

Notes to the Financial Statements

For the year ended 31 December 2001

1. ORGANISATION AND OPERATION

The Company was incorporated in Bermuda on 24 March 1997 under the Companies Act 1981 of Bermuda (as amended) as an exempted company limited by shares. Its shares have been listed on The Stock Exchange of Hong Kong Limited on 26 June 1997.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in Note 13(b) to the financial statements.

2. PRINCIPAL ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants (“HKSA”).

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

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

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

(b) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are those entities in which the Group controls the composition of the board of directors, controls more than half the voting power or holds more than half of the issued share capital.

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.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(b) Basis of consolidation (Cont'd)

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 taken to reserves and which was not previously charged or recognised in the consolidated income statement.

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 impairment losses, if any. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(c) Associated companies

An associated company is a company, not being a subsidiary, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated income statement includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies and also goodwill/negative goodwill (net of accumulated amortisation) on acquisition.

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

(d) Joint ventures

A joint venture 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 income statement includes the Group's share of the results of jointly controlled entities for the year, and the consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entities and goodwill/negative goodwill (net of accumulated amortisation) on acquisition.

Notes to the Financial Statements

For the year ended 31 December 2001

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(d) Joint ventures (Cont'd)

In the Company's balance sheet, the investments in jointly controlled entities are stated at cost less impairment losses, if any. The results of jointly controlled entities are accounted for by the Company on the basis of dividends received and receivable.

(e) 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 income statement.

The balance sheet of subsidiaries and associated companies expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the income statement is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

(f) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses and are depreciated at rates sufficient to write off their cost over their estimated useful lives on a straight line basis. The principal annual rates are as follows:-

| | |
|-----------------------------------|--|
| Leasehold land and buildings | over unexpired lease term |
| Leasehold improvements | over unexpired lease term or 5 years, whichever is shorter |
| Machinery and equipment | 10% |
| Furniture, fixtures and equipment | 20% to 30% |
| Motor vehicles | 20% |

Major costs incurred in restoring property, plant and equipment to their normal working condition are charged to the income statement. Improvements are capitalised and depreciated over their expected useful lives to the Group.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that 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 income statement.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(f) Property, plant and equipment (Cont'd)

The gain or loss on disposal of an asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

(g) 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. The finance charges are charged to the income statement 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. Rentals applicable to such operating leases are charged to the income statement on a straight line basis over the lease term.

(h) 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 subsidiaries at the date of acquisition.

In accordance with SSAP 30, goodwill on acquisitions occurring on or after 1 January 2001 is included in intangible assets and is amortised using the straight line method over its estimated useful life, but not exceeding 20 years.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(h) Intangibles (Cont'd)

(ii) Patents and trademarks

Patents and trademarks are stated at purchased cost less accumulated amortisation and impairment losses.

On the adoption of SSAP 29, expenditure on acquired patents, trademarks and licenses is capitalised and amortised using the straight line method over their estimated useful lives, but not exceeding 20 years. Patents, trademarks and licenses are not revalued as there is no active market for these assets.

(iii) Film copyright and licences

Film copyright and licences are stated at purchased cost less accumulated amortisation and impairment losses. In previous years, amortisation is recognised as an expense based on the proportion that actual income earned during the period bear to the total estimated income from the usage of the copyright and licences.

The adoption of SSAP 29 has led to the change in the Group's amortisation policy. In accordance with SSAP 29, the amortisation commences when the copyright and licences are available for use and are amortised using the sum of years digit method over the estimated useful lives. The change in accounting policy has been applied retrospectively so that the 2000 comparatives presented have been restated to conform to the changed policy.

As detailed in Note 22(a), the opening retained earnings for 2001 has been reduced by HK\$40,000,000 which represents amortisation for 2000.

This change has resulted in an increase in loss for the year by HK\$30,000,000 for current year amortisation.

(iv) Impairment of intangible assets

Where an indication of impairment exists, the carrying amount of any intangible asset is assessed and written down immediately to its recoverable amount.

(i) Construction contracts in progress

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(i) Construction contracts in progress (Cont'd)

When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs are recognised over the period of the contract, respectively, as revenues and expenses. The Group uses the percentage of completion method to determine the appropriate amount of revenue and costs to be recognised in a given period. The state of completion is measured by reference to the proportion that contract costs incurred for work performed to date bear to the estimated total costs for the contract. When it is probable total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

In determining costs incurred up to the year-end, any costs relating to future activity on a contract are excluded and shown as contract work-in-progress. The aggregate of the costs incurred and the profit/loss recognised on each contract is compared against the progress billings up to the year-end. Where costs incurred and recognised profits (less recognised losses) exceed progress billings, the balance is shown as due from customers on construction contracts. Where progress billings exceed costs incurred plus recognised profits (less recognised losses), the balance is shown as due to customers on construction contracts.

(j) 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.

(k) Related parties

Related parties are individuals and companies, including subsidiary, jointly controlled and associated companies, where the individual, Company or Group has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions.

(l) Club membership

Club membership held for the long term are stated at cost less any impairment in value. An assessment of the membership is performed when there is an indication that the asset has been impaired or the impairment losses recognised in prior years no longer exist.

Upon disposals of the membership, the difference between net disposal proceeds and the carrying amount is charged or credited to the income statement.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(m) Provisions

In accordance with SSAP 28, provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(n) 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 financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

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 financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(o) Deferred taxation

Deferred taxation is provided using the liability method on all material timing differences, other than those which are not expected to crystallise in the foreseeable future.

A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(p) Revenue recognition

i. Contract revenue

Revenue for construction contracts is recognised as set out in note 2(i).

ii. Sale of television programs

Revenue from sale of television programs is recognised when the television programs are delivered to the customers. Revenue is arrived at after deduction of any discounts and sales tax.

iii. Provision of system services

Revenue from provision of system services is recognised when services are rendered.

iv. Interest income

Interest income is recognised to the extent when the revenue can be measured reliably.

(q) Retirement benefit costs

The Group's contribution to the Mandatory Provident Fund Scheme are expensed as incurred.

(r) Borrowing costs

All borrowing costs are charged to the income statement in the year in which they are incurred.

(s) 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.

Notes to the Financial Statements

For the year ended 31 December 2001

3. TURNOVER AND REVENUE

| | Group | |
|---|-----------------|----------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| Construction contracts revenue in Hong Kong | 29,441 | 51,443 |
| Construction contracts revenue in the People's Republic of China ("PRC") | 5,589 | 6,973 |
| Sale of television programs | 11,801 | 25,510 |
| Provision of network security services | 39 | – |
| | <hr/> | <hr/> |
| Turnover | 46,870 | 83,926 |
| Interest income | | |
| – bank deposits | 420 | 661 |
| – loans receivable | 1,980 | 14,441 |
| – advances to related parties | – | 2,950 |
| Bad debts recovery | – | 4,500 |
| Write back of over provided job costs | 6,964 | – |
| Others | 3,277 | 1,810 |
| | <hr/> | <hr/> |
| Other revenue | 12,641 | 24,362 |
| | <hr/> | <hr/> |
| | 59,511 | 108,288 |
| | <hr/> | <hr/> |

Notes to the Financial Statements

For the year ended 31 December 2001

3. TURNOVER AND REVENUE (Cont'd)

Primary reporting format – business segments

| | Turnover | | Operating profit/(loss) | |
|---|------------------|------------------|-------------------------|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 | 2001 HK\$'000 | 2000 HK\$'000 |
| Construction contracts in Hong Kong | 29,441 | 51,443 | (24,192) | (54,564) |
| Construction contracts in the PRC | 5,589 | 6,973 | (2,773) | 6,414 |
| Sale of television programs and film rights | 11,801 | 25,510 | (27,313) | (41,464) |
| Provision of network security services | 39 | – | 2 | – |
| Money lending | – | – | (48,091) | (11,086) |
| | <u>46,870</u> | <u>83,926</u> | <u>(102,367)</u> | <u>(100,700)</u> |
| (Loss)/gain on disposal of subsidiaries | | | (84,147) | 26,954 |
| Share of results of associated companies | | | (11,685) | (6,950) |
| Share of results of a joint venture | | | (310) | (59) |
| Finance costs | | | (996) | (1,280) |
| Loss from operating activities before taxation | | | (199,505) | (82,035) |
| Taxation | | | (82) | (225) |
| Operating loss | | | (199,587) | (82,260) |
| Minority interests | | | (1) | – |
| Loss attributable to shareholders | | | <u>(199,588)</u> | <u>(82,260)</u> |

Notes to the Financial Statements

For the year ended 31 December 2001

3. TURNOVER AND REVENUE (Cont'd)

Primary reporting format – business segments (Cont'd)

| | Construction contracts | | Sale of television programs and film rights | | Provision of network security services | | Money lending | | Total | |
|-------------------------------|------------------------|---------------|---|----------------|--|----------|---------------|----------------|----------------|----------------|
| | 2001 | 2000 | 2001 | 2000 | 2001 | 2000 | 2001 | 2000 | 2001 | 2000 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Segment assets | 8,738 | 22,865 | 30,000 | 206,624 | 358,176 | – | 67,940 | 158,966 | 464,854 | 388,455 |
| Investments | 1,763 | 1,763 | – | – | – | – | – | – | 1,763 | 1,763 |
| Unallocated assets | – | – | – | – | – | – | – | – | 84,150 | 45,490 |
| Total assets | 10,501 | 24,628 | 30,000 | 206,624 | 358,176 | – | 67,940 | 158,966 | 550,767 | 435,708 |
| Segment liabilities | 27,031 | 43,966 | – | 25,763 | 16,602 | – | 33 | 22 | 43,666 | 69,751 |
| Unallocated liabilities | – | – | – | – | – | – | – | – | 141,066 | 25,482 |
| Total liabilities | 27,031 | 43,966 | – | 25,763 | 16,602 | – | 33 | 22 | 184,732 | 95,233 |
| Capital expenditure | – | 965 | – | 5,715 | – | – | – | – | – | 6,680 |
| Depreciation and amortisation | 247 | 584 | – | 50,798 | – | – | – | – | 247 | 51,382 |

Secondary reporting format – geographical segments

| | Turnover | | Operating gain/(loss) | | Total assets | | Capital expenditure | |
|--------------|---------------|---------------|-----------------------|-----------------|----------------|----------------|---------------------|--------------|
| | 2001 | 2000 | 2001 | 2000 | 2001 | 2000 | 2001 | 2000 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Hong Kong | 29,441 | 51,443 | (199,193) | (86,369) | 192,591 | 343,788 | – | 958 |
| PRC | 5,628 | 6,973 | (2,771) | 6,414 | 358,176 | 8,220 | – | 7 |
| Taiwan | 11,801 | 25,510 | 2,459 | (2,080) | – | 83,700 | – | 5,715 |
| Total | 46,870 | 83,926 | (199,505) | (82,035) | 550,767 | 435,708 | – | 6,680 |

Notes to the Financial Statements

For the year ended 31 December 2001

4. OPERATING LOSS

Operating loss is stated after charging and crediting the following:–

| | 2001 | Group |
|---|-----------------|-----------------|
| | HK\$'000 | 2000 |
| | | HK\$'000 |
| Charging: | | |
| Staff costs (<i>including directors' emoluments, see note 10</i>) | 15,907 | 21,570 |
| Auditors' remuneration | 450 | 1,500 |
| Depreciation: | | |
| – owned | 5,617 | 12,277 |
| – leased | 30 | 928 |
| Operating lease rentals in respect of land and buildings | 3,200 | 2,520 |
| Loss on disposal of property, plant and equipment | – | 1,179 |
| Retirement benefit costs (<i>note 9</i>) | 332 | 37 |
| Amortisation of intangible assets (<i>note 11</i>) | | |
| – Film copyright and licences | 30,000 | 40,000 |
| Loss on disposal of subsidiaries | 84,147 | – |
| | ————— | ————— |
| Crediting: | | |
| Profit on disposal of property, plant and equipment | 148 | – |
| Gain on disposal of a subsidiary | – | 26,954 |
| Recovery of bad debts previously written off | – | 4,500 |
| Write back of over provided job costs | 6,964 | – |
| | ————— | ————— |

5. FINANCE COSTS

| | 2001 | Group |
|--|-----------------|-----------------|
| | HK\$'000 | 2000 |
| | | HK\$'000 |
| Interest on bank loans and overdraft | 232 | 242 |
| Interest on convertible loan notes repayable within five years | 505 | 162 |
| Interest element of finance leases | 235 | 876 |
| Others | 24 | – |
| | ————— | ————— |
| | 996 | 1,280 |
| | ————— | ————— |

Notes to the Financial Statements

For the year ended 31 December 2001

6. TAXATION

| | Group | |
|---|-----------------|----------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| Company and subsidiaries | | |
| – Hong Kong profits tax | – | 172 |
| – People's Republic of China income taxes | 2 | – |
| – Taiwan income tax | 80 | 53 |
| | <hr/> | <hr/> |
| | 82 | 225 |
| | <hr/> | <hr/> |

No provision for Hong Kong profits tax is required since the Group has no assessable profit in Hong Kong for the year. The amount provided for the year ended 31 December 2000 was calculated at 16% based on the estimated assessable profit in Hong Kong for the year. Overseas tax is calculated at tax rates applicable in countries in which the group is assessable for tax.

7. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders is dealt with in the income statement of the Company to the extent of HK\$292,963,000 (2000: HK\$7,745,000).

8. LOSS PER SHARE

The calculation of basic loss per share is based on the Group's loss attributable to shareholders of HK\$199,588,000 (2000: HK\$82,260,000) and on the weighted average number of 894,910,855 (2000: 565,899,940) ordinary shares in issue during the year.

The diluted loss per share for both years ended 31 December 2000 and 2001 are not shown as the ordinary shares issuable under outstanding share options and convertible loan notes were anti-dilutive.

9. RETIREMENT BENEFIT COSTS

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

Notes to the Financial Statements

For the year ended 31 December 2001

9. RETIREMENT BENEFIT COSTS (Cont'd)

The total cost charged to the income statement of approximately HK\$332,000 (2000: HK\$37,000) represents contributions payable to the MPF Scheme by the Group at rates specified in the rules of the MPF Scheme. As at 31 December 2001, contributions of approximately HK\$21,000 (2000: HK\$37,000) due in respect of the current reporting period had not been paid over the MPF Scheme.

10. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

Directors' remuneration, disclosed pursuant to Section 161(1) of the Companies Ordinance and the Listing Rules of The Stock Exchange of Hong Kong Limited, was as follows:-

| | Group | | | |
|-------------------|----------------------------|----------|--------------------------------|----------|
| | Executive directors | | Non-executive directors | |
| | 2001 | 2000 | 2001 | 2000 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Fees | – | 360 | 316 | 362 |
| Other emoluments: | | | | |
| Basic salaries | 5,551 | 2,971 | – | – |
| Bonuses | – | 153 | – | – |
| Other allowances | 346 | 488 | – | – |
| | 5,897 | 3,972 | 316 | 362 |

During the year, no emoluments were paid to independent non-executive directors of the Company.

The number of directors whose emoluments fell within the following bands are as follows:-

| | Group | |
|-------------------------------|-----------------|----------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| HK\$Nil – HK\$1,000,000 | 6 | 7 |
| HK\$1,000,001 – HK\$1,500,000 | – | 1 |
| HK\$1,500,001 – HK\$2,000,000 | – | 1 |
| HK\$2,000,001 – HK\$2,500,000 | – | – |
| HK\$2,500,001 – HK\$3,000,000 | 2 | – |

Notes to the Financial Statements

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10. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Cont'd)

(a) Directors' emoluments (Cont'd)

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

Options to acquire shares in the Company were granted to certain directors on 26 April 2001 as set out in Note 21(b) to the financial statements. The options were fully exercised during the year.

(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:-

| | Group | |
|------------------|-----------------|----------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| Basic salaries | 2,210 | 3,618 |
| Bonuses | – | 173 |
| Other allowances | – | 294 |
| | 2,210 | 4,085 |

The number of individuals whose emoluments fell within the following bands are as follows:-

| | Group | |
|-------------------------------|-----------------|----------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| HK\$Nil – HK\$1,000,000 | 3 | 1 |
| HK\$1,000,001 – HK\$1,500,000 | – | – |
| HK\$1,500,001 – HK\$2,000,000 | – | 2 |

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11. INTANGIBLE ASSETS

| | Film copyright and licences | Goodwill | Patents and trademarks | Total |
|---|--|-----------------|---------------------------------------|----------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At 1 January 2001, as previously reported | 100,000 | – | – | 100,000 |
| Effect of adopting SSAP 29 (<i>note 2(b)(iii)</i>) | (40,000) | – | – | (40,000) |
| At 1 January 2001, as restated | 60,000 | – | – | 60,000 |
| Acquisition of subsidiaries (<i>note 26(c)</i>) | – | 2,385 | 327,255 | 329,640 |
| Deconsolidation of subsidiaries (<i>note 26(e)</i>) | (30,000) | – | – | (30,000) |
| Amortisation charge (<i>note 4</i>) | (30,000) | – | – | (30,000) |
| At 31 December 2001 | <u>–</u> | <u>2,385</u> | <u>327,255</u> | <u>329,640</u> |
| At 31 December 2001 | | | | |
| Cost | – | 2,385 | 327,255 | 329,640 |
| Accumulated amortisation | – | – | – | – |
| Net book amount | <u>–</u> | <u>2,385</u> | <u>327,255</u> | <u>329,640</u> |
| At 31 December 2000 | | | | |
| Cost | 100,000 | – | – | 100,000 |
| Accumulated amortisation | (40,000) | – | – | (40,000) |
| Net book amount | <u>60,000</u> | <u>–</u> | <u>–</u> | <u>60,000</u> |

Notes to the Financial Statements

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12. PROPERTY, PLANT AND EQUIPMENT

Group

| | Leasehold land and buildings | Leasehold improve- ments | Machinery and equipment | Furniture, fixtures and equipment | Motor vehicles | Total |
|--|------------------------------------|--------------------------------|-------------------------------|--|-------------------|---------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Cost | | | | | | |
| At 1 January 2001 | 7,704 | 7,760 | 77,840 | 1,794 | 7,093 | 102,191 |
| Additions | - | 80 | - | 93 | - | 173 |
| Acquisition of subsidiaries | - | - | - | 336 | 185 | 521 |
| Disposal of subsidiaries | (7,704) | (914) | (77,840) | (37) | (2,229) | (88,724) |
| Disposals | - | (596) | - | (199) | (4,864) | (5,659) |
| Deconsolidation of subsidiaries | - | - | - | (1,127) | - | (1,127) |
| | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| At 31 December 2001 | <u>-</u> | <u>6,330</u> | <u>-</u> | <u>860</u> | <u>185</u> | <u>7,375</u> |
| Accumulated depreciation | | | | | | |
| At 1 January 2001 | 262 | 1,847 | 10,548 | 296 | 4,617 | 17,570 |
| Charge for the year | 141 | 1,628 | 2,128 | 1,472 | 278 | 5,647 |
| Write back on disposal of subsidiaries | (403) | (604) | (12,676) | (59) | (341) | (14,083) |
| Write back on disposals | - | (175) | - | (43) | (4,554) | (4,772) |
| Deconsolidation of subsidiaries | - | - | - | (1,122) | - | (1,122) |
| | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| At 31 December 2001 | <u>-</u> | <u>2,696</u> | <u>-</u> | <u>544</u> | <u>-</u> | <u>3,240</u> |
| Net book value | | | | | | |
| At 31 December 2001 | <u>-</u> | <u>3,634</u> | <u>-</u> | <u>316</u> | <u>185</u> | <u>4,135</u> |
| At 31 December 2000 | <u>7,442</u> | <u>5,913</u> | <u>67,292</u> | <u>1,498</u> | <u>2,476</u> | <u>84,621</u> |

The net book value of the Group's leasehold land and buildings comprised:

| | Group | |
|--|----------|--------------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| Situated in Hong Kong and held under medium term leases | - | 2,383 |
| Situated in the People's Republic of China and held under medium term leases | - | 5,059 |
| | <u>-</u> | <u>7,442</u> |

Notes to the Financial Statements

For the year ended 31 December 2001

12. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

The net book value of the Group's machinery and equipment and motor vehicles held under finance leases at year end was HK\$Nil (2000: HK\$7,867,000 and HK\$204,000).

The carrying value of leasehold land and buildings as of 31 December 2001 mortgaged as collateral for the banking facilities of the Group was HK\$Nil (2000: HK\$2,383,000).

13. INVESTMENTS

(a) Group

| | 2001 HK\$'000 | 2000 HK\$'000 |
|--|------------------|------------------|
| Unlisted shares, at cost (<i>note</i>) | <u>28,672</u> | <u>–</u> |

Note: Before the year end, the Group is negotiating to dispose the interests of PEV Entertainment (Groups) Limited ("PEV Entertainment") and its subsidiaries which owns the film copyright and licences (note 11) with an independent third party under negotiable terms. The transaction is pending the signing of the sale and purchase agreement. The results of the subsidiaries for the year were incorporated in the income statement and the net assets were deconsolidated from the Group on 31 December 2001.

(b) Company

| | 2001 HK\$'000 | 2000 HK\$'000 |
|-------------------------------|------------------|------------------|
| Unlisted shares, at cost | 155,537 | 155,540 |
| Less: Impairment loss | (50,000) | – |
| Amounts due from subsidiaries | 387,200 | 497,338 |
| Amounts due to subsidiaries | <u>(70,531)</u> | <u>(23,466)</u> |
| | <u>422,206</u> | <u>629,412</u> |

Amounts due from/(to) subsidiaries are unsecured, interest-free and have no fixed repayment terms.

Notes to the Financial Statements

For the year ended 31 December 2001

13. INVESTMENTS (Cont'd)

The following is a list of the principal subsidiaries at 31 December 2001:

| Company name | Place of incorporation and principal operation | Issued and paid up share capital | Equity interest attributable to the Group | Principal activities |
|--|--|----------------------------------|---|-------------------------------------|
| Prosperity Construction and Decoration Limited* | Hong Kong | HK\$5,000,000 | 100% | Construction contractor |
| Prosperity Construction and Decoration (HK) Limited* | Hong Kong | HK\$2 | 100% | Construction contractor |
| Prosperity Construction (Hong Kong) Limited* | Hong Kong | HK\$2 | 100% | Construction contractor |
| Prosper eVision Finance Limited* | Hong Kong | HK\$2 | 100% | Provision of money lending services |
| Prosper eVision Management Limited* | Hong Kong | HK\$2 | 100% | Provision of management services |
| 深圳安網達網絡技術有限公司 #,^ | People's Republic of China | HK\$15,000,000 | 60% | Provision of system services |

Company not audited by RSM Nelson Wheeler. The Group's result before taxation attributable to this company amounted to profit of HK\$2,000 (2000: HK\$Nil)

* *Limited liability companies*

^ *A contractual joint venture*

All of the above principal subsidiaries are indirectly held by the Company. The above table sets out the subsidiaries which, in the opinion of the directors, materially affected the amounts of the results for the year or 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.

Notes to the Financial Statements

For the year ended 31 December 2001

14. INVESTMENT IN ASSOCIATED COMPANIES

| | Group | |
|---------------------------------------|-----------------|---------------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| Share of net assets | – | 31,660 |
| Amounts due from associated companies | – | 46,834 |
| | <u>–</u> | <u>78,494</u> |

The Group has disposed of the investments together with certain subsidiaries during the year. The loss on disposal under such arrangement was charged to the income statement in current year under loss on disposal of subsidiaries.

15. INVESTMENT IN A JOINT VENTURE

| | Group | |
|---------------------|-----------------|--------------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| Share of net assets | <u>–</u> | <u>6,897</u> |

The Group has disposed of the investments together with certain subsidiaries during the year. The loss on disposal under such arrangement was charged to the income statement in current year under loss on disposal of subsidiaries.

16. CLUB MEMBERSHIP

| | Group | |
|---------|-----------------|--------------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| At cost | <u>1,763</u> | <u>1,763</u> |

Notes to the Financial Statements

For the year ended 31 December 2001

17. CONSTRUCTION CONTRACTS IN PROGRESS

| | Group | |
|---|-----------------|----------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| Costs incurred plus attributable profit less foreseeable losses | 62,609 | 52,515 |
| <i>Less: Progress billings</i> | (65,802) | (54,538) |
| | (3,193) | (2,023) |
| Amounts due from contract customers | – | 188 |
| Amounts due to contract customers | (3,193) | (2,211) |
| | (3,193) | (2,023) |

At 31 December 2001, retention held by customers for contract work included in prepayments, deposits and other receivables of the Group amounted to HK\$2,417,000 (2000: HK\$5,218,000).

At 31 December 2001, retention held by the Group for contract work included in accruals and other payables amounted to HK\$1,805,000 (2000: HK\$2,799,000).

18. ACCOUNTS RECEIVABLE

The Group has a policy of allowing its trade customers with credit period normally between 30 to 60 days or terms in accordance with construction contracts. The ageing analysis is as follows:–

| | Group | |
|--------------------------------------|-----------------|----------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| Less than 3 months | 1,332 | 14,328 |
| 3 months to 6 months | – | – |
| 6 months to 1 year | 100 | 5,951 |
| Over 1 year | 5,485 | 6,975 |
| <i>Less: Provision doubtful debt</i> | (4,641) | (9,156) |
| | 2,276 | 18,098 |

No accounts receivable were pledged as collateral for bank loans and short term loans of the Group (2000: HK\$6,740,000).

Notes to the Financial Statements

For the year ended 31 December 2001

19. LOANS RECEIVABLE

The loans receivable represents loans made to various unrelated third parties. These loans are secured by convertible loan notes of an unrelated company whose shares are listed on The Stock Exchange of Hong Kong Limited and unlisted shares of certain unrelated companies. These loans bear interest at 18% per annum and are repayable within the next twelve months.

20. ACCOUNTS PAYABLE

| | Group | |
|----------------------|-----------------|----------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| Less than 3 months | 3,998 | 13,261 |
| 3 months to 6 months | 811 | 79 |
| 6 months to 1 year | 11 | 89 |
| Over 1 year | 14,178 | 27,340 |
| | 18,998 | 40,769 |

21. SHARE CAPITAL

(a) Share capital

| | Ordinary shares of HK\$0.10 each | |
|---|---|-------------------------------|
| | Number of shares | Par value HK\$'000 |
| Authorised: | | |
| At 31 December 1999 and 31 December 2000 | 800,000,000 | 80,000 |
| Increase in authorised ordinary share capital | 1,200,000,000 | 120,000 |
| At 31 December 2001 | 2,000,000,000 | 200,000 |
| Issued and fully paid: | | |
| At 31 December 1999 | 523,000,000 | 52,300 |
| Shares issued for conversion of convertible loan notes | 193,005,000 | 19,300 |
| At 31 December 2000 | 716,005,000 | 71,600 |
| Issue of shares | 742,500,000 | 74,250 |
| Exercise of share option | 40,000,000 | 4,000 |
| At 31 December 2001 | 1,498,505,000 | 149,850 |

Notes to the Financial Statements

For the year ended 31 December 2001

21. SHARE CAPITAL (Cont'd)

(a) Share capital (Cont'd)

By an ordinary resolution passed on 6 March 2001, the authorised ordinary share capital of the Company was increased from HK\$80,000,000 to HK\$200,000,000 by the creation of 1,200,000,000 shares of HK\$0.10 each.

By an ordinary resolution passed on 30 January 2002, the authorised ordinary share capital of the Company was increased from HK\$200,000,000 to HK\$400,000,000 by the creation of 2,000,000,000 shares of HK\$0.10 each.

The following shares were issued by way of placement at the following dates. The reason for the increase in issued share capital was to raise additional general working capital for meeting general future cash outflow requirement.

| Date | Number of shares | At par value | Premium | Total |
|-------------------|---------------------|---------------|---------------|---------------|
| | | HK\$'000 | HK\$'000 | HK\$'000 |
| 7 June 2001 | 118,000,000 | 11,800 | 2,124 | 13,924 |
| 12 September 2001 | 174,800,000 | 17,480 | 2,622 | 20,102 |
| 7 November 2001 | 200,000,000 | 20,000 | – | 20,000 |
| 12 December 2001 | 249,700,000 | 24,970 | 6,992 | 31,962 |
| | <u>742,500,000</u> | <u>74,250</u> | <u>11,738</u> | <u>85,988</u> |

On 20 August 2001, 40,000,000 ordinary shares of HK\$0.10 each were issued to the directors of the Company, for cash at the price of HK\$0.10 per share pursuant to their exercise of the Company's share option granted to them on 26 April 2001.

(b) Share option scheme

On 11 June 1997, the Company in general meeting adopted a share option scheme under which the directors may, at their discretion and at any time during the ten years from the date of adoption, invite any full-time employee or executive director of the Group to take up options to subscribe for shares of the Company. The subscription price may not be less than the greater of 80% of the average closing price of the Company's shares as quoted on The Stock Exchange of Hong Kong Limited ("Stock Exchange") for the five trading days immediately preceding the date of offer of the option or the nominal value of the Company's shares. The maximum number of shares in respect of which options may be granted may not exceed 10% of the issued share capital of the Company excluding any shares issued on the exercise of option from time to time. The scheme became effective upon the listing of the Company's shares on the Stock Exchange on 26 June 1997.

Notes to the Financial Statements

For the year ended 31 December 2001

21. SHARE CAPITAL (Cont'd)

(b) Share option scheme (Cont'd)

Movements in the number of share options granted pursuant to the scheme during the year were as follows:

| Exercise price per share | Exercise period | Outstanding at 1 January 2001 | Number of options | | Exercised during the year | Outstanding at 31 December 2001 |
|--------------------------|--------------------------------|-------------------------------|-------------------------|------------------------|---------------------------|---------------------------------|
| | | | Granted during the year | Lapsed during the year | | |
| HK\$0.16 | 13 July 1999 to 12 July 2004 | 10,000,000 | - | - | - | 10,000,000* |
| HK\$0.10 | 26 April 2001 to 25 April 2006 | - | 40,000,000 | - | 40,000,000 | - |
| | | <u>10,000,000</u> | <u>40,000,000</u> | <u>-</u> | <u>40,000,000</u> | <u>10,000,000</u> |

* Lapsed on 16 May 2002 in accordance with the share option scheme

22. RESERVES

(a) Group

| | Share premium HK\$'000 | Capital reserve HK\$'000 | Contributed surplus HK\$'000 | Exchange reserve HK\$'000 | Accumulated losses HK\$'000 | Total HK\$'000 |
|--|---------------------------|-----------------------------|---------------------------------|------------------------------|--------------------------------|-------------------|
| At 1 January 2000 | 244,948 | 11,126 | 22,130 | - | (106,433) | 171,771 |
| Realisation of capital reserve on disposal of a subsidiary | - | (11,126) | - | - | - | (11,126) |
| Premium arising on conversion of convertible loan notes | 191,575 | - | - | - | - | 191,575 |
| Exchange differences arising on consolidation | - | - | - | (1,085) | - | (1,085) |
| Loss for the year | - | - | - | - | (42,260) | (42,260) |
| At 31 December 2000, as previously reported | <u>436,523</u> | <u>-</u> | <u>22,130</u> | <u>(1,085)</u> | <u>(148,693)</u> | <u>308,875</u> |
| Effect of adopting SSAP 29 (note 2(b)(iii)) | - | - | - | - | (40,000) | (40,000) |
| At 31 December 2000, as restated | <u>436,523</u> | <u>-</u> | <u>22,130</u> | <u>(1,085)</u> | <u>(188,693)</u> | <u>268,875</u> |
| Realisation of exchange reserve on disposal of subsidiaries (note 26(d)) | - | - | - | 1,085 | - | 1,085 |
| Premium arising on issue of shares, net of issuing expenses | 9,565 | - | - | - | - | 9,565 |
| Exchange differences arising on consolidation | - | - | - | 659 | - | 659 |
| Loss for the year | - | - | - | - | (199,588) | (199,588) |
| At 31 December 2001 | <u>446,088</u> | <u>-</u> | <u>22,130</u> | <u>659</u> | <u>(388,281)</u> | <u>80,596</u> |

Notes to the Financial Statements

For the year ended 31 December 2001

22. RESERVES (Cont'd)

(a) Group (Cont'd)

The contributed surplus of the Group represents the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the Group's reorganisation scheme completed on 11 June 1997 over the nominal value of the Company's shares issued in exchange.

(b) Company

| | Share premium HK\$'000 | Contributed surplus HK\$'000 | Accumulated losses HK\$'000 | Total HK\$'000 |
|--|------------------------------|------------------------------------|-----------------------------------|-------------------|
| At 1 January 2000 | 244,948 | 127,536 | (8,575) | 363,909 |
| Premium arising on conversion of convertible loan notes | 191,575 | – | – | 191,575 |
| Loss for the year | – | – | (7,745) | (7,745) |
| At 31 December 2000 | 436,523 | 127,536 | (16,320) | 547,739 |
| Premium arising on issuance of shares, net of issuing expenses | 9,565 | – | – | 9,565 |
| Impairment loss on investments (note 13(b)) | – | (50,000) | – | (50,000) |
| Loss for the year | – | – | (292,963) | (292,963) |
| At 31 December 2001 | 446,088 | 77,536 | (309,283) | 214,341 |

The contributed surplus of the Company represents the difference between the nominal value of the Company's shares issued in exchange for the issued share capital of the subsidiaries and the net asset value of the subsidiaries acquired pursuant to the Group's reorganisation scheme completed on 11 June 1997. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to shareholders under certain circumstances.

Notes to the Financial Statements

For the year ended 31 December 2001

23. BANK AND OTHER BORROWINGS

| | Group | |
|--|-----------------|----------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| Secured: | | |
| Bank overdrafts | – | 2,475 |
| Bank loans repayable (<i>Note</i>) | | |
| – within one year | 15,759 | 3,372 |
| – in the second year | – | 285 |
| – in the third to fifth years, inclusive | – | 507 |
| Short term loans | – | 2,276 |
| | 15,759 | 8,915 |
| Unsecured: | | |
| Bank overdrafts | – | 10 |
| Other loans | – | 5,142 |
| | 15,759 | 5,152 |
| | 15,759 | 14,067 |
| Amount classified as current liabilities | (15,759) | (8,133) |
| Amount classified as non-current liabilities | – | 5,934 |

Note: The bank loans are secured by fixed deposits of a subsidiary amounting to approximately HK\$15,759,000 (RMB16,500,000) and a guarantee of approximately HK\$1,433,000 (RMB1,500,000) by a shareholder of a subsidiary.

24. CONVERTIBLE LOAN NOTES

(a) Redeemable debentures

On 27 November 2001, the Company issued redeemable debentures in the aggregate amount of HK\$201,800,000 as consideration of acquisition of certain subsidiaries. These debentures bear interest at 6% per annum with maturity date three years from the date of issuance. If the debentures are redeemed in whole or in part within one year from the date of issuance, no interest will be payable on the part that are so redeemed.

Notes to the Financial Statements

For the year ended 31 December 2001

24. CONVERTIBLE LOAN NOTES (Cont'd)

(a) Redeemable debentures (Cont'd)

During the year, a total of HK\$81,000,000 debentures were redeemed. The aggregate amount of the debentures outstanding as at 31 December 2001 was HK\$120,800,000 (2000: HK\$Nil).

(b) Convertible loan notes

On 10 December 1999, the Company issued convertible loan notes in the aggregate amount of HK\$181,897,000 as consideration of acquisition of certain subsidiaries. These convertible loan notes bear interest at 5% per annum and are repayable in one lump sum after three years from the date of issuance or convertible into shares of the Company at the conversion price of HK\$1 at any time after the date of issuance. If the convertible loan notes are redeemed or converted in whole or in part within one year from the date of issuance, no interest will be payable on the part that are so redeemed or converted.

There was no conversion of convertible loan notes during the year. The aggregate amount of the convertible loan notes outstanding as at 31 December 2001 was HK\$10,000,000 (2000: HK\$10,000,000).

25. DEFERRED TAXATION

The major components of the potential deferred taxation assets unprovided are as follows:

| | Group | |
|---|-----------------|----------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| Tax effect of timing differences on: | | |
| Excess of depreciation charges over depreciation allowances | – | 99 |
| Tax losses carried forward | 30,924 | 25,141 |
| | 30,924 | 25,240 |

As at 31 December 2001, there was no significant unprovided deferred taxation.

Notes to the Financial Statements

For the year ended 31 December 2001

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

- (a) Reconciliation of loss from operating activities before taxation to net cash outflow from operating activities:

| | 2001 | As restated |
|---|-----------------|------------------|
| | HK\$'000 | HK\$'000 |
| Loss from operating activities before taxation | (199,505) | (82,035) |
| Share of results of associated companies | 11,685 | 6,950 |
| Share of result of a joint venture | 310 | 59 |
| Interest income (excluding interest income on loans receivable and amount due from a related party) | (420) | (661) |
| Finance costs | 996 | 1,280 |
| Depreciation | 5,647 | 13,205 |
| Amortisation of intangibles assets | 30,000 | 40,000 |
| (Profit)/loss on disposal of property, plant and equipment | (148) | 1,179 |
| Loss/(gain) on disposal of subsidiaries | 84,147 | (26,954) |
| Loss on assignment of loans receivable | 5,287 | – |
| Provision on loans receivable | 49,742 | – |
| Decrease in gross amount due from customers on construction contracts | 188 | 1,549 |
| Decrease in retention receivable | – | 6,142 |
| Decrease in accounts receivable | 8,864 | 13,090 |
| Increase in loans receivable | – | (124,517) |
| Decrease/(increase) in prepayments, deposits and other receivables | 10,173 | (9,527) |
| Increase in amount due from a related party | – | (34,450) |
| Decrease in accounts payable | (14,844) | (13,576) |
| Increase in gross amount due to customers on construction contracts | 983 | 2,211 |
| Increase in accruals and other payables | 2,511 | 1,878 |
| Increase in amount due to a related company | 1,233 | 3,597 |
| (Decrease)/increase in amount due to intermediate holding company | (3,921) | 2,083 |
| (Decrease)/increase in amount due to immediate holding company | (4,001) | 4,001 |
| Net cash outflow from operating activities | <u>(11,073)</u> | <u>(194,496)</u> |

Notes to the Financial Statements

For the year ended 31 December 2001

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

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

| | 2001 | | | | 2000 | |
|---|---|---|--|---------------------------------------|-------------------|-------------------|
| | Share capital and share premium HK\$'000 | Convertible loan notes and debentures HK\$'000 | Bank loans and other loans HK\$'000 | Finance lease liabilities HK\$'000 | Total HK\$'000 | Total HK\$'000 |
| Beginning of year | 508,123 | 10,000 | 11,582 | 5,056 | 534,761 | 501,531 |
| Proceeds from issues | | | | | | |
| of share capital | 87,815 | - | - | - | 87,815 | - |
| Proceeds from issuance | | | | | | |
| of convertible loan notes | - | - | - | - | - | 38,978 |
| Debentures issued | | | | | | |
| for non-cash consideration | - | 201,800 | - | - | 201,800 | - |
| Redemption on debentures | | | | | | |
| for non-cash consideration | - | (46,000) | - | - | (46,000) | - |
| Redemption on debentures | - | (35,000) | - | - | (35,000) | - |
| Net repayment of banks loans and other loans | - | - | (2,349) | - | (2,349) | (1,769) |
| Payment of finance lease liabilities | - | - | - | (126) | (126) | (4,520) |
| Inception of finance lease contracts | - | - | - | - | - | 2,999 |
| Acquisition of subsidiaries | - | - | 15,759 | - | 15,759 | - |
| Disposal and deconsolidation of subsidiaries (Note 26(d) and (e)) | - | - | (9,233) | (4,930) | (14,163) | (2,458) |
| End of year | <u>595,938</u> | <u>130,800</u> | <u>15,759</u> | <u>-</u> | <u>742,497</u> | <u>534,761</u> |

Notes to the Financial Statements

For the year ended 31 December 2001

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

(c) Acquisitions of subsidiaries:

| | 2001 HK\$'000 |
|------------------------------|-----------------------|
| Net assets acquired | |
| Equipment and motor vehicles | 521 |
| Accounts receivable | 100 |
| Bank and cash balances | 276 |
| Restricted cash | 15,759 |
| Other receivables | 11,885 |
| Bank loan | (15,759) |
| Other payables | (407) |
| Intangible assets | 327,255 |
| Exchange reserve | (659) |
| Minority interests | (135,588) |
| | <u>203,383</u> |
| Goodwill | <u>2,385</u> |
| | <u>205,768</u> |
| Satisfied by: | |
| | 2001 HK\$'000 |
| Cash | 1,968 |
| Accruals | 2,000 |
| Debentures | 201,800 |
| | <u>205,768</u> |

Notes to the Financial Statements

For the year ended 31 December 2001

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

(d) Disposal of subsidiaries:

| | 2001 HK\$'000 |
|--|------------------|
| Net assets disposed | |
| Property, plant and equipment | 74,641 |
| Bank and cash balances | 1,774 |
| Accounts receivable | 7,058 |
| Prepayments, deposits and other receivables | 2,699 |
| Investment in a joint venture | 6,587 |
| Investment in associated companies | 76,688 |
| Bank loans and other loans | (9,000) |
| Finance lease liabilities | (4,930) |
| Accounts payable | (6,927) |
| Accruals and other payables | (2,313) |
| Provision for taxation | (2,414) |
| | <u>143,863</u> |
| Loss on disposal of subsidiaries | (84,147) |
| Realisation of exchange reserve – 2000 (<i>Note 22(a)</i>) | 1,085 |
| – 2001 | 3,199 |
| | <u>64,000</u> |
| Satisfied by: | |
| Cash | 18,000 |
| Loans | 46,000 |
| | <u>64,000</u> |

(e) Deconsolidation of subsidiaries:

| | 2001 HK\$'000 |
|-------------------------------|------------------|
| Net assets deconsolidated | |
| Property, plant and equipment | 5 |
| Bank and cash balances | (400) |
| Film rights | 30,000 |
| Accruals and other payables | (700) |
| Bank loans and other loans | (233) |
| | <u>28,672</u> |

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Notes to the Financial Statements

For the year ended 31 December 2001

27. COMMITMENTS

As at 31 December 2001, the Group had the following operating lease commitments:

| | 2001 | Group |
|---|---------------------|------------------|
| | HK\$'000 | 2000 HK\$'000 |
| Total future minimum lease payments under non-cancellable operating leases in respect of land and buildings are as follows: | | |
| Within one year | 2,994 | 4,958 |
| In the second to fifth years, inclusive | 960 | 5,430 |
| | <u>3,954</u> | <u>10,388</u> |

The Group had no significant capital commitments as at 31 December 2001.

28. CONTINGENT LIABILITIES

As at 31 December 2001, the Group had the following contingent liabilities:

- (i) The Group gave letters of indemnity amounting to approximately HK\$24,514,000 to certain insurance companies for their issuance of surety bonds which are inherent in the nature of the Group's construction business.
- (ii) The Group is undergoing certain legal proceedings with its customers or sub-contractors in respect of alleged contractual entitlements. The amount of claim is approximately HK\$8,208,000 (2000: HK\$15,568,000). As the outcome cannot be reliably estimated, no provision for contingent losses has been made in the financial statements.
- (iii) A former employee of the Group has filed a claim against the Company in respect of its failure to allot and issue to the former employee certain shares pursuant to the 1997 Share Option Scheme of the Company. The outcome of the claim is uncertain and cannot be reliably estimated. No provision has been made in respect of this claim in the financial statements.

Notes to the Financial Statements

For the year ended 31 December 2001

29. BANKING FACILITIES

As at 31 December 2001, the Group's banking facilities of approximately HK\$15,759,000 (2000: HK\$16,471,000) are secured by the following:

- (a) fixed deposits of a subsidiary of approximately HK\$15,759,000; and
- (b) guarantee given by a shareholder of a subsidiary.

Unused facilities as of same date was HK\$Nil (2000: approximately HK\$4,086,000).

30. DISCONTINUED OPERATIONS

During the year, the Company entered into sale and purchase agreements with independent third parties to dispose of the Group's 100% interest in Reach Video Production Co., Ltd., 100% interest in Starway Management Limited and its subsidiaries and joint venture and 100% interest in Brilliant Shine Development Limited and its subsidiaries and associated companies. The disposals were completed during the year and the aggregate loss of HK\$84,147,000 were recognised.

As a result, the operation of these disposed businesses were considered as a discontinued operations.

Included in the operating loss were the operating results of the discontinued business operations as follows:

| | 2001 HK\$'000 | 2000 HK\$'000 |
|--------------------------------|-----------------------|------------------|
| Revenue | 17,391 | – |
| Cost | <u>(8,951)</u> | <u>–</u> |
| | 8,440 | – |
| Other revenue | 641 | – |
| Operating expenses | <u>(12,825)</u> | <u>–</u> |
| Loss from operating activities | (3,744) | – |
| Interest expense | <u>(536)</u> | <u>–</u> |
| Loss before income tax | (4,280) | – |
| Taxation | <u>(82)</u> | <u>–</u> |
| Loss after taxation | <u>(4,362)</u> | <u>–</u> |

31. RELATED PARTY TRANSACTIONS

- (a) The amounts with related parties are unsecured, interest-free and have no fixed repayment terms.
- (b) During the year, the Group paid legal and professional fees amounting to approximately HK\$4,100,000 (2000: HK\$696,000) to a legal consultant who is also an executive director of the Company for legal consultancy services rendered to the Group.

32. POST BALANCE SHEET EVENT

- (a) Pursuant to a sale and purchase agreement dated 4 February 2002 entered between the Group and a third party, the Group agreed to acquire 50% equity interest of Great Win International Limited ("Great Win"). Great Win will hold 100% interest in Intwell Technology (S) Private Limited, a company incorporated in Singapore. The acquisition was satisfied by a consideration of HK\$36 million payable in cash of HK\$1 million and the remaining balance of HK\$35 million by the issue of convertible notes at 3% interest per annum. On 15 April 2002, the convertible notes of HK\$18,000,000 were converted into 141,955,830 shares of the Company at the conversion price of HK\$0.1268 per share.
- (b) On 23 May 2002, new shares of 290,000,000 were placed at HK\$0.103 per share with a placing agent with net placing proceeds of approximately HK\$29 million.

33. COMPARATIVE FIGURES

The comparative figures were audited by other firms of certified public accountants in Hong Kong. Certain comparative figures have been reclassified to conform with current year's presentation.

34. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 24 May 2002.