

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2001

1. GENERAL

The Company is an exempted company incorporated in Bermuda with limited liability. Its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company and it also provides corporate management services. Its subsidiaries are principally engaged in the design, manufacture and marketing of telecommunications products and the development of an integrated communication system.

The financial year of the Group was changed from 31 July to 31 December each year commencing from 1 August 1999. As a result, the financial statements for the prior period covered the 17 months period ended 31 December 2000. The corresponding amounts shown for the income statement, statement of recognised gains and losses, cash flow statement and related notes cover a 17 months period from 1 August 1999 to 31 December 2000 and therefore may not be comparable with amounts shown for the current year. The period covered by the prior period financial statements was greater than 12 months because the directors of the Company determined to bring the balance sheet date into line with that of the Suncorp Partners Limited, a substantial shareholder of the Company. No further changes to reporting dates are anticipated.

On 9 July 1999, the Company entered into a restructuring agreement (the "Restructuring Agreement") with (i) Suncorp Partners Limited; (ii) the then executive directors of the Company; and (iii) certain banks and financial institutions of the Company and its subsidiaries. Pursuant to the Restructuring Agreement, the Company, inter alia, restructured its capital and its obligations to these banks and financial institutions. Details of the restructuring were described in the financial statements of the Company for the period from 1 August 1999 to 31 December 2000 dated 18 April 2001.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

In preparing the financial statements, the directors have given careful consideration to the future liquidity of the Group. At 31 December 2001, the Group had net current liabilities of approximately HK\$12 million and a deficiency of shareholders' funds of approximately HK\$17 million. Furthermore, the repayment of Convertible Notes (as defined in note 24) which fell due in March 2002 in the aggregate principal amount of approximately HK\$7,418,000 was not met. This constituted an event of default under the terms of the Convertible Notes, resulting in the whole amount of the Convertible Notes becoming immediately repayable.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2001

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (continued)

The directors are currently in the process of negotiation with the Group Bank Agent which is acting on behalf of the holders of the Convertible Notes, consisting of certain banks and financial institutions in Hong Kong (the "Hong Kong Bankers"), with a view to rescheduling the repayment terms of the Convertible Notes. The Group Bank Agent has indicated in writing that it will agree to reschedule the repayment of a substantial portion of the Convertible Notes to 2003, subject to agreement being reached regarding amendment of the conversion price of the Convertible Notes and other relevant terms and subject to the approval by the holders of the Convertible Notes. In light of the existing negotiations, the Group Bank Agent has agreed to withhold the issue of the default notice until such time as the Group Bank Agent on the instructions of the holders of the Convertible Notes thinks fit. The directors are confident that the Group will reach agreement with the Hong Kong Bankers for the rescheduling of the repayment terms of the Convertible Notes in the near future.

Provided that the negotiations with the Group Bank Agent can be successfully concluded and that the approval of the Hong Kong Bankers can be obtained, the directors are satisfied that the Group will have sufficient financial resources to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

3. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted for the first time a number of new and revised Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants. Adoption of these SSAPs has led to a number of changes in the Group's accounting policies. The revised accounting policies are set out in note 4. In addition, the new and revised SSAPs have introduced additional and revised disclosure requirements which have been adopted in these financial statements. These changes have not had any material effects on the results for the current or prior accounting periods and, accordingly, no prior period adjustment has been required.

Disclosures have been modified so as to comply with the requirements of revised SSAPs. Comparative amounts for the prior period have been restated in order to achieve a consistent presentation.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2001

4. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the valuation of leasehold land and buildings. 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

Since the change of the financial year end of the Group from 31 July to 31 December each year on 1 August 1999, the consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

Where a subsidiary operates under severe restrictions that significantly impair its ability to transfer funds to the Company, the Group's interest in the subsidiary is accounted for in accordance with the Group's accounting policy for investments other than held-to-maturity securities in accordance with SSAP 24 "Accounting for Investments in Securities".

The results of subsidiaries acquired or disposed of during the year/period are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition over the cost of acquisition.

Negative goodwill arising on acquisition prior to 1 January 2001 continues to be held in reserves and will be credited to income at the time of disposal of the relevant subsidiary.

Negative goodwill arising on acquisition after 1 January 2001 will be presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2001

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in subsidiaries

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

Jointly controlled entities

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Group's interests in jointly controlled entities are included in the consolidated balance sheet at the Group's share of the net assets of the jointly controlled entities less any identified impairment loss. The Group's share of the post-acquisition results of its jointly controlled entities is included in the consolidated income statement.

Turnover

Turnover represents the gross amounts received and receivable for goods sold by the Group to outside customers, less returns and allowances, during the year/period.

Revenue recognition

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

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

Property, plant and equipment

Property, plant and equipment are stated at cost or valuation less accumulated depreciation or amortisation and accumulated impairment losses.

Land and buildings are stated in the balance sheet at their revalued amount, being the fair value on the basis of their existing use at the date of revaluation less any subsequent accumulated depreciation and amortisation and any subsequent impairment losses. Revaluations were performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2001

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Any revaluation increase arising on revaluation of land and buildings is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in the net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits (deficit).

Depreciation and amortisation are provided to write off the cost or valuation of items of property, plant and equipment over their estimated useful lives, using the straight line method, at the following rates per annum:

Leasehold land	Over the term of the relevant lease
Buildings	Over twenty five years or the remaining period of the relevant lease, whichever is shorter
Leasehold improvements	15%
Plant and machinery	15%-20%
Toolings and moulds	33 $\frac{1}{3}$ %
Furniture, fixtures and equipment	15%
Air conditioners	25%
Telephone and computer systems	30%
Motor vehicles	20%-30%

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

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2001

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leased assets

Leases are classified as finance leases when the terms of the leases transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair value at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as obligations under finance leases. Finance costs, which represent the difference between the total lease commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant lease so as to produce a constant periodic rate of charge on the remaining balances of the obligations for each accounting year/period.

All other leases are classified as operating leases and the annual rentals are charged to the income statement on a straight line basis over the relevant lease term.

Technical knowhow

Technical knowhow is capitalised as an asset and is stated at cost less amortisation and accumulated impairment loss that is other than temporary. Amortisation is provided to write off the cost of the technical knowhow over its economic useful life, using the straight line method, commencing from the date when the technical knowhow is put into commercial use.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight line basis over its economic useful life.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Product development expenditures are measured initially at cost and amortised on a straight line basis over their estimated useful lives.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2001

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the impairment loss is treated as a revaluation decrease under that SSAP.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior period/years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the reversal of the impairment loss is treated as a revaluation increase under that other SSAP.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Convertible notes

Convertible notes are separately disclosed and regarded as liabilities unless conversion actually occurs. The finance cost recognised in the income statement in respect of the convertible notes is calculated so as to produce a constant periodic rate of charge on the remaining balance of the convertible bonds for each accounting period. The related finance costs in connection with the issue of convertible notes are charged immediately to the income statement on the date of issue.

Retirement benefit scheme contributions

The retirement benefit costs charged in the income statement represent the contributions payable in respect of the current year to the Group's defined contribution schemes.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2001

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation

The charge for taxation is based on the results for the year/period 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 asset will crystallise in the foreseeable future.

Foreign currencies

Transactions in currencies other than Hong Kong dollars are translated at the rates ruling on the dates of the transactions or at the contracted settlement rate. Monetary assets and liabilities denominated in currencies other than Hong Kong dollars are re-translated at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in net profit or loss for the year/period.

On consolidation, the financial statements of the Group's operations outside Hong Kong are translated at exchange rates prevailing on the balance sheet date. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2001

5. SEGMENT INFORMATION

Geographical segments by location of customers for the year ended 31 December 2001:

	United Kingdom	Other European countries	Asia Pacific	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER	414,044	69,424	78,889	562,357
RESULTS				
Segment results	41,502	3,982	6,908	52,392
Other revenue	—	—	5,365	5,365
Unallocated other revenue				4,309
Unallocated corporate expenses				(49,993)
Profit from operations				12,073
Finance costs				(15,536)
Loss from operations after finance costs				(3,463)
Loss arising from discontinuance of an operation				(11,494)
Gain on disposal of a subsidiary				26,307
Deposit forfeited by a subscriber upon termination of subscription agreement				1,000
Profit before minority interests				12,350
Minority interests				44
Profit for the year				12,306
OTHER INFORMATION				
Capital additions				13,107
Depreciation and amortisation of property, plant and equipment				12,028
Amortisation of product development expenditure				1,680
Impairment loss on product development expenditure				1,249
BALANCE SHEET				
ASSETS				
Segment assets	42,008	9,571	1,597	53,176
Unallocated corporate assets				78,038
Consolidated total assets				131,214
LIABILITIES				
Unallocated corporate liabilities				148,019
Tax payable				50
Consolidated total liabilities				148,069

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2001

5. SEGMENT INFORMATION (continued)

Geographical segments by location of customers for the period from 1 August 1999 to 31 December 2000:

	United Kingdom	Other European countries	Asia Pacific	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER	361,936	78,430	77,127	517,493
RESULTS				
Segment results	3,486	755	(1,141)	3,100
Other revenue	—	—	13,152	13,152
Unallocated other revenue				11,835
Unallocated corporate expenses				(67,866)
Loss from operations				(39,779)
Finance costs				(29,814)
Loss from operations after finance costs				(69,593)
Bank borrowings waived by the Hong Kong Bankers				250,730
Profit before minority interests				181,137
Minority interests				(21,002)
Profit for the period				202,139
OTHER INFORMATION				
Capital additions				38,471
Depreciation and amortisation of property, plant and equipment				32,499
BALANCE SHEET				
ASSETS				
Segment assets	14,827	7,489	3,868	26,184
Unallocated corporate assets				261,329
Consolidated total assets				287,513
LIABILITIES				
Unallocated corporate liabilities				344,620
Tax payable				8,203
Consolidated total liabilities				352,823

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2001

5. SEGMENT INFORMATION (continued)

As all of the Group's turnover and contribution to results were derived from the design, manufacture and sale of telephones and related equipment and the development of integrated communication systems was discontinued during the year before the commencement of business activities (note 9), accordingly no separate business segment analysis is present for the Group.

As at 31 December 2001, substantial portion of the identifiable assets and liabilities of the Group are located in Hong Kong.

6. PROFIT (LOSS) FROM OPERATIONS

	1.1.2001 to 31.12.2001 HK\$'000	1.8.1999 to 31.12.2000 HK\$'000
Profit (loss) from operations has been arrived at after charging:		
Product development expenditure	10,517	13,546
Less: Amount capitalised	(9,355)	(12,292)
	1,162	1,254
Amortisation of intangible assets included in selling and distribution expenses	1,680	—
Auditors' remuneration	830	800
Depreciation and amortisation on:		
- assets owned by the Group	11,917	31,257
- assets under finance leases	111	1,242
Impairment loss recognised in respect of intangible assets included in selling and distribution expenses	1,249	—
Staff costs, including retirement benefit scheme contributions	49,067	78,565
and after crediting:		
Interest income	328	595
Gain on disposal of property, plant and equipment	58	—

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2001

7. FINANCE COSTS

	1.1.2001	1.8.1999
	to	to
	31.12.2001	31.12.2000
	HK\$'000	HK\$'000
Interest on:		
- bank borrowings wholly repayable within five years	12,859	24,918
- convertible notes	2,464	3,492
- finance leases	213	1,404
	<u>15,536</u>	<u>29,814</u>

8. BANK BORROWINGS WAIVED BY THE HONG KONG BANKERS

Upon completion of the Group's restructuring exercise during the prior period as described in note 1, the Group's borrowings from the Hong Kong Bankers were either repaid, converted into capital or loan capital of the Company or were discharged.

The amount of bank borrowings waived by the Hong Kong Bankers was calculated as follows:

	HK\$'000
Bank borrowings with the Hong Kong Bankers as at 1 August 1999	363,961
Cash repayment	(24,713)
Repayment by issuance of 326,368,000 new shares at HK\$0.15 per share (note 26 (III))	(48,955)
Repayment by issuance of convertible notes of principal value of approximately HK\$39,563,000 (note 24)	(39,563)
	<u>250,730</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2001

9. LOSS ARISING FROM DISCONTINUANCE OF AN OPERATION

On 7 December 2001, the Group discontinued the operation of three subsidiaries which were engaged in the development of integrated communication systems due to the unsatisfactory results achieved over the years. The loss arising from the discontinuance of this operation of approximately HK\$11,494,000 represented the write-off of technical knowhow of approximately HK\$13,000,000 net of the release of negative goodwill arising on acquisition of HK\$1,506,000.

During the year and prior to its discontinuance, the discontinued operation had no turnover (1.8.1999 to 31.12.2000: nil) and generated an operating loss for the year of HK\$8,059,000 (1.8.1999 to 31.12.2000: HK\$4,988,000).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2001

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Particulars of the emoluments of the directors and five highest paid individuals for the year/period were as follows:

(a) Directors' remuneration

	1.1.2001	1.8.1999
	to	to
	31.12.2001	31.12.2000
	HK\$'000	HK\$'000
Fees:		
Executive directors	—	—
Non-executive directors	300	330
	300	330
Other emoluments:		
Executive directors - salaries and other benefits	4,552	6,555
	4,852	6,885

The emoluments of the directors were within the following bands:

	Number of directors	
	1.1.2001	1.8.1999
	to	to
	31.12.2001	31.12.2000
Below HK\$1,000,000	5	7
HK\$1,000,001 to HK\$1,500,000	3	1
HK\$1,500,001 to HK\$2,000,000	—	3

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2001

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

(b) Employees' remuneration

The five highest paid individuals in the Group for the current year included three (1.8.1999 to 31.12.2000: three) directors, and information regarding their emoluments is disclosed in paragraph (a) above. The emoluments of the remaining two (1.8.1999 to 31.12.2000: two) individuals were as follows:

	1.1.2001	1.8.1999
	to	to
	31.12.2001	31.12.2000
	HK\$'000	HK\$'000
Salaries and other benefits	<u>3,454</u>	<u>4,401</u>

The emoluments of the employees are within the following bands:

	1.1.2001	1.8.1999
	to	to
	31.12.2001	31.12.2000
HK\$1,000,001 - HK\$1,500,000	1	1
HK\$1,500,001 - HK\$2,000,000	1	—
HK\$2,500,001 - HK\$3,000,000	—	1

During the year ended 31 December 2001 and the period ended 31 December 2000, no emoluments were paid by the Group to the five highest paid individuals, including directors, as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, no directors waived any emoluments during the year/period.

NOTES TO THE FINANCIAL STATEMENTS

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11. TAXATION

No provision for taxation has been made in the financial statements as the assessable profits of those companies of the Group which are subject to taxation is wholly absorbed by tax losses brought forward. Other companies of the Group which are subject to taxation incurred tax losses for the year.

Details of unrecognised deferred taxation are set out in note 28.

12. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share for the year/period is based on the following data:

	1.1.2001	1.8.1999
	to	to
	31.12.2001	31.12.2000
	HK\$'000	HK\$'000
Earnings for the purposes of basic earnings per share	12,306	202,139
Effect of dilutive potential ordinary shares:		
Interest on convertible notes		2,183
Earnings for the purposes of diluted earnings per share		204,322
Weighted average number of ordinary shares for the purposes of basic earnings per share	215,744,448	138,605,776
Effect of dilutive potential ordinary shares in respect of:		
Share options		9,017,209
Convertible notes		14,825,553
Weighted average number of ordinary shares for the purposes of diluted earnings per share		162,448,538

The weighted average number of ordinary shares for the purposes of basic earnings per share for the period from 1 August 1999 to 31 December 2000 has been adjusted for the effect of share consolidation on 4 June 2001 and open offer on 21 June 2001.

The computation of diluted earnings per share for the year ended 31 December 2001 has not assumed the exercise of the Company's outstanding share options and convertible notes because their exercise would increase the earnings per share.

NOTES TO THE FINANCIAL STATEMENTS

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13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK\$'000	Leasehold improve- ments HK\$'000	Plant and machinery HK\$'000	Toolings and moulds HK\$'000	Furniture, fixtures and equipment HK\$'000	Air conditioners HK\$'000	Telephone and computer systems HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
THE GROUP									
COST OR									
VALUATION									
At 1 January 2001	142,250	18,978	163,059	26,224	63,327	11,081	8,338	4,107	437,364
Currency realignment	—	—	(7)	—	(42)	—	(18)	(13)	(80)
Acquisition of a subsidiary	—	—	—	—	18	—	—	—	18
Additions	—	332	1,303	29	233	—	1,837	—	3,734
Disposals	—	—	(8,386)	—	—	—	(1,192)	(71)	(9,649)
Disposal of a subsidiary	(142,250)	(19,310)	(155,969)	(26,253)	(62,600)	(11,081)	(6,090)	(3,190)	(426,743)
At 31 December 2001	—	—	—	—	936	—	2,875	833	4,644
DEPRECIATION AND									
AMORTISATION									
At 1 January 2001	—	15,694	146,385	26,117	56,582	10,827	6,559	3,017	265,181
Currency realignment	—	—	(5)	—	(38)	—	(12)	(6)	(61)
Provided for the year	3,526	895	3,832	99	2,411	14	964	287	12,028
Eliminated on disposals	—	—	(8,332)	—	—	—	(941)	(23)	(9,296)
Eliminated on disposal of a subsidiary	(3,526)	(16,589)	(141,880)	(26,216)	(58,073)	(10,841)	(5,851)	(2,829)	(265,805)
At 31 December 2001	—	—	—	—	882	—	719	446	2,047
NET BOOK VALUE									
At 31 December 2001	—	—	—	—	54	—	2,156	387	2,597
At 31 December 2000	142,250	3,284	16,674	107	6,745	254	1,779	1,090	172,183

Leasehold land and buildings located in the People's Republic of China, other than Hong Kong (the "PRC") were revalued at 31 December 2000 by Sallmanns (Far East) Limited, a firm of independent professional valuers, on an open market value basis at HK\$142,250,000. The surplus arising on revaluation of these properties was credited to the property revaluation reserve for the period ended 31 December 2000. All leasehold land and buildings were disposed of during the year upon the disposal of a subsidiary.

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13. PROPERTY, PLANT AND EQUIPMENT (continued)

The net book value of the properties held by the Group at the balance sheet date comprises the following:

	2001	2000
	HK\$'000	HK\$'000
Properties situated in the PRC under:		
- long term land use rights	—	43,200
- medium term land use rights	—	83,050
- short term land use rights	—	16,000
	<u>—</u>	<u>142,250</u>

At 31 December 2000, had the Group's leasehold land and buildings been carried at cost less accumulated depreciation and amortisation, the carrying value would have been approximately HK\$89,667,000.

At 31 December 2001, the net book value of the Group's telephone and computer systems and motor vehicles included an aggregate amount of approximately HK\$24,000 (2000: HK\$36,000) and HK\$216,000 (2000: HK\$315,000), respectively, in respect of assets held under finance leases.

The Company did not have any property, plant and equipment as at the balance sheet date.

14. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2001	2000
	HK\$'000	HK\$'000
Unlisted shares, at cost	86,803	86,803
Less: Impairment losses recognised	(86,803)	(86,803)
	<u>—</u>	<u>—</u>
Amounts due from subsidiaries	172,388	474,078
Less: Allowances on amounts due from subsidiaries	(155,536)	(462,523)
	<u>16,852</u>	<u>11,555</u>

The amounts due from subsidiaries are unsecured, interest-free and have no fixed repayment terms. In the opinion of directors, the amounts will not be repayable in the next twelve months from the balance sheet date and accordingly, the amounts are shown as non-current.

Details of the Company's principal subsidiaries at 31 December 2001 are set out in note 41.

NOTES TO THE FINANCIAL STATEMENTS

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15. SUBSIDIARY NOT CONSOLIDATED

On 11 December 1998, the directors resolved to place H B Electronics Limited ("HBE"), a wholly-owned subsidiary of the Company incorporated in Hong Kong, into liquidation. At the date of these financial statements, the liquidation of HBE has not been completed.

Following negotiations with the creditors of HBE, the Company and other group companies had assumed the obligations of HBE previously guaranteed by them. The Group has no future obligations to satisfy the liabilities of HBE.

16. INTEREST IN A JOINTLY CONTROLLED ENTITY

THE GROUP
2001 and 2000
HK\$'000

Share of net assets of a jointly controlled entity

—

On 16 July 2001, H B Electronics (China) Limited ("HB China"), a wholly-owned subsidiary of the Company, entered into an agreement with the other two joint venture partners of Shenzhen Guo Wei Electronics Co., Ltd ("Guo Wei"), a sino-foreign equity joint venture company established in Shenzhen, the PRC and is engaged in manufacture of telephone and related equipment, and Sichuan Top Software Co., Ltd ("Sichuan Top"), a company incorporated in the PRC to increase the registered capital of Guo Wei from RMB 50 million to RMB 64 million, to allow Sichuan Top to join as a new PRC joint venture partner in Guo Wei and to transfer certain portions of the equity interests held by HB China and the other two joint venture partners to Sichuan Top at cost.

The above transaction was completed on 4 September 2001 and the interest held by the Group in Guo Wei was reduced from 60% to 46%. Accordingly, Guo Wei was reclassified as a jointly controlled entity of the Group. The name of Guo Wei was then changed to Shenzhen TOP Guo Wei Electronics Co., Ltd.

The Group's entitlement to share in the profits of Guo Wei is in proportion to its equity interest.

The amount due to the jointly controlled entity is unsecured and non-interest bearing. Other than the amount of HK\$25,000,000 which is repayable after one year from the balance sheet date, the remaining balance is repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2001

16. INTEREST IN A JOINTLY CONTROLLED ENTITY (continued)

The following details have been extracted from the unaudited management accounts of Guo Wei:

Result for the period from 4 September 2001 to 31 December 2001

	HK\$'000
Turnover	208,636
Profit from ordinary activities before taxation	2,294
Profit from ordinary activities before taxation attributable to the Group	—

Financial position as at 31 December 2001

Non-current assets	190,183
Current assets	70,032
Current liabilities	(624,202)
Non-current liabilities	(4,067)
Net liabilities	(368,054)
Net assets attributable to the Group	—

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2001

17. INTANGIBLE ASSETS

	Technical knowhow	Product development expenditure	Total
	HK\$'000	HK\$'000	HK\$'000
THE GROUP			
COST			
At 1 January 2001	13,000	12,292	25,292
Additions	—	9,355	9,355
Written off upon discontinuation of an operation	(13,000)	—	(13,000)
	<u>—</u>	<u>21,647</u>	<u>21,647</u>
At 31 December 2001	<u>—</u>	<u>21,647</u>	<u>21,647</u>
AMORTISATION AND IMPAIRMENT			
At 1 January 2001	—	—	—
Impairment loss recognised	—	(1,249)	(1,249)
Provided for the year	—	(1,680)	(1,680)
	<u>—</u>	<u>(2,929)</u>	<u>(2,929)</u>
At 31 December 2001	<u>—</u>	<u>(2,929)</u>	<u>(2,929)</u>
NET BOOK VALUE			
At 31 December 2001	<u>—</u>	<u>18,718</u>	<u>18,718</u>
At 31 December 2000	<u>13,000</u>	<u>12,292</u>	<u>25,292</u>

During the year, the directors of the Company considered that an amount of HK\$1,249,000 included in product development expenditure was not recoverable and accordingly the impairment loss was recognised in the income statement.

Saved as disclosed above, in the opinion of the directors of the Company, the intangible assets are worth at least their carrying value. Such intangible assets were put into commercial use during the current year.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2001

18. INVENTORIES

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
At cost, less provision:		
Raw materials	—	33,103
Work in progress	—	6,169
Finished goods	3,692	2,113
	3,692	41,385

At 31 December 2001, the Group had finished goods of approximately HK\$2,962,000 which were carried at net realisable value.

At 31 December 2000, the Group had raw materials of approximately HK\$17,241,000 and finished goods of approximately HK\$285,000 which were carried at net realisable value.

19. TRADE RECEIVABLES, BILLS RECEIVABLES, DEPOSITS AND PREPAYMENTS

At 31 December 2001, included in the Group's trade receivables, bills receivables, deposits and prepayments were trade receivables of approximately HK\$53,176,000 (2000: HK\$26,184,000). The Group allows an average credit period of 20 - 30 days to its trade customers. Details of the aged analysis of trade receivables are as follows:

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
0 - 30 days	51,420	22,653
31 - 60 days	1,095	1,838
Over 60 days	661	1,693
	53,176	26,184

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2001

20. TRADE PAYABLES, DEPOSITS RECEIVED AND ACCRUED CHARGES

At 31 December 2001, included in the Group's trade payables, deposits received and accrued charges were trade payables of approximately HK\$53,849,000 (2000: HK\$57,100,000). Details of the aged analysis of trade payables are as follows:

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
0 - 30 days	19,562	7,652
31 - 60 days	20,408	11,886
Over 60 days	13,879	37,562
	<u>53,849</u>	<u>57,100</u>

21. AMOUNTS DUE TO DIRECTORS

The amounts were unsecured, non-interest bearing and were either fully repaid or eliminated on disposal of a subsidiary during the current year.

NOTES TO THE FINANCIAL STATEMENTS

22. OBLIGATIONS UNDER FINANCE LEASES

	THE GROUP			
	Minimum		Present value of	
	lease payments		minimum lease payments	
	2001	2000	2001	2000
HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Amounts payable under finance leases are repayable as follows:				
Within one year	897	1,765	845	1,552
More than one year, but not exceeding two years	114	784	91	732
Within two to five years	41	155	31	122
	<u>1,052</u>	<u>2,704</u>	<u>967</u>	<u>2,406</u>
Less: Future finance charges	<u>(85)</u>	<u>(298)</u>	<u>—</u>	<u>—</u>
Present value of lease obligations	<u>967</u>	<u>2,406</u>	<u>967</u>	<u>2,406</u>
Less: Amount due within one year and shown under current liabilities			<u>(845)</u>	<u>(1,552)</u>
Amount due after one year			<u>122</u>	<u>854</u>

The average lease term is 4 years (2000: 4 years). For the year ended 31 December 2001, the average effective borrowing rate was 13% (2000: 21%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

NOTES TO THE FINANCIAL STATEMENTS

23. BANK AND OTHER BORROWINGS

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Bank and other borrowings comprise:		
Bank overdraft	154	—
Trust receipts and packing loans	—	71,089
Other bank loans	—	112,866
Other borrowings	—	1,851
	<u>154</u>	<u>185,806</u>
Analysed as:		
Secured	—	150,715
Unsecured	154	35,091
	<u>154</u>	<u>185,806</u>
The bank and other borrowings are repayable as follows:		
Within one year or on demand	154	180,335
More than one year, but not exceeding two years	—	1,404
More than two years, but not exceeding five years	—	4,067
	<u>154</u>	<u>185,806</u>
Less: Amount due within one year or on demand and shown under current liabilities	<u>(154)</u>	<u>(180,335)</u>
Amount due after one year	<u>—</u>	<u>5,471</u>

NOTES TO THE FINANCIAL STATEMENTS

24. CONVERTIBLE NOTES

		THE GROUP AND THE COMPANY	
	<i>Notes</i>	2001	2000
		HK\$'000	HK\$'000
Balance at beginning of year/period		37,058	—
Convertible notes issued during the year/period for settlement of bank borrowings owed to the Hong Kong Bankers (<i>note 8</i>)	(a)	—	39,563
Exercise of conversion rights of convertible notes (<i>note 26(IX)</i>)	(b)	—	(2,505)
Repayment	(ai)	(7,418)	—
Balance at 31 December		29,640	37,058
Amount repayable within one year		(29,640)	(7,418)
Amount due after one year		—	29,640

- (a) Pursuant to the Restructuring Agreement, secured convertible notes with an aggregate principal value of approximately HK\$39,563,000 (the "Convertible Notes") were issued in September 1999 by the Company.

The principal amounts of the Convertible Notes, which bear interest at 7% per annum payable semi-annually in arrears, are to be repaid by the Company as follows:

- i) HK\$7,417,985 upon expiry of 24 months after the issuance of the Convertible Notes;
- ii) HK\$7,417,985 upon expiry of 30 months after the issuance of the Convertible Notes; and
- iii) The entire outstanding principal balance in the aggregate sum of up to HK\$24,726,617 upon expiry of 36 months after the issuance of the Convertible Notes.

NOTES TO THE FINANCIAL STATEMENTS

24. CONVERTIBLE NOTES (continued)

Conversion of the part of the principal amount of the Convertible Notes referred to in (iii) above can take place at any time during the three-year period commencing on the date of issue of the Convertible Notes at a conversion price of HK\$0.15 per share, subject to adjustment. The conversion price was adjusted to HK\$1.284 as a result of the share consolidation and open offer of shares in the Company on 4 June 2001 and 21 June 2001 respectively as set out in note 26.

Pursuant to the Restructuring Agreement, should the Free Cash Balance as defined in the Restructuring Agreement at the end of each financial period exceeds HK\$15 million, the Company is required to repay to the holders of the Convertible Notes 10% of that balance up to a maximum amount of HK\$3.5 million or the outstanding principal amount of the Convertible Notes, whichever is the lower.

The Convertible Notes are secured by the pledge of all of the Company's assets and its entire equity interest in two wholly-owned subsidiaries.

- (b) During the prior period, Convertible Notes with an aggregate principal amount of approximately HK\$2,505,000 were converted into 16,699,686 shares of the Company at a price of HK\$0.15 per share.

There was no conversion during the year.

25. AMOUNTS DUE TO MINORITY SHAREHOLDERS

The amounts were unsecured, non-interest bearing and have no fixed repayment terms.

In the opinion of the directors, the amounts will not be repayable in the next twelve months from the balance sheet date and accordingly, the amounts are shown as non-current.

NOTES TO THE FINANCIAL STATEMENTS

26. SHARE CAPITAL

	<i>Notes</i>	Number of shares	Amount HK\$'000
AUTHORISED:			
Ordinary shares at HK\$0.1 each at 1 August 1999		2,500,000,000	250,000
Subdivision into 50 shares of HK\$0.002 each	(I)(ii)	122,500,000,000	—
		<hr/>	<hr/>
Ordinary shares at HK\$0.002 each		125,000,000,000	250,000
Share consolidation	(I)(iii)	(100,000,000,000)	—
		<hr/>	<hr/>
Ordinary shares at HK\$0.01 each at 31 December 2000		25,000,000,000	250,000
Share consolidation	(X)	(22,500,000,000)	—
		<hr/>	<hr/>
Ordinary shares at HK\$0.1 each at 31 December 2001		2,500,000,000	250,000
		<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE FINANCIAL STATEMENTS

26. SHARE CAPITAL (continued)

	<i>Notes</i>	Number of shares	Amount HK\$'000
ISSUED AND FULLY PAID:			
Balance at 1 August 1999,			
ordinary shares at HK\$0.1 each		889,006,025	88,901
- capital reduction	(I)(i)	—	(87,123)
Ordinary shares at HK\$0.002 each		889,006,025	1,778
- share consolidation	(I)(iii)	(711,204,820)	—
Issued and fully paid ordinary shares			
at HK\$0.01 each		177,801,205	1,778
Issue of new shares to Suncorp Partners			
Limited	(II)	500,000,000	5,000
Issue of new shares to the Hong Kong Bankers	(III)	326,368,000	3,264
Rights issue	(IV)	177,801,205	1,778
Placement	(V)	125,000,000	1,250
Issue of shares to creditors for			
settlement of debts	(VI)(i)	1,762,000	18
Options exercised by Suncorp Partners Limited	(VII)	40,000,000	400
Shares issued on acquisition of a subsidiary	(VIII)	46,203,909	462
Exercise of conversion rights of convertible notes	(IX)	16,699,686	167
Issue of shares to creditors for			
settlement of debts	(VI)(ii)	101,514,862	1,015
Balance at 31 December 2000, ordinary			
shares at HK\$0.01 each		1,513,150,867	15,132
- share consolidation	(X)	(1,361,835,781)	—
Issued and fully paid ordinary			
shares at HK\$0.1 each		151,315,086	15,132
Open offer	(XI)	75,657,543	7,566
Placement	(XII)	31,500,000	3,150
Options exercised by Suncorp Partners Limited	(XIII)	9,894,659	989
		<u>268,367,288</u>	<u>26,837</u>

NOTES TO THE FINANCIAL STATEMENTS

26. SHARE CAPITAL (continued)

Notes:

- (I) Upon restructuring of the Company's share capital on 7 September 1999:
- (i) The par value of each of the then existing 889,006,025 issued shares was reduced from HK\$0.1 to HK\$0.002, resulting in a credit of approximately HK\$87,123,000 which was applied to write off part of the Company's deficit;
 - (ii) Each of the then 1,610,993,975 unissued shares of HK\$0.1 each in the capital of the Company was subdivided into 50 shares of HK\$0.002 each thereby creating 122,500,000,000 unissued shares of HK\$0.002 each; and
 - (iii) Every 5 issued and unissued shares of HK\$0.002 each in the capital of the Company was consolidated into one new share of HK\$0.01 (the "Consolidated HK\$0.01 Share(s)").

- (II) Subscription of new capital by Suncorp Partners Limited

On 10 September 1999, Suncorp Partners Limited subscribed a total of 500,000,000 Consolidated HK\$0.01 Shares in the Company for cash at HK\$0.05 per Consolidated HK\$0.01 Share, raising a total of HK\$25 million for the Company.

- (III) Issue of Consolidated HK\$0.01 Shares to the Hong Kong Bankers

On 10 September 1999, the Company issued and allotted an aggregate of 326,368,000 consolidated HK\$0.01 Shares of HK\$0.01 each at HK\$0.15 per Consolidated HK\$0.01 Share to the Hong Kong Bankers, repaying bank borrowings of approximately HK\$48,955,000.

- (IV) Rights issue

Immediate after the completion of the restructuring exercise as mentioned above in (I), the Company issued by way of 177,801,205 rights shares of HK\$0.01 each in the share capital of the Company (the "Rights Share(s)") on the basis of one Rights Share for every Consolidated HK\$0.01 Share held on the close of business on 7 September 1999 at a subscription price of HK\$0.045 per Rights Share payable in full on acceptance. The rights issue was completed on 30 September 1999 and the Group raised approximately HK\$8 million, which was used as general working capital of the Group.

- (V) Placement

Pursuant to a placing agreement dated 21 December 1999 entered into between the Company, Somerley Limited as manager and Somerley Limited and Koffman Securities Limited as underwriters, the Company placed a total of 125,000,000 Consolidated HK\$0.01 Shares of HK\$0.01 each to independent investors at a price of HK\$0.213 per Consolidated HK\$0.01 Share.

NOTES TO THE FINANCIAL STATEMENTS

26. SHARE CAPITAL (continued)

Notes: (continued)

(VI) Issue of Consolidated HK\$0.01 Shares to creditors for settlement of debts

- (i) Pursuant to an agreement dated 21 December 1999 between the Company and Southern Technologies Pty. Limited ("STP"), an independent creditor, the Company allotted 1,762,000 Consolidated HK\$0.01 Shares of HK\$0.01 each to STP at a price of HK\$0.22 per share, to settle amount owed by the Group to STP of US\$50,000 (approximately HK\$387,500).
- (ii) Pursuant to an agreement dated 6 July 2000 between the Company and Inventel Systemes ("Inventel"), an independent creditor, the Company allotted 101,514,862 Consolidated HK\$0.01 Shares of HK\$0.01 each to Inventel at a price of HK\$0.08 per share, to pay for design and development fees owed by the Group to Inventel of Euros 1,102,000 (approximately HK\$8,121,000).

(VII) Share options exercised by Suncorp Partners Limited

During the prior period, 40,000,000 Consolidated HK\$0.01 Shares of HK\$0.01 each in the Company were issued at an exercise price of HK\$0.05 per Consolidated HK\$0.01 Share upon the exercise of share options by Suncorp Partners Limited.

(VIII) Shares issued on acquisition of a subsidiary

Pursuant to the stock purchase agreements dated 7 January 2000 between the Company and three independent third parties, the Company acquired from the third parties the entire share capital of First Ministry of Technology, Inc. ("FMOT") and certain shareholder's loans advanced to FMOT of approximately US\$700,000, at a consideration of HK\$10,673,000. The Company issued and allotted to the three independent third parties a total of 46,203,909 Consolidated HK\$0.01 Shares of HK\$0.01 each of the Company at HK\$0.231 per share, credited as fully paid in satisfaction of the consideration payable by the Company.

(IX) Exercise of conversion rights of convertible notes

During the prior period, the Company issued and allotted an aggregate of 16,699,686 Consolidated HK\$0.01 Shares of HK\$0.01 each at a conversion price of HK\$0.15 per Consolidated HK\$0.01 Share as a result of the exercise of the conversion rights of the Company's convertible notes by certain Hong Kong Bankers.

All the Consolidated HK\$0.01 Shares issued during last period rank pari passu with the then existing shares in all respects.

NOTES TO THE FINANCIAL STATEMENTS

26. SHARE CAPITAL (continued)

Notes: (continued)

(X) Share consolidation

Pursuant to a special resolution passed in a special general meeting held on 4 June 2001, every 10 issued and unissued shares of HK\$0.01 each in the capital of the Company was consolidated into one new share of HK\$0.1 (the "Consolidated HK\$0.1 Share(s)").

(XI) Open offer

Immediately after the share consolidation as mentioned above in (X), the Company issued by way of 75,657,543 offer shares of HK\$0.1 each in the share capital of the Company (the "Consolidated Offer Share(s)") on the basis of one Consolidated Offer Share for every two Consolidated HK\$0.1 Shares held on the close of business on 4 June 2001 at a subscription price of HK\$0.35 per Consolidated Offer Share payable in full on acceptance. Details of the offer were set out in the circular dated 18 May 2001. The open offer was completed on 21 June 2001 and the Group raised approximately HK\$26,480,000, which was used as general working capital of the Group.

(XII) Placement

Pursuant to a placing agreement dated 4 May 2001 entered into between the Company, Suncorp Partners Limited and Somerley Limited as underwriters, the Company placed a total of 31,500,000 Consolidated HK\$0.1 Shares of HK\$0.1 each to independent investors at a price of HK\$0.35 per Consolidated HK\$0.1 Share which was completed on 21 June 2001.

(XIII) Share options exercised by Suncorp Partners Limited

Following the completion of the open offer and placement of shares on 21 June 2001, 9,894,659 Consolidated HK\$0.1 Shares of HK\$0.1 each in the Company were issued at an exercise price of HK\$0.428 per Consolidated HK\$0.1 Share upon the exercise of share options by Suncorp Partners Limited.

All the new shares issued during the year rank pari passu with the then existing shares in all respects.

NOTES TO THE FINANCIAL STATEMENTS

26. SHARE CAPITAL (continued)

Options

At 31 December 2001, the following options to subscribe for shares were outstanding under the Company's share option scheme:

	Number of options	Expiry date	Exercise price per share <i>HK\$</i> <i>(note d)</i>
Options to employees under:			
the 1994 Scheme <i>(note a)</i>	1,953,600	April 2004	14.333
the 1999 Scheme <i>(note b)</i>	600,000	January 2004	1.579
the 1999 Scheme <i>(note b)</i>	8,253,000	June 2004	0.567
the 1999 Scheme <i>(note b)</i>	2,403,000	July 2004	0.567
the 1999 Scheme <i>(note b)</i>	1,687,500	October 2004	0.567
the 1999 Scheme <i>(note b)</i>	60,000	November 2004	0.567
the 1999 Scheme <i>(note b)</i>	1,500,000	June 2005	0.434
	<hr/>		
	16,457,100		
Options to Suncorp Partners Limited <i>(note c)</i>	2,955,808	September 2002	0.428
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	19,412,908		
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Notes:

- (a) The options were granted pursuant to a share option scheme of the Company adopted on 19 April 1994 (the "1994 Scheme").
- (b) The options were granted pursuant to a share option scheme of the Company adopted on 7 September 1999 (the "1999 Scheme").
- (c) During the period from 1 August 1999 to 31 December 2000, the Company granted options to Suncorp Partners Limited.
- (d) The number and exercise price of the share options granted were adjusted as a result of the share consolidation and the open offer of shares in the Company on 4 June 2001 and 21 June 2001 respectively. The exercise prices shown above represent the adjusted exercise price as at 31 December 2001.

NOTES TO THE FINANCIAL STATEMENTS

27. RESERVES AND DEFICIT

	Share premium HK\$'000	Contributed surplus HK\$'000	Capital reserve on consolidation HK\$'000	Other capital reserve HK\$'000	Property revaluation reserve HK\$'000	Translation reserve HK\$'000	Deficit HK\$'000	Total HK\$'000
THE GROUP								
At 1 August 1999	253,453	—	—	14,945	—	(453)	(786,823)	(518,878)
Shares issued at premium	118,914	—	—	—	—	—	—	118,914
Share issue expenses	(2,949)	—	—	—	—	—	—	(2,949)
Capital reduction (note 26 (i)(i))	—	—	—	—	—	—	87,123	87,123
Acquisition of a subsidiary	—	—	1,506	—	—	—	—	1,506
Exchange differences arising from translation of operations outside Hong Kong	—	—	—	—	—	1	—	1
Surplus arising on revaluation, net of minority interests' share	—	—	—	—	31,550	—	—	31,550
Profit for the period	—	—	—	—	—	—	202,139	202,139
At 31 December 2000	369,418	—	1,506	14,945	31,550	(452)	(497,561)	(80,594)
Shares issued at premium	30,035	—	—	—	—	—	—	30,035
Share issue expenses	(2,931)	—	—	—	—	—	—	(2,931)
Disposal of a subsidiary	—	—	—	—	(31,550)	—	31,550	—
Written off upon discontinuation of an operation	—	—	(1,506)	—	—	—	—	(1,506)
Exchange differences arising from translation of operations outside Hong Kong	—	—	—	—	—	(1,198)	—	(1,198)
Profit for the year	—	—	—	—	—	—	12,306	12,306
At 31 December 2001	396,522	—	—	14,945	—	(1,650)	(453,705)	(43,888)
Attributable to:								
- the Company and the subsidiaries	396,522	—	—	14,945	—	(1,650)	(453,705)	(43,888)
- jointly controlled entity	—	—	—	—	—	—	—	—
	396,522	—	—	14,945	—	(1,650)	(453,705)	(43,888)

NOTES TO THE FINANCIAL STATEMENTS

27. RESERVES AND DEFICIT (continued)

	Share premium HK\$'000	Contributed surplus HK\$'000	Capital reserve on consolidation HK\$'000	Other capital reserve HK\$'000	Property revaluation reserve HK\$'000	Translation reserve HK\$'000	Deficit HK\$'000	Total HK\$'000
THE COMPANY								
At 1 August 1999	253,453	80,851	—	—	—	—	(810,320)	(476,016)
Shares issued at premium	118,914	—	—	—	—	—	—	118,914
Share issue expenses	(2,949)	—	—	—	—	—	—	(2,949)
Capital reduction (note 26(i)(i))	—	—	—	—	—	—	87,123	87,123
Profit for the period	—	—	—	—	—	—	230,120	230,120
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 December 2000	369,418	80,851	—	—	—	—	(493,077)	(42,808)
Shares issued at premium	30,035	—	—	—	—	—	—	30,035
Share issue expenses	(2,931)	—	—	—	—	—	—	(2,931)
Loss for the year	—	—	—	—	—	—	(26,677)	(26,677)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 December 2001	<u>396,522</u>	<u>80,851</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(519,754)</u>	<u>(42,381)</u>

Other capital reserve of the Group represents the difference between the nominal value of the share capital and share premium of the subsidiaries at the date on which they were acquired by the Group and the nominal value of the share capital issued as consideration for the acquisition.

The contributed surplus of the Company represents the difference between the underlying net assets of the subsidiaries at the date on which they were acquired by the Company and the nominal value of the share capital issued by the Company as consideration for the acquisition at the time of a group reorganisation in 1994.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, a company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if:

- the company is, or would after the payment be, unable to pay its liabilities as they become due; or
- the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

In the opinion of the directors, the Company did not have any reserves available for distribution to shareholders as at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

28. UNRECOGNISED DEFERRED TAXATION

The components of deferred taxation credit (charge) not recognised for the year/period are as follows:

	THE GROUP		THE COMPANY	
	1.1.2001	1.8.1999	1.1.2001	1.8.1999
	to	to	to	to
	31.12.2001	31.12.2000	31.12.2001	31.12.2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Tax effect of timing differences attributable to:				
Excess of tax allowances over depreciation	15	(58)	—	—
Tax losses	(2,337)	7,621	549	1,216
	<u>(2,322)</u>	<u>7,563</u>	<u>549</u>	<u>1,216</u>

The components of potential deferred taxation asset (liability) at the balance sheet date not recognised in the financial statements are as follows:

	THE GROUP		THE COMPANY	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Tax effect of timing differences attributable to:				
Excess of tax allowances over depreciation	(69)	(84)	—	—
Unutilised tax losses	12,651	14,988	4,298	3,749
	<u>12,582</u>	<u>14,904</u>	<u>4,298</u>	<u>3,749</u>

The potential net deferred tax asset has not been recognised in the financial statements as it is not certain that the benefit will be realised in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS

29. RECONCILIATION OF PROFIT BEFORE MINORITY INTERESTS TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	1.1.2001 to 31.12.2001 HK\$'000	1.8.1999 to 31.12.2000 HK\$'000
Profit before minority interests	12,350	181,137
Bank borrowings waived by the Hong Kong Bankers	—	(250,730)
Product development expenditure	1,162	1,254
Impairment loss recognised in respect of intangible assets	1,249	—
Interest expenses	15,536	29,814
Interest income	(328)	(595)
Depreciation and amortisation	13,708	32,499
Loss arising from discontinuance of an operation	11,494	—
Gain on disposal of a subsidiary	(26,307)	—
Gain on disposal of property, plant and equipment	(58)	—
(Increase) decrease in inventories	(9,321)	429
Increase in trade receivables, bills receivable, deposits and prepayments	(45,186)	(9,846)
Increase in trade payables, deposits received and accrued charges	38,236	41,998
Increase in amount due to a jointly controlled entity	49,251	—
Net cash inflow from operating activities	61,786	25,960

30. MAJOR NON-CASH TRANSACTIONS

During the period ended 31 December 2000, the Group had the following major non-cash transactions:

- (i) Of the Group's total obligations of approximately HK\$363,961,000 to the Hong Kong Bankers as at 1 August 1999, approximately HK\$48,955,000 were converted into share capital of the Company; approximately HK\$39,563,000 were converted into Convertible Notes of the Company and approximately HK\$250,730,000 were discharged (note 8).
- (ii) The Group's obligations to creditors of US\$50,000 (approximately HK\$387,500) and Euros 1,102,000 (approximately HK\$8,121,000) were settled by issuance of new shares of the Company (note 26 (VI)).

NOTES TO THE FINANCIAL STATEMENTS

31. DISPOSAL OF A SUBSIDIARY

Net assets disposed of:

	1.1.2001	1.8.1999
	to	to
	31.12.2001	31.12.2000
	HK\$'000	HK\$'000
Property, plant and equipment	160,938	—
Inventories	48,085	—
Trade receivables, bills receivables, deposits and prepayments	21,600	—
Bank balances and cash	14,626	—
Trade payables, deposits received and accrued charges	(80,600)	—
Amount due to a director	(1,340)	—
Bank borrowings	(175,209)	—
Amounts due to minority shareholders	(5,733)	—
Taxation payable	(8,153)	—
	<u>(25,786)</u>	<u>—</u>
Gain on disposal of a subsidiary	<u>26,307</u>	<u>—</u>
	<u>521</u>	<u>—</u>
Satisfied by:		
Cash received	<u>521</u>	<u>—</u>

Analysis of the outflow of cash and cash equivalents in respect of the disposal of the above subsidiary is as follows:

Cash consideration received	521	—
Bank balances and cash disposed of	(14,626)	—
Net cash outflow of cash and cash equivalents in connection with the disposal of subsidiary	<u>(14,105)</u>	<u>—</u>

The subsidiary sold during the year contributed HK\$35,956,000 to the Group's net operating cash flows, paid HK\$12,082,000 in respect of the net returns on investments and servicing of finance, utilised HK\$1,519,000 for investing activities and paid HK\$12,907,000 in respect of financing activities.

The subsidiary disposed of during the year contributed HK\$310,969,000 to the Group's turnover and a loss of HK\$1,775,000 to the Group's profit from the operations.

NOTES TO THE FINANCIAL STATEMENTS

32. PURCHASE OF A SUBSIDIARY

	2001	2000
	HK\$'000	HK\$'000
Net assets acquired:		
Property, plant and equipment	18	805
Intangible assets	—	13,000
Inventories	1,071	—
Trade receivables, bills receivables, deposits and prepayments	2,913	27
Bank balances and cash	53	6
Trade payables, deposits received and accrued charges	(4,055)	(1,659)
	—	12,179
Capital reserve	—	1,506
	—	10,673
Satisfied by:		
Issuance and allotment of new ordinary shares (<i>note 26(VIII)</i>)	—	10,673
Net cash outflow of cash and cash equivalents arising on acquisition:		
	HK\$'000	HK\$'000
Cash consideration	—	—
Bank balances and cash acquired	53	6
	53	6

The subsidiaries acquired during the year ended 31 December 2001 and period ended 31 December 2000 did not make a significant contribution to the net cash flows or results of the Group for the year/period.

NOTES TO THE FINANCIAL STATEMENTS

33. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital and premium	Bank and other borrowings with more than three months of maturity when raised	Obligations under finance leases	Amounts due to directors	Amounts due to minority shareholders	Convertible notes
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 August 1999	342,354	515,204	7,003	11,286	14,681	—
Transfer from cash and cash equivalents (<i>note 34</i>)	—	40,520	—	—	—	—
Repayment by issuance of new shares to the Hong Kong Bankers (<i>note 26 (III)</i>)	48,955	(48,955)	—	—	—	—
Repayment by issuance of convertible notes to the Hong Kong Bankers (<i>note 24</i>)	—	(39,563)	—	—	—	39,563
Bank borrowings waived by the Hong Kong Bankers (<i>note 8</i>)	—	(250,730)	—	—	—	—
Capital reduction (<i>note 26(I) (i)</i>)	(87,123)	—	—	—	—	—
Proceeds from issue of new shares for cash	61,626	—	—	—	—	—
Share issue expenses	(2,949)	—	—	—	—	—
Issue of new shares for repayment of debts to creditors	8,509	—	—	—	—	—
Issue of new shares for purchase of a subsidiary (<i>note 32</i>)	10,673	—	—	—	—	—
Exercise of conversion rights of convertible notes	2,505	—	—	—	—	(2,505)
Amount advanced from a director	—	—	—	2,015	—	—
New bank and other borrowings raised	—	20,448	—	—	—	—
Inception of finance leases	—	—	362	—	—	—
Repayment during the period	—	(51,118)	(4,959)	(9,878)	(5,811)	—
At 31 December 2000	384,550	185,806	2,406	3,423	8,870	37,058
Proceeds from issue of new shares for cash	41,740	—	—	—	—	—
Share issue expenses	(2,931)	—	—	—	—	—
New bank and other borrowings raised	—	23,153	—	—	—	—
Repayment during the year	—	(33,750)	(1,439)	(2,083)	(2,339)	(7,418)
Eliminated on disposal of a subsidiary (<i>note 31</i>)	—	(175,209)	—	(1,340)	(5,733)	—
At 31 December 2001	423,359	—	967	—	798	29,640

NOTES TO THE FINANCIAL STATEMENTS

34. TRANSFER OF CASH AND CASH EQUIVALENTS TO BANK LOANS

During the period ended 31 December 2000, the Group's bank loans of HK\$40,520,000 were restructured and transferred from cash and cash equivalents to bank loans pursuant to a new loan agreement.

35. OPERATING LEASE ARRANGEMENTS

	THE GROUP	
	1.1.2001	1.8.1999
	to	to
	31.12.2001	31.12.2000
	HK\$'000	HK\$'000
Minimum lease payments paid under operating leases during the year/period:		
- Premises	3,041	5,191
- Furniture, fixtures and equipment	21	38
	<u>3,062</u>	<u>5,229</u>

As at the balance sheet date, the Group has commitments for future minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Operating leases which fall due:		
Within one year	1,048	2,349
In the second to fifth year inclusive	659	276
	<u>1,707</u>	<u>2,625</u>

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average term of 3 years and rentals are fixed for an average of 3 years.

The Company did not have any significant commitments under non-cancellable operating leases as at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

36. CAPITAL COMMITMENT

At 31 December 2001, the Group and the Company had no significant capital commitment.

At 31 December 2000, the Group had capital commitment authorised but not contracted for the acquisition of property, plant and equipment of HK\$499,000.

37. RETIREMENT BENEFITS SCHEME

In previous years, the Company and its subsidiaries in Hong Kong and overseas do not operate any retirement benefits scheme.

With effect from 1 December 2000, the Group joined a Mandatory Provident Fund scheme ("MPF Scheme") for all employees in Hong Kong. The MPF scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rate specified in the rules. The only obligation of the Group with respect of MPF Scheme is to make the required contributions under the scheme. During the year or at the balance sheet date, no forfeited contribution is available to reduce the contribution payable in the future years.

The retirement benefit scheme contributions arising from the MPF Scheme charged to the income statement represent contributions payable to the funds by the Group at rates specified in the rules of the schemes.

The Group's employees who are employed by the subsidiaries in the PRC are members of a state-managed retirement benefits scheme operated by the PRC government. These subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

During the year or at the balance sheet date, there were no forfeited contributions, which arose upon employees leaving the retirement benefits scheme, available to reduce the contribution payable in the future years.

NOTES TO THE FINANCIAL STATEMENTS

38. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Guarantees given to banks in respect of bank facilities utilised by:				
- subsidiaries	—	—	—	88,722
- a jointly controlled entity	76,263	—	76,263	—
Bills discounted with recourse	19,165	6,318	—	—
	<u>95,428</u>	<u>6,318</u>	<u>76,263</u>	<u>88,722</u>

As at the balance sheet date, the Group had a number of employees who have completed the required number of years of service under the Employment Ordinance in Hong Kong (the "Ordinance") to be eligible for long service payments on termination of their employment. The Group is only liable to make such payments if the termination of employment meets the circumstances which are specified in the Ordinance. Had the employment of all eligible employees been terminated on 31 December 2001 and the long service payments been paid under the Ordinance, the amount payable would have been approximately HK\$784,000 (2000: HK\$788,000). No provision has been made in the financial statements in respect of such long service payments.

39. PLEDGE OF ASSETS

As at 31 December 2001, a bank deposit of HK\$36,030,000 (2000:HK\$775,000) was pledged by the Group to secure credit facilities granted to the Group.

As at 31 December 2000, the Group pledged leasehold land and buildings with an aggregate net book value of HK\$142,250,000 and plant and machinery with an aggregate net book value of HK\$16,674,000 to secure credit facilities granted to the Group.

As at 31 December 2001 and 2000, all of the Company's assets and its entire equity interest in two wholly-owned subsidiaries were pledged to secure the Convertible Notes issued by the Company during the period ended 31 December 2000.

NOTES TO THE FINANCIAL STATEMENTS

40. RELATED PARTY DISCLOSURES

(I) Directors' advances

	Au Yeung Kam Hay <i>HK'000</i>	Lee Kin Shing <i>HK'000</i>	Peter F Amour <i>HK'000</i>	Leung Shek Kong <i>HK'000</i>	Malcolm Paton <i>HK'000</i>
Balance at 1 August					
1999	1,750	1,750	—	5,622	2,164
Advances	—	—	2,015	—	—
Repayment	<u>(1,750)</u>	<u>(1,750)</u>	<u>—</u>	<u>(4,214)</u>	<u>(2,164)</u>
Balance at 1 January					
2001	—	—	2,015	1,408	—
Repayment	—	—	(2,015)	(68)	—
Eliminated on disposal of a subsidiary	<u>—</u>	<u>—</u>	<u>—</u>	<u>(1,340)</u>	<u>—</u>
Balance at 31 December					
2001	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

The directors' advances were unsecured and interest-free.

(II) Other related party transactions

During the period from 4 September 2001, the date when Guo Wei became a jointly controlled entity of the Group, to 31 December 2001, the Group purchased finished goods and received commission income of approximately HK\$208,283,000 and HK\$4,797,000, respectively, from Guo Wei. In addition, as at 31 December 2001, certain of Guo Wei's bank borrowings amounting to approximately HK\$76 million were guaranteed by the Group.

In the opinion of the directors, the transactions disclosed above were entered at terms determined and agreed by the Group and the relevant parties.

(III) Balances with related parties

Details of the amounts due to a jointly controlled entity and minority shareholders are set out in the consolidated balance sheet and in notes 16 and 25 respectively.

NOTES TO THE FINANCIAL STATEMENTS

41. SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2001 are as follows:

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share/ registered capital	Proportion of nominal share of issued capital/ registered capital held by the Company %	Principal activities
H B Electronics (China) Limited	British Virgin Islands	US\$1 ordinary share	100	Investment holding
MONDIAL Communications Limited	Hong Kong	HK\$2 ordinary shares	100	Research, development and marketing of mobile handsets
MONDIAL Communications (Europe) Limited	England and Wales	£10,000 ordinary shares	100	European marketing and customer liaison for mobile handsets
SunCorp Industrial Limited	Hong Kong	HK\$100 ordinary shares	100	Raw material sourcing
SunCorp (Service & Distribution) Limited	England and Wales	£1,750 ordinary shares	97	Warranty, co-ordination, repair and servicing of telephones and related equipment
SunCorp Communications (Europe) Limited	England and Wales	£500,000 ordinary shares	100	Europe, Africa and Middle East marketing and customer liaison

NOTES TO THE FINANCIAL STATEMENTS

41. SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share/ registered capital	Proportion of nominal share of issued capital/ registered capital held by the Company %	Principal activities
SunCorp Communications Limited	Hong Kong	HK\$775,000 ordinary shares	100	Trading of telephones
		HK\$225,000 non-voting deferred shares (Note below)	100	
T Diese	France	FF250,000 shares	100	Trading of telephones

Note: The deferred shares practically carry no rights to dividends or to receive notice of or to attend or vote at any general meeting of the respective companies or to participate in any distribution on winding up.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets and liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

All the above active subsidiaries operate principally in their respective place of incorporation or establishment.

All of the above subsidiaries are held indirectly by the Company.

None of the subsidiaries had any loan capital outstanding at the end of the year, or at any time during the year.