



Notes to the Financial Statements

For the year ended 30th June, 2003

1. GENERAL

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

Its ultimate holding company is Applied International Holdings Limited ("AIHL"), a company incorporated in Bermuda with its shares and warrants listed on the Stock Exchange.

The principal activity of the Company is investment holding and the activities of its principal subsidiaries are set out in note 37.

2. ADOPTION OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first time, a number of new and revised Statements of standard Accounting Practice ("SSAP(s)") issued by the Hong Kong Society of Accountants. The adoption of these new and revised SSAPs has resulted in a change in the format of presentation of the cash flow statement, an inclusion of a statement of changes in equity and in the adoption of the following new and revised accounting policies, but has had no material effect on the result for the current and prior accounting periods. Accordingly, no prior period adjustment is required.

Foreign currencies

The revisions to SSAP 11 "Foreign Currency Translation" have eliminated the choice of translating the income statements of subsidiaries outside Hong Kong at the closing rate for the year, the policy previously followed by the Group. They are now required to be translated at an average rate. This change in accounting policy has not had any material effect on the results for the current or prior accounting periods.

Cash flow statements

Under SSAP 15 (Revised), cash flows are classified under three headings-operating, investing and financing, rather than the previous five headings. Interest paid and received and dividends received, which were previously presented under a separate heading, are classified as investing and financing cash flows as appropriate. Cash flows arising from taxes on income are classified as operating activities. The re-definition of cash and cash equivalents has resulted in a restatement of the comparative amounts shown in the cash flow statement.

Employee benefits

SSAP 34 "Employee Benefits" introduces measurement rules for employee benefits, including retirement benefit plans and additional requirements for employee equity compensation plans. Because the Group participates only in defined contribution retirement benefit schemes, the adoption of this SSAP 34 has not had any significant impact on the financial statements.



3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of investment properties and investments in securities, and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 30th June, 2003.

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.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition.

Goodwill arising on acquisitions prior to 1st July, 2001 continues to be held in reserves, and will be charged to the income statement at the time of disposal of the relevant subsidiary, or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisitions after 1st July, 2001 is capitalised and amortised on a straight-line basis over its estimated useful life and is presented separately in the consolidated balance sheet.

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

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Turnover

Turnover represents the net amounts received and receivable for goods sold to outside customers and rental income from properties under operating leases during the year.



Notes to the Financial Statements

For the year ended 30th June, 2003

3. SIGNIFICANT ACCOUNTING POLICIES (*cont'd*)

Revenue recognition

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

Sales of investments in securities are recognised on a trade date basis.

Rental income from properties under operating leases is recognised on a straight line basis over the period of the relevant leases.

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

Dividend income from investments is recognised when the Group's right to receive payment has been established.

Investment properties

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

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

On the disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property is transferred to the income statement.

No depreciation is provided in respect of investment properties which are held on leases with unexpired terms of more than 20 years.



3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Property, plant and equipment

Property, plant and equipment, other than properties under construction, are stated at cost less accumulated depreciation or amortisation and any identified impairment loss.

The cost of leasehold land is amortised over the period of the relevant leases using the straight line method.

The cost of buildings is depreciated using the straight line method over their estimated useful lives of fifty years or, where shorter, the period of the relevant leases.

Properties held for development are carried at cost, less any identified impairment loss, lost includes land cost, construction and other incidental costs. Depreciation of these properties, on the same basis as other properties, commences when the assets are put into use.

Depreciation is provided to write off the cost of property, plant and equipment, other than properties held for development, over their estimated useful lives, using the straight line method, at the following rates per annum:

Leasehold improvements	20% or over the period of the relevant lease
Plant and machinery	10% – 25%
Tools, equipment and moulds	10% – 50%
Furniture and fixtures	10% – 25%
Motor vehicles	10% – 33 $\frac{1}{3}$ %

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Assets held under finance leases are depreciated over their estimated useful lives on the same basis as owned assets or, where shorter, the period of the relevant leases.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.



Notes to the Financial Statements

For the year ended 30th June, 2003

3. SIGNIFICANT ACCOUNTING POLICIES (*cont'd*)

Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost. All securities other than held-to-maturity debt securities are measured at subsequent reporting dates at fair value.

Where securities are held for trading purposes, unrealised gains and losses are included in the net profit or loss for the period. For other securities, unrealised gains and losses are dealt with in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss is included in the net profit or loss for the period.

Other investments

Other investments are antiques held for long-term purposes and are stated at cost less any identified impairment loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Leased assets

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the lessee. Assets held under finance leases are capitalised at their fair values at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the original outstanding principal at the inception of the leases, are charged to the income statement over the period of the relevant lease so as to produce a constant periodic rate of charge on the remaining balances of the obligations for each accounting period.

All other leases are classified as operating leases and the rental expenses and income are charged and credited respectively to the income statement on a straight line basis over the period of the relevant leases.

Taxation

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

Notes to the Financial Statements

For the year ended 30th June, 2002



3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Foreign currencies

Transactions in currencies other than Hong Kong dollars are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are re-translated at the rates prevailing on the balance sheet date. Gains and losses arising on exchange are included in profit or loss for the period.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Retirement benefits scheme

Payments to defined contribution retirement benefits scheme and mandatory provident fund scheme are charged as an expense as they fall due.

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

(a) Business segments

For management purposes, the Group is currently organised into three operating divisions—manufacture and distribution of electronic products, property and investment holding and manufacture of health care products. These divisions are the basis on which the Group reports its primary segment information.

Business segment information for the year ended 30th June, 2003 is presented below:

	Manufacture and distribution of electronics products	Property and investment holding	Manufacture of health care products	Elimination	Total
	HK\$	HK\$	HK\$	HK\$	HK\$
Turnover	<u>60,744,042</u>	<u>6,584,382</u>	<u>3,593,089</u>	<u>-</u>	<u>70,921,513</u>
Results					
Segment results	80,760	(119,637,795)	(1,196,720)	(181,615)	(120,935,370)
Unallocated corporate income					3,125,206
Unallocated corporate expense					<u>(42,779,964)</u>
Loss from operations					(160,590,128)
Finance costs					<u>(3,239,186)</u>
Loss before taxation					(163,829,314)
Taxation					<u>3,400,000</u>
Loss before minority interests					<u>(167,229,314)</u>



Notes to the Financial Statements

For the year ended 30th June, 2003

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (cont'd)

(a) Business segments (cont'd)

	Manufacture and distribution of electronics products	Property and investment holding	Manufacture of health care products	Corporate	Total
	HK\$	HK\$	HK\$	HK\$	HK\$
Assets					
Segment assets	38,357,605	114,521,838	11,888,212	-	164,767,655
Unallocated corporate assets				68,048,852	<u>68,048,852</u>
Consolidated total assets					<u><u>232,816,507</u></u>
Liabilities					
Segment liabilities	10,652,234	3,132,288	84,536	-	13,869,058
Unallocated corporate liabilities				101,501,584	<u>101,501,584</u>
Consolidated total liabilities					<u><u>115,370,642</u></u>
Other information					
Capital expenditure	943,088	-	1,284,336	7,365,994	9,593,418
Depreciation of property, plant and equipment	1,965,211	2,104,235	166,210	300,763	4,536,419
Amortisation of goodwill	-	-	220,000	-	220,000
Allowance for bad and doubtful debts	-	3,891,189	-	-	3,891,189
Allowance on short-term loans receivable	-	-	-	23,990,357	23,990,357
Inventories written off	170,000	-	-	-	170,000
Impairment loss in respect of:					
Investment properties	-	67,397,828	-	-	67,397,828
Property, plant and equipment	-	16,779,603	-	1,099,818	17,879,421
Other investments	-	35,824,342	-	-	35,824,342

Notes to the Financial Statements

For the year ended 30th June, 2002



4. BUSINESS AND GEOGRAPHICAL SEGMENTS (cont'd)

(a) Business segments (cont'd)

Business segment information for the year ended 30th June, 2002 is presented below:

	Manufacture and distribution of electronics products	Property and investment holding	Manufacture of health care products	Elimination	Total
	HK\$	HK\$	HK\$	HK\$	HK\$
Turnover	<u>112,114,522</u>	<u>7,162,357</u>	<u>-</u>	<u>-</u>	<u>119,276,879</u>
Results					
Segment results	795,940	(19,584,169)	(416,756)	(199,788)	(19,404,773)
Unallocated corporate income					570,846
Unallocated corporate expense					<u>(9,698,310)</u>
Loss from operations					(28,532,237)
Finance costs					<u>(3,758,335)</u>
Loss before taxation					(32,290,572)
Taxation					<u>158,800</u>
Loss before minority interests					<u>(32,449,372)</u>



Notes to the Financial Statements

For the year ended 30th June, 2003

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (cont'd)

(a) Business segments (cont'd)

	Manufacture and distribution of electronics products	Property and investment holding	Manufacture of health care products	Corporate	Total
	HK\$	HK\$	HK\$	HK\$	HK\$
Assets					
Segment assets	43,898,765	280,239,730	12,935,532	-	337,074,027
Unallocated corporate assets				98,067,016	<u>98,067,016</u>
Consolidated total assets					<u><u>435,141,043</u></u>
Liabilities					
Segment liabilities	16,261,514	2,473,530	1,364,845	-	20,099,889
Unallocated corporate liabilities				95,974,709	<u>95,974,709</u>
Consolidated total liabilities					<u><u>116,074,598</u></u>
Other information					
Capital expenditure	1,794,598	64,589,644	122,078	107,668	66,613,988
Depreciation of property, plant and equipment	2,187,323	2,066,915	434	1,764,017	6,018,689
Amortisation of goodwill	-	-	110,000	-	110,000
Allowance for bad and doubtful debts	26,663	451,028	-	-	477,691
Allowance on short-term loans receivable	-	3,065,000	-	-	3,065,000
Inventories written off	1,200,000	-	-	-	1,200,000
Impairment loss in respect of:					
Property, plant and equipment	2,001,493	2,098,713	-	-	4,100,206
Other securities	-	619,450	-	-	619,450

Notes to the Financial Statements

For the year ended 30th June, 2002



4. BUSINESS AND GEOGRAPHICAL SEGMENTS (cont'd)

(b) Geographical segments

The Group's operations are located in Hong Kong, United States of America, Europe, the People's Republic of China other than Hong Kong (the "PRC") and other Asian countries.

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods or services:

	Turnover	
	2003	2002
	HK\$	HK\$
Hong Kong	35,127,245	76,198,735
United States of America	20,307,701	26,029,709
PRC	6,521,316	4,765,820
Other Asian countries	8,221,838	2,479,565
Europe	741,720	9,682,245
Others	1,693	120,805
	<u>70,921,513</u>	<u>119,276,879</u>

The following is an analysis of the carrying amount of segment assets, and capital additions analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Capital additions	
	2003	2002	2003	2002
	HK\$	HK\$	HK\$	HK\$
Hong Kong	194,071,247	347,432,867	7,595,984	62,194,365
United States of America	5,107,993	20,908,160	-	-
PRC	30,778,906	65,847,228	1,997,434	4,419,623
Other Asian countries	2,721,912	551,242	-	-
Europe	136,449	383,226	-	-
Others	-	18,320	-	-
	<u>232,816,507</u>	<u>435,141,043</u>	<u>9,593,418</u>	<u>66,613,988</u>



Notes to the Financial Statements

For the year ended 30th June, 2003

5. LOSS FROM OPERATIONS

	<u>2003</u>	<u>2002</u>
	<i>HK\$</i>	<i>HK\$</i>
Loss from operations has been arrived at after charging:		
Staff costs, including directors' remuneration		
– Basic salaries and allowances	22,216,198	18,816,350
– Retirement benefits scheme contributions, net of forfeited contributions of HK\$352,459 for the year ended 30th June, 2002 (2003: Nil)	<u>476,369</u>	<u>363,801</u>
Total staff costs	<u>22,692,567</u>	<u>19,180,151</u>
Amortisation of goodwill (included in administrative expenses)	220,000	110,000
Auditors' remuneration		
– Current year	830,000	705,000
– Underprovision in prior year	–	50,000
Cost of inventories recognised as expense	41,640,502	83,058,368
Depreciation on		
– Assets owned by the Group	3,540,623	5,591,923
– Assets held under finance leases	995,796	426,766
Loss on disposal of property, plant and equipment	7,734	–
and after crediting:		
Dividend income from listed securities	1,417	402
Gain on disposal of property, plant and equipment	<u>–</u>	<u>30,000</u>

6. DIRECTORS' AND EMPLOYEES' REMUNERATION

(a) Directors' remuneration

	<u>2003</u>	<u>2002</u>
	<i>HK\$</i>	<i>HK\$</i>
Fees:		
Executive	–	–
Independent non-executive	<u>200,000</u>	<u>100,000</u>
	<u>200,000</u>	<u>100,000</u>
Other emoluments of executive directors:		
Salaries and other benefits	3,372,686	4,374,520
Performance related incentive payments	5,500,000	–
Retirement benefits scheme contributions	<u>12,000</u>	<u>12,000</u>
	<u>8,884,686</u>	<u>4,386,520</u>
	<u>9,084,686</u>	<u>4,486,520</u>

Notes to the Financial Statements

For the year ended 30th June, 2002



6. DIRECTORS' AND EMPLOYEES' REMUNERATION (cont'd)

(a) Directors' remuneration (cont'd)

The remuneration of the directors is within the following bands:

	<u>2003</u>	<u>2002</u>
	<i>Number of directors</i>	<i>Number of directors</i>
Up to HK\$1,000,000	4	4
HK\$3,500,001 to HK\$4,000,000	–	1
HK\$8,500,001 to HK\$9,000,000	1	–
	<u>5</u>	<u>5</u>

(b) Employees' emoluments

The five highest paid individuals for the year included two directors (2002: one director) whose emoluments are set out in (a) above. The emoluments of the remaining three (2002: four) individuals are as follows:

	<u>2003</u>	<u>2002</u>
	<i>HK\$</i>	<i>HK\$</i>
Salaries and other benefits	2,631,846	2,927,960
Retirement benefits scheme contribution	120,900	140,296
	<u>2,752,746</u>	<u>3,068,256</u>

Their remuneration is within the following bands:

	<u>2003</u>	<u>2002</u>
	<i>Number of employees</i>	<i>Number of employees</i>
Up to HK\$1,000,000	1	2
HK\$1,000,001 to HK\$1,500,000	2	2
	<u>3</u>	<u>4</u>

During the years ended 30th June, 2003 and 2002, no emoluments were paid by the Group to the five highest paid individuals, including directors, as an inducement to join or upon joining the Group as compensation for loss of office. In addition, during the years ended 30th June, 2003 and 2002, no directors waived any emoluments.



Notes to the Financial Statements

For the year ended 30th June, 2003

7. FINANCE COSTS

	<u>2003</u>	<u>2002</u>
	<i>HK\$</i>	<i>HK\$</i>
Interest on		
– Borrowings wholly repayable within five years	2,016,957	2,791,706
– Borrowings not wholly repayable within five years	863,567	936,242
– Obligations under finance leases	358,662	30,387
	<u>3,239,186</u>	<u>3,758,335</u>

8. TAXATION

	<u>2003</u>	<u>2002</u>
	<i>HK\$</i>	<i>HK\$</i>
The charge comprises:		
Hong Kong Profits Tax calculated at 17.5% (2002: 16%) of the estimated assessable profit for the year	250,000	158,800
Underprovision in prior years	3,150,000	–
	<u>3,400,000</u>	<u>158,800</u>

Details of unrecognised deferred taxation are set out in note 28.

9. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss attributable to shareholders of HK\$166,578,231 (2002: HK\$33,165,773) and on the 1,149,261,820 (2002: Weighted average of 680,111,105) shares in issue during the year.

For the year ended 30th June, 2002, the weighted average number of shares for the purpose of basic loss per share has been adjusted for the effect of the rights issue during that year.

The computation of diluted loss per share does not assume the exercise of the warrants as their exercise prices were higher than the market price of the Company's shares during both years.

Notes to the Financial Statements

For the year ended 30th June, 2002



10. INVESTMENT PROPERTIES

	THE GROUP
	<i>HK\$</i>
VALUATION	
At 1st July, 2002	177,600,000
Deficit on revaluation	(95,400,000)
	<hr/>
At 30th June, 2003	<u>82,200,000</u>

The investment properties of the Group were revalued at 30th June, 2003 by RHL Appraisal Ltd., an independent firm of professional valuers, on an open market value basis. The deficit arising on revaluation of these properties amounting to HK\$95,400,000, out of which HK\$28,002,172 has been charged to the investment property revaluation reserve and the remaining balance of HK\$67,397,828, being the excess of the deficit over the balance on the investment property revaluation reserve, is charged to the income statement.

The value of investment properties held by the Group comprises the following:

	2003	2002
	<i>HK\$</i>	<i>HK\$</i>
Under long leases in Hong Kong	71,600,000	131,300,000
Under medium-term leases in the PRC	10,600,000	46,300,000
	<hr/>	<hr/>
	<u>82,200,000</u>	<u>177,600,000</u>



Notes to the Financial Statements

For the year ended 30th June, 2003

11. PROPERTY, PLANT AND EQUIPMENT

	Leasehold properties	Leasehold improvements	Properties held for development	Plant and machinery	Tools, equipment and moulds	Furniture and fixtures	Motor vehicles	Total
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
THE GROUP								
COST								
At 1st July, 2002	48,119,243	2,651,516	6,334,040	25,470,472	38,113,337	19,410,168	6,396,618	146,495,394
Additions	-	110,882	-	110,770	7,731,604	1,341,375	298,787	9,593,418
Disposals	(10,450,674)	-	-	-	-	(695,019)	(375,903)	(11,521,596)
At 30th June, 2003	37,668,569	2,762,398	6,334,040	25,581,242	45,844,941	20,056,524	6,319,502	144,567,216
DEPRECIATION AND IMPAIRMENT								
At 1st July, 2002	2,600,703	76,653	6,334,040	24,415,028	38,065,864	14,984,350	5,391,593	91,868,231
Provided for the year	752,399	63,154	-	560,057	808,790	1,834,694	517,325	4,536,419
Eliminated on disposals	-	-	-	-	-	(695,019)	(270,903)	(965,922)
Impairment loss	15,385,467	1,276,090	-	-	-	1,217,864	-	17,879,421
At 30th June, 2003	18,738,569	1,415,897	6,334,040	24,975,085	38,874,654	17,341,889	5,638,015	113,318,149
NET BOOK VALUES								
At 30th June, 2003	18,930,000	1,346,501	-	606,157	6,970,287	2,714,635	681,487	31,249,067
At 30th June, 2002	45,518,540	2,574,863	-	1,055,444	47,473	4,425,818	1,005,025	54,627,163

**Tools,
equipment
and moulds**
HK\$

THE COMPANY

COST

Additions during the year and balance at 30th June, 2003 7,239,544

DEPRECIATION

Provided for the year and balance at 30th June, 2003 723,954

NET BOOK VALUE

At 30th June, 2003 **6,515,590**

Notes to the Financial Statements

For the year ended 30th June, 2002



11. PROPERTY, PLANT AND EQUIPMENT (*cont'd*)

The net book value of leasehold properties held by the Group comprises the following:

	<u>2003</u>	<u>2002</u>
	<i>HK\$</i>	<i>HK\$</i>
Under long leases in Hong Kong	17,200,000	29,510,427
Under long leases in the PRC	1,730,000	2,620,269
Under medium-term leases in the PRC	–	2,937,170
Freehold in the United States of America	–	10,450,674
	<u>18,930,000</u>	<u>45,518,540</u>

The properties under construction were held under medium-term leases in the PRC. No interest was capitalised under the properties under construction.

The net book value of property, plant and equipment of the Group in respect of assets held under finance leases comprises the following:

	<u>2003</u>	<u>2002</u>
	<i>HK\$</i>	<i>HK\$</i>
Plant and machinery	425,750	633,425
Tools, equipment and moulds	6,515,590	–
Motor vehicles	–	169,167
	<u>6,941,340</u>	<u>802,592</u>

The directors have reviewed the carrying amount of property, plant and equipment at 30th June, 2003. As certain of its subsidiaries had ceased their operations, an impairment loss on certain leasehold properties, leasehold improvements and furniture and fixtures with an aggregate amount of HK\$6,202,000 (2002: HK\$4,100,206), representing the difference between the estimated net selling price and the carrying amounts of those property, plant and equipment, was identified and recognised in the consolidated income statement.

In addition, the directors of the Company have reviewed the recoverable amount of the remaining leasehold properties at 30th June, 2003. An impairment loss of HK\$11,677,421 (2002: nil) has been recognised and charged to the consolidated income statement for the year ended 30th June, 2003.



Notes to the Financial Statements

For the year ended 30th June, 2003

12. GOODWILL

	THE GROUP
	<u>HK\$</u>
COST	
At 1st July, 2002 and 30th June, 2003	1,100,000
AMORTISATION	
At 1st July, 2002	110,000
Charge for the year	220,000
At 30th June, 2003	330,000
NET BOOK VALUE	
At 30th June, 2003	770,000
At 30th June, 2002	990,000

Goodwill is amortised on a straight-line basis over a period of 5 years.

13. INTERESTS IN SUBSIDIARIES

	2003	2002
	<u>HK\$</u>	<u>HK\$</u>
Unlisted shares, at cost	265,973,827	265,973,827
Amounts due from subsidiaries	10,395,460	19,633,748
	276,369,287	285,607,575
<i>Less:</i> Impairment losses recognised	(184,000,000)	-
	92,369,287	285,607,575

The carrying value of the unlisted shares is based on the directors' estimate of the values of the underlying separable net assets of the subsidiaries when the Company became the holding company of the Group.

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

During the year, the directors of the Company considered that in the light of the operating losses of certain subsidiaries and unfavourable market conditions, the amounts recoverable from its subsidiaries have been reduced to the estimated net realisable value of their identifiable net assets. Accordingly, an aggregate amount of impairment losses of HK\$184,000,000 in respect of the Company's interest in subsidiaries and amounts due from subsidiaries have been recognised and charged to the income statement for the year.

Particulars of the Company's principal subsidiaries at 30th June, 2003 are set out in note 37.

Notes to the Financial Statements

For the year ended 30th June, 2002



14. OTHER SECURITIES

	THE GROUP	
	2003	2002
	HK\$	HK\$
Hong Kong listed securities at fair value	<u>2,861,497</u>	<u>9,250,591</u>
Market value of listed securities at 30th June	<u>2,861,497</u>	<u>9,250,591</u>

Note: Included in Hong Kong listed securities is an amount of HK\$2,803,082 (2002: HK\$9,192,176) representing a 5.14% (2002: 5.14%) interest in AIHL which was acquired prior to the Company became a subsidiary of AIHL in 1999.

15. OTHER INVESTMENTS

Other investments represent antiques held for long-term purpose. At 30th June, 2003, the carrying amount of other investments is reduced to their recoverable amounts which is determined by the directors of the Company by reference to the market selling price of similar antiques and an impairment loss of HK\$35,824,342 has been recognized and charged to the consolidated income statement for the year ended 30th June, 2003.

16. INVENTORIES

	THE GROUP	
	2003	2002
	HK\$	HK\$
Raw materials	5,772,868	5,943,369
Work in progress	736,186	776,271
Finished goods	<u>1,039,661</u>	<u>1,146,820</u>
	<u>7,548,715</u>	<u>7,866,460</u>

At 30th June, 2003, raw materials of HK\$443 (2002: HK\$13,773) were carried at net realisable value. All other inventories were carried at cost.



Notes to the Financial Statements

For the year ended 30th June, 2003

17. TRADE AND OTHER RECEIVABLES

The Group generally allows an average credit period ranging from 30 to 90 days (2002: 30 to 90 days) to its trade customers other than major customers with whom specific terms will be agreed.

Included in trade and other receivables are trade debtors of HK\$18,906,017 (2002: HK\$23,946,067) and their aged analysis is as follows:

	THE GROUP	
	2003	2002
	<i>HK\$</i>	<i>HK\$</i>
Within 90 days	10,934,680	17,941,887
More than 90 days and within 180 days	7,971,337	6,004,180
	<u>18,906,017</u>	<u>23,946,067</u>

18. SHORT-TERM LOANS RECEIVABLE

The short-term loans receivable are unsecured and carry interest based on commercial rates.

19. AMOUNTS DUE FROM (TO) ULTIMATE HOLDING COMPANY/FELLOW SUBSIDIARIES

The amounts are unsecured, non-interest bearing and have no fixed terms of repayment.

20. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$10,309,806 (2002: HK\$15,137,956) and their aged analysis is as follows:

	THE GROUP	
	2003	2002
	<i>HK\$</i>	<i>HK\$</i>
Within 90 days	7,695,648	10,477,377
More than 90 days and within 180 days	1,314,095	3,338,348
More than 180 days	1,300,063	1,322,231
	<u>10,309,806</u>	<u>15,137,956</u>

21. AMOUNT DUE TO A DIRECTOR

The amount is unsecured, non-interest bearing and has no fixed terms of repayment.

Notes to the Financial Statements

For the year ended 30th June, 2002



22. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2003	2002	2003	2002
	HK\$	HK\$	HK\$	HK\$
THE GROUP				
The maturity of obligations under finance leases is as follows:				
Within one year	3,044,784	380,135	2,899,427	331,356
More than one year, but not exceeding two years	2,766,222	290,644	2,698,657	267,067
More than two years, but not exceeding five years	166,026	165,828	230,497	145,857
	<u>5,977,032</u>	<u>836,607</u>	<u>5,828,581</u>	<u>744,280</u>
Less: Future finance charges	(148,451)	(92,327)	–	–
Present value of lease obligations	<u>5,828,581</u>	<u>744,280</u>	5,828,581	744,280
Less: Amount due within one year shown under current liabilities			(2,899,427)	(331,356)
Amount due after one year			<u>2,929,154</u>	<u>412,924</u>
THE COMPANY				
The maturity of obligations under finance leases is as follows:				
Within one year	2,795,016	–	2,672,389	–
More than one year, but not exceeding two years	2,600,394	–	2,557,102	–
More than two years, but not exceeding five years	166,026	–	230,497	–
	<u>5,561,436</u>	<u>–</u>	<u>5,459,988</u>	<u>–</u>
Less: Future finance charges	(101,448)	–	–	–
Present value of lease obligations	<u>5,459,988</u>	<u>–</u>	5,459,988	–
Less: Amount due within one year shown under current liabilities			(2,672,389)	–
Amount due after one year			<u>2,787,599</u>	<u>–</u>



Notes to the Financial Statements

For the year ended 30th June, 2003

22. OBLIGATIONS UNDER FINANCE LEASES (cont'd)

It is the Group's policy to lease certain of its plant and equipment under finance leases. The average lease term is 2-4 years. For the year ended 30th June, 2003, the average effective borrowing rate was 5% (2002: 7%) per annum. Interest rates were fixed at the contract date. All leases are on a fixed repayment basis and no arrangements has been entered into for contingent rental payments.

The obligations under finance leases of the Company and of the Group are secured by the lessor's charge over the relevant leased assets.

23. BANK BORROWINGS

	THE GROUP	
	<u>2003</u>	<u>2002</u>
	<i>HK\$</i>	<i>HK\$</i>
Secured bank borrowings comprise:		
Import loans	6,276,895	10,355,153
Mortgage loans	31,970,277	37,193,493
Short-term bank loans	39,000,000	40,000,000
Bank overdrafts	6,780,375	2,657,971
	<u>84,027,547</u>	<u>90,206,617</u>
The borrowings are repayable as follows:		
Within one year or on demand	54,110,634	55,736,129
More than one year, but not exceeding two years	2,106,524	2,810,096
More than two years, but not exceeding five years	6,652,502	8,167,756
More than five years	21,157,887	23,492,636
	<u>84,027,547</u>	<u>90,206,617</u>
<i>Less:</i> Amounts due within one year or on demand shown under current liabilities	<u>(54,110,634)</u>	<u>(55,736,129)</u>
Amount due after one year	<u>29,916,913</u>	<u>34,470,488</u>

Notes to the Financial Statements

For the year ended 30th June, 2002



24. SHARE CAPITAL

	<u>Number of ordinary shares</u>	<u>Amount</u> HK\$
Shares of HK\$0.01 each		
<i>Authorised:</i>		
On date of incorporation	10,000,000	100,000
Increase in authorised share capital	<u>15,990,000,000</u>	<u>159,900,000</u>
At 30th June, 2002 and 30th June, 2003	<u>16,000,000,000</u>	<u>160,000,000</u>
<i>Issued and fully paid:</i>		
On date of incorporation	10,000,000	–
Issued pursuant to the group reorganisation effective on 20th December, 2001	564,630,910	5,746,309
Rights issue of shares	<u>574,630,910</u>	<u>5,746,309</u>
At 30th June, 2002 and 30th June, 2003	<u>1,149,261,820</u>	<u>11,492,618</u>

Details of the group reorganisation (the “Group Reorganisation”) effective on 20th December, 2001 are set out in the scheme document dated 10th July, 2001.

25. WARRANTS

At 30th June, 2003, the Company had outstanding 114,926,182 (2002: 114,926,182) warrants to be exercised at any time on or before 30th April, 2004 (“2004 Warrants”). No 2004 Warrants were exercised during the year. Exercise in full of 2004 Warrants would result in the issue of 114,926,182 additional shares of HK\$0.01 each.

26. RESERVES

	<u>Share premium</u> HK\$	<u>Contributed surplus</u> HK\$	<u>Deficit</u> HK\$	<u>Total</u> HK\$
THE COMPANY				
Contributed surplus arising from the Group Reorganisation	–	260,227,518	–	260,227,518
Rights issue of shares	36,201,747	–	–	36,201,747
Shares issue expenses	(1,582,687)	–	–	(1,582,687)
Loss for the period	–	–	<u>(3,353,172)</u>	<u>(3,353,172)</u>
At 30th June, 2002	34,619,060	260,227,518	(3,353,172)	291,493,406
Loss for the year	–	–	<u>(191,169,680)</u>	<u>(191,169,680)</u>
At 30th June, 2003	<u>34,619,060</u>	<u>260,227,518</u>	<u>(194,522,852)</u>	<u>100,323,726</u>



Notes to the Financial Statements

For the year ended 30th June, 2003

26. RESERVES (cont'd)

The contributed surplus of the Company represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the Group Reorganisation, over the nominal value of the Company's shares issued in exchange thereof. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if:

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

In the opinion of the directors, the Company's reserves available for distribution to shareholders at the balance sheet date were as follows:

	<u>2003</u>	<u>2002</u>
	<i>HK\$</i>	<i>HK\$</i>
Contributed surplus	260,227,518	260,227,518
Deficit	<u>(194,522,852)</u>	<u>(3,353,172)</u>
	<u>65,704,666</u>	<u>256,874,346</u>

27. AMOUNT DUE TO A MINORITY SHAREHOLDER

The amount due to the minority shareholder of a subsidiary is unsecured and non-interest bearing. The minority shareholder has agreed not to request repayment within twelve months of the balance sheet date and the amount is therefore shown as non-current.

28. DEFERRED TAXATION

At the balance sheet date, the net potential deferred tax asset in respect of timing differences which have not been recognised in the balance sheet was analysed as follows:

	<u>THE GROUP</u>	
	<u>2003</u>	<u>2002</u>
	<i>HK\$</i>	<i>HK\$</i>
Tax effect of timing differences attributable to:		
Tax losses	58,619,000	55,640,000
Excess of depreciation allowances claimed for tax purposes over depreciation charged in the financial statements	<u>(184,000)</u>	<u>(970,000)</u>
	<u>58,435,000</u>	<u>54,670,000</u>

Notes to the Financial Statements



For the year ended 30th June, 2002

28. DEFERRED TAXATION (cont'd)

The net potential deferred tax asset has not been recognised in the financial statements as it is not certain that the asset will be crystallised in the foreseeable future.

Deferred taxation has not been provided on the revaluation surplus arising on the valuation of investment properties and other securities as the revaluation does not constitute a timing difference for tax purposes.

The potential deferred tax credit arising during the year, which has not been recognised in the income statement, was as follows:

	THE GROUP	
	2003	2002
	HK\$	HK\$
Tax effect of timing differences attributable to:		
Tax loss (utilised) arising	(2,237,000)	953,000
Shortfall of depreciation allowances claimed for tax purposes over depreciation charged in the financial statements	877,000	13,000
Effect of change in tax rate	5,125,000	–
	<u>3,765,000</u>	<u>966,000</u>

The Company had no significant unprovided deferred taxation for the year or at the balance sheet date.

29. MAJOR NON-CASH TRANSACTION

During the year ended 30th June, 2003, the Group entered into a finance lease arrangement in respect of the acquisition of property, plant and equipment of HK\$7,239,544 (2002: HK\$844,560).

30. PLEDGE OF ASSETS

At 30th June, 2003, the Group pledged its time deposits, investment properties and leasehold properties amounting to approximately HK\$3,219,000 (2002: HK\$4,702,000), HK\$71,000,000 (2002: HK\$131,300,000) and HK\$17,200,000 (2002: HK\$39,961,000), respectively, to secure general banking facilities granted to the Group.

31. CAPITAL COMMITMENTS

	THE GROUP	
	2003	2002
	HK\$	HK\$
Capital expenditure contracted for but not provided in the financial statements in respect of the acquisition of property, plant and equipment	<u>3,693,000</u>	<u>9,118,000</u>

The Company had no capital commitments at the balance sheet date.



Notes to the Financial Statements

For the year ended 30th June, 2003

32. OPERATING LEASES

The Group as lessee

Minimum lease payment paid under operating leases during the year in respect of:

	THE GROUP	
	2003	2002
	HK\$	HK\$
Premises	3,479,426	3,311,263
Plant and machinery	–	233,646
	<u>3,479,426</u>	<u>3,544,909</u>

At the balance sheet date, the Group has outstanding commitments under non-cancellable operating leases in respect of rented premises, which fall due as follows:

	THE GROUP	
	2003	2002
	HK\$	HK\$
Within one year	3,103,600	2,548,000
In the second to fifth year inclusive	900,000	1,305,000
	<u>4,003,600</u>	<u>3,853,000</u>

Operating lease payments represent rentals payable by the Group for certain of its office and warehouse properties. The average lease term is 1–2 years. Rentals are fixed and no arrangements has been entered into for contingent rental payments.

The Group as lessor

	THE GROUP	
	2003	2002
	HK\$	HK\$
Rental income, net of negligible outgoings	<u>6,584,382</u>	<u>7,162,357</u>

The investment properties of the Group are expected to generate rental yield of approximately 12% on an ongoing basis. Investment properties with a carrying value of HK\$40,200,000 (2002: HK\$118,600,000), have committed tenants for the next year.

Notes to the Financial Statements

For the year ended 30th June, 2002



32. OPERATING LEASES (cont'd)

At the balance sheet date, the Group had minimum lease receipts, which represent rentals receivable by the Group for their investment properties, under non-cancellable operating leases which fall due as follows:

	THE GROUP	
	2003	2002
	HK\$	HK\$
Within one year	5,006,935	6,046,157
In the second to fifth year inclusive	2,598,864	3,505,645
	<u>7,605,799</u>	<u>9,551,802</u>

The Company had no operating leases at the balance sheet date.

33. RETIREMENT BENEFITS SCHEME

The Group operates a defined contribution retirement scheme (the "Defined Contribution Scheme") for certain qualifying employees. The assets of the Defined Contribution Scheme are held separately from those of the Group in funds under the control of trustees.

The retirement benefits cost of the Defined Contribution Scheme charged to the income statement represents contributions payable to the fund by the Group at rates specified in the rules of the scheme. Where there are employees who leave the scheme prior to vesting fully in the contribution, the contributions payable by the Group are reduced by the amount of forfeited contributions.

At the balance sheet date, there was no significant forfeited contributions which arose upon employees leaving the Defined Contribution Scheme and which was available to reduce the contributions payable in future years.

With effect from 1st December, 2001, the Group has joined a mandatory provident fund scheme (the "MPF Scheme") for all other qualifying employees. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. 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 employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contributions payable in future years.

The retirement benefits cost of the MPF Scheme charged to the income statement represents contributions payable to the fund by the Group at rates specified in the rules of the scheme.



Notes to the Financial Statements

For the year ended 30th June, 2003

34. CONTINGENT LIABILITIES

The Company has given guarantees to a bank in respect of banking facilities granted to a subsidiary. The extent of such facilities utilised by the subsidiary at 30th June, 2003 amounted to HK\$19,000,000 (2002: Nil).

35. SHARE OPTION SCHEMES

(a) 2002 Scheme

On 16th September, 2002, the Company adopted a share option scheme (the "2002 Scheme") for the primary purpose of providing incentives to its directors and eligible employees. The 2002 Scheme will expire on 15th September, 2012. Under the 2002 Scheme, the Board of Directors of the Company may grant options to eligible employees, including executive directors of the Company and its subsidiaries, to subscribe for shares in the Company.

The total number of shares in respect of which options may be granted under the 2002 Scheme is not permitted to exceed the higher of 10% of the shares of the Company in issue as at the date of adoption of the 2002 Scheme. The number of shares in respect of which options may be granted to any individual is not permitted to exceed the higher of 1% of the number of shares issued and issuable under the 2002 Scheme or any other limit as may be permitted under the Listing Rules.

Options granted must be taken up within 30 days of the date of grant, upon payment of HK\$1 per grant. Options may be exercised at any time from the date of grant to the 10th anniversary of the date of grant. In each grant of options, the Board of Directors may at their discretion determine the specific exercise period. The exercise price is determined by the directors of the Company, and will be less than the higher of (i) the closing price of the Company's share on the date of grant; (ii) the average closing price of the Company's shares for the five business days immediately preceding the date of grant, and (iii) the nominal value of the Company's shares.

No option has been granted under the 2002 Scheme since its adoption.

(b) AIHL

AIHL 1997 Scheme

On 28th May, 1997, AIHL adopted a share option scheme (the "AIHL 1997 Scheme") for the primary purpose of providing incentives to its directors and eligible employees. Under the AIHL 1997 Scheme, the Board of Directors of AIHL may grant options ("AIHL Options") to eligible employees, including executive directors of the Company, to subscribe for shares in AIHL.

Notes to the Financial Statements

For the year ended 30th June, 2002



35. SHARE OPTION SCHEMES (cont'd)

(b) AIHL (cont'd)

AIHL 1997 Scheme (cont'd)

Details of the AIHL Options granted to the Company's directors to subscribe for shares in AIHL are as follows:

Name of director	Exercise price HK\$	Number of AIHL shares subject to AIHL Options		
		Balance at 1.7.2001 and 1.7.2002	Lapsed during the year	Balance at 30.6.2003

Hung Wong Kar Gee, Mimi	0.36	7,000,000	7,000,000	–
Hung Kin Sang, Raymond	0.36	8,400,000	8,400,000	–

No option has been granted to employees (other than directors) of the Company under the AIHL 1997 Scheme.

AIHL 2002 Scheme

On 16th September, 2002, AIHL terminated the AIHL 1997 Scheme and adopted a new share option scheme (the "AIHL 2002 Scheme") for the primary purpose of providing incentives to its directors and eligible employees. The AIHL 2002 Scheme will expire on 15th September, 2012. Under the AIHL 2002 Scheme, the Board of Directors of AIHL may grant options to eligible employees, including executive directors of the Company, to subscribe for shares in AIHL.

No option has been granted under the AIHL 2002 Scheme since its adoption.

36. RELATED PARTY TRANSACTIONS

During the year, the Group has entered into the following transactions with a fellow subsidiary:

	2003 HK\$	2002 HK\$
Sales of goods	3,593,089	–

The above transactions were carried out at a cost plus percentage of profit mark-up basis.

Details of the outstanding balances with this fellow subsidiary and other related parties are set out in notes 19 and 21.



Notes to the Financial Statements

For the year ended 30th June, 2003

37. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 30th June, 2003 are as follows:

Name of subsidiary	Place of incorporation/ registration and operation	Issued and full paid share capital/ registered capital	Proportion of equity interest held by the Company		Principal activities
			Directly %	Indirectly %	
Incar Electronics Limited	Hong Kong	Ordinary HK\$7,545,000	-	100	Property investment
iQuorum Cybernet Limited	Hong Kong	Ordinary HK\$574,630,911	100	-	Property and investment holding
Quorum Bio-tech Limited	Hong Kong	Ordinary HK\$10,000,000	-	89	Investment holding
RJP Finance Limited	Hong Kong	Ordinary HK\$200,000	-	100	Provision of financial services and property investment
RJP International Limited	Hong Kong	Ordinary HK\$500,000	-	100	Provision of management services
Starwin Investments Limited	Hong Kong	Ordinary HK\$10,000	-	100	Property investment
Sharp Win Industrial Limited	Hong Kong	Ordinary HK\$2,500,000	-	80	Manufacture and trading of electronic products
Tronicwatch Limited	Hong Kong	Ordinary HK\$10,000	-	100	Property investment
天健生物(深圳)有限公司 (Note)	The People's Republic of China ("PRC")	Registered capital HK\$10,000,000	-	89	Manufacturing and trading of Chinese medicinal herbs

Note: The PRC subsidiary is sino-foreign joint venture established in the PRC.

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

None of the subsidiaries had any debt securities outstanding at the end of the year, or at any time during the year.

38. POST BALANCE SHEET EVENT

Subsequent to 30th June, 2003, the Group disposed of an investment property for an aggregate consideration of approximately HK\$4,600,000.