

Notes to the Financial Statements

For the year ended 30 June, 2001

1. General

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company acts as an investment holding company. The principal activities of the Company's subsidiaries are set out in note 13.

2. Adoption of Statement of Standard Accounting Practice

In the current year, the Group has adopted Statement of Standard Accounting Practice 14 (Revised) "Leases" (SSAP 14 (Revised)) for the first time.

SSAP 14 (Revised) has introduced some amendments to the basis of accounting for finance and operating leases, and to the disclosures specified for the Group's leasing arrangements. These changes have not had any material effect on the results for the current or prior accounting years and, accordingly, no prior year adjustment has been required. Disclosures for all the Group's leasing arrangements have been modified so as to comply with requirements of SSAP 14 (Revised). Comparative amounts have been restated in order to achieve a consistent presentation.

3. Significant Accounting Policies

The financial statements have been prepared under the historical cost convention as modified for the revaluation of certain properties.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 30 June each year.

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

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

Notes to the Financial Statement

For the year ended 30 June, 2001

3. Significant Accounting Policies (*continued*)

Goodwill

Goodwill represents the excess of the purchase consideration over the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a subsidiary and is written off to reserves immediately on acquisition. Negative goodwill, which represents the excess of the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a subsidiary over the purchase consideration, is credited to reserves.

On disposal of an investment in a subsidiary, the attributable amount of goodwill previously eliminated against or credited to reserves is included in the determination of the gain or loss on disposal of the subsidiary.

Investments in subsidiaries

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or where the Company controls the composition of its board of directors or equivalent governing body.

Investments in subsidiaries are included in the Company's balance sheet at cost, as reduced by any identified impairment losses.

The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable during the year.

Investments in securities

Investments in securities are recognised on a trade date basis and are initially measured at cost.

All securities other than held-to-maturity debt securities are measured at subsequent reporting dates at fair value.

Where securities are held for trading purposes, unrealised gains and losses are included in profit or loss for the year. For other securities, unrealised gains and losses are dealt with in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss is included in profit or loss for the year.

Turnover

Turnover represents the net amounts received and receivable for goods sold by the Group to outside customers during the year.

Notes to the Financial Statement

For the year ended 30 June, 2001

3. Significant Accounting Policies (*continued*)

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

Property, plant and equipment

Property, plant and equipment, other than leasehold properties, are stated at cost less accumulated depreciation at the balance sheet date. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of the asset.

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Where the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are not discounted to their present values.

Leasehold properties are stated in the balance sheet at their revalued amounts, being the fair values on the basis of their existing use at the date of revaluation, less any subsequent accumulated depreciation. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on the revaluation of leasehold properties is credited to the asset revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On subsequent sale or retirement of a revalued asset, the balance on the asset revaluation reserve attributable to that asset is transferred to retained profits.

Notes to the Financial Statement

For the year ended 30 June, 2001

3. Significant Accounting Policies (*continued*)

Property, plant and equipment (continued)

The cost of leasehold land is amortised over the lease term using the straight line method.

The cost of buildings is depreciated over 40 years or the lease term, whichever is shorter, using the straight line method.

Depreciation is provided to write off the cost of other property, plant and equipment over their estimated useful lives, using the reducing balance method, at the rate of 20% per annum.

Assets held under hire purchase contracts are depreciated over their expected useful lives on the same basis as owned assets.

Properties held for sale

Properties held for sale are completed properties remaining unsold at year end and are stated at the lower of cost and net realisable value.

Cost which comprises direct purchase cost and other incidental expenses that have been incurred in bringing the properties to their present location and condition.

Net realisable value is determined by reference to sale proceeds of properties sold in the ordinary course of business less estimated selling expenses or by management estimates based on prevailing market conditions.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition, is calculated using the first in, first out method. Net realisable value represents the estimated selling price in the ordinary course of business less all costs to completion and costs to make the sale.

Notes to the Financial Statement

For the year ended 30 June, 2001

3. Significant Accounting Policies (*continued*)

Leases

Hire purchase contracts are classified as finance leases whenever the terms of the contract transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under hire purchase contracts are capitalised at their fair value at the date of acquisition or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as an obligation under hire purchase contracts. Finance charges, which represent the difference between the total hire purchase commitments and the recorded value of the assets acquired, are charged to the income statement over the term of the relevant contract so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Rentals payable under operating leases are charged to income statement on a straight line basis over the term of the relevant lease.

Convertible bonds

Convertible bonds are stated at the aggregate of the net proceeds from the issue.

The net proceeds represent the amount received on the issue of the convertible bonds after deduction of direct issue costs. Direct issue costs are amortised to the income statement on a straight line basis over the period from the date of issue to their final redemption date. If any of the convertible bonds are purchased and cancelled, redeemed or converted prior to the final redemption date, any remaining unamortised issue costs attributable to the convertible bonds purchased, redeemed or converted will be written off immediately to the income statement.

Taxation

The charge for taxation is based on the results for the year after adjusting for items which are non-assessable or disallowed. Certain items of income and expense are recognised for tax purposes in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

Notes to the Financial Statement

For the year ended 30 June, 2001

3. Significant Accounting Policies (*continued*)

Foreign currencies

Transactions in foreign currencies other than Hong Kong Dollars are translated into Hong Kong Dollars at the rates of exchange ruling on the dates of the transactions or at the contracted settlement rate. Monetary assets and liabilities denominated in foreign currencies other than Hong Kong Dollars are re-translated into Hong Kong Dollars at the rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

On consolidation, the financial statements of operations outside Hong Kong which are denominated in currencies other than Hong Kong Dollars are translated into Hong Kong Dollars at the rates ruling on the balance sheet date. All exchange differences arising on consolidation are dealt with in the translation reserve.

Research and development costs

Expenditure on research and development is charged to the income statement in the year in which it is incurred except where a major project is undertaken and it is reasonably anticipated that development costs will be recovered through future commercial activity. Such development costs are deferred and written off over the life of the project from the date of commencement of commercial operation subject to a maximum of five years.

Retirement benefit scheme contributions

The amount of contributions payable to the Group's defined contribution scheme and the Mandatory Provident Fund Scheme ("MPF Scheme") is charged as an expense as the contributions fall due.

Cash equivalents

Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the dates of the advances.

Notes to the Financial Statement

For the year ended 30 June, 2001

4. Segmental Information

The Group's turnover and contribution to loss from operations for the year ended 30 June, 2001, analysed by principal activity and by geographical location, were as follows:

	Turnover		Contribution to loss from operations	
	2001 HK\$	2000 HK\$	2001 HK\$	2000 HK\$
By principal activity:				
Manufacture and sale of				
Multimedia electronic products	196,740,991	86,328,215	(9,985,832)	(1,122,886)
Toys and games products	86,850,852	169,359,449	(15,467,935)	(16,042,864)
Trading in telecommunication products	89,158,364	71,454,029	702,579	1,224,077
Others	10,013,876	21,625,869	(4,082,675)	(5,153,136)
	382,764,083	348,767,562	(28,833,863)	(21,094,809)

	Turnover		Contribution to loss from operations	
	2001 HK\$	2000 HK\$	2001 HK\$	2000 HK\$
By geographical location:				
North America	196,229,860	205,781,957	(8,867,636)	(8,145,265)
Europe	111,485,511	92,294,344	(2,189,467)	(596,065)
Japan	57,797,787	20,530,405	(9,028,651)	(3,265,955)
Local and others	17,250,925	30,160,856	(8,748,109)	(9,087,524)
	382,764,083	348,767,562	(28,833,863)	(21,094,809)

Notes to the Financial Statement

For the year ended 30 June, 2001

5. Other Income

Included in other income is net income (loss) from investments, as follows:

	2001 HK\$	2000 HK\$
Interest earned on bank deposits	2,034,003	1,045,601
Dividend from trading securities, listed	8,000	–
Net realised (loss) gain on disposal of trading securities	(169,839)	215,001
Impairment loss in respect of investments in securities	(1,000)	(351,000)
Impairment loss in respect of amount due from an investee company	(100,000)	(1,360,000)
	<u>1,771,164</u>	<u>(450,398)</u>

6. Loss from Operations

Loss from operations has been arrived at after charging:

	2001 HK\$	2000 HK\$
Auditors' remuneration	665,000	685,000
Depreciation		
Owned assets	8,168,151	7,985,470
Assets held under hire purchase contracts	304,382	77,348
Loss on disposal of property, plant and equipment	524,053	52,610
Operating lease charges		
Rented premises	2,071,816	2,036,515
Plant and machinery	101,813	111,065
Research and development costs	899,639	782,362
Staff costs		
Retirement benefit scheme contributions, net of forfeited contributions of HK\$534,010 (2000: HK\$192,872)	757,668	569,971
Severance payments	1,228,172	587,835
Others staff costs, including directors' emoluments	47,357,699	50,346,663
Total staff costs	<u>49,343,539</u>	<u>51,504,469</u>

Notes to the Financial Statement

For the year ended 30 June, 2001

7. Finance Costs

	2001 HK\$	2000 HK\$
Interest on:		
Bank borrowings wholly repayable		
– Within five years	(2,469,765)	(2,422,448)
– Over five years	(125,781)	–
Convertible bonds	(301,826)	(131,507)
Obligations under hire purchase contracts	(110,873)	(26,637)
Amortisation of issue costs of convertible bonds	(736,499)	(81,833)
	<u>(3,744,744)</u>	<u>(2,662,425)</u>

8. Directors' Emoluments and Highest Paid Employees

	2001 HK\$	2000 HK\$
(i) The directors' emoluments are analysed as follows:		
Directors' fees		
Executive directors	–	–
Non-executive director	240,000	129,677
Independent non-executive directors	360,000	360,000
	600,000	489,677
Other emoluments		
Executive directors		
– Salaries and other benefits	3,180,337	4,006,773
	<u>3,780,337</u>	<u>4,496,450</u>

The emoluments of the directors were within the following bands:

HK\$	Number of directors	
	2001	2000
Nil to 1,000,000	3	4
1,500,001 to 2,000,000	2	2
	<u>5</u>	<u>6</u>

Notes to the Financial Statement

For the year ended 30 June, 2001

8. Directors' Emoluments and Highest Paid Employees (*continued*)

(ii) The emoluments of the highest paid employees are analysed as follows:

The five highest paid employees of the Group in the year included two (2000: two) directors of the Company, details of whose emoluments are set out above. The emoluments of the remaining three (2000: three) are analysed as follows:

	2001 HK\$	2000 HK\$
Salaries and other benefits	<u>2,918,559</u>	<u>2,841,453</u>

The emoluments of the employees were within the following bands:

	Number of employees	
HK\$	2001	2000
Nil to 1,000,000	2	2
1,000,001 to 1,500,000	1	1
	<u>3</u>	<u>3</u>

9. Taxation Credit

No provision for Hong Kong Profits Tax has been made in the financial statements as the Company and its subsidiaries had no assessable profits for the year or the estimated assessable profits, if any, are wholly absorbed by tax losses brought forward. Last year's taxation credit represented the aggregate of Hong Kong Profits Tax overprovided in prior year and overprovision of deferred taxation in prior year.

Details of potential deferred taxation asset not recognised in the year are set out in note 23.

10. Net Loss for the Year

Of the Group's net loss for the year of HK\$32,680,417 (2000: HK\$22,084,251), a loss of HK\$44,696,233 (2000: HK\$14,513,584) has been dealt with in the financial statements of the Company.

Notes to the Financial Statement

For the year ended 30 June, 2001

11. Loss per Share

The calculation of the basic loss per share is based on the net loss for the year of HK\$32,680,417 (2000: HK\$22,084,251) and on the weighted average number of 6,450,118,799 (2000: 3,606,707,707) ordinary shares in issue throughout the year.

The computation of diluted loss per share for 2001 does not assume the conversion of the Company's outstanding share options since their exercise would result in a decrease in net loss per share from continuing ordinary operations.

The computation of diluted loss per share for 2000 did not assume the conversion of the Company's outstanding convertible bonds and share options since their exercise resulted in a decrease in net loss per share from continuing ordinary operations.

12. Property, Plant and Equipment

	Leasehold properties HK\$	Leasehold improvements HK\$	Furniture, fixtures and equipment HK\$	Plant and machinery HK\$	Tools and moulds HK\$	Motor vehicles HK\$	Total HK\$
THE GROUP							
COST OR VALUATION							
At 1 July, 2000	29,250,000	11,661,546	15,951,481	23,828,328	36,552,553	4,658,132	121,902,040
Additions	–	1,110,793	2,742,545	6,921,927	2,313,775	–	13,089,040
Disposals	–	–	(996,724)	(2,535,505)	(14,352)	–	(3,546,581)
Revaluation decrease	(3,320,000)	–	–	–	–	–	(3,320,000)
At 30 June, 2001	<u>25,930,000</u>	<u>12,772,339</u>	<u>17,697,302</u>	<u>28,214,750</u>	<u>38,851,976</u>	<u>4,658,132</u>	<u>128,124,499</u>
Comprising:							
At cost	–	12,772,339	17,697,302	28,214,750	38,851,976	4,658,132	102,194,499
At valuation – 2001	<u>25,930,000</u>	–	–	–	–	–	<u>25,930,000</u>
	<u>25,930,000</u>	<u>12,772,339</u>	<u>17,697,302</u>	<u>28,214,750</u>	<u>38,851,976</u>	<u>4,658,132</u>	<u>128,124,499</u>
DEPRECIATION							
At 1 July, 2000	–	8,922,470	10,363,057	18,562,941	22,926,843	3,318,868	64,094,179
Provided for the year	1,252,681	807,362	1,206,268	1,949,767	2,988,603	267,852	8,472,533
Eliminated on disposals	–	–	(453,125)	(2,382,202)	(6,850)	–	(2,842,177)
Eliminated on revaluation	(1,252,681)	–	–	–	–	–	(1,252,681)
At 30 June, 2001	–	<u>9,729,832</u>	<u>11,116,200</u>	<u>18,130,506</u>	<u>25,908,596</u>	<u>3,586,720</u>	<u>68,471,854</u>
NET BOOK VALUES							
At 30 June, 2001	<u>25,930,000</u>	<u>3,042,507</u>	<u>6,581,102</u>	<u>10,084,244</u>	<u>12,943,380</u>	<u>1,071,412</u>	<u>59,652,645</u>
At 30 June, 2000	<u>29,250,000</u>	<u>2,739,076</u>	<u>5,588,424</u>	<u>5,265,387</u>	<u>13,625,710</u>	<u>1,339,264</u>	<u>57,807,861</u>

Notes to the Financial Statement

For the year ended 30 June, 2001

12. Property, Plant and Equipment (continued)

	Leasehold properties	Leasehold improvements	Furniture, fixtures and equipment	Plant and machinery	Tools and moulds	Motor vehicles	Total
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
THE COMPANY							
COST							
At 1 July, 2000	-	-	459,199	-	-	-	459,199
Additions	-	-	32,248	-	-	-	32,248
Transfer to a subsidiary	-	-	(491,447)	-	-	-	(491,447)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
At 30 June, 2001	-	-	-	-	-	-	-
DEPRECIATION							
At 1 July, 2000	-	-	122,952	-	-	-	122,952
Provided for the year	-	-	66,859	-	-	-	66,859
Eliminated on transfer to a subsidiary	-	-	(189,811)	-	-	-	(189,811)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
At 30 June, 2001	-	-	-	-	-	-	-
NET BOOK VALUES							
At 30 June, 2001	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
At 30 June, 2000	<u>-</u>	<u>-</u>	<u>336,247</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>336,247</u>

The net book value of the leasehold properties at 30 June, 2001 included an amount of HK\$5,930,000 (2000: HK\$8,250,000) in respect of properties situated in Hong Kong which are held under medium-term leases and an amount of HK\$20,000,000 (2000: HK\$21,000,000) in respect of a building situated in the People's Republic of China (the "PRC") which is held for use by the Group for the remaining term of 20 years. The leasehold properties were valued at 30 June, 2001 by AA Property Services Limited, a firm of property consultants, on an open market value basis.

Had the leasehold properties been carried at historical cost less depreciation, their aggregate carrying amount would have been stated at approximately HK\$12,966,000 (2000: HK\$13,530,000).

At 30 June, 2001, the net book value of furniture, fixtures and equipment held under hire purchase contracts amounted to approximately HK\$2,430,000 (2000: HK\$433,000).

Notes to the Financial Statement

For the year ended 30 June, 2001

13. Interests in Subsidiaries

	THE COMPANY	
	2001 HK\$	2000 HK\$
Unlisted shares, at cost	43,362,681	43,362,673
Net amounts due from subsidiaries, less provisions	52,883,428	68,307,761
	96,246,109	111,670,434
Less: Net amounts due from subsidiaries receivable within one year shown under current assets	(36,174,555)	(64,810,446)
	60,071,554	46,859,988

Details of the Company's subsidiaries at 30 June, 2001 are as follows:

Name of subsidiary	Place of incorporation/ operation	Nominal value of issued shares*	Proportion of nominal value of issued shares held by the Company		Principal activities
			Directly	Indirectly	
Fine Apex Limited	Hong Kong	HK\$4	–	50%	Property holding
Graceley Enterprises Limited	Hong Kong	HK\$2	–	100%	Provision of nominee services
Hitchman Limited	Hong Kong	HK\$150,000	–	100%	Property holding
Modern Gala Industrial Limited	Hong Kong	HK\$1,500,000	–	100%	Manufacture and sale of moulds and plastic parts
P.N. Electronic Limited	Hong Kong	HK\$1,000	–	100%	Inactive
Quentinbelle Limited	British Virgin Islands ("BVI")/PRC	US\$100	–	100%	Provision of sub-contracting services
Quicky Technologies Limited	BVI	US\$1	100%	–	Investment holding
Quidde Limited	Hong Kong	HK\$2	–	100%	Investment holding
Ruian Weiye Technology (Shenzhen) Limited	PRC	HK\$5,000,000	–	100%	Manufacture and sale of toys, games and electronic products

Notes to the Financial Statement

For the year ended 30 June, 2001

13. Interests in Subsidiaries (continued)

Name of subsidiary	Place of incorporation/ operation	Nominal value of issued shares*	Proportion of nominal value of issued shares held by the Company		Principal activities
			Directly	Indirectly	
Timlex International Limited	Hong Kong	HK\$2	–	100%	Trading in toys and games and multimedia electronic products
Victorwood Holdings Limited	Hong Kong	HK\$1,960,000	–	71.6%	Trading in telecommunication products
Welback Enterprises Limited	Hong Kong	HK\$13,501,000**	–	100%	Manufacture and sale of toys and games and multimedia electronic products
Welback International Investments Limited	BVI	HK\$16,875,000	100%	–	Investment holding

* All are ordinary share capital unless otherwise stated.

** The issued and fully paid share capital of Welback Enterprises Limited includes 1,350,000 non-voting deferred shares of HK\$10 each.

None of the subsidiaries had any loan capital subsisting at the end of the year or at any time during the year.

Notes to the Financial Statement

For the year ended 30 June, 2001

14. Investments in Securities

	THE GROUP	
	2001 HK\$	2000 HK\$
Other securities, unlisted	2,050,990	2,050,990
Less: Impairment loss recognised	(2,050,990)	(2,049,990)
	<u> </u>	<u> </u>
	-	1,000
	<u> </u>	<u> </u>

In the opinion of the directors, other securities in the amount of HK\$2,050,990 (2000: HK\$2,049,990) are determined to be impaired and the amount of impairment loss has been charged to the income statement.

15. Amount Due from an Investee Company

THE GROUP AND THE COMPANY

The amount is unsecured, interest-free and has no fixed repayment terms. In the opinion of the directors, the Company will not demand for repayment within twelve months from the balance sheet date. Accordingly, the amount is classified as non-current.

16. Inventories

	THE GROUP	
	2001 HK\$	2000 HK\$
Raw materials	53,519,879	54,318,323
Work in progress	8,895,814	10,519,217
Finished goods	7,062,037	7,939,500
	<u> </u>	<u> </u>
	69,477,730	72,777,040
	<u> </u>	<u> </u>

Included above are raw materials of approximately HK\$51,961,000 (2000: HK\$52,416,000), work in progress of approximately HK\$8,841,000 (2000: HK\$10,501,000) and finished goods of approximately HK\$6,684,000 (2000: HK\$6,196,000) which are carried at net realisable value.

Notes to the Financial Statement

For the year ended 30 June, 2001

17. Trade and other Receivables

The Group is in the process of recovering receivable of approximately HK\$18 million in respect of goods shipped to a former customer, North American Foreign Trading Corporation ("NAFT") in 1996. NAFT has filed a Statement of Claim with the American Arbitration Association, in which it alleges that the Group manufactured and sold defective goods to NAFT for which NAFT is entitled to a refund. In addition, NAFT is claiming damages not exceeding US\$5 million. Based on legal advice, the Group is contesting vigorously the claims brought by NAFT and has counterclaimed for the said sum of HK\$18 million and for other damages. Accordingly, although it is not possible to determine the outcome of these proceedings with reasonable certainty at this time, no provision has been made in these financial statements against the Group's exposure in respect of this matter.

At 30 June, 2001, the balances of trade and other receivables included trade receivables of HK\$56,064,517 (2000: HK\$93,205,554). An aged analysis of trade receivables prepared on the basis of sales invoice date is as follows:

	THE GROUP	
	2001 HK\$	2000 HK\$
0 to 90 days	32,600,857	62,780,704
91 days or above	23,463,660	30,424,850
	<u>56,064,517</u>	<u>93,205,554</u>

The Group allows an average credit period of 60 – 90 days (2000: 60 – 90 days) to its trade customers.

18. Trade and other Payables

At 30 June, 2001, the balances of trade and other payables included trade payables of HK\$60,609,092 (2000: HK\$83,169,190). An aged analysis of trade payables prepared on the basis of supplier invoice date is as follows:

	THE GROUP	
	2001 HK\$	2000 HK\$
0 to 90 days	49,330,327	65,009,796
91 days or above	11,278,765	18,159,394
	<u>60,609,092</u>	<u>83,169,190</u>

Notes to the Financial Statement

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19. Short-Term Secured Bank Borrowings

	THE GROUP	
	2001 HK\$	2000 HK\$
Trust receipts and import loans	20,696,257	16,797,231
Portion of secured term loan due within one year (note 20)	1,183,469	151,618
Other bank loans	2,452,407	1,343,013
Bank overdrafts	2,467,289	–
	<u>26,799,422</u>	<u>18,291,862</u>

20. Secured Term Loan

	THE GROUP	
	2001 HK\$	2000 HK\$
The loan is repayable:		
– Within one year	1,183,469	151,618
– Between one to two years	1,262,915	168,745
– Between two to five years	3,949,337	490,740
– Over five years	18,331,038	–
	<u>24,726,759</u>	<u>811,103</u>
Less: Amount due within one year included under short-term secured bank borrowings in current liabilities (note 19)	(1,183,469)	(151,618)
Amount due after one year	<u>23,543,290</u>	<u>659,485</u>

Notes to the Financial Statement

For the year ended 30 June, 2001

21. Obligations under Hire Purchase Contracts

	Minimum lease payments		Present value of minimum lease payments	
	2001 HK\$	2000 HK\$	2001 HK\$	2000 HK\$
THE GROUP				
Amounts payable under hire purchase contracts:				
Within one year	1,084,176	162,664	913,466	137,926
In the second to fifth year inclusive	1,035,003	162,800	964,925	148,106
	2,119,179	325,464	1,878,391	286,032
Less: future finance charges	(240,788)	(39,432)	–	–
Present value of lease obligations	1,878,391	286,032	1,878,391	286,032
Less: Amount due for settlement within 12 months shown under current liabilities			(913,466)	(137,926)
Amount due for settlement after 12 months			964,925	148,106

Obligations under hire purchase contracts represent hire purchase contracts payable by the Group for certain of its furniture, fixture and equipment. The average lease term is 3 years. All leases are on fixed repayment basis and no arrangements have been entered into for contingent rental payments.

Notes to the Financial Statement

For the year ended 30 June, 2001

22. Convertible Bonds

	THE GROUP AND THE COMPANY	
	2001 HK\$	2000 HK\$
Principal amount		
At the beginning of year	20,000,000	–
Issue during the year	–	20,000,000
Redemption during the year	(20,000,000)	–
	<hr/>	<hr/>
At the end of year	–	20,000,000
	<hr/>	<hr/>
Less: issue costs		
At the beginning of year	736,499	–
Incurred during the year	–	818,332
Amortised during the year including amounts written back upon redemption	(736,499)	(81,833)
	<hr/>	<hr/>
At the end of year	–	736,499
	<hr/>	<hr/>
Carrying value at 30 June	–	19,263,501

In April 2000, the Company issued HK\$20,000,000 3% convertible bonds due 31 December, 2001 (the "Bonds"). The bonds carry a right to convert either in whole or in part any time and from time to time in amounts of not less than HK\$100,000 on each conversion, save that if at any time, the principal outstanding amount of the Bonds is less than HK\$100,000, the whole (but not part only) of the principal outstanding amount of the Bonds may be converted into ordinary shares of the Company at an initial conversion price of HK\$0.40 per share (subject to adjustment) at any time up to the maturity date. As a result of the capital reorganisation as described in note 24, the conversion price of the Bonds has been adjusted to HK\$0.03 per share with effect from 9 May, 2000 in accordance with the provision of the trust deed constituting the Bonds.

In November 2000 and February 2001 respectively, in order to reduce the interest burden of the Group, the Group redeemed the outstanding Bonds in the amount of HK\$20,000,000.

Notes to the Financial Statement

For the year ended 30 June, 2001

23. Deferred Taxation

	THE GROUP	
	2001 HK\$	2000 HK\$
Balance at 1 July	–	1,150,000
Credit for the year (note 9)	–	(1,150,000)
	<hr/>	<hr/>
Balance at 30 June	–	–
	<hr/> <hr/>	<hr/> <hr/>

At the balance sheet date, the major components of the net unrecognised deferred taxation asset were as follows:

	THE GROUP		THE COMPANY	
	2001 HK\$	2000 HK\$	2001 HK\$	2000 HK\$
Tax effect of timing differences because of:				
Tax losses not yet utilised	14,592,000	10,371,000	275,000	832,000
Difference of tax allowances and depreciation	(2,719,000)	(2,580,000)	–	(54,000)
	<hr/>	<hr/>	<hr/>	<hr/>
	11,873,000	7,791,000	275,000	778,000
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Notes to the Financial Statement

For the year ended 30 June, 2001

23. Deferred Taxation (continued)

The major components of the net unrecognised deferred taxation (credit) charge for the year were as follows:

	THE GROUP		THE COMPANY	
	2001 HK\$	2000 HK\$	2001 HK\$	2000 HK\$
Tax effect of timing differences because of:				
Tax losses (arising) utilising	(4,221,000)	421,000	557,000	477,000
Difference of tax allowances and depreciation	139,000	30,000	(54,000)	7,000
	<u>(4,082,000)</u>	<u>451,000</u>	<u>503,000</u>	<u>484,000</u>

Deferred taxation asset has not been recognised in the financial statements as it is not certain whether the benefit will crystallise in the foreseeable future.

Deferred taxation has not been provided on the accumulated surplus arising on the revaluation of leasehold properties situated in Hong Kong as the profits, if any, arising on future disposal of these assets would not be subject to taxation. Accordingly, the revaluation does not constitute a timing difference for tax purposes.

In addition, the Group had a potential deferred taxation liability in respect of land appreciation tax resulting from revaluation surplus of approximately HK\$7,497,000 (2000: HK\$7,509,000) arising on the factory premises situated in the PRC. The Group does not have any intention to dispose of these factory premises in the foreseeable future. Accordingly, no deferred taxation has been provided in respect of the revaluation surplus of these properties.

Notes to the Financial Statement

For the year ended 30 June, 2001

24. Share Capital

	Number of shares	Nominal value HK\$
Authorised:		
Ordinary shares of HK\$0.10 each at 1 July, 1999	400,000,000	40,000,000
– Increase of authorised share capital by creation of an additional 1,600,000,000 shares of HK\$0.10 each	<u>1,600,000,000</u>	<u>160,000,000</u>
	2,000,000,000	200,000,000
– Subdivision of authorised share capital from 2,000,000,000 shares of HK\$0.10 each to 20,000,000,000 shares of HK\$0.01 each	<u>18,000,000,000</u>	–
Ordinary shares of HK\$0.01 each at 30 June, 2000 and 30 June, 2001	<u><u>20,000,000,000</u></u>	<u><u>200,000,000</u></u>
Issued and fully paid:		
Ordinary shares of HK\$0.10 each at 1 July, 1999	246,550,400	24,655,040
– Issue of shares resulted from exercise of share options	1,200,000	120,000
– Issue of shares resulted from private placements	27,000,000	2,700,000
– Issue of shares resulted from rights issue	<u>109,900,160</u>	<u>10,990,016</u>
	384,650,560	38,465,056
– Subdivision of issued and fully paid shares from HK\$0.10 each to HK\$0.01 each	<u>3,461,855,040</u>	–
	3,846,505,600	38,465,056
Ordinary shares of HK\$0.01 each		
– Issue of shares resulted from private placements	760,000,000	7,600,000
– Issue of shares resulted from rights issue	<u>1,842,602,240</u>	<u>18,426,022</u>
Ordinary shares of HK\$0.01 each at 30 June, 2000 and 1 July, 2000	6,449,107,840	64,491,078
– Issue of shares resulted from exercise of share options	<u>41,000,000</u>	<u>410,000</u>
Ordinary shares of HK\$0.01 each at 30 June, 2001	<u><u>6,490,107,840</u></u>	<u><u>64,901,078</u></u>

Notes to the Financial Statement

For the year ended 30 June, 2001

24. Share Capital (*continued*)

During the years ended 30 June, 2000 and 30 June, 2001, the following changes in the share capital of the Company took place:

- (a) On 21 February, 2000 and 24 February, 2000, the Company allotted and issued 600,000 shares, respectively of HK\$0.10 each in the Company for cash at HK\$0.2784 per share as a result of the exercise of the Company's share options granted to a former director.
- (b) On 9 March, 2000 and 14 March, 2000, the Company issued 13,500,000 shares, respectively of HK\$0.10 each in the Company to independent investors at a price of HK\$0.35 per share by way of private placement and raised approximately HK\$9,450,000.
- (c) On 29 March, 2000 and 6 April, 2000, the Company issued 90,519,358 shares and 19,380,802 shares, respectively of HK\$0.10 each in the Company to shareholders at a price of HK\$0.30 per share by way of rights issue on the basis of two rights share for every five existing shares then held by qualifying shareholders and raised approximately HK\$32,970,000.
- (d) On 5 April, 2000, the Company increased its authorised share capital from HK\$40,000,000 to HK\$200,000,000 by the creation of an additional 1,600,000,000 shares of HK\$0.10 each.
- (e) On 7 April, 2000, the Company subdivided the existing issued and unissued shares of HK\$0.10 each into ten shares of HK\$0.01 each in the share capital of the Company.
- (f) On 4 May, 2000, the Company issued 760,000,000 shares of HK\$0.01 each in the Company to independent investors at a price HK\$0.02 per share by way of private placement and raised approximately HK\$15,200,000.
- (g) On 22 May, 2000 and 24 May, 2000, the Company issued 1,518,619,852 shares and 323,982,388 shares, respectively of HK\$0.01 each in the Company to shareholders at a price of HK\$0.02 per share by way of rights issues on the basis of two rights shares for every five existing shares then held by qualifying shareholders and raised approximately HK\$36,852,000.
- (h) On 20 June, 2001, 21 June, 2001 and 26 June, 2001, the Company allotted and issued 41,000,000 shares, respectively of HK\$0.01 each in the Company for cash at HK\$0.0274 per share as a result of the exercise of the Company's share options granted to its employees.

The net proceeds from the rights issue and private placements for year ended 30 June, 2000 were used to reduce the level of indebtedness of the Group and as general working capital of the Company.

All new shares issued as a result of the exercise of share options, private placements and rights issue ranked pari passu with the then existing shares in all respects.

Notes to the Financial Statement

For the year ended 30 June, 2001

25. Share Options

The Company has a share option scheme under which the directors may grant options to employees of the Company or its subsidiaries, including directors of any of such companies, to subscribe for shares in the Company. The subscription price will not be less than 80% of the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the options or the nominal value of the shares, whichever is the higher. The maximum number of shares in respect of which options may be granted under this scheme may not exceed 10% of the issued share capital of the Company from time to time. An option may be exercised at any time before the expiration of ten years from the date of adoption of the relevant share option scheme.

A summary of the options outstanding at 1 July, 2000 and 30 June, 2001 under the aforesaid share option scheme of the Company during the year is as follows:

Exercisable on or after	Exercise price HK\$	Number of share options outstanding at 1.7.2000	Number of share options granted during the year	Number of share options exercised during the year	Number of share options lapsed during the year	Number of share options outstanding at 30.6.2001
27.11.1993	0.0424	12,649,056	-	-	-	12,649,056
27.11.1994	0.0424	12,649,056	-	-	-	12,649,056
1.7.1995	0.0176	25,309,090	-	-	-	25,309,090
1.7.1996	0.0176	25,309,090	-	-	-	25,309,090
3.1.2001	0.0135	31,600,000	-	-	-	31,600,000
3.1.2002	0.0135	47,400,000	-	-	-	47,400,000
4.4.2001	0.0274	-	67,000,000	(41,000,000)	-	26,000,000
7.7.2001	0.0594	-	5,000,000	-	-	5,000,000
7.1.2002	0.0594	-	5,000,000	-	-	5,000,000

Notes to the Financial Statement

For the year ended 30 June, 2001

26. Reserves

	Share premium HK\$	Asset revaluation reserve HK\$	Capital reserve on consolidation HK\$	Translation reserve HK\$	Contributed surplus HK\$	Accumulated deficit HK\$	Total HK\$
THE GROUP							
At 1 July, 1999	48,651,246	19,956,514	8,850,159	-	-	(16,257,538)	61,200,381
Premium arising on issue of shares in respect of							
- Conversion of share options	214,080	-	-	-	-	-	214,080
- Private placements	14,350,000	-	-	-	-	-	14,350,000
- Rights issue	40,406,054	-	-	-	-	-	40,406,054
Share issue expenses	(4,653,935)	-	-	-	-	-	(4,653,935)
Exchange difference on translation of financial statements of overseas operation	-	-	-	4,172,405	-	-	4,172,405
Revaluation decrease	-	(1,343,531)	-	-	-	-	(1,343,531)
Reserves released on disposal of subsidiaries	-	(3,498,810)	(21,992)	(4,172,405)	-	3,498,810	(4,194,397)
Net loss for the year	-	-	-	-	-	(22,084,251)	(22,084,251)
At 30 June, 2000	98,967,445	15,114,173	8,828,167	-	-	(34,842,979)	88,066,806
Premium arising on issue of shares in respect of conversion of share options	713,400	-	-	-	-	-	713,400
Revaluation decrease	-	(2,036,871)	-	-	-	-	(2,036,871)
Net loss for the year	-	-	-	-	-	(32,680,417)	(32,680,417)
At 30 June, 2001	<u>99,680,845</u>	<u>13,077,302</u>	<u>8,828,167</u>	<u>-</u>	<u>-</u>	<u>(67,523,396)</u>	<u>54,062,918</u>

Notes to the Financial Statement

For the year ended 30 June, 2001

26. Reserves (continued)

	Share premium HK\$	Asset revaluation reserve HK\$	Capital reserve on consolidation HK\$	Translation reserve HK\$	Contributed surplus HK\$	Accumulated deficit HK\$	Total HK\$
THE COMPANY							
At 1 July, 1999	48,651,246	-	-	-	26,487,673	(21,997,452)	53,141,467
Premium arising on issue of shares in respect of							
- Conversion of share options	214,080	-	-	-	-	-	214,080
- Private placements	14,350,000	-	-	-	-	-	14,350,000
- Rights issue	40,406,054	-	-	-	-	-	40,406,054
Share issue expenses	(4,653,935)	-	-	-	-	-	(4,653,935)
Net loss for the year (note 10)	-	-	-	-	-	(14,513,584)	(14,513,584)
At 30 June, 2000	98,967,445	-	-	-	26,487,673	(36,511,036)	88,944,082
Premium arising on issue of shares in respect of conversion of share options	713,400	-	-	-	-	-	713,400
Net loss for the year (note 10)	-	-	-	-	-	(44,696,233)	(44,696,233)
At 30 June, 2001	<u>99,680,845</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>26,487,673</u>	<u>(81,207,269)</u>	<u>44,961,249</u>

The contributed surplus represents the difference between the consolidated shareholders' funds of Welback International Investments Limited at the date on which its shares were acquired by the Company and the nominal amount of the Company's shares issued for the acquisition.

Under the Companies Act 1981 of Bermuda (as amended), contributed surplus is also available for distribution to shareholders. However, a company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- (i) the company is, or would after the payment be, unable to pay its liabilities as they become due; or
- (ii) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

In the opinion of the directors, the Company did not have any reserves available for distribution to shareholders at 30 June, 2001 and 30 June, 2000.

Notes to the Financial Statement

For the year ended 30 June, 2001

27. Reconciliation of Loss before Taxation to Net Cash Outflow from Operating Activities

	2001 HK\$	2000 HK\$
Loss before taxation	(32,578,607)	(23,121,725)
Interest income	(2,034,003)	(1,045,601)
Interest expenses	3,744,744	2,662,425
Dividend income	(8,000)	–
Depreciation	8,472,533	8,062,818
Loss on disposal of property, plant and equipment	524,053	52,610
Gain on disposal of subsidiaries	–	(635,509)
Deficit arising on revaluation of leasehold properties	30,448	–
Provision for doubtful debts	5,014,790	7,659,953
Provision for impairment loss of		
– Investments in securities	1,000	351,000
– Amount due from an investee company	100,000	1,360,000
Decrease (increase) in inventories	3,299,310	(16,426,812)
Decrease (increase) in trade and other receivables	20,407,915	(27,373,976)
(Decrease) increase in trade and other payables	(32,437,791)	4,647,310
	<hr/>	<hr/>
Net cash outflow from operating activities	(25,463,608)	(43,807,507)
	<hr/> <hr/>	<hr/> <hr/>

Notes to the Financial Statement

For the year ended 30 June, 2001

28. Purchase of a Subsidiary

	2001 HK\$	2000 HK\$
Net assets acquired:		
Trade and other receivables	1,444,531	–
Property held for sale	36,556,286	–
Bank balances and cash	21,000	–
Trade and other payables	(21,700)	–
Secured bank borrowings	(24,150,000)	–
Loans payable	(14,000,000)	–
Minority interests	149,885	–
	<u>2</u>	<u>–</u>
Net assets	<u>2</u>	<u>–</u>
Satisfied by:		
Cash consideration paid	<u>2</u>	<u>–</u>
Analysis of net inflow of cash and cash equivalents in connection with the purchase of a subsidiary:		
Cash consideration paid	(2)	–
Bank balances and cash acquired	21,000	–
	<u>20,998</u>	<u>–</u>
Net inflow of cash and cash equivalents in connection with the purchase of a subsidiary	<u>20,998</u>	<u>–</u>

The subsidiary purchased during the year did not have any significant impact on the Group's cash flows, turnover and operating results.

Notes to the Financial Statement

For the year ended 30 June, 2001

29. Disposal of Subsidiaries

	2001 HK\$	2000 <i>HK\$</i>
Net assets disposed of:		
Property, plant and equipment	–	3,895,493
Inventories	–	491,162
Trade and other receivables	–	3,859,907
Bank balances and cash	–	76,541
Trade and other payables	–	(2,005,509)
Other long-term payables	–	(1,258,706)
	<hr/>	<hr/>
Net assets	–	5,058,888
Goodwill realised on disposal	–	(21,992)
Translation reserve realised on disposal	–	(4,172,405)
Gain on disposal of subsidiaries	–	635,509
	<hr/>	<hr/>
	–	1,500,000
	<hr/> <hr/>	<hr/> <hr/>
Satisfied by:		
Cash consideration received	–	10,000
Deferred consideration	–	1,490,000
	<hr/>	<hr/>
	–	1,500,000
	<hr/> <hr/>	<hr/> <hr/>
Analysis of net outflow of cash and cash equivalents in connection with the disposal of subsidiaries:		
Cash consideration received	–	10,000
Bank balances and cash disposed of	–	(76,541)
	<hr/>	<hr/>
	–	(66,541)
	<hr/> <hr/>	<hr/> <hr/>

The subsidiary disposed of during the year ended 30 June, 2000 contributed HK\$222,000 to the Group's net operating cash outflows and utilised HK\$285,000 in respect of financing activities.

Notes to the Financial Statement

For the year ended 30 June, 2001

30. Analysis of Changes in Financing during the Year

	Share capital and premium HK\$	Convertible bonds HK\$	Term loans HK\$	Trust receipts and import loans HK\$	Obligations under hire purchase contracts HK\$	Other borrowings HK\$	Minority interests HK\$	Other long- term payables HK\$
At 1 July, 1999	73,306,286	-	951,003	-	175,595	4,777,778	247,981	1,255,083
Issue of shares	94,806,172	-	-	-	-	-	-	-
Expenses incurred in connection with the issue of shares	(4,653,935)	-	-	-	-	-	-	-
Proceeds from issue of convertible bonds	-	20,000,000	-	-	-	-	-	-
Inception of hire purchase contracts	-	-	-	-	246,439	-	-	-
Other new borrowings raised	-	-	-	-	-	5,000,000	-	-
Net increase in trust receipts and import loans	-	-	-	830,676	-	-	-	-
Repayment of term loans	-	-	(139,900)	-	-	-	-	-
Repayment of obligations under hire purchases	-	-	-	-	(136,002)	-	-	-
Repayment of other borrowings	-	-	-	-	-	(9,777,778)	-	-
Expenses incurred in connection with the issue of convertible bonds	-	(818,332)	-	-	-	-	-	-
Amortisation of issue costs	-	81,833	-	-	-	-	-	-
Exchange difference on translation	-	-	-	-	-	-	-	3,623
Eliminated on disposal of subsidiaries	-	-	-	-	-	-	-	(1,258,706)
Profit shared by minority interests	-	-	-	-	-	-	350,735	-
At 30 June, 2000	163,458,523	19,263,501	811,103	830,676	286,032	-	598,716	-
Issue of shares	1,123,400	-	-	-	-	-	-	-
Inception of hire purchase contracts	-	-	-	-	2,472,240	-	-	-
Other new borrowings raised	-	-	-	-	-	6,000,000	-	-
Net increase in trust receipts and import loans	-	-	-	4,047,331	-	-	-	-
Redemption of convertible bonds	-	(20,000,000)	-	-	-	-	-	-
Repayment of term loans	-	-	(234,344)	-	-	-	-	-
Repayment of obligations under hire purchases	-	-	-	-	(879,881)	-	-	-
Amortisation of issue costs	-	736,499	-	-	-	-	-	-
Purchase of a subsidiary	-	-	24,150,000	-	-	-	(149,885)	-
Profit shared by minority interests	-	-	-	-	-	-	101,810	-
At 30 June, 2001	164,581,923	-	24,726,759	4,878,007	1,878,391	6,000,000	550,641	-

Notes to the Financial Statement

For the year ended 30 June, 2001

31. Analysis of the Balances of Cash and Cash Equivalents

	2001 HK\$	2000 HK\$
Time deposits, bank balances and cash	25,759,165	68,975,131
Trust receipts and import loans, with maturities within three months	(15,818,250)	(15,966,555)
Other bank loans, with maturities within three months	(2,452,407)	(1,343,013)
Bank overdrafts	(2,467,289)	–
	<u>5,021,219</u>	<u>51,665,563</u>

32. Major Non-cash Transaction

During the year, the Group entered into a hire purchase contract in respect of plant and equipment with a total capital value at the inception of the contract of HK\$2,472,240 (2000: HK\$246,439).

33. Capital Commitments

	THE GROUP	
	2001 HK\$	2000 HK\$
Capital expenditure in respect of acquisition of plant and equipment:		
Authorised but not contracted for	–	369,000
Contracted but not provided for in the financial statements	4,251,000	2,686,000
	<u>4,251,000</u>	<u>3,055,000</u>

The Company did not have any capital commitments at 30 June, 2001 and 30 June, 2000.

34. Retirement Benefit Scheme

Prior to 1 December, 2000, the Group operated a defined contribution retirement benefits scheme (“Defined Contribution Scheme”) for its qualifying employees in Hong Kong. The assets of the scheme were held separately from those of the Group in funds under the control of an independent trustee. Where there are employees who leave the Defined Contribution Scheme prior to vesting fully in the contributions, the amount of the forfeited contributions would be used to reduce the contributions payable by the Group. The Defined Contribution Scheme was terminated on 1 December, 2000.

Notes to the Financial Statement

For the year ended 30 June, 2001

34. Retirement Benefit Scheme (continued)

Effective 1 December, 2000, the Group joined the MPF Scheme for all of its employees in Hong Kong. The MPF scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance in Hong Kong. The assets of the MPF scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the Group and its employees are each required to make contributions to the MPF Scheme at rates specified in the rules. No forfeited contribution is available to reduce the contribution payable in the future years.

35. Operating Lease Arrangements

At the balance sheet date, the Group had outstanding commitments under non-cancellable operating leases which fall due as follows:

	THE GROUP	
	2001 HK\$	2000 HK\$
Within one year	1,941,185	2,881,717
In the second to fifth year inclusive	1,374,454	397,061
	<u>3,315,639</u>	<u>3,278,778</u>

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases and rentals payment are negotiated and fixed at an average term of two years.

The Company did not have any operating lease commitments at 30 June, 2001 and 2000.

36. Pledge of Assets

At 30 June, 2001, the Group pledged leasehold properties with a net book value of HK\$25,930,000 (2000: HK\$8,250,000) and a property held for resale of HK\$36,556,286 (2000: Nil) to secure credit facilities granted to the Group.

37. Contingent Liabilities

	THE GROUP	
	2001 HK\$	2000 HK\$
Bills discounted with recourse	<u>6,897,904</u>	<u>2,059,098</u>

Notes to the Financial Statement

For the year ended 30 June, 2001

37. Contingent Liabilities (continued)

At 30 June, 2001, the Company provided corporate guarantees amounting to approximately HK\$42,000,000 (2000: HK\$42,000,000) to various banks in respect of banking facilities granted to its subsidiaries. The aggregate amount utilised in respect of the banking facilities granted amounted to approximately HK\$25,616,000 at 30 June, 2001 (2000: HK\$18,140,000).

38. Related Party Transactions

During the year, the Group entered into the following transactions with related parties:

Name of related party	Nature of transaction	2001 HK\$	2000 HK\$
Ho, Wong & Wong	Legal and professional fees paid by the Group	–	85,499
William W. L. Fan & Co	Legal and professional fees paid by the Group	606,060	334,918
Dr. Liang Ping	Project development and consultancy fees paid by the Group	360,000	380,000

Mr. Wong Chun Nam, Duffy, an independent non-executive director of the Company, is a partner of Messrs. Ho, Wong & Wong, a firm of solicitors.

Mr. Fan Wai Lim, William, the company secretary of the Company, is a partner of William W. L. Fan & Co, a firm of solicitors.

Dr. Liang Ping is the wife of Dr. Xu Yang Sheng, a non-executive director of the Company.

The pricing of the transactions were agreed between the Group and the related parties with reference to market price for similar transactions.

39. Post Balance Sheet Event

On 16 July, 2001, the Group entered into an agreement with Wang Cheng Chien, Lee Kim, Ke Shun Chih, Wang Li Mei, Chang Sei Wang, Chang Su Chen, Yu Adam, Lin Bernie and Yu Ruben (the "Vendors") in respect of the acquisition of a 25% interest in Gen-Wan Technology Corp. ("Gen Wan") for cash consideration of HK\$60,000,000. Gen Wan is established in Taiwan and principally engaged in the development of Wideband Code Division Multiple Access (an Internet technology which allows simultaneous transmission of information over a common channel by assigning each of the signals an unique code during transmission) and Orthogonal Frequency Division Multiplexing (an Internet technology which allows simultaneous transmission of information over a common channel by assigning each of the signals an unique code during the transmission) and the sales of related system networks and products.