

## 1. CORPORATE INFORMATION

The Company was incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda (as amended). Its shares have been listed on The Stock Exchange of Hong Kong Limited since 28 May 1993. The registered office of the Company is located at Clarendon House, Church Street, Hamilton HM 11, Bermuda.

During the period, the Group was involved in the following principal activities:

- investment in Internet, Internet-related, mobile phone and mobile phone-related activities;
- manufacture and trading of batteries;
- manufacture and trading of electronic finished products;
- trading of electronic parts and components;
- manufacture and trading of silicone rubber products; and
- property investment.

In the opinion of the directors, the ultimate holding company is Hikari Tsushin, Inc., which was incorporated in Japan.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice ("SSAPs"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the remeasurement of investment properties and certain fixed assets and equity investment, as further explained below.

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and all its subsidiaries for the period from 1 April 2000 to 31 July 2001 (the "Period"). All significant transactions between and among the Company and its subsidiaries are eliminated on consolidation and all amounts presented in the consolidated accounts relate to external transactions only.

The results of subsidiaries acquired or disposed of during the Period are consolidated from the effective dates of acquisition or up to the effective dates of disposal respectively. The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Company's share of its net assets together with any goodwill or capital reserve which was not previously charged or recognised in the profit and loss account.

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

### Subsidiaries

Subsidiaries are companies in which the Company, directly or indirectly, controls more than half of their voting power or issued share capital or controls the composition of their board of directors.

### Fixed assets and depreciation

Fixed assets, other than investment properties, are stated at cost or valuation less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account 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 fixed asset, the expenditure is capitalised as an additional cost of that asset.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Fixed assets and depreciation (continued)

Depreciation is calculated to write off the cost or valuation of each asset over its estimated useful life. The principal annual rates and methods used for this purpose are as follows:

Leasehold land	Over the unexpired terms of lease
Buildings	4% on straight-line basis
Leasehold improvements	Over the lease terms
Plant and machinery	15% on reducing balance basis
Motor vehicles	25% on reducing balance basis
Furniture, fixtures and equipment	15%–20% on reducing balance basis
Moulds	15%–33.3% on reducing balance basis
Tools	50% on reducing balance basis

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

Where, in the opinion of the directors, the recoverable amounts of fixed assets have declined below their carrying amounts, provisions are made to write down the carrying amounts of such assets to their recoverable amounts. Recoverable amounts are not determined by using discounted cash flows. Reductions of recoverable amounts are charged to the profit and loss account, except to the extent that they reverse previous revaluation surpluses in respect of the same items, when they are charged to the revaluation reserve.

### Investment properties

Investment properties are interests in land and buildings and which are held for their long-term investment potential, any rental income being negotiated at arm's length.

Such properties are included in the balance sheet at their open market values on the basis of an annual professional valuation. Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Where a deficit has previously been charged to the profit and loss account and a revaluation surplus subsequently arises, this surplus would be credited to the profit and loss account to the extent of the deficit previously charged.

Investment properties are not depreciated except where the unexpired term of the lease is twenty years or less, in which case depreciation is provided on the carrying amount over the remaining terms of the lease.

On disposal of revalued investment properties, any unrealised revaluation reserve attributable to the properties is released to the profit and loss account as part of gain or loss on disposal of the asset.

### Leased assets and operating leases

Where assets are acquired through finance lease contracts under which substantially all the risks and rewards of ownership are transferred to the Group, the assets are treated as if they had been purchased. An amount equivalent to the cost is recorded as a fixed asset. The corresponding lease commitments are shown as obligations under finance leases and hire purchase contracts. Payments to the lessor are treated as consisting of capital and interest elements. The interest element is charged to the profit and loss account. Assets held under finance lease contracts are depreciated over their expected useful lives on the same basis as owned assets.

Rentals payable under operating leases are charged to the profit and loss account on a straight-line basis over the lease terms.

### Long-term investments

Long-term investments are non-trading investments in listed and unlisted equity securities intended to be held on a long-term basis.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Long-term investments (continued)

Listed securities are stated at their fair values on the basis of their quoted market prices at the balance sheet date on an individual investment basis. Unlisted securities are stated at their estimated fair values on an individual basis. These are determined by the directors having regard to, inter alia, the prices of the most recent reported sales or purchases of the securities or comparison of price/revenue ratios, price/earnings ratios and dividend yields of the securities with those of similar listed securities, with allowance made for the lower liquidity of the unlisted securities.

The gains or losses arising from changes in the fair value of a security are dealt with as movements in the investments revaluation reserve, until the security is sold, collected, or otherwise disposed of, or until the security is determined to be impaired, when the cumulative gain or loss derived from the security recognised in the investments revaluation reserve, together with the amount of any further impairment, is charged to the profit and loss account for the period in which the impairment arises. Where the circumstances and events which led to an impairment cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged and any appreciation in fair value is credited to the profit and loss account to the extent of the amount previously charged.

### Research and development costs

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding three years, commencing from the date when the products are put into commercial production.

### Deferred pre-operating expenses

Deferred pre-operating expenses represented expenses incurred by the Group prior to the commencement of commercial operations of its subsidiaries and set-up costs in relation to its overseas subsidiaries and were amortised, using the straight-line basis, over periods not exceeding five years from the date of commencement of commercial operations in the prior year.

In light of the adoption of Interpretation No. 9, "Accounting for pre-operating costs", issued in the prior year by the Hong Kong Society of Accountants, these expenses are charged to the profit and loss account when incurred. The unamortised pre-operating expenses brought forward from prior years were written off to the profit and loss account in the year ended 31 March 2000.

### Inventories

Inventories are valued at the lower of cost and net realisable value. Cost of raw materials is determined on a first-in, first-out basis. Cost of work-in-progress and finished goods includes materials, labour and appropriate portions of attributable overheads. Net realisable value represents the estimated selling prices less all costs to completion and all direct costs to be incurred in selling and distribution.

### Accounts receivable

Provision is made against accounts receivable to the extent which they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

### Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) on the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) rental income, on a time proportion basis over the lease terms;
- (c) on the rendering of services, when the relevant services are rendered;
- (d) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and
- (e) dividends, when the shareholders' right to receive payment is established.

### Foreign currencies

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

### Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

### Retirement benefits scheme costs

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees in Hong Kong. The Scheme became effective on 1 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 become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the Scheme.

Prior to the Scheme being effective, the Group did not have any retirement scheme.

Employees of subsidiaries in Mainland China are members of the Central Pension Scheme operated by the Chinese government. The subsidiaries are required to contribute a certain percentage of their covered payroll to the Central Pension Scheme to fund the benefits. The only obligation for the Group with respect to the Central Pension Scheme is the required contributions, which are charged to the profit and loss account in the year to which they relate.

### Cash equivalents

For the purpose of the consolidated cash flow statement, 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 date of the advance. For the purpose of balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

### 3. TURNOVER AND REVENUE

Turnover represents the net invoiced value of goods sold, after allowance for returns and trade discounts during the Period.

An analysis of turnover and revenue is as follows:

	Period from 1 April 2000 to 31 July 2001 HK\$'000	Year ended 31 March 2000 HK\$'000
Turnover	766,117	493,149
Rental income	309	271
Interest income	43,249	4,595
Tooling and subcontracting income	18,606	6,849
Sales of scrap products	1,087	3,743
Exchange gains, net	2,738	1,737
Others	4,771	1,117
	<u>70,760</u>	<u>18,312</u>
	<b>836,877</b>	<b>511,461</b>

### 4. LOSS FROM OPERATING ACTIVITIES

The Group's loss from operating activities is arrived at after charging/(crediting):

	Period from 1 April 2000 to 31 July 2001 HK\$'000	Year ended 31 March 2000 HK\$'000
Depreciation:		
Owned fixed assets	39,379	29,016
Leased fixed assets	1,071	3,028
	<u>40,450</u>	<u>32,044</u>
Operating lease rentals:		
Land and buildings	22,019	11,980
Plant and machinery	2,859	2,025
	<u>24,878</u>	<u>14,005</u>
Staff costs (excluding directors' remuneration (note 6)):		
Salaries and wages	125,096	67,891
Pension contributions**	1,193	–
	<u>126,289</u>	<u>67,891</u>
Research and development costs	406	402
Auditors' remuneration	1,200	1,272
Loss on disposal of fixed assets	–	162
Write-off of fixed assets	–	7,373
Provision for obsolete and slow-moving inventories	933	42,617

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## 4. LOSS FROM OPERATING ACTIVITIES (continued)

	Period from 1 April 2000 to 31 July 2001 HK\$'000	Year ended 31 March 2000 HK\$'000
Provision for bad and doubtful debts	2,150	646
Deficit on revaluation of an investment property (note 11)*	300	700
Provision for diminution in value of an investment property (note 11)*	50	–
Provision for impairment of long-term investments transferred from investments revaluation reserve (note 25)*	150,000	–
Write-off of deferred pre-operating expenses	–	3,660
Gain on disposal of investments*	(5,894)	–
Gain on disposal of fixed assets*	(237)	–
	<b>–</b>	<b>–</b>

\* Included under the heading of other expenses in the profit and loss account for the Period.

\*\* The Group did not operate any retirement benefits scheme prior to the Mandatory Provident Fund becoming effective on 1 December 2000.

## 5. FINANCE COSTS

	Group Period from 1 April 2000 to 31 July 2001 HK\$'000	Year ended 31 March 2000 HK\$'000
Interest on bank overdrafts, bank loans and other loans wholly repayable within five years	8,295	7,567
Interest on finance leases	226	625
Total finance costs	<b>8,521</b>	<b>8,192</b>

## 6. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance is as follows:

	Group Period from 1 April 2000 to 31 July 2001 HK\$'000	Year ended 31 March 2000 HK\$'000
Fees	1,574	340
Other emoluments: Salaries, allowances and benefits in kind	1,595	9,012
	<b>3,169</b>	<b>9,352</b>

All the directors' fees were paid to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the Period (year ended 31 March 2000: nil).

## 6. DIRECTORS' REMUNERATION (continued)

The remuneration of the directors fell within the following bands:

	Number of directors	
	Period from 1 April 2000 to 31 July 2001	Year ended 31 March 2000
Nil to HK\$1,000,000	22	13
HK\$1,000,001 to HK\$1,500,000	–	1
HK\$1,500,001 to HK\$2,000,000	–	3
	22	17

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

In addition to the above emoluments, certain directors were granted share options in the Period and subsequent to the balance sheet date under the Company's share option scheme. No value is included in the directors' remuneration in respect of share options granted during the Period because, in the absence of a readily available market value for the options on the Company's shares, the directors are unable to arrive at an accurate assessment of the value of the options granted. Details of the options granted to the directors during the Period are set out in the section "Directors' rights to acquire shares" in the Report of the Directors.

## 7. FIVE HIGHEST PAID INDIVIDUALS

During the Period, the details of the five highest paid individuals, which included four directors (see note below), are set out below.

	Group
	Period from 1 April 2000 to 31 July 2001 HK\$'000
Salaries, allowances and benefits in kind	11,798
	Number of employees
	Period from 1 April 2000 to 31 July 2001
HK\$1,500,001 to HK\$2,000,000	1
HK\$2,000,001 to HK\$2,500,000	3
HK\$3,000,001 to HK\$3,500,000	1
	5

## 7. FIVE HIGHEST PAID INDIVIDUALS (continued)

Note: Three of the four directors referred to above resigned as directors in April 2000. Their emoluments up to the dates of their resignation as directors were included as directors' remuneration for the Period. However, since they remained as employees of the Group, their emoluments from 1 April 2000 to 31 July 2001 had been included as staff costs.

One of the four directors referred to above was appointed in March 2001. The emoluments from the date of appointment as a director was included as directors' remuneration for the Period. However, as this director was employed by the Group prior to his appointment as a director, the emoluments from 1 April 2000 to 31 July 2001 had been included as staff costs.

During the year ended 31 March 2000, the five highest paid individuals were the directors of the Group and accordingly a comparative analysis for the five highest paid individuals is not presented.

## 8. TAX

Hong Kong profits tax has been provided at the rate of 16% (year ended 31 March 2000: 16%) on the estimated assessable profits arising in Hong Kong during the Period/year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Tax recoverable represents the excess of provisional tax paid over the estimated tax liability.

	Period from 1 April 2000 to 31 July 2001 HK\$'000	Year ended 31 March 2000 HK\$'000
Group:		
Hong Kong	726	–
Elsewhere	1,883	2,756
Under/(over)provision in the prior year	(119)	66
Deferred (note 23)	–	4,000
	<hr/>	<hr/>
Tax charge for the Period/year	<b>2,490</b>	<b>6,822</b>

## 9. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company from 1 April 2000 to 31 July 2001 is HK\$164,307,000 (year ended 31 March 2000: HK\$2,535,000).

## 10. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss attributable to shareholders of HK\$155,976,000 (year ended 31 March 2000: HK\$114,381,000), and the weighted average of 4,663,780,679 (year ended 31 March 2000: 1,267,737,836) ordinary shares in issue during the Period/year, adjusted to reflect the share sub-division in April 2000.

Diluted loss per share for the Period and year ended 31 March 2000 has not been shown as the potential ordinary shares in existence was anti-dilutive.

## 11. FIXED ASSETS

Group	Investment property HK\$'000	Land and buildings HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Motor vehicles HK\$'000	Furniture, fixtures and equipment HK\$'000	Moulds HK\$'000	Tools HK\$'000	Total HK\$'000
Cost or valuation:									
At beginning of Period	4,300	27,930	12,738	166,002	7,598	76,477	11,434	1,935	308,414
Additions	-	-	255	9,477	1,430	27,938	4,722	353	44,175
Disposals	-	-	(272)	(28)	(804)	(422)	(1,024)	-	(2,550)
Deficit on revaluation (note 4)	(300)	-	-	-	-	-	-	-	(300)
Provision for diminution in value (note 4)	(50)	-	-	-	-	-	-	-	(50)
Exchange realignment	-	-	1	-	-	1	-	-	2
<b>At 31 July 2001</b>	<b>3,950</b>	<b>27,930</b>	<b>12,722</b>	<b>175,451</b>	<b>8,224</b>	<b>103,994</b>	<b>15,132</b>	<b>2,288</b>	<b>349,691</b>
Analysis of cost or valuation:									
At cost	-	22,180	12,722	175,451	8,224	103,994	15,132	2,288	339,991
At 31 March 1995 valuation	-	5,750	-	-	-	-	-	-	5,750
At 31 July 2001 valuation	3,950	-	-	-	-	-	-	-	3,950
	<b>3,950</b>	<b>27,930</b>	<b>12,722</b>	<b>175,451</b>	<b>8,224</b>	<b>103,994</b>	<b>15,132</b>	<b>2,288</b>	<b>349,691</b>
Accumulated depreciation:									
At beginning of Period	-	5,614	1,808	59,548	4,481	33,290	6,433	1,531	112,705
Provided during the Period	-	1,160	1,708	22,026	1,127	12,233	1,816	380	40,450
Disposals	-	-	(107)	-	(485)	(205)	(253)	-	(1,050)
<b>At 31 July 2001</b>	<b>-</b>	<b>6,774</b>	<b>3,409</b>	<b>81,574</b>	<b>5,123</b>	<b>45,318</b>	<b>7,996</b>	<b>1,911</b>	<b>152,105</b>
<b>Net book value:</b>									
<b>At 31 July 2001</b>	<b>3,950</b>	<b>21,156</b>	<b>9,313</b>	<b>93,877</b>	<b>3,101</b>	<b>58,676</b>	<b>7,136</b>	<b>377</b>	<b>197,586</b>
At 31 March 2000	4,300	22,316	10,930	106,454	3,117	43,187	5,001	404	195,709

The net book value of the fixed assets of the Group held under finance leases included in the total amount of plant and machinery at 31 July 2001 amounted to HK\$3,241,000 (31 March 2000: HK\$9,184,000).

Certain of the Group's leasehold land and buildings were revalued at 31 March 1995 by Francis Lau & Co (Surveyors) Limited, independent professional valuers. The land and buildings were revalued based on an open market, existing use basis. Since 31 March 1995, no further revaluations of the Group's leasehold land and buildings have been carried out. The Group has relied upon the exemption from the need to revalue the entire class of land and buildings and plant and machinery on a regular basis, granted under paragraph 72 of SSAP 17 "Property, Plant and Equipment". Had these land and buildings been carried at historical cost less accumulated depreciation, their carrying values would have been approximately HK\$4,464,000 (31 March 2000: HK\$4,696,000).

The Group's investment property was revalued at 31 July 2001 by RHL Appraisal Limited, independent professional valuers, at HK\$4,000,000 on an open market, existing use basis. Subsequent to the balance sheet date on 24 August 2001, the Group entered into a provisional sale and purchase agreement to dispose of the investment property at a consideration of HK\$3,950,000. Accordingly, the shortfall of HK\$50,000 from the valuation at 31 July 2001 was charged to the profit and loss account in the Period.

The Group's investment property and land and buildings are situated in Hong Kong and are held under medium term leases. At 31 July 2001, the Group's investment property and certain plant and machinery were pledged to secure general banking facilities granted to the Group (note 20).

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## 12. INTERESTS IN SUBSIDIARIES

	Company	
	31 July 2001 HK\$'000	31 March 2000 HK\$'000
Unlisted shares, at cost	64,153	64,153
Due from subsidiaries	488,708	127,164
Due to subsidiaries	(35,125)	(34,308)
	<b>517,736</b>	<b>157,009</b>

The amounts due from/to subsidiaries are unsecured, interest-free and have no fixed terms of repayment, except for certain loans advanced from two subsidiaries and a loan advanced to a subsidiary which bore interest at Hong Kong dollar prime rate per annum during the Period. In prior year, certain loans advanced from two subsidiaries bore interest at Hong Kong dollar prime rate per annum.

Particulars of the principal subsidiaries are as follows:

Name of subsidiary	Place of incorporation/ registration and operations	Nominal value of issued/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Hikari Tsushin Investments Holdings (BVI) Limited	British Virgin Islands ("BVI")	US\$1	100%	–	Investment holding
Hikari Tsushin Investments Management (Hong Kong) Limited	Hong Kong	HK\$1,000,000	–	100%	Provision of financial and administrative services to Group companies
Best On Development Ltd	BVI	US\$1	–	100%	Investment holding
Holylake Co, Ltd	BVI	US\$1	–	100%	Investment holding
Joy Crown Ltd	BVI	US\$1	–	100%	Investment holding
Picador International Ltd	BVI	US\$1	–	100%	Investment holding
Top Perfect Group Ltd	BVI	US\$1	–	100%	Investment holding
Winner Sheen Limited	BVI	US\$1	–	100%	Investment holding
Wishing Land Limited	BVI	US\$1	–	100%	Investment holding
Golden Power Investments (B.V.I.) Limited	BVI	HK\$10,000	100%	–	Investment holding
China Scene Limited	Hong Kong	HK\$2	–	100%	Property investment
Golden Power Industries Limited	Hong Kong/ Hong Kong & People's Republic of China ("PRC")	Ordinary HK\$100, Non-voting deferred HK\$1,800,000	–	100%	Manufacture and distribution of batteries
Golden Power Properties Limited	Hong Kong	Ordinary HK\$100, Non-voting deferred HK\$1,000,000	–	100%	Property investment

## 12. INTERESTS IN SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation/ registration and operations	Nominal value of issued/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Golden Power Miami, Inc*	United States of America	US\$100	–	70%	Trading of batteries and electronic toys
Goldtium (Hong Kong) Company Limited	Hong Kong	HK\$1,000,000	–	70%	Manufacture and distribution of batteries
Goldtium (Jiang Men) Battery Company Limited*	PRC	RMB10,000,000	–	70%	Manufacture and distribution of batteries
Golite International Limited	Hong Kong/ Hong Kong & PRC	HK\$2,000,000	–	100%	Manufacture and distribution of silicone rubber products
Success Target Limited	Hong Kong	HK\$2	–	100%	Distribution of electronic finished products
Tapsfield Limited	Hong Kong	Ordinary HK\$10, Non-voting deferred HK\$3,000,000	–	100%	Distribution of electronic parts and components used in the manufacture of consumer electrical and electronic products
Watercore Limited	Hong Kong/ Hong Kong & PRC	HK\$1,200,000	–	100%	Manufacture and distribution of electronic finished products

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

\* Not audited by Ernst & Young Hong Kong or any other Ernst & Young International member firms.

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## 13. LONG-TERM INVESTMENTS

	Group		Company	
	31 July 2001 HK\$'000	31 March 2000 HK\$'000	31 July 2001 HK\$'000	31 March 2000 HK\$'000
Listed equity investments, at market value:				
Hong Kong	66,987	–	–	–
Elsewhere	4,111	–	326	–
	<b>71,098</b>	–	<b>326</b>	–
Unlisted equity investments, at fair value	<b>131,113</b>	7,790	<b>25,968</b>	7,790
	<b>202,211</b>	7,790	<b>26,294</b>	7,790

The market values of the Group's and the Company's long-term listed equity investments at the date of approval of these financial statements were approximately HK\$61,920,000 and HK\$199,000, respectively.

## 14. INVENTORIES

	Group	
	31 July 2001 HK\$'000	31 March 2000 HK\$'000
Raw materials	68,111	61,956
Work-in-progress	23,270	17,457
Finished goods	33,775	36,323
	<b>125,156</b>	<b>115,736</b>

The carrying amount of inventories carried at net realisable value included in the above is HK\$15,588,000 (31 March 2000: HK\$7,281,000).

## 15. CASH AND CASH EQUIVALENTS

	Group		Company	
	31 July 2001 HK\$'000	31 March 2000 HK\$'000	31 July 2001 HK\$'000	31 March 2000 HK\$'000
Cash and bank balances	20,629	28,926	890	11,529
Time deposits, unpledged	301,559	846,721	240,729	841,644
	<b>322,188</b>	<b>875,647</b>	<b>241,619</b>	<b>853,173</b>

## 16. TRADE RECEIVABLES

The ageing analysis of trade receivables is as follows:

	Group	
	31 July 2001 HK\$'000	31 March 2000 HK\$'000
Current to 90 days	57,105	43,444
91 – 180 days	1,045	1,686
Over 180 days	218	345
Total	58,368	45,475

The Group allows an average credit period of 60 days to its trade customers and keeps monitoring its outstanding trade receivables. Overdue balances are regularly reviewed by the senior management of the Group.

The above ageing analysis of trade receivables was based on the respective due dates of the sales of goods.

## 17. TRADE PAYABLES

The ageing analysis of trade payables is as follows:

	Group	
	31 July 2001 HK\$'000	31 March 2000 HK\$'000
Current to 90 days	70,529	57,713
91 – 180 days	3,210	4,562
Over 180 days	464	954
Total	74,203	63,229

The above ageing analysis of trade payables was based on the date of the receipt of the respective goods and services.

Included in trade payables was a trade-related balance due to minority shareholders of subsidiaries amounting to HK\$1,085,000 (31 March 2000: HK\$7,493,000). The balance is unsecured, interest-free and is repayable on normal trading terms.

## 18. OTHER PAYABLES AND ACCRUALS

Included in other payables and accruals of the Group were loan balances due to minority shareholders of subsidiaries amounting to HK\$21,402,000 (31 March 2000: HK\$21,781,000). The balances are unsecured, interest-free and have no fixed terms of repayment. The loan balances were granted by the minority shareholders in accordance with their respective shareholdings in the subsidiaries.

## 19. INTEREST-BEARING BANK AND OTHER BORROWINGS

		Group	
	Notes	31 July 2001 HK\$'000	31 March 2000 HK\$'000
Bank overdrafts and current portion of bank loans, secured	20	18,691	22,786
Current portion of finance lease payables	21	503	2,507
		19,194	25,293

# NOTES TO FINANCIAL STATEMENTS

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## 20. BANK OVERDRAFTS, INTEREST-BEARING BANK LOANS

	Group	
	31 July 2001 HK\$'000	31 March 2000 HK\$'000
Bank overdrafts, secured	28	40
Bank loans, secured	19,088	36,712
	<b>19,116</b>	<b>36,752</b>
Bank overdrafts repayable within one year or on demand	28	40
Bank loans repayable:		
Within one year	18,663	22,746
In the second year	425	12,441
In the third to fifth years, inclusive	–	1,525
	<b>19,088</b>	<b>36,712</b>
	<b>19,116</b>	<b>36,752</b>
Portion classified as current liabilities ( <i>note 19</i> )	(18,691)	(22,786)
Long-term portion	425	13,966
Trust receipt loans	52,410	31,908

Notes:

Certain of the Group's bank overdrafts, bank loans and trust receipt loans are secured by:

- (a) mortgage over the Group's investment property situated in Hong Kong;
- (b) mortgages over certain of the Group's plant and machinery; and
- (c) the Group's bank deposits of HK\$78,000,000.

## 21. FINANCE LEASE PAYABLES

There were obligations under finance lease contracts at the balance sheet date as follows:

	Group	
	31 July 2001 HK\$'000	31 March 2000 HK\$'000
Amounts payable:		
Within one year	512	2,683
In the second year	–	1,181
Total minimum finance lease payables	512	3,864
Future finance charges	(9)	(243)
Total lease payables	503	3,621
Portion classified as current liabilities ( <i>note 19</i> )	(503)	(2,507)
Long-term portion	–	1,114

## 22. CONVERTIBLE NOTE PAYABLE

On 10 March 2000, a convertible note amounting to HK\$93,420,000 was issued to Hikari Tsushin, Inc. ("Hikari"), the ultimate holding company of the Company. The convertible note is interest-free and carries an option to convert the note into ordinary shares of the Company at the conversion price of HK\$0.90 per share for the period from 10 March 2000 to 9 March 2002. Following the sub-division of the Company's shares on 10 April 2000, the conversion price was adjusted to HK\$0.225 per share. At 31 July 2001 and up to the date of this report, no conversion has been exercised. The convertible note is repayable on 9 March 2002.

## 23. DEFERRED TAX

	Group	
	31 July 2001 HK\$'000	31 March 2000 HK\$'000
Balance at beginning of Period/year	5,753	1,753
Charge for the Period/year (note 8)	–	4,000
	<b>5,753</b>	<b>5,753</b>

The principal component of the Group's deferred tax liability comprises accelerated depreciation allowances.

The principal components of the Group's net deferred tax (assets)/liabilities position not recognised in the financial statements are as follows:

	31 July 2001 HK\$'000	31 March 2000 HK\$'000
Accelerated depreciation allowances	472	1,980
Tax losses	(18,123)	(14,314)
	<b>(17,651)</b>	<b>(12,334)</b>

The revaluation of the Group's investment properties does not constitute a timing difference and, consequently, the amount of potential deferred tax thereon has not been quantified.

## 24. SHARE CAPITAL

	31 July 2001 HK\$'000	31 March 2000 HK\$'000
Authorised: 10,000,000,000 (2000: 2,500,000,000) ordinary shares of HK\$0.025 (2000: HK\$0.10) each	<b>250,000</b>	<b>250,000</b>
Issued and fully paid: 4,663,785,628 (2000: 1,165,935,506) ordinary shares of HK\$0.025 (2000: HK\$0.10) each	<b>116,595</b>	<b>116,594</b>

During the Period, the following movements in share capital were recorded:

- (a) On 10 April 2000, the issued and unissued shares of HK\$0.10 each of the Company were sub-divided on the basis that each share was sub-divided into four shares of HK\$0.025 each. The 1,165,935,506 shares in issue as at that date have been sub-divided into 4,663,742,024 shares thereafter.

## 24. SHARE CAPITAL (continued)

- (b) 43,604 shares of HK\$0.025 each were issued for cash at a subscription price of HK\$0.375 per share, pursuant to the exercise of the subscription rights attaching to the Company's 2002 warrants for cash consideration, before expenses totalling approximately HK\$16,000.

A summary of the transactions during the Period with reference to the above movements of the Company's ordinary share capital is as follows:

	Carrying amount HK\$'000	Shares issued
At beginning of Period	116,594	1,165,935,506
Movements during the Period:		
(a) Increase due to share sub-division	–	3,497,806,518
(b) Warrants exercised	1	43,604
At the end of Period	116,595	4,663,785,628

### Share options

On 11 May 1993, the Company approved a share option scheme under which the directors may, at their discretion, grant options to directors and employees of the Company and its subsidiaries to subscribe for shares in the Company. The maximum number of shares in respect of which options may be granted may not exceed 10% of the share capital of the Company in issue from time to time.

During the Period, the following options were granted:

- (i) on 20 April 2000, options to subscribe for 212,000,000 shares at an exercise price of HK\$0.7392 per share were granted to its directors and employees;
- (ii) on 17 May 2000, options to subscribe for 36,000,000 shares at an exercise price of HK\$0.7392 per share were granted to its directors;
- (iii) on 19 May 2000, options to subscribe for 30,000,000 shares at an exercise price of HK\$0.5568 per share were granted to its employees; and
- (iv) on 12 December 2000, options to subscribe for 91,000,000 shares at an exercise price of HK\$0.2096 per share were granted to its directors and employees.

During the Period, options to subscribe for 82,000,000 shares lapsed upon the cessation of employment of certain employees and resignation of directors respectively, and no options were exercised. At 31 July 2001, the Company had outstanding options to subscribe for 287,000,000 shares (at 31 March 2000: nil) and details of these outstanding options as at 31 July 2001 are as follows:

Exercisable period	Exercise price	Number of option shares outstanding at 31 July 2001
20 October 2000 to 19 April 2003	HK\$0.7392 per share	152,000,000
17 November 2000 to 11 May 2003	HK\$0.7392 per share	36,000,000
19 November 2000 to 11 May 2003	HK\$0.5568 per share	24,000,000
12 June 2001 to 11 May 2003	HK\$0.2096 per share	75,000,000
		287,000,000

Subsequent to the balance sheet date, on 15 August 2001, options to subscribe for 20,000,000 shares at an exercise price of HK\$0.0893 per share were granted to its directors and employees. On 15 August and 30 September 2001, options to subscribe for 8,000,000 and 4,000,000 shares respectively lapsed upon cessation of employment of certain employees.

Assuming the exercise in full of the unexpired options as at 31 July 2001, it would, under the present capital structure of the Company, result in the issue of 287,000,000 additional ordinary shares of HK\$0.025 each and aggregate proceeds before issue expenses of HK\$168,325,800.

## 24. SHARE CAPITAL (continued)

### Warrants

On 26 April 2000, the Company issued to its then shareholders one bonus warrant for every five shares held and 932,748,404 warrants were accordingly created. Each warrant confers the holder upon the right to subscribe in cash for one ordinary share of HK\$0.025 each in the Company at an initial subscription price of HK\$0.375 per share, subject to adjustment, at any time between 28 April 2000 and 27 April 2002. During the Period, 43,604 warrants have been exercised to subscribe for the 43,604 shares of HK\$0.025 each at HK\$0.375 per share and 932,704,800 warrants remained unexercised as at 31 July 2001.

## 25. RESERVES

Group	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Investments revaluation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits/ losses (accumulated) HK\$'000	Total HK\$'000
At 1 April 1999	56,557	675	–	90	205,263	262,585
Issue of shares	703,317	–	–	–	–	703,317
Share issue expenses	(926)	–	–	–	–	(926)
Loss for the year	–	–	–	–	(114,381)	(114,381)
Exchange realignments	–	–	–	(23)	–	(23)
At 31 March 2000 and beginning of Period	758,948	675	–	67	90,882	850,572
Issue of shares	15	–	–	–	–	15
Changes in fair value of long-term investments	–	–	(268,000)	–	–	(268,000)
Impairment losses in long-term investments transferred to profit and loss account	–	–	150,000	–	–	150,000
Loss for the Period	–	–	–	–	(155,976)	(155,976)
Exchange realignments	–	–	–	(4)	–	(4)
<b>At 31 July 2001</b>	<b>758,963</b>	<b>675</b>	<b>(118,000)</b>	<b>63</b>	<b>(65,094)</b>	<b>576,607</b>
<b>Company</b>						
At 1 April 1999	55,357	675	–	49,753	1,747	107,532
Issue of shares	703,317	–	–	–	–	703,317
Share issue expenses	(926)	–	–	–	–	(926)
Loss for the year	–	–	–	–	(2,535)	(2,535)
At 31 March 2000 and beginning of Period	757,748	675	–	49,753	(788)	807,388
Issue of shares	15	–	–	–	–	15
Changes in fair value of long-term investments	–	–	(180,961)	–	–	(180,961)
Impairment losses in long-term investments transferred to profit and loss account	–	–	113,500	–	–	113,500
Loss for the Period	–	–	–	–	(164,307)	(164,307)
<b>At 31 July 2001</b>	<b>757,763</b>	<b>675</b>	<b>(67,461)</b>	<b>49,753</b>	<b>(165,095)</b>	<b>575,635</b>

The contributed surplus of the Company represents the excess of the net asset value of the subsidiaries acquired pursuant to the Group's reorganisation in 1993 over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Act of Bermuda 1981 (as amended), the contributed surplus of the Company is distributable to the shareholders in certain circumstances, which the Company is currently unable to satisfy. The share premium of the Company is distributable in the form of fully paid bonus shares.

# NOTES TO FINANCIAL STATEMENTS

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## 26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

### (a) Reconciliation of loss from operating activities to net cash inflow/(outflow) from operating activities

	Period from 1 April 2000 to 31 July 2001 HK\$'000	Year ended 31 March 2000 HK\$'000
Loss from operating activities	(148,574)	(106,145)
Deficit on revaluation of investment properties	300	700
Provision for diminution in value of an investment property	50	–
Provision for impairment of long-term investments transferred from investments revaluation reserve	150,000	–
Provision for obsolete and slow-moving inventories	933	42,617
Provision for bad and doubtful debts	2,150	646
Interest income	(43,249)	(4,595)
Depreciation	40,450	32,044
Loss/(gain) on disposal of fixed assets	(237)	162
Gain on disposal of investments	(5,894)	–
Write-off of fixed assets	–	7,373
Deferred pre-operating expenses write-off	–	3,660
Increase in inventories	(10,353)	(14,750)
Increase in trade receivables	(15,043)	(460)
Increase in prepayments, deposits and other receivables	(2,344)	(4,306)
Increase in trade payables	10,974	15,805
Increase in trust receipt loans repayable over three months	12,228	7,734
Increase in other payables and accruals	10,841	5,106
Net cash inflow/(outflow) from operating activities	2,232	(14,409)

### (b) Analysis of changes in financing during the Period/year

	Share capital (including share premium) HK\$'000	Interest- bearing bank loans HK\$'000	Finance lease obligations HK\$'000	Convertible note payable HK\$'000	Minority interests HK\$'000
Balance at 1 April 1999	80,612	47,546	10,433	–	386
Cash inflow/(outflow) from financing activities, net	794,930	(10,834)	(6,812)	93,420	(53)
Share of loss after tax of subsidiaries	–	–	–	–	(6,778)
Share of exchange fluctuation reserve	–	–	–	–	(10)
Balance at 31 March 2000 and beginning of Period	875,542	36,712	3,621	93,420	(6,455)
Cash inflow/(outflow) from financing activities, net	16	(17,624)	(3,118)	–	(856)
Share of loss after tax of subsidiaries	–	–	–	–	(3,609)
Share of exchange fluctuation reserve	–	–	–	–	6
Balance at 31 July 2001	875,558	19,088	503	93,420	(10,914)

## 27. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	31 July 2001 HK\$'000	31 March 2000 HK\$'000	31 July 2001 HK\$'000	31 March 2000 HK\$'000
Bills discounted with recourse	1,797	5,795	–	–
Guarantees given to banks in connection with facilities granted to subsidiaries	–	–	124,000	299,400
	<b>1,797</b>	<b>5,795</b>	<b>124,000</b>	<b>299,400</b>

At 31 July 2001, guarantees given to banks in connection with facilities granted to subsidiaries by the Company were utilised to the extent of approximately HK\$71,525,000 (31 March 2000: HK\$68,661,000).

At 31 July 2001, there were 72 (31 March 2000: 61) employees who completed the required number of years of service under the Employment Ordinance of Hong Kong to be eligible for long service payments on termination of their employment. The Group is only liable to make such payments where the termination meets the required circumstances as specified in the Employment Ordinance.

If the termination of all these employees' employments met the circumstances required by the Employment Ordinance, the Group's liability at 31 July 2001 would be approximately HK\$7,396,000 (31 March 2000: HK\$6,676,000). No provision has been made for such amount in the financial statements.

## 28. PLEDGE OF ASSETS

Details of the Group's bank overdrafts, bank loans and trust receipt loans secured by assets of the Group are included in note 20 to the financial statements.

## 29. COMMITMENTS

### (a) Capital commitments

	Group	
	31 July 2001 HK\$'000	31 March 2000 HK\$'000
Authorised, but not contracted for	–	212

## 29. COMMITMENTS (continued)

### (b) Commitments under operating leases

At 31 July 2001, the Group and the Company had commitments under non-cancellable operating leases to make payments in the coming year as follows:

	Group		Company	
	31 July 2001 HK\$'000	31 March 2000 HK\$'000	31 July 2001 HK\$'000	31 March 2000 HK\$'000
Land and buildings expiring:				
Within one year	2,840	122	–	–
In the second to fifth years, inclusive	8,087	8,853	2,282	2,282
After five years	3,440	4,370	–	–
	<b>14,367</b>	<b>13,345</b>	<b>2,282</b>	<b>2,282</b>
Plant and machinery expiring:				
Within one year	–	–	–	–
In the second to fifth years, inclusive	2,027	2,025	–	–
	<b>2,027</b>	<b>2,025</b>	<b>–</b>	<b>–</b>
	<b>16,394</b>	<b>15,370</b>	<b>2,282</b>	<b>2,282</b>

## 30. RELATED PARTY TRANSACTIONS

Other than disclosed elsewhere in these financial statements, the Group had the following transactions with related parties:

During the Period, the Group acquired long-term investments of KRW1,125,000,000 (approximately HK\$7,867,000) (see note (a) below) and US\$23,712,400 (approximately HK\$184,957,000) (see note (b) below) from Hikari, in June 2000 and February 2001, respectively.

Notes:

- (a) The consideration was equivalent to the purchase price paid by Hikari to independent third parties for acquisition of the said investment in January 2000. The directors (including the independent non-executive directors) are of the opinion that the transaction was conducted in the ordinary course of business of the Group.
- (b) The consideration was based on applying a discount on the valuation of the said investments performed by American Appraisal Hong Kong Limited, an independent professional valuer. The independent board committee (consisted of the independent non-executive directors) are of the opinion that the transaction is fair and reasonable.

## 31. CHANGE OF FINANCIAL YEAR END DATE

Pursuant to a resolution passed by the Board of Directors on 7 July 2000, the Company resolved to change its financial year-end date from 31 March to 31 July commencing in the financial year 2001 in order to comply with the accounting requirements of its ultimate holding company. Accordingly, the period covered in these financial statements is from 1 April 2000 to 31 July 2001 and the comparative figures for the income statement, statement of recognised gains and losses, cash flow statement and related notes are not comparable to those of the prior year.

## 32. POST BALANCE SHEET EVENTS

In addition to the events described elsewhere in notes 11 and 24 to the financial statements, subsequent to the balance sheet date, the Group acquired an equity interest in a company engaging in the sale of smart cards and the provision of related support services in relation to an automated health card registration management system in the PRC, at a consideration of approximately HK\$42 million.

## 33. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 16 October 2001.