stock Exchange of Hong Kong Limited. The preference shares, which will expire on 22 October 2001, have a dividend rate of 5% per annum, are convertible into ordinary shares of netalone.com Limited at the adjusted conversion rate of one ordinary share for every HK$0.22 nominal amount of preference shares, subject to further adjustments.

At the date of issuing the financial statements, the Group held 127,289,300 ordinary shares, representing 17.15% equity interest in netalone.com Limited, with an aggregate market value of HK$7,000,912.

10. Accounts payables

Included in accounts payables are trade payables and their ageing analysis is as follows:

	0-3 months	4-6 months	Over 6 months	Total
	HK'000	*HK'000*	*HK'000*	*HK'000*
Balance at 30 June 2001	25,542	42	10,257	35,841
Balance at 31 December 2000	6,580	1,069	2,976	10,625

11. Interest-bearing bank and other borrowings

	30 June 2001 HK$'000	31 December 2000 HK$'000
Bank loans — secured	**26,224**	6,075
Bank overdrafts — unsecured	**295**	—
Trust receipt loans — secured	**14,094**	5,512
Current portion of finance lease payables	**492**	573
	41,105	12,160

The bank loans and trust receipt loans are secured by bank deposits amounting to $27,173,000 (2000: $10,337,000)

12. Finance lease payables

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

	30 June 2001 HK$'000	31 December 2000 HK$'000
Amounts payable:		
— Within one year	**512**	616
— In the second to fifth years, inclusive	**—**	186
Total minimum lease payments	**512**	802
Future finance charges	**(20)**	(46)
Total net finance lease payables	**492**	756
Portion classified as current liabilities	**(492)**	(573)
	—	183

13. Share capital

	Number of ordinary shares of HK$0.18 each		Number of preference shares of HK$0.18 each		Amount	
	2001	2000	**2001**	2000	**2001**	2000
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Authorised:						
At beginning of period/ year and at 30 June 2001/ 31 December 2000	**3,409,240**	3,409,240	**240,760**	240,760	**657,000**	657,000
Issued and fully paid:						
At beginning of period/year	**2,774,293**	2,378,843	**240,760**	240,760	**542,710**	471,529
Exercise of share options	**—**	5,450	**—**	—	**—**	981
Issued pursuant to a subscription agreement	**—**	390,000	**—**	—	**—**	70,200
At 30 June 2001/ 31 December 2000	**2,774,293**	2,774,293	**240,760**	240,760	**542,710**	542,710

Share options

Pursuant to a share option scheme adopted on 4 August 1999, 96,200,000 (2000: 145,500,000) share options with exercise price between HK$0.26 and HK$0.31 were outstanding at 30 June 2001. The exercise in full of such share options would, under the present capital structure of the Company, result in the issue of 96,200,000 (2000: 145,500,000) additional ordinary share of HK$0.18 each of the Company.

14. Reserves

	Share premium HK$'000	Revaluation reserve HK$'000	Currency translation reserve HK$'000	Accumulated deficit HK$'000	Total HK$'000
Group					
At 1 January 2000	352,626	426	188	(205,868)	147,372
Issue of shares	163,800	—	—	—	163,800
Issued share expenses	(5,992)	—	—	—	(5,992)
Released on disposal of property	—	(426)	—	—	(426)
Arising on exercise of options	436	—	—	—	436
Net loss for the year	—	—	—	(492,869)	(492,869)
Exchange realignments	—	—	(86)	—	(86)
At 31 December 2000	510,870	—	102	(698,737)	(187,765)
Net loss for the period	—	—	—	(41,360)	(41,360)
Exchange realignments	—	—	(56)	—	(56)
At 30 June 2001	510,870	—	46	(740,097)	(229,181)
Reserves retained by:					
Company and subsidiaries	510,870	—	46	(738,027)	(227,111)
Jointly controlled entity	—	—	—	(2,070)	(2,070)
At 30 June 2001	510,870	—	46	(740,097)	(229,181)
Company and subsidiaries	510,870	—	102	(697,150)	(186,178)
Jointly controlled entity	—	—	—	(1,587)	(1,587)
At 31 December 2000	510,870	—	102	(698,737)	(187,765)

15. Contingent liabilities

The Group did not have any material contingent liabilities as at 30 June 2001.

16. Commitments

	30 June 2001 *HK$'000*	(Restated) 31 December 2000 *HK$'000*
(a) Payment for non-cancellable operating leases committed to be made during the next year by the Group in respect of land and building expiring:		
— Within one year	**6,303**	3,858
— In the second to fifth years, inclusive	**11,495**	9,368
	17,798	13,226

(b) At the balance sheet date, the Group had uncontributed registered capital commitments in two PRC subsidiaries of an aggregate amount of RMB15,980,000 (approximately HK$14,935,000). Out of which, RMB13,905,328 (approximately HK$12,995,634) was paid before 30 June, 2001. The capital verification process has not completed and accordingly, the corresponding amount was disclosed as a commitment to the Group.

(c) There is no material capital commitments for property, plant and equipment as at 30 June 2001 (as at 31 December 2000 : HK$1,441,000)

17. Related party transaction and connected transactions

There is no material related party transaction for the six months ended 30 June 2001.

18. Pending Litigation

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

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

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

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

(b) On 9 September 1998, Smoothline was notified that the Customer and a party holding certain patents had agreed to settle a patent infringement dispute relating to the distribution of certain products, including certain cordless telephones manufactured by Smoothline, by payment by the Customer of US$1.25 million (equivalent to approximately HK$9.7 million) and the granting by such party to the Customer and its suppliers (including Smoothline) of a licence for such products. Smoothline has been requested by the Customer to contribute a portion of the costs associated with the granting of the licence and related legal costs in an amount of approximately US$800,000 (equivalent to approximately HK$6.2 million). The directors believe that the Group has valid defenses against the claim. Accordingly, the directors consider that provision for the claim is not necessary as once again this matter has been dormant for over three years.

(c) On 12 October 1999, Cybiotronics Limited. ("Cybiotronics"), a Hong Kong company commenced litigation in the United States District Court, Central District of California, claiming that, inter alia, Smoothline had infringed certain patents relating to telephones and consequential damages, and injunctive relief. On 12 February 2001, Smoothline obtained summary judgment against Cybiotronics on the claim for patent infringement. Cybiotronics by its counsel filed a notice of appeal against the summary judgement decision. To date, September 21, 2001, no actual appeal has been lodged. In the circumstances the directors do not consider any provision for this claim necessary.

(d) On 21 December 1999, in relation to the Customer referred to in paragraph (a) above, two subsidiaries of the Group sought to clarify their obligations relating to the Customer and issued mediation proceedings seeking leave to commence an action in The Princely District Court of Liechtenstein against both the Customer and FHA Handelsanstalt ("FHA"). Leave to issue an action was duly granted on 10 March 2000 with costs awarded in favour of the two subsidiaries against the Customer and FHA. The two subsidiaries will file their full pleadings in Liechtenstein on or before 10 May 2000. On 14 March 2000, in connection with the Liechtenstein proceedings the two subsidiaries petitioned The District Court of The Southern District of New York for a discovery order pursuant to 28 U.S.C. 1782 against the Customer. The petition was granted but the District Court decision was appealed by the Customer who also seeks to refer some of the matters raised in the Liechtenstein action to arbitration under AAA in New York. In May 2001, the Appeals Court found that Smoothline must submit several issues under dispute in Liechtenstein to AAA arbitration and cease the Liechtenstein action. Precisely what form the arbitration is to take, including what parties are to be joined in, is presently in issue before the District Court. As the two Group subsidiaries claimed damages of US$14 million and Declaratory judgement in Liechtenstein and no formal counterclaim has to date been made by the Customer, the directors do not consider any provision for this claim necessary at this time.

19. Subsequent events

There is no material subsequent event for the six months ended 30 June 2001.

20. Comparative figures

Certain comparative figures have been reclassified to conform to current period's presentation.