

**UNIVERSAL HOLDINGS LIMITED**  
**ANNUAL REPORT 2003**

## CONTENTS

	<i>Pages</i>
CORPORATE INFORMATION	2
CHAIRMAN'S STATEMENT	3-5
MANAGEMENT DISCUSSION AND ANALYSIS	6-7
REPORT OF THE DIRECTORS	8-18
REPORT OF THE AUDITORS	19
AUDITED ACCOUNTS	
Consolidated Profit and Loss Account	20
Consolidated Balance Sheet	21
Balance Sheet	22
Consolidated Cash Flow Statement	23-24
Consolidated Statement of Changes in Equity	25
NOTES TO THE ACCOUNTS	26-64

## CORPORATE INFORMATION

### BOARD OF DIRECTORS

Mr. Ko Chun Shun, Johnson  
Mr. Cheong Chow Yin  
Mr. Wilton Timothy Carr Ingram  
Dr. Wong Yau Kar, David

### PRINCIPAL OFFICE IN HONG KONG

Unit 4306-07, Far East Finance Centre  
16 Harcourt Road  
Admiralty  
Hong Kong

### COMPANY SECRETARY

Mr. Chan Kam Kwan, Jason

### SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Tengis Limited  
G/F  
Bank of East Asia Harbour View Centre  
56 Gloucester Road  
Wan Chai  
Hong Kong

### AUDITORS

PricewaterhouseCoopers  
*Certified Public Accountants*

### SOLICITORS

Baker & McKenzie

### REGISTERED OFFICE

Century Yard  
Cricket Square  
Hutchins Drive  
P.O. Box 2681 GT  
George Town  
Grand Cayman  
British West Indies  
Cayman Islands

## CHAIRMAN'S STATEMENT

The Group's turnover for the year was HK\$30,011,000 as compared to HK\$51,791,000 in the prior year. Net loss attributable to shareholders amounted to HK\$70,046,000 as compared against a net loss of HK\$95,103,000 in 2002.

Below is the operational review of each significant division.

### DIGITAL BROADCASTING INVESTMENT

One of the Group's significant investments which is accounted for as an associated company in 2003 (was accounted for as a subsidiary in 2002), includes DVN (Holdings) Limited ("DVN"), a listed company in Hong Kong. DVN's business outlook strengthened as the PRC government announced its intention to migrate 30 million analog subscribers to digital by 2005. As a result, as more localities implement their digitalization plans, DVN has recorded sharply higher set-top boxes sales and subscription revenues. The increased revenues were achieved in spite of the impact from SARS, which caused cable television stations to delay their digitalization plans, and to reduce promotional activities.

In January 2003, DVN sold headend equipment to Fujian, and is currently supplying Fujian with set-top boxes. A contract was signed with Shanghai in June to supply the municipality with set-top boxes; while integration contracts were signed with Urumqi, Hangzhou, and Qingdao.

The integration contracts are a new development for DVN in which DVN agrees to supply all the middleware, software, and integration expertise to ensure that a digital platform is up and running for a cable operator. DVN does not supply the actual headend hardware, and therefore does not incur any capital expenses. DVN receives an integration fee, but does not receive any subscription fees in this arrangement. However, in exchange for providing software that enables various value added services, DVN receives 30-50% of the value added service revenues for the next 15-20 years. Value added services include: online gaming, long distance education, television shopping, stock market trading, etc. Through this new business model, DVN does not incur any financial risk, while ensuring that it receives significant financial upside if value added services succeed in China.

This transition from headend sales to set top box and subscription sales is a natural progression as first cable operators must install the headends. Through these headend sales and through its leasing of headends in other localities, DVN is able to establish a base from which it can generate future revenues. After the headends are installed, the cable operator is able to sell set-top boxes and subscriptions to customers. With this transition, DVN expects accelerated revenue growth as it will be able to generate considerably more revenues from set-top boxes and the provision of services as compared to sales of headend equipment.

## CHAIRMAN'S STATEMENT

With the government's continued push towards digitalization, DVN expects sales of STB's and subscription revenues to accelerate. In July 2003, SARFT formally announced a list of 33 cities that should immediately implement plans to go digital. DVN has established relationships with some of these cities already putting it in a position to promote, provide and deliver digital services.

First mover advantages are extremely important in the cable industry as early entrants establish technical standards in the localities, legal commitments, and relationships that make entry for later competitors more difficult. With this first mover advantage, we believe DVN has a unique position in China's cable industry to take advantage of the government's initiative towards digitalization.

### COMMUNICATION DIVISION

The Group's communication division continues to develop its business in an intense competitive environment. We expect that our scalable, cost effective modular system provides an affordable solution for enterprises to improve on customer care. As China moves towards more service oriented operations, our modular call centers will be in greater demand. We are well positioned in the China market to sell this solution and other related services.

### AUDIO AND VIDEO DISTRIBUTION DIVISION

The high audio market was adversely affected by the economic downturn in the first half of the year. With the support of the government to stimulate tourism from China, this will have an effect in the overall retail market for Hong Kong. The Group will move cautiously to seek strategic acquisitions and distribution rights before investing further into this business segment.

### FUTURE

The Group will seek to strengthen the audio and video components and equipment distribution through strategic investment.

As discussed above, the Group's significant investment in DVN is engaged in the exciting and still maturing digital broadcasting industry in China with significant potential in revenue and profits. As the industry evolves, and cable operator's sophistication increases, DVN anticipates that it will need to work with strategic partners that will complement DVN's existing strengths of software development and services. DVN is therefore actively in discussions with potential strategic partners. Our Group will support DVN in its cooperation with strategic partners that have strengths in hardware, manufacturing, and technology; and also with the requisite experience and expertise to help ensure that DVN's digital cable deployments in China are successful.

## CHAIRMAN'S STATEMENT

The Group has rationalized its operations. The Group will seek to diversify its businesses and implement strategies that strengthens its revenue and asset base. The Group will continue to explore any business opportunities in strategic acquisition of equity interests in Hong Kong or abroad. In addition, the Group will look for opportunities to expand its capital base in the equity and capital markets.

### APPRECIATION

With this opportunity, I wish to extend my appreciation to all the directors and employees for their commitment and dedications during the year. I would also like to thank our shareholders, partners and associates for their continuing support.

**Ko Chun Shun, Johnson**  
*Chairman*

Hong Kong, 27th April 2004

## MANAGEMENT DISCUSSION AND ANALYSIS

### LIQUIDITY, FINANCIAL RESOURCES, AND EXPOSURE TO EXCHANGE RATE FLUCTUATION

As at 31st December 2003, the Group held cash deposits totalling HK\$16.4 million, an increase of HK\$12.2 million compared with that of 31st December 2002, which was mainly from the raising of approximately HK\$14.5 million by the issuing of 500,000,000 new ordinary shares of the Company to public investors. A current ratio of 1.22 and a gearing ratio, representing long term liabilities to net worth, of 0.16 as at 31st December 2003 were slightly improved as compared to 1.18 and 0.18 as at 31st December 2002.

In addition to the internal generated cash flows and capital raising, the Group also made use of short-term borrowings to finance its operations during the year. All borrowings during the year were based on market interest rate. The short-term borrowings were secured against certain shares of an associated company. The Group had no long-term bank loan and no bank overdrafts outstanding as at year end.

There were no significant exposure to foreign currency fluctuation. The Group will continue to rely mainly on the internal generated cash flows and borrowings to fund its operation. The Group will also rely on the realization of its assets or capital raising.

### SIGNIFICANT INVESTMENTS HELD

There was no change in significant investments held during the year. The Group has not acquired or disposed of any material assets during the year.

### NUMBER AND REMUNERATION OF EMPLOYEES, REMUNERATION POLICIES, BONUS AND SHARE OPTION SCHEMES AND TRAINING SCHEMES

As at 31st December 2003, the Group employed a total of 6 full-time employees in Hong Kong and a work force of about 25 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.

## MANAGEMENT DISCUSSION AND ANALYSIS

### PENDING LITIGATION AND CONTINGENT LIABILITIES

At 31st December 2003, the Group had a pending litigation and the details of which have been disclosed in note 31 to the accounts. Save for this, the Group had no other material contingent liabilities outstanding as at the year end.

## REPORT OF THE DIRECTORS

The directors submit their report together with the audited accounts for the year ended 31st December 2003.

### PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in note 34 to the accounts.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 4 to the accounts.

### RESULTS AND DIVIDENDS

The results of the Group for the year are set out in the consolidated profit and loss account on page 20.

The directors do not recommend the payment of a dividend in respect of the year ended 31st December 2003.

### FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the audited accounts and restated/reclassified as appropriate, are summarised below.

## REPORT OF THE DIRECTORS

### FIVE YEAR FINANCIAL SUMMARY (Continued)

#### Results

	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000
Turnover					
Continuing operations	30,011	51,791	128,875	89,753	32,451
Discontinued operations	—	—	—	29,522	695,275
	<b>30,011</b>	<b>51,791</b>	<b>128,875</b>	<b>119,275</b>	<b>727,726</b>
Loss before tax	(69,851)	(171,355)	(165,710)	(587,456)	(11,461)
Taxation	(195)	—	—	645	1,164
Minority interests	—	76,252	27,306	93,081	79,874
(Loss)/profit attributable to shareholders	<b>(70,046)</b>	<b>(95,103)</b>	<b>(138,404)</b>	<b>(493,730)</b>	<b>69,577</b>

#### Assets and liabilities

	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000
Fixed assets	2,560	6,030	83,520	43,213	69,597
Intangible assets	1,685	2,249	59,453	64,606	129,442
Interests in a jointly controlled entity and associated companies	15,837	39,742	10,901	26,155	19,859
Investment securities	36,000	80,508	55,662	58,414	32,055
Other assets	4,533	6,169	64,353	66,987	74,303
Current assets	72,653	38,643	304,180	342,536	737,014
Total assets	<b>133,268</b>	<b>173,341</b>	<b>578,069</b>	<b>601,911</b>	<b>1,062,270</b>
Current liabilities	59,428	32,803	190,851	95,869	238,586
Long-term liabilities	10,000	21,216	50,715	45,119	756
Total liabilities	<b>69,428</b>	<b>54,019</b>	<b>241,566</b>	<b>140,988</b>	<b>239,342</b>
Minority interests	—	—	120,752	107,821	205,009
Net assets	<b>63,840</b>	<b>119,322</b>	<b>215,751</b>	<b>353,102</b>	<b>617,919</b>

## REPORT OF THE DIRECTORS

### FIVE YEAR FINANCIAL SUMMARY *(Continued)*

#### Assets and liabilities *(Continued)*

The net (loss)/profit attributable to shareholders for each of the three years ended 31st December 1999, 2000 and 2001, and the shareholders' equity as at the respective balance sheet dates have been restated as a result of the change in the accounting policies for pre-operating expenses in 1999 and intangible assets in 2001. Loss before taxation and taxation for each of the two years ended 31st December 2000 have not been restated for the continuing and discontinued operations as the directors consider this would involve extra costs and time to do so.

#### FIXED ASSETS

Details of the movements in fixed assets of the Group are set out in note 11 to the accounts.

#### SHARE CAPITAL

Details of the movements in the share capital of the Company are set out in note 25 to the accounts.

#### SHARE OPTIONS

A share option scheme (the "Option Scheme") was adopted by the Company on 30th July 2002. The purpose of the Option Scheme is to recognize and acknowledge the contributions of the Qualified Persons (as defined in the Option Scheme, including but not limit to, the directors, employees, partners and associates of the Group) to the Group.

Pursuant to this 10-year term Option Scheme, 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 shareholders' approval, the maximum number of options shares can be granted under the Option Scheme shall not exceed 277,429,315 shares, representing 10% of the total number of shares in issue at the time the Option Scheme was adopted.

Subscription price in relation to each option pursuant the Option Scheme shall be not less than the higher of (i) the closing price of the shares 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 as stated in the Stock Exchange's daily quotation sheets for the 5 trading days immediately preceding the date of offer; or (iii) the nominal value of the shares. 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.

## REPORT OF THE DIRECTORS

### SHARE OPTIONS *(Continued)*

There was no share option granted under the Option Scheme during the years ended 31st December 2003 and 2002, and there was no share option outstanding as at 31st December 2003 and 2002.

### RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in note 26 to the accounts.

### DISTRIBUTABLE RESERVES

The distributable reserves of the Company as at 31st December 2003, calculated under the Companies Law (2002 Revision) (Cap. 22) of the Cayman Islands and the Company's Articles of Association, amounted in total to HK\$26,309,000 (2002: HK\$88,682,000), representing the amount standing to the credit of the share premium of HK\$172,353,000 (2002: HK\$162,789,000) less the accumulated losses as at the date of HK\$146,044,000 (2002: HK\$74,107,000). The Company may make distributions to its members out of the share premium in certain circumstances.

### MAJOR SUPPLIERS AND MAJOR CUSTOMERS

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

#### Purchases

— the largest supplier	48%
— five largest suppliers combined	62%

#### Sales

— the largest customer	58%
— five largest customers combined	60%

As far as the directors are aware, none of the directors, their associates or any shareholders (which to the knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interests in the major suppliers or customers noted above.

## REPORT OF THE DIRECTORS

### DIRECTORS

The directors during the year and up to the date of this report were:

#### Executive directors

Mr. Ko Chun Shun, Johnson

#### Non-executive director

Mr. Cheong Chow Yin

#### Independent non-executive directors

Mr. Wilton Timothy Carr Ingram

Dr. Wong Yau Kar, David

In accordance with Article 87(1) of the Company's Articles of Association, Dr. Wong Yau Kar, David will retire, and being eligible, offers himself for re-election at the forthcoming annual general meeting.

### BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

#### Directors

Name	Age	Position held	Number of years of service	Business experience
Mr. Ko Chun Shun, Johnson	52	Chairman and Executive Director	10	International trading, direct investment and financial services
Mr. Cheong Chow Yin	48	Non-executive Director	4	Manufacturing
Mr. Wilton Timothy Carr Ingram	56	Independent Non-executive Director	8	Investment, brokerage and direct investment
Dr. Wong Yau Kar, David	46	Independent Non-executive Director	4	Manufacturing, international trade and corporate finance

#### Senior management staff

Mr. Wong Siu Kang	52	Managing Director of Netbroad Communication Limited	4	Telecommunication services, engineering and management
Mr. Zhang Bin	38	Managing Director of Beijing Jiya Telecommunication Engineering Co. Limited	9	Telecommunication services, engineering and management
Mr. Ho Te Hwai, Cecil	43	Group Financial Controller	10	Finance and accounting
Mr. Chan Kan Kwan, Jason	31	Company Secretary	4	Accounting and corporate finance

## REPORT OF THE DIRECTORS

### DIRECTORS' SERVICE CONTRACTS

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

### DIRECTORS' INTERESTS IN CONTRACTS

Except as disclosed in the sections "Directors' and Chief Executives' Interests in the Shares, Underlying Shares and Debentures of the Company or any Associated Corporation" and "Connected Transactions" below, no contracts of significance in relation to the Group's business to which the Company, its fellow subsidiaries or its holding companies was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

### DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

At 31st December 2003, the interests of each director and chief executive in the shares, underlying shares and debentures of the Company and its associated corporations, as defined in Part XV of Securities and Futures Ordinance (the "SFO"), as recorded in the register required to be kept by the Company under Section 352 of SFO or as notified to the Company, are as follows:

#### (A) The Company

Names	Notes	Number of ordinary shares of HK\$0.01 each		
		Personal interests	Family interests	Corporate interests
Mr. Ko Chun Shun, Johnson ("Mr. Ko")	(i)	18,640,000	—	1,000,437,150

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

Names	Notes	Number of ordinary shares of HK\$0.10 each		
		Personal interests	Family interests	Corporate interests
Mr. Ko	(ii)	343,000	2,040,816	158,357,940

## REPORT OF THE DIRECTORS

### DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION *(Continued)*

#### (B) DVN (Holdings) Limited ("DVN") *(Continued)*

*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 an indirect wholly-owned subsidiary of the Company which in turn is controlled by Mr. Ko.

31,032,522 ordinary shares in DVN are held directly by Universal Appliances Limited, which is wholly-owned subsidiary of the Company.

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

2,822,000 ordinary shares in DVN are held by First Gain International Limited, which is wholly owned by Mr. Ko.

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

2,040,816 ordinary shares in DVN are held by the spouse of Mr. Ko.

- (iii) Million Way Enterprises Limited, an indirect 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 exchange and are subject to adjustments.

## REPORT OF THE DIRECTORS

### DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN THE SHARES OF THE COMPANY OR ANY ASSOCIATED CORPORATION *(Continued)*

#### (C) Rights to acquire ordinary shares of DVN

Movements of the share options of DVN granted to a director of the Company are as follows:

Directors	Date of share options granted	Number of share options outstanding as at 1st January 2003	Number of share options granted during the year	Number of share options cancelled/ lapsed during the year	Number of share options outstanding as at 31st December 2003	Exercise period	Exercise price per share HK\$
Mr. Ko	23/7/2002	3,000,000	—	—	3,000,000	24/7/2002 — 23/7/2005	1.470
	10/12/2003	—	450,000	—	450,000	1/1/2004 — 31/12/2006	0.824
		3,000,000	450,000	—	3,450,000		

Save as disclosed above and other than certain nominee shares in subsidiaries held by Mr. Ko in trust for the Company, as at 31st December 2003, none of the directors, the chief executive (including their spouse and children under 18 years of age) or their associates had any other beneficial interests in the shares of the Company and its associated corporation (within the meaning of the SFO).

## REPORT OF THE DIRECTORS

### SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SHARES, UNDERLYING SHARES OF THE COMPANY

As at 31st December 2003, save as disclosed below and under the section "Directors' and Chief Executives' Interests in Shares, Underlying Shares and Debentures of the Company or any Associate Corporation" above, no other person had registered any substantial shareholders' interests, being 5% or more of the Company's issued share capital under Section 336 of the SFO:

a. Ordinary shares of HK\$0.01 each in the Company

Name	Number of shares	
	Direct interests	Indirect interests
Blue World Investments Limited	82,654,000	—
Leung Chi Yan	(note)	82,654,000

*Note:* The interests are held by Blue World Investments Limited.

b. Convertible preference shares of HK\$0.01 each in the Company

Name	Number of shares	
	Direct interests	Indirect interests
Blue World Investments Limited	240,760,000	—
Leung Chi Yan	(note)	240,760,000

*Note:* The interests are held by Blue World Investments Limited. These shares are convertible to 240,760,000 ordinary shares of the Company, subject to adjustments.

### CONNECTED TRANSACTIONS

A related party transaction, which also constitutes connected transaction under the Listing Rules, required to be disclosed in accordance with Chapter 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited of the SEHK ("Listing Rules"), is as follows:

As at 31st December 2003, there were outstanding advances made by a wholly-owned subsidiary of Kwan Wing in previous year of approximately HK\$26 million (2002: HK\$43 million) to the Group (notes 22 and 24). The maximum amount due during the year was HK\$43 million (2002: HK\$43 million).

## REPORT OF THE DIRECTORS

### CONNECTED TRANSACTIONS *(Continued)*

The balance due to the above-mentioned fellow subsidiary is unsecured, bears interest at Hong Kong dollar prime lending rate plus 2.5% per annum and has no fixed terms of repayment. The total interest payable for the year ended 31st December 2003 on the advances amounted to HK\$2,468,000 (2002: HK\$2,803,000).

The directors, including the independent non-executive directors, of the Company are of the opinion and have confirmed to the Company that the above connected transaction was carried out in the ordinary and normal course of business of the Group.

### PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association and there was no restriction against such rights under the laws of the Cayman Islands.

### PURCHASE, REDEMPTION OR SALE OF SECURITIES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

### MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

### COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

Throughout the year, the Company was in compliance with the Code of Best Practice as set out in the Listing Rules, except that the independent non-executive directors are not appointed for a specific term as all of the directors, excluding the executive Chairman and without limitation to non-executive directors, are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Articles of Association of the Company.

### AUDIT COMMITTEE

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Society of Accountants.

## REPORT OF THE DIRECTORS

### AUDIT COMMITTEE *(Continued)*

The Audit Committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the Group audit. It also reviews the effectiveness of both the external and internal audit and of internal controls and risk evaluation. The Committee comprises two independent non-executive directors, namely Mr. Wilton Timothy Carr Ingram and Dr. Wong Yau Kar, David. Two meetings were held during the current year.

### SUBSEQUENT EVENTS

Details of the settlement of the pending litigation after the balance sheet date are set out in note 31 to the accounts.

### AUDITORS

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board  
**Ko Chun Shun, Johnson**  
*Chairman*

Hong Kong, 27th April 2004

## AUDITORS' REPORT



羅兵咸永道會計師事務所

PricewaterhouseCoopers  
22nd Floor Prince's Building  
Central Hong Kong

### AUDITORS' REPORT TO THE SHAREHOLDERS OF UNIVERSAL HOLDINGS LIMITED

*(incorporated in the Cayman Islands with limited liability)*

We have audited the accounts on pages 20 to 64 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

#### RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors of the Company are responsible for the preparation of accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

#### BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

#### OPINION

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31st December 2003 and of the Group's loss and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**PricewaterhouseCoopers**  
*Certified Public Accountants*

Hong Kong, 27th April 2004

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31st DECEMBER 2003

	<i>Notes</i>	<b>2003</b> <b>HK\$'000</b>	2002 <i>HK\$'000</i>
Turnover	3	30,011	51,791
Cost of sales		<b>(24,567)</b>	(35,714)
Gross profit		<b>5,444</b>	16,077
Other revenues	3	<b>7,837</b>	2,702
Marketing, selling and distribution costs		(1,233)	(13,677)
Administration expenses		<b>(15,246)</b>	(86,753)
Impairment loss on investment securities		<b>(44,508)</b>	(63,382)
Net other operating income/(expenses)		<b>20,000</b>	(9,223)
Operating loss	5	<b>(27,706)</b>	(154,256)
Finance costs	6	<b>(4,634)</b>	(3,979)
Share of losses of:			
Jointly controlled entities		—	(1,727)
Associated companies		<b>(37,511)</b>	(11,393)
Loss before taxation		<b>(69,851)</b>	(171,355)
Taxation	7	<b>(195)</b>	—
Loss after taxation		<b>(70,046)</b>	(171,355)
Minority interests		—	76,252
Loss attributable to shareholders	8 & 26	<b>(70,046)</b>	(95,103)
		<b>HK cents</b>	<i>HK cents</i>
Loss per share — basic	9	<b>(2.4)</b>	(3.4)

## CONSOLIDATED BALANCE SHEET

As at 31st December 2003

	Notes	2003 HK\$'000	2002 HK\$'000
<b>Non-current assets</b>			
Fixed assets	11	2,560	6,030
Intangible assets	12	1,685	2,249
Interests in associated companies	14	15,837	39,742
Investment securities	15	36,000	80,508
Other assets	16	4,533	6,169
		<b>60,615</b>	134,698
<b>Current assets</b>			
Inventories	17	901	5,927
Trade receivables	18	2,765	126
Preference dividends receivable	15(b)	15,984	10,171
Prepayments, deposits and other receivables	19	31,973	6,545
Short-term investments	20	4,605	11,607
Cash and bank balances		16,425	4,267
		<b>72,653</b>	38,643
<b>Current liabilities</b>			
Trade payables	21	63	596
Other payables and accrued liabilities	22	39,365	32,207
Short-term loan — secured	23	20,000	—
		<b>59,428</b>	32,803
Net current assets		<b>13,225</b>	5,840
Total assets less current liabilities		<b>73,840</b>	140,538
<b>Financed by:</b>			
Share capital	25	35,151	30,151
Reserves	26	28,689	89,171
Shareholders' funds		<b>63,840</b>	119,322
Minority interests	24	—	—
		<b>63,840</b>	119,322
<b>Non-current liabilities</b>			
Amount due to a fellow subsidiary	24	10,000	21,216
		<b>73,840</b>	140,538

**Ko Chun Shun, Johnson**  
Director

**Wilton Timothy Carr Ingram**  
Director

**BALANCE SHEET**

AS AT 31st DECEMBER 2003

	<i>Notes</i>	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000
<b>Non-current assets</b>			
Investments in subsidiaries	<i>13</i>	<b>51,317</b>	116,455
<b>Current assets</b>			
Short-term investments	<i>20</i>	<b>532</b>	3,588
Cash and bank balances		<b>9,930</b>	118
		<b>10,462</b>	3,706
<b>Current liabilities</b>			
Other payables and accrued liabilities	<i>22</i>	<b>319</b>	1,328
Net current assets		<b>10,143</b>	2,378
Total assets less current liabilities		<b>61,460</b>	118,833
<b>Financed by:</b>			
Share capital	<i>25</i>	<b>35,151</b>	30,151
Reserves	<i>26</i>	<b>26,309</b>	88,682
		<b>61,460</b>	118,833

**Ko Chun Shun, Johnson**  
*Director*

**Wilton Timothy Carr Ingram**  
*Director*

## CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31st DECEMBER 2003

	<i>Notes</i>	<b>2003</b> <b>HK\$'000</b>	2002 <i>HK\$'000</i>
Net cash used in operations	<i>27(a)</i>	<b>(3,114)</b>	(49,819)
Interest paid		<b>(4,634)</b>	(3,979)
Net cash used in operating activities		<b>(7,748)</b>	(53,798)
Investing activities			
Net cash outflow in representing			
reclassification of subsidiaries to associated			
companies		—	(17,493)
Investment in a jointly controlled entity		—	(14,200)
Interest received		<b>31</b>	618
Purchases of fixed assets		<b>(32)</b>	(12,117)
Proceeds from disposal of fixed assets		<b>71</b>	643
Payment for deferred development costs		—	(10,884)
Net cast inflow from disposal of subsidiaries	<i>27(b)</i>	—	5,228
Net cash inflow from/(used in) investing activities		<b>70</b>	(48,205)
Net cash used before financing activities		<b>(7,678)</b>	(102,003)

## CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31st DECEMBER 2003

	<i>Notes</i>	<b>2003</b> <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Net cash used before financing activities		<b>(7,678)</b>	(102,003)
Financing activities			
Proceeds on issue of shares, net of expenses		<b>14,564</b>	—
Repayment of bank loans		—	(48,701)
Interest elements of finance lease payments		—	(54)
Decrease in pledged bank deposits		—	49,371
Decrease in amounts due to fellow subsidiaries		<b>(14,728)</b>	(2,094)
Proceeds from issue of shares by a subsidiary		—	38,376
Repayment of finance lease obligations		—	(129)
Short-term loan, secured		<b>20,000</b>	—
Net cash inflow from financing activities		<b>19,836</b>	36,769
Increase/(decrease) in cash and cash equivalents		<b>12,158</b>	(65,234)
Cash and cash equivalents at 1st January		<b>4,267</b>	69,501
Cash and cash equivalents at 31st December		<b>16,425</b>	4,267
Analysis of balances of cash and cash equivalents			
Cash and bank balances		<b>16,425</b>	4,267

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31st DECEMBER 2003

	<i>Notes</i>	<b>2003</b> <b>HK\$'000</b>	2002 <i>HK\$'000</i>
Total equity as at 1st January		<b>119,322</b>	215,751
Release of exchange reserve on disposal of subsidiaries and reclassification from subsidiaries to associated companies	<i>26</i>	—	(1,326)
Issue of shares	<i>25 &amp; 26</i>	<b>15,000</b>	—
Share issue expenses	<i>25 &amp; 26</i>	<b>(436)</b>	—
Net loss for the year	<i>26</i>	<b>(70,046)</b>	(95,103)
<b>Total equity as at 31st December</b>		<b>63,840</b>	119,322

## NOTES TO THE ACCOUNTS

### 1 CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 27th May 2002 under the Company Law (2002 Revision) (Cap. 22) of the Cayman Islands.

Pursuant to a reorganisation scheme (the “Group Reorganisation”) in 2002, the Company became the holding company of the companies now comprising the Group on 23rd October 2002. Further details of the Group Reorganisation are set out in the notes 25 and 26.

### 2 PRINCIPAL ACCOUNTING POLICIES

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

#### (a) Basis of preparation

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

In the current year, the Group adopted Statement of Standard Accounting Practice (“SSAP”) 12 (revised) “Income Taxes” issued by the HKSA which is effective for accounting periods commencing on or after 1st January 2003. The change to the Group’s accounting policy and the effect of adopting the revised SSAP are set out in note 2(m) below.

For the purpose of preparing the Group’s 2002 consolidated accounts, the Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the accounts of the Group for the previous year 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 SSAP 27 “Accounting for Group Reconstructions” issued by the HKSA.

#### (b) Group accounting

##### (i) Consolidation

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

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one 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 majority of votes at the meetings of the board of directors.

## NOTES TO THE ACCOUNTS

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

#### (b) Group accounting *(Continued)*

##### (i) *Consolidation (Continued)*

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 or negative goodwill and any related accumulated foreign currency translation reserve.

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

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

##### (ii) *Associated companies*

An associated company is a company, not being a subsidiary or a joint venture, 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 and goodwill (net of accumulated amortisation) 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.

#### (c) Fixed assets

##### (i) *Fixed assets*

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

## NOTES TO THE ACCOUNTS

### 2 PRINCIPAL ACCOUNTING POLICIES (Continued)

#### (c) Fixed assets (Continued)

##### (i) Fixed assets (Continued)

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

Long-term leasehold land and buildings outside Hong Kong	25 years
Plant, equipment and other assets	3 to 10 years

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

##### (ii) Impairment and gain or loss on sale

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

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

#### (d) Operating leases

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

#### (e) Intangibles

##### (i) Goodwill

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

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

## NOTES TO THE ACCOUNTS

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

##### (iii) *Impairment of intangible assets*

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

#### (f) Investments

##### (i) *Investments securities*

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

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

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

#### (g) Inventories

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

#### (h) 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 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 for the year. Exchange differences are dealt with as a movement in reserves.

#### (i) Trade receivables

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

#### (j) 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 and deposits held at call with banks.

#### (k) Provisions

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

## NOTES TO THE ACCOUNTS

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

#### (l) Contingent liabilities and contingent assets

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

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow 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 recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

#### (m) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. The principal temporary differences arise from tax losses carried forward. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

The adoption of SSAP 12 (revised) represents a change in accounting policy. However, no prior year adjustment has been made as the effect of this change is not material on the results for the current and prior accounting periods.

## NOTES TO THE ACCOUNTS

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

#### (n) Revenue recognition

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

Management fee income is recognised on an accrual basis.

Securities trading income is recognised when the title has passed.

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

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

#### (o) Employee benefits

##### (i) *Employee leave entitlements*

Employee entitlements to annual leave and long service leave are recognised 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.

Employee entitlements to sick leave, maternity and other non-accumulating compensated absences are not recognised until the time of leave.

##### (ii) *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.

## NOTES TO THE ACCOUNTS

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

#### (o) Employee benefits *(Continued)*

##### *(ii) Retirement benefit costs (Continued)*

The Company's subsidiaries in the People's Republic of China (the "PRC") except Hong Kong are members of the state-managed retirement benefits scheme operated by the government of the PRC except Hong Kong. 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.

##### *(iii) Equity compensation benefits*

Share options are granted to directors and to employees at a price determined in accordance to the Company's share option scheme on the date of the grant and are exercisable, at that price, no compensation expense is recognised. When the share option are exercised, the proceeds received net of an transaction are credited to share capital and share per premium.

#### (p) 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.

#### (q) 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, 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.

## NOTES TO THE ACCOUNTS

### 3 TURNOVER AND REVENUES

The Group is principally engaged in the retail and distribution of home audio and video components and equipment, securities trading, and provision of IP telephony and related services. In the prior year, the Group also was engaged in the 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. Revenues recognised during the year are as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Turnover		
Sales of goods	16,362	35,115
Share trading	7,644	—
Leasing income	—	2,682
Provision of IP telephony and related services	6,005	13,994
	<b>30,011</b>	<b>51,791</b>
Other revenues:		
Preference dividend income from a listed company	5,813	242
Commission income	671	—
Interest income	31	618
Management fee income from:		
Fellow subsidiaries	—	480
Related companies	900	—
Associated companies	200	25
Others	160	—
Repairs and maintenance service fees	—	875
Miscellaneous	62	462
	<b>7,837</b>	<b>2,702</b>
<b>Total revenues</b>	<b>37,848</b>	<b>54,493</b>

### 4 SEGMENT INFORMATION

#### Primary reporting format — business segments

The Group is organised into three main business segments:

- (i) Home Audio — retail and distribution of home audio and video components and equipment;
- (ii) Telecommunications — provision of IP telephony, computer telephony integration engineering and related services; and
- (iii) Share Trading — securities trading.

There are no sales between the business segments.

## NOTES TO THE ACCOUNTS

### 4 SEGMENT INFORMATION (Continued)

#### Primary reporting format – business segments (Continued)

	2003			
	Home Audio HK\$'000	Tele- communications HK\$'000	Share Trading HK\$'000	Total HK\$'000
Turnover	16,362	6,005	7,644	30,011
Segment results	(790)	(2,864)	4,056	402
Net unrealised loss of short-term investments				(3,946)
Write back of provision of bad and doubtful debt				21,036
Impairment loss on investment securities				(44,508)
Net gain on dilution of interests in associated companies				11,503
Provision for bad debts				(298)
Unallocated costs				(11,895)
Operating loss				(27,706)
Finance costs				(4,634)
Unallocated share of losses of an associated companies				(37,511)
Loss before taxation				(69,851)
Unallocated taxation				(195)
Loss after taxation				(70,046)
Minority interests				—
Loss attributable to shareholders				(70,046)
Segment assets	827	8,417	4,073	13,317
Interests in associated companies				15,837
Unallocated assets				104,114
Total assets				133,268
Segment liabilities	20	2,251		2,271
Unallocated liabilities				67,157
				69,428
Capital expenditure				
Allocated		18		18
Unallocated				14
Depreciation				
Allocated	8	2,778		2,786
Unallocated				671
Amortisation of development costs		368		368
Write-off of deferred development costs		92		92
Other non-cash expenses	124	50		174

## NOTES TO THE ACCOUNTS

### 4 SEGMENT INFORMATION (Continued)

#### Primary reporting format – business segments (Continued)

	2002				Total HK\$'000
	Digital Broadcasting (a) HK\$'000	Home Audio HK\$'000	Financial Market Information (a) HK\$'000	Tele- communications 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(a)	(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
Amortisation	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)

#### Secondary reporting format — geographical segments

The Group operates in two geographical areas:

- (i) Hong Kong Provision of international financial market information and selective consumer data, and retail and distribution of home audio and video components and equipment;
- (ii) Mainland China Provision of IP telephony, computer telephone integration engineering and related service and;

There are no sales between the geographical segments.

	<b>2003</b>			
	<b>Turnover</b>	<b>Segment</b>	<b>Total</b>	<b>Capital</b>
	<b>HK\$'000</b>	<b>results</b>	<b>assets</b>	<b>expenditure</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
Hong Kong	24,006	19,666	109,014	14
Mainland China	6,005	(2,864)	8,417	18
	<b><u>30,011</u></b>	<b>16,802</b>	<b>117,431</b>	<b><u>32</u></b>
Impairment loss on investment securities		<b><u>(44,508)</u></b>		
Operating loss		<b><u>(27,706)</u></b>		
Interests in associated companies			<b><u>15,837</u></b>	
			<b><u>133,268</u></b>	

## NOTES TO THE ACCOUNTS

### 4 SEGMENT INFORMATION *(Continued)*

#### Secondary reporting format – geographical segments *(Continued)*

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

- (a) The activities of these business segments were carried out by certain former subsidiaries which had been reclassified as associated companies since December 2002.

## NOTES TO THE ACCOUNTS

### 5 OPERATING LOSS

Operating loss is stated after crediting and charging the following:

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Crediting</b>		
Net other operating income including:		
Net gain on dilution of interests in associated companies/subsidiaries	11,503	23,684
Net gain on disposal of subsidiaries	—	11,549
Net gain on disposal of fixed assets	26	621
Write-back of provision for legal fees	—	12,418
Write-back of provision for bad and doubtful debts	21,036	—
Gain on redemption of preferred shares	5,793	—
<hr/>		
<b>Charging</b>		
Cost of inventories sold	17,013	25,445
Cost of services provided	3,966	6,070
Depreciation	3,457	19,474
Auditors' remuneration	450	1,535
Staff costs (excluding directors' remuneration, note 10(a)):		
Wages and salaries	1,502	50,638
Unutilised annual leave	—	687
Termination benefits	—	1,253
Contributions to defined contribution		
Mandatory Provident Fund	71	2,921
Less: costs capitalised	—	(13,198)
<hr/>		
	1,573	42,301
<hr/>		
Operating lease rentals:		
Land and buildings	1,324	8,451
Equipment	416	354
<hr/>		
	1,740	8,805
<hr/>		

## NOTES TO THE ACCOUNTS

### 5 OPERATING LOSS (Continued)

Operating loss is after crediting and charging the following: (Continued)

	Group	
	2003 HK\$'000	2002 HK\$'000
Net other operating expenses including:		
Amortisation of intangibles (note 12):		
Film rights	—	3,489
Goodwill	104	2,024
Development costs	368	3,908
Write-off of development costs	92	—
Write-off of inventories	—	625
Provision for inventories	—	4,531
Provision for bad and doubtful debts	298	6,108
Write-off of bad and doubtful debts	870	33,855
Net unrealised loss of short-term investments	3,946	6,692
Provision for settlement of legal dispute	13,852	—
Exchange losses, net	—	55
	<b>—</b>	<b>55</b>

### 6 FINANCE COSTS

	Group	
	2003 HK\$'000	2002 HK\$'000
Interest expenses on:		
Bank loans, overdrafts and bills	—	1,122
Finance lease expenses	—	54
Short-term loan	2,166	—
Amount due to a fellow subsidiary	2,468	2,803
	<b>4,634</b>	<b>3,979</b>

## NOTES TO THE ACCOUNTS

### 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 (2002: HK\$Nil). In 2003, the government engaged a change in the profit tax rate from 16% to 17.5% for the fiscal year 2003/2004. The taxation charge to the consolidated profit and loss account represents under provision for financial years prior to 2002.

The taxation on the Group's loss before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the company as follows:

	2003 HK\$'000	2002 HK\$'000
Loss before taxation	(69,851)	(171,355)
Calculated at a taxation rate of 17.5% (2002:16%)	(12,224)	(27,417)
Effect of different rates in other countries	568	1,123
Income not subject to taxation	(53,053)	(31,251)
Expenses not deductible for taxation purposes	59,570	38,069
Utilisation of previously unrecognised tax losses	—	(9,305)
Unrecognised tax losses	5,139	28,781
Under-provision of taxation in prior year	195	—
<b>Tax charge</b>	<b>195</b>	<b>—</b>

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

Deferred income tax assets are not recognised for tax loss carry forwards to the extent that realisation of the related tax benefit through the future taxable profits is not probable. As at 31st December 2003, the Group had unrecognised tax losses of approximately HK\$294,276,000 (2002:HK\$291,512,000) to carry forward against future taxable income, of which HK\$10,405,000 of these tax losses will expire in 2008.

### 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\$71,937,000 (2002: loss 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\$70,046,000 (2002: HK\$95,103,000) and on the weighted average number of 2,897,581,000 (2002: 2,774,293,000) ordinary shares in issue during the year.

No diluted loss per share is shown for the two years ended 31st December 2003 and 2002 as the 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:

	<b>2003</b> <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Fees:		
Non-executive directors	<b>288</b>	288
Other emoluments:		
Executive directors		
Basic salaries, housing benefits, other allowances and benefits in kind	<b>1,896</b>	4,886
Contributions to defined contribution Mandatory Provident Fund	<b>12</b>	92
	<b>2,196</b>	5,266

The emoluments of the directors fell within the following bands:

	<b>2003</b> <i>Number of</i> <i>directors</i>	2002 <i>Number of</i> <i>directors</i>
Emolument bands		
HK\$Nil — HK\$1,000,000	<b>3</b>	3
HK\$1,500,001 — HK\$2,000,000	<b>1</b>	1
HK\$3,000,001 — HK\$4,000,000	<b>—</b>	1
	<b>4</b>	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 one (2002: two) director whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining four (2002: three) individuals during the year are as follows:

	<b>Group</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	<i>HK\$'000</i>
Basic salaries, housing benefits, other allowances and benefits in kind	<b>1,115</b>	4,442
Contributions to defined contribution Mandatory Provident Fund	<b>49</b>	166
	<b>1,164</b>	4,608

The emoluments fell within the following bands:

	<b>Group</b>	
	<b>2003</b>	2002
	<b>Number of individuals</b>	<i>Number of individuals</i>
Emolument bands		
HK\$NIL— HK\$1,500,000	<b>4</b>	2
HK\$1,500,001 — HK\$2,000,000	<b>—</b>	1
	<b>4</b>	3

## NOTES TO THE ACCOUNTS

### 11 FIXED ASSETS

	Group		
	Long-term leasehold land and buildings outside Hong Kong <i>HK\$'000</i>	Plant, equipment and other assets <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost			
At 1st January 2003	2,907	12,044	14,951
Additions	—	32	32
Disposals	—	(1,242)	(1,242)
Write-offs	—	(2,316)	(2,316)
At 31st December 2003	2,907	8,518	11,425
Accumulated depreciation			
At 1st January 2003	580	8,341	8,921
Charge for the year	116	3,341	3,457
Disposals	—	(1,197)	(1,197)
Write-offs	—	(2,316)	(2,316)
At 31st December 2003	696	8,169	8,865
Net book value:			
At 31st December 2003	2,211	349	2,560
At 31st December 2002	2,327	3,703	6,030

As at 31st December 2003, certain fully depreciated office equipment was leased to an associated company in China. Under the lease agreement, no rental payment is required until this party becomes profitable. For the year ended 31st December 2003, no rental income was received as the associated company incurred net loss for the year.

## NOTES TO THE ACCOUNTS

### 12 INTANGIBLE ASSETS

	Group		
	Goodwill	Development costs	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Year ended 31st December 2003</b>			
At 1st January 2003	1,789	460	2,249
Amortisation charge ( <i>note 5</i> )	(104)	(368)	(472)
Write-offs	—	(92)	(92)
<b>At 31st December 2003</b>	<b>1,685</b>	<b>—</b>	<b>1,685</b>
<b>At 31st December 2003</b>			
Cost	2,075	1,415	3,490
Accumulated amortisation and write-offs	(390)	(1,415)	(1,805)
<b>Net book value</b>	<b>1,685</b>	<b>—</b>	<b>1,685</b>
<b>At 31st December 2002</b>			
Cost	2,075	1,415	3,490
Accumulated amortisation	(286)	(955)	(1,241)
<b>Net book value</b>	<b>1,789</b>	<b>460</b>	<b>2,249</b>

## NOTES TO THE ACCOUNTS

### 13 INVESTMENT IN SUBSIDIARIES

	Company	
	2003 HK\$'000	2002 HK\$'000
Unlisted shares at cost	193,018	192,940
Provision for impairment loss	(140,000)	(69,000)
	<b>53,018</b>	123,940
Amount due from subsidiaries	672	550
Amounts due to subsidiaries	(2,373)	(8,035)
	<b>51,317</b>	116,455

The carrying value of the unlisted shares is based on the directors' calculation of the values of the underlying separable net assets of the subsidiaries when the Company became the holding company of the Group pursuant to the Group Reorganisation.

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 34 to the accounts.

### 14 INTERESTS IN ASSOCIATED COMPANIES

	Group	
	2003 HK\$'000	2002 HK\$'000
Share of net assets	7,793	32,157
Goodwill on acquisition of associated companies less amortisation	8,470	8,478
Net amounts due to associated companies	(426)	(893)
	<b>15,837</b>	39,742
Market value of listed investments	<b>126,917</b>	79,323
Investments at cost:		
Listed shares, in Hong Kong	276,514	276,514
Unlisted shares, in the PRC (a)	1,636	—
	<b>278,150</b>	276,514

## NOTES TO THE ACCOUNTS

### 14 INTERESTS IN ASSOCIATED COMPANIES (Continued)

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

The principal associated companies at 31st December 2003 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
			2003	2002	
(i) DVN GROUP					
DVN (Holdings) Limited	Bermuda	HK\$45,173,000 ordinary	25.09%	30.08%	Investment holding
DVN (Group) Limited	British Virgin Islands	US\$10 ordinary US\$15,000,000 preference	25.09%	30.08%	Investment holding
DVN (Management) Limited	Hong Kong	HK\$2 ordinary	25.09%	30.08%	Provision of administrative services in Hong Kong
DVN Technology Limited	Hong Kong	HK\$2 ordinary	25.09%	30.08%	Services and design, integration and installation of digital broadcasting equipment and development of related software and products in Hong Kong and Southeast Asian countries
Telequote Data International Limited	Hong Kong	HK\$10,000 ordinary	25.09%	30.08%	Provision of international financial market information and selective consumer data in Hong Kong

## 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
			2003	2002	
(i) DVN GROUP (Continued)					
DVN Technology (Shenzhen) Co. Limited	People's Republic of China	HK\$6,000,000	25.09%	30.08%	Development of hardware and software in relation to digital broadcasting in PRC
DVB Technology (Suzhou) Company Limited	People's Republic of China	RMB100,000,000	17.56%	21.06%	Trading of digital broadcasting equipment and related products in products in PRC
Digital Video Networks Company Limited	People's Republic of China	US\$8,000,000	25.09%	30.08%	Design, integration and installation of digital broadcasting equipment and development of related software and products in the PRC
(ii) 北京電發網博科技 有限公司(a)	People's Republic of China	RMB 5,000,000	35.00%	—	Provision of IP telephone services

(a) The acquisition of 北京電發網博科技有限公司 ("BMG") was completed in January 2003 (notes 16 and 27(c)).

## NOTES TO THE ACCOUNTS

### 14 INTERESTS IN ASSOCIATED COMPANIES *(Continued)*

Extracts of the operating results and financial position of the associated companies, which are based on their audited accounts for the year ended 31st December 2003, are as follows:

#### Operating results for the year

	<b>2003</b> <b>HK\$'000</b>
Turnover	<b>73,754</b>
Loss for the year	<b>141,583</b>

#### Summary of balance sheet as at 31st December 2003

	<i>HK\$'000</i>
Fixed assets	62,488
Intangible assets	27,752
Investment in a jointly controlled entity	7,717
Current assets	159,691
Current liabilities	(109,981)
Non current liability	(116)
Minority interests	(118,263)
Shareholders' equity	29,288

## NOTES TO THE ACCOUNTS

### 15 INVESTMENT SECURITIES

	Group	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Listed shares, at costs		
— outside Hong Kong ( <i>note a</i> )	23,414	23,414
Unlisted shares, at costs		
— outside Hong Kong ( <i>note b</i> )	143,508	143,508
	<b>166,922</b>	166,922
<i>Less: Provision for impairment loss</i>		
— listed shares	23,414	23,414
— unlisted shares	107,508	63,000
	<b>130,922</b>	86,414
	<b>36,000</b>	80,508
Market value of listed investment ( <i>note a</i> )	—	—

## NOTES TO THE ACCOUNTS

### 15 INVESTMENT SECURITIES (Continued)

Note:

- (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 market value of the investment was based on US\$3 per share as at 3rd October 1998, the date on which the investee company was delisted on the OTCBB.
- (b) At 31st December 2003, the Group held 15,000,000 non-voting exchangeable preference shares of US\$1.00 each of DVN (Group) Limited, an associated company, with cost of HK\$143,508,000. These preference shares are exchangeable to approximately 24,786,780 ordinary shares of DVN, a listed associated company, with an exchange price of HK\$4.69 (subject to adjustments). Fixed cumulative cash dividend on preference shares is 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 2003 amounted to HK\$15,984,000.

For the year ended 31st December 2003, the Group made an additional provision for impairment loss of approximately HK\$44,508,000 (2002: HK\$63,000,000).

### 16 OTHER ASSETS

	Group	
	2003 HK\$'000	2002 HK\$'000
Deposit for investment in joint venture (note)	2,468	4,104
Club debentures	2,065	2,065
	<b>4,533</b>	<b>6,169</b>

Note:

At 31st December 2003, this represents a deposit to a related party for acquiring approximately 16% equity interests in a co-operative joint venture in the PRC on behalf of the Group.

During the year, HK\$1,636,000 of the deposit was reclassified to investment in associated companies for acquiring 35% interests in BMG, a co-operative joint venture (notes 14 and 27(c)).

### 17 INVENTORIES

	Group	
	2003 HK\$'000	2002 HK\$'000
Finished goods	901	5,927

At 31st December 2003, the carrying amount of inventories that are stated at net realised value amounted to HK\$1,555,000 (2002: HK\$ 4,028,000).

## NOTES TO THE ACCOUNTS

### 18 TRADE RECEIVABLES

At 31st December 2003, the aging analysis of the trade receivables is as follows:

	Group	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
0 — 3 months	750	126
4 — 6 months	1,716	—
Over 6 months	299	—
	<b>2,765</b>	126

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

### 19 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

The Group's prepayments, deposits and other receivables as at 31st December 2003 and 2002 include a receivable of HK\$18,345,000 arising from the expiry of a redeemable, convertible cumulative non-voting preference shares of a listed company, with a face value of HK\$24,138,000, which should be due for redemption on 22nd October 2001. Full provision was made in the previous year in consideration of the then existing financial position and situation of the investee company. As at 31st December 2003, the provision made was reversed as subsequent to the balance sheet date, the face value of the preference shares of HK\$24,138,000 was redeemed by the Group.

### 20 SHORT-TERM INVESTMENTS

	Group		Company	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Equity securities:				
Listed in Hong Kong	4,073	8,019	—	—
Listed outside Hong Kong	532	3,588	532	3,588
Market value of listed equity securities	<b>4,605</b>	11,607	<b>532</b>	3,588

## NOTES TO THE ACCOUNTS

### 21 TRADE PAYABLES

The aging analysis of trade payables is as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
0 — 3 months	30	390
4 — 6 months	—	—
Over 6 months	33	206
	<b>63</b>	<b>596</b>

### 22 OTHER PAYABLES AND ACCRUED LIABILITIES

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Deposits received, accrued charges and other payables	5,669	7,607	319	1,328
Amount due to a fellow subsidiary ( <i>note (i)</i> )	16,488	20,000	—	—
Provision for legal fees and settlement of legal dispute	17,208	4,600	—	—
	<b>39,365</b>	<b>32,207</b>	<b>319</b>	<b>1,328</b>

*Note:*

- (i) The amount due to a fellow subsidiary at 31st December 2003 bears interest at Hong Kong dollar prime lending rate plus 2.5% (2002: prime lending rate plus 2.5%) per annum. The balance is unsecured and is repayable on demand.

### 23 SHORT-TERM LOAN — SECURED

The short-term loan is secured against certain shares of an associated company of the Group, bears interest at 17% rate per annum, and repayable in February 2004.

## NOTES TO THE ACCOUNTS

### 24 AMOUNTS DUE TO FELLOW SUBSIDIARY

The amount due to a fellow subsidiary bears interest at Hong Kong dollar prime lending rate plus 2.5% per annum. The balance is unsecured and is not expected to be repaid within 1 year.

At 31st December 2003, 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.

### 25 SHARE CAPITAL

	Authorised				Total
	Preference shares of HK\$0.01 each		Ordinary shares of HK\$0.01 each		
	No. of shares '000	HK\$'000	No. of shares '000	HK\$'000	
At 27th May 2002 (date of incorporation)	—	—	10,000	100	100
Increase of authorised 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
At 1st January 2003 and 31st December 2003	240,760	2,408	5,000,000	50,000	52,408

	Issued and fully paid				Total
	Preference shares of HK\$0.01 each		Ordinary shares of HK\$0.01 each		
	No. of shares '000	HK\$'000	No. of shares '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
At 1st January 2003	240,760	2,408	2,774,293	27,743	30,151
Issue of shares	—	—	500,000	5,000	5,000
At 31st December 2003	240,760	2,408	3,274,293	32,743	35,151

## NOTES TO THE ACCOUNTS

### 25 SHARE CAPITAL *(Continued)*

The following changes in the Company's authorised and issued share capital took place during the period from 27th May 2002 (date of incorporation) to 31st December 2003:

- (a) On incorporation, the Company had an authorised 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 Group Reorganisation, the authorised 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.
- (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.
- (e) On 15th September 2003, Techral Holdings Limited ("Techral"), a substantial shareholder of the Company, and Kwan Wing Holdings Limited ("Kwan Wing"), a shareholder of the Company, entered into a private placement of 300,000,000 ordinary shares and 200,000,000 ordinary shares, respectively, in the Company of HK\$0.01 each at a price of HK\$0.03 per share to independent private investors. On the same date, the Company entered into an agreement with Techral and Kwan Wing for the subscription of an aggregate of 500,000,000 new ordinary shares of HK\$0.01 each in the Company at a price of HK\$0.03 per share raising the net proceeds of approximately HK\$14.5 million. The excess of the shares issue proceeds over the nominal value of the shares issued, net of share issue expenses of approximately HK\$436,000, amounting to HK\$9,564,000 was credited to the share premium account.

## NOTES TO THE ACCOUNTS

### 25 SHARE CAPITAL *(Continued)*

#### Preference shares

The preference shares were issued as part of the Group Reorganisation 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 ("Option 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 Option Scheme shall not exceed 277,429,315 shares, representing 10% of the total number of shares in issue at the time the Option Scheme was adopted.

Subscription price in relation to each option pursuant to the Option 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 (2002: Nil) and there was no outstanding share option as at 31st December 2003 and 2002.

## NOTES TO THE ACCOUNTS

### 26 RESERVES

#### Group

	<b>Share premium (i) HK\$'000</b>	<b>Merger reserve (i) HK\$'000</b>	<b>Currency translation HK\$'000</b>	<b>Accumulated losses HK\$'000</b>	<b>Total HK\$'000</b>
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
At 1st January 2003	162,789	860,640	(171)	(934,087)	89,171
Issue of shares	9,564	—	—	—	9,564
Net loss for the year	—	—	—	(70,046)	(70,046)
At 31st December 2003	172,353	860,640	(171)	(1,004,133)	28,689
Reserve retained by:					
Company and subsidiaries	172,353	860,640	(171)	(955,229)	77,593
Associated company	—	—	—	(48,904)	(48,904)
At 31st December 2003	172,353	860,640	(171)	(1,004,133)	28,689
Reserve retained by:					
Company and subsidiaries	162,789	860,640	(171)	(922,694)	100,564
Associated company	—	—	—	(11,393)	(11,393)
At 31st December 2002	162,789	860,640	(171)	(934,087)	89,171

## NOTES TO THE ACCOUNTS

### 26 RESERVES (Continued)

#### Company

	Share premium (ii) HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 27th May 2002 (date of incorporation)	—	—	—
Issue of shares	162,789	—	162,789
Loss for the period	—	(74,107)	(74,107)
At 31st December 2002	162,789	(74,107)	88,682
At 1st January 2003	162,789	(74,107)	88,682
Issue of shares	9,564	—	9,564
Loss for the year	—	(71,937)	(71,937)
At 31st December 2003	172,353	(146,044)	26,309

#### Notes:

- (i) The share premium of the Group derives from the difference between the nominal value of the Company's shares issued to acquire the issued share capital of Universal Appliances Limited pursuant to the Group Reorganisation, and the consolidated net asset value of Universal Appliances Limited so acquired. Under the Companies Law (2002 Revision) (Cap. 22) of the Cayman Islands, the share premium is distributable to shareholders under certain prescribed circumstances.
- (ii) The share premium of the Company represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the Group Reorganisation, over the nominal value of the Company's shares issued in exchange therefor. 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

### 27 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Operating loss before taxation	(27,706)	(154,256)
Interest income	(31)	(618)
Interest expense	—	3,979
Depreciation	3,457	19,474
Amortisation of other intangible assets	472	9,421
Write-off of deferred development costs	92	—
Reversal of dilution of interest in a subsidiary	—	321
Net gain on disposal of fixed assets	(26)	(621)
Net gain on disposal of subsidiaries	—	(11,549)
Net gain on dilution of interest in associated companies/ subsidiaries	(11,503)	(23,684)
Provision for impairment loss on investment securities	44,508	63,382
<b>Operating gain/(loss) before working capital changes</b>	<b>9,263</b>	<b>(94,151)</b>
Decrease in amounts due to associate companies	(467)	—
Decrease in short-term investments	7,002	6,692
Decrease in inventories	5,026	8,225
(Increase)/decrease in trade receivables, prepayments, deposits and other receivables	(33,880)	45,055
Increase/(decrease) in trade payables, accrued liabilities and other payables	9,942	(15,640)
<b>Net cash used in operations</b>	<b>(3,114)</b>	<b>(49,819)</b>

## NOTES TO THE ACCOUNTS

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

#### (b) Sale of subsidiaries

Details of disposal of subsidiaries:

	<b>2003</b> <b>HK\$'000</b>	2002 <i>HK\$'000</i>
Net assets disposal of:		
Fixed assets	—	1,330
Trade and bills receivable	—	6,337
Deposits, prepayments and other receivables	—	304
Cash and bank balances	—	580
Trade and bills payable	—	(7,527)
Accrued liabilities and other payables	—	(527)
Minority interests	—	1
	—	498
Currency translation reserve released on disposal	—	(427)
Loss on disposal	—	11,549
	—	11,620
Represented by:		
Cash consideration	—	5,808
Short-term investments	—	5,812
	—	11,620

Analysis of net cash inflow of cash and cash equivalents in respect of the disposal of subsidiaries:

	<b>2003</b> <b>HK\$'000</b>	2002 <i>HK\$'000</i>
Cash consideration received	—	5,808
Cash and cash equivalents of disposed subsidiaries	—	(580)
Net inflow of cash and cash equivalents	—	5,228

There were no subsidiaries disposed of during the year. In the prior year, loss on subsidiaries disposed of during that year and attributable to the Group amounted to HK\$4,604,000.

## NOTES TO THE ACCOUNTS

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

#### (c) Major non-cash transaction

During the year, the deposit for investment in a joint venture of HK\$1,636,000 was reclassified to investment in associated company upon the approval of the establishment of the joint venture by the regulatory bodies in the PRC.

### 28 CONTINGENT LIABILITIES

Save for the information disclosed in note 31 to the accounts, the Group and the Company had no other material contingent liabilities as at 31st December 2003 and 2002.

### 29 COMMITMENTS

#### (a) Commitments under operating leases

At 31st December 2003, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	<b>Land and buildings</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Not later than one year	<b>313</b>	1,141
Later than one year and not later than five years	<b>313</b>	625
	<b>626</b>	1,766

	<b>Equipment</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Not later than one year	<b>416</b>	416
Later than one year and not later than five years	<b>340</b>	759
	<b>756</b>	1,175

- (b) The Group and the Company had no significant capital commitments at 31st December 2003 (2002: Nil).

## NOTES TO THE ACCOUNTS

### 30 RELATED PARTY TRANSACTIONS

The balances as set out in notes 22 and 24 are unsecured, bears interest at Hong Kong dollar prime rate plus 2.5% per annum and have no fixed terms of repayment. The total interest paid on the advances for the year ended 31st December 2003 amounted to HK\$2,468,000 (2002: HK\$2,803,000).

### 31 POST BALANCE SHEET EVENTS

(i) It was disclosed in the 2002 Annual Report and the 2003 Interim Report that three of its wholly owned subsidiaries, Universal Appliances Limited (“UAL”), Smoothline Limited (“Smoothline”) and Greatsino Electronic Limited (“GEL”), had certain pending litigation with a customer primarily arising out of a Demand for Arbitration from the customer for resolution of certain disputes relating to the sale of certain cordless telephones to the customer. Further details of the disputes are set out in Note 33(a) to (c) to the 2002 Annual Report.

On 26th January 2004, UAL, Smoothline and GEL entered into an agreement with the customer to settle all existing and potential claims arising between UAL, Smoothline and GEL and the customer in consideration of the payment by UAL, Smoothline and GEL of, in aggregate, US\$2.1 million (equivalent to approximately HK\$16 million), payable as follows: (a) US\$300,000 (equivalent to approximately HK\$2 million) by 15th February 2004, and (b) 18 subsequent payments of US\$100,000 (equivalent to approximately HK\$800,000) on the 15th day of every consecutive month thereafter until the total amount of US\$2.1 million has been paid.

(ii) Subsequent to year end, the Group received additional advances from a wholly-owned subsidiary of Kwan Wing Holdings Limited of HK\$15 million for general working capital purposes which were fully repaid in March 2004.

### 32 ULTIMATE HOLDING COMPANY

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

### 33 APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 27th April 2004.

## NOTES TO THE ACCOUNTS

### 34 PARTICULARS OF PRINCIPAL SUBSIDIARIES

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

Name	Place of incorporation and kind of legal entity	Nominal value of issued ordinary share/ registered capital	Interest held	Principal activities and place of operation
Barnwell Enterprises Limited	Hong Kong, limited company	HK\$2 ordinary	#100%	Administrative services in Hong Kong
Beijing E-Pay Net Technology Co. Ltd.	PRC, co-operative joint venture	US\$2,680,000 ordinary	70%	Provision of communication Services in the PRC
Beijing Jiya Telecommunication Engineering Co Ltd	PRC, co-operative joint venture	RMB2,680,000 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

## NOTES TO THE ACCOUNTS

### 34 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
Million Way Enterprises Ltd.	British Virgin Islands, limited company	US\$1 ordinary	100%	Investment holding
Netbroad Communication Limited	British Virgin Islands, limited company	HK\$1 ordinary	100%	Investment holding and sale of audio components
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.

Except for Barnwell Enterprises Limited's and Entertainment Soundview Limited's, all other statutory accounts are not audited by PricewaterhouseCoopers.