

# Notes to Financial Statements

31 July 2002

## 1. CORPORATE INFORMATION

The Company was incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda (as amended). Its shares have been listed on The Stock Exchange of Hong Kong Limited since 28 May 1993. The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

On 4 December 2001, Hikari Tsushin, Inc., the then ultimate holding company of the Company incorporated in Japan, disposed of all its shareholdings in the Company to Noble Islands Int'l Limited ("Noble Islands"), a company incorporated in the British Virgin Islands and is beneficially owned by Mr. Wong King Shiu Daniel, a director and the chairman of the Company. Thereafter, Noble Islands became a substantial shareholder of the Company.

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

- investment in Internet and information technology activities;
- investment in natural gas business;
- manufacture and trading of batteries;
- manufacture and trading of silicone rubber products;
- manufacture and trading of electronic finished products; and
- trading of electronic parts and components.

As further detailed in note 12 to the financial statements, the operations involved in the manufacture and trading of electronic finished products and the trading of electronic parts and components were discontinued during the year.

## 2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

The following recently-issued and revised SSAPs and the related Interpretations are effective for the first time for the current year's financial statements:

- SSAP 9 (Revised) : "Events after the balance sheet date"
- SSAP 14 (Revised) : "Leases"
- SSAP 18 (Revised) : "Revenue"
- 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"
- Interpretation 12 : "Business combinations - subsequent adjustment of fair values and goodwill initially reported"
- Interpretation 13 : "Goodwill - continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves"
- Interpretation 14 : "Evaluating the substance of transactions involving the legal form of a lease"
- Interpretation 15 : "Business combinations - date of exchange and fair value of equity instruments"
- Interpretation 16 : "Disclosure - service concession arrangements"
- Interpretation 17 : "Revenue - barter transactions involving advertising services"
- Interpretation 19 : "Intangible assets - website costs"

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of adopting these SSAPs, are summarised as follows:

SSAP 9 (Revised) prescribes which type of events occurring after the balance sheet date require adjustment to the financial statements, and which require disclosure, but no adjustment. The SSAP has had no major impact on these financial statements.

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## 2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs") (continued)

SSAP 14 (Revised) prescribes the basis for lessor and lessee accounting for finance and operating leases, and the required disclosures in respect thereof. Certain amendments have been made to the previous accounting measurement treatments, which may be accounted for retrospectively or prospectively, in accordance with the requirements of the SSAP. The revised SSAP requirements have not had a material effect on the amounts previously recorded in the financial statements, and therefore no prior year adjustment has been required. The disclosure changes under this SSAP have resulted in changes to the detailed information disclosed for finance leases and operating leases, which are further detailed in notes 26 and 34 to the financial statements.

SSAP 18 (Revised) prescribes the recognition of revenue and was revised as a consequence of the revision to SSAP 9 described above. Proposed final dividends from subsidiaries that are declared and approved by the subsidiaries after the balance sheet date are no longer recognised in the Company's own financial statements for the year. The SSAP has had no major impact on these financial statements.

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 4 to the financial statements.

SSAP 28 prescribes the recognition criteria and measurement bases to apply to provisions, contingent liabilities and contingent assets, together with the required disclosures in respect thereof. The SSAP has had no major impact on these financial statements.

SSAP 29 prescribes the recognition and measurement criteria for intangible assets, together with the disclosure requirements. The adoption of this SSAP has resulted in no change to the previously adopted accounting treatment for intangible assets and the additional disclosures that it requires have not been significant for these financial statements.

SSAP 30 prescribes the accounting treatment for business combinations, including the determination of the date of acquisition, the method for determining the fair values of the assets and liabilities acquired, and the treatment of goodwill or negative goodwill arising on acquisition. The SSAP requires the disclosure of goodwill in the non-current assets section of the consolidated balance sheet. It requires that goodwill is amortised to the consolidated profit and loss account over its estimated useful life. Interpretation 13 prescribes the application of SSAP 30 to goodwill arising from acquisitions in previous years which remains eliminated against consolidated reserves. The SSAP has had no major impact on these financial statements in prior years. The required new disclosures for goodwill arising in current year are included in note 16 to the financial statements.

SSAP 31 prescribes the recognition and measurement criteria for impairments of assets. The SSAP is required to be applied prospectively and therefore, has had no effect on amounts previously reported in prior year financial statements. The impairment losses recognised during the year and additional disclosures as required are disclosed in notes 6 and 14 to the financial statements.

SSAP 32 prescribes the accounting treatment and disclosures for the preparation and presentation of consolidated financial statements, and has had no impact on the preparation of these financial statements.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### **Basis of preparation**

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

### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and all its subsidiaries for the year ended 31 July 2002. All significant transactions between and among the Company and its subsidiaries are eliminated on consolidation.

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

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

#### **Subsidiaries**

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The Company's interests in subsidiaries are stated at cost less any impairment losses.

#### **Joint venture companies**

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

- (a) a subsidiary, if the Company has unilateral control over the joint venture company;
- (b) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control over the joint venture company;
- (c) an associate, if the Company does not have unilateral or joint control, but holds generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or
- (d) a long term investment, if the Company holds less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

#### **Jointly-controlled entities**

A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated profit and loss account and consolidated reserves respectively. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill or negative goodwill arising from the acquisition of jointly-controlled entities, which was not previously eliminated or recognised in reserves, is included as part of the Group's interests in jointly-controlled entities.

The results of jointly-controlled entities are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in jointly-controlled entities are treated as long term assets and are stated at cost less any impairment losses.

#### **Goodwill**

Goodwill arising on the acquisition of subsidiaries and jointly-controlled entities represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

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

#### Goodwill (continued)

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of 20 years. In the case of jointly-controlled entities, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

On disposal of subsidiaries or jointly-controlled entities, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate.

The carrying amount of goodwill is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

#### Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

#### Fixed assets and depreciation

Fixed assets, other than investment properties, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

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

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

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

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**Investment properties**

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

Such properties are included in the balance sheet at their open market values on the basis of 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 profit and loss account. Where a deficit has previously been charged to the profit and loss account and a revaluation surplus subsequently arises, this surplus would be credited to the profit and loss account to the extent of the deficit previously charged.

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

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

**Leased assets**

Leases that transfer substantially all the rewards and risks of ownership of assets to the Company or other members of the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing thereof. Assets held under capitalised finance leases are included in property, plant and equipment and depreciated over the shorter of the lease terms and their estimated useful lives. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor company are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

**Long term investments**

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

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

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

**Short term investments**

Short term investments are investments in equity securities held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the profit and loss account in the period in which they arise.

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

#### Research and development costs

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

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

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

#### Inventories

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

#### Accounts receivable

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

#### Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

#### Deferred tax

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

#### Revenue recognition

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

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

#### Foreign currencies

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

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

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#### Related parties

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

#### Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees in Hong Kong. The Scheme has operated since 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the Scheme.

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

#### Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

## 4. SEGMENT INFORMATION

SSAP 26 was adopted during the year, as detailed in note 2 to the financial statements. Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

- (a) investment in Internet and information technology activities;
- (b) investment in natural gas business;
- (c) manufacture and trading of batteries;
- (d) manufacture and trading of silicone rubber products;
- (e) manufacture and trading of electronic finished products; and
- (f) trading of electronic parts and components.

On 15 March 2002, the Group disposed of its business operations involved in the manufacture and trading of electronic finished products and the trading of electronic parts and components, which have, therefore, been classified as "discontinued operations" in the financial statements.

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. The principal activities of the Group are mainly managed along three geographical zones, Asia, Europe and America. Asia consists mainly of the PRC, Japan and India. Europe is mainly the United Kingdom and Spain. America includes the United States of America and Canada.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

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## 4. SEGMENT INFORMATION (continued)

## (a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments.

## Group

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	Continuing operations				Discontinued operations			Consolidated HK\$'000
	Investment in Internet and information technology activities HK\$'000	Investment in natural gas business HK\$'000	Manufacture and trading of batteries HK\$'000	Manufacture and trading of silicone rubber products HK\$'000	Others HK\$'000	Manufacture and trading of electronic finished products HK\$'000	Trading of electronic parts and components HK\$'000	
Segment revenue:								
Turnover	-	-	229,203	23,689	-	139,373	17,926	410,191
Segment results	(349,254)	-	(1,931)	3,132	(2,786)	(53,434)	(1,773)	(406,046)
Unallocated expenses								(41,466)
Loss from operating activities								(447,512)
Finance costs								(3,408)
Share of loss of a jointly-controlled entity	-	(801)	-	-	-	-	-	(801)
Loss before tax								(451,721)
Tax								(3,245)
Loss before minority interests								(454,966)
Minority interests								3,130
Net loss from ordinary activities attributable to shareholders								(451,836)
Segment assets	377,500	88,711	230,640	21,016	8,262	-	-	726,129
Unallocated assets								13,875
Total assets								740,004
Segment liabilities	1,722	-	96,083	4,367	466	-	-	102,638
Other segment information:								
Depreciation	1,936	-	16,790	1,568	435	5,705	233	26,667
Amortisation	-	269	-	-	-	-	-	269
Impairment losses on long term investments	242,809	-	-	-	-	-	-	242,809
Impairment losses on leasehold land and buildings	-	-	269	-	3,418	-	-	3,687
Capital expenditure	6,327	-	5,137	920	-	2,719	7	15,110
Provision for obsolete and slow-moving inventories	-	-	1,024	344	-	14,875	40	16,283

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	Continuing operations					Discontinued operations		Consolidated HK\$'000
	Investment in Internet and information technology activities HK\$'000	Investment in natural gas business HK\$'000	Manufacture and trading of batteries HK\$'000	Manufacture and trading of silicone rubber products HK\$'000	Others HK\$'000	Manufacture and trading of electronic finished products HK\$'000	Trading of electronic parts and components HK\$'000	
Segment revenue								
Turnover	-	-	299,361	38,039	-	340,052	88,665	766,117
Segment results	(127,057)	-	(5,775)	5,370	1,491	(29,283)	6,680	(148,574)
Unallocated expenses								-
Loss from operating activities								(148,574)
Finance costs								(8,521)
Share of loss of a jointly-controlled entity								-
Loss before tax								(157,095)
Tax								(2,490)
Loss before minority interests								(159,585)
Minority interests								3,609
Net loss from ordinary activities attributable to shareholders								(155,976)
Segment assets	511,830	-	274,580	16,036	15,624	165,474	14,414	997,958
Unallocated assets								10,914
Total assets								1,008,872
Segment liabilities	94,315	-	89,540	5,501	729	110,054	15,531	315,670
Other segment information:								
Depreciation	2,335	-	23,941	1,959	585	11,066	564	40,450
Amortisation	-	-	-	-	-	-	-	-
Impairment losses on long term investments	150,000	-	-	-	-	-	-	150,000
Impairment losses on leasehold land and buildings	-	-	-	-	-	-	-	-
Capital expenditure	9,381	-	10,495	2,474	-	21,825	-	44,175
Provision for obsolete and slow-moving inventories	-	-	552	-	-	-	381	933

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## 4. SEGMENT INFORMATION (continued)

## (b) Geographical segments

The following tables present revenue, profit/(loss) and certain asset and expenditure information for the Group's geographical segments.

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	Hong Kong HK\$'000	Elsewhere in the PRC HK\$'000	Asia (other than the PRC) HK\$'000	America HK\$'000	Europe HK\$'000	Other countries HK\$'000	Consolidated HK\$'000
Continuing operations							
Segment revenue:							
Turnover	68,262	62,383	36,692	34,369	48,270	2,916	252,892
Segment results	(225,073)	(66,168)	(48,690)	(5,579)	(5,399)	70	(350,839)
Segment assets	457,619	282,385	-	-	-	-	740,004
Capital expenditure	4,711	7,673	-	-	-	-	12,384
Discontinued operations							
Segment revenue:							
Turnover	102,817	-	47,334	3,035	4,113	-	157,299
Segment results	(79,146)	-	(17,331)	(83)	(113)	-	(96,673)
Segment assets	-	-	-	-	-	-	-
Capital expenditure	299	2,427	-	-	-	-	2,726

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	Hong Kong HK\$'000	Elsewhere in the PRC HK\$'000	Asia (other than the PRC) HK\$'000	America HK\$'000	Europe HK\$'000	Other countries HK\$'000	Consolidated HK\$'000
Continuing operations							
Segment revenue:							
Turnover	97,587	103,052	29,015	42,160	62,143	3,443	337,400
Segment results	37,119	(95,043)	(46,050)	(22,651)	670	(16)	(125,971)
Segment assets	712,021	113,847	-	3,116	-	-	828,984
Capital expenditure	12,710	9,640	-	-	-	-	22,350
Discontinued operations							
Segment revenue:							
Turnover	236,093	1,059	162,988	13,958	12,925	1,694	428,717
Segment results	(12,228)	(53)	(8,903)	(693)	(642)	(84)	(22,603)
Segment assets	121,823	58,065	-	-	-	-	179,888
Capital expenditure	1,745	20,080	-	-	-	-	21,825

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**5. TURNOVER, OTHER REVENUE AND GAINS**

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

An analysis of the Group's turnover, other revenue and gains is as follows:

	<b>Year ended 31 July 2002 HK\$'000</b>	Period from 1 April 2000 to 31 July 2001 HK\$'000
<b>Turnover</b>		
Continuing operations	<b>252,892</b>	337,400
Discontinued operations	<b>157,299</b>	428,717
	<b>410,191</b>	766,117
<b>Other revenue</b>		
Rental income	–	309
Interest income	<b>5,146</b>	43,249
Tooling and subcontracting income	<b>10,806</b>	18,606
Sales of scrap products	<b>482</b>	1,087
Others	<b>1,816</b>	4,771
	<b>18,250</b>	68,022
<b>Gains</b>		
Gain on redemption of a convertible note (note 27)	<b>1,420</b>	–
Gain on disposal of long term investments	–	5,894
Gain on disposal of fixed assets	–	237
Exchange gains, net	–	2,738
	<b>1,420</b>	8,869
	<b>19,670</b>	76,891

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**6. LOSS FROM OPERATING ACTIVITIES**

The Group's loss from operating activities is arrived at after charging:

	<b>Year ended 31 July 2002 HK\$'000</b>	Period from 1 April 2000 to 31 July 2001 HK\$'000
Depreciation	<b>26,667</b>	40,450
Amortisation of goodwill	<b>269</b>	–
Minimum lease payment under operating leases:		
Land and buildings	<b>15,192</b>	22,019
Plant and machinery	<b>2,027</b>	2,859
	<b>17,219</b>	24,878
Research and development costs	<b>184</b>	406
Auditors' remuneration	<b>1,006</b>	1,200
Staff costs (excluding directors' remuneration - note 8):		
Salaries and wages	<b>69,843</b>	125,096
Pension contributions	<b>1,185</b>	1,193
	<b>71,028</b>	126,289
Provision for obsolete and slow-moving inventories	<b>16,283</b>	933
Provision for bad and doubtful debts	<b>1,084</b>	2,150
Impairment of leasehold land and buildings (note 14)*	<b>3,687</b>	–
Deficit on revaluation of an investment property*	–	300
Provision for diminution in value of an investment property*	–	50
Provision for impairment on long term investments transferred from the investments revaluation reserve (note 30)*	<b>242,809</b>	150,000
Loss on disposal of subsidiaries (note 12)	<b>41,466</b>	–
Loss on disposal of long term investments* (after a transfer from the investments revaluation reserve of a deficit of HK\$22,421,000)	<b>29,781</b>	–
Loss on disposal of short term investments*	<b>7,886</b>	–
Unrealised loss on short term investments*	<b>41,314</b>	–
Loss on disposal of fixed assets*	<b>1,748</b>	–
Exchange losses, net	<b>1,210</b>	–

\* Included under the heading of "other expenses, net" on the face of the consolidated profit and loss account.

**7. FINANCE COSTS**

	<b>Group Year ended 31 July 2002 HK\$'000</b>	Period from 1 April 2000 to 31 July 2001 HK\$'000
Interest on bank overdrafts and bank loans wholly repayable within five years	<b>3,399</b>	8,295
Interest on finance leases	<b>9</b>	226
Total finance costs	<b>3,408</b>	8,521

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**8. DIRECTORS' REMUNERATION**

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

	<b>Group</b>	
	<b>Year ended</b>	Period from
	<b>31 July</b>	1 April 2000
	<b>2002</b>	to 31 July
	<b>HK\$'000</b>	2001
		<b>HK\$'000</b>
Fees	<b>1,446</b>	1,574
Other emoluments:		
Salaries, allowances and benefits in kind	<b>5,007</b>	1,595
	<b>6,453</b>	3,169

All the directors' fees were paid to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (period ended 31 July 2001: Nil).

The number of directors whose remuneration fell within the following bands is as follows:

	<b>Number of directors</b>	
	<b>Year ended</b>	Period from
	<b>31 July</b>	1 April 2000
	<b>2002</b>	to 31 July
		2001
Nil to HK\$1,000,000	<b>14</b>	22
HK\$1,000,001 to HK\$1,500,000	–	–
HK\$1,500,001 to HK\$2,000,000	<b>1</b>	–
HK\$2,000,001 to HK\$2,500,000	<b>1</b>	–
	<b>16</b>	22

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

In addition to the above emoluments, certain directors were granted share options in the current year under the Company's share option schemes, further details of which are set out in the section "Share Option Schemes" in the Report of the Directors. No value in respect of the share options granted during the year has been charged to the profit and loss account.

**9. FIVE HIGHEST PAID EMPLOYEES**

During the year, the details of the five highest paid employees, which included two (period ended 31 July 2001: four) directors (see note below), are set out below.

	<b>Group</b>	
	<b>Year ended</b>	Period from
	<b>31 July</b>	1 April 2000
	<b>2002</b>	to 31 July
	<b>HK\$'000</b>	2001
		<b>HK\$'000</b>
Salaries, allowances and benefits in kind	<b>8,728</b>	11,798

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**9. FIVE HIGHEST PAID EMPLOYEES (continued)**

	<b>Number of employees</b>	
	<b>Year ended 31 July 2002</b>	Period from 1 April 2000 to 31 July 2001
HK\$1,000,001 to HK\$1,500,000	<b>1</b>	–
HK\$1,500,001 to HK\$2,000,000	<b>3</b>	1
HK\$2,000,001 to HK\$2,500,000	<b>1</b>	3
HK\$3,000,001 to HK\$3,500,000	–	1
	<b>5</b>	5

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

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

In addition to the above emoluments, certain employees were granted share options in the current year under the Company's share option schemes, further details of which are set out in the section "Share Option Schemes" in the Report of the Directors. No value in respect of the share options granted during the year has been charged to the profit and loss account.

**10. TAX**

Hong Kong profits tax has been provided at the rate of 16% (period ended 31 July 2001: 16%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

In the prior year, tax recoverable represented the excess of tax payments over the estimated tax liability.

	<b>Year ended 31 July 2002 HK\$'000</b>	Period from 1 April 2000 to 31 July 2001 HK\$'000
<b>Group</b>		
Hong Kong	<b>1,449</b>	726
Elsewhere	<b>880</b>	1,883
Under/(over) provision in the prior year	<b>361</b>	(119)
Deferred (note 28)	<b>555</b>	–
Tax charge for the year/period	<b>3,245</b>	2,490

**11. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS**

The net loss from ordinary activities attributable to shareholders for the year ended 31 July 2002 dealt with in the financial statements of the Company amounted to HK\$407,419,000 (period ended 31 July 2001: HK\$164,307,000).

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**12. DISCONTINUED OPERATIONS**

Pursuant to the sale and purchase agreement dated 15 March 2002, the Group disposed of its entire interests in Tapsfield Limited, Watercore Limited, Success Target Limited and Success Target Information Technology Limited, which were engaged in the manufacture and trading of electronic finished products and the trading of electronic parts and components, to an independent third party for a cash consideration of HK\$5 million. The disposal of the above businesses has resulted in a loss on disposal of subsidiaries of approximately HK\$41 million.

The consolidated profit and loss account included the results of the discontinued operations up to 14 March 2002, which are summarised below:

	<b>Period from 1 August 2001 to 14 March 2002 HK\$'000</b>
Turnover	<b>157,299</b>
Cost of sales	<b>(179,091)</b>
Gross loss	<b>(21,792)</b>
Other revenue and gains	<b>2,280</b>
Selling and distribution costs	<b>(11,587)</b>
Administrative expenses	<b>(24,108)</b>
Operating loss from discontinued operations	<b>(55,207)</b>

**13. LOSS PER SHARE**

The calculation of basic loss per share for the year ended 31 July 2002 is based on the net loss attributable to shareholders for the current year of HK\$451,836,000 (net loss attributable to shareholders for the sixteen-month ended 31 July 2001 of HK\$155,976,000) and on the weighted average during the current year of 5,607,961,812 (weighted average for the sixteen-month period ended 31 July 2001 of 4,663,780,679) ordinary shares in issue.

No diluted loss per share has been presented for the year ended 31 July 2002 and the sixteen-month ended 31 July 2001 as the warrants and options outstanding during those year/period had anti-dilutive effects on the basic loss per share for those year/period.

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## 14. FIXED ASSETS

## Group

	Investment property HK\$'000	Land and buildings HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Motor vehicles HK\$'000	Furniture, fixtures and equipment HK\$'000	Moulds HK\$'000	Tools HK\$'000	Total HK\$'000
Cost or valuation:									
At beginning of year	3,950	27,930	12,722	175,451	8,224	103,994	15,132	2,288	349,691
Additions	-	1,924	49	2,498	3,623	5,236	1,496	284	15,110
Disposals: Arising from disposal of subsidiaries	-	(8,862)	-	(33,264)	(4,190)	(58,739)	(11,103)	(102)	(116,260)
Other	(3,950)	(355)	(140)	(3,781)	(465)	(6,579)	-	-	(15,270)
At 31 July 2002	-	20,637	12,631	140,904	7,192	43,912	5,525	2,470	233,271
Analysis of cost or valuation:									
At cost	-	14,887	12,631	140,904	7,192	43,912	5,525	2,470	227,521
At 31 March 1995 valuation	-	5,750	-	-	-	-	-	-	5,750
	-	20,637	12,631	140,904	7,192	43,912	5,525	2,470	233,271
Accumulated depreciation and impairment:									
At beginning of year	-	6,774	3,409	81,574	5,123	45,318	7,996	1,911	152,105
Provided during the year	-	789	1,270	13,554	909	7,592	2,298	255	26,667
Impairment during the year (note 6)	-	3,687	-	-	-	-	-	-	3,687
Disposals: Arising from disposal of subsidiaries	-	(2,268)	-	(19,541)	(2,633)	(25,578)	(7,006)	-	(57,026)
Other	-	(151)	(10)	(3,464)	(283)	(4,856)	-	-	(8,764)
At 31 July 2002	-	8,831	4,669	72,123	3,116	22,476	3,288	2,166	116,669
Net book value:									
At 31 July 2002	-	11,806	7,962	68,781	4,076	21,436	2,237	304	116,602
At 31 July 2001	3,950	21,156	9,313	93,877	3,101	58,676	7,136	377	197,586

At 31 July 2002, there were no fixed assets of the Group held under finance leases. The net book value of the fixed assets of the Group held under finance leases included in the total amount of plant and machinery at 31 July 2001 amounted to HK\$3,241,000.

Certain of the Group's leasehold land and buildings were revalued at 31 March 1995 by Francis Lau & Co (Surveyors) Limited, independent professional valuers. The land and buildings were revalued based on an open market, existing use basis. Since 31 March 1995 and up to 31 July 2001, no further revaluations of the Group's leasehold land and buildings have been incorporated in the financial statements. The Group has relied upon the exemption from the need to revalue the entire class of land and buildings and plant and machinery on a regular basis, granted under paragraph 80 of SSAP 17 "Property, Plant and Equipment". At 31 July 2002, the directors engaged RHL Appraisal Ltd., independent professional valuers, to conduct a valuation of the Group's leasehold land and buildings. An impairment loss of HK\$3,687,000 was charged to the profit and loss account for the year. Had these land and buildings been carried at historical cost less accumulated depreciation, their carrying values would have been approximately HK\$4,290,000 (31 July 2001: HK\$4,464,000).

The Group's land and buildings are situated in Hong Kong and are held under medium term leases. At 31 July 2002, certain of the Group's leasehold land and buildings were pledged to secure general banking facilities granted to the Group (note 25).

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## 15. INTERESTS IN SUBSIDIARIES

	Company	
	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	64,153	64,153
Due from subsidiaries	376,183	488,708
Due to subsidiaries	–	(35,125)
	<b>440,336</b>	<b>517,736</b>

The amounts due from/to subsidiaries are unsecured, interest-free and have no fixed terms of repayment, except for a loan advanced to a subsidiary which bore interest at Hong Kong dollar prime rate plus 2% per annum during the current year. In prior years, certain loans advanced from two subsidiaries and a loan advanced to a subsidiary bore interest at Hong Kong dollar prime rate per annum.

Particulars of the principal subsidiaries are as follows:

Name of subsidiary	Place of incorporation/ registration and operations	Nominal value of issued/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Hikari Tsushin Investments Holdings (BVI) Limited	British Virgin Islands ("BVI")/ Hong Kong	US\$1	100	–	Investment holding
Hikari Tsushin Investments Management (Hong Kong) Limited	Hong Kong	HK\$1,000,000	–	100	Provision of financial and administrative services to Group companies
Golden Power Investments (B.V.I.) Limited	BVI/ Hong Kong	HK\$10,000	100	–	Investment holding
Golden Power Industries Limited	Hong Kong/ Hong Kong & People's Republic of China ("PRC")	Ordinary HK\$100 Non-voting deferred HK\$1,800,000	–	100	Manufacture and distribution of batteries
Golden Power Properties Limited	Hong Kong	Ordinary HK\$100 Non-voting deferred HK\$1,000,000	–	100	Property investment
Goldtium (Hong Kong) Company Limited	Hong Kong	HK\$1,000,000	–	70	Manufacture and distribution of batteries
Goldtium (Jiang Men) Battery Company Limited*	PRC	RMB10,000,000	–	70	Manufacture and distribution of batteries

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**15. INTERESTS IN SUBSIDIARIES (continued)**

Particulars of the principal subsidiaries are as follows:

Name of subsidiary	Place of incorporation/ registration and operations	Nominal value of issued/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Golite International Limited	Hong Kong/ Hong Kong & PRC	HK\$2,000,000	–	100	Manufacture and distribution of silicone rubber products
Alta Financial Holdings Limited	BVI/Hong Kong	US\$1,000	–	80.9	Investment holding
Best On Development Ltd.	BVI/Hong Kong	US\$1	–	100	Investment holding
Holylake Co., Ltd.	BVI/Hong Kong	US\$1	–	100	Investment holding
Joy Crown Ltd.	BVI/Hong Kong	US\$1	–	100	Investment holding
Picador International Ltd.	BVI/Hong Kong	US\$1	–	100	Investment holding
Real Million Investments Limited	BVI/Hong Kong	US\$1	–	100	Investment holding
Top Perfect Group Ltd.	BVI/Hong Kong	US\$1	–	100	Investment holding
Winner Sheen Limited	BVI/Hong Kong	US\$1	–	100	Investment holding
Wishing Land Limited	BVI/Hong Kong	US\$1	–	100	Investment holding
Zhongda Industrial Group Inc.	BVI/Hong Kong	US\$10,000	–	80.9	Investment holding

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

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

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**16. INTEREST IN A JOINTLY-CONTROLLED ENTITY**

	<b>Group</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	<b>HK\$'000</b>
Share of net assets	<b>56,130</b>	–
Goodwill on acquisition	<b>32,350</b>	–
Less: accumulated amortisation	<b>(269)</b>	–
	<b>32,081</b>	–
	<b>88,211</b>	–
Due from a jointly-controlled entity	<b>500</b>	–
	<b>88,711</b>	–

Goodwill arising on acquisition is recognised as an asset and amortised on the straight-line basis over its estimated useful life of 20 years.

The amount due from the jointly-controlled entity is unsecured, interest-free and has no fixed terms of repayment.

Particulars of the jointly-controlled entity are as follows:

<b>Name</b>	<b>Business structure</b>	<b>Place of incorporation/ registration and operations</b>	<b>Percentage of ownership interest</b>	<b>Principal activities</b>
China City Natural Gas Co., Ltd.	Corporate	PRC	40.45	Developing and operating natural gas pipeline network and ancillary facilities

The above investment in the jointly-controlled entity is indirectly held by the Company.

Extracts of the results and financial position of the jointly-controlled entity are as follows:

	<b>2002</b>
	<b>HK\$'000</b>
Turnover	–
Net loss for the year	<b>1,602</b>
Fixed assets	<b>157</b>
Other non-current assets	<b>11,260</b>
Current assets	<b>146,934</b>
Current liabilities	<b>19,208</b>

As at 31 July 2002, the Group's share of its jointly-controlled entity's own capital commitments in relation to its capital contributions payable amounted to approximately HK\$39 million (2001: Nil).

Subsequent to the balance sheet date, the jointly-controlled entity acquired a 80% equity interest in Xining China-Petro Gas Co. Limited, at a consideration of approximately HK\$29 million.

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**17. LONG TERM INVESTMENTS**

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Listed equity investments, at market value:				
Hong Kong	4,155	66,987	–	–
Elsewhere	2,136	4,111	2,136	326
	<b>6,291</b>	71,098	<b>2,136</b>	326
Unlisted equity investments, at fair value	<b>106,697</b>	131,113	<b>36,380</b>	25,968
	<b>112,988</b>	202,211	<b>38,516</b>	26,294

The market value of the Group's and the Company's long term listed equity investments at the date of approval of these financial statements was approximately HK\$3,459,000 and HK\$1,484,000 respectively.

**18. INVENTORIES**

	Group	
	2002 HK\$'000	2001 HK\$'000
Raw materials	24,328	68,111
Work-in-progress	8,003	23,270
Finished goods	21,938	33,775
	<b>54,269</b>	125,156

No inventory at 31 July 2002 was carried at net realisable value. The carrying amount of inventories carried at net realisable value at 31 July 2001 was HK\$15,588,000.

**19. TRADE RECEIVABLES**

An aged analysis of trade receivables is as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Current to 90 days	38,008	57,105
91 to 180 days	971	1,045
Over 180 days	–	218
Total	<b>38,979</b>	58,368

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

The above aged analysis of trade receivables was based on the due dates of the revenue recognised from the respective sale of goods.

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**20. SHORT TERM INVESTMENTS**

	<b>Group</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	<b>HK\$'000</b>
Listed equity investments, at market value:		
Hong Kong	<b>84,298</b>	–

The market value of the Group's short term listed equity investments at the date of approval of these financial statements was approximately HK\$65,530,000.

**21. CASH AND CASH EQUIVALENTS**

	<b>Group</b>		<b>Company</b>	
	<b>2002</b>	2001	<b>2002</b>	2001
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
Cash and bank balances	<b>95,240</b>	20,629	<b>68,887</b>	890
Time deposits, unpledged	<b>90,531</b>	301,559	<b>88,000</b>	240,729
	<b>185,771</b>	322,188	<b>156,887</b>	241,619

**22. TRADE PAYABLES**

An aged analysis of trade payables is as follows:

	<b>Group</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	<b>HK\$'000</b>
Current to 90 days	<b>36,061</b>	70,529
91 to 180 days	<b>345</b>	3,210
Over 180 days	<b>554</b>	464
Total	<b>36,960</b>	74,203

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

Included in trade payables was a trade-related balance due to minority shareholders of subsidiaries amounting to HK\$124,000 (2001: HK\$1,085,000). The balance is unsecured, interest-free and is repayable on normal trading terms.

**23. OTHER PAYABLES AND ACCRUALS**

Included in other payables and accruals of the Group were loan balances due to minority shareholders of subsidiaries amounting to HK\$21,137,000 (2001: HK\$21,402,000). The balances are unsecured, interest-free and have no fixed terms of repayment. The loan balances were granted by the minority shareholders in accordance with their respective shareholdings in the subsidiaries.

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**24. INTEREST-BEARING BANK AND OTHER BORROWINGS**

	Notes	<b>Group</b> <b>2002</b> <b>HK\$'000</b>	2001 <i>HK\$'000</i>
Bank overdrafts and current portion of bank loans, secured	25	<b>9,804</b>	18,691
Current portion of finance lease payables	26	–	503
		<b>9,804</b>	19,194

**25. BANK OVERDRAFTS, INTEREST-BEARING BANK LOANS**

	<b>Group</b> <b>2002</b> <b>HK\$'000</b>	2001 <i>HK\$'000</i>
Bank overdrafts, secured	–	28
Bank loans, secured	<b>9,804</b>	19,088
	<b>9,804</b>	19,116
Bank overdrafts repayable within one year or on demand	–	28
Bank loans repayable:		
Within one year	<b>9,804</b>	18,663
In the second year	–	425
In the third to fifth years, inclusive	–	–
	<b>9,804</b>	19,088
Portion classified as current liabilities (note 24)	<b>9,804</b> <b>(9,804)</b>	19,116 (18,691)
Long term portion	–	425
Trust receipt loans	<b>4,843</b>	52,410

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

- (a) mortgages over certain of the Group's leasehold land and buildings; and
- (b) the Group's bank deposits of HK\$28,158,000 (2001: HK\$78,000,000).

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**26. FINANCE LEASE PAYABLES**

In the prior year, the Group leased certain of its plant and machinery for its battery business. These leases were classified as finance leases.

At 31 July 2001, the total future minimum lease payments under finance leases and their present values, were as follows:

**Group**

	<b>Minimum lease payments 2002 HK\$'000</b>	Minimum lease payments 2001 HK\$'000	<b>Present value of minimum lease payments 2002 HK\$'000</b>	Present value of minimum lease payments 2001 HK\$'000
Amounts payable:				
Within one year	–	512	–	503
Total minimum finance lease payments	–	512	–	503
Future finance charges	–	(9)		
Total net finance lease payables	–	503		
Portion classified as current liabilities (note 24)	–	(503)		
Long term portion	–	–		

SSAP 14 was revised and implemented during the year, as detailed in note 2 to the financial statements. Certain new disclosures are required and have been included above. The prior year's comparative amounts for the new disclosures have also been included where appropriate.

**27. CONVERTIBLE NOTE PAYABLE**

On 10 March 2000, a convertible note amounting to HK\$93,420,000 was issued to Hikari Tsushin, Inc., the former ultimate holding company of the Company. The convertible note was interest-free and carried an option to convert the note into ordinary shares of the Company at the conversion price of HK\$0.90 per share during the period from 10 March 2000 to 9 March 2002. Following the sub-division of the Company's shares on 10 April 2000, the conversion price was adjusted to HK\$0.225 per share. In February 2002, the convertible note payable was fully redeemed at a consideration of HK\$92 million. The gain on redemption of the convertible note of HK\$1,420,000 was recognised in the profit and loss account in the current year.

**28. DEFERRED TAX**

	<b>Group 2002 HK\$'000</b>	2001 HK\$'000
Balance at beginning of year/period	5,753	5,753
Disposal of subsidiaries	(1,373)	–
Charge for the year/period (note 10)	555	–
At end of year/period	4,935	5,753

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

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**28. DEFERRED TAX (continued)**

The principal components of the Group's net deferred tax asset position not recognised in the financial statements are as follows:

	2002 HK\$'000	2001 HK\$'000
Accelerated depreciation allowances	431	472
Tax losses	<b>(6,259)</b>	(18,123)
	<b>(5,828)</b>	(17,651)

**29. SHARE CAPITAL**

<i>Shares</i>	2002 HK\$'000	2001 HK\$'000
Authorised:		
20,000,000,000 (2001: 10,000,000,000) ordinary shares of HK\$0.025 each	<b>500,000</b>	250,000
Issued and fully paid:		
8,104,861,423 (2001: 4,663,785,628) ordinary shares of HK\$0.025 each	<b>202,622</b>	116,595

During the year, the authorised share capital of the Company was increased from HK\$250 million to HK\$500 million by the creation of 10,000,000,000 additional shares of HK\$0.025 each and there were the following movements in share capital:

- (a) On 20 March 2002 and 7 May 2002, 932,700,000 shares and 1,119,000,000 shares of HK\$0.025 each were issued to Noble Islands for cash at a subscription price of HK\$0.045 per share and HK\$0.13 per share, respectively, for a total cash consideration, before expenses, of approximately HK\$187,442,000.
- (b) 28,527 shares of HK\$0.025 each were issued for cash at a subscription price of HK\$0.36 per share (after adjustment), pursuant to the exercise of the subscription rights attaching to the Company's 2002 Warrants for cash consideration, before expenses, totalling approximately HK\$10,270.
- (c) The subscription rights attaching to 8,000,000, 52,220,000, 36,400,000 and 20,000,000 option shares were exercised at the subscription prices of HK\$0.0893, HK\$0.055, HK\$0.2096 and HK\$0.153 per share respectively, resulting in the issue of 116,620,000 shares of HK\$0.025 each for a total cash consideration, before expenses, of approximately HK\$14,276,000.
- (d) On 19 April 2002, convertible notes of HK\$70 million were issued. The convertible notes bore interest at 5% per annum and carried a right to convert the notes into ordinary shares of the Company at a conversion price of HK\$0.055 per share during a period of two years upon the issue of the notes. On 23 April, 26 April, and 17 May 2002, 727,272,724 shares, 54,545,454 shares and 490,909,090 shares of HK\$0.025 each respectively were issued at a conversion price of HK\$0.055 per share, pursuant to the exercise of conversion rights attaching to the Company's convertible notes for cash consideration, before expenses, totalling approximately HK\$70,000,000.

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

	Carrying amount <i>HK\$'000</i>	Shares issued
At beginning of year	116,595	4,663,785,628
Movements during the year:		
(a) Subscription of shares	51,292	2,051,700,000
(b) Exercise of subscription rights attaching to warrants	1	28,527
(c) Exercise of subscription rights attaching to share options	2,916	116,620,000
(d) Exercise of conversion rights attaching to convertible notes	31,818	1,272,727,268
At end of year	<u>202,622</u>	<u>8,104,861,423</u>

### Share options

The Company operates two share option schemes ("Schemes"), further details of which are set out under the section "Share Option Schemes" and the section "Share Options" in the Report of the Directors on pages 6 to 8.

At beginning of the year, there were 287,000,000 option shares outstanding under the share option scheme adopted in 1993 which entitled the holders to subscribe for shares of the Company at any time during periods ranging from 20 October 2000 to 11 May 2003. The subscription price payable upon the exercise of these option shares ranges from HK\$0.2096 to HK\$0.7392 per share.

During the year, options to subscribe for 486,378,000 shares at an exercise price ranging from HK\$0.055 to HK\$0.154 per share were granted to its directors, employees and consultants under the share option schemes.

In addition, during the year, options to subscribe for 103,000,000 shares lapsed upon the cessation of employment of certain employees and resignation of directors, and 116,620,000 shares were allotted and issued upon the exercise of subscription rights by the option-holders. At 31 July 2002, the Company had outstanding options to subscribe for 553,758,000 shares (2001: 287,000,000 shares).

Subsequent to the balance sheet date, the limit on grant of options under the share option scheme adopted in 2002 was refreshed. Options to subscribe for 640,000,000 shares at an exercise price of HK\$0.104 per share were granted. Upon the exercise of subscription rights by the option-holders, 11,040,000 shares and 320,000,000 shares were allotted and issued at an exercise price of HK\$0.055 and HK\$0.104 per share respectively. In addition, options to subscribe for 3,600,000 shares lapsed upon cessation of employment of an employee.

Assuming the exercise in full of the outstanding options as at 31 July 2002, it would, under the present capital structure of the Company, result in the issue of 553,758,000 additional ordinary shares of HK\$0.025 each and aggregate proceeds before issue expenses of HK\$149,488,864.

### Warrants

On 26 April 2000, the Company issued to its then shareholders one bonus warrant for every five shares held and 932,748,404 warrants ("2002 Warrants") were accordingly created. Each 2002 Warrant conferred the holder upon the right to subscribe in cash for one ordinary share of HK\$0.025 in the Company at an initial subscription price of HK\$0.375 per share at any time between 28 April 2000 and 27 April 2002. As at 31 July 2001, 932,704,800 warrants remained unexercised.

Subsequent to the completion of a placing and subscription of shares on 20 March 2002 (see note (a) above), the subscription price payable upon the exercise of the subscription rights attaching to the 2002 Warrants was adjusted from HK\$0.375 per share to HK\$0.36 per share with effect from the same date. As a result of the adjustment of the subscription price, the number of warrants outstanding was revised from 932,704,800 to 971,567,500. From 1 August 2001 and up to 26 April 2002, 28,527 shares of HK\$0.025 each have been issued at the adjusted subscription price of HK\$0.36 per share resulting from the exercise of subscription rights attaching to the 2002 Warrants. 971,538,973 warrants remained unexercised and lapsed upon their expiry on 27 April 2002.

On 3 June 2002, the shareholders of the Company approved a private placement of 800,000,000 warrants at an issue price of HK\$0.032 per unit of subscription rights of warrants, which confers the holders upon the right to subscribe in cash for one ordinary share of HK\$0.025 in the Company at an initial subscription price of HK\$0.165 per share at any time between 20 June 2002 and 19 December 2003. No warrant has been exercised up to 31 July 2002 and the aforesaid 800,000,000 warrants remained outstanding at the balance sheet date.

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## 30. RESERVES

Group	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Investments revaluation reserve HK\$'000	Warrant reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits/(accumulated losses) HK\$'000	Total HK\$'000
At 1 April 2000	758,948	675	-	-	67	90,882	850,572
Issue of shares	15	-	-	-	-	-	15
Changes in fair value of long term investments	-	-	(268,000)	-	-	-	(268,000)
Impairment losses on long term investments transferred to profit and loss account	-	-	150,000	-	-	-	150,000
Loss for the period	-	-	-	-	-	(155,976)	(155,976)
Exchange realignments	-	-	-	-	(4)	-	(4)
At 31 July 2001 and beginning of year	758,963	675	(118,000)	-	63	(65,094)	576,607
Issue of shares	185,701	-	-	-	-	-	185,701
Issue of warrants	-	-	-	25,600	-	-	25,600
Share/warrant issue expenses	(3,608)	-	-	(259)	-	-	(3,867)
Changes in fair value of long term investments	-	-	(162,691)	-	-	-	(162,691)
Transferred to profit and loss accounts upon disposal of long term investments	-	-	22,421	-	-	-	22,421
Impairment losses on long term investments transferred to profit and loss account	-	-	242,809	-	-	-	242,809
Loss for the year	-	-	-	-	-	(451,836)	(451,836)
At 31 July 2002	941,056	675	(15,461)	25,341	63	(516,930)	434,744

  

Company	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Investments revaluation reserve HK\$'000	Warrant reserve HK\$'000	Contributed surplus HK\$'000	Retained profits/(accumulated losses) HK\$'000	Total HK\$'000
At 1 April 2000	757,748	675	-	-	49,753	(788)	807,388
Issue of shares	15	-	-	-	-	-	15
Changes in fair value of long term investments	-	-	(180,961)	-	-	-	(180,961)
Impairment losses on long term investments transferred to profit and loss account	-	-	113,500	-	-	-	113,500
Loss for the period	-	-	-	-	-	(164,307)	(164,307)
At 31 July 2001 and beginning of year	757,763	675	(67,461)	-	49,753	(165,095)	575,635
Issue of shares	185,701	-	-	-	-	-	185,701
Issue of warrants	-	-	-	25,600	-	-	25,600
Share/warrant issue expenses	(3,608)	-	-	(259)	-	-	(3,867)
Changes in fair value of long term investments	-	-	19,083	-	-	-	19,083
Impairment losses on long term investments transferred to profit and loss account	-	-	39,017	-	-	-	39,017
Loss for the year	-	-	-	-	-	(407,419)	(407,419)
At 31 July 2002	939,856	675	(9,361)	25,341	49,753	(572,514)	433,750

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

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**31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT****(a) Reconciliation of loss from operating activities to net cash inflow/(outflow) from operating activities**

	Year ended 31 July 2002 HK\$'000	Period from 1 April 2000 to 31 July 2001 HK\$'000
Loss from operating activities	<b>(447,512)</b>	(148,574)
Impairment of leasehold land and buildings	<b>3,687</b>	–
Deficit on revaluation of an investment property	–	300
Provision for diminution in value of an investment property	–	50
Provision for impairment of long term investments transferred from investments revaluation reserve	<b>242,809</b>	150,000
Provision for obsolete and slow-moving inventories	<b>16,283</b>	933
Provision for bad and doubtful debts	<b>1,084</b>	2,150
Interest income	<b>(5,146)</b>	(43,249)
Depreciation	<b>26,667</b>	40,450
Amortisation of goodwill	<b>269</b>	–
Loss/(gain) on disposal of fixed assets	<b>1,748</b>	(237)
Loss on disposal of subsidiaries	<b>41,466</b>	–
Loss/(gain) on disposal of long term investments	<b>29,781</b>	(5,894)
Loss on disposal of short term investments	<b>7,886</b>	–
Unrealised loss on short term investments	<b>41,314</b>	–
Gain on redemption of a convertible note	<b>(1,420)</b>	–
Increase in an amount due from a jointly-controlled entity	<b>(500)</b>	–
Decrease/(increase) in inventories	<b>33,134</b>	(10,353)
Decrease/(increase) in trade receivables	<b>8,841</b>	(15,043)
Increase in prepayments, deposits and other receivables	<b>(3,685)</b>	(2,344)
Increase/(decrease) in trade payables	<b>(18,777)</b>	10,974
Increase/(decrease) in trust receipt loans repayable over three months	<b>(30,496)</b>	12,228
Increase in other payables and accruals	<b>1,580</b>	10,841
Net cash inflow/(outflow) from operating activities	<b>(50,987)</b>	2,232

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**31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)****(b) Analysis of changes in financing during the year/period**

	Issued capital (including share premium account) HK\$'000	Warrant reserve HK\$'000	Interest- bearing bank loans HK\$'000	Finance lease obligations HK\$'000	Convertible note payable HK\$'000	Minority interests HK\$'000
Balance at 1 April 2001	875,542	–	36,712	3,621	93,420	(6,455)
Cash inflow/(outflow) from financing activities, net	16	–	(17,624)	(3,118)	–	(856)
Share of loss after tax of subsidiaries	–	–	–	–	–	(3,609)
Share of exchange fluctuation reserve	–	–	–	–	–	6
Balance at 31 July 2001 and beginning of year	875,558	–	19,088	503	93,420	(10,914)
Cash inflow/(outflow) from financing activities, net	268,120	25,341	(9,284)	(503)	(92,000)	169
Gain on redemption	–	–	–	–	(1,420)	–
Share of loss after tax of subsidiaries	–	–	–	–	–	(3,130)
Share of exchange fluctuation reserve	–	–	–	–	–	–
Balance at 31 July 2002	1,143,678	25,341	9,804	–	–	(13,875)

**(c) Disposal of subsidiaries**

	2002 HK\$'000
Net assets disposed of:	
Fixed assets	59,234
Other assets	156
Cash and bank balances	2,934
Inventories	21,470
Trade receivables	9,464
Prepayments, deposits and other receivables	1,417
Trade payables	(18,466)
Other payables and accruals	(27,499)
Tax	(117)
Deferred tax	(1,373)
Bank overdrafts	(754)
	<b>46,466</b>
Loss on disposal of subsidiaries	<b>(41,466)</b>
	<b>5,000</b>
Satisfied by:	
Cash	<b>5,000</b>

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An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	<b>2002</b> <b>HK\$'000</b>
Cash consideration	<b>5,000</b>
Cash and bank balances disposed of	<b>(2,934)</b>
Bank overdrafts disposed of	<b>754</b>
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	<b>2,820</b>

The aforesaid subsidiaries contributed an outflow of HK\$20,640,000 to the Group's net operating cash flows and utilised HK\$1,190,000 in net returns on investments and servicing of finance and HK\$2,727,000 in investing activities during the year.

### 32. CONTINGENT LIABILITIES

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

	<b>Group</b>		<b>Company</b>	
	<b>2002</b> <b>HK\$'000</b>	2001 <i>HK\$'000</i>	<b>2002</b> <b>HK\$'000</b>	2001 <i>HK\$'000</i>
Bills discounted with recourse	–	1,797	–	–
Guarantees given to banks in connection with facilities granted to subsidiaries	–	–	<b>52,600</b>	124,000
	–	1,797	<b>52,600</b>	124,000

As at 31 July 2002, guarantees given to banks in connection with facilities granted to subsidiaries by the Company were utilised to the extent of approximately HK\$14,646,000 (2001: HK\$71,525,000).

### 33. PLEDGE OF ASSETS

Details of the Group's bank overdrafts, bank loans and trust receipt loans secured by the assets of the Group are included in note 25 to the financial statements.

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**34. OPERATING LEASE ARRANGEMENTS**

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from two to six years.

At 31 July 2002, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2002 HK\$'000	2001 HK\$'000 (Restated)	2002 HK\$'000	2001 HK\$'000 (Restated)
Land and buildings expiring:				
Within one year	9,232	14,367	1,949	2,361
In the second to fifth years, inclusive	20,555	25,837	226	1,561
After five years	4,298	8,265	–	–
	<b>34,085</b>	48,469	<b>2,175</b>	3,922
Plant and machinery expiring:				
Within one year	1,520	2,027	–	–
In the second to fifth years, inclusive	–	1,520	–	–
	<b>1,520</b>	3,547	–	–
	<b>35,605</b>	52,016	<b>2,175</b>	3,922

SSAP 14 (Revised), which was adopted during the year, requires lessees under operating leases to disclose the total future minimum operating lease payments, rather than only the payments to be made during the next year as was previously required. Accordingly, the prior year's comparative amounts for operating leases have been restated to accord with the current year's presentation.

**35. COMMITMENTS**

In addition to the events described elsewhere in note 16 to the financial statements, the Group and the Company had no significant commitments at the balance sheet date (2001: Nil).

**36. COMPARATIVE AMOUNTS**

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been restated and reclassified to conform with the current year's presentation.

**37. POST BALANCE SHEET EVENTS**

In addition to the events described elsewhere in notes 16 and 29 to the financial statements, subsequent to the balance sheet date, in August 2002, the Group acquired two long term investments at a total consideration of approximately HK\$50 million.

**38. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements were approved and authorised for issue by the board of directors on 19 November 2002.