

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th June, 2001

IFTA PACIFIC HOLDINGS LIMITED
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1. GENERAL

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

The Company is engaged in investment holding and the activities of its principal subsidiaries are set out in note 27.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and 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 30th June each year.

The results of 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 inter-company transactions and balances within the Group are eliminated on consolidation.

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 eliminated against 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.

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2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill *(Continued)*

On disposal of investments in subsidiaries the attributable amount of goodwill previously eliminated against or credited to reserves is included in the determination of the profit or loss on disposal of the subsidiaries.

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 impairment losses recognised.

Turnover

Turnover represents the amounts received and receivable from goods sold, less returns and discounts, to outside customers during the year.

Revenue recognition

Sales of goods are recognised when the 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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation or amortisation. 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 assets have 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 the disposal or retirement of an asset is determined as the difference between the sales 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.

Land held under lease is amortised over the remaining lease term on a prospective basis using the straight line method and leasehold buildings are depreciated over a period of twenty years using the straight line method.

Depreciation and amortisation are charged so as to write off the cost of other property, plant and equipment over their estimated useful lives, using the reducing balance method, at the following rates per annum:

Leasehold improvements	10%
Furniture and fixtures	20%
Office equipment and computers	20%
Electronic instruments	20%
Moulds	30%
Motor vehicles	30%

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

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2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Inventories

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

Taxation

The charge for taxation is based on the results for the year after adjusting for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of 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.

Retirement benefits scheme contributions

Contributions payable by the Group to its defined contribution retirement benefits scheme and the Hong Kong Mandatory Provident Fund Scheme are charged to the income statement in the period in which they become payable.

Foreign currencies

Transactions in foreign currencies are translated into Hong Kong dollars at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated into Hong Kong dollars at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Operating leases

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

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 date of the advance.

3. TURNOVER

The Group's turnover, analysed by business and geographical segments, are as follows:

By Business Segment:

	2001 HK\$'000	2000 HK\$'000
Telephones	36,991	13,335
Others	1,031	–
	38,022	13,335

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

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3. TURNOVER *(Continued)*

By Geographical Segment:

	2001	2000
	HK\$'000	HK\$'000
Hong Kong exporters	35,044	1,619
European countries	2,395	4,154
Asian countries	508	6,249
North America	75	162
South America	-	1,147
Others	-	4
	38,022	13,335

Contribution to loss from operations by business and geographical segments have not been presented as the contribution to loss from operations from each segment is substantially in line with the Group's overall ratio of results to turnover.

4. COST OF SALES

Included in cost of sales is an amount of HK\$828,000 (2000: HK\$578,000) in respect of a write-down of inventories arising from obsolescence.

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5. LOSS FROM OPERATIONS

	2001 HK\$'000	2000 HK\$'000
Loss from operations has been arrived at after charging:		
Staff costs (including directors' emoluments, stated in note 6 and retirement benefit scheme contribution stated in note 25)	4,977	7,582
Amortisation of deferred expenditure	–	40
Auditors' remuneration:		
– current year	220	210
– overprovision in prior years	–	(95)
Depreciation, amortisation and impairment of property, plant and equipment	1,771	1,065
Loss on disposal of property, plant and equipment	–	3
Rentals under operating leases in respect of land and buildings	503	288

6. DIRECTORS' EMOLUMENTS

	2001 HK\$'000	2000 HK\$'000
Directors' fees:		
Independent non-executive directors	346	400
Other emoluments:		
Executive directors		
Salaries and other benefits	2,498	3,481
Contributions to retirement benefit scheme	65	–
	2,563	3,481
	2,909	3,881

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

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6. DIRECTORS' EMOLUMENTS *(Continued)*

Emoluments of the directors were within the following bands:

	Number of directors	
	2001	2000
Nil to HK\$1,000,000	10	13
HK\$1,000,001 to HK\$1,500,000	–	1
HK\$1,500,001 to HK\$2,000,000	1	–

7. EMPLOYEES' EMOLUMENTS

Of the five highest paid individuals in the Group, three (2000: four) were directors of the Company whose emoluments are set out in note 6 above. The emoluments of the remaining two individuals (2000: one individual) were as follows:

	2001 HK\$'000	2000 HK\$'000
Salaries and other benefits	643	520
Contributions to retirement benefits scheme	17	–
	660	520

Their emoluments are within the following bands:

	Number of employees	
	2001	2000
Nil to HK\$1,000,000	2	1

During the years ended 30th June, 2001 and 2000, no emoluments were paid by the Group to the five highest paid individuals, including directors, as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, no directors waived any emoluments in either year.

8. TAXATION

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group incurred a tax loss for both years.

No deferred tax asset has been recognised in the financial statements as it is not virtually certain whether the benefits of the timing differences will be realised in the foreseeable future. Details of unrecognised deferred taxation are set out in note 22.

9. NET LOSS FOR THE YEAR

Of the Group's loss of HK\$9,194,000 (2000: HK\$12,920,000), a loss of HK\$8,264,000 (2000: HK\$14,873,000) has been dealt with in the financial statements of the Company

10. LOSS PER SHARE

The calculation of the loss per share is based on the net loss for the year of HK\$9,194,000 (2000: HK\$12,920,000) and on 643,727,663, (2000: on the weighted average number of 591,053,659) shares in issue throughout the year.

No diluted loss per share is presented because the exercise of outstanding share options would reduce the loss per share in both the current and the prior year.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

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11. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings	Leasehold improve- ments	Furniture and fixtures	Office equipment and computers	Electronic instruments	Motor Moulds	vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP								
COST								
At 1st July, 2000	6,193	1,554	831	1,687	1,524	7,619	923	20,331
Additions	-	-	17	10	-	-	-	27
At 30th June, 2001	6,193	1,554	848	1,697	1,524	7,619	923	20,358
DEPRECIATION, AMORTISATION AND IMPAIRMENT								
At 1st July, 2000	1,208	562	628	1,093	1,212	6,679	706	12,088
Provided for the year	205	99	44	121	65	282	65	881
Impairment for the year	890	-	-	-	-	-	-	890
At 30th June, 2001	2,303	661	672	1,214	1,277	6,961	771	13,859
NET BOOK VALUE								
At 30th June, 2001	3,890	893	176	483	247	658	152	6,499
At 30th June, 2000	4,985	992	203	594	312	940	217	8,243

The leasehold land and buildings are situated in Hong Kong and are held under medium-term leases.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

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12. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2001	2000
	HK\$'000	HK\$'000
Unlisted investments, at cost	61,869	61,869
Amounts due from subsidiaries	95,911	92,618
	157,780	154,487
Less: Impairment loss recognised	(135,400)	(128,900)
	22,380	25,587

The cost of the unlisted shares is based on the book values of the underlying net assets of the subsidiaries attributable to the Group as at the date on which the Company became the holding company of the companies comprising the Group under the group reorganisation in March 1993, less provision for diminution in value of the investments in subsidiaries.

The amounts due from subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment. In the opinion of the directors, the amounts will not be repayable within twelve months from the balance sheet date and are therefore shown as non-current.

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

Details of the Company's principal subsidiaries at 30th June, 2001 are set out in note 27.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

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13. INVENTORIES

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Raw materials	3,154	4,626
Finished goods	5,929	860
	9,083	5,486

Inventories of approximately HK\$1,184,000 (2000: HK\$2,313,000) were carried at net realisable value.

14. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 30 days to its trade customers. A breakdown of trade and other receivables and an aged analysis of trade receivables is as follows:

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Trade receivables		
0-30 days	829	475
31-60 days	745	414
	1,574	889
Deposits and prepayments	87	125
	1,661	1,014

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

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15. TRADE AND OTHER PAYABLES

A breakdown of trade and other payables and an aged analysis of trade payables is as follows:

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Trade payables		
0-30 days	577	237
31-60 days	95	296
Over 60 days	200	427
Other payables are accrued charges	872 536	960 1,281
	1,408	2,241

16. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
At 30th June, 2000 and 2001	1,500,000,000	150,000
Issued and fully paid:		
At 31st July, 1999	448,809,000	44,881
Rights issue (note a)	89,761,800	8,976
Placement of shares (note b)	88,000,000	8,800
Issued in consideration for the acquisition of an unlisted investment (note c)	17,156,863	1,716
At 30th June, 2000 and 2001	643,727,663	64,373

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

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16. SHARE CAPITAL *(Continued)*

- (a) In July, 1999, 89,761,800 new shares of HK\$0.10 each were issued by way of rights issue at an issue price of HK\$0.20 per rights share in proportion of one rights share for every five shares then held. The proceeds were used to reduce the debt advanced from the former ultimate holding company and to provide additional working capital of the Group.
- (b) On 30th November, 1999, arrangements were made for a private placement to certain independent private investors to subscribe for 88,000,000 shares of HK\$0.10 each in the Company at a price of HK\$0.12 per share, representing a discount of approximately 22.08% to the closing market price of the Company's share of HK\$0.154 per share as quoted on the Stock Exchange on 30th November, 1999. The proceeds from the placement were used for general working capital of the Group.
- (c) Pursuant to ordinary resolution passed at a special general meeting held on 26th January, 2000, the Company issued 17,156,863 new shares of HK\$0.10 each in the Company at an issue price of HK\$0.2448 per share to certain third parties as a payment of the consideration for the acquisition of an unlisted investment. The issue price of HK\$0.2448 per share represented a discount of 10.98% to the closing market price of the Company's share of HK\$0.275 per share as quoted on the Stock Exchange on 10th January, 2000.

All of the shares issued during the year rank pari passu with the then existing shares in all respects.

17. SHARE OPTIONS

Pursuant to the Company's share option scheme (the "Scheme") adopted on 23rd March, 1993, the directors may at their discretion grant options to employees of the Group, including directors of the Company and its subsidiaries, to subscribe for shares in the Company, subject to a maximum of 10% of the issued share capital of the Company from time to time at nil consideration. The subscription price of the option shares shall be a price to be determined by the directors, being not less than 80% of the average of the closing price of the Company's shares on the Stock Exchange of for the five trading days immediately preceding the date of offer of the option or the nominal value of the shares, whichever is higher.

A summary of the movements during the year in the share options granted under the Scheme is as follows:

Month of grant	Exercisable period	Exercise price per share	Number of share options Granted		
			At 1. 7. 2000	during the year	At 30.6.2001
			HK\$		
May 2000	3.11.2000 – 2.11.2001	0.5056	2,000,000	–	2,000,000
April 2001	23.10.2001 – 22.3.2003	0.1824	–	9,050,000	9,050,000

None of the above share options granted were exercised during the year.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

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18. RESERVES

	Share premium HK\$'000	Contributed surplus HK\$'000	Capital reserve HK\$'000	Deficit HK\$'000	Total HK\$'000
THE GROUP					
At 1st July, 1999	21,004	–	(400)	(52,290)	(31,686)
Premium arising from share issue	13,220	–	–	–	13,220
Share issue expenses	(2,447)	–	–	–	(2,447)
Loss for the year	–	–	–	(12,920)	(12,920)
At 30th June, 2000	31,777	–	(400)	(65,210)	(33,833)
Loss for the year	–	–	–	(9,194)	(9,194)
At 30th June, 2001	31,777	–	(400)	(74,404)	(43,027)
THE COMPANY					
At 1st July, 1999	21,004	60,859	–	(111,664)	(29,801)
Premium arising from share issue	13,220	–	–	–	13,220
Share issue expenses	(2,447)	–	–	–	(2,447)
Loss for the year	–	–	–	(14,873)	(14,873)
At 30th June, 2000	31,777	60,859	–	(126,537)	(33,901)
Loss for the year	–	–	–	(8,264)	(8,264)
At 30th June, 2001	31,777	60,859	–	(134,801)	(42,165)

The capital reserve represents the difference between the nominal value of the share capital issued by the Company in exchange for the nominal value of the share capital of the subsidiaries pursuant to the group reorganisation in 1993.

18. RESERVES *(Continued)*

The contributed surplus of the Company represents the difference between the book value of the underlying net assets of the subsidiaries which were acquired by the Company and the nominal amount of the share capital issued by the Company under a group reorganisation in March 1993.

In addition to retained profits, under the company law in Bermuda, 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,

- a. it is, or would after the payment be, unable to pay its liabilities as they become due; or
- b. the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

At the balance sheet date, the Company had no reserves available for distribution to shareholders.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

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19. RECONCILIATION OF NET LOSS FOR THE YEAR TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2001 HK\$'000	2000 HK\$'000
Net loss for the year	(9,194)	(12,920)
Interest income	(603)	(968)
Interest expenses	40	–
Depreciation, amortisation and impairment of property, plant and equipment	1,771	1,065
Write-down of inventories	828	578
Accounts payable waived by former ultimate holding company	–	(1,340)
Loss on disposal of an unlisted investment	–	1,011
Loss on disposal of property, plant and equipment	–	3
Amortisation of deferred expenditure	–	40
(Increase) decrease in inventories	(4,425)	622
(Increase) decrease in trade and other receivables	(647)	505
Decrease in trade and other payables	(833)	(118)
Net cash outflow from operating activities	(13,063)	(11,522)

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20. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Trust receipt loans HK\$'000	Share capital and share premium HK\$'000	Amount due to former ultimate holding company HK\$'000
Balance at 1st July, 1999	–	65,885	17,002
Proceeds from issue of new shares	–	28,512	–
Share issue expenses	–	(2,447)	–
Shares issued in consideration for the acquisition of an unlisted investment (note 21(b))	–	4,200	–
Repayment (note 21(a))	–	–	(15,662)
Waived (note 21(a))	–	–	(1,340)
Balance at 30th June, 2000	–	96,150	–
New borrowings obtained	542	–	–
Balance at 30th June, 2001	542	96,150	–

21. MAJOR NON-CASH TRANSACTIONS

In 2000, the following major non-cash transactions took place:

- (a) An amount of approximately HK\$15,662,000 was settled by cash and an amount of approximately HK\$1,340,000 was waived by the former ultimate holding company; and
- (b) The Company issued 17,156,863 new shares of HK\$0.10 each in the Company at an issue price of HK\$0.2448 per share to certain third parties as a payment of the consideration for the acquisition of an unlisted investment.

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22. UNRECOGNISED DEFERRED TAXATION

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

	THE GROUP		THE COMPANY	
	2001 HK\$	2000 HK\$	2001 HK\$	2000 HK\$
Tax effect of timing differences as a result of:				
Excess of depreciation allowances claimed for taxation purposes over depreciation charged in the financial statements	(414)	(646)	-	-
Tax losses available to set off against future assessable profits	9,911	9,243	1,923	1,659
	9,497	8,597	1,923	1,659

The amount of unprovided net deferred tax credit for the year are as follows:

	THE GROUP		THE COMPANY	
	2001 HK\$	2000 HK\$	2001 HK\$	2000 HK\$
Tax effect of timing differences because of:				
Difference between depreciation allowances claimed for taxation purposes and depreciation charged in the financial statements	232	(380)	-	-
Tax loss arising during the year	668	2,103	264	1,113
	900	1,723	264	1,113

23. PLEDGE OF ASSETS

The Group has pledged bank deposits of approximately HK\$2,012,000 (2000: nil) to secure general banking facilities granted to the Group.

24. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had future minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Future minimum lease payments:		
Not later than one year	192	144
Later than one year and not later than five years	66	–
	258	144

The Company had no significant future minimum lease payments at 30th June, 2001.

25. RETIREMENT BENEFITS SCHEME

The Group had a defined contribution scheme for all qualifying employees. The assets of the scheme were held separately under a provident fund managed by an independent trustee. The cost charged to the income statement represented contributions payable to the schemes by the Group at 5% of the payable of the employees. When there are employees who leave the scheme prior to vesting fully in the contributions, the contribution payable by the Group are reduced by the amount of forfeited contributions.

For the year ended 30th June, 2001, retirement benefit scheme contributions, net of forfeited contributions of approximately HK\$6,180 (2000: HK\$75,000), charged to income statement amounted to nil (2000: HK\$75,000).

The above-mentioned defined contribution scheme was terminated following the commencement of the Mandatory Provident Fund Scheme ("MPF Scheme").

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25. RETIREMENT BENEFITS SCHEME *(Continued)*

From December 2000 onwards, the Company enrolled all eligible employees in Hong Kong into a MPF Scheme. The MPF Scheme is a defined contribution scheme and the assets of the scheme are managed by the trustees.

The MPF Scheme is available to all employees aged 18 to 64 and with at least 60 days of service under the employment of the Group in Hong Kong. Contributions are made by the Group at 5% based on the staff's relevant income. Staff members are entitled to 100% of the Group's contributions together with accrued returns irrespective of their length of service with the Group, but the benefits are required by law to be preserved until the retirement age of 65.

The Group's cost for the MPF Scheme charged to income statement for the year ended 30th June, 2001 amounted to HK\$116,000 (2000: Nil).

26. RELATED PARTY TRANSACTIONS

For the year ended 30th June, 2000, the Group repaid approximately HK\$15,662,000 to the former ultimate holding company and the remaining amount of approximately HK\$1,340,000 was waived by the former ultimate holding company.

27. PARTICULARS OF PRINCIPAL SUBSIDIARIES

The following table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Name of subsidiary	Place of incorporation	Nominal value of issued ordinary share capital	Principal activities
Wanon China MFG Limited	British Virgin Islands	US\$1	Manufacture and trading of telephones
Wanon Industries Limited	Hong Kong	HK\$500,000	Trading of telephones and computer related accessories

Except for Wanon China MFG Limited which operates in the People's Republic of China, the remaining subsidiary operates in Hong Kong. The abovementioned companies are wholly-owned and directly held by the Company.

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