



Universal Appliances Limited

Interim Report
2002

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The directors are pleased to present the group's Interim Report and condensed accounts for the six-months ended 30th June 2002. The consolidated results and consolidated cash flow statement for the group for the six-months ended 30th June 2002, and the consolidated balance sheet as at 30th June 2002 of the group, all of which are unaudited and condensed, along with selected explanatory notes, are set out on pages 17 to 32 of this report.

BUSINESS REVIEW

The Group's loss attributable to shareholders for the six months ended 30th June 2002 is HK\$6,684,000 representing a 84% decrease from the last corresponding period. The Group's consolidated turnover for the period is HK\$42,563,000, a decrease of 39% from the last corresponding period.

During the first half of the year, the economic performance of Hong Kong was rather weak with high unemployment and deflation. The retail sector continued to be stagnant and the demand for its products and services was sluggish resulting in a further fall of the Group's turnover.

OUR BUSINESS

Digital Broadcasting Division

Our subsidiary, DVN (Holdings) Limited ("DVN"), continues to develop the digital broadcasting business in the mainland China. DVN has devoted considerable effort over the last six months in conjunction with its Chinese partners to optimize the digital TV service packages offered to Chinese consumers over its digital broadcasting platforms. DVN has concentrated a majority of its resources on the successful roll outs of digital TV services in three areas: Suzhou Municipality, Wuxi Municipality, and Zhongshan Municipality. In these three areas, where DVN's platforms are leased to local CATV operators and DVN receives a percentage of the subscription fees

collected from the digital TV services offered, DVN provides marketing and operational support, content arrangement, channel mix and pricing advisory, to name some of the more important business aspects. As of 31st August 2002, over 28,000 households were receiving digital TV services over DVN's digital platforms, an increase of 122% as compared to year end 2001. In Suzhou, around 4.2% of the population in the area in which DVN rolled out, has subscribed to DVN's digital TV services. Likewise, in Zhongshan, DVN has achieved a penetration rate of about 6% in less than one year.

Having successfully rolled out in three locations over the past half year, DVN has demonstrated that its business model will work in China. The next step is for DVN to take this model and roll out into other locations, such as in Hebei and Shandong Provinces. DVN's business model and technology is successful because it not only provides entry into the households of Chinese consumers at a basic level, but also minimises its exposure to political sensitivities. As such it is well positioned to provide the higher value added, broader range of digital services that will be demanded in the future. DVN has focused and will continue to focus on positioning itself at various levels throughout the industry and aligning itself with not only the world's best technology partners but also cost effective manufacturers and government related entities to ensure it maintains its market leadership and that it will be able to take advantage of the opportunities that arise as the Pay TV market develops in China. It is this option on the future of China's Pay TV industry that DVN offers its investors, which it is navigating responsibly and with its shareholders best interests in mind.

Communication Division

Our telecommunication businesses is mainly operated in China through Beijing Jiya Telecommunications Engineering Co. Limited ("Jiya").

Jiya's phone banking and other computer telephone integration solutions are well received by the major banks including our major customer, the Bank of China. During the period, Jiya has developed a new modular call center solution for medium size enterprises. This scalable, cost effective system provides an affordable solution for enterprises to improve on customer care. Despite the intense competition in this area, the Group believes that this is the right product for China's growing domestic consumer market.

Outside China, our calling card business has encountered intense competition. Management is currently formulating strategies to improve the operation.

The High-end Audio Distribution Division

Our high-end audio distribution business has been affected dramatically by the down turn in the Hong Kong economy. The luxury market is continues to decline as overall consumer spending weakens in these difficult environment. The Group is reevaluating this business segment in view of the current consumer environment.

Prospect

The digital broadcasting business is a mature business in China with significant potential in revenue and profits. With an excellent engineering and marketing team as well as focused management, the digital broadcasting business of DVN is best positioned to take advantage of any new challenges and opportunities in the second half of this year.

The Group has continually implemented the diversification strategy to expand its business and strengthen its income and asset base. The Group will continue to explore any business opportunities in strategic acquisition of equity interests in Hong Kong or abroad.

FINANCIAL REVIEW

Liquidity and financial resources

As at 30th June 2002, the Group held cash deposits including pledged deposit totalling HK\$61.8 million, a decrease of HK\$59.0 million compared with that of 31st December 2001, which was mainly for the settlement of its short-term bank borrowings and current liabilities. A current ratio of 1.81 and a gearing ratio, representing long term liabilities to net worth, of 0.24 as at 30th June 2002 were slightly improved as compared to 1.59 and 0.24 as at 31st December 2001.

In addition to the internal generated cash flows, the Group also made use of import banking facilities to finance its operations during the period. To deal with the temporary foreign currency exposure to Renmibi, the Group borrowed Renmibi loans with US dollar pledged deposits. Other than the Renmibi loan, most of the other bank borrowings as at 30th June 2002 were denominated in US dollars, there were no significant exposure to foreign currency fluctuations.

Significant investments held

On 18th April 2002, our major subsidiary, 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") company in the PRC. Pursuant to the JV Agreement, the total registered capital of the JV will be RMB90 million and each party holds 50% interest and profit sharing. Both DVN and Hongtu will each contribute in total RMB45 million (approximately HK\$42.7 million) into the JV. The JV has a 15-year term and will focus on developing digital broadcasting and related businesses in the PRC. DVN has already contributed HK\$14.2 million into the JV in the first round of funding and the capital verification process of the JV has already been completed.

Other than the aforesaid, there was no change in significant investments held during the period. Details of significant investment held were disclosed in the 2001 annual report.

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

As at 30th June 2002, the Group employed a total of 390 full-time employees in Hong Kong and a work force of about 300 in the PRC. The Group operates different remuneration schemes for sales and non-sales employees. Sales personnel are remunerated on the basis of on-target-earning packages comprising salary and sales commission. Non-sales personnel including engineering and product development staff are remunerated by monthly salary which are reviewed by the Group from time to time and adjusted based on performance. In addition to salaries, the Group provides staff benefits including medical insurance, contribution to staff provident fund and discretionary training subsidies. Share options and bonuses are also available at the discretion of the Group and depending on the performance of the Group.

Contingent Liabilities

The Group did not have any material contingent liabilities as at 30th June 2002.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the period.

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

At 30th June 2002, the interests of the directors and chief executive in the shares, warrants and options of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")), as recorded in the register maintained by the company under Section 29 of the Securities (Disclosure of Interests) Ordinance or as notified to the Company were as follows:

(A) The Company

Names	Notes	Number of ordinary shares of HK\$0.18 each		
		Personal interests	Family interests	Corporate interests
Mr. Ko Chun Shun, Johnson ("Mr. Ko")	(i)	<u>18,640,000</u>	<u>—</u>	<u>1,000,437,150</u>

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

Names	Notes	Number of ordinary shares of HK\$0.1 each		
		Personal interests	Family interests	Corporate interests
Mr. Ko	(ii)	343,000	2,040,816	158,357,940
Mr. Lui Pan ("Mr. Lui")		<u>198,000</u>	<u>—</u>	<u>—</u>

Notes:

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

- (ii) 118,403,418 ordinary shares in DVN are directly held by Prime Pacific International Limited (“Prime Pacific”), which is owned as to 67% and 33% by Gold Pagoda Incorporated (“Gold Pagoda”) and Prime Gold International Limited (“Prime Gold”), respectively.

Prime Gold is owned as to 82.45% by Kwan Wing.

Gold Pagoda is a wholly-owned subsidiary of the Company which is turn is controlled by Mr. Ko.

31,032,522 ordinary shares in DVN are held directly by the Company.

2,956,000 ordinary shares in DVN are held by All Mark Limited, which is wholly owned by the Company.

1,600,000 ordinary shares in DVN are held by Peninsula Resources Limited, which is wholly-owned by Mr. Ko.

3,144,000 ordinary shares in DVN are held by Kwan Wing.

1,222,000 ordinary shares in DVN are held by First Gain International Limited, which is wholly-owned by Mr. Ko

- (iii) Million Way Enterprises Limited, a wholly-owned subsidiary of the Company, also holds US\$15,000,000 preference shares issued by DVN (Group) Limited, a wholly-owned subsidiary of DVN. These preference shares are exchangeable to approximately 24,786,780 ordinary shares of DVN upon conversion and are subject to adjustments.

Save as disclosed above and other than certain nominee shares in the subsidiaries held in trust for the Group by certain directors, at 30th June 2002, none of the directors, the chief executive or their associates had any personal, family, corporate or other interests in any securities of the Company, its holding company or any of its associated corporations which were recorded in the Register as defined in the SDI Ordinance.

SUBSTANTIAL SHAREHOLDERS

At 30th June 2002, save as disclosed in Directors' Interests in equity or debt securities in above, no other person had registered an interest of 10% or more in the issued share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.

SHARE OPTIONS

During the period, neither the Company nor its subsidiaries has granted any share options. Nevertheless, the subsidiary, DVN, has terminated the old share option scheme and has adopted a new share option scheme (the “New Scheme”) in the Special General Meeting held on 26th June 2002 (the “SGM”) in order to comply with Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”).

The purpose of the New Scheme is to recognize and acknowledge the contributions of the Qualified Persons (as defined in the New Scheme, including but not limit to, the directors, employees, partners, associates & etc of the Group and its holding company group) to the Group. Pursuant to this 10-year term New Scheme, DVN can grant options to Qualified Persons for a consideration of HK\$1.00 for each grant payable by the Qualified Persons to DVN. The total number of the shares issued and to be issued upon exercise options granted to each Qualified Person (including both exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the shares of DVN then in issue. The maximum number of options shares can be granted under the New Scheme shall not exceed 37,673,482 shares, which is 10% of the total number of shares in issue of DVN at the date of the SGM. Subscription price in relation to each option pursuant the New Scheme shall be not less than the higher of (i) the closing price of the shares of DVN as stated in the Stock Exchange’s daily quotation sheets on the date on which the option is offered to an Qualified Person; or (ii) the average of the closing prices of the shares of DVN as stated in the Stock Exchange’s daily quotation sheets for the 5 trading days immediately preceding the date of offer. There shall be no minimum holding period for the vesting or exercise of the options and the options are exercisable within the Option Period as determined by the Board of directors of DVN. Share options granted pursuant to the old scheme remain effective.

Details of movements of the outstanding share options of the Company and DVN are as follows:

(a) **UAL**

Date of share options granted 2nd October 1999
 Exercise price HK\$0.26
 Exercise period 1st January 2000 — 31st December 2002

	Outstanding options as at 1st January 2002	Options exercised during the period	Options lapsed during the period	Outstanding options as at 30th June 2002
Held by directors of the Company				
Mr. Ko	18,000,000	—	—	18,000,000
Mr. Lui	9,000,000	—	—	9,000,000
	<hr/>	<hr/>	<hr/>	<hr/>
Total held by directors	27,000,000	—	—	27,000,000
Total held by employees	44,200,000	—	—	44,200,000
	<hr/>	<hr/>	<hr/>	<hr/>
Total	<u>71,200,000</u>	<u>—</u>	<u>—</u>	<u>71,200,000</u>

Date of share options granted 6th March 2000
 Exercise price HK\$0.31
 Exercise period 7th March 2000 — 6th March 2003

	Outstanding options as at 1st January 2002	Options exercised during the period	Options lapsed during the period	Outstanding options as at 30th June 2002
Held by directors of the Company				
Mr. Lui	25,000,000	—	—	25,000,000
Total held by directors	25,000,000	—	—	25,000,000
Total held by employees	—	—	—	—
Total	<u>25,000,000</u>	<u>—</u>	<u>—</u>	<u>25,000,000</u>

(b) DVN

Date of share options granted 10th September 1999
Exercise price HK\$2.25
Exercise period 1st January 2000 – 31st December 2002

	Outstanding options as at 1st January 2002	Options exercised during the period	Options lapsed during the period	Outstanding options as at 30th June 2002
Held by directors of the Company				
Mr. Ko	2,450,000	—	—	2,450,000
Mr. Lui	2,750,000	—	—	2,750,000
Total held by directors	5,200,000	—	—	5,200,000
Total held by employees	5,134,000	—	—	5,134,000
Total	10,334,000	—	—	10,334,000

Date of share options granted 6th March 2000
 Exercise price HK\$9.89
 Exercise period 7th March 2000 — 6th March 2003

	Outstanding options as at 1st January 2002	Options exercised during the period	Options cancelled during the period	Outstanding options as at 30th June 2002
Held by a director of the Company				
Mr. Lui	2,500,000		2,500,000	—
Held by employees	—	—	—	—
Total	<u>2,500,000</u>	<u>0</u>	<u>2,500,000</u>	<u>—</u>

Date of share options granted 1st September 2000
 Exercise price HK\$2.62
 Exercise period 1st January 2001 — 31st December 2003

	Outstanding options as at 1st January 2002	Options exercised during the period	Options lapsed during the period	Outstanding options as at 30th June 2002
Held by directors of the Company	—	—	—	—
Held by employees	2,300,000	—	—	2,300,000
Total	<u>2,300,000</u>	<u>—</u>	<u>—</u>	<u>2,300,000</u>

Date of share options granted	2nd November 2000
Exercise price	HK\$1.50
Exercise period	1st January 2001 — 31st December 2003

	Outstanding options as at 1st January 2002	Options exercised during the year	Options lapsed during the year	Outstanding options as at 30th June 2002
Held by directors	—	—	—	—
Held by employees	5,900,000	—	—	5,900,000
Total	5,900,000	—	—	5,900,000

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

None of the directors of the Company is aware of any information which would indicate that the Group is not, or was not, in compliance with the Code of Best Practice as set out in Appendix 14 of in the Listing Rules of The Stock Exchange of Hong Kong Limited at any time during the six months ended 30th June 2002.

AUDIT COMMITTEE

The Audit Committee has reviewed with the directors and management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including a review of the unaudited interim accounts for the six months ended 30th June 2002.

APPRECIATION

On behalf of the Board of Directors, I would like to take this opportunity to express our gratitude and appreciation to all management and staff members for their dedication, contributions and hard work for the period.

By Order of the Board
Ko Chun Shun, Johnson
Chairman

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30th June 2002

	Notes	Six months ended 30th June	
		2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
Turnover	2	42,563	69,220
Cost of sales		(27,685)	(39,750)
Gross profit		14,878	29,470
Other revenues		22,082	4,920
Distribution expenses		(10,212)	(5,697)
Administrative expenses		(42,916)	(80,155)
Unrealised holding gain/(loss) on short term investment		(4,468)	4,468
Other operating expenses		(6,302)	(6,985)
Operating loss	3	(26,938)	(53,979)
Finance costs		(1,049)	(851)
Share of losses of jointly controlled entity		(212)	(483)
Loss before taxation		(28,199)	(55,313)
Taxation	5	—	—
Loss after taxation		(28,199)	(55,313)
Minority interests		21,515	13,953
Loss for the period		(6,684)	(41,360)
Loss per share	6	HK Cents 0.24	HK Cents 1.50

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th June 2002 and 31st December 2001

	Notes	30th June 2002 (Unaudited) HK\$'000	31st December 2001 (Audited) HK\$'000
NON-CURRENT ASSETS			
Fixed assets	7	79,894	83,520
Intangible assets	8	65,198	59,453
Interest in a jointly-controlled entity		5,892	10,901
Investment securities		55,663	55,662
Other assets		64,353	64,353
		271,000	273,889
CURRENTS ASSETS			
Inventories		39,141	43,768
Work in progress		11,729	14,270
Trade and bills receivables	9	75,802	62,901
Prepayments, deposits and other receivables		43,758	49,932
Pledged bank deposits		22,453	51,321
Short-term investments		8,019	12,487
Cash and bank balances		39,372	69,501
		240,074	304,180
CURRENT LIABILITIES			
Trade and bills payable	10	21,291	23,137
Tax payable		2,937	2,082
Other payables and accrued liabilities		86,870	110,838
Short-term borrowings	11	21,983	54,794
		133,081	190,851
NET CURRENT ASSETS		107,193	113,329
TOTAL ASSETS LESS CURRENT LIABILITIES		378,193	387,218
CAPITAL AND RESERVES			
Issued capital	13	542,710	542,710
Reserves		(333,663)	(326,959)
Shareholders' funds		209,047	215,751
Minority interests		118,098	120,752
		327,145	336,503
NON-CURRENT LIABILITIES			
Amount due to a fellow subsidiary	12	50,715	50,715
Finance lease payable		333	—
		378,193	387,218

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June 2002

	Six months ended 30th June	
	2002	2001
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Net cash outflow from operating activities	(31,292)	(6,125)
Net cash outflow from investing activities	(22,240)	(18,600)
Net cash inflow/(outflow) from financing	27,335	(2,622)
Decrease in cash and cash equivalents	(26,197)	(27,347)
Cash and cash equivalents at 1st January	65,487	61,747
Cash and cash equivalents at 30th June	39,290	34,400
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	39,372	48,789
Bank overdrafts	—	(295)
Trust receipt loans of original maturity of less than three months	(82)	(14,094)
	39,290	34,400

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June 2002

	Ordinary	Preference	Share	Currency	Accumulated	Total
	share capital	share capital	premium	translation	deficit	
	HK\$'000	HK\$'000	HK\$'000	reserve	HK\$'000	HK\$'000
				HK\$'000		
At 1st January 2002	499,373	43,337	510,870	1,155	(838,984)	215,751
Net loss for the period	—	—	—	—	(6,684)	(6,684)
Exchange realignments	—	—	—	(20)	—	(20)
At 30th June 2002	<u>499,373</u>	<u>43,337</u>	<u>510,870</u>	<u>1,135</u>	<u>(845,668)</u>	<u>209,047</u>

	Ordinary	Preference	Share	Currency	Accumulated	Total
	share capital	share capital	premium	translation	deficit	
	HK\$'000	HK\$'000	HK\$'000	reserve	HK\$'000	HK\$'000
				HK\$'000		
At 1st January 2001						
previous reported	499,373	43,337	510,870	102	(698,737)	354,945
Prior year adjustment	—	—	—	—	(1,843)	(1,843)
As restated	499,373	43,337	510,870	102	(700,580)	353,102
Net loss for the period	—	—	—	—	(41,360)	(41,360)
Exchange realignments	—	—	—	(56)	—	(56)
At 30th June 2001	<u>499,373</u>	<u>43,337</u>	<u>510,870</u>	<u>46</u>	<u>(741,940)</u>	<u>311,686</u>

Notes to condensed interim accounts

1. Basis of preparation and accounting policies

These unaudited consolidated condensed interim accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25, Interim Financial Reporting, issued by the Hong Kong Society of Accountants.

These condensed interim accounts should be read in conjunction with the 2001 annual financial statements.

The accounting policies and methods of computation used in the preparation of these condensed interim accounts are consistent with those used in the annual accounts for the year ended 31st December 2001 except that the Group has changed certain of its accounting policies following its adoption of the following Statements of Standard Accounting Practice (SSAP's) issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1st January 2002:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 11 (revised)	:	Foreign currency translation
SSAP 15 (revised)	:	Cash flow statements
SSAP 25 (revised)	:	Interim financial reporting
SSAP 33	:	Discontinuing operations
SSAP 34	:	Employee benefits

There is no material impact to the financial results and the financial position of the Group by the adoption of the new or revised SSAPs mentioned above.

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

2. Segment information

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

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

By Business Segments:

	Six months ended 30th June 2002				
	Broadcasting Equipment HK\$'000	Home Audio HK\$'000	Financial		IP Telephony HK\$'000
			Market Information HK\$'000	Group HK\$'000	
Revenues	<u>31,751</u>	<u>1,439</u>	<u>6,155</u>	<u>3,218</u>	<u>42,563</u>
Segment results	<u>(4,924)</u>	<u>(672)</u>	<u>(2,179)</u>	<u>(4,845)</u>	<u>(12,620)</u>
Unallocated costs					<u>(14,318)</u>
Operating loss					<u>(26,938)</u>

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

By Geographical Segments:

	Six months ended 30th June 2002				
	Hong Kong	Mainland China	USA	Other	Group
				Southeast Asia	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenues	<u>5,947</u>	<u>30,779</u>	<u>3,120</u>	<u>2,717</u>	<u>42,563</u>
Segment results	<u>15,670</u>	<u>(26,859)</u>	<u>135</u>	<u>(1,566)</u>	<u>(12,620)</u>
Unallocated costs					<u>(14,318)</u>
Operating loss					<u>(26,938)</u>

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

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

3. Operating loss

Operating loss is stated after charging the following:

	Six months ended 30th June	
	2002	2001
	HK\$'000	HK\$'000
<i>Charging</i>		
Depreciation:		
Owned fixed assets	9,382	6,091
Leased fixed assets	61	20
Amortisation of goodwill	994	1,252
Amortisation of development costs, patents and trademarks	4,251	4,322
Provision for inventory	—	4,000
Provision for doubtful debts	225	10,149
	<u>225</u>	<u>10,149</u>

4. Staff costs

	Six months ended 30th June	
	2002	2001
	HK\$'000	HK\$'000
Salaries	18,191	18,410
MPF Contributions	1,121	973
	<u>19,312</u>	<u>19,383</u>

5. Taxation

Hong Kong profits tax has not been provided (2001: nil) as the Group did not generate any assessable profits arising in Hong Kong for the period. Overseas profits tax has not been provided (2001: nil) as the foreign subsidiaries did not generate any assessable profits attributable to their operations in their operations in their respective countries of operation or are still exempted from income tax during the period.

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

6. Loss per share

The calculation of basic loss per share for the period ended 30th June 2002 is based on the net loss attributable to shareholders of HK\$6,684,000 (2001: net loss of HK\$41,360,000) and the weighted average number of 2,774,293,157 (2001: 2,774,293,157) ordinary shares deemed to have been in issue during the period.

There were no dilutive potential ordinary shares in 2001 and 2002 and therefore, no diluted loss per share for the period is shown.

7. Fixed Assets

Six months ended 30th June 2002	Owned	Leased	Total
	Assets	Assets	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Opening net book amount	83,520	—	83,520
Additions	7,082	798	7,880
Disposals	(2,063)	—	(2,063)
Depreciation/amortisation	(9,382)	(61)	(9,443)
	<hr/>	<hr/>	<hr/>
Closing net book amount	<u>79,157</u>	<u>737</u>	<u>79,894</u>

8. Intangibles

Six months ended	Goodwill	Development	Patents and	Total
30th June 2002	HK\$'000	Costs	Trademarks	HK\$'000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Opening net book amount	39,870	15,135	4,448	59,453
Acquisition of subsidiary	1,766	—	—	1,766
Addition	—	10,828	—	10,828
Disposal/Impairment	(1,604)	—	—	(1,604)
Amortisation charge	(994)	(1,965)	(2,286)	(5,245)
Closing net book amount	<u>39,038</u>	<u>23,998</u>	<u>2,162</u>	<u>65,198</u>
At 30th June 2002				
Cost	47,069	36,367	17,910	101,346
Accumulated amortisation	<u>(8,031)</u>	<u>(12,369)</u>	<u>(15,748)</u>	<u>(36,148)</u>
Net book amount	<u>39,038</u>	<u>23,998</u>	<u>2,162</u>	<u>65,198</u>
At 31st December 2001				
Cost	46,982	25,539	17,910	90,431
Accumulated amortisation	<u>(7,112)</u>	<u>(10,404)</u>	<u>(13,462)</u>	<u>(30,978)</u>
Net book amount	<u>38,970</u>	<u>15,135</u>	<u>4,448</u>	<u>59,453</u>

9. Trade and other receivables

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

	0-3 months	4-6 months	Over 6 months	Total
	<i>HK'000</i>	<i>HK'000</i>	<i>HK'000</i>	<i>HK'000</i>
Balance at 30th June 2002	<u>22,990</u>	<u>555</u>	<u>52,257</u>	<u>75,802</u>
Balance at 31st December 2001	<u>25,525</u>	<u>213</u>	<u>37,163</u>	<u>62,901</u>

Credit period of 30 to 90 days is normally granted to customers except for the sales of digital broadcasting systems and related software and products to an investee company in prior years. The investee company will repay the receivables according to the agreed repayment schedule.

10. Trade and other payables

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

	0-3 months	4-6 months	Over 6 months	Total
	<i>HK'000</i>	<i>HK'000</i>	<i>HK'000</i>	<i>HK'000</i>
Balance at 30th June 2002	<u>1,602</u>	<u>416</u>	<u>19,273</u>	<u>21,291</u>
Balance at 31st December 2001	<u>2,513</u>	<u>459</u>	<u>20,165</u>	<u>23,137</u>

11. Interest-bearing bank and other borrowings

	30th June 2002 HK\$'000	31st December 2001 HK\$'000
Bank loans — secured	21,801	50,597
Trust receipt loans — secured	82	4,014
Current portion of finance lease payables	100	183
	<hr/> 21,983 <hr/>	<hr/> 183 <hr/> 54,794 <hr/>

The bank loans are secured by bank deposits amounting to \$22,453,000 (2001: \$51,321,000)

12. Finance lease payables

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

	30th June 2002 HK\$'000	31st December 2001 HK\$'000
Obligation under a finance lease	433	186
Current portion	(100)	(186)
	<hr/> 333 <hr/>	<hr/> — <hr/>

13. Share capital

	Number of ordinary shares of HK\$0.18 each		Number of preference shares of HK\$0.18 each		Amount	
	2002 '000	2001 '000	2002 '000	2001 '000	2002 HK\$'000	2001 HK\$'000
Authorised:						
At beginning of period/year	3,409,240	3,409,240	240,760	240,760	657,000	657,000
Increase in authorised capital	—	—	—	—	—	—
At 30th June 2002/ 31st December 2001	<u>3,409,240</u>	<u>3,409,240</u>	<u>240,760</u>	<u>240,760</u>	<u>657,000</u>	<u>657,000</u>
Issued and fully paid:						
At beginning of period/year	2,774,293	2,774,293	240,760	240,760	542,710	542,710
Exercise of share options	—	—	—	—	—	—
Issued pursuant to a subscription agreement	—	—	—	—	—	—
At 30th June 2002/ 31st December 2001	<u>2,774,293</u>	<u>2,774,293</u>	<u>240,760</u>	<u>240,760</u>	<u>542,710</u>	<u>542,710</u>

On 22nd May 2002, the Company announced a restructuring proposal. Details of which were despatched to the shareholders on 31st July 2002.

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.

Share Option

Pursuant to a share option scheme adopted on 4th August 1999, 96,200,000 (2001: 96,200,000) share options with exercise price between HK\$0.26 and HK\$0.31 were outstanding at 30th June 2002. The exercise in full of such share options would, under the present capital structure of the Company, result in the issue of 96,200,000 (2001: 96,200,000) additional ordinary share of HK\$0.18 each of the Company.

14. Contingent liabilities

The Group did not have any material contingent liabilities as at 30th June 2002.

15. Commitments

	30th June 2002 HK\$'000	31st December 2001 HK\$'000
(a) Payment for non-cancellable operating leases committed to be made during the next year by the Group in respect of land and building expiring:		
Land and building:		
Not later than one year	3,544	6,437
Later than one year and not later than five years	<u>3,308</u>	<u>2,141</u>
	<u>6,852</u>	<u>8,578</u>
Equipment:		
Not later than one year	416	416
Later than one year and not later than five years	<u>967</u>	<u>1,175</u>
	<u>1,383</u>	<u>1,591</u>
(b) Group capital commitments:		
Contracted for but not provided for	839	1,306
Authorised, but not contracted for	<u>—</u>	<u>—</u>
	<u>839</u>	<u>1,306</u>

(c) Financial Commitments

At 30th June 2002, the Group had financial commitments of RMB40,770,946 (approximately HK\$38,645,446) (2001: RMB6,110,000) in respect of registered capital contributions to two PRC subsidiaries and a PRC joint venture. Included in the related capital contributions to the subsidiaries and joint venture, RMB20,824,500 (approximately HK\$19,739,000) (2001: RMB5,316,000) was paid before balance sheet date but the capital verification process has not been completed.

16. Related party transaction and connected transactions

	Six months ended 30th June	
	2002	2001
	HK\$'000	HK\$'000
Sales of digital broadcasting systems to a jointly controlled entity	14,252	—
Service fee income from a jointly controlled operation	265	—
	<u>14,517</u>	<u>—</u>

17. 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 “Supplier”) to the Customer under an agreement dated 31st March 1993 in which Smoothline had certain secondary obligations as one of the guarantors for the Supplier’s performance.

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

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.

- (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 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 note 17(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 Group subsidiary 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.

18. Subsequent events

There is no material subsequent event for the six months ended 30th June 2002.