

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2001

1. GENERAL

The Company was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited.

The Company is an investment holding company. The principal activities of the Group are the manufacture and trading of information storage media products and computer accessories, provision of total fulfillment services and trading of data media products.

2. ADOPTION OF NEW/REVISED 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 3. In addition, the new and revised SSAPs have introduced additional and revised disclosure requirements which have been adopted in these financial statements. Comparative amounts for the prior year have been restated in order to achieve a consistent presentation.

The adoption of these new and revised SSAPs has resulted in the following changes to the Group's accounting policies that have affected the amounts reported for the current or prior periods.

Dividends proposed or declared after the balance sheet date

In accordance with SSAP 9 (Revised) "Events after the balance sheet date", dividends proposed or declared after the balance sheet date are not recognised as a liability at the balance sheet date but are disclosed in the notes to the financial statements. This change in accounting policy has been applied retrospectively, resulting in an increase in the Group's and the Company's accumulated profits at 1 January 2000 of HK\$12,729,000.

Goodwill

In the current year, the Group has adopted SSAP 30 "Business Combinations" and has elected not to restate goodwill previously eliminated against reserves. Accordingly, goodwill arising on acquisitions prior to 1 January 2001 is held in reserves and will be charged to the income statement at the time of disposal of the relevant subsidiary or associate, or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisitions after 1 January 2001 is capitalised and amortised over its estimated useful life.

3. PRINCIPAL ACCOUNTING POLICIES

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

The principal accounting policies which have been adopted in preparing these financial statements and which conform with accounting principles generally accepted in Hong Kong are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

The results of subsidiaries acquired or disposed of during the year 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 intercompany transactions and balances within the Group have been eliminated on consolidation.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or associate at the date of acquisition.

Goodwill arising on acquisitions prior to 1 January 2001 continues to be held in reserves, and will be charged to the income statement at the time of disposal of the relevant subsidiaries, or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisitions after 1 January 2001 is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a separate intangible asset.

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

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost, less any identified impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Interest in an associate

The consolidated income statement includes the Group's share of the post-acquisition results of its associate for the year. In the consolidated balance sheet, interest in an associate is stated at the Group's share of the net assets of the associate, less any identified impairment loss.

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

In the Company's balance sheet, interest in an associate is stated at cost, less any identified impairment loss.

Revenue recognition

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

Management fee income is recognised when services are provided.

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

Operating lease rental income are recognised over the terms of relevant leases on a straight line basis.

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

Property, plant and equipment

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

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.

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. Revaluations are 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.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

Any revaluation increase arising on revaluation of land and buildings is credited to the properties 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 charged to the income statement to the extent that it exceeds the balance, if any, on the properties 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.

Depreciation is provided to write off the cost or valuation of property, plant and equipment over their estimated useful lives from the date on which they become full operational and after taking into account their estimated residual value, using the straight line method, at the following rates per annum:

Land and buildings	2.5% or over the term of the leases if less than 40 years
Plant and machinery other than those for manufacturing of compact disc products	20%
Furniture, fixtures and equipment	20%
Motor vehicles	30%
Moulds	20%
Stampers	33 ¹ / ₃ %

Depreciation is provided to write down the cost of plant and machinery used for the manufacture of compact disc products to its estimated residual value based on the actual units of production as a proportion of its total anticipated units of production. The anticipated units of production are determined with reference to the production specifications obtained from the suppliers.

Assets held under finance leases and hire purchase contracts are depreciated over their expected useful lives on the same basis as owned assets.

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.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Impairment *(Continued)*

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 in prior 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.

Assets held under finance leases and hire purchase contracts

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

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

Royalty charges

Lump sum payments for royalty charges for licences for use by the Group for a specified period are charged to the income statement over the terms of the licence agreements or over five years, whichever is shorter. Other royalty charges payable which are computed based on the number of units produced by the Group are charged to the income statement as incurred. Any other payments relating to the acquisition of licences are written off when incurred.

Deferred development costs

Expenditure incurred in developing new products is capitalised and deferred only when the products are clearly defined, the expenditure is separately identifiable and there is reasonable certainty that the products are technically feasible and the products have commercial value. Deferred development costs are stated at cost less amortisation and impairment loss, where appropriate. Development costs so deferred are amortised, on a straight line basis, over a period not exceeding five years or over the life of the products, whichever is shorter. Amortisation commences from date of commencement of commercial production of the products. Other development expenditure is expensed when incurred.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Technical know-how

Technical know-how represents payments made to independent third parties for the purpose of acquiring technology for the production of a commercially viable project or product and is stated at cost less amortisation and impairment loss, where appropriate. Technical know-how is amortised, on a straight line basis, over a period not exceeding five years or over the life of the project or product, whichever the shorter, from the date of commencement of commercial operations of the project or product.

Distribution rights

Distribution rights represent payments made to independent third parties for the purpose of acquiring the rights for publication and distribution of data media products and are stated at cost less amortisation and impairment loss, where appropriate. Distribution rights are amortised on a straight line basis over the remaining term of the distribution agreements from the date of commencement of commercial production of the products.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition, is calculated using the first-in, first-out method. Net realisable value represents the expected selling price less all costs to completion and costs to be incurred in selling and distribution.

Foreign currencies

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

On consolidation, the financial statements of overseas subsidiaries and associates which are denominated in foreign currencies are translated at the rates ruling on the balance sheet date. All exchange differences arising on consolidation are dealt with in reserves.

Taxation

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

Notes to the Financial Statements *(Continued)*

FOR THE YEAR ENDED 31 DECEMBER 2001

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Cash equivalents

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

Convertible notes/bonds

Convertible notes/bonds are separately disclosed and regarded as liabilities unless conversion actually occurs. The finance cost recognised in the income statement in respect of the convertible bonds is calculated so as to produce a constant periodic rate of charge on the remaining balances of the convertible bonds for each accounting period.

The costs incurred in connection with the issue of convertible bonds are deferred and amortised on a straight line basis over the lives of the convertible bonds from the date of issue of the bonds to their final redemption date. If any of the bonds are purchased and cancelled or redeemed prior to the final redemption date, an appropriate portion of any remaining unamortised costs will be charged immediately to the income statement whereas if any of the bonds are converted to the capital of the Company, the related net balance in convertible bonds is written off as proceeds received on issue of the relevant shares.

Pension scheme

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

4. TURNOVER

Turnover represents the aggregate of the amounts received and receivable for goods sold and services rendered, net of returns and allowances, by the Group to outside customers during the year and is analysed as follows:

	2001 HK\$'000	2000 HK\$'000
Manufacturing and trading of media products	213,490	367,186
Total fulfilment services	108,480	265,742
Distribution of data media products	51,466	–
Manufacturing and trading of computer accessories	3,545	–
Others	2,964	14,815
	<u>379,945</u>	<u>647,743</u>

Notes to the Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2001

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into four operating divisions – manufacturing and trading of media products and computer accessories, total fulfilment services and distribution of data media products. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

	Manufacturing and trading of media products HK\$'000	Total fulfilment services HK\$'000	Distribution of data media products HK\$'000	Manufacturing and trading of computer accessories HK\$'000	Others HK\$'000	Consolidated HK\$'000
Year ended 31 December 2001						
Turnover	<u>213,490</u>	<u>108,480</u>	<u>51,466</u>	<u>3,545</u>	<u>2,964</u>	<u>379,945</u>
Segment results	<u>(51,103)</u>	<u>10,134</u>	<u>14,230</u>	<u>765</u>	<u>1,181</u>	(24,793)
Other revenue						2,549
Unallocated corporate expenses						<u>(47,634)</u>
Loss from operations						(69,878)
Finance costs						(17,386)
Share of profit of an associate	1,507					1,507
Loss on disposal of a subsidiary						<u>(18,272)</u>
Loss before taxation						(104,029)
Taxation credit						<u>572</u>
Loss for the year						<u>(103,457)</u>

Notes to the Financial Statements *(Continued)*

FOR THE YEAR ENDED 31 DECEMBER 2001

5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

	Manufacturing and trading of media products HK\$'000	Total fulfilment services HK\$'000	Distribution of data media products HK\$'000	Manufacturing and trading of computer accessories HK\$'000	Others HK\$'000	Consolidated HK\$'000
As at 31 December 2001						
ASSETS						
Segment assets	317,798	54,066	41,284	76,954	-	490,102
Investments in an associate	7,808					7,808
Unallocated corporate assets						30,738
Consolidated total assets						<u>528,648</u>
LIABILITIES						
Segment liabilities	174,558	29,387	44,701	57,436	-	306,082
Unallocated corporate liabilities						3,474
Consolidated total liabilities						<u>309,556</u>
OTHER INFORMATION						
Capital additions	6,625	769	-	3,454		
Depreciation and amortisation	26,783	1,104	-	2,417		
Impairment losses recognised in income	70,000	-	-	-		
Impairment of intangible assets	6,221	-	-	-		

Notes to the Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2001

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

	Manufacturing and trading of media products HK\$'000	Total fulfilment services HK\$'000	Distribution of data media products HK\$'000	Manufacturing and trading of computer accessories HK\$'000	Others HK\$'000	Consolidated HK\$'000
Year ended 31 December 2000						
Turnover	<u>367,186</u>	<u>265,742</u>	<u>-</u>	<u>-</u>	<u>14,815</u>	<u>647,743</u>
Segment results	<u>93,053</u>	<u>25,521</u>	<u>-</u>	<u>-</u>	<u>7,094</u>	125,668
Other revenue						4,399
Unallocated corporate expenses						<u>(57,716)</u>
Profit from operations						72,351
Finance costs						<u>(23,420)</u>
Share of profit of an associate	113					<u>113</u>
Profit before taxation						49,044
Taxation charge						<u>(1,190)</u>
Profit for the year						<u><u>47,854</u></u>
As at 31 December 2000						
ASSETS						
Segment assets	481,622	53,854	-	-	-	535,476
Investments in an associate	6,301					6,301
Unallocated corporate assets						<u>37,516</u>
Consolidated total assets						<u><u>579,293</u></u>
LIABILITIES						
Segment liabilities	181,634	55,606	-	-	-	237,240
Unallocated corporate liabilities						<u>24,455</u>
Consolidated total liabilities						<u><u>261,695</u></u>
OTHER INFORMATION						
Capital additions	32,585	534	-	-		
Depreciation and amortisation	31,233	887	-	-		
Impairment of intangible assets	<u>4,644</u>	<u>-</u>	<u>-</u>	<u>-</u>		

Notes to the Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2001

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Geographical segments

The Group's operations are located in Asia, Europe and North America.

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods/services:

	Sales revenue by geographical market		Contribution to profit from operations	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Asia				
– The People's Republic of China	153,391	146,575	31,257	38,024
– Other regions in Asia	71,698	87,185	14,778	20,879
Europe	68,037	132,789	14,456	29,418
North America	86,819	281,194	9,510	41,991
	<u>379,945</u>	<u>647,743</u>	<u>70,001</u>	<u>130,312</u>
Other revenue			2,549	4,399
Impairment loss recognised in respect of plant and machinery			(70,000)	–
Loss on disposal of property, plant and equipment			(18,573)	–
Impairment of intangible assets			(6,221)	(4,644)
Unallocated corporate expenses			(47,634)	(57,716)
(Loss) profit from operations			<u>(69,878)</u>	<u>72,351</u>

Notes to the Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2001

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Geographical segments (Continued)

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment and intangible assets, analysed by geographical area is as follows:

	Carrying amount of segment assets		Additions to property, plant and equipment and intangible assets	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Asia				
– Hong Kong	405,691	446,155	6,048	28,974
– The People's Republic of China	66,823	59,922	4,731	23,162
– Other regions in Asia	18,234	23,145	125	2,694
Europe	17,826	12,143	–	–
North America	20,074	37,928	–	415
	<u>528,648</u>	<u>579,293</u>	<u>10,904</u>	<u>55,245</u>

6. OTHER REVENUE

	The Group	
	2001 HK\$'000	2000 HK\$'000
Commission income	2,037	–
Operating lease rental income from plant and machinery	1,700	–
Surplus on insurance claims in respect of a fire which occurred in 1998	–	117
Interest income	1,000	2,008
Deposits forfeited	–	840
Others	1,549	1,434
	<u>6,286</u>	<u>4,399</u>

7. IMPAIRMENT OF INTANGIBLE ASSETS

The impairment of intangible assets represent the cost of the technical know-how for products which the directors consider are no longer commercially viable.

Notes to the Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2001

8. IMPAIRMENT LOSS RECOGNISED IN RESPECT OF PLANT AND MACHINERY

During the year, the Group reviewed the carrying amounts of property, plant and equipment and identified that certain of those property, plant and equipment used in the manufacturing process of compact disc have impairment loss in the light of the current compact disc market. Accordingly, the carrying amounts of the identified impaired property, plant and equipment are reduced to their respective recoverable amounts, which represent the net selling prices of the property, plant and equipment. The net selling prices were determined by reference to the market prices.

9. (LOSS) PROFIT FROM OPERATIONS

	The Group	
	2001 HK\$'000	2000 HK\$'000
(Loss) profit from operations has been arrived at after charging (crediting):		
Amortisation of deferred royalty charges	-	16
Amortisation of technical know-how	-	3,978
Amortisation of goodwill	2,471	-
Auditors' remuneration	1,332	1,197
Depreciation on		
- Owned assets	21,777	17,005
- Assets held under finance leases and hire purchase contracts	8,599	12,297
Allowance for (write back of) bad debt expenses	38	(1,857)
Staff costs including directors' remuneration (note 11 below)	59,116	76,059
Retirement benefits scheme contributions, net of forfeited contributions	1,522	-
Rental payments in respect of premises under operating leases	6,681	9,516
Loss on disposal of property, plant and equipment	18,573	36
	<u>18,573</u>	<u>36</u>

Notes to the Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2001

10. FINANCE COSTS

	The Group	
	2001 HK\$'000	2000 HK\$'000
Interest paid on		
– Bank loans, overdrafts and other loans wholly repayable within 5 years	7,977	12,954
– Bank loans with instalments repayable after 5 years	275	405
– Obligations under finance leases and hire purchase contracts	5,702	8,809
Amortisation of issue costs of bonds	48	339
Bank charges	1,864	2,047
Exchange loss (gain)	1,520	(1,134)
	<u>17,386</u>	<u>23,420</u>

43

11. DIRECTORS' EMOLUMENTS

	The Group	
	2001 HK\$'000	2000 HK\$'000
Directors' fees:		
Executive	–	–
Independent Non-executive	400	585
	<u>400</u>	<u>585</u>
Other emoluments (Executive Directors):		
Salaries and other benefits	9,325	9,478
Performance related incentive payments	–	3,350
Contributions to retirement benefits schemes	38	–
	<u>9,363</u>	<u>12,828</u>
Total emoluments	<u>9,763</u>	<u>13,413</u>

The directors' remuneration shown above includes the estimated monetary value of premises provided rent free to two (2000: one) of the Executive Directors. The estimated rental value of such accommodation was HK\$720,000 (2000: HK\$384,000).

Notes to the Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2001

11. DIRECTORS' EMOLUMENTS (Continued)

Emoluments of the Directors were within the following bands:

	The Group	
	2001	2000
	No. of Directors	No. of Directors
HK\$nil to HK\$1,000,000	4	4
HK\$2,000,001 to HK\$2,500,000	1	–
HK\$2,500,001 to HK\$3,000,000	1	1
HK\$3,500,001 to HK\$4,000,000	1	–
HK\$4,000,001 to HK\$4,500,000	–	1
HK\$5,000,001 to HK\$5,500,000	–	1
	<u>7</u>	<u>7</u>

No director waived any emoluments in the year ended 31 December 2001 (2000: Nil).

12. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2000: three) were directors of the Company whose emoluments are set out in note 11 above. The emoluments of the remaining two (2000: two) employees were as follows:

	The Group	
	2001	2000
	HK\$'000	HK\$'000
Salaries and other benefits	3,264	3,124
Contributions to retirement benefits schemes	36	–
	<u>3,300</u>	<u>3,124</u>

Their emoluments were within the following bands:

	The Group	
	2001	2000
	No. of employees	No. of employees
HK\$1,000,001 to HK\$1,500,000	1	1
HK\$1,500,001 to HK\$2,000,000	1	1
	<u>2</u>	<u>2</u>

Notes to the Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2001

13. TAXATION CREDIT (CHARGE)

The Group
2001 2000
HK\$'000 HK\$'000

The taxation credit (charge) comprises:

Profits Tax for the year		
Hong Kong	-	(529)
Overseas	(279)	(645)
Prior years		
Hong Kong – underprovision	(3)	(164)
Overseas – overprovision	854	148
	<u>572</u>	<u>(1,190)</u>

Hong Kong Profits Tax is calculated at 16% (2000:16%) of the estimated assessable profits for the year. Overseas taxation is calculated at the rates prevailing in the respective jurisdictions.

Details of the potential deferred tax charge not provided for in the year are set out in note 28.

14. DIVIDENDS

2001 2000
HK\$'000 HK\$'000

Interim, paid – Nil (2000: HK2.2 cents on 358,494,000 shares)	<u>-</u>	<u>7,889</u>
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15. (LOSS) EARNINGS PER SHARE

The calculation of the basic and diluted (loss) earnings per share is based on the following data:

	(Loss) earnings	
	2001	2000
	HK\$'000	HK\$'000
(Loss) earnings for the purposes of basic (loss) earnings per share	(102,083)	48,039
Effect of dilutive potential shares Interest on convertible bonds	-	2,364
(Loss) earnings for the purposes of diluted earnings per share	<u>(102,083)</u>	<u>50,403</u>

Notes to the Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2001

15. (LOSS) EARNINGS PER SHARE (Continued)

	Number of shares	
	2001	2000
Weighted average number of shares for the purposes of basic (loss) earnings per share	358,494,000	363,482,583
Effect of dilutive potential shares Convertible bonds	-	22,695,156
	<hr/>	<hr/>
Weighted average number of shares for the purposes of diluted earnings per share	<u>358,494,000</u>	<u>386,177,739</u>

The computation of diluted earnings per share for 2000 does not assume the exercise of the Company's outstanding share options as the exercise price of those options is higher than the average market price.

No diluted loss per share figure for 2001 has been presented as the exercise of the Company's outstanding share options and the conversion of the Company's outstanding convertible notes would result in a decrease in loss per share from continuing ordinary operations.

16. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and equipment HK\$'000	Moulds and stampers HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
THE GROUP						
AT COST/VALUATION						
At 1 January 2001	26,900	382,062	71,994	18,805	5,821	505,582
Additions	-	6,360	4,442	18	84	10,904
Disposals	-	(26,917)	(426)	-	(1,331)	(28,674)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2001	26,900	361,505	76,010	18,823	4,574	487,812
COMPRISING:						
At cost	-	361,505	76,010	18,823	4,574	460,912
At valuation 1996	26,900	-	-	-	-	26,900
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	26,900	361,505	76,010	18,823	4,574	487,812
DEPRECIATION AND IMPAIRMENT LOSS						
At 1 January 2001	2,860	109,528	34,182	16,042	3,470	166,082
Provided for the year	622	22,410	6,539	82	723	30,376
Eliminated on disposals	-	(3,671)	(191)	-	(1,120)	(4,982)
Impairment loss	-	70,000	-	-	-	70,000
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At 31 December 2001	3,482	198,267	40,530	16,124	3,073	261,476
NET BOOK VALUES						
At 31 December 2001	<u>23,418</u>	<u>163,238</u>	<u>35,480</u>	<u>2,699</u>	<u>1,501</u>	<u>226,336</u>
At 31 December 2000	<u>24,040</u>	<u>272,534</u>	<u>37,812</u>	<u>2,763</u>	<u>2,351</u>	<u>339,500</u>

Notes to the Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2001

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

The net book value of land and buildings shown above comprises:

	The Group	
	2001 HK\$'000	2000 HK\$'000
Land in Hong Kong Medium-term lease	21,835	22,413
Land outside Hong Kong Short-term lease	1,583	1,627
	23,418	24,040

Notes:

- (a) The land and buildings of the Group were revalued at 31 December 1996 on an open market value basis by Messrs. American Appraisal Hong Kong Limited, Chartered Surveyors. Messrs. American Appraisal Hong Kong Limited are not connected with the Group. The directors are of the opinion that the carrying amount of land and buildings does not differ significantly from their fair value at the balance sheet date.

If leasehold land and buildings had not been revalued, they would have been included in these financial statements at historical cost less accumulated depreciation at HK\$14,020,000 (2000: HK\$14,469,000).

- (b) The net book value of property, plant and equipment includes an amount of HK\$119,113,000 (2000: HK\$196,692,000) in respect of assets held under finance leases and hire purchase contracts.
- (c) The Group had pledged its leasehold land and buildings with a net book value of HK\$7,438,000 (2000: HK\$7,650,000) to secure bank loans granted to a subsidiary.

17. INTANGIBLE ASSETS

	Deferred royalty charges HK\$'000	Technical know-how HK\$'000	Distribution rights HK\$'000	Total HK\$'000
THE GROUP				
AT COST				
At 1 January 2001	2,100	30,969	8,519	41,588
Impairment	-	(20,049)	-	(20,049)
Eliminated on disposal of a subsidiary	-	(10,920)	-	(10,920)
At 31 December 2001	2,100	-	8,519	10,619
AMORTISATION				
At 1 January 2001	2,100	13,828	-	15,928
Impairment	-	(13,828)	-	(13,828)
At 31 December 2001	2,100	-	-	2,100
NET BOOK VALUES				
At 31 December 2001	<u>-</u>	<u>-</u>	<u>8,519</u>	<u>8,519</u>
At 31 December 2000	<u>-</u>	<u>17,141</u>	<u>8,519</u>	<u>25,660</u>

Notes to the Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2001

18. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2001	2000
	HK\$'000	HK\$'000
Unlisted shares, at cost	<u>39,172</u>	<u>39,172</u>

Details of the subsidiaries are set out in note 44.

19. INTEREST IN AN ASSOCIATE

	The Group	
	2001	2000
	HK\$'000	HK\$'000
Share of net assets	<u>6,868</u>	<u>5,361</u>

At 31 December 2001, the Group had an interest in the following associate:

Name of company	Place of incorporation and operation	Proportion of registered capital held indirectly by the Company	Principal activities
Dalian Hualu Optical Technology Co., Ltd.	People's Republic of China	36%	Development, production and sales of computer media and computer software

20. GOODWILL

	The Group
	HK\$'000
COST	
Arising on acquisitions during the year and at 31 December 2001	<u>49,432</u>
AMORTISATION	
Charge for the year and at 31 December 2001	<u>2,471</u>
NET BOOK VALUE	
At 31 December 2001	<u>46,961</u>
At 31 December 2000	<u>—</u>

The amortisation period adopted for goodwill is 20 years.

Notes to the Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2001

21. INVENTORIES

	The Group	
	2001 HK\$'000	2000 HK\$'000
Raw materials	15,570	15,362
Work in progress	24,414	17,307
Finished goods	18,260	6,039
	<u>58,244</u>	<u>38,708</u>

Included above are raw materials and finished goods of Nil (2000: HK\$357,000) and Nil (2000: HK\$296,000) respectively which are carried at net realisable value.

22. AMOUNT DUE FROM AN ASSOCIATE

This amount is unsecured and interest free.

23. DEBTORS, DEPOSITS AND PREPAYMENTS

	The Group	
	2001 HK\$'000	2000 HK\$'000
Trade debtors	30,818	57,146
Other debtors, deposits and prepayments	58,790	26,664
	<u>89,608</u>	<u>83,810</u>

The Group has a policy of allowing a credit period ranging from 30 to 90 days. The aged analysis of the trade debtors is as follows:

	The Group	
	2001 HK\$'000	2000 HK\$'000
1 to 3 months	21,579	33,028
4 to 6 months	7,543	2,630
7 to 9 months	577	3,345
10 to 12 months	397	3,057
Over 1 year	722	15,086
	<u>30,818</u>	<u>57,146</u>

Notes to the Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2001

24. BANK BALANCES AND CASH

	The Group	
	2001 HK\$'000	2000 HK\$'000
Time deposits with banks	43,231	51,874
Bank balances and cash	44,827	33,440
	<u>88,058</u>	<u>85,314</u>

25. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Shares of HK\$0.10 each		
Authorised:		
At 1 January 2000 and 31 December 2001	<u>1,000,000,000</u>	<u>100,000</u>
Issued and fully paid:		
At 1 January 2000	367,466,000	36,747
Shares repurchased and cancelled	(8,972,000)	(898)
At 31 December 2000 and 31 December 2001	<u>358,494,000</u>	<u>35,849</u>

There were no changes in the authorized share capital during the two years ended 31 December 2000 and 31 December 2001 and no changes in issued and fully paid share capital during the year ended 31 December 2001.

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed shares during the year.

Options

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

	Exercise period	Exercise price per share	No. of options
1997A options	8 January 1997 to 7 January 2007	HK\$1.0336	6,287,000
1997B options	24 January 1997 to 23 January 2007	HK\$1.0336	5,775,000
1999 options	4 September 1999 to 3 September 2009	HK\$0.8832	1,050,000
			<u>13,112,000</u>

Notes to the Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2001

26. RESERVES

	Share premium HK\$'000	Capital reserve HK\$'000	Translation reserve HK\$'000	Properties revaluation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
THE GROUP						
At 1 January 2000						
– as originally stated	85,329	(3,144)	(137)	10,759	188,721	281,528
– derecognition of liability of 1999 final dividend	–	–	–	–	12,729	12,729
– as restated	85,329	(3,144)	(137)	10,759	201,450	294,257
Profit for the year	–	–	–	–	48,039	48,039
1999 final dividend paid	–	–	–	–	(12,729)	(12,729)
2000 interim dividend paid	–	–	–	–	(7,889)	(7,889)
Premium on purchase of a business	–	(25,047)	–	–	–	(25,047)
Premium on additional investment in an associate	–	(6,843)	–	–	–	(6,843)
Translation of foreign subsidiaries and an associate	–	–	(914)	–	–	(914)
Premium and cost on repurchase and cancellation of own shares	(8,127)	–	–	–	–	(8,127)
At 1 January 2001	77,202	(35,034)	(1,051)	10,759	228,871	280,747
Loss for the year	–	–	–	–	(102,083)	(102,083)
Translation of foreign subsidiaries and an associate	–	–	407	–	–	407
At 31 December 2001	<u>77,202</u>	<u>(35,034)</u>	<u>(644)</u>	<u>10,759</u>	<u>126,788</u>	<u>179,071</u>
Comprising:						
At 31 December 2001						
The Company and subsidiaries	77,202	(35,034)	(644)	10,759	125,195	177,478
The associate	–	–	–	–	1,593	1,593
	<u>77,202</u>	<u>(35,034)</u>	<u>(644)</u>	<u>10,759</u>	<u>126,788</u>	<u>179,071</u>
At 31 December 2000						
The Company and subsidiaries	77,202	(35,034)	(1,051)	10,759	228,785	280,661
The associate	–	–	–	–	86	86
	<u>77,202</u>	<u>(35,034)</u>	<u>(1,051)</u>	<u>10,759</u>	<u>228,871</u>	<u>280,747</u>

Notes to the Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2001

26. RESERVES (Continued)

	Share premium HK\$'000	Contributed surplus HK\$'000	Retained profits/ (losses) HK\$'000	Total HK\$'000
THE COMPANY				
At 1 January 2000				
– as originally stated	85,329	15,048	8,984	109,361
– derecognition of liability of 1999 final dividend	–	–	12,729	12,729
– as restated	85,329	15,048	21,713	122,090
Loss for the year	–	–	(4,653)	(4,653)
1999 final dividend paid	–	–	(12,729)	(12,729)
2000 interim dividend paid	–	–	(7,889)	(7,889)
Premium and cost on repurchase and cancellation of own shares	(8,127)	–	–	(8,127)
At 1 January 2001	77,202	15,048	(3,558)	88,692
Profit for the year	–	–	13,678	13,678
At 31 December 2001	<u>77,202</u>	<u>15,048</u>	<u>10,120</u>	<u>102,370</u>

The contributed surplus of the Company represents the difference between the underlying net tangible assets of the subsidiaries acquired by the Company and the nominal value of the share capital issued by the Company at the time of the group reorganisation prior to the listing of the Company's shares in 1994. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is available for distribution to shareholders. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if (a) it is, or would after the payment be, unable to pay its liabilities as they become due; and (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

In the opinion of Directors, the reserves of the Company which are available for distribution to shareholders at 31 December 2001 amounted to HK\$102,370,000 (2000: HK\$88,692,000).

Notes to the Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2001

27. CONVERTIBLE NOTES/BOND

	The Group		The Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Convertible notes/bond	39,600	15,016	39,600	15,016
Less: Issue expenses, net of amortisation of HK\$888,291 (2000: HK\$840,749)	–	(48)	–	(48)
	39,600	14,968	39,600	14,968
Less: Amounts due within one year shown under current liabilities	–	(14,968)	–	(14,968)
Amounts due after one year	<u>39,600</u>	<u>–</u>	<u>39,600</u>	<u>–</u>

53

In 1998, the Company issued a convertible bond to an investor for proceeds of US\$3,880,000. The bond carried interest at the rate of 4% per annum and was repayable on 30 June 2001. The investor had the option to convert, before the above repayment date, the outstanding debt into shares of the Company and/or shares in a subgroup of subsidiaries carrying on the business of fulfilment services ("Fulfilment Group") at a price with reference to the results of the Company or the Fulfilment Group, where appropriate, for the year ended 31 December 1998. In 1999, the investor exercised its right under the loan agreement to convert 50% of the principal amount of the bond into shares of the Company. In 2001, the remaining portion of the bond equivalent to HK\$15,016,000 was redeemed in full.

The convertible notes amounting to HK\$39,600,000 issued in 2001 were part of the consideration for the acquisition of a company holding an agreement for sale and promotion of data media products together with the distributorship and sales agreement with the existing clients of certain vendors at a total consideration of HK\$47,031,725 (note 35). The consideration is to be satisfied as to HK\$7,431,725 in cash and the balance by the issue of the convertible notes at face value.

The convertible notes amounting to HK\$39,600,000 comprise four convertible notes and are interest free. A convertible note of HK\$32,700,000 is convertible in part or in whole into new shares of the Company at any time during the period commencing 18 months from the date of issue on 5 January 2001 to, but excluding, the third anniversary from the date of issue (the "Maturity Date"). To the extent that this convertible note has not been previously converted, it will be redeemed on the Maturity Date at the then outstanding principal amount provided that the Company has the option to call on the holder to convert this convertible note on the same date wholly into new shares of the Company. The other three convertible notes, each having a principal amount of HK\$2,300,000, are convertible in part or in whole into the new shares of the Company at any time during the period commencing 12, 24 and 33 months from the date of issue respectively up to but excluding the Maturity Date. To the extent that the three convertible notes have not been previously converted, the convertible notes will be redeemed on the Maturity Date at the then outstanding principal amounts.

Notes to the Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2001

28. DEFERRED TAXATION

54

	The Group	
	2001 HK\$'000	2000 HK\$'000
Balance at 31 December	<u>3,582</u>	<u>3,582</u>

At 31 December 2001, the major components of the deferred taxation liabilities (assets), provided and unprovided, are as follows:

	Provided		Unprovided	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
THE GROUP				
Tax effect of timing differences because of:				
Excess of tax allowances over depreciation	3,582	3,582	17,110	29,573
Unrelieved tax losses	–	–	(19,906)	(16,341)
	<u>3,582</u>	<u>3,582</u>	<u>(2,796)</u>	<u>13,232</u>

The components of the unprovided deferred taxation for the year are as follows:

	The Group	
	2001 HK\$'000	2000 HK\$'000
Tax effect of timing difference because of:		
Excess of tax allowances over depreciation	(12,463)	(542)
Tax losses (generated) utilised	(3,565)	2,437
	<u>(16,028)</u>	<u>1,895</u>

The Company had no significant unprovided deferred taxation for the year or at the balance sheet date.

Deferred taxation has not been provided on the revaluation surplus arising on the revaluation of land and buildings as profits arising on the disposal of these assets would not be subject to taxation. Accordingly, the revaluation does not constitute a timing difference for tax purposes.

Notes to the Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2001

29. BANK BORROWINGS

	The Group		The Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Bank borrowings comprise the following:				
Mortgage loan	2,943	3,721	-	-
Short term bank loans	74,195	5,000	11,250	-
Bank import and export loans	63,107	58,322	-	-
Bank overdrafts	17,017	11,066	180	116
	<u>157,262</u>	<u>78,109</u>	<u>11,430</u>	<u>116</u>
Secured	2,942	3,721	-	-
Unsecured	154,320	74,388	11,430	116
	<u>157,262</u>	<u>78,109</u>	<u>11,430</u>	<u>116</u>
Bank loans and overdrafts are repayable as follows:				
Within one year	128,960	75,138	3,930	116
More than one year, but not exceeding two years	17,711	831	7,500	-
More than two years, but not exceeding five years	9,970	1,233	-	-
More than five years	621	907	-	-
	<u>157,262</u>	<u>78,109</u>	<u>11,430</u>	<u>116</u>
Less: Amounts due within one year shown under current liabilities (Note 33)	(128,960)	(75,138)	(3,930)	(116)
Amounts due after one year	<u>28,302</u>	<u>2,971</u>	<u>7,500</u>	<u>-</u>

Notes to the Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2001

30. OBLIGATIONS UNDER FINANCE LEASES AND HIRE PURCHASE CONTRACTS

	Minimum lease payments The Group		Present value of minimum lease payments The Group	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Amounts payable under finance leases and hire purchase contracts				
Within one year	29,115	38,149	24,239	38,098
In the second to fifth year inclusive	22,304	32,932	19,028	29,774
After five years	–	1,222	–	1,161
	<u>51,419</u>	<u>72,303</u>	<u>43,267</u>	<u>69,033</u>
Less: Future finance charges	(8,152)	(3,270)	N/A	N/A
	<u>43,267</u>	<u>69,033</u>	<u>43,267</u>	<u>69,033</u>
Less: Amounts due within one year shown under current liabilities (Note 33)			(24,239)	(38,098)
Amounts due after one year			<u>19,028</u>	<u>30,935</u>

It is the Group's policy to lease certain of its fixtures and equipment under finance leases. The average lease term is 3 years. For the year ended 31 December 2001, the average effective borrowing rate was 10%. 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.

During the year, the Group entered into four (2000: one) arrangement(s) to obtain finance amounting to approximately HK\$23 million (2000: HK\$9.8 million). Under these arrangements, the Group sold certain plant and machinery with a carrying amount of approximately HK\$34.5 million (2000: HK\$13.9 million) to the financiers at an aggregate consideration of approximately HK\$23 million (2000: HK\$10.9 million). At the same time, the Group entered into lease agreements with the financiers to lease back the plant and machinery for 36 (2000: 36) months; and at the end of those lease terms, the Group is either entitled to repurchase or continue to lease the plant and machinery at notional prices. Accordingly, the sales proceeds from the sale of these plant and machinery are treated as borrowings and classified as obligations under finance leases. The finance charges, which represent the difference between the total lease commitments and the obligations under finance leases, are charged to the income statement over the period of the relevant leases so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Notes to the Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2001

31. OTHERS

	The Group	
	2001	2000
	HK\$'000	HK\$'000
Retention for due performance of a supplier <i>(Note)</i>	-	10,000
Amount payable for acquisition of a business during the year	-	14,550
	-	24,550
	-	24,550

Note: In 2000, the Group entered into an agreement with a supplier supplying the raw materials for fulfilment services, under which the Group withheld an amount of approximately HK\$10,000,000 due to the supplier for goods supplied to ensure the quality and the supply of the raw materials.

32. TRADE AND OTHER PAYABLES

	The Group	
	2001	2000
	HK\$'000	HK\$'000
Trade creditors	48,904	44,084
Other creditors and accruals	16,941	24,250
	65,845	68,334
	65,845	68,334

The aged analysis of the trade creditors is as follows:

	The Group	
	2001	2000
	HK\$'000	HK\$'000
1 to 3 months	31,582	33,685
4 to 6 months	12,276	4,997
7 to 9 months	4,189	4,567
10 to 12 months	378	820
Over 1 year	479	15
	48,904	44,084
	48,904	44,084

Notes to the Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2001

33. CURRENT PORTION OF NON-CURRENT LIABILITIES

58

	The Group		The Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank borrowings (Note 29)	128,960	75,138	3,930	116
Obligations under finance leases and hire purchase contracts (Note 30)	24,239	38,098	-	-
	<u>153,199</u>	<u>113,236</u>	<u>3,930</u>	<u>116</u>

34. RECONCILIATION OF (LOSS) PROFIT BEFORE TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	The Group	
	2001	2000
	HK\$'000	HK\$'000
(Loss) profit before taxation	(104,029)	49,044
Amortisation of deferred royalty charges	-	16
Amortisation of goodwill	2,471	-
Amortisation of technical know-how	-	3,978
Amortisation of issue costs of bond	48	339
Depreciation	30,376	29,302
Share of profit of an associate	(1,507)	(113)
Allowance for (write back of) bad debt expenses	38	(1,857)
Interest income	(1,000)	(2,008)
Interest expenses on bank borrowings and other loans	8,252	13,359
Interest on obligations under finance leases and hire purchase contracts	5,702	8,809
Loss on disposal of a subsidiary	18,272	-
Loss on disposal of property, plant and equipment	18,573	36
Impairment loss recognised in respect of plant and machinery	70,000	-
Impairment of intangible assets	6,221	4,644
Increase in inventories	(19,536)	(86)
Decrease in amounts due from an associate	-	9
(Increase) decrease in debtors, deposits and prepayments	(19,785)	16,589
(Decrease) increase in trade and other payables	(12,484)	23,565
NET CASH INFLOW FROM OPERATING ACTIVITIES	<u>1,612</u>	<u>145,626</u>

35. ACQUISITION OF A SUBSIDIARY

During the year, the Group acquired a company holding an agreement for sale and promotion of data media products together with the distributorship and sales agreement with the existing clients of certain vendors at a consideration of HK\$47,031,725 (note 27). This acquisition has been accounted for by the acquisition method of accounting. The amount of goodwill arising as a result of the acquisition was HK\$49,432,000, representing the consideration for the acquisition and related legal costs.

The subsidiary acquired during the year contributed HK\$755,000 to the Group's net operating cash flows, paid HK\$85,000 in respect of the net returns on investments and servicing of finance, paid no taxation, utilised HK\$268,000 for investing activities and raised HK\$23,400 in respect of financing activities.

The subsidiary acquired during the year contributed HK\$51,466,000 to the Group's turnover, and contributed a profit of HK\$14,230,000 to the Group.

36. DISPOSAL OF A SUBSIDIARY

	<i>HK\$'000</i>
NET ASSETS DISPOSED OF:	
Intangible assets	10,920
Debtors, deposits and prepayments	14,356
Bank balance and cash	1
Amount due to immediate holding company	(33,105)
Trade and other payable	(5)
	<u>(7,833)</u>
Waiver of intercompany loan	33,105
Loss on disposal of a subsidiary	(18,272)
	<u>7,000</u>
Total consideration	<u>7,000</u>
Satisfied by:	
Cash consideration	<u>7,000</u>
Net cash inflow on disposal:	
Cash consideration	7,000
Bank balances and cash disposed of	(1)
	<u>6,999</u>

The subsidiary disposed during the year contributed HK\$5,285,000 to the Group's net operating cash inflows, and paid HK\$5,285,000 in respect of financing activities.

The subsidiary disposed of during the year contributed nothing (2000: Nil) to the Group's turnover and incurred a loss of HK\$1,634,000 (2000: HK\$1,783,000) attributable to the Group.

Notes to the Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2001

37. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital and share premium HK\$'000	Convertible notes/bond HK\$'000	Mortgage loan HK\$'000	Short term bank loans HK\$'000	Obligations under finance leases and hire purchase contracts HK\$'000	Minority interests HK\$'000
Balance at 1 January 2000	122,076	15,016	4,404	-	80,635	1
Net cash inflow (outflow) from financing						
Repurchase of own shares	(9,025)	-	-	-	-	-
Repayments of bank loans	-	-	(683)	-	-	-
Proceeds from sale and leaseback transactions entered into	-	-	-	-	9,774	-
Repayments of obligations under finance leases and hire purchase contracts	-	-	-	-	(42,359)	-
Capital contribution by minority shareholders Classified as cash and cash equivalents	-	-	-	-	-	1,186
	-	-	-	5,000	-	-
Other movements not involving cash flows:						
Inception of finance lease contracts	-	-	-	-	20,983	-
Minority share of loss for the year	-	-	-	-	-	(185)
Balance at 1 January 2001	113,051	15,016	3,721	5,000	69,033	1,002
Net cash inflow (outflow) from financing						
Redemption of convertible bonds	-	(15,016)	-	-	-	-
Repayments of bank loans	-	-	(778)	-	-	-
Repayments of obligations under finance leases and hire purchase contracts	-	-	-	-	(49,123)	-
New loans raised	-	-	-	55,559	-	-
Proceeds from sale and leaseback transactions entered into	-	-	-	-	22,976	-
Capital contribution by minority shareholders Classified as cash and cash equivalents	-	-	-	-	-	4,544
	-	-	-	13,636	-	-
Other movements not involving cash flows:						
Inception of finance lease contracts	-	-	-	-	381	-
Issue of convertible notes	-	39,600	-	-	-	-
Minority share of loss for the year	-	-	-	-	-	(1,374)
Balance at 31 December 2001	113,051	39,600	2,943	74,195	43,267	4,172

38. MAJOR NON-CASH TRANSACTIONS

1. During the year, the Group entered into finance lease arrangements in respect of plant and machinery with a total capital value at the inception of the leases of HK\$381,000 (2000: HK\$20,983,000).
2. During the year, convertible notes amounting to HK\$39,600,000 were issued in relation to the acquisition of a company holding an agreement for sale and promotion of data media products together with the distributorship and sales agreement with the existing clients of certain vendors at a consideration of HK\$47,031,725.

39. CONTINGENT ASSETS

In 1997, the Company entered into an agreement with a customer under which the Company was required to set up a software manufacturing fulfillment plant in the People's Republic of China and the customer was obliged, among other things, to place annual minimum orders to the Company for the five years ending 31 December 2002. Should the customer fail to place the minimum orders, the Company is entitled to claim for the shortfall. During the two years ended 31 December 1999, the orders from the customers did not meet the minimum orders stipulated in the agreement and the Company took action in 2000 to claim for the total shortfall under the agreement amounting to approximately US\$54 million. An arbitration tribunal has been formed to determine the liability and amount payable. Up to the date of approval of the financial statements, the arbitration has not been finalised. Accordingly, no further orders were placed by the customer. The directors of the Company, based on the opinion from independent legal advisers, consider that there are merits in Group's claim against the customer and accordingly all direct expenditure incurred for the claim, including the investment costs in establishment of the above manufacturing plant amounting to HK\$32.3 million, are capitalised and carried in the financial statements pending settlement of the claim. The directors of the Company are of the opinion that the Group has sufficient funds to pursue the claim.

40. CONTINGENT LIABILITIES

	The Group		The Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Bills discounted with recourse	37,688	41,265	-	-
Guarantees given to bankers in respect of banking facilities utilised by subsidiaries	-	-	440,300	376,300
	37,688	41,265	440,300	376,300

In addition, in 1999 a subsidiary of the Company received a writ from a customer in Hong Kong claiming amounts of RMB5,885,000 and US\$1,000,000 relating to alleged defective products delivered by that subsidiary. However, the directors, based on an opinion from the Group's independent legal advisers, consider that the allegations made by the customer are not valid and are of the opinion that such claims will not cause any material loss to the Group. No provision for the cost of the legal fees or loss, if any, arising from the allegation has been made in the financial statements.

Notes to the Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2001

41. LEASE COMMITMENTS

The Group as lessee

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases, in respect of premises, which fall due as follows:

	The Group	
	2001 HK\$'000	2000 HK\$'000
Within one year	2,805	5,931
In the second to fifth year inclusive	3,713	9,304
Over five years	179	–
	<u>6,697</u>	<u>15,235</u>

At 31 December 2001, the Company had no commitments under non-cancellable operating leases (2000: Nil).

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 Group as lessor

Rental income earned in respect of plant and machinery during the year was HK\$1,700,000 (2000: HK\$Nil). The plant and machinery are expected to generate rental yields of 14% on an ongoing basis. All of the plant and machinery leased have committed lessees for one to three years.

At the balance sheet date, the Group had contracted with lessees for the following future minimum lease payments:

	The Group	
	2001 HK\$'000	2000 HK\$'000
Within one year	2,064	450
In the second to fifth year inclusive	1,204	–
	<u>3,268</u>	<u>450</u>

Notes to the Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2001

42. CAPITAL COMMITMENTS

At the balance sheet date, the Group and the Company did not have any capital commitments.

43. RELATED PARTY TRANSACTIONS

The Group had the following significant transactions with related parties conducted on terms arrived at by reference to market prices during the year:

	The Group	
	2001	2000
	HK\$'000	HK\$'000
Printing charges paid to Sunny Printing (Hong Kong) Company Limited	2,763	10,154
Rental payments to Richmond Enterprise Limited	396	394
Rental payments to Ms. Chan Siu Chu	324	324
Rental payments to Fair Age Limited	29	114
	<u>29</u>	<u>114</u>

Mr. Chan Tzi Wah, being a director of a wholly owned subsidiary of the Company, was also a director and shareholder of Sunny Printing (Hong Kong) Company Limited during the period from 1 January 2000 to 30 June 2000.

Ms. Ho Yat Wah, Hermia, being an Executive Director of the Company, is also a director and shareholder of Richmond Enterprise Limited and Fair Age Limited.

Ms. Chan Siu Chu is the mother of Ms. Ho Yin King, Helena, Ms. Ho Yat Wah, Hermia and Mr. Ho Fai Keung, Jacky.

The above related party transactions have been approved by the independent Non-executive Directors.

Notes to the Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2001

44. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries are as follows:

Name of subsidiary	Place/country of incorporation and operation	Issued and paid up share capital/ registered capital	Percentage of issued share capital/ registered capital held <small>(Note a)</small>	Principal activities
Albata Technology Limited	Hong Kong	2 ordinary shares of HK\$1 each	100	Provision of software programming
Cheson Magnetic Limited	Macau	100,000 ordinary shares of MOP 1 each	100	Manufacture of floppy disks
Clearview Development Limited	British Virgin Islands	10,000 ordinary shares of US\$1 each	100	Investment holding
Creative Information Technology (Shanghai) Co. Ltd.	People's Republic of China	US\$2,000,000	100	Inactive
Feitian Magnetic Information-Technology (Shenzhen) Co., Ltd.	People's Republic of China	US\$2,500,000	100	Manufacture of floppy disks, jewel cases and compact disc cleaners
Fortune Luck Development Ltd.	British Virgin Islands	4 ordinary shares of US\$1 each	100	Trading of data media products
Glory South Software Manufacturing Inc.	United States of America	1,000 ordinary shares of US\$ 1 each	100	Trading of computer accessories

Notes to the Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2001

44. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place/country of incorporation and operation	Issued and paid up share capital/ registered capital	Percentage of issued share capital/ registered capital held <small>(Note a)</small>	Principal activities
Great China Global Limited	British Virgin Islands	1 ordinary share of US\$1 each	100	Trading of data media products
Havenport Management Limited	British Virgin Islands	10,000 ordinary shares of US\$1 each	100	Investment holding
Jackin Advanced Optical Technology Limited	British Virgin Islands	1 ordinary share of US\$1	100	Trading of data media products
Jackin Enterprises Limited	British Virgin Islands	1 ordinary share of US\$1	100	Holding of trade marks
Jackin Magnetic Company Limited	Hong Kong	10 ordinary shares of HK\$100 each and 10,000 non-voting deferred shares of HK\$100 each <small>(Note b)</small>	100	Manufacture and sale of floppy disks
Jackin Magnetic <small>(United Kingdom) Company Limited</small>	England	3 ordinary shares of GBP 1 each	100	Sale of floppy disks
Jackin Manufacturing <small>(Shenzhen) Limited</small>	British Virgin Islands	1 ordinary share of US\$1	100	Investment holding
Jackin Media Marketing Limited	Hong Kong	100 ordinary shares of HK\$1 each	100	Investment holding
Jackin Optical Marketing Company Limited	Hong Kong	2 ordinary shares of HK\$1 each	100	Sale of compact disc products

Notes to the Financial Statements *(Continued)*

FOR THE YEAR ENDED 31 DECEMBER 2001

44. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

66

Name of subsidiary	Place/country of incorporation and operation	Issued and paid up share capital/ registered capital	Percentage of issued share capital/ registered capital held <i>(Note a)</i>	Principal activities
Jackin Optical Technology Limited	Hong Kong	1,000,000 ordinary shares of HK\$1 each	100	Manufacture and sale of compact disc products
Jackin Purchasing Company Limited	Hong Kong	2 ordinary shares of HK\$1 each	100	Provision of sourcing and procurement services
Jackin Total Fulfilment Services Limited	Hong Kong	2 ordinary shares of HK\$1 each	100	Inactive
Jackin U.S.A. Inc.	United States of America	1 ordinary share of US\$1	100	Sale of compact disc products, jewel cases and floppy disks and provision of total fulfilment services and supply chain management services
Jackin Video Cassette Company Limited	Hong Kong	1,000 ordinary shares of HK\$1 each and 1,000,000 non-voting deferred shares of HK\$1 each <i>(Note b)</i>	100	Property Holding

Notes to the Financial Statements (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2001

44. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place/country of incorporation and operation	Issued and paid up share capital/ registered capital	Percentage of issued share capital/ registered capital held <small>(Note a)</small>	Principal activities
Jackin Video Cassette (Taiwan) Limited	Taiwan	2,000,000 ordinary shares of NT\$10 each	99.9	Property holding
Noble Team Holdings Limited	British Virgin Islands	10,000 ordinary shares of US\$1 each	100	Investment holding
Oakview International Limited	British Virgin Islands	100 ordinary shares of US\$1 each	100	Investment holding
Profit Ring Industrial Limited	Hong Kong	2 ordinary shares of HK\$1 each	100	Property investment
Romtec Holdings Limited	British Virgin Islands	1 ordinary share of US\$1	100	Investment holding
Sunny Printing (International) Company Limited	Hong Kong	10,000 ordinary shares of HK\$1 each	100	Provision of computer software replication services
Tempair Developments Limited	British Virgin Islands	10,000 ordinary shares of US\$1 each	100	Investment holding
Ugent Holdings Limited	British Virgin Islands	10,000 ordinary shares of US\$1 each	100	Investment holding

Notes to the Financial Statements *(Continued)*

FOR THE YEAR ENDED 31 DECEMBER 2001

44. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

68

Name of subsidiary	Place/country of incorporation and operation	Issued and paid up share capital/ registered capital	Percentage of issued share capital/ registered capital held <i>(Note a)</i>	Principal activities
深圳市新怡輝速達實業有限公司	People's Republic of China	RMB1,000,000	80	Trading of data media products
珠海藝必達信息技術有限公司	People's Republic of China	HK\$5,000,000	80	Provision of software programming

Notes:

- Except Oakview International Limited, which is directly owned by the Company, all other subsidiaries are indirectly held.
- The Company holds 100% of the issued ordinary share capital only. The deferred shares, which are not held by the Group, 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.
- Other than those subsidiaries incorporated in the British Virgin Islands, whose place of operations are basically in Hong Kong, the places of operations of all other subsidiaries are the same as their places of incorporation.
- The directors are of the opinion that a complete list of the particulars of all subsidiaries will be of excessive length and therefore the above list contains only the particulars of the subsidiaries which materially affect the results or assets of the Group.