NOTES TO THE ACCOUNTS

1 GROUP REORGANIZATION AND BASIS OF PRESENTATION OF ACCOUNTS

(a) Group reorganization

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 27th May 2002 under the Companies Law (2002 Revision) (Cap. 22) of the Cayman Islands with an authorized share capital of HK$100,000, divided into 10,000,000 shares of HK$0.01 each.

Pursuant to a reorganization scheme (the "Reorganization"), the Company became the holding company of the companies now comprising the Group on 23rd October 2002. This was accomplished by acquiring the entire issued share capital of Universal Appliances Limited ("UAL"), the intermediate holding company of the other subsidiaries as set out in note 36 to the accounts. In consideration of the acquisition the Company allotted and issued 240,760,000 preference shares of HK$0.01 each and approximately 2,774,293,000 ordinary shares of HK$0.01 each to the then shareholders of UAL.

Further details of the Reorganization are set out in the notes 27 and 28 to the accounts and in UAL's circular dated 31st July 2002. UAL consequently became the intermediate holding company of the subsidiaries.

(b) Basis of preparation

For the purpose of preparing the Group's consolidated accounts, the Group resulting from the Reorganization is accounted for as a continuing entity. Accordingly, the accounts of the Group have been prepared on the basis as if the Company had always been the holding company of the Group using the principle of merger accounting in accordance with Statement of Standard Accounting Practice ("SSAP") 27 "Accounting for Group Reconstructions" issued by the Hong Kong Society of Accountants ("HKSA").

The comparative balance sheet of the Company as at 31st December 2001 has not been presented as the Company was not incorporated at that date.

2 PRINCIPAL ACCOUNTING POLICIES

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

(a) These accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the HKSA. They have been prepared under the historical cost convention, except for short-term investments which are stated at fair values.

NOTES TO THE ACCOUNTS

2 **PRINCIPAL ACCOUNTING POLICIES** *(Continued)*

In the current year, the Group adopted the following SSAPs issued by the HKSA 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 33	:	Discontinuing operations
SSAP 34	:	Employee benefits

The adoption of these new and revised standards has no material impact on the accounts of the Group for the current and prior year other than that certain presentation changes have been made.

(b) Group accounting

(i) Consolidation

The consolidated accounts include the accounts of the Company and all its subsidiaries made up to 31st December.

Subsidiaries are those entities in which, the Company, directly and indirectly, controls more than half of the voting power, has the power to govern the financial and operating policies, to appoint or remove the majority of the members of the board of directors, or to cast the majority of votes at the meetings of the board of directors. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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 and exchange difference taken to reserves and which was not previously charged or recognized in the consolidated profit and loss account.

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

NOTES TO THE ACCOUNTS

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(b) Group accounting *(Continued)*

(i) Consolidation (Continued)

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

(ii) Jointly controlled entity

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

The consolidated profit and loss account includes the Group's share of the results of the jointly controlled entities for the year. Where the profit sharing ratio is different to the Group's equity interest, the share of post acquisition results of the jointly controlled entities is determined based on the agreed profit sharing ratio. The consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entities (under the equity method of accounting) and goodwill (net of accumulated amortisation and accumulated impairment losses) on acquisition.

Equity accounting is discontinued when the carrying amount of the investment in a jointly controlled entity reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the jointly controlled entity.

(iii) Associated companies

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

The consolidated profit and loss account includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's shares of the net assets of the associated companies under the equity method of accounting and goodwill (net of accumulated amortization and accumulated impairment losses) on acquisition.

Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

NOTES TO THE ACCOUNTS

2 **PRINCIPAL ACCOUNTING POLICIES** *(Continued)*

(c) Fixed assets

(i) Fixed assets

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

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

Long-term leasehold land and building outside Hong Kong	25 years
Network equipment and toolings	3 to 4 years
Plant, equipment and other assets	3 to10 years

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

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

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

(ii) Impairment and gain or loss on sale

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

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

NOTES TO THE ACCOUNTS

2 **PRINCIPAL ACCOUNTING POLICIES** *(Continued)*

(d) Assets under leases

(i) Finance leases

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

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

(ii) Operating leases

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

(e) Intangibles

(i) Goodwill

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

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

NOTES TO THE ACCOUNTS

2 **PRINCIPAL ACCOUNTING POLICIES** *(Continued)*

(e) Intangibles *(Continued)*

(ii) Research and development costs

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

(iii) Film rights

Expenditure incurred for the acquisition of film rights is capitalized. The film rights is included in intangible assets and is amortized either using the sum-of-digit method over the terms of the licensing period or on a straight-line basis over 20 years for the perpetual film rights.

(iv) Impairment of intangible assets

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

(f) Investments

(i) Investments securities

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

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

NOTES TO THE ACCOUNTS

2 **PRINCIPAL ACCOUNTING POLICIES** *(Continued)*

(f) Investments *(Continued)*

(ii) Short-term investments

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

(g) Inventories

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

(h) Work in progress

Work in progress in respect of the design, integration and installation of digital broadcasting equipment is recorded at the amount of cost incurred to date plus attributable profit less foreseeable loss and progress billing.

(i) Translation of foreign currencies

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

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

(j) Trade and other receivables

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

NOTES TO THE ACCOUNTS

2 **PRINCIPAL ACCOUNTING POLICIES** *(Continued)*

(k) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and bank overdrafts.

(l) Provisions

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

(m) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognized 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 recognized but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that the outflow becomes probable, it 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 recognized but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognized.

(n) Deferred taxation

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

NOTES TO THE ACCOUNTS

2 **PRINCIPAL ACCOUNTING POLICIES** *(Continued)*

(o) Revenue recognition

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

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

Service fee income for provision of international market information is recognized on a straight-line basis over the period of the service contracts.

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

Management fee income is recognized on an accrual basis.

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

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

(p) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date.

(ii) Project sharing and bonus plans

The expected cost of profit sharing and bonus payments are recognized as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for profit sharing and bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

NOTES TO THE ACCOUNTS

2 **PRINCIPAL ACCOUNTING POLICIES** *(Continued)*

(p) Employee benefits *(Continued)*

(iii) Retirement benefit costs

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

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

(iv) Equity compensation benefits

Share options are granted to directors and to employees at the market price of the shares on the date of the grant and are exercisable at that price, no compensation cost is recognized. When the options are exercised, the proceeds received net of any transaction costs are credited to share capital and share premium.

(q) Borrowing costs

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

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

NOTES TO THE ACCOUNTS

2 **PRINCIPAL ACCOUNTING POLICIES** *(Continued)*

(r) **Segment reporting**

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

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

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

3 **TURNOVER AND REVENUES**

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

	Group	
	2002	2001
	HK$'000	*HK$'000*
Turnover:		
Sales of goods	**35,115**	100,325
Leasing income	**2,682**	670
Provision of services	**13,994**	27,880
	51,791	128,875
Other revenues:		
Preference dividend income from a listed company	**242**	—
Interest income	**618**	2,951
Management fee income from fellow subsidiaries	**505**	280
Repair and maintenance service fees	**875**	—
Miscellaneous	**462**	534
	2,702	3,765
Total revenues	**54,493**	132,640

NOTES TO THE ACCOUNTS

4 **SEGMENT INFORMATION**

Primary reporting format — business segments

The Group is organised into four main business segments:

(i)	Digital Broadcasting#	—	design, integration and installation of digital broadcasting equipment and development of related software and products;
(ii)	Home Audio	—	retail and distribution of home audio and video equipment;
(iii)	Financial Market Information#	—	provision of international financial market information and selective consumer data; and
(iv)	Telecommunications	—	provision of IP telephony, computer telephony integration engineering and related services.

There are no sales between the business segments.

The activities of these business segments are carried out by the former subsidiaries which have been reclassified as associated companies at 31st December 2002.

NOTES TO THE ACCOUNTS

4 SEGMENT INFORMATION *(Continued)*

Primary reporting format — business segments

	2002				
	Digital Broadcasting *HK$'000*	Home Audio *HK$'000*	Financial Market Information *HK$'000*	Tele-communications *HK$'000*	Total *HK$'000*
Turnover	35,836	1,961	11,965	2,029	51,791
Segment results	(92,328)	(2,350)	(3,651)	(7,690)	(106,019)
Provision for bad and doubtful debts					(3,800)
Impairment loss on investment securities					(63,382)
Unrealised loss on short-term investments					(6,692)
Net gain on dilution of interests in subsidiaries					23,684
Unallocated income					1,953
Operating loss					(154,256)
Finance costs					(3,979)
Share of losses of jointly controlled entities	(837)			(890)	(1,727)
Share of losses of associated companies	(8,541)		(2,852)		(11,393)
Loss before minority interests					(171,355)
Minority interests					76,252
Loss attributable to shareholders					(95,103)
Segment assets		2,955		16,269	19,224
Interests in associated companies	40,009		(267)		39,742
Unallocated assets					114,375
Total assets					173,341
Segment liabilities		256		2,059	2,315
Unallocated liabilities					51,704
Total liabilities					54,019
Capital expenditure	21,794	—	1,207	349	23,350
Depreciation					
— allocated	15,407	—	473	2,316	18,196
— unallocated					1,278
Amortization	5,990	—	2,372	1,059	9,421
Other non-cash expenses	36,716	1,015	—	706	38,437

NOTES TO THE ACCOUNTS

4 **SEGMENT INFORMATION** *(Continued)*

	2001				
	Digital Broadcasting	Home Audio	Financial Market Information	Tele-communications	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	50,270	50,725	14,778	13,102	128,875
Segment results	(33,554)	(12,239)	(26,359)	(26,629)	(98,781)
Provision for bad and doubtful debts, net of write-backs					(25,390)
Impairment loss on investment securities					(23,032)
Unrealized loss on short-term investments					(8,134)
Operating loss					(155,337)
Finance costs					(3,443)
Share of loss of a jointly controlled entity					(6,930)
Loss before minority interests					(165,710)
Minority interests					27,306
Loss attributable to shareholders					(138,404)
Segment assets	424,136	18,535	2,991	15,584	461,246
Investment in a jointly controlled entity					10,901
Unallocated assets					105,922
Total assets					578,069
Segment liabilities	144,091	4,655	11,707	4,323	164,776
Unallocated liabilities					76,790
Total liabilities					241,566
Capital expenditure	18,287	266	1,739	4,769	25,061
Depreciation	9,389	1,675	1,089	3,517	15,670
Amortization	8,574	332	2,544	100	11,550
Other non-cash expenses	2,567	301	2	5,663	8,533

NOTES TO THE ACCOUNTS

4 **SEGMENT INFORMATION** *(Continued)*

Secondary reporting format — geographical segments

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

(i) Hong Kong — Provision of international financial market information and selective consumer data, and retail and distribution of home audio and video equipment;

(ii) Mainland China — Design, integration and installation of digital broadcasting equipment and trading of related products, provision of IP telephony, computer telephone integration engineering and related service;

(iii) United States — Provision of IP telephony and related services; and

(iv) Other Southeast Asian countries — Design, integration and installation of digital broadcasting systems and development of related software and products, and provision of international financial market information and selective consumer data.

There are no sales between the geographical segments.

	2002			
	Turnover	**Segment results**	**Total assets**	**Capital expenditure**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Hong Kong	**10,854**	**(15,905)**	**119,123**	**10,671**
Mainland China	**36,825**	**(73,999)**	**14,476**	**12,641**
United States	**—**	**—**	**—**	**—**
Other Southeast Asian countries	**4,112**	**(970)**	**—**	**38**
	51,791	**(90,874)**	**133,599**	**23,350**
Impairment loss on investment securities		**(63,382)**		
Operating loss		**(154,256)**		
Interests in associated companies			**39,742**	
Total assets			**173,341**	

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

NOTES TO THE ACCOUNTS

5 OPERATING LOSS

Operating loss is stated after crediting and charging the followings:

	Group	
	2002	2001
	HK$'000	*HK$'000*
Crediting		
Net other operating expenses including:		
Net gain on dilution of interests in subsidiaries	**23,684**	6,338
Net gain on disposal of subsidiaries	**11,549**	—
Net gain on disposal of fixed assets	**621**	—
Gain on disposal of short-term investments	**—**	353
Write-back of provision for legal fees	**12,418**	—
Write-back of provision for bad and doubtful debts	**—**	8,228
Charging		
Cost of inventories sold	**25,445**	62,844
Cost of services provided	**6,070**	9,998
Depreciation of owned assets	**19,474**	15,670
Auditors' remuneration	**1,535**	1,500
Staff costs (excluding directors' remuneration) *(note 10(a))*		
Wages and salaries	**50,638**	67,130
Unutilized annual leave	**687**	—
Termination benefits	**1,253**	50
Contributions to defined contribution Mandatory Provident Fund	**2,921**	4,514
Less: Costs capitalized	**(13,198)**	(12,917)
Forfeited contributions	**—**	(506)
	42,301	58,271
Operating lease rentals:		
Land and buildings	**8,451**	17,162
Equipment	**354**	286
	8,805	17,448
Net other operating expenses including:		
Amortization of intangibles:		
Film rights	**3,489**	5,985
Goodwill	**2,024**	2,598
Development costs	**3,908**	2,967
Write-off of fixed assets	**—**	5,663
Write-off of inventories	**625**	—
Provision for inventories	**4,531**	1,251
Provision for bad and doubtful debts	**6,108**	34,554
Write-off of bad and doubtful debts	**33,855**	4,568
Net unrealized loss of short-term investments	**6,692**	8,134
Net loss on disposal of subsidiaries	**—**	1,171
Net loss on disposal of fixed assets	**—**	112
Exchange losses, net	**55**	202

NOTES TO THE ACCOUNTS

6 FINANCE COSTS

	Group	
	2002	2001
	HK$'000	*HK$'000*
Interest expenses on:		
Bank loans, overdrafts and bills	**1,122**	2,008
Finance lease expenses	**54**	52
Amount due to a fellow subsidiary	**2,803**	1,383
	3,979	3,443

7 TAXATION

No provision for Hong Kong and overseas profits tax has been made in the accounts as the Group did not have any assessable profit for the year (2001: Nil).

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

Deferred tax assets of the Group amounted to HK$43,958,000 (2001:HK$30,193,000) mainly represent tax losses carried forward which have not been provided for at the balance sheet date.

8 LOSS ATTRIBUTABLE TO ORDINARY SHAREHOLDERS

The loss attributable to ordinary shareholders is dealt with in the accounts of the Company to the extent of HK$74,107,000.

9 LOSS PER SHARE

The calculation of the basic loss per share is based on the Group's loss attributable to ordinary shareholders of HK$95,103,000 (2001: HK$138,404,000) and on the weighted average number of 2,774,293,000 (2001: 2,774,293,000) ordinary shares in issue during the year.

No diluted loss per share is shown for the years ended 31st December 2002 and 2001 as the share options and convertible preference shares outstanding had an anti-dilutive effect on the basic loss per share for both years.

NOTES TO THE ACCOUNTS

10 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

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

	2002	2001
	HK$'000	*HK$'000*
Fees:		
Non-executive directors	**288**	288
Other emoluments:		
Executive directors		
Basic salaries, housing benefits, other allowances and benefits in kind	**4,886**	5,147
Contributions to defined contribution Mandatory Provident Fund	**92**	137
	5,266	5,572

During the year, 6,000,000 share options (2001: Nil) to subscribe for ordinary shares in the Company's former listed subsidiary, DVN (Holdings) Limited ("DVN") were granted to two directors (2001: Nil) of the Company.

The emoluments of the directors fell within the following bands:

	2002	2001
	Number of directors	*Number of directors*
Nil — HK$1,000,000	**3**	3
HK$1,500,001 — HK$2,000,000	**1**	1
HK$3,000,001 — HK$4,000,000	**1**	1
	5	5

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

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

NOTES TO THE ACCOUNTS

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

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2001: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2001: three) individuals during the year are as follows:

	Group	
	2002	2001
	HK$'000	*HK$'000*
Basic salaries, housing benefits, other allowances and benefits in kind	**4,442**	4,172
Contributions to defined contribution Mandatory Provident Fund	**166**	195
	4,608	4,367

The emoluments fell within the following bands:

	Group	
	2002	2001
	Number of individuals	Number of individuals
Nil — HK$1,500,000	**2**	2
HK$1,500,001 — HK$2,000,000	**1**	1
	3	3

4,885,000 share options (2001: Nil) to subscribe for ordinary shares in DVN were granted to three highest paid, non-director employees (2001: Nil) during the year.

NOTES TO THE ACCOUNTS

11 FIXED ASSETS

	Group				
	Long-term leasehold land and buildings (over 50 years) outside Hong Kong	**Network under construction**	**Network equipment and toolings**	**Plant, equipment and other assets**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost					
At 1st January 2002	2,907	31,966	32,465	50,657	117,995
Additions	—	2,566	16,947	3,611	23,124
Movement arising from reclassification of a jointly controlled entity to a subsidiary	—	—	—	1,911	1,911
Disposals	—	(7,475)	(5,696)	(3,186)	(16,357)
Disposal of subsidiaries	—	—	—	(2,606)	(2,606)
Movement arising from reclassification of subsidiaries to associated companies	—	(17,986)	(52,787)	(37,528)	(108,301)
Write-offs	—	—	—	(815)	(815)
Transfers	—	(9,071)	9,071	—	—
At 31st December 2002	2,907	—	—	12,044	14,951
Accumulated depreciation					
At 1st January 2002	464	—	4,513	29,498	34,475
Charge for the year	116	—	12,818	6,540	19,474
Movement arising from reclassification of a jointly controlled entity to a subsidiary	—	—	—	1,316	1,316
Disposals	—	—	(659)	(1,057)	(1,716)
Disposal of subsidiaries	—	—	—	(1,276)	(1,276)
Movement arising from reclassification of subsidiaries to associated companies	—	—	(16,672)	(25,865)	(42,537)
Write-offs	—	—	—	(815)	(815)
At 31st December 2002	580	—	—	8,341	8,921
Net book value:					
At 31st December 2002	2,327	—	—	3,703	6,030
At 31st December 2001	2,443	31,966	27,952	21,159	83,520

NOTES TO THE ACCOUNTS

12 INTANGIBLE ASSETS

	Group			
	Goodwill	Development costs	Film rights	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31st December 2002				
At 1st January 2002	39,870	15,135	4,448	59,453
Movement arising from reclassification of subsidiaries to associated companies	—	793	—	793
Transfer from deposits	—	—	14,863	14,863
Intangibles recognized as an asset	—	10,884	—	10,884
Amortization charge	(2,024)	(3,908)	(3,489)	(9,421)
Reversal on dilution of interest in a subsidiary	(321)	—	—	(321)
Write-offs	—	(74)	—	(74)
Movement arising from reclassification of subsidiaries to associated companies	(35,736)	(22,370)	(15,822)	(73,928)
At 31st December 2002	1,789	460	—	2,249
At 31st December 2002				
Cost	2,075	1,415	—	3,490
Accumulated amortization	(286)	(955)	—	(1,241)
Net book value	1,789	460	—	2,249
At 31st December 2001				
Cost	46,982	25,539	17,805	90,326
Accumulated amortization	(7,112)	(10,404)	(13,357)	(30,873)
Net book value	39,870	15,135	4,448	59,453

NOTES TO THE ACCOUNTS

13 INVESTMENT IN A SUBSIDIARY

	Company 2002 *HK$'000*
Unlisted shares at cost	**192,940**
Provision for impairment loss	**(69,000)**
Amount due from a subsidiary	**550**
Amounts due to subsidiaries	**(8,035)**
	116,455

The cost of the unlisted shares is based on the values of the underlying separable net assets of the subsidiaries acquired by the Company when it became the holding company of the Group.

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

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

14 INTERESTS IN ASSOCIATED COMPANIES

	Group	
	2002 ***HK$'000***	2001 *HK$'000*
Share of net assets	**32,157**	—
Goodwill on acquistion of associated companies less amortization	**8,478**	—
Amounts due to associated companies	**(893)**	—
	39,742	
Market value of listed investments	**79,323**	—
Investment at cost:		
Listed shares, in Hong Kong	**276,514**	—

NOTES TO THE ACCOUNTS

14 INTERESTS IN ASSOCIATED COMPANIES *(Continued)*

DVN and its subsidiaries (collectively as "DVN Group") were accounted for as subsidiaries in the Company's accounts for the period from 1st January 2002 to 13th December 2002 when the Group had board control over DVN. After the resignation of a director of the Company on 13th December 2002, the Group no longer had board control over DVN. Accordingly, the DVN Group has been reclassified as an associated company group in the Group's accounts thereafter.

Particulars of the significant associated companies are as follows:

Name	Country/ place of incorporation	Nominal value of issued ordinary share/ preference share/ registered capital	Interest held indirectly	Principal activities and place of operation
DVN (Holdings) Limited	Bermuda	HK$37,673,000 ordinary	30.08%	Investment holding
DVN (Group) Limited	British Virgin Islands	US$10 ordinary US$15,000,000 preference	30.08%	Investment holding
Dynamic Network Limited	British Virgin Islands	US$1 ordinary	30.08%	Investment holding
DVN (Management) Limited	Hong Kong	HK$2 ordinary	30.08%	Provision of administrative services in Hong Kong
DVN Technology Limited	Hong Kong	HK$2 ordinary	30.08%	Design, integration and installation of digital broadcasting equipment and development of related software and products in Hong Kong and Southeast Asian countries

NOTES TO THE ACCOUNTS

14 INTERESTS IN ASSOCIATED COMPANIES *(Continued)*

Name	Country/ place of incorporation	Nominal value of issued ordinary share/ preference share/ registered capital	Interest held indirectly	Principal activities and place of operation
Telequote Data International Limited	Hong Kong	HK$10,000 ordinary	30.08%	Provision of international financial market information and selective consumer data in Hong Kong
DVN Technology (Shenzhen) Co. Limited	People's Republic of China	HK$3,000,000	30.08%	Development of hardware and software in relation to digital broadcasting in the PRC
DVB Technology (Suzhou) Company Limited	People's Republic of China	RMB100,000,000	21.06%	Trading of digitial broadcasting equipment and related products in the PRC
Digital Video Networks Company Limited	People's Republic of China	US$7,000,000	30.08%	Design, integration and installation of digital broadcasting equipment and development of related software and products in the PRC

NOTES TO THE ACCOUNTS

14 INTERESTS IN ASSOCIATED COMPANIES *(Continued)*

Extracts of the operating results and financial position of the DVN Group, a principal associated company group of the Group, which are based on the audited accounts for the year ended 31st December 2002, are as follows:

Operating results for the year

	HK$'000
Turnover	49,879
Loss for the year	(136,210)

Summary of balance sheet as at 31 December 2002

	HK$'000
Fixed assets	65,073
Intangible assets	37,911
Long term deposits	47,425
Investment securities	20,280
Investment in a jointly controlled entity	9,057
Current assets	110,216
Current liabilities	(59,188)
Minority interests	(122,110)
Shareholders' equity	108,664

NOTES TO THE ACCOUNTS

15 INTEREST IN A JOINTLY CONTROLLED ENTITY

	Group	
	2002	2001
	HK$'000	*HK$'000*
Share of net liabilities	—	(195)
Amount due from the jointly controlled entity	—	11,096
	—	10,901

Note:

According to the joint venture agreement, the board of directors of the jointly controlled entity consists of seven directors, of which four were nominated by the Group in prior years. The joint venture agreement stipulates that certain major operating and financing decisions require the approval of at least two thirds of the directors in a board meeting. In prior years, as the Group did not have unilateral control on the financial and operating policies of the jointly controlled entity, the jointly controlled entity was not accounted for as a subsidiary and was equity accounted for in accordance with SSAP 21 "Accounting for interests in joint ventures". During the year, the Group gained control in the jointly controlled entity by nominating one more director to the board following the resignation of a director nominated by the PRC joint venture partner on 31st March 2002. Accordingly the jointly controlled entity was accounted for as a subsidiary for the period from 1st April 2002 to 31st December 2002.

16 INVESTMENT SECURITIES

	Group	
	2002	2001
	HK$'000	*HK$'000*
Listed shares, at cost		
— outside Hong Kong *(note a)*	**23,414**	23,414
Unlisted shares, at cost		
— outside Hong Kong		
Ordinary shares	—	35,000
Preference shares *(note b)*	**143,508**	20,280
	166,922	78,694
Less: Provision for impairment loss	**(86,414)**	(23,032)
	80,508	55,662
Market value of listed investments *(note a)*	—	—

NOTES TO THE ACCOUNTS

16 INVESTMENT SECURITIES *(Continued)*

(a) The listed equity investment outside Hong Kong represents the holding of 1,500,000 shares (representing 6.8% of the common stock) in a company which was incorporated in the United States of America and was listed on the National Association of Securities Dealer Over-The-Counter Bulletin Board ("OTCBB"). The investee company has been temporarily delisted on OTCBB since 3rd October 1998. Full provision against the cost of these shares was made. The market value of the investment at 3rd October 1998, the date on which the investee company was delisted on the OTCBB, was US$3 per share.

(b) At 31st December 2002, the Group held 15,000,000 non-voting exchangeable preference shares of DVN (Group) Limited, an associated company, at HK$143,508,000. These preference shares are exchangeable to approximately 24,786,780 ordinary shares of DVN, a listed associated company, upon conversion at HK$4.69 per share and are subject to adjustment. Fixed cumulative cash dividend on preference shares are receivable at a rate of 5% per annum on the nominal value amount of each preference share for each year. Dividend income receivable at 31st December 2002 amounted to HK$10,171,000.

The directors made a provision for impairment loss of approximately HK$63,000,000 at 31st December 2002,

NOTES TO THE ACCOUNTS

17 OTHER ASSETS

	Group	
	2002	2001
	HK$'000	*HK$'000*
Deposits for purchasing of film rights	—	35,228
Deposits for film distribution rights	—	10,000
Deposit for films library	—	17,060
Deposit for investment in a joint venture *(note)*	**4,104**	—
Club debentures	**2,065**	2,065
	6,169	64,353

Note:

This represents deposit to a third party for acquiring 35% equity interest in a co-operative joint venture ("JV") in the PRC. Under the JV agreement dated 20th October 2002, the Group will be entitled to 35% of the results of the JV. The tenure of the JV is 20 years. The board of directors of the JV consists of seven directors, of which two will be nominated by the Group. The JV agreement stipulates that certain major operating and financing decisions require the approval of at least two thirds of the directors in a board meeting. At 31st December 2002, the JV agreement had not yet been approved by the respective regulatory body in the PRC.

18 INVENTORIES

	Group	
	2002	2001
	HK$'000	*HK$'000*
Raw materials	—	1,488
Finished goods	**5,927**	42,280
	5,927	43,768

At 31st December 2002, the carrying amount of inventories that are stated at net realised value amounted to HK$4,028,000 (2001: HK$ 23,669,000).

NOTES TO THE ACCOUNTS

19 TRADE RECEIVABLES

At 31st December 2002, the aging analysis of the trade receivables is as follows:

	Group	
	2002	2001
	HK$'000	*HK$'000*
0 — 3 months	**126**	25,525
4 — 6 months	**—**	213
Over 6 months	**—**	37,163
	126	62,901

The majority of the Group's sales are on credit with credit terms of 30 — 90 days.

20 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

The Group's prepayments, deposits and other receivables as at 31st December 2002 and 31st December 2001 include a receivable of HK$18,345,000 arising from the expiry of the convertible cumulative non-voting preference shares of Leaptek Limited ("Leaptek"), a company listed on The Stock Exchange of Hong Kong Limited ("SEHK"), which should be due for redemption on 22nd October 2001 and has not yet been repaid up to the date of the report. Full provision was made in considering of its existing financial position and situation in prior year.

21 SHORT-TERM INVESTMENTS

	Group		Company
	2002	2001	**2002**
	HK$'000	*HK$'000*	***HK$'000***
Equity securities:			
Listed in Hong Kong (note)	**8,019**	12,487	**—**
Listed outside Hong Kong	**3,588**	—	**3,588**
Market value of listed equity securities	**11,607**	12,487	**3,588**

Note: The listed equity securities represent ordinary shares of Leaptek. The trading of these securities has been temporarily suspended on the SEHK since April 2002. The carrying value of the equity securities as at 31st December 2002 was calculated at HK$0.07 per share, representing the share price at the last trading date before the suspension.

NOTES TO THE ACCOUNTS

22 TRADE PAYABLES

The aging analysis of trade payables is as follows:

	Group	
	2002	2001
	HK$'000	*HK$'000*
0 — 3 months	**390**	2,513
4 — 6 months	**—**	459
Over 6 months	**206**	20,165
	596	23,137

23 OTHER PAYABLES AND ACCRUED LIABILITIES

	Group		Company
	2002	2001	**2002**
	HK$'000	*HK$'000*	***HK$'000***
Deposits received, accrued charges and other payables	**7,607**	48,932	**1,328**
Amount due to a fellow subsidiary *(note a)*	**20,000**	42,179	**—**
Provision for legal fees *(note b)*	**4,600**	19,727	**—**
	32,207	110,838	**1,328**

Notes:

(a) The amount due to a fellow subsidiary bears interest at Hong Kong dollar prime lending rate plus 2.5% (2001: prime lending rate plus 2.5%) per annum. The balance is unsecured and is repayable on demand.

(b) During the year, amounts of HK$2,709,000 and HK$12,418,000 were utilized and reversed to the profit and loss account, respectively.

NOTES TO THE ACCOUNTS

24 SHORT-TERM BANK AND OTHER BORROWINGS

	Group	
	2002	2001
	HK$'000	*HK$'000*
Short-term bank loans	—	50,597
Trust receipt loans, secured	—	4,014
Current portion of finance lease payables *(note 25)*	—	183
	—	54,794

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

25 FINANCE LEASE PAYABLES

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

	Group	
	2002	2001
	HK$'000	*HK$'000*
Amount payable:		
Within one year	—	186
In the second to fifth years, inclusive	—	—
Total minimum lease payments	—	186
Future finance charges	—	(3)
Total net finance lease payable	—	183
Portion classified as current liabilities *(note 24)*	—	(183)
Long-term portion of finance lease payables	—	—

26 AMOUNT DUE TO A FELLOW SUBSIDIARY

The amount due to a fellow subsidiary bears interest at prime lending rate plus 2.5% per annum (2001: interest free). The balance is unsecured and is not expected to be repaid within 1 year.

At 31st December 2002, there was an amount of HK$50,715,000 due to a fellow subsidiary which is also a minority shareholder of a subsidiary. The balance was presented as a net-off against a debit balance arising from the same minority shareholder of that subsidiary of the same amount. The balance is unsecured, interest-free and has no fixed terms of repayment.

NOTES TO THE ACCOUNTS

27 SHARE CAPITAL

	Authorized				
	Preference shares of HK$0.01 each		Ordinary shares of HK$0.01 each		Total
	No. of shares		No. of shares		
	000	*HK$'000*	*000*	*HK$'000*	*HK$'000*
At 27th May 2002 (date of incorporation)	—	—	10,000	100	100
Increase of authorized share capital	240,760	2,408	4,990,000	49,900	52,308
At 31st December 2002	240,760	2,408	5,000,000	50,000	52,408

	Issued and fully paid				
	Preference shares of HK$0.01 each		Ordinary shares of HK$0.01 each		Total
	No. of shares		No. of shares		
	000	*HK$'000*	*000*	*HK$'000*	*HK$'000*
At 27th May 2002 (date of incorporation)	—	—	10	—	—
Issue of shares	240,760	2,408	2,774,283	27,743	30,151
At 31st December 2002	240,760	2,408	2,774,293	27,743	30,151

The following changes in the Company's authorized and issued share capital took place during the period from 27th May 2002 (date of incorporation) to 31st December 2002:

(a) On incorporation, the Company had an authorized share capital of HK$100,000, divided into 10,000,000 ordinary shares of par value of HK$0.01 each

(b) On 27th May 2002, the Company allotted and issued nil paid 10,000 ordinary shares of par value of HK$0.01 each as the initial capital base.

(c) Pursuant to the terms of the Reorganization, the authorized share capital of the Company was increased from HK$100,000 to HK$52,408,000 by the creation of an additional 240,760,000 preference shares of HK$0.01 each and an additional 4,990,000,000 ordinary shares of HK$0.01 each.

NOTES TO THE ACCOUNTS

27 SHARE CAPITAL *(Continued)*

(d) On 23rd October 2002, through an exchange of shares arrangement, a total of 240,760,000 preference shares of HK$0.01 each and approximately 2,774,283,000 ordinary shares of HK$0.01 each were allotted as fully paid to the then shareholders on the register of members of UAL, at the close of business on 22nd October 2002 in the proportion of one ordinary and one preference share in the Company for one ordinary and one preference share in UAL, respectively. The 10,000 shares allotted and issued nil paid on 27th May 2002 were credited as fully paid out of the share premium account arising from the above issue of shares. Dealings of the Company's shares on the SEHK commenced on 23rd October 2002.

Preference shares

The preference shares were issued as part of the Reorganization on 23rd October 2002 subject to the terms set out in the circular of UAL dated 31st July 2002. 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.

Share options

Pursuant to the 10-year term share option scheme ("New Scheme") adopted by the Company on 30th July 2002, the Company can grant options to Qualified Persons for a consideration of HK$1.00 for each grant payable by the Qualified Persons to the Company. 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 then in issue. Unless with shareholder's approval, the maximum number of shares options can be granted under the New Scheme shall not exceed 277,429,315 shares, representing 10% of the total number of shares in issue at the time the New Scheme was adopted.

Subscription price in relation to each option pursuant to the New Scheme shall not be less than the higher of (i) the closing price of the shares as stated in SEHK's daily quotation sheets on the date on which the option is offered to a Qualified Person; or (ii) the average of the closing prices of the shares as stated in the SEHK's daily quotation sheets for the 5 trading days immediately preceding the date of offer; or (iii) the nominal value of the shares of the Company. 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 the Company.

During the year, the Company did not grant any share options and there was no outstanding share option as at 31st December 2002.

NOTES TO THE ACCOUNTS

27 SHARE CAPITAL *(Continued)*

At 1st January 2002, the Group's former listed holding company, UAL now a 100% wholly-owned subsidiary of the Company, had outstanding share options which entitled the holders to subscribe in cash for ordinary shares in UAL as follows:

Date of share options granted	Number of share options outstanding as at 1st January 2002	Number of share options exercised during the year	Number of share options cancelled during the year *(note)*	Number of share options outstanding as at 31st December 2002	Exercise period	Exercise price per share *HK$*
2nd October 1999						
Directors	27,000,000	—	27,000,000	—	1/1/2000 to 31/12/2002	0.26
Employees	44,200,000	—	44,200,000	—		
6th March 2000						
Directors	25,000,000	—	25,000,000	—	7/3/2000 to 6/3/2003	0.31

Note: All share options of UAL were cancelled before the Reorganization.

NOTES TO THE ACCOUNTS

28 RESERVES

Group

	Share premium HK$'000	Merger reserve* HK$'000	Currency translation HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1st January 2001					
As previously reported	162,789	860,640	102	(698,737)	324,794
Effect of adopting SSAP29	—	—	—	(1,843)	(1,843)
As previously restated	162,789	860,640	102	(700,580)	322,951
Release of exchange reserve on disposal of a subsidiary	—	—	210	—	210
Acquisition of additional interest in a subsidiary	—	—	(56)	—	(56)
Exchange difference	—	—	899	—	899
Net loss for the year	—	—	—	(138,404)	(138,404)
At 31st December 2001	162,789	860,640	1,155	(838,984)	185,600
At 1st January 2002	162,789	860,640	1,155	(838,984)	185,600
Release upon reclassification of subsidiaries to associated companies	—	—	(899)	—	(899)
Release upon disposal of subsidiaries	—	—	(427)	—	(427)
Net loss for the year	—	—	—	(95,103)	(95,103)
At 31st December 2002	162,789	860,640	(171)	(934,087)	89,171
Reserves retained by:					
Company and subsidiaries	162,789	860,640	(171)	(922,694)	100,564
A jointly controlled entity	—	—	—	—	—
Associated companies	—	—	—	(11,393)	(11,393)
At 31st December 2002	162,789	860,640	(171)	(934,087)	89,171
Reserves retained by:					
Company and subsidiaries	162,789	860,640	1,155	(830,467)	194,117
A jointly controlled entity	—	—	—	(8,517)	(8,517)
Associated companies	—	—	—	—	—
At 31st December 2001	162,789	860,640	1,155	(838,984)	185,600

NOTES TO THE ACCOUNTS

28 **RESERVES** *(Continued)*

Company

	Share premium**	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*
At 27th May 2002 (date of incorporation)	—	—	—
Issue of shares	162,789	—	162,789
Loss for the year	—	(74,107)	(74,107)
At 31st December 2002	162,789	(74,107)	88,682

Notes:

* The merger reserve of the Group derives from the difference between the nominal value of the Company's shares issued to acquire the issued share capital of UAL pursuant to the Reorganization. Under the Companies Law (2002 Revision) (Cap. 22) of the Cayman Islands, the merger reserve is distributable to shareholders under certain prescribed circumstances.

** The share premium of the Company represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the Reorganisation, over the nominal value of the Company's shares issued in exchange therefore. Under the Companies Law (2002 Revision) (Cap. 22) of the Cayman Islands, a company may make distributions to its members out of the share premium in certain circumstances.

NOTES TO THE ACCOUNTS

29 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of operating loss from ordinary activities to net cash outflow generated from operations

	2002	2001
	HK$'000	*HK$'000*
Operating loss	**(154,256)**	(155,337)
Interest income	**(618)**	(2,951)
Interest expense	**3,979**	—
Depreciation	**19,474**	15,670
Amortisation of intangible assets	**9,421**	11,550
Write-off of deferred development costs	**—**	184
Reversal of dilution of interest in a subsidiary	**321**	—
Write-off of fixed assets	**—**	5,663
Net (gain)/loss on disposal of fixed assets	**(621)**	112
Net (gain)/loss on disposal of subsidiaries	**(11,549)**	1,171
Net gain on dilution of interest in subsidiaries	**(23,684)**	(6,338)
Provision for impairment loss on investment securities	**63,382**	23,032
Exchange difference	**—**	507
Operating loss before working capital changes	**(94,151)**	(106,737)
Decrease in short-term investments	**6,692**	8,134
Decrease in amount due to a jointly-controlled entity	**—**	8,324
Decrease/(increase) in inventories and work in progress	**8,225**	(39,331)
Decrease in trade receivables, prepayments, deposits and other receivables	**45,055**	24,915
(Decrease)/increase in trade payables, accrued liabilities and other payables	**(15,640)**	43,268
Decrease in trust receipt loans	**—**	(1,498)
Net cash outflow generated from operations	**(49,819)**	(62,925)

NOTES TO THE ACCOUNTS

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

(b) **Sale of subsidiaries**

Details of disposal of subsidiaries:

	2002	2001
	HK$'000	*HK$'000*
Net assets disposed of:		
Fixed assets	**1,330**	1,674
Inventories	**—**	14,503
Trade and bills receivable	**6,337**	1,311
Deposits, prepayments and other receivables	**304**	8,945
Cash and bank balances	**580**	213
Trade and bills payable	**(7,527)**	(13,170)
Accrued liabilities and other payables	**(527)**	(18,814)
Minority interests	**1**	—
	498	(5,338)
Goodwill	**—**	6,299
Currency translation reserve released on disposal	**(427)**	210
Loss on disposal	**11,549**	(1,171)
	11,620	—
Represented by:		
Cash consideration	**5,808**	—
Short-term investments	**5,812**	—
	11,620	—

NOTES TO THE ACCOUNTS

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

(b) **Sale of subsidiaries** *(Continued)*

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

	2002	2001
	HK$'000	*HK$'000*
Cash consideration received	**5,808**	—
Cash and cash equivalents of disposed subsidiaries	**(580)**	(213)
Net inflow/(outflow) of cash and cash equivalents	**5,228**	(213)

Loss on subsidiaries disposed of during the year and attributable to the Group amounted to HK$4,604,000 (2001: HK$4,372,000).

(c) **Major non-cash transactions**

(i) During the year, the net assets of subsidiaries reclassified to associated companies amounted to HK$108,664,000 as the Group no longer had board control over the subsidiaries.

(ii) During the year, the net assets of a jointly controlled entity reclassified to a subsidiary amounted to HK$10,645,000 as the Group gained board control over the jointly controlled entity.

NOTES TO THE ACCOUNTS

30 COMMITMENTS

(a) Commitments under operating leases

At 31st December 2002, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Land and buildings	
	2002	2001
	HK$'000	*HK$'000*
Not later than one year	**1,141**	6,437
Later than one year and not later than five years	**625**	2,141
	1,766	8,578

	Equipment	
	2002	2001
	HK$'000	*HK$'000*
Not later than one year	**416**	416
Later than one year and not later than five years	**759**	1,175
	1,175	1,591

(b) Capital commitments for property, plant and equipment:

	2002	2001
	HK$'000	*HK$'000*
Contracted for	**—**	1,306
Authorized, but not contracted for	**—**	—
	—	1,306

(c) The Company had no significant capital commitments at 31st December 2002.

NOTES TO THE ACCOUNTS

31 RELATED PARTY TRANSACTIONS

During the year, a wholly-owned subsidiary of Kwan Wing made advances to the maximum amount of approximately HK$43million (2001:HK$42 million) to the Group (notes 23 and 26).

The balance due to the above-mentioned fellow subsidiary is unsecured, bears interest at Hong Kong dollar prime rate plus 2.5% per annum and has no fixed terms of repayment. The total interest paid on the advances amounted to HK$2,803,000 (2001:HK$1,383,000).

32 BANKING FACILITIES

As at 31st December 2002, the Group's banking facilities were secured by corporate guarantees to the extent of HK$10,000,000 (2001: HK$10,000,000) executed by a subsidiary of the Group. At 31st December 2002, the Group had not utilized the banking facilities (2001: HK$4,014,000). The banking facilities have been expired subsequent to the year end.

33 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 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 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.

NOTES TO THE ACCOUNTS

33 PENDING LITIGATION *(Continued)*

(b) On 9th September 1998, Smoothline was notified that the Customer and a party holding certain patents had agreed to settle a patent infringement dispute relating to the distribution 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 four years.

(c) On 21st December 1999, in relation to the Customer referred to in paragraph above, two subsidiaries, Smoothline and Greatsino Electronics Limited ("Greatsino") 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. In addition, the Court of Appeals remanded the case to the District Court for a determination of whether Greatsino and another Group subsidiary, UAL, the parent of Smoothline and Greatsino, are required to arbitrate.

On 27th February 2002, the District Court granted the Customer's motion to compel arbitration with respect to Greatsino and, on 27th December 2002, issued a further opinion compelling UAL to arbitrate.

On 6th April 2003, Smoothline, Greatsino and UAL filed to appeal the District Court's 27th February 2002, and 27th December 2002, opinions and are waiting for instructions from the Second Circuit Court of Appeals regarding scheduling of the appeal. Smoothline, Greatsino and UAL intend to vigorously contest the District Court's rulings.

NOTES TO THE ACCOUNTS

33 PENDING LITIGATION *(Continued)*

(c) *(Continued)*

As a result of the February and December 2002 District Court rulings, the Customer has restarted its earlier filed arbitrations against Smoothline, Greatsino and UAL in the AAA in New York. Reserving their rights regarding outcome of the appeal filed on 6th April 2003, Smoothline, Greatsino and UAL have agreed to attempt mediation of their disputes with the Customer prior to arbitration.

In the Liechtenstein proceedings (see above), Smoothline and Greatsino claimed damages of US$14.78 million. No specific counter-claims have been filed by the Customer. The Directors believe that there exist valid and substantial defences against any potential counter-claims. Accordingly, the directors do not consider any provisions is necessary.

34 ULTIMATE HOLDING COMPANY

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

35 APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 25th April 2003.

36 PARTICULARS OF PRINCIPAL SUBSIDIARIES

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

NOTES TO THE ACCOUNTS

36 PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name	Place of incorporation and kind of legal entity	Nominal value of issued ordinary share/ registered capital	Interest held	Principal activities and place of operation
Beijing E-Pay Net Technology Co. Limited	PRC, co-operative joint venture	US$2,680,000 ordinary	70%	Provision of communication services in the PRC
Beijing Jiya Telecommunication Engineering Co Limited	PRC, co-operative joint venture	US$2,680,000 ordinary	70%	Provision of computer telephony integration engineering service in the PRC
Entertainment Soundview Limited	Hong Kong, limited company	HK$10,000 ordinary	100%	Marketing and sales of home audio/video products in Hong Kong
Global Assets Limited	Hong Kong, limited company	HK$5,000,000 ordinary	100%	Group treasury in Hong Kong
Smart Asia Limited	Hong Kong, limited company	HK$10,000 ordinary	100%	Investment holding
Smoothline Limited	Hong Kong, limited company	HK$7,500,000 ordinary	100%	Design, manufacturing and marketing of telecommunication products — inactive
Systems Asia Limited	Hong Kong, limited company	HK$10,000	100%	Group administrative services in Hong Kong
Universal Appliances Limited	Hong Kong, limited company	HK$499,373,000 ordinary HK$43,337,000 preference	#100%	Investment holding
Million Way Enterprises Limited	British Virgin Islands, limited company	US$1 ordinary	100%	Investment holding
Prime Pacific International Limited	British Virgin Islands, limited company	US$50,000 ordinary	67%	Investment holding
Super China Development Limited	British Virgin Islands, limited company	US$1 ordinary	100%	Investment holding

Shares held directly by the Company.