7. ADOPTIONS OF NEW STATEMENTS OF STANDARD ACCOUNTING PRACTICE AND PRIOR PERIOD ADJUSTMENT (continued)

amount of the Group's investment, except to the extent that the Group has incurred obligations in respect of, or made payments to satisfy obligations of, the associates, that the Group has guaranteed or otherwise committed. Because the Group has no obligations to share the net deficits of certain associates of the Group, a prior period adjustment has been made in order to reflect the adjustment for the adopting of this new accounting policy. This change in accounting policy has been applied retrospectively resulting in a reduction in the Group's deficit as at 1 July 1998 by HK$17,046,000.

SSAP 24 has introduced a new framework for the classification of investments in securities. In adopting SSAP 24, the Group has selected the benchmark treatment for securities other than held-to maturity securities. Disclosures presented have been modified to meet the requirements of the new standard.

Under SSAP 24, investments in securities are now classified as held-to-maturity (carried at amortised cost less provision for irrecoverable amounts), investment securities (carried at cost less impairment) and other investments (carried at fair value, with valuation movements dealt with in the income statement). In prior years, the Group's investments were classified either as long-term (carried at cost less provision for permanent diminution in value) or short-term (carried at the lower of cost and net realisable value). In the opinion of the Current Directors, the adoption of this standard had no significant effect on the results for the current or prior accounting periods.

8. 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 30th September 2000.

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

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

8. 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 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.

Any premium or discount arising on the acquisition of an interest in an associate, representing the excess or shortfall, respectively, of the purchase consideration over the fair value ascribed to the Group's share of the separable net assets of the associate at the date of acquisition, is dealt with in the same manner as that described above for goodwill or capital reserve.

On disposal (including liquidation) of investments in subsidiaries and associates, the attributable amount of goodwill or capital reserve previously eliminated against or credited to reserves is included in the determination of the profit or loss on disposal of the subsidiary or associate.

Investments in subsidiaries

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued 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 provision for any impairment in value. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable during the period/year.

Interests in associates

An associate is an enterprise over which the Group is in a position to exercise significant influence, including participation in financial and operating policy decisions.

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the period/year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates.

When the Group transacts with its associates, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associates, except where unrealised losses provide evidence of an impairment of the asset transferred.

Investments in associates are included in the Company's balance sheet at cost, as reduced by provision for any impairment in value. The results of the associates are accounted for by the Company on the basis of dividends received and receivable during the period/year.

8. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on independent professional valuations at the balance sheet date. Any revaluation surplus or deficit arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a revaluation decrease, in which case the excess of the revaluation deficit over the balance on the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation increase subsequently arises, this surplus is credited to the income statement to the extent of the decrease previously charged.

On disposal of investment properties, the balance on the investment property revaluation reserve attributable to the properties disposed of is credited to the income statement.

No depreciation and amortisation is provided on investment properties except where the unexpired terms of the relevant lease is twenty years or less.

Property, plant and equipment

Property, plant and equipment, other than factory premises under construction, are stated at cost or valuation less depreciation and amortisation. 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 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 they are 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 an asset, the expenditure is capitalised as an additional cost of the asset.

The gain or loss arising on 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 land and buildings are stated in the balance sheet at their revalued amount, being the fair value on the basis of their existing use at the date of revaluation less any subsequent accumulated depreciation and amortisation. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

8. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Any surplus arising on revaluation of land and buildings is credited to the property revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which cases this surplus is credit to the income statement to the extent of the deficit previously charged. A decrease in net carrying amount arising on revaluation of such properties is charged to the income statement to the extent that it exceeds the surplus, if any, held in the property revaluation reserve relating to previous revaluation of that particular asset. On the subsequent sale or retirement of such revalued asset, the attributable revaluation surplus not yet transferred to deficit in prior years is transferred to deficit.

Freehold land outside Hong Kong is not amortised.

Depreciation is provided to write off the cost or valuation of property, plant and equipment, other than factory premises under construction, over their estimated useful lives and after taking into account their estimated residual value at the following rates:

Leasehold land	Over the unexpired term of relevant lease on straight-line method
Buildings	2% per annum on straight-line method
Plant and machinery	20% per annum on reducing balance method
Furniture, fixtures and equipment	15% per annum on reducing balance method
Moulds and tools	25% per annum on reducing balance method
Motor vehicles	25% per annum on reducing balance method

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

Assets held under hire purchase contracts

Assets held under hire purchase contracts are capitalised at their fair values at the date of acquisition. The corresponding liability to the hirer, net of interest charges, is included in the balance sheet as a hire purchase obligation. Finance costs, which represent the difference between the total hire purchase commitments and the fair value of the assets acquired, are charged to the income statement over the period 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.

Factory premises under construction

Factory premises under construction in the PRC are stated at cost, less provision for any impairment in value. Cost includes development costs, attributable interest and overheads capitalised during the development period.

No depreciation and amortisation is provided for factory premises under construction until the construction is completed.

8. SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowings costs are recognised as an expense in the period in which they are incurred.

Deferred development expenditure

Development costs are deferred if there is a clearly defined development project which is technically feasible and commercially viable and the estimated future economic benefits are sufficient to cover costs incurred. Such development costs are amortised based on the actual sales for a financial period as a proportion of the estimated total sales of the related products. All other development costs are written off in the period in which they are incurred.

The Director review the future economic benefits from the deferred development expenditure on a regular basis. Should the Directors consider that any particular development projects have no further commercial value, the unamortised balance of all related deferred costs will be written off immediately to the income statement.

Investments in securities

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

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by provision for any impairment in value.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the period/year.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase 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 estimated costs necessary to make the sale.

8. SIGNIFICANT ACCOUNTING POLICIES (continued)

Convertible loan notes

Convertible loan notes are regarded as compound instruments, consisting of a liability component and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible loan notes and the fair value assigned to the liability component, representing the embedded option to convert the liability into equity of the Group, is included in reserves.

The interest expense on the liability component is calculated by applying the prevailing market interest rate for similar non-convertible debt to the instrument. The difference between this amount and the interest paid is added to the carrying value of the convertible loan notes.

Turnover

Turnover represents the net amounts received and receivable from sales of goods, property rentals and related building management income and interest income during the period/year.

Revenue recognition

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

Rental income under operating leases is recognised on a straight-line basis over the term of the relevant lease.

Building management fee income is recognised when services are rendered.

Interest income is recognised on a time basis, by reference to the principal outstanding at the rate applicable.

Operating leases

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

Taxation

The charge for taxation is based on the results for the period/year as adjusted 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 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.

8. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

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

On consolidation, the financial statements of overseas operations are translated at the rates ruling on the balance sheet date. All exchange differences arising on consolidation are dealt with in reserves.

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.

9. SEGMENTAL INFORMATION

An analysis of the Group's turnover and contribution to loss from operations by principal activity is as follows:

	Turnover		Contribution to loss from operations	
	1.7.1999 to 30.9.2000	1.7.1998 to 30.6.1999	1.7.1999 to 30.9.2000	1.7.1998 to 30.6.1999
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
By principal activity:				
Telecommunications product manufacturing operation	532,079	356,651	(69,646)	(1,087)
Property investment	5,291	6,985	1,989	(7,133)
Interest income	2,207	1,244	2,207	1,244
	539,577	364,880	(65,450)	(6,976)
Other revenue			55,236	1,714
Selling and administrative expenses			(97,662)	(69,078)
Legal and professional fees for litigation against a customer			–	(5,373)
Loss from operations			(107,876)	(79,713)

9. SEGMENTAL INFORMATION (continued)

No analysis of the Group's turnover and contribution to loss from operations for the fifteen-month period ended 30 September 2000 by geographical market has been presented as the information is not available.

An analysis of the Group's turnover and contribution to loss from operations for the year ended 30 June 1999 by geographic market is as follows:

	Turnover	Contribution to loss from operations
	HK$'000	*HK$'000*
By geographical market:		
Europe:		
Italy	144,440	14,733
Sweden	52,044	10,018
Other regions in Europe	89,041	(8,976)
North America	61,059	(3,075)
South East Asia	18,296	(19,676)
	364,880	(6,976)
Other revenue		1,714
Selling and administrative expenses		(69,078)
Legal and professional fees for litigation against a customer		(5,373)
Loss from operations		(79,713)

10. OTHER REVENUE

Included in other revenue of the Group in the fifteen-month period ended 30 September 2000 was an amount of approximately HK$38,900,000 (1999: nil) in respect of receipt from a former customer for litigation settlement.

11. LOSS FROM OPERATIONS

	1.7.1999 to 30.9.2000 *HK$'000*	**1.7.1998 to 30.6.1999** *HK$'000*
Loss from operations has been arrived at after charging:		
Amortisation of deferred development expenditure	14,317	9,258
Auditors' remuneration	913	514
Depreciation and amortisation of property, plant and equipment:		
Owned assets	16,893	15,862
Assets held under hire purchase contracts	113	1,318
Less: Amount capitalised in deferred development expenditure	(1,886)	(1,450)
	15,120	15,730
Directors' remuneration:		
Fees	–	630
Other emoluments	5,774	4,084
	5,774	4,714
Other staff costs	66,708	53,182
Total staff costs	72,482	57,896
Less: Amount capitalised in deferred development expenditure	(15,360)	(15,188)
	57,122	42,708
Loss on disposals of property, plant and equipment	112	1,760
Operating lease rental payments in respect of:		
Land and buildings	1,954	1,841
Plant and machinery	20	5
and after crediting:		
Gross rental income	5,130	5,881

12. DIRECTORS' AND EMPLOYEES' REMUNERATION

No financial information in respect of the Directors' and employees' remuneration for the fifteen-month period ended 30 September 2000 has been presented as the information is not available.

The financial information in respect of the Directors' and employees' remuneration for the year ended 30 June 1999 was as follows:

(a) Directors' remuneration

Particulars of the directors' remuneration paid during the year were as follows:

	HK$'000
Directors' fees:	
Executive Directors	150
Independent Non-executive Directors	480
	630
Other emoluments paid to Executive Directors:	
Salary and other benefits	4,012
Pension scheme contributions	72
	4,084
	4,714

The emoluments of Directors were within the following bands:

	Number
Nil to HK$1,000,000	4
HK$3,000,001 to HK$3,500,000	1
	5

12. DIRECTORS' AND EMPLOYEE' REMUNERATION (continued)

(b) Employees' remuneration

Among the five top-paid employees, there are two Executive Directors whose remuneration is disclosed in note 12(a) above. The aggregate remuneration of the remaining three employees was as follows:

	HK$'000
Salary and other benefits	2,984
Pension scheme contributions	194
	3,178

The emoluments of these three employees were within the following bands:

	Number
Nil to HK$1,000,000	1
HK$1,000,001 to HK$1,500,000	2
	3

13. FINANCE COSTS

	1.7.1999 to 30.9.2000 *HK$'000*	**1.7.1998 to 30.6.1999** *HK$'000*
Amortisation of premium payable upon the final redemption of the convertible notes (note 26)	1,366	–
Interest on bank loans and other borrowings wholly repayable within five years	49,362	23,655
Hire purchase charges	381	752
Interest on Swiss Notes	–	3,214
Total finance costs	51,109	27,621

14. TAXATION

No provision for profits tax has been made in the financial statements as, in the opinion of the Current Directors, neither the Group nor the Company had any assessable profits for the period/year.

Details of potential deferred taxation are set out in note 35.

15. LOSS ATTRIBUTABLE TO SHAREHOLDERS

Of the Group's loss attributable to shareholders for the fifteen-month period ended 30 September 2000 of approximately HK$206,132,000 (for the year ended 30 June 1999: a loss attributable to shareholders of approximately HK$158,815,000), a loss of approximately HK$239,369,000 (for the year ended 30 June 1999: a loss of approximately HK$102,548,000) has been dealt with in the financial statements of the Company.

16. LOSS PER SHARE

The calculation of loss per share is based on the loss attributable to shareholders for the fifteen-month period ended 30 September 2000 of approximately HK$206,132,000 (for the year ended 30 June 1999: a loss attributable to shareholders of approximately HK$158,815,000) and on the weighted average number of 1,794,650,082 (for the year ended 30 June 1999: 974,809,360) shares in issue during the period/year.

The computation of diluted loss per share for the fifteen-month period ended 30 September 2000 has not assumed the exercise of the convertible notes as their exercise would be anti-dilutive. The computation of diluted loss per share for the year ended 30 June 1999 has not assumed the exercise of the share options and convertible notes as their exercise would be anti-dilutive.

17. INVESTMENT PROPERTIES

	THE GROUP
	HK$'000
At valuation:	
At 1 July 1999 and at 30 September 2000	18,000

The investment properties in Hong Kong held under medium-term leases, which were rented out under operating leases, were revalued, together with the medium-term leasehold land and buildings and certain furniture, fixtures and equipment in Hong Kong, at 10 August 2000 by Knight Frank, a firm of international property valuers, on an open market value basis. In the opinion of the Current Directors, the market value of the investment properties at 10 August 2000 would not be significant different from that as at 30 September 2000. Accordingly, the investment properties were stated at HK$18,000,000.

Subsequent to the balance sheet date, the Group disposed of the investment properties, together with the medium-term leasehold land and buildings and certain furniture, fixtures and equipment in Hong Kong, for a total consideration of HK$46,000,000.

The investment properties of the Group were pledged to banks to secure credit facilities granted to the Group.

18. PROPERTY, PLANT AND EQUIPMENT

	THE GROUP								THE COMPANY
	Leasehold land and buildings in Hong Kong *HK$'000* *(note a)*	Freehold land and buildings outside Hong Kong *HK$'000* *(note b)*	Factory premises under construction in the PRC *HK$'000* *(note c)*	Plant and machinery *HK$'000*	Furniture, fixtures and equipment *HK$'000*	Moulds and tools *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*	Furniture, fixtures and equipment
AT COST OR VALUATION									
At 1 July 1999	22,000	14,754	136,868	128,321	47,501	2,933	4,562	356,939	17
Additions	–	–	1,709	2,254	971	2,007	453	7,394	–
Disposals	–	–	–	(2,016)	(13,988)	–	(640)	(16,644)	(17)
Deficit on revaluation	(556)	–	(124,426)	–	(10,238)	–	–	(135,220)	–
At 30 September 2000	21,444	14,754	14,151	128,559	24,246	4,940	4,375	212,469	–
Analysed as:									
At cost	–	–	–	128,559	17,690	4,940	4,375	155,564	–
At valuation – 2000	21,444	–	14,151	–	6,556	–	–	42,151	–
At valuation – 1999	–	14,754	–	–	–	–	–	14,754	–
	21,444	14,754	14,151	128,559	24,246	4,940	4,375	212,469	–
DEPRECIATION AND AMORTISATION									
At 1 July 1999	–	–	91,484	84,024	22,339	1,681	3,979	203,507	10
Provided for the period	556	–	–	11,649	4,019	583	199	17,006	1
Eliminated on disposals	–	–	–	(1,790)	(14,029)	–	(593)	(16,412)	(11)
Eliminated on revaluation	(556)	–	(91,484)	–	(9,865)	–	–	(101,905)	–
At 30 September 2000	–	–	–	93,883	2,464	2,264	3,585	102,196	–
NET BOOK VALUE									
At 30 September 2000	21,444	14,754	14,151	34,676	21,782	2,676	790	110,273	–
At 30 June 1999	22,000	14,754	45,384	44,297	25,162	1,252	583	153,432	7

Notes:

(a) The leasehold land and buildings in Hong Kong held under medium-term leases were revalued, together with the investment properties and certain furniture, fixtures and equipment in Hong Kong, at 10 August 2000 by Knight Frank, a firm of international property valuers, on an open market value basis. In the opinion of the Current Directors, the market value of the leasehold land and buildings and the furniture, fixtures and equipment in Hong Kong at 10 August 2000 would not be significant different from that as at 30 September 2000. Accordingly, the leasehold land and buildings and the furniture, fixtures and equipment in Hong Kong were stated at HK$28,000,000 and the deficit arising on revaluation of HK$373,000 has been charged to the consolidated income statement.

If the land and buildings had not been revalued but stated at cost less accumulated depreciation and amortisation, their carrying values would have been stated at HK$16,442,000 (30.6.1999: HK$16,946,000).