Notes to the Financial Statements

For the year ended 30 June 2002

1. CORPORATE INFORMATION

The Company was incorporated in Bermuda on 27 March 1992 as an exempted company with limited liability under the Companies Act 1981 of Bermuda (as amended) and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company acts as an investment holding company. The principal activities and other particulars of the Company's subsidiaries are set out in note 15 to the financial statements.

2. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with all applicable Statements of Standard Accounting Practice (SSAPs) and Interpretations issued by the Hong Kong Society of Accountants (the "HKSA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

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

(a) Adoption of new/revised SSAPs

In the current year, the Group adopted the following SSAPs issued by the HKSA which are effective for accounting periods commencing on or after 1 January 2001:

SSAP 9 (revised)	:	Events after the balance sheet date
SSAP 26	:	Segment reporting
SSAP 28	:	Provisions, contingent liabilities and contingent assets
SSAP 29	:	Intangible assets
SSAP 30	:	Business combinations
SSAP 31	:	Impairment of assets
SSAP 32	:	Consolidated financial statements and accounting for investments in subsidiaries

Notes to the Financial Statements (Continued)

For the year ended 30 June 2002

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(a) Adoption of new/revised SSAPs (continued)

The adoption of the above new/revised SSAPs had no material effect on the Group's financial statements, other than those describe below:

(i) SSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group's predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment information reporting format, with the other as the secondary segment information reporting format. The impact of this SSAP is the inclusion of significant additional segment reporting disclosures which are set out in note 5 to the financial statements.

(ii) SSAP 30 prescribes the accounting treatment and disclosures of business combinations. Goodwill (negative goodwill) arising on acquisition of subsidiaries was previously eliminated against (credited to) reserves. Subsequent to the adoption of SSAP 30, any goodwill arising on of after 1 July 2001 is capitalised and amortised on a straight line basis over its estimated useful life not exceeding 20 years while any negative goodwill arising on or after 1 July 2001 is presented as a deduction from assets. For details, please refer to note 2(f) to the financial statements.

(b) Basis of preparation

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

(c) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up 30 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 intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated income statement and also any related accumulated foreign currency translation reserve.

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

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(d) Subsidiaries

A subsidiary is an enterprise controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefit from its activities.

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

(e) Associates

An associate is a company, not being a subsidiary, in which an equity interest is held for the long-term and significant influence is exercised in its management. Significant influence is the power to participate in, but not control, the financial and operating policy decisions of the investee.

Investment in associates is accounted for in the consolidated financial statements using equity method. The consolidated income statement includes the Group's share of the post-acquisition results of associates for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associates and also goodwill/negative goodwill (net of accumulated amortisation) on acquisition.

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

Equity accounting is discontinued when the carrying amount of the investment in associates reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associate.

(f) Goodwill/Negative goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiaries and associates at the date of acquisition.

In accordance with SSAP 30, goodwill arising on acquisitions occurring on or after 1 July 2001 is included in intangible assets and is amortised using the straight-line method over its estimated useful life. Goodwill arising on major strategic acquisitions of the Group to expand its product or geographical market coverage is amortised over a maximum period of 15 years. For all other acquisitions goodwill is generally amortised over 5 to 10 years.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(f) Goodwill/Negative goodwill (continued)

Goodwill on acquisitions that occurred prior to 1 January 2001 was written off against reserves. The Group has taken advantage of the transitional provision 1(a) in SSAP 30 and goodwill previously written off against reserves has not been restated. However any impairment arising on such goodwill will be accounted for in accordance with SSAP 31.

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition.

For acquisitions on or after 1 July 2001, negative goodwill is presented in the same balance sheet classification as goodwill. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised in the income statement when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the income statement over the remaining weighted average useful life of those assets; negative goodwill in excess of the fair values of those non-monetary assets is recognised in the income statement immediately.

For acquisitions prior to 1 July 2001, negative goodwill was taken directly to reserves on acquisition. The Group has taken advantage of the transitional provisions in SSAP 30 and such negative goodwill has not been restated.

The gain or loss on disposal of an entity includes the unamortised balance of goodwill relating to the entity disposed of or, for pre 1 July 2001 acquisitions, the related goodwill written off against reserves to the extent it has not previously been realised in the income statement.

(g) Property, plant and equipment

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

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(g) Property, plant and equipment (continued)

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

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

Depreciation is charged so as to write off the valuation of leasehold properties over their estimated useful lives, using the straight-line basis, at the following annual rates:

Leasehold land	:	Term of lease
Buildings	:	Over 40 years or term of lease, whichever is shorter

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

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in property, plant and equipment are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the income statements except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

The gain or loss on disposal or retirement of an asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained profits and is shown as a movement in reserves.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(h) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year. 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 income statement. Any subsequent revaluation surplus is credited to the income statement to the extent of the deficit previously charged.

On disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the income statement.

(i) Research and development costs

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

(j) Investments in securities

Investment which are intended to be held on a continuing basis, and which are held for an identified long term purpose documented at the time of acquisition or change of purpose and are clearly identified for the documented purpose, are classified as investment securities stated at cost less any impairment losses, on an individual investment basis.

When impairments in values have occurred, the carrying amounts of the securities are reduced to their fair values, as estimated by the directors, and the amounts of the impairments are charged to the income statement for the period in which they arise.

When the circumstances and events which led to the impairments in values cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the appreciation in fair value is credited to the income statement, on individual investment basis, to the extent of the amount previously charged.

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

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(k) Turnover

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

(l) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue can be measured reliably, revenue is recognised in the income statement as follows:

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

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

(iii) Rental income, including rentals invoiced in advance from properties under operating leases, recognised on a straight-line basis over the term of the relevant leases.

(m) Inventories

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

(n) Foreign currencies

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

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

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(o) Leases

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

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

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

(p) Convertible bonds

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

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

(q) Taxation

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

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(r) Impairment of assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of one of these assets may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss representing the difference between the carrying amount and the recoverable amount of an asset, is recognised in the income statement. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of the disposal, while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

Reversal of an impairment loss of an asset recognised in prior years is recorded when there is an indication that the impairment loss recognised for the asset no longer exists or has decreased. The reversal is recorded in the income statement.

(s) Provisions

A provision is recognised when there is a present obligation, legal or constructive, as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed regularly and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

(t) Contingent liabilities and contingent assets

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

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(u) Cash equivalents

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

(v) Retirement benefit scheme contributions

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

(w) 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 influences.

(x) Related party transactions

A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

Notes to the Financial Statements (Continued)

For the year ended 30 June 2002

3. TURNOVER

Turnover represents revenue from the manufacture and sale of multimedia electronic products and toys and games products and revenue from trading in telecommunication products. The amount of each significant category of revenue recognised during the year are as follows:

	2002	2001
	HK$'000	HK$'000
Continuing operations:		
Manufacture and sale of		
– Multimedia electronic products	**264,282**	196,741
– Toys and games products	**74,279**	86,851
Others	**11,372**	10,014
	349,933	293,606
Discontinued operations:		
Trading in telecommunication products (note 4)	**52,191**	89,158
	402,124	382,764

4. DISCONTINUED OPERATIONS

During the year, the Group ceased its business in trading of telecommunication products and disposed its entire interest in Victorwood Holdings Limited ("Victorwood"), a 71.6% owned subsidiary of the Group, at an aggregate consideration of HK$1,404,000. The aggregate net loss arising from the disposal of Victorwood amounting to approximately HK$2,032,000. The operating results of Victorwood are presented as discontinued operations in note 3 to the financial statements.

5. SEGMENT INFORMATION

(a) Business Segments

Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

The following table present revenue and results for the Group's business segments.

	Multimedia electronic products		Toys and games products		Telecommunication products		Others		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	HK'000	HK$'000	HK'000	HK$'000	HK'000	HK$'000	HK'000	HK$'000	HK'000	HK$'000
Revenue from external customers	264,282	196,741	74,279	86,851	52,191	89,158	11,372	10,014	402,124	382,764
Segment results	(8,376)	(9,986)	(15,500)	(15,468)	(388)	703	1,823	(561)	(22,441)	(25,312)
Interest income and unallocated gains									5,630	5,147
Unallocated corporate expenses									(13,685)	(8,638)
Revaluation decrease of investment properties									(2,557)	–
Revaluation decrease of leasehold land and buildings									(126)	(30)
Impairment loss in respect of interest in an associate									(47,887)	–
Impairment loss in respect of investments in securities									(13,751)	(1)
Loss from operations									(94,817)	(28,834)
Amortisation on goodwill									(3,391)	–
Share of results of an associate									(181)	–
Finance costs									(5,790)	(3,745)
Loss on disposal of subsidiaries									(2,032)	–
Loss before taxation									(106,211)	(32,579)
Taxation									–	–
Loss before minority interests									(106,211)	(32,579)
Minority interests									78	(102)
Net loss for the year									(106,133)	(32,681)

There are no sales or other transactions between the business segments.

Analysis of assets and liabilities by business segments has not been disclosed as most of the Group's assets and liabilities are unallocated.

Notes to the Financial Statements (Continued)

For the year ended 30 June 2002

5. SEGMENT INFORMATION (continued)

(b) Geographical segments

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers. More than 90% of the Group's assets are located in the region of Hong Kong and mainland China. Accordingly, analysis of segment assets based on the geographical segments has not been disclosed.

The following table present revenue and results for the Group's geographical segments.

	North America		Europe		Japan		Hong Kong		Consolidated	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001
	HK'000	HK$'000	**HK'000**	HK$'000	**HK'000**	HK$'000	**HK'000**	HK$'000	**HK'000**	HK$'000
Revenue from external customers	**284,197**	196,230	**82,459**	111,485	**10,232**	57,798	**25,236**	17,251	**402,124**	382,764
Segment results	**(17,684)**	(8,868)	**(1,611)**	(2,189)	**(2,098)**	(9,029)	**(1,048)**	(5,226)	**(22,441)**	(25,312)

There are no sales between the geographical segments.

6. LOSS FROM OPERATIONS

	2002 HK$'000	2001 HK$'000
Loss from operations is stated after charging:		
Auditors' remuneration	**990**	665
Depreciation		
– Owned assets	**9,151**	8,168
– Assets held under finance leases	**532**	304
Loss on disposal of property, plant and equipment	**234**	524
Operating leases in respect of		
– Land and buildings	**2,058**	2,072
– Plant and machinery	**–**	102
Research and development costs	**757**	900
Net realised loss on disposal of trading securities	**–**	170
Impairment loss in respect of amount due from an investee company	**171**	100
Cost of inventories	**362,336**	333,626
Amortisation of development costs	**318**	–
Provision for inventories	**13,141**	–
Staff costs		
– Retirement benefit scheme contributions, net of forfeited contributions of HK$503,000 (2001: HK$534,000)	**991**	758
– Severance payments	**181**	1,228
– Other staff costs, including directors' emoluments	**51,938**	47,358
	53,110	49,344
Less: Staff costs capitalised as research and development cost	**(1,627)**	–
	51,483	49,344
and after crediting:		
Dividend from trading securities, listed	**–**	8
Interest income	**236**	2,034
Rental income	**1,651**	161

Notes to the Financial Statements (Continued)

For the year ended 30 June 2002

7. FINANCE COSTS

	2002 HK$'000	2001 HK$'000
Interest on:		
Bank borrowings wholly repayable		
– Within five years	**2,288**	2,316
– Over five years	**1,066**	126
Other borrowings	**2,125**	154
Convertible bonds	**55**	302
Obligations under finance leases	**191**	111
Amortisation of issue costs of convertible bonds	**65**	736
	5,790	3,745

8. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS

	2002 HK$'000	2001 HK$'000
(a) Directors' emoluments		
The aggregate amounts of emoluments payable to directors of the Company during the year are as follows:		
Directors' fees		
Executive directors	**–**	–
Non-executive director	**80**	240
Independent non-executive directors	**120**	360
	200	600
Other emoluments		
Executive directors		
– Salaries and other benefits	**5,837**	3,180
	6,037	3,780

Notes to the Financial Statements (Continued)

For the year ended 30 June 2002

8. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS (continued)

(a) Directors' emoluments (continued)

The emoluments of the directors fell within the following bands:

	Number of directors	
	2002	2001
Nil to HK$1,000,000	**5**	3
HK$1,500,001 to HK$2,000,000	**3**	2

During the year, a total of 196,050,000 share options to subscribe for ordinary shares of the Company were granted to certain directors under the Company's share option scheme. The details of these benefits in kind are disclosed under section headed "Directors' Interests in Equity or Debt Securities" in the directors' report. In the absence of a readily available market value for the share options on the ordinary shares of the Company, the directors were unable to arrive at an accurate assessment of the value of these share options. Accordingly, no value has been included in the emoluments of the directors in respect thereof.

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

(b) Five Highest Paid Individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2001: two) directors of the Company, details of whose emoluments are set out above. The emoluments payable to the remaining two (2001: three) individuals during the year are as follows:

	2002	2001
	HK$'000	HK$'000
Salaries and other benefits	**7,432**	2,919

8. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS (continued)

(b) Five Highest Paid Individuals (continued)

The emoluments of the non-director individuals fell within the following bands:

	Number of employees	
	2002	2001
Nil to HK$1,000,000	**1**	2
HK$1,000,001 to HK$1,500,000	**1**	1
	2	3

During the year, no emoluments were paid or payable to the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

9. TAXATION

No provision for Hong Kong Profits Tax has been made in the financial statements as the Company and its subsidiaries had no assessable profits for the year (2001: Nil).

Details of unprovided deferred taxation asset not recognised in the year are set out in note 27 to the financial statements.

10. NET LOSS FOR THE YEAR

Of the Group's net loss for the year of HK$106,133,000 (2001: HK$32,681,000), a loss of HK$26,891,000 (2001: HK$44,696,000) has been dealt with in the financial statements of the Company.

11. LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss for the year of HK$106,133,000 (2001: HK$32,681,000) and on the weighted average number of 6,540,844,650 (2001: 6,450,118,799) ordinary shares in issue during the year.

The computation of diluted loss per share for 2002 does not assume the conversion of the Company's outstanding convertible bonds, warrants and share options since their exercise would result in a decrease in net loss per share from continuing ordinary operations.

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

Notes to the Financial Statements (Continued)

For the year ended 30 June 2002

12. INTANGIBLE ASSETS

	Goodwill HK$'000	Development costs HK$'000	Total HK$'000
Group			
Cost:			
Acquisition of a subsidiary	107	–	107
Incurred during the year	–	4,245	4,245
At 30 June 2002	107	4,245	4,352
Accumulated amortisation:			
Provided for the year and balance at 30 June 2002	5	318	323
Net book value:			
At 30 June 2002	**102**	**3,927**	**4,029**
At 30 June 2001	–	–	–

Development costs capitalised include an amount of approximately HK$1,627,000 (2001: Nil) in respect of staff costs.

Notes to the Financial Statements (Continued)

For the year ended 30 June 2002

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold properties HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Plant and machinery HK$'000	Tools and moulds HK$'000	Motor vehicles HK$'000	Total HK$'000
Group							
Cost or Valuation:							
At 1 July 2001	25,930	12,772	17,697	28,215	38,852	4,658	128,124
Additions	–	4,970	1,782	1,813	4,496	370	13,431
Disposals	–	–	(125)	(1,229)	–	(2,509)	(3,863)
Disposal of subsidiaries	–	–	(573)	(257)	(1,872)	–	(2,702)
Revaluation decrease	(2,690)	–	–	–	–	–	(2,690)
At 30 June 2002	23,240	17,742	18,781	28,542	41,476	2,519	132,300
Accumulated depreciation:							
At 1 July 2001	–	9,730	11,116	18,130	25,909	3,586	68,471
Provided for the year	1,178	1,207	1,555	2,461	3,067	215	9,683
Eliminated on disposals	–	–	(81)	(1,044)	–	(2,118)	(3,243)
Eliminated on disposal of subsidiaries	–	–	(217)	(175)	(824)	–	(1,216)
Eliminated on revaluation	(1,178)	–	–	–	–	–	(1,178)
At 30 June 2002	–	10,937	12,373	19,372	28,152	1,683	72,517
Net book value:							
At 30 June 2002	**23,240**	**6,805**	**6,408**	**9,170**	**13,324**	**836**	**59,783**
At 30 June 2001	25,930	3,042	6,581	10,085	12,943	1,072	59,653

The net book value of certain of the above assets held under finance leases are analysed as follows:

At 30 June 2002	**–**	**–**	**1,026**	**2,300**	**–**	**459**	**3,785**
At 30 June 2001	–	–	462	1,970	–	169	2,601

13. PROPERTY, PLANT AND EQUIPMENT (continued)

Apart from the leasehold properties, which are stated at valuation, all other property, plant and equipment are stated at cost.

The net book value of the leasehold properties at 30 June 2002 included an amount of HK$5,240,000 (2001: HK$5,930,000) in respect of properties situated in Hong Kong which are held under medium-term leases and an amount of HK$18,000,000 (2001: HK$20,000,000) in respect of properties situated in The People's Republic of China (the "PRC") which is held for use by the Group for a period of 30 years ending on 31 December 2021. The leasehold properties were valued at 30 June 2002 by AA Property Services Limited, an independent firm of property consultants, on an open market value basis.

Had the leasehold properties been carried at historical cost less depreciation, their aggregate carrying amount would have been stated at approximately HK$12,392,000 (2001: HK$12,966,000).

	Leasehold improvements HK$'000	**Furniture, fixtures and equipment** HK$'000	**Total** HK$'000
Company			
Cost:			
At 1 July 2001	–	–	–
Additions	204	24	228
At 30 June 2002	204	24	228
Accumulated depreciation:			
At 1 July 2001	–	–	–
Provided for the year	41	5	46
At 30 June 2002	41	5	46
Net book value:			
At 30 June 2002	**163**	**19**	**182**
At 30 June 2001	–	–	–

14. INVESTMENT PROPERTIES

	Group 2002 HK$'000	Group 2001 HK$'000
Valuation:		
At 1 July 2001/2000	**–**	–
Transfer from property held for sale	**36,556**	–
Additional cost capitalised during the year	**501**	–
Revaluation decrease	**(2,557)**	–
At 30 June 2002/2001	**34,500**	–

During the year, the Group changed the use of one of its properties from held for sale to investment purposes. Accordingly, the property, which is situated in Hong Kong and held under long lease, was reclassified from property held for sale under current assets to investment properties under non-current assets. As at 30 June 2002, the property was revalued on an open market basis at HK$34,500,000 by RHL Appraisal Ltd, an independent professional surveyor, and the revaluation decrease of approximately HK$2,557,000 was charged to the consolidated income statement.

15. INTERESTS IN SUBSIDIARIES

	Company 2002 HK$'000	Company 2001 HK$'000
Unlisted shares, at cost	**22,115**	43,363
Less: Impairment loss recognised	**(22,115)**	–
	–	43,363
Net amounts due from subsidiaries, less provisions	**114,781**	52,883
	114,781	94,246
Less: Net amounts due from subsidiaries receivable within one year shown under current assets	**–**	(36,174)
	114,781	60,072

The amounts due from subsidiaries are unsecured and interest free.

Notes to the Financial Statements (Continued)

For the year ended 30 June 2002

15. INTERESTS IN SUBSIDIARIES (continued)

The following is a list of the significant subsidiaries at 30 June 2002:

Name of subsidiary	Place of incorporation/ operation	Nominal value of issued shares*	Proportion of nominal value of issued shares held by the Company Directly	Indirectly	Principal activities
Bestplus Profits Limited^	British Virgin Islands ("BVI")	US$1	–	100%	Inactive
Cristine Holdings Limited^	BVI	US$1	100%	–	Investment holding
Digital Infinity Limited^	BVI	US$1	100%	–	Investment holding
Fine Apex Limited	Hong Kong	HK$4	100%	–	Property holding
Future Wealth Investments Limited^	BVI	US$1	–	100%	Inactive
Graceley Enterprises Limited#	Hong Kong	HK$2	–	51%	Provision of nominee services
Hero Bright International Limited#^	Hong Kong	HK$1,000	–	51%	Trading of toys, games and multimedia electronic products
Hitchman (USA) Inc#^	United States of America	US$1,000	–	51%	Inactive
Hitchman Limited#	Hong Kong	HK$150,000	–	51%	Property holding and trading in toys, games and multimedia electronic products
Indofast Technology Limited	BVI	US$1	100%	–	Inactive
Modern Gala Industrial Limited#	Hong Kong	HK$1,500,000	–	51%	Manufacture and sale of moulds and plastic parts

Notes to the Financial Statements (Continued)

For the year ended 30 June 2002

15. INTERESTS IN SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation/ operation	Nominal value of issued shares*	Proportion of nominal value of issued shares held by the Company Directly	Indirectly	Principal activities
P.N. Electronic Limited#	Hong Kong	HK$1,000	–	51%	Inactive
Quentinbelle Limited#	BVI/PRC	US$100	–	51%	Provision of sub-contracting services
Quicky Technologies Limited	BVI	US$1	100%	–	Investment holding
Quidde Limited#	Hong Kong	HK$2	–	51%	Investment holding
Ruian Weiye Technology (Shenzhen) Limited+#	PRC	HK$5,000,000	–	51%	Manufacture and sale of toys, games and multimedia electronic products
Timlex International Limited#	Hong Kong	HK$2	–	51%	Trading in toys and games and multimedia electronic products
Transfer Networks Limited^	BVI	US$1	100%	–	Inactive
Welback Enterprises Limited#	Hong Kong	HK$13,501,000**	–	51%	Manufacture and sale of toys, games and multimedia electronic products
Welback International Investments Limited#	BVI	HK$16,875,000	51%	–	Investment holding

* All are ordinary share capital unless otherwise stated.

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

\+ Ruian Weiye Technology (Shenzhen) Limited was established as a wholly foreign owned enterprise in the PRC.

^ Incorporated during the year.

\# The financial statements of these companies are audited by certified public accountants other than Messrs HLB Hodgson Impey Cheng.

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

Notes to the Financial Statements (Continued)

For the year ended 30 June 2002

16. INTERESTS IN AN ASSOCIATE

	Group	
	2002	2001
	HK$'000	HK$'000
Share of net assets	**–**	–
Goodwill unamortised	**47,489**	–
	47,489	–
Deposit paid for acquisition for an associate (note)	**3,470**	–
	50,959	–
Less: Provision for impairment loss	**(47,887)**	–
	3,072	–

Details of the Group's associate at 30 June 2002 are as follows:

Name of associate	Place of incorporation/ operation	Equity interest held indirectly	Principal activities
Gen-Wan Technology Corp ("Gen-Wan")	Taiwan	23.7%	Development of WCDMA and OFDM technology and sale and distribution of related system networks and products

Note: The amount represents a deposit paid for subscription of additional 1,549,909 shares of Gen-Wan with a par value of NT$10 each. The acquisition was completed in September 2002 and the Group's equity interest in Gen-Wan was increased from 23.7% to 24.9% thereafter.

17. INVESTMENTS IN SECURITIES

	Group 2002 HK$'000	Group 2001 HK$'000
(a) Investment securities		
Unlisted, equity securities	**21,155**	–
Less: Impairment loss recognised	**(13,751)**	–
	7,404	–

In the opinion of the directors, the investment securities in the amount of approximately HK$13,751,000 (2001: Nil) are determined to be impaired and the amount of impairment loss has been charged to the consolidated income statement.

	Group 2002 HK$'000	Group 2001 HK$'000
(b) Other securities		
Unlisted securities	**2,051**	2,051
Less: Impairment loss recognised	**(2,051)**	(2,051)
	–	–

In the opinion of the directors, the other securities are determined to be impaired and the amount of impairment loss has been charged to the consolidated income statement.

18. AMOUNT DUE FROM AN INVESTEE COMPANY

Group and Company

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

19. INVENTORIES

	Group	
	2002	2001
	HK$'000	HK$'000
Raw materials	**40,776**	53,520
Work in progress	**15,930**	8,896
Finished goods	**13,038**	7,062
	69,744	69,478

Included above are raw materials of approximately HK$942,000 (2001: HK$51,961,000), and finished goods of approximately HK$727,000 (2001: HK$6,684,000) which are carried at net realisable value. At 30 June 2001, work in progress of approximately HK$8,841,000 were carried at net realisable value.

20. TRADE AND OTHER RECEIVABLES

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

At 30 June 2002, the balances of trade and other receivables included trade receivables of approximately HK$56,869,000 (2001: HK$56,065,000). An aged analysis of trade receivables prepared on the basis of sales invoice date is as follows:

	Group	
	2002	2001
	HK$'000	HK$'000
0 to 90 days	**34,816**	32,601
91 days or above	**22,053**	23,464
	56,869	56,065

The Group allows an average credit period of 60-90 days (2001: 60-90 days) to its trade customers.

21. TRADE AND OTHER PAYABLES

At 30 June 2002, the balances of trade and other payables included trade payables of approximately HK$87,843,000 (2001: HK$60,609,000). An aged analysis of trade payables prepared on the basis of supplier invoice date is as follows:

	Group	
	2002	2001
	HK$'000	HK$'000
0 to 90 days	**70,921**	49,330
91 days or above	**16,922**	11,279
	87,843	60,609

22. SHORT-TERM SECURED BANK BORROWINGS

	Group	
	2002	2001
	HK$'000	HK$'000
Trust receipts and import loans	**20,493**	23,149
Portion of secured term loan due within one year (note 23)	**1,826**	1,184
Bank overdrafts	**977**	2,467
	23,296	26,800

23. SECURED TERM LOAN

	Group 2002 HK$'000	2001 HK$'000
At 30 June 2002, the Group's secured term loan is repayable as follows:		
– Within one year	**1,826**	1,184
– In the second year	**1,992**	1,263
– In the second to fifth year inclusive	**5,516**	3,949
– After the fifth year	**13,787**	18,331
	23,121	24,727
Less: Amount due within one year included under short-term secured bank borrowings in current liabilities (note 22)	**(1,826)**	(1,184)
Amount due after one year	**21,295**	23,543

24. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2002	2001	**2002**	2001
	HK$'000	HK$'000	**HK$'000**	HK$'000
Group				
Amounts payable under finance leases:				
Within one year	**1,620**	1,084	**1,446**	913
In the second to fifth year inclusive	**1,048**	1,035	**993**	965
	2,668	2,119	**2,439**	1,878
Less: future finance charges	**(229)**	(241)	**–**	–
Present value of obligations under finance leases	**2,439**	1,878	**2,439**	1,878
Less: Amount due within one year shown under current liabilities			**(1,446)**	(913)
Amount due after one year			**993**	965

The average lease term is three years. All leases are on fixed repayment basis and no arrangements have been entered into for contingent rental payments.

25. CONVERTIBLE BONDS

	Group and Company	
	2002	2001
	HK$'000	HK$'000
Principal amount		
At the beginning of year	**–**	20,000
Issue during the year	**15,602**	–
Redemption during the year	**–**	(20,000)
At the end of year	**15,602**	–
Less: Issue costs		
At the beginning of year	**–**	736
Incurred during the year	**780**	–
Amortised during the year including amounts written back upon redemption	**(65)**	(736)
At the end of year	**715**	–
Carrying value at 30 June	**14,887**	–

On 30 May 2002, the Company issued HK$15,601,700 4% convertible bonds due 29 May 2003 (the "Bonds"). The bonds carry a right to convert either in whole or in part at any time from the day three months after the issue of the Bonds up to the maturity date in amounts of not less than a whole multiple of HK$1,780 on each conversion, save that if at any time, the principal outstanding amount of the Bonds is less than HK$1,780, the whole (but not part only) of the principal outstanding amount of the Bonds may be converted into ordinary shares of the Company at an initial conversion price of HK$0.178 per share (subject to adjustment) at any time from the day three months after the issue of the Bonds up to the maturity date.

The shares issued upon conversion of the Bonds shall rank pari passu in all respects with the fully paid shares in issue at the date of the conversion and be entitled to all dividends and other distributions to be paid or made if the record date of which fall on a day on or after the date of conversion.

26. AMOUNT DUE TO A RELATED COMPANY

Group and Company

The amount due is unsecured, interest free and has no fixed repayment terms.

27. DEFERRED TAXATION

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

	Group		Company	
	2002	2001	**2002**	2001
	HK$'000	HK$'000	**HK$'000**	HK$'000
Tax effect of timing differences because of:				
Tax losses not yet utilised	**16,785**	14,592	**1,076**	275
Difference of tax allowances and depreciation	**(2,837)**	(2,719)	**1**	–
	13,948	11,873	**1,077**	275

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

	Group		Company	
	2002	2001	**2002**	2001
	HK$'000	HK$'000	**HK$'000**	HK$'000
Tax effect of timing differences because of:				
Tax losses (arising) utilising	**(2,193)**	(4,221)	**(801)**	557
Difference of tax allowances and depreciation	**118**	139	**(1)**	(54)
	(2,075)	(4,082)	**(802)**	503

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

27. DEFERRED TAXATION (continued)

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

In addition, the Group had a potential deferred taxation liability in respect of land appreciation tax resulting from revaluation surplus of approximately HK$6,936,000 (2001: HK$7,497,000) arising on the factory premises situated in the PRC. The Group does not have any intention to dispose of these factory premises in the foreseeable future. Accordingly, no deferred taxation has been provided in respect of the revaluation surplus of these properties.

28. SHARE CAPITAL

	Number of shares	**Nominal value** HK$'000
Authorised:		
Ordinary shares of HK$0.01 each at 30 June 2001 and 30 June 2002	20,000,000,000	200,000

	Number of shares	**Nominal value** HK$'000
Issued and fully paid:		
Ordinary shares of HK$0.01 each at 1 July 2000	6,449,107,840	64,491
– Issue of share from exercise of share options	41,000,000	410
Ordinary shares of HK$0.01 each at 30 June 2001 and 1 July 2001	6,490,107,840	64,901
– Issue of shares from exercise of share options	121,516,292	1,215
Ordinary shares of HK$0.01 each at 30 June 2002	6,611,624,132	66,116

All new shares issued as a result of the exercise of share options ranked pari passu with the then existing shares in all respects.

28. SHARE CAPITAL (continued)

Share options

The Company has adopted a new share option scheme on 23 November 2001 under which the directors may grant options to employees, including any directors, of the Company, its subsidiaries or its invested entities to subscribe for shares in the Company. The subscription price will be determined by the directors (subject to adjustment), and will not be less than (i) the closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheet for trades in one or more board lots of shares on the date of offer of the options; (ii) the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of offer of the options; or (iii) the nominal value of the shares of the Company, whichever is the higher. The maximum number of shares in respect of which options may be granted under this scheme may not exceed 10% of the issued share capital of the Company from time to time. An option may be exercised at any time before the expiration of ten years from the date of adoption of the relevant share option scheme.

Details of the share options outstanding as at 30 June 2002 which have been granted under the aforesaid share option scheme are as follows:

		Number of share options				
Exercisable on or after	Exercise price HK$	Outstanding as at 1 July 2001	Granted during year	Exercised during year	Lapsed during year	Outstanding as at 30 June 2002
27 November 1993	0.0424	12,649,056	–	(12,649,056)	–	–
27 November 1994	0.0424	12,649,056	–	(12,649,056)	–	–
1 July 1995	0.0176	25,309,090	–	(25,309,090)	–	–
1 July 1996	0.0176	25,309,090	–	(25,309,090)	–	–
3 January 2001	0.0135	31,600,000	–	(31,600,000)	–	–
3 January 2002	0.0135	47,400,000	–	–	(47,400,000)	–
4 April 2001	0.0274	26,000,000	–	(14,000,000)	(12,000,000)	–
7 July 2001	0.0594	5,000,000	–	–	(5,000,000)	–
7 January 2002	0.0594	5,000,000	–	–	(5,000,000)	–
16 January 2002	0.057	–	261,400,000	–	–	261,400,000
1 February 2002	0.081	–	392,100,000	–	–	392,100,000
		190,916,292	653,500,000	(121,516,292)	(69,400,000)	653,500,000

28. SHARE CAPITAL (continued)

Warrants

On 17 April 2002, the Company allotted and issued 1,307,000,000 warrants by way of private placing at an issued price of HK$0.02 per warrant, which are exercisable at any time from 19 April 2002 to 18 April 2003, both dates inclusive. These warrants entitled the warrant holders thereof to subscribe for the ordinary shares of HK$0.01 each in the share capital of the Company at an initial subscription price of HK$0.12 (subject to adjustment). The net proceeds derived from the issue of the Warrants amounted to approximately HK$25,000,000 were used for general working capital of the Group and expansion of the Group's Wideband Code Division Multiple Access ("WCDMA") and Orthogonal Frequency Division Multiplexing ("OFDM") business. No warrants were exercised during the year ended 30 June 2002.

29. RESERVES

	Share premium	Subscription right reserve	Asset revaluation reserve	Capital reserve on consolidation	Accumulated deficits	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Group						
At 1 July 2000	98,967	–	15,114	8,828	(34,842)	88,067
Premium arising on issue of shares in respect of exercise of share options	714	–	–	–	–	714
Revaluation decrease	–	–	(2,037)	–	–	(2,037)
Net loss for the year	–	–	–	–	(32,681)	(32,681)
At 30 June 2001	99,681	–	13,077	8,828	(67,523)	54,063

29. RESERVES (continued)

	Share premium HK$'000	Subscription right reserve HK$'000	Asset revaluation reserve HK$'000	Capital reserve on consolidation HK$'000	Accumulated deficits HK$'000	Total HK$'000
Group						
At 1 July 2001	99,681	–	13,077	8,828	(67,523)	54,063
Premium arising on issue of shares in respect of exercise of share options	1,559	–	–	–	–	1,559
Revaluation decrease	–	–	(1,386)	–	–	(1,386)
Goodwill released upon disposal of a subsidiary	–	–	–	1,972	–	1,972
Proceeds from issue of warrants	–	26,140	–	–	–	26,140
Warrants issue expenses	–	(871)	–	–	–	(871)
Net loss for the year	–	–	–	–	(106,133)	(106,133)
At 30 June 2002	**101,240**	**25,269**	**11,691**	**10,800**	**(173,656)**	**(24,656)**
Attributable to:						
The Company and subsidiaries	99,681	–	13,077	8,828	(67,523)	54,063
An associate	–	–	–	–	–	–
At 30 June 2001	99,681	–	13,077	8,828	(67,523)	54,063
Attributable to:						
The Company and subsidiaries	101,240	25,269	11,691	10,800	(173,475)	(24,475)
An associate	–	–	–	–	(181)	(181)
At 30 June 2002	**101,240**	**25,269**	**11,691**	**10,800**	**(173,656)**	**(24,656)**

29. RESERVES (continued)

	Share premium HK$'000	Subscription right reserve HK$'000	Contributed surplus HK$'000	Accumulated deficits HK$'000	Total HK$'000
Company					
At 1 July 2000	98,968	–	26,487	(36,511)	88,944
Premium arising on issue of shares in respect of exercise of share options	713	–	–	–	713
Net loss for the year (note 10)	–	–	–	(44,696)	(44,696)
At 30 June 2001	99,681	–	26,487	(81,207)	44,961
At 1 July 2001	99,681	–	26,487	(81,207)	44,961
Premium arising on issue of shares in respect of exercise of share options	1,559	–	–	–	1,559
Proceeds from issue of warrants	–	26,140	–	–	26,140
Warrants issue expenses	–	(871)	–	–	(871)
Released upon disposal of subsidiaries	–	–	(12,979)	–	(12,979)
Net loss for the year	–	–	–	(26,891)	(26,891)
At 30 June 2002	**101,240**	**25,269**	**13,508**	**(108,098)**	**31,919**

The contributed surplus represents the difference between the consolidated shareholders' funds of Welback International Investments Limited ("Welback International") at the date on which its shares were acquired by the Company and the nominal amount of the Company's shares issued for the acquisition. During the year ended 30 June 2002, 49% of equity interest of Welback International has been disposed. Accordingly, 49% of the contributed surplus brought forward was released upon the completion of disposal.

29. RESERVES (continued)

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

(i) the company is, or would after the payment be, unable to pay its liabilities as they become due; or

(ii) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

In the opinion of the directors, the Company did not have any reserves available for distribution to shareholders at 30 June 2002 and 30 June 2001.

30. RECONCILIATION OF LOSS BEFORE TAXATION TO NET CASH INFLOW(OUTFLOW) FROM OPERATING ACTIVITIES

	2002	2001
	HK$'000	HK$'000
Loss before taxation	**(106,211)**	(32,579)
Interest income	**(236)**	(2,034)
Interest expenses	**5,790**	3,745
Dividend income	**–**	(8)
Depreciation	**9,683**	8,472
Amortisation of development costs	**318**	–
Amortisation of goodwill	**3,391**	–
Loss on disposal of property, plant and equipment	**234**	524
Loss on disposal of subsidiaries	**2,032**	–
Deficit arising on revaluation of leasehold properties	**126**	30
Deficit arising on revaluation of investment properties	**2,557**	–
Provision for doubtful debts	**746**	5,015
Provision for impairment loss of		
– Investment in an associate	**47,887**	–
– Investments in securities	**13,751**	1
– Amount due from an investee company	**171**	100
(Increase) decrease in inventories	**(5,219)**	3,299
(Increase) decrease in trade and other receivables	**(20,043)**	20,408
Increase (decrease) in trade and other payables	**45,827**	(32,437)
Net cash inflow (outflow) from operating activities	**804**	(25,464)

Notes to the Financial Statements (Continued)

For the year ended 30 June 2002

31. PURCHASE OF A SUBSIDIARY

	2002	2001
	HK$'000	HK$'000
Net assets acquired:		
Trade and other receivables	–	1,445
Property held for sale	–	36,556
Bank balances and cash	–	21
Trade and other payables	–	(21)
Secured bank borrowings	–	(24,150)
Loans payable	–	(14,000)
Minority interests	–	150
	–	1
Satisfied by:		
Cash consideration paid	–	1
Net cash inflow in respect of the purchase of a subsidiary:		
Cash consideration paid	–	(1)
Bank balances and cash acquired	–	21
	–	20

The subsidiary purchased during the year ended 30 June 2001 did not have any significant impact on the Group's cash flows, turnover and operating results.

32. DISPOSAL OF SUBSIDIARIES

	2002 HK$'000	2001 HK$'000
Net assets disposed of:		
Property, plant and equipment	1,487	–
Inventories	4,954	–
Trade and other receivables	4,416	–
Bank balances and cash	1,430	–
Trade and other payables	(10,243)	–
Minority interests	(580)	–
Net assets	1,464	–
Goodwill released on disposal	1,972	–
Loss on disposal of subsidiaries	(2,032)	–
	1,404	–
Satisfied by:		
Cash consideration received	144	–
Deferred consideration	1,260	–
	1,404	–
Net cash outflow in respect of the disposal of a subsidiary:		
Cash consideration received	144	–
Bank balances and cash disposed of	(1,430)	–
	(1,286)	–

The subsidiary disposed of during the year ended 30 June 2002 did not have any significant impact on the Group's cash outflows, turnover and operating results.

Notes to the Financial Statements (Continued)

For the year ended 30 June 2002

33. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital and share premium HK$'000	Subscription right reserve HK$'000	Convertible bonds HK$'000	Term loans HK$'000	Trust receipts and import loans HK$'000	Obligations under finance leases HK$'000	Other secured borrowings HK$'000	Minority interests HK$'000
At 1 July 2000	163,458	–	19,264	811	831	286	–	599
Issue of shares	1,124	–	–	–	–	–	–	–
Inception of finance lease	–	–	–	–	–	2,472	–	–
Other new borrowings raised	–	–	–	–	–	–	6,000	–
Net cash (outflow) inflow from financing	–	–	–	(234)	4,047	(880)	–	–
Redemption of convertible bonds	–	–	(20,000)	–	–	–	–	–
Amortisation of issue costs	–	–	736	–	–	–	–	–
Purchase of a subsidiary	–	–	–	24,150	–	–	–	(150)
Profit shared by minority interests	–	–	–	–	–	–	–	102
At 30 June 2001	164,582	–	–	24,727	4,878	1,878	6,000	551
At 1 July 2001	164,582	–	–	24,727	4,878	1,878	6,000	551
Issue of shares	2,774	–	–	–	–	–	–	–
Issue of warrants	–	26,140	–	–	–	–	–	–
Warrants issue expenses	–	(871)	–	–	–	–	–	–
Issue of convertible bonds	–	–	15,602	–	–	–	–	–
Convertible bonds issue expenses	–	–	(780)	–	–	–	–	–
Amortisation of convertible bonds issue expenses	–	–	65	–	–	–	–	–
Inception of finance lease	–	–	–	–	–	1,901	–	–
Net cash (outflow) inflow from financing	–	–	–	(1,606)	10,666	(1,340)	(1,000)	–
Acquisition of additional interests in a subsidiary	–	–	–	–	–	–	–	107
Eliminated on disposal of subsidiaries	–	–	–	–	–	–	–	(580)
Loss shared by minority interests	–	–	–	–	–	–	–	(78)
At 30 June 2002	**167,356**	**25,269**	**14,887**	**23,121**	**15,544**	**2,439**	**5,000**	**–**

Notes to the Financial Statements (Continued)

For the year ended 30 June 2002

34. ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS

	2002 HK$'000	2001 HK$'000
Time deposits, bank balances and cash	**4,523**	25,759
Trust receipts and import loans, with maturities within three months	**(4,949)**	(18,271)
Bank overdrafts	**(977)**	(2,467)
	(1,403)	5,021

35. MAJOR NON-CASH TRANSACTION

(a) During the year, the Group entered into finance leases arrangements in respect of property, plant and equipment with a total capital value at the inception of the contract of approximately HK$1,901,000 (2001: HK$2,472,000).

(b) Pursuant to a shareholders' resolution of Gen-Wan, an associate of the Group, there was a reduction of capital for 4,500,000 shares of NT$10 each at par in the issued share capital of Gen-Wan. Of which, 1,067,000 shares in the issued share capital of Gen-Wan, representing 23.7% of equity interest in Gen-Wan attributable to the Group, were returned to Gen-Wan and being cancelled. In return, 1,421,875 shares of common stock of Widax Corporation, a former 54.5% owned subsidiary of Gen-Wan, were transferred to the Group on 23 April 2002. The interest in Widax Corporation was classified as investment securities as disclosed in note 17 to the financial statements.

36. CAPITAL COMMITMENTS

	Group	
	2002 HK$'000	2001 HK$'000
Capital expenditure in respect of acquisition of property, plant and equipment:		
Contracted but not provided for in the financial statements	**–**	4,251

The Company did not have any capital commitments at 30 June 2002 and 30 June 2001.

37. RETIREMENT BENEFIT SCHEME

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

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

38. OPERATING LEASES COMMITMENTS

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

	Group	
	2002	2001
	HK$'000	HK$'000
Within one year	**2,828**	1,941
In the second to fifth year inclusive	**5,841**	1,374
After five years	**773**	–
	9,442	3,315

Operating lease payments represent rentals payable by the Group for certain of its office property and staff quarters. Leases and rentals were negotiated and fixed for an average term of four years (2001: two years).

38. OPERATING LEASES COMMITMENTS (continued)

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

	Company	
	2002	2001
	HK$'000	HK$'000
Within one year	**189**	–
In the second to fifth year inclusive	**94**	–
	283	–

Operating lease payments represent rentals payable by the Company for its office property. Leases and rentals were negotiated and fixed for an average term of two years (2001: Nil).

39. PLEDGE OF ASSETS

At 30 June 2002, the Group pledged its leasehold properties with an aggregate net book value of approximately HK$23,240,000 (2001: HK$25,930,000), an investment property of HK$34,500,000 (2001: property held for sale of HK$36,556,000) and its banks deposits of HK$8,646,000 (2001: Nil) to secure general banking facilities granted to the Group.

The Company did not pledge any of its assets at the balance sheet date.

40. CONTINGENT LIABILITIES

	Group	
	2002	2001
	HK$'000	HK$'000
Bills discounted with recourse	**31,748**	6,898

At 30 June 2002, the Company provided corporate guarantees amounting to approximately HK$54,900,000 (2001: HK$42,000,000) to various banks in respect of banking facilities granted to its subsidiaries. The aggregate amount utilised in respect of the banking facilities granted amounted to approximately HK$44,110,000 at 30 June 2002 (2001: HK$25,616,000).

41. RELATED PARTY TRANSACTIONS

Apart from the balance with a related party as disclosed in note 26 to the financial statements, the Group entered into the following transactions with related parties during the year:

Name of related party	**Nature of transaction**	**2002 HK$'000**	2001 HK$'000
Tripoli Investments Limited ("Tripoli")	Sale proceeds for disposal of 49% interests in subsidiaries received by the Group	**40,571**	–
William W.L. Fan & Co	Legal and professional fees paid by the Group	**103**	606
Dr Liang Ping	Project development and consultancy fees paid by the Group	**90**	360

Tripoli is owned as to 53.94% by Otta Trading Limited as trustee of a unit trust, all the units of which are held by a discretionary trust established for the spouse and issue of Mr Lee Chun Kwok, the Chairman of the Company, and as to 46.06% by Primecone Inc as trustee of a unit trust, all the units of which are held by a discretionary trust established for the spouse and issue of Mr Fong Wing Seng, the Managing Director of the Company.

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

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

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

Notes to the Financial Statements (Continued)

For the year ended 30 June 2002

42. SUBSEQUENT EVENTS

The following significant events occurred subsequent to the balance sheet date:

(a) On 21 August 2002, an agreement was entered into between the Company and an independent third party, pursuant to which the independent third party agreed to subscribe for and the Company agreed to issue 657,900,000 new shares of the Company at a subscription price of HK$0.0152 each. The net proceeds of approximately HK$9,500,000 will be used for or reserved to be used as the general working capital of the Group.

(b) On 23 August 2002, an agreement was entered into between the Company and an independent third party, pursuant to which the independent third party agreed to subscribe for and the Company agreed to issue 492,100,000 new shares of the Company at an issue price of HK$0.0152 each. In return, the independent third party would transfer and assign a debt to the Company amounting HK$7,479,920 originally owed by Quicky Technologies Limited, a wholly-owned subsidiary of the Company, to the independent third party. The directors confirm that the independent third party will not have any recourse on the debt upon completion of the agreement.

(c) Pursuant to a cancellation agreement which was entered into between Digital Infinity Limited ("Digital"), a wholly owned subsidiary of the Company, and Beijing Airway Communication Co., Ltd ("Beijing Company") on 8 October 2002, both parties agreed to cancel the sale and purchase agreement dated 29 May 2002 in relation to the acquisition of a 49% equity interest in the Beijing Company as disclosed in the Company's press announcement dated 30 May 2002, due to certain terms and conditions could not be mutually agreed by both parties. The cash deposits of HK$6,000,000 paid to the Beijing Company were agreed by both parties to turn into an interest-bearing loan repayable within one year.

43. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation.

44. AUTHORISATION FOR ISSUE OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 25 October 2002.

– End of Notes –