

Notes to the Accounts

1 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of preparation

These accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). They have been prepared under the historical cost convention, except for short-term investment, as further explained below.

In the current year, the Group adopted the following Statements of Standard Accounting Practice ("SSAP") issued by the HKSA which are effective for accounting periods commencing on or after 1st January 2001:

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

The effect of adopting these new standards is set out in the accounting policies below.

(b) Group accounting

(i) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December. Subsidiaries are those entities that are controlled by the Group.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Notes to the Accounts

1 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(b) Group accounting *(Continued)*

(i) Consolidation (Continued)

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill or goodwill/negative goodwill, and exchange difference taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(ii) Jointly controlled entity

A jointly controlled entity is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

The consolidated profit and loss account includes the Group's share of the results of jointly controlled entities for the year. Where the profit sharing ratio is different to the Group's equity interest, the share of post acquisition results of the jointly controlled entity is determined based on the agreed profit sharing ratio. The consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entities and goodwill (net of accumulated amortisation) on acquisition under the equity method of accounting less any provision for diminution in value other than that considered to be temporary in nature deemed necessary by the directors.

Notes to the Accounts

1 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(c) Fixed assets

(i) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Fixed assets are depreciated on the straight-line basis to write off their cost or valuation of each asset less accumulated impairment losses over their estimated useful lives as follows:

Long-term leasehold land and buildings outside Hong Kong	25 to 50 years or over the lease terms, whichever is shorter
Network equipment and toolings, plant, equipment and other assets	2 to 15 years

The cost of the network comprises assets and equipment of the digital broadcasting system purchased at cost, together with direct payroll and overhead attributable to the cost of construction and installation of the system. Depreciation of the network commenced from the date of commencement of the network.

No depreciation is provided for that part of the network under construction, including equipment therein.

Improvements are capitalised and depreciated over their expected useful lives to the Group.

(ii) Impairment and gain or loss on sale

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

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

Notes to the Accounts

1 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(d) Assets under leases

(i) *Finance leases*

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. Finance leases are capitalised at the inception of the leases at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in long-term liabilities. The finance charges are charged to the profit and loss account over the lease periods.

Assets held under finance leases are depreciated over the shorter of their estimated useful lives or the lease periods.

(ii) *Operating leases*

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

(e) Intangibles

(i) *Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition and is amortised on a straight-line basis over the useful life of 10 to 20 years.

The gain or loss on disposal of an entity includes the unamortised balance of goodwill relating to the entity disposed of.

Notes to the Accounts

1 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(e) **Intangibles** *(Continued)*

(ii) *Research and development costs*

Research costs are expensed as incurred. On the adoption of SSAP29, costs incurred on development projects are recognised as an intangible asset where the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. Such development costs are recognised as an asset and amortised on a straight-line basis over a period of not more than 5 years to reflect the pattern in which the related economic benefits are recognised. Development costs that do not meet the above criteria are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

With effect from 1st January 2001, the Group changed its accounting policy with respect to the accounting treatment for development costs in accordance with SSAP 29, the Group previously capitalised and amortised all deferred development expenditure. In accordance with the transitional provision of SSAP 29, those development costs which do not meet the recognition criteria have been derecognised so that the 2000 comparatives presented have been restated to conform to the changed policy.

As a result, the Group's loss attributable to ordinary shareholders for the year ended 31st December 2000 was increased by HK\$861,000 and the accumulated losses brought forward as at 1st January 2000 was increased by HK\$982,000. Accordingly the accumulated losses brought forward as at 1st January 2001 was increased by HK\$1,843,000.

(iii) *Film rights*

Expenditure incurred for the acquisition of film rights is capitalised. The film rights is included in intangible assets and is amortised using the sum-of-digit method over the terms of the licencing period.

(iv) *Impairment of intangible assets*

Where an indication of impairment exists, the carrying amount of any intangible asset, including goodwill previously written off against reserves, is assessed and written down immediately to its recoverable amount.

Notes to the Accounts

1 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(f) Investments

(i) Investments securities

Investment securities, represent investments in listed and unlisted equity securities which are intended to be held for a continuing strategic or long-term purposes, are stated at cost less any provision for impairment losses.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to the profit and loss account when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(ii) Short-term investments

Short-term investments are carried at their values as at the balance sheet date. Unrealised gains or losses arising from the changes in fair values of these investments are recognised in the profit and loss account for the period in which they arise. Profits or losses on disposal of short-term investments, representing the differences between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

(g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated on the first-in, first-out basis. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(h) Work in progress

Work in progress is recorded at the amount of cost incurred to date plus attributable profit less foreseeable loss and progress billing.

(i) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

Notes to the Accounts

1 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(i) Translation of foreign currencies *(Continued)*

The balance sheet of subsidiaries, jointly controlled entities and associated companies expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss is translated at an average rate. Exchange differences are dealt with as a movement in reserves. Upon disposal of a foreign entity, the related cumulative exchange difference is included in the profit and loss account as part of the gain or loss on disposal.

(j) Trade receivables

Provision is made against trade receivables to the extent they are considered to be doubtful. Trade receivables in the balance sheet are stated net of such provision.

(k) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and bank overdrafts, and short-term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advances.

(l) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

(m) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

Notes to the Accounts

1 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(m) Contingent liabilities and contingent assets *(Continued)*

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(n) Deferred taxation

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

(o) Revenue recognition

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Revenue from the design, integration and installation of platforms for digital broadcasting systems is recognised upon the satisfactory completion of each installation and acceptance by customers.

Service fee income for provision of international market information and selective consumer data is recognised on a straight-line basis over the period of the service contracts.

Revenue from leasing of digital broadcasting network equipment and technical know-how and related software is recognised on an agreed proportion of net subscription income received from ultimate customers of the leasee in accordance with the respective agreements.

Management fee income is recognised on an accrual basis.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Dividend income is recognised when the right to receive payment is established.

Notes to the Accounts

1 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(p) Retirement benefit costs

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

The Company's subsidiaries in Mainland China are members of the state-managed retirement benefits scheme operated by the government of Mainland China. The retirement scheme contributions, which are based on a certain percentage of the salaries of the subsidiaries' employees, are charged to the profit and loss account in the period to which they relate and represent the amount of contributions payable by these subsidiaries to the scheme.

(q) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(r) Segment reporting

In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, fixed assets, inventories, receivables and operating cash, and mainly exclude investments in securities. Segment liabilities comprise operating liabilities. Capital expenditure comprises additions to fixed assets (note 11) and intangible assets (note 12).

Notes to the Accounts

1 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(r) Segment reporting *(Continued)*

In respect of geographical segment reporting, sales are based on the country in which the customer is located. Total assets and capital expenditure are where the assets are located.

(s) Comparative figures

Certain comparative figures have been reclassified to conform with the current year's presentation as a result of the adoption of the new SSAPs which became effective in the current year.

2 DISCONTINUED OPERATIONS

The Group discontinued its business of the manufacture and distribution of telecommunication and video-media products, and the trading of computer monitors and related products during the year ended 31st December 2000.

Notes to the Accounts

3 TURNOVER AND REVENUES

The Group is principally engaged in the design, integration and installation of digital broadcasting equipment and development of related software and products, retail and distribution of home audio and video equipment, provision of international financial market information and selective consumer data, and provision of IP telephony and related services. Revenues recognised during the year are as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000 (Restated)
Continuing operations		
Sales of goods	100,325	73,974
Leasing income	670	—
Provisions of services	27,880	15,779
	128,875	89,753
Discontinued operations		
Sales of goods	—	29,522
Turnover	128,875	119,275
Other revenues		
Dividend income from preference shares of a listed company	—	1,609
Interest income	2,951	7,213
Management fee income from fellow subsidiaries	280	—
Miscellaneous	534	987
	3,765	9,809
Total revenues	132,640	129,084

4 SEGMENT INFORMATION

The Group is organised into four main business segments:

- (i) design, integration and installation of digital broadcasting equipment and development of related software and products,
- (ii) retail and distribution of home audio and video equipment,
- (iii) provision of international financial market information and selective consumer data, and
- (iv) provision of IP telephony and related services.

There are no sales between the business segments.

Notes to the Accounts

4 SEGMENT INFORMATION *(Continued)*

Primary reporting format – business segments

	2001				Total HK\$'000
	Design, integration and installation of digital broadcasting equipment and development of related software and products HK\$'000	Retail and distribution of home audio and video equipment HK\$'000	Provision of international financial market information and selective consumer data HK\$'000	Provision of IP telephony and related services HK\$'000	
Turnover	50,270	50,725	14,778	13,102	128,875
Segment results	(33,554)	(12,239)	(26,359)	(26,629)	(98,781)
Net provision for bad and doubtful debts					(25,390)
Provision for impairment of investment securities					(23,032)
Unrealised loss on short-term investments					(8,134)
Operating loss					(155,337)
Finance costs					(3,443)
Share of loss of a jointly controlled entity					(6,930)
Loss before taxation					(165,710)
Taxation					–
Loss after taxation					(165,710)
Minority interests					27,306
Loss attributable to shareholders					(138,404)
Segment assets	424,136	18,535	2,991	15,584	461,246
Investment in a jointly controlled entity					10,901
Unallocated assets					105,922
Total assets					578,069
Segment liabilities	144,091	4,655	11,707	4,323	164,776
Unallocated liabilities					76,790
Total liabilities					241,566
Capital expenditure	18,287	266	1,739	4,769	25,061
Depreciation	9,389	1,675	1,089	3,517	15,670
Amortisation	8,574	332	2,544	100	11,550
Impairment charge	–	–	–	–	23,032
Other non-cash expenses	2,567	301	2	5,663	8,533

Notes to the Accounts

4 SEGMENT INFORMATION (Continued)

Primary reporting format – business segments (Continued)

2000 (Restated)

	Telephone manufacturing (Discontinued operation) HK\$'000	Design, integration and installation of digital broadcasting equipment and development of related software and products HK\$'000	Retail and distribution of home audio and video equipment HK\$'000	Provision of international financial market information and selective consumer data HK\$'000	Provision of IP telephony and related services HK\$'000	Total HK\$'000
Turnover	29,522	27,936	28,459	15,779	17,579	119,275
Segment results	(79,383)	(79,841)	(27,495)	(35,005)	(33,988)	(255,712)
Loss on disposal of a business unit						(40,149)
Net unrealised loss of short-term investments						(294,132)
Gain on conversion/ disposal of preference shares						67,945
Unallocated costs						(39,671)
Operating loss						(561,719)
Finance costs						(7,077)
Share of loss of an associated company						(15,032)
Share of loss of a jointly controlled entity						(3,628)
Loss before taxation						(587,456)
Taxation						645
Loss after taxation						(586,811)
Minority interests						93,081
Loss attributable to shareholders						(493,730)
Segment assets	17,951	339,778	30,652	12,153	23,636	424,170
Investment in a jointly controlled entity						26,155
Unallocated assets						151,586
Total assets						601,911
Segment liabilities	34,190	73,502	10,800	11,004	5,070	134,566
Unallocated liabilities						6,422
Total liabilities						140,988
Capital expenditure	11,003	59,102	3,129	2,755	13,538	89,527
Depreciation	6,960	3,506	1,029	1,625	2,141	15,261
Amortisation	—	9,164	378	4,365	—	13,907
Impairment charge	—	2,835	—	92,027	—	94,862
Other non-cash expenses	52,999	48,060	6,673	—	—	107,732

Notes to the Accounts

4 SEGMENT INFORMATION (Continued)

Secondary reporting format – geographical segments

The Group's four business segments operate in four main geographical areas:

- (i) Hong Kong – Provision of international financial market information and selective consumer data, and retail and distribution of home audio and video equipment
- (ii) Mainland China – Design, integration and installation of digital broadcasting equipment and development of related software and products
- (iii) United States – Provision of IP telephony and related services
- (iv) Other Southeast Asia countries – Provision of international financial market information and selective consumer data.

There are no sales between the geographical segments.

Secondary reporting format – geographical segments

	2001			
	Turnover <i>HK\$'000</i>	Segment results <i>HK\$'000</i>	Total assets <i>HK\$'000</i>	Capital expenditure <i>HK\$'000</i>
Hong Kong	63,285	(115,511)	312,735	15,769
Mainland China	51,665	(38,163)	262,269	8,708
United States	11,631	(733)	2,509	570
Other Southeast Asian countries	2,294	(930)	556	14
	128,875	(155,337)	578,069	25,061

	2000			
	Turnover <i>HK\$'000</i>	Segment results <i>HK\$'000</i>	Total assets <i>HK\$'000</i>	Capital expenditure <i>HK\$'000</i>
Hong Kong	31,521	(386,458)	368,747	25,232
Mainland China	65,736	(168,027)	230,740	62,816
United States	11,359	(7,525)	1,645	1,096
Europe	6,326	(166)	27	–
Other Southeast Asian countries	4,333	457	752	383
	119,275	(561,719)	601,911	89,527

Notes to the Accounts

5 OPERATING LOSS

Operating loss is stated after crediting and charging the following:

	Group	
	2001	2000
	HK\$'000	HK\$'000 (Restated)
Crediting		
Net other operating expenses including:		
Net gain on dilution of interest in subsidiaries	6,338	—
Write-back of provision against doubtful debts	8,228	—
Gain on conversion of investment in preference shares	—	27,200
Net gain on disposal of investment in preference shares	—	40,745
Net gain on disposal of subsidiaries	—	10,876
Net gain on disposal of fixed assets	—	496
Gain on disposal of an associated company	—	7,679
Gain on disposal of short-term investments	353	—
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Charging		
Cost of inventories sold	62,844	121,593
Cost of services provided	9,998	8,343
Depreciation:		
Owned assets	15,670	14,761
Assets held under finance leases	—	500
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	15,670	15,261
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Auditors' remuneration	1,500	2,700
Staff costs (excluding directors' remuneration, note 10 (a))		
Wages and salaries	44,746	52,773
Contributions to defined contribution Mandatory Provident Fund	1,994	146
Less: Forfeited contributions	(506)	(1,023)
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	1,488	(877)
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Operating lease rentals:		
Land and buildings	17,162	16,143
Equipment	286	1,137
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	17,448	17,280
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Notes to the Accounts

5 OPERATING LOSS *(Continued)*

	Group	
	2001	2000
	HK\$'000	<i>HK\$'000</i>
		(Restated)
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Net other operating expenses including:		
Amortisation of intangibles:		
Film rights	5,985	7,372
Goodwill	2,598	3,340
Development costs	2,967	3,195
Research and development costs:		
Current year expenditure	—	3,313
Write-off of deferred development costs	—	1,582
Provision for impairment of goodwill	—	94,862
Write-off of fixed assets	5,663	3,950
Provision against inventories	1,251	1,878
Write-off of inventories	—	3,437
Provision for bad and doubtful debts	34,554	44,230
Write-off of bad and doubtful debts	4,568	—
Net unrealised loss of short-term investments	8,134	294,132
Loss on disposal of short-term investments	—	8,821
Net loss on disposal of subsidiaries	1,171	—
Net loss on dilution of interests in subsidiaries	—	3,922
Net loss on disposal of fixed assets	112	—
Provision for impairment loss on investment securities	23,032	—
Exchange losses, net	202	3,981
Loss on discontinued operations:		
Net loss on disposal of subsidiaries	—	14,177
Write-off of fixed assets, inventories and development costs	—	7,084
Loss on disposal of scrap inventories	—	18,888
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	—	40,149
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Notes to the Accounts

6 FINANCE COSTS

	Group	
	2001	2000
	HK\$'000	HK\$'000
Interest expenses on:		
Bank loans and overdrafts	2,008	1,161
Other loans wholly repayable within five years	—	3,810
Finance lease expenses	52	80
Amount due to a fellow subsidiary	1,383	1,379
Amounts due to related companies	—	647
	3,443	7,077

7 TAXATION

No provision for Hong Kong and overseas profits tax has been made in the accounts as the Group did not have any assessable profit for the year (2000: Nil, the tax credit represents over provision of Hong Kong profits tax in prior years).

No provision for deferred tax has been made in the accounts as the crystallisation of the net deferred tax asset in the foreseeable future is uncertain.

The principal components of deferred tax assets/(liabilities) of the Group and the Company not provided for at the balance sheet date were as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Accelerated depreciation allowances	—	(982)
Tax losses carried forward	30,193	83,611
At 31st December	30,193	82,629

	Company	
	2001	2000
	HK\$'000	HK\$'000
Tax losses carried forward	22,239	21,762

Notes to the Accounts

8 LOSS ATTRIBUTABLE TO ORDINARY SHAREHOLDERS

The loss attributable to ordinary shareholders is dealt with in the accounts of the Company to the extent of HK\$13,949,000 (2000: HK\$273,305,000).

9 LOSS PER SHARE

The calculation of the basic loss per share is based on the Group's loss attributable to ordinary shareholders of HK\$138,404,000 (2000: HK\$493,730,000 (restated)) and on the weighted average number of 2,774,293,000 (2000: 2,710,537,000) ordinary shares in issue during the year.

No diluted loss per share is shown for the two years ended 31st December 2001 and 2000 as the share options and convertible preference shares outstanding had an anti-dilutive effect on the basic loss per share for both years.

10 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The aggregate amounts of emoluments payable to directors of the Company during the year are as follows:

	2001 HK\$'000	2000 HK\$'000
Fees:		
Non-executive directors	288	141
Other emoluments:		
Executive directors		
Basic salaries, housing benefits, other allowances and benefits in kind	5,147	5,678
Pension contributions	137	—
	5,572	5,819

During the year, no share options (2000: 2,500,000) to subscribe for ordinary shares in the Company or its listed subsidiary, DVN, were granted to any directors (2000: one) of the Company.

Notes to the Accounts

10 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(a) Directors' emoluments *(Continued)*

The emoluments of the directors fell within the following bands:

	Number of directors	
	2001	2000
Nil - HK\$1,000,000	3	6
HK\$1,500,001 - HK\$2,000,000	1	1
HK\$3,000,001 - HK\$4,000,000	1	1
	5	8

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

No emoluments were paid by the Group to the directors as on inducements to join or upon joining the Group, or as compensation for loss of office.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2000: two) directors whose emoluments are reflected in the analysis presented above.

The emoluments payable to the remaining three (2000: three) individuals during the year are as follows:

	2001	2000
	HK\$'000	HK\$'000
Basic salaries, housing benefits, other allowances and benefits in kind	4,172	3,392
Pension contributions	195	1
	4,367	3,393

The emoluments fell within the following bands:

	Number of individuals	
	2001	2000
HK\$1,000,000 - HK\$1,500,000	2	3
HK\$1,500,001 - HK\$2,000,000	1	—
	3	3

No share options (2000: 1,500,000) to subscribe for ordinary shares in the Company were granted to any highest paid, non-director employees (2000: one) during the year.

Notes to the Accounts

11 FIXED ASSETS

	Group				
	Long-term leasehold land and building outside Hong Kong HK\$'000	Network under construction HK\$'000	Network equipment and toolings HK\$'000	Plant, equipment and other assets HK\$'000	Total HK\$'000
Cost					
At 1st January 2001	2,907	—	12,564	54,527	69,998
Additions	—	30,300	19,156	11,489	60,945
Transfer	—	1,666	745	—	2,411
Disposals	—	—	—	(3,204)	(3,204)
Disposal of subsidiaries	—	—	—	(3,205)	(3,205)
Write-offs	—	—	—	(9,078)	(9,078)
Translation difference	—	—	—	128	128
At 31st December 2001	2,907	31,966	32,465	50,657	117,995
Accumulated depreciation					
At 1st January 2001	348	—	974	25,463	26,785
Charge for the year	116	—	3,539	12,015	15,670
Disposals	—	—	—	(3,051)	(3,051)
Disposal of subsidiaries	—	—	—	(1,531)	(1,531)
Write-offs	—	—	—	(3,415)	(3,415)
Translation difference	—	—	—	17	17
At 31st December 2001	464	—	4,513	29,498	34,475
Net book value:					
At 31st December 2001	2,443	31,966	27,952	21,159	83,520
At 31st December 2000	2,559	—	11,590	29,064	43,213

Notes to the Accounts

12 INTANGIBLE ASSETS

	Group			
	Goodwill <i>HK\$'000</i>	Development costs <i>HK\$'000</i>	Film rights <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January 2001				
As previously reported	46,161	15,700	7,796	69,657
Effect of adopting SSAP 29 (<i>note 1(e)(ii)</i>)	—	(5,051)	—	(5,051)
As restated	46,161	10,649	7,796	64,606
Exchange difference	—	—	111	111
Intangibles recognised as an asset	3,564	12,843	2,526	18,933
Amortisation charge (<i>note 5</i>)	(2,598)	(2,967)	(5,985)	(11,550)
Reversal on dilution of interest in a subsidiary	(958)	—	—	(958)
Transfer/disposal	(6,299)	(5,390)	—	(11,689)
At 31st December 2001	39,870	15,135	4,448	59,453
At 31st December 2001				
Cost	46,982	25,539	17,805	90,326
Accumulated amortisation	(7,112)	(10,404)	(13,357)	(30,873)
Net book value	39,870	15,135	4,448	59,453
At 31st December 2000				
Cost, as previously reported	51,432	19,878	15,168	86,478
Effect of adopting SSAP 29	—	(5,651)	—	(5,651)
As restated	51,432	14,227	15,168	80,827
Accumulated amortisation and impairment losses, as previously reported	(5,271)	(4,178)	(7,372)	(16,821)
Effect of adopting SSAP 29	—	600	—	600
As restated	(5,271)	(3,578)	(7,372)	(16,221)
Net book value	46,161	10,649	7,796	64,606

Notes to the Accounts

13 INVESTMENTS IN SUBSIDIARIES

	Company	
	2001	2000
	HK\$'000	HK\$'000
Investments at cost		
Listed shares in Hong Kong	117,440	117,440
Unlisted shares	116,034	116,435
Provision for diminution in value	(116,034)	(116,435)
	117,440	117,440
Amounts due from subsidiaries	1,031,374	1,021,384
Amounts due to subsidiaries	(37,913)	(26,000)
Provision for amounts due from subsidiaries	(775,527)	(775,126)
	335,374	337,698
Market value of listed shares	76,030	60,824

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

Particulars of the principal operating subsidiaries are set out in note 36 to the accounts.

14 INTEREST IN A JOINTLY CONTROLLED ENTITY

	Group	
	2001	2000
	HK\$'000	HK\$'000
Share of net (liabilities)/assets	(195)	6,735
Amount due from the jointly controlled entity	11,096	19,420
	10,901	26,155

The amount due from the jointly controlled entity is unsecured, interest-free and has no fixed terms of repayment.

Notes to the Accounts

14 INTEREST IN A JOINTLY CONTROLLED ENTITY *(Continued)*

Particulars of the jointly controlled entity are as follows:

Name	Business structure	Place of registration and operations	Percentage of			Principal activity
			Ownership interest	Voting power	Profit sharing	
Beijing Jiya Telecommunication Engineering Co. Ltd.	Corporate	People's Republic of China ("PRC")	<i>(Note)</i>	57%	<i>(Note)</i>	Provision of telecommunication programming services

The interest in a jointly controlled entity is indirectly held by the Company.

Note:

Under the terms of the original joint venture agreement, the Group is entitled to 70% of the results of the jointly controlled entity for the first five years from the date of the issuance of business licence on 26th November 1994, and 51% of the results for the remaining tenure of the joint venture. The tenure of the joint venture is 30 years. During this period, in case of dissolution, the Group is entitled to share the net assets of the jointly controlled entity in accordance with the above-mentioned prevailing profit sharing ratio. Upon the expiry of the tenure of the joint venture, all the fixed assets and 49% of the net current assets of the joint venture will be vested on the PRC joint venture partner and the Group will only be entitled to 51% of the net current assets.

On 6th September 1996, a supplementary agreement was entered into between a subsidiary of the Company and the PRC joint venture partner whereby the profit sharing ratio between the Group and the PRC joint venture partner was amended. In accordance with the supplementary agreement, the Group is entitled to 80% of the results of the jointly controlled entity up to and until the full recovery of the capital contributed by the Group to the jointly controlled entity, and thereafter 70% of the results of the jointly controlled entity until the end of its tenure.

According to the joint venture agreement, the board of directors of the jointly controlled entity consists of seven directors, of which four were nominated by the Group. The joint venture agreement stipulates that certain major operating and financing decisions require the approval of at least two thirds of the directors in a board meeting. As the Group does not have unilateral control on the financial and operating policies of the jointly controlled entity, the jointly controlled entity has not been accounted for as a subsidiary and is equity accounted for in accordance with SSAP 21 "Accounting for interests in joint ventures".

Notes to the Accounts

15 INVESTMENT SECURITIES

	Group	
	2001 HK\$'000	2000 HK\$'000
Listed shares, at cost		
– outside Hong Kong (<i>note a</i>)	23,414	23,414
Unlisted shares, at cost		
– in Hong Kong (<i>note b</i>)	–	6,884
– outside Hong Kong (<i>note c</i>)		
Ordinary shares	35,000	35,000
Preference shares	20,280	–
	78,694	65,298
Less: Provision for impairment in value	(23,032)	(6,884)
	55,662	58,414
Market value of listed investment (<i>note a</i>)	34,875	34,875

Notes:

- (a) The listed equity investment outside Hong Kong represents the holding of 1,500,000 shares (representing 6.8% of the common stock) in a company which was incorporated in the the United States of America and was listed on the National Association of Securities Dealer Over-The-Counter Bulletin Board (“OTCBB”). The investee company has been temporarily delisted on OTCBB since 3rd October 1998. The market value of the investment was based on US\$3 per share as at 3rd October 1998, the date on which the investee company was delisted on the OTCBB.
- (b) The investment represents the equity shares of an investee company in which the percentage of equity attributable to the Group amounted to over 20%. The investment, however, has not been equity accounted for in accordance with SSAP 10 “Accounting for Investments in Associates” as the Group has no significant influence on that investee company. In addition, the Group neither intends to provide further financial support to the investee company, nor has any further guarantees or obligations in respect of the investee company.

The particulars of the investee company are as follows:

Name	Place of incorporation	Issued share capital	Percentage of equity attributable to the Company	Principal activity
Beijing United International Limited	BVI	HK\$12,500,000	40%	Investment holding

Notes to the Accounts

15 INVESTMENT SECURITIES *(Continued)*

As the investee company has ceased operation for some time and based on its existing financial position, its continuity is in doubt. The directors considered that the impairment in value of the investment would be permanent in nature and wrote off the investment accordingly during the year.

- (c) As at 31st December 2001, the Group held 990 ordinary shares, representing approximately 9.9% equity interest in the investee company and 2,000,000 convertible preference shares of the investee company.

Particulars of the investee company are as follows:

Name	Place of incorporation	Nominal value of issued		Principal activities
		Ordinary shares	Preference shares	
Broad Communication Company Limited	BVI	US\$10,000	US\$2,600,000	Trading of digital broadcasting equipment and related products

The convertible non-voting preference shares are convertible into ordinary shares of the investee company at any time during the two-year period commencing from 21st September 2001.

In the opinion of the directors, the Group did not have any significant influence over the investee company's operations.

16 OTHER ASSETS

	Group	
	2001 HK\$'000	2000 HK\$'000
Deposits for purchasing of film rights	35,228	37,862
Deposit for film distribution rights	10,000	10,000
Deposit for films library	17,060	17,060
Club debentures	2,065	2,065
	64,353	66,987

Notes to the Accounts

17 INVENTORIES

	Group	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i> (Restated)
Raw materials	1,488	11,990
Finished goods	42,280	49,560
	43,768	61,550

At 31st December 2001, the carrying amount of inventories that are stated at net realised value amounted to HK\$23,669,000 (2000: HK\$12,325,000)

18 TRADE AND BILLS RECEIVABLES

At 31st December 2001, the aging analysis of the trade and bills receivables is as follows:

	Group	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
0 - 3 months	25,525	39,481
4 - 6 months	213	3,586
Over 6 months	37,163	835
	62,901	43,902

The majority of the Group's sales are on credit with credit terms of 30-90 days, except for the sales of digital broadcasting systems and related products to an investee company details of which are set out in note 29(d)(iii) to the accounts.

19 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

The Group's prepayments, deposits and other receivables as at 31st December 2001 include a receivable of HK\$18,345,000 arising from the expiry of the convertible cumulative non-voting preference shares of Leaptex Limited (formerly known as netalone.com Limited), which should be due for redemption on 22nd October, 2001 and has not yet been repaid up to the date of the report. Full provision was then made after considering its existing financial position and situation.

Notes to the Accounts

20 TRADE AND BILLS PAYABLES

The aging analysis of trade and bills payables is as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
0 - 3 months	2,513	6,580
4 - 6 months	459	1,069
Over 6 months	20,165	2,976
	23,137	10,625

21 OTHER PAYABLES AND ACCRUED LIABILITIES

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Deposits received, accrued charges and other payables	48,932	49,189	132	2,537
Amount due to a former minority shareholder of a subsidiary	—	2,480	—	—
Amount due to a fellow subsidiary	42,179	1,115	5,144	1,115
Provision for legal fees	19,727	18,218	—	—
	110,838	71,002	5,276	3,652

The amount due to a fellow subsidiary bears interest at Hong Kong dollar prime lending rate plus 2.5% per annum. The balance is unsecured and has no fixed terms of repayment.

Notes to the Accounts

22 SHORT-TERM BORROWINGS

	Group	
	2001 HK\$'000	2000 HK\$'000
Short-term bank loans	50,597	6,075
Trust receipt loans, secured	4,014	5,512
Current portion of finance lease payables (note 23)	183	573
	54,794	12,160

At 31st December 2001, the Group's bank loans were secured by a bank deposit amounting to US\$6,490,000 (equivalent to HK\$51,321,000) (2000: HK\$10,337,000).

23 FINANCE LEASE PAYABLES

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

	Group	
	2001 HK\$'000	2000 HK\$'000
Amounts payable:		
Within one year	186	616
In the second to fifth years, inclusive	—	186
Total minimum lease payments	186	802
Future finance charges	(3)	(46)
Total net finance lease payables	183	756
Portion classified as current liabilities (note 22)	(183)	(573)
Long-term portion of finance lease payables	—	183

Notes to the Accounts

24 AMOUNT DUE TO A FELLOW SUBSIDIARY

The balance due to a fellow subsidiary is unsecured, interest-free and is repayable beyond one year.

25 SHARE CAPITAL

	Preference shares of HK\$0.18 each		Authorised Ordinary shares of HK\$0.18 each		Total HK\$'000
	No. of shares		No. of shares		
	'000	HK\$'000	'000	HK\$'000	
At 31st December 2001 and 31st December 2000	240,760	43,337	3,409,240	613,663	657,000
	Preference shares of HK\$0.18 each		Issued and fully paid Ordinary shares of HK\$0.18 each		Total HK\$'000
	No. of shares		No. of shares		
	'000	HK\$'000	'000	HK\$'000	
At 1st January 2000	240,760	43,337	2,378,843	428,192	471,529
Issue of shares	—	—	390,000	70,200	70,200
Exercise of share options	—	—	5,450	981	981
At 31st December 2000	240,760	43,337	2,774,293	499,373	542,710
At 1st January 2001 and 31st December 2001	240,760	43,337	2,774,293	499,373	542,710

Preference shares

The preference shares were issued on 4th August 1999. Preference shareholders are entitled to convert a specific number of their preference shares into ordinary shares of the Company on a one-for-one basis (subject to adjustments) during the specified periods. The preference shareholders are also entitled to receive a non-cumulative cash dividend which will be paid at the same rate and at the same time as any dividend declared by the Company in respect of the ordinary shares. Detailed terms are set out in the circular dated 12th July 1999 issued by the Company to its shareholders.

Notes to the Accounts

25 SHARE CAPITAL *(Continued)*

Share options

Pursuant to a share option scheme adopted on 4th August 1999, the board of directors of the Company may grant options to eligible employees of the Group, including executive directors, to subscribe for shares in the Company.

The exercise in full of the share options pursuant to the share option scheme of the Company would result in issue of an additional 96,200,000 (2000:145,500,000) ordinary shares in the Company under its capital structure.

Date of share options granted	Number of shares outstanding as at 1st January 2001	Number of share options exercised during the year	Number of share options lapsed during the year	Number of share options outstanding as at 31st December 2001	Exercise period	Exercise price per share HK\$
2nd October 1999	120,500,000	—	(49,300,000)	71,200,000	1/1/2000 to 31/12/2002	0.26
6th March 2000	25,000,000	—	—	25,000,000	7/3/2000 to 6/3/2003	0.31

Notes to the Accounts

26 RESERVES

Group

	Share premium HK\$'000	Revaluation reserve HK\$'000	Currency translation reserve HK\$'000	Accumulated losses HK\$'000 (Restated)	Total HK\$'000
Cost					
At 1st January 2000					
As previously reported	352,626	426	188	(205,868)	147,372
Prior year adjustments (note 1(e)(ii))	—	—	—	(982)	(982)
As restated	352,626	426	188	(206,850)	146,390
Issue of shares	163,800	—	—	—	163,800
Issue of share expenses	(5,992)	—	—	—	(5,992)
Release upon disposal of property	—	(426)	—	—	(426)
Arising on exercise of options	436	—	—	—	436
Exchange difference	—	—	(86)	—	(86)
Loss for the year	—	—	—	(493,730)	(493,730)
At 31st December 2000	510,870	—	102	(700,580)	(189,608)
At 1st January 2001					
As previously reported	510,870	—	102	(698,737)	(187,765)
Prior year adjustments (note 1(e)(ii))	—	—	—	(1,843)	(1,843)
As restated	510,870	—	102	(700,580)	(189,608)
Release of exchange reserve on disposal of a subsidiary	—	—	210	—	210
Acquisition of additional interest in a subsidiary	—	—	(56)	—	(56)
Exchange difference	—	—	899	—	899
Net loss for the year	—	—	—	(138,404)	(138,404)
At 31st December 2001	510,870	—	1,155	(838,984)	(326,959)
Reserves retained by:					
Company and subsidiaries	510,870	—	1,155	(830,467)	(318,442)
Jointly controlled entity	—	—	—	(8,517)	(8,517)
At 31st December 2001	510,870	—	1,155	(838,984)	(326,959)
Company and subsidiaries	510,870	—	102	(698,993)	(188,021)
Jointly controlled entity	—	—	—	(1,587)	(1,587)
At 31st December 2000	510,870	—	102	(700,580)	(189,608)

Notes to the Accounts

26 RESERVES (Continued)

Company	Share premium HK\$'000	Revaluation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1st January 2000	352,626	426	(425,974)	(72,922)
Issue of shares	163,800	—	—	163,800
Issue of shares expenses	(5,992)	—	—	(5,992)
Arising on exercise of options	436	—	—	436
Release on sale of property	—	(426)	—	(426)
Loss for the year	—	—	(273,305)	(273,305)
At 31st December 2000 and 1st January 2001	510,870	—	(699,279)	(188,409)
Loss for the year	—	—	(13,949)	(13,949)
At 31st December 2001	510,870	—	(713,228)	(202,358)

Notes to the Accounts

27 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i> (Restated)
Operating loss	(155,337)	(561,719)
Interest income	(2,951)	(7,213)
Depreciation	15,670	15,261
Amortisation of intangible assets	11,550	13,907
Write-off of deferred development costs	184	1,582
Provisions for impairment of goodwill	—	94,862
Gain on disposal of an associated company	—	(7,679)
Write-off of fixed assets	5,663	3,950
Net loss/(gain) on disposal of fixed assets	112	(496)
Net loss on disposal of subsidiaries	1,171	1,591
Net (gain)/loss on dilution of interest in subsidiaries	(6,338)	3,922
Decrease in short-term investments	8,134	504,804
Reimbursement of costs of construction work	—	2,648
Decrease/(increase) in an amount due to a jointly-controlled entity	8,324	(13,533)
Increase in inventories and work in progress	(39,331)	(21,225)
Decrease in trade receivables, prepayments deposits and other receivables	24,915	37,263
Increase in trade and bills payables, accrued liabilities and other payables	43,268	31,027
(Increase)/decrease in trust receipt loans	(3,418)	445
Gain on disposal of investment in preference shares	—	(40,745)
Gain on conversion of preference shares	—	(27,200)
Provision for investment securities	23,032	—
Exchange difference	507	—
	(64,845)	31,452

Notes to the Accounts

27 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(b) Analysis of changes in financing during the year

	Share capital and share premium HK\$'000	Finance lease obligations HK\$'000	Bank loans HK\$'000	Loan from a shareholder of a subsidiary HK\$'000	Advance from fellow subsidiaries HK\$'000	Minority interests HK\$'000 (Restated)	Pledged bank deposits HK\$'000	Loan from a shareholder HK\$'000	Loan from a minority shareholder of a subsidiary HK\$'000
At 1st January 2000	824,155	1,361	12,430	–	20,961	206,679	(12,186)	11,833	12,776
Net cash inflow/(outflow)									
from financing	229,425	(605)	(6,355)	3,989	8,325	108,111	1,849	(11,833)	–
Share of net loss for the year	–	–	–	–	–	(93,081)	–	–	–
Issue of preference shares of a subsidiary	–	–	–	–	–	(116,250)	–	–	–
Capital contribution on exercise of share options	–	–	–	–	–	5,241	–	–	–
Arising on dilution of interests in subsidiaries	–	–	–	–	–	(2,751)	–	–	–
Arising on disposals of subsidiaries	–	–	–	–	–	(128)	–	–	–
Transfer to advance from fellow subsidiaries	–	–	–	–	12,776	–	–	–	(12,776)
At 31st December 2000	1,053,580	756	6,075	3,989	42,062	107,821	(10,337)	–	–

Notes to the Accounts

27 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(b) Analysis of changes in financing during the year *(Continued)*

	Share capital and share premium <i>HK\$'000</i>	Finance lease obligations <i>HK\$'000</i>	Bank loans <i>HK\$'000</i>	Loan from a shareholder of a subsidiary <i>HK\$'000</i>	Advance from fellow subsidiaries <i>HK\$'000</i>	Minority interests <i>HK\$'000</i>	Pledged bank deposits <i>HK\$'000</i>
At 1st January 2001	1,053,580	756	6,075	3,989	42,062	107,821	(10,337)
Net cash inflow/(outflow)	–	(573)	44,522	(3,989)	50,832	48,650	(40,984)
Share of net loss for the year	–	–	–	–	–	(27,306)	–
Arising on dilution of interest in a subsidiary	–	–	–	–	–	(7,296)	–
Arising on addition of interest in a subsidiary	–	–	–	–	–	(1,117)	–
At 31st December 2001	1,053,580	183	50,597	–	92,894	120,752	(51,321)

Notes to the Accounts

27 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(c) Sale of subsidiaries

Details of disposal of subsidiaries:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Net assets disposal of:		
Fixed assets	1,674	29,479
Inventories	14,503	2,021
Trade and bills receivable	1,311	738
Deposits, prepayments and other receivables	8,945	4,242
Cash and bank balances	213	159
Trade and bills payable	(13,170)	(5,611)
Accrued liabilities and other payables	(18,814)	(24,601)
Minority interests	—	(128)
	(5,338)	6,299
Goodwill	6,299	—
Currency translation reserve released on disposal	210	—
Loss on disposal	(1,171)	(1,591)
	—	4,708
Represented by:		
Cash consideration	—	655
Other receivable	—	4,053
	—	4,708

Analysis of net cash (outflow)/inflow of cash and cash equivalents in respect of the disposal of subsidiaries:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Cash consideration received	—	655
Cash and cash equivalents of disposed subsidiaries	(213)	(159)
Net (outflow)/inflow of cash and cash equivalents	(213)	496

Loss on subsidiaries disposed of during the year and attributable to the Group amounted to HK\$4,372,000 (2000: HK\$46,511,000).

Notes to the Accounts

27 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(d) Major non-cash transactions

During the year, an amount due from an investee company of HK\$20,280,000 has been converted to 2,600,000 convertible non-voting preference shares of US\$1 each in that investee company (*note 15(c)*).

28 COMMITMENTS

(a) Commitments under operating leases

At 31st December 2001, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2001 HK\$'000	2000 HK\$'000 (Restated)
Land and buildings:		
Not later than one year	6,437	11,842
Later than one year and not later than five years	2,141	9,111
	8,578	20,953
Equipment:		
Not later than one year	416	387
Later than one year and not later than five years	1,175	1,328
	1,591	1,715
(b) Capital commitment for property, plant and equipment:		
Contracted for	1,306	4,188
Authorised, but not contracted for	—	6,820
	1,306	11,008

(c) At 31st December 2001, the Group had outstanding financial commitments of RMB3,426,000 (approximately HK\$3,209,000) (2000: RMB3,338,000 (approximately HK\$3,119,000)) in respect of capital contributions to be made to two PRC subsidiaries. Included in the related capital contributions to the subsidiaries, RMB4,000,000 (approximately HK\$3,791,000) (2000: RMB13,905,000 (approximately HK\$12,996,000)) was paid before the balance sheet date but the related capital verification process has not been completed as of that date.

(d) The Company had no significant capital commitments at 31st December 2001 (2000: Nil).

Notes to the Accounts

29 RELATED PARTY TRANSACTIONS

- (a) During the year, a wholly-owned subsidiary of Kwan Wing made advances to the maximum amount of approximately HK\$42 million (2000: HK\$28 million) to the Group (note 21).

The balance due to the above-mentioned fellow subsidiary is unsecured, bears interest at Hong Kong dollar prime lending rate plus 2.5% per annum and has no fixed terms of repayment. The total interest paid on the advances during the year amounted to HK\$1,383,000 (2000: HK\$1,379,000).

- (b) During the year, the Group received advances amounting to HK\$10 million (2000: HK\$28 million) in aggregate from a fellow subsidiary. The balance is unsecured, interest-free and repayable beyond one year (note 24).
- (c) During the year, a compensation fee of HK\$11,912,000 (2000: Nil) was paid to DVN in relation to the sale of a former subsidiary to DVN. Details of the transaction have been set out in the Company's Circular of "Discloseable and Connected Transactions" dated 12th July 1999.
- (d) During the year, the Group entered into the following material transactions with an investee company:

	Note	2001 HK\$'000	2000 HK\$'000
Loan to an investee company	(i)	—	23,000
Interest income from loan to an investee company	(i)	937	1,718
Sales of digital broadcasting equipment and related products to an investee company	(ii)	39,465	8,233

- (i) During the year ended 31st December 2000, the Group advanced HK\$23,000,000 to an investee company. Out of the total loan advance of HK\$23,000,000, HK\$3,000,000 was unsecured, bearing interest at 9.5% per annum and was repaid by the investee during the year. The remaining balance of HK\$20,000,000 was secured, bearing interest at 1.5% above Hong Kong dollar prime lending rate per annum. On 15th June, 2001, the Group converted HK\$20,280,000 advances to 2,600,000 redeemable convertible preference shares at US\$ 1.00 each in that investee company. Interest income of HK\$937,000 (2000:HK\$1,718,000) was earned by the Group during the year.
- (ii) During the year ended 31st December 2001, the Group sold digital broadcasting systems and related products to the investee company amounting to HK\$39,465,000. The price and conditions in relation to the sales were made under the same terms as it trades with other non-related customers.

Notes to the Accounts

29 RELATED PARTY TRANSACTIONS *(Continued)*

- (iii) At 31st December 2001, the Group had trade receivables due from the investee company amounted to HK\$48,111,000. Subsequent to the balance sheet date, a repayment schedule was agreed whereby the investee company will repay not less than HK\$ 8,500,000 by 31st December 2002 and to repay the balance of the amount on or before 31st March 2004. Notwithstanding the above, the repayment policy does not preclude the total amount to be repaid on demand by the Group.

30 CONTINGENT LIABILITIES

	Company	
	2001 HK\$'000	2000 HK\$'000
Guarantees for banking facilities utilised by a subsidiary	4,014	5,512

31 PENDING LITIGATION

- (a) On 24th August 1997, Smoothline Limited ("Smoothline"), a wholly-owned subsidiary of the Company, received a Demand for Arbitration from a customer (the "Customer") for resolution of dispute which relates to the sale of certain cordless telephones by certain suppliers (collectively referred to as the "Suppliers") to the Customer under an agreement dated 31st March 1993 in which Smoothline had certain secondary obligations as one of the guarantors for the Suppliers' performance.

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

Counsel for both parties have agreed to wait for the outcome of other issues mentioned in paragraph (c) below before proceeding to arbitration. The directors believe that the Group has substantial legal and factual defences against the claim and hence consider that provision for the claim is not necessary.

Notes to the Accounts

31 PENDING LITIGATION *(Continued)*

- (b) On 9th September 1998, Smoothline was notified that the Customer and a party holding certain patents had agreed to settle a patent infringement dispute relating to the distribution to the distribution of certain products, including certain cordless telephones manufactured by Smoothline, by payment by the Customer of US\$1.25 million (equivalent to approximately HK\$9.7 million) and the granting by such party to the Customer and its suppliers (including Smoothline) of a licence for such products. Smoothline has been requested by the Customer to contribute a portion of the above costs of approximately US\$800,000 (equivalent to approximately HK\$6.2 million). The directors believe that the Group has valid defences against the claim and consider that a provision for the claim is not necessary as this matter has been dormant for over three years.
- (c) On 21st December 1999, in relation to the Customer referred to in note 31 (a) above, two subsidiaries of the Group sought to clarify their obligations relating to the Customer through proceedings in The Princely District Court of Liechtenstein against both the Customer and FHA Handelsanstalt ("FHA"). On 14th March 2000, in connection with Liechtenstein proceedings the two subsidiaries petitioned The District Court of The Southern District of New York for a discovery order pursuant to 28 U.S. C. 1782 against the Customer. The petition has been opposed by the Customer who also seeks to refer some of the matters raised in the Liechtenstein action to arbitration under AAA in New York.

On 7th May 2001, the United States Court of Appeals for the second Circuit reversed a 21st July 2000, District Court decision denying the Customer's arbitration demand. Pursuant to this, Smoothline must arbitrate its disputes with the Customer. A decision regarding the obligation of another subsidiary of the Group in this respect is pending. In the Liechtenstein proceedings the two subsidiaries claimed damages of US\$14.78 million and the directors believe that there exist valid and substantial defences against any potential counter claims. Accordingly, the directors do not consider any provisions necessary.

- (d) On 12th October 1999, Cybionics Limited ("Cybionics"), a Hong Kong company commenced litigation in the United States District Court, Central District of California, claiming that, inter alia, Smoothline had infringed certain patents relating to telephones and consequential damages, and injunctive relief. On 12th February 2001, Smoothline obtained a summary judgement against Cybionics on the claim for patent infringement. On 30th January 2002, The Federal Circuit dismissed a Cybionics appeal, closing the case.

Notes to the Accounts

32 BANKING FACILITIES

As at 31st December 2001, the Group's banking facilities were secured by the following:

- (a) corporate guarantees to the extent of HK\$10,000,000 (2000: HK\$178,000,000) executed by the Company in respect of banking facilities utilised by a subsidiary amounting to HK\$4,014,000 (2000: HK\$5,512,000); and
- (b) pledges of Group's bank deposits aggregating US\$6,490,000 (equivalent to HK\$51,321,000) (2000: HK\$10,337,000).

33 SUBSEQUENT EVENTS

- (i) On 18th March 2002, DVN and Zoran Corporation ("Zoran"), an independent third party which is not connected to the Company, entered into the subscription agreement in which Zoran agreed to subscribe for 18,571,429 new ordinary shares of HK\$0.10 each in DVN at HK\$2.10 per share. The net proceeds of approximately HK\$39 million received from the subscription are intended to be used for DVN's general working capital purposes.
- (ii) On 18th April 2002, DVN and Jiangsu Hongtu High Technology Co., Limited ("Hongtu"), an independent third party company incorporated in the PRC and listed on the Shanghai Stock Exchange, entered into a joint venture agreement ("JV Agreement") to establish a joint venture ("JV") in the PRC. Pursuant to the JV Agreement, the total registered capital of the JV will be RMB90 million (approximately HK\$85.3 million) and each party holds a 50% interest and profit sharing. Each of the Group and Hongtu will contribute RMB45 million (approximately HK\$42.7 million) into the JV. The JV has a 15-year term and will focus on developing the digital broadcasting and related businesses in the PRC.

34 ULTIMATE HOLDING COMPANY

The directors regard Kwan Wing Holdings Limited, a company incorporated in the British Virgin Islands, as the ultimate holding company.

35 APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 26th April, 2002.

Notes to the Accounts

36 PARTICULARS OF PRINCIPAL SUBSIDIARIES

The table below lists out the subsidiaries of the Company which, in the opinion of the directors, principally affected the results of the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Name	Place of incorporation and legal entity	Nominal value of issued ordinary share/ registered capital	Interest held	Principal activities and place of operation
Beijing E-Pay Net Technology Co. Ltd.	PRC	US\$2,680,000	70%	Provision of communication services
Campus.Net Technology Company Limited	Hong Kong	HK\$2	36.5%	Investment holding
Cyber Cinema Technology Company Limited	Hong Kong	HK\$2	36.5%	Investment holding
DVB Technology (Suzhou) Company Ltd	PRC	RMB100,000,000	25.6%	Trading of digital and broadcasting equipment and related products in PRC
Digital Video Networks Company Limited	PRC	US\$7,000,000	36.5%	Design, integration and installation of digital broadcasting equipment and sales of related software and products in PRC
DVN (Group) Limited	BVI	US\$10 ordinary US\$15,000,000 preference	36.5% 100%	Investment holding
DVN (Holdings) Limited	Bermuda	HK\$31,051,051 Ordinary HK\$70,674,137 Preference	* 9.9% & 26.6%	Investment holding
DVN (Management) Limited	Hong Kong	HK\$2	36.5%	Provision of administrative services in Hong Kong

Notes to the Accounts

36 PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name	Place of incorporation and kind of legal entity	Nominal value of issued ordinary share/ registered capital	Interest held	Principal activities and place of operation
DVN Technology Limited	Hong Kong	HK\$2	36.5%	Design, integration and installation of digital broadcasting equipment and sales of related software and products in Hong Kong
Dynamic Network Limited	BVI	US\$1	36.5%	Investment holding
Entertainment Soundview Limited	Hong Kong	HK\$10,000	100%	Marketing and sales of home audio/video products
Greatsino Electronic Limited	BVI	US\$1	100%	Design, manufacturing and marketing of consumer electronics products – inactive
Million Way Enterprises Limited	BVI	US\$1	100%	Investment holding
Prime Pacific International Limited	BVI	US\$50,000	67%	Investment holding
Show Case International Limited	BVI	US\$1	36.5%	Holding of film rights in PRC
Smart Asia Limited	Hong Kong	HK\$10,000	*100%	Investment holding
Smoothline Limited	Hong Kong	HK\$7,500,000	100%	Design, manufacturing and marketing of telecommunication products – inactive
Super China Development Limited	BVI	US\$1	*100%	Investment holding
Systems Asia Limited	Hong Kong	HK\$10,000	*100%	Investment holding

Notes to the Accounts

36 PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name	Place of incorporation and kind of legal entity	Nominal value of issued ordinary share/ registered capital	Interest held	Principal activities and place of operation
Systems Asia Technology Limited	BVI	US\$100	*100%	Investment holding
Telequote Data International Limited	Hong Kong	HK\$10,000	36.5%	Provision of international financial market information and selective consumer data services
Telequote Network (Singapore) Pte. Limited	Singapore	SGD2	36.5%	Provision of international financial market information and selective consumer data in Singapore
Victory Beat Limited	BVI	US\$1	36.5%	Investment holding
Webway Communications (ETS) Limited	Hong Kong	HK\$2,000,000	78%	Provision of integrated communication services
Webway Communications (HK) Limited	Hong Kong	HK\$6,000,000	78%	Provision of marketing services
Webway Communication Holding Inc.	BVI	HK\$15,340,000	78%	Investment holding
Webway Communications LLC	USA	US\$300,000	78%	Provision of communication services
Whizz Kid Limited	BVI	US\$1	36.5%	Investment holding

* Shares held directly by the Company.