

31 July 2003

## 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.

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

- investment in Internet, information technology and other activities;
- investment in natural gas business;
- manufacture and trading of batteries; and
- manufacture and trading of silicone rubber products.

As further detailed in note 11 to the financial statements, the operations involved in the manufacture and trading of batteries were discontinued during the year.

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

The following new and revised SSAPs are effective for the first time for the current year’s financial statements:

- SSAP 1 (Revised) : “Presentation of financial statements”
- SSAP 11 (Revised) : “Foreign currency translation”
- SSAP 15 (Revised) : “Cash flow statements”
- SSAP 33 : “Discontinuing operations”
- SSAP 34 : “Employee benefits”

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 1 prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision of this SSAP is that a consolidated statement of changes in equity is now presented on page 19 of these financial statements in place of the consolidated statement of recognised gains and losses that was previously required and in place of the Group’s reserves note.

SSAP 11 prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of the revision of this SSAP on the consolidated financial statements is that the profit and loss accounts of subsidiaries and associates operating in Mainland China and overseas are now translated into Hong Kong dollars at the weighted average exchange rates for the year, whereas previously they were translated at the exchange rates ruling at the balance sheet date. Further details of these changes are included in the accounting policy for “Foreign currencies” in note 3 to the financial statements. The adoption of the revised SSAP 11 has had no material effect on the financial statements.

SSAP 15 prescribes the revised format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. In addition, cash flows from overseas subsidiaries arising during the year are now translated to Hong Kong dollars at the exchange rates at the dates of the transactions, or at an approximation thereto, whereas previously they were translated at the exchange rates at the balance sheet date, and the definition of cash equivalents for the purpose of the cash flow statement has been revised. Further details of these changes are included in the accounting policies for “Cash and cash equivalents” and “Foreign currencies” in note 3 and note 30(a) to the financial statements.

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

SSAP 33 replaces the existing disclosure requirements for discontinuing operations, which were previously included in SSAP 2. The SSAP defines a discontinuing operation and prescribes when an enterprise should commence including discontinuing operations disclosures in its financial statements and the disclosures required. The principal impact of the SSAP is that more extensive disclosures concerning the Group’s discontinued operations are now included in the consolidated profit and loss account and note 11 to the financial statements.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in no material change to the previously adopted accounting treatments for employee benefits. Additional disclosures are now required in respect of the Company’s share option scheme, as detailed in note 28 to the financial statements. These share option scheme disclosures are similar to those required by the Listing Rules previously included in the Report of the Directors, which are now required to be included in the notes to the financial statements as a consequence of the SSAP.

## 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, 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 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 2003. All significant transactions between and among the Company and its subsidiaries are eliminated on consolidation.

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 shareholders in the operating results and net assets of the Company’s 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 results of subsidiaries are included in the Company’s profit and loss account to the extent of dividends received and receivable. 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.

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

#### Joint venture companies (continued)

A joint venture company is treated as:

- (a) a subsidiary, if the Company has unilateral control, directly or indirectly, over the joint venture company;
- (b) a jointly-controlled entity, if the Company does not have unilateral control, directly or indirectly, but has joint control over the joint venture company;
- (c) an associate, if the Company does not have unilateral or joint control, but holds, directly or indirectly, 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, directly or indirectly, 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.

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.

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

#### 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 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 the 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.

#### Operating leases

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.

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

#### Long term investments (continued)

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 investment 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 investment 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.

#### 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.

#### Trade receivables

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.

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

#### Provisions (continued)

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) from the rendering of services, when the relevant services are rendered;
- (c) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and
- (d) dividend income, when the shareholders' right to receive payment has been established.

#### Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates at the transaction dates. 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 exchange rates ruling at the transaction dates. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of the Company's overseas subsidiaries and jointly-controlled entity are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of the Company's overseas subsidiaries and jointly-controlled entity are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Prior to the adoption of the revised SSAPs 11 and 15 during the year, as explained in note 2 to the financial statements, the profit and loss accounts of the Company's overseas subsidiaries and jointly-controlled entity and the cash flows of overseas subsidiaries were translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. These changes have had no material effect on the financial statements and the amounts of the previously-reported cash flows of the prior year, respectively.

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

#### 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.

#### Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

Prior to the adoption of the revised SSAP 15 during the year, as explained in note 2 to the financial statements, cash equivalents in the consolidated cash flow statement also included advances from banks repayable within three months from the date of the advance. This change in definition has resulted in a prior year adjustment relating to trust receipt loans, further details of which are included in note 30(a) to the financial statements.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

#### Employee retirement benefits

##### *Retirement benefits scheme*

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees in Hong Kong. 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 to the MPF Scheme vest fully with the employees when contributed into the MPF Scheme.

The employees of the Company's 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.

##### *Share option scheme*

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the scheme is not recorded in the Group's balance sheet until such time as the share options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Share options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options and have no impact on the profit and loss account or balance sheet.

#### 4. SEGMENT INFORMATION

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 the other business segments. Summary details of the business segments are as follows:

##### Continuing operations

- (a) investment in Internet, information technology and other activities;
- (b) investment in natural gas business;
- (c) manufacture and trading of silicone rubber products;

##### Discontinued operations

- (d) manufacture and trading of batteries;
- (e) manufacture and trading of electronic finished products\*; and
- (f) trading of electronic parts and components\*.

\* Discontinued since March 2002

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 in three geographical zones, Asia, Europe and America. In the context of the segment information, Asia consists mainly of Mainland China, 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:

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|  | Continuing operations   |  |   | Discontinued operations                          |                    |                          |
|--|---|--|---|--|--------------------|--------------------------|
|  | Investment in Internet, information technology and other activities<br>HK\$'000 | Investment in natural gas business<br>HK\$'000 | Manufacture of silicone rubber products<br>HK\$'000 | Manufacture and trading of batteries<br>HK\$'000 | Others<br>HK\$'000 | Consolidated<br>HK\$'000 |
| Segment revenue:   |   |  |   |  |                    |                          |
| Turnover   | -   | -  | 19,323  | 258,900  | -                  | 278,223                  |
| Segment results  | (209,651)   | -  | 1,052   | 6,075  | 348                | (202,176)                |
| Unallocated expenses   |   |  |   |  |                    | (105,067)                |
| Loss from operating activities                                 |   |  |   |  |                    | (307,243)                |
| Finance costs  |   |  |   |  |                    | (1,950)                  |
| Share of profit of a jointly-controlled entity                 | -   | 390  | -   | -  | -                  | 390                      |
| Amortisation and impairment of goodwill                        | -   | (24,265)                                       | -   | -  | -                  | (24,265)                 |
| Loss before tax  |   |  |   |  |                    | (333,068)                |
| Tax  |   |  |   |  |                    | (1,778)                  |
| Loss before minority interests                                 |   |  |   |  |                    | (334,846)                |
| Minority interests   |   |  |   |  |                    | 69                       |
| Net loss from ordinary activities attributable to shareholders |   |  |   |  |                    | (334,777)                |
| Segment assets   | 307,358   | 80,131   | 13,120  | -  | -                  | 400,609                  |
| Unallocated assets   |   |  |   |  |                    | -                        |
| Total assets   |   |  |   |  |                    | 400,609                  |
| Segment liabilities  | 22,945  | -  | 3,645   | -  | -                  | 26,590                   |
| Other segment information:                                     |   |  |   |  |                    |                          |
| Depreciation   | 2,752   | -  | 1,503   | 15,030   | 417                | 19,702                   |
| Amortisation   | -   | 1,665  | -   | -  | -                  | 1,665                    |
| Impairment losses on long term investments                     | 129,832   | -  | -   | -  | -                  | 129,832                  |
| Capital expenditure  | 1,830   | -  | 1,273   | 5,036  | -                  | 8,139                    |

## 4. SEGMENT INFORMATION (continued)

## (a) Business segments (continued)

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|   | Continuing operations   |  |   | Discontinued operations                    |   |   | Others<br>HK\$'000 | Consolidated<br>HK\$'000 |
|---|---|--|---|--|---|---|--------------------|--------------------------|
|   | Investment<br>in Internet,<br>information<br>technology and<br>other activities | Investment in<br>natural gas<br>business | Manufacture<br>and trading<br>of silicone<br>rubber<br>products | Manufacture<br>and trading<br>of batteries | Manufacture<br>and trading<br>of electronic<br>finished<br>products | Trading of<br>electronic<br>parts and<br>components |                    |                          |
|   | HK\$'000  | HK\$'000                                 | HK\$'000  | HK\$'000                                   | HK\$'000  | HK\$'000  |                    |                          |
| Segment revenue:  |   |  |   |  |   |   |                    |                          |
| Turnover  | -   | -  | 23,689  | 229,203                                    | 139,373   | 17,926  | -                  | 410,191                  |
| Segment results   | (348,985)   | -  | 3,132   | (1,931)                                    | (53,434)  | (1,773)   | (2,786)            | (405,777)                |
| Unallocated expenses  |   |  |   |  |   |   |                    | (41,466)                 |
| Loss from operating activities                                    |   |  |   |  |   |   |                    | (447,243)                |
| Finance costs   |   |  |   |  |   |   |                    | (3,408)                  |
| Share of loss of a jointly-controlled entity                      | -   | (801)                                    | -   | -  | -   | -   | -                  | (801)                    |
| Amortisation of goodwill  | -   | (269)                                    | -   | -  | -   | -   | -                  | (269)                    |
| Loss before tax   |   |  |   |  |   |   |                    | (451,721)                |
| Tax   |   |  |   |  |   |   |                    | (3,245)                  |
| Loss before minority interests                                    |   |  |   |  |   |   |                    | (454,966)                |
| Minority interests  |   |  |   |  |   |   |                    | 3,130                    |
| Net loss from ordinary activities<br>attributable to shareholders |   |  |   |  |   |   |                    | (451,836)                |
| Segment assets  | 377,500   | 88,711                                   | 21,016  | 230,640                                    | -   | -   | 8,262              | 726,129                  |
| Unallocated assets  |   |  |   |  |   |   |                    | 13,875                   |
| Total assets  |   |  |   |  |   |   |                    | 740,004                  |
| Segment liabilities   | 1,722   | -  | 4,367   | 96,083                                     | -   | -   | 466                | 102,638                  |
| Other segment information:  |   |  |   |  |   |   |                    |                          |
| Depreciation  | 1,936   | -  | 1,568   | 16,790                                     | 5,705   | 233   | 435                | 26,667                   |
| Amortisation  | -   | 269                                      | -   | -  | -   | -   | -                  | 269                      |
| Impairment losses on long term<br>investments                     | 242,809   | -  | -   | -  | -   | -   | -                  | 242,809                  |
| Impairment of leasehold<br>land and buildings                     | -   | -  | -   | 269  | -   | -   | 3,418              | 3,687                    |
| Capital expenditure   | 6,327   | -  | 920   | 5,137                                      | 2,719   | 7   | -                  | 15,110                   |
| Provision for obsolete and<br>slow-moving inventories             | -   | -  | 344   | 1,024                                      | 14,875  | 40  | -                  | 16,283                   |

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**4. SEGMENT INFORMATION (continued)****(b) Geographical segments**

The following tables present revenue and certain asset and expenditure information for the Group's geographical segments:

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|                         | Hong Kong | Mainland<br>China | Asia<br>(other than<br>Mainland<br>China) | America  | Europe   | Other<br>countries | Consolidated |
|-------------------------|-----------|-------------------|---|----------|----------|--------------------|--------------|
|                         | HK\$'000  | HK\$'000          | HK\$'000                                  | HK\$'000 | HK\$'000 | HK\$'000           | HK\$'000     |
| Continuing operations   |           |                   |   |          |          |                    |              |
| Segment revenue:        |           |                   |   |          |          |                    |              |
| Turnover                | 11,687    | 8                 | 1,080                                     | 2,973    | 3,575    | -                  | 19,323       |
| Segment assets          | 311,058   | 89,551            | -   | -        | -        | -                  | 400,609      |
| Capital expenditure     | 1,788     | 1,315             | -   | -        | -        | -                  | 3,103        |
| Discontinued operations |           |                   |   |          |          |                    |              |
| Segment revenue:        |           |                   |   |          |          |                    |              |
| Turnover                | 42,492    | 79,372            | 35,935                                    | 50,948   | 46,601   | 3,552              | 258,900      |
| Capital expenditure     | 303       | 4,733             | -   | -        | -        | -                  | 5,036        |

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|                         | Hong Kong | Mainland<br>China | Asia<br>(other than<br>Mainland<br>China) | America  | Europe   | Other<br>countries | Consolidated |
|-------------------------|-----------|-------------------|---|----------|----------|--------------------|--------------|
|                         | HK\$'000  | HK\$'000          | HK\$'000                                  | HK\$'000 | HK\$'000 | HK\$'000           | HK\$'000     |
| Continuing operations   |           |                   |   |          |          |                    |              |
| Segment revenue:        |           |                   |   |          |          |                    |              |
| Turnover                | 15,331    | 94                | 620                                       | 2,620    | 5,024    | -                  | 23,689       |
| Segment assets          | 304,567   | 182,660           | -   | -        | -        | -                  | 487,227      |
| Capital expenditure     | 3,639     | 3,608             | -   | -        | -        | -                  | 7,247        |
| Discontinued operations |           |                   |   |          |          |                    |              |
| Segment revenue:        |           |                   |   |          |          |                    |              |
| Turnover                | 146,824   | 71,213            | 83,405                                    | 34,784   | 47,360   | 2,916              | 386,502      |
| Segment assets          | 153,052   | 99,725            | -   | -        | -        | -                  | 252,777      |
| Capital expenditure     | 1,371     | 6,492             | -   | -        | -        | -                  | 7,863        |

## 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:

|  | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|--|------------------|------------------|
| <b>Turnover</b>                          |                  |                  |
| Continuing operations                    | 19,323           | 23,689           |
| Discontinued operations                  | 258,900          | 386,502          |
|  | <b>278,223</b>   | 410,191          |
| <b>Other revenue</b>                     |                  |                  |
| Interest income                          | 4,580            | 5,146            |
| Tooling and subcontracting income        | 13,024           | 10,806           |
| Sale of scrap products                   | –                | 482              |
| Others                                   | 2,181            | 1,816            |
|  | <b>19,785</b>    | 18,250           |
| <b>Gain</b>                              |                  |                  |
| Gain on redemption of a convertible note | –                | 1,420            |
| Other revenue and gains                  | <b>19,785</b>    | 19,670           |

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## 6. LOSS FROM OPERATING ACTIVITIES

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

|   | Notes | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|---|-------|------------------|------------------|
| Depreciation  | 14    | 19,702           | 26,667           |
| Minimum lease payment under operating leases:   |       |                  |                  |
| Land and buildings  |       | 9,958            | 15,192           |
| Plant and machinery   |       | 1,802            | 2,027            |
|   |       | 11,760           | 17,219           |
| Research and development costs  |       | –                | 184              |
| Auditors' remuneration  |       | 1,356            | 1,006            |
| Staff costs (excluding directors' remuneration – note 8):   |       |                  |                  |
| Salaries and wages  |       | 30,862           | 69,843           |
| Pension scheme contributions  |       | 799              | 1,185            |
|   |       | 31,661           | 71,028           |
| Provision for obsolete and slow-moving inventories  |       | –                | 16,283           |
| Provision for bad and doubtful debts  |       | 2                | 1,084            |
| Loss on disposal of subsidiaries  | 11    | 105,067          | 41,466           |
| Impairment of leasehold land and buildings*   |       | –                | 3,687            |
| Provision for impairment of long term investments transferred from the investment revaluation reserve*                            |       | 129,832          | 242,809          |
| Loss on disposal of long term investments* (after a transfer from the investment revaluation reserve of a deficit of HK\$433,000) |       | 513              | 29,781           |
| Loss on disposal of short term investments*   |       | 7,153            | 7,886            |
| Unrealised loss on short term investments*  |       | 38,074           | 41,314           |
| Loss on disposal of fixed assets*   |       | 2                | 1,748            |
| Write-off of fixed assets*  |       | 4,057            | –                |
| Exchange losses, net  |       | 77               | 1,210            |

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

## 7. FINANCE COSTS

|   | Group            |                  |
|---|------------------|------------------|
|   | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
| Interest on bank overdrafts and bank loans wholly repayable within five years | 1,950            | 3,399            |
| Interest on finance leases  | –                | 9                |
| Total finance costs   | 1,950            | 3,408            |

## 8. DIRECTORS' REMUNERATION

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

|   | Group            |                  |
|---|------------------|------------------|
|   | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
| Fees                                      | 1,438            | 1,446            |
| Other emoluments:                         |                  |                  |
| Salaries, allowances and benefits in kind | 6,506            | 5,007            |
| Pension scheme contributions              | 37               | 30               |
|   | <b>7,981</b>     | <b>6,483</b>     |

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 (2002: Nil).

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

|                                | Number of directors |           |
|--------------------------------|---------------------|-----------|
|                                | 2003                | 2002      |
| Nil to HK\$1,000,000           | 5                   | 14        |
| HK\$1,000,001 to HK\$1,500,000 | 3                   | –         |
| HK\$1,500,001 to HK\$2,000,000 | –                   | 1         |
| HK\$2,000,001 to HK\$2,500,000 | 1                   | 1         |
|                                | <b>9</b>            | <b>16</b> |

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

## 9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2002: two) directors, details of whose remuneration are set out in note 8 above. Details of the remaining two (2002: three) non-director, highest paid employees are as follows:

|   | Group            |                  |
|---|------------------|------------------|
|   | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
| Salaries, allowances and benefits in kind | 3,709            | 4,636            |
| Pension scheme contributions              | 24               | 36               |
|   | <b>3,733</b>     | <b>4,672</b>     |

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

|                                | Number of employees |          |
|--------------------------------|---------------------|----------|
|                                | 2003                | 2002     |
| HK\$1,000,001 to HK\$1,500,000 | –                   | 1        |
| HK\$1,500,001 to HK\$2,000,000 | 2                   | 2        |
|                                | <b>2</b>            | <b>3</b> |

In addition to the above emoluments, certain employees were granted share options in the current year under the Company's share option scheme, further details of which are set out in note 28 to the financial statements. 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 17.5% (2002: 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.

|   | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|---|------------------|------------------|
| Group:                                  |                  |                  |
| Hong Kong                               | 2,184            | 1,449            |
| Elsewhere                               | –                | 880              |
| Under/(over)provision in the prior year | (406)            | 361              |
| Deferred (note 26)                      | –                | 555              |
| Tax charge for the year                 | <b>1,778</b>     | <b>3,245</b>     |

**11. DISCONTINUED OPERATIONS**

Pursuant to a sale and purchase agreement dated 23 July 2003, the Group disposed of its entire interests in Golden Power Investments (B.V.I.) Limited and its subsidiaries, which were mainly engaged in the manufacture and trading of batteries, for a cash consideration of HK\$37 million. The disposal of the above businesses was completed on the same date and resulted in a loss on disposal of subsidiaries of approximately HK\$105 million.

In the prior year, on 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 these businesses resulted in a loss on disposal of subsidiaries of approximately HK\$41 million in that year.

**11. DISCONTINUED OPERATIONS (continued)**

The turnover, other revenue and gains, expenses and results of the discontinued operations for the two years ended 31 July 2003 were as follows:

|   | Manufacture and trading of batteries and others |           | Manufacture and trading of electronic parts and components |           | Total     |           |
|---|---|-----------|--|-----------|-----------|-----------|
|   | 2003  | 2002      | 2003   | 2002      | 2003      | 2002      |
|   | HK\$'000  | HK\$'000  | HK\$'000   | HK\$'000  | HK\$'000  | HK\$'000  |
| Turnover  | 258,900   | 229,203   | –  | 157,299   | 258,900   | 386,502   |
| Cost of sales   | (211,025)                                       | (184,034) | –  | (179,091) | (211,025) | (363,125) |
| Gross profit/(loss)   | 47,875  | 45,169    | –  | (21,792)  | 47,875    | 23,377    |
| Other revenue and gains   | 14,749  | 14,970    | –  | 2,280     | 14,749    | 17,250    |
| Selling and distribution costs  | (10,309)  | (9,751)   | –  | (11,587)  | (10,309)  | (21,338)  |
| Administrative expenses   | (45,892)  | (50,823)  | –  | (24,108)  | (45,892)  | (74,931)  |
| PROFIT/(LOSS) FROM OPERATING ACTIVITIES                                 | 6,423   | (435)     | –  | (55,207)  | 6,423     | (55,642)  |
| Finance costs   | (973)   | (1,349)   | –  | (1,264)   | (973)     | (2,613)   |
| PROFIT/(LOSS) BEFORE TAX  | 5,450   | (1,784)   | –  | (56,471)  | 5,450     | (58,255)  |
| Tax   | (1,701)   | (2,531)   | –  | –         | (1,701)   | (2,531)   |
| PROFIT/(LOSS) BEFORE MINORITY INTERESTS                                 | 3,749   | (4,315)   | –  | (56,471)  | 3,749     | (60,786)  |
| Minority interests  | 277   | 2,677     | –  | –         | 277       | 2,677     |
| NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS | 4,026   | (1,638)   | –  | (56,471)  | 4,026     | (58,109)  |



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**11. DISCONTINUED OPERATIONS (continued)**

The carrying amounts of the total assets and liabilities of the discontinued operations at the balance sheet date were as follows:

|                   | Manufacture and trading of batteries and others |          | Manufacture and trading of electronic finished products and trading of electronic parts and components |          | Total    |          |
|-------------------|---|----------|--|----------|----------|----------|
|                   | 2003  | 2002     | 2003   | 2002     | 2003     | 2002     |
|                   | HK\$'000  | HK\$'000 | HK\$'000   | HK\$'000 | HK\$'000 | HK\$'000 |
| Total assets      | -   | 238,902  | -  | -        | -        | 238,902  |
| Total liabilities | -   | (96,549) | -  | -        | -        | (96,549) |
| Net assets        | -   | 142,353  | -  | -        | -        | 142,353  |

The net cash flows attributable to the discontinued operations for the two years ended 31 July 2003 were as follows:

|                           | Manufacture and trading of batteries and others |          | Manufacture and trading of electronic finished products and trading of electronic parts and components |          | Total    |          |
|---------------------------|---|----------|--|----------|----------|----------|
|                           | 2003  | 2002     | 2003   | 2002     | 2003     | 2002     |
|                           | HK\$'000  | HK\$'000 | HK\$'000   | HK\$'000 | HK\$'000 | HK\$'000 |
| Operating                 | 1,753   | (23,618) | -  | (20,640) | 1,753    | (44,258) |
| Investing                 | (9,022)   | 49,462   | -  | (2,653)  | (9,022)  | 46,809   |
| Financing                 | 10,216  | (18,049) | -  | (1,264)  | 10,216   | (19,313) |
| Net cash inflow/(outflow) | 2,947   | 7,795    | -  | (24,557) | 2,947    | (16,762) |

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

The net loss from ordinary activities attributable to shareholders for the year ended 31 July 2003 dealt with in the financial statements of the Company amounted to HK\$331,010,000 (2002: HK\$407,419,000).

**13. LOSS PER SHARE**

The calculation of basic loss per share for the year ended 31 July 2003 is based on the net loss attributable to shareholders for the current year of HK\$334,777,000 (2002: HK\$451,836,000), and on the weighted average of 8,526,612,053 (2002: 5,607,961,812) ordinary shares in issue during the year.

No diluted loss per share amount has been presented for the years ended 31 July 2003 and 2002 as the warrants and options outstanding during these years had anti-dilutive effects on the basic loss per share for these years.

**14. FIXED ASSETS****Group**

|   | Land and<br>buildings<br>HK\$'000 | Leasehold<br>improvements<br>HK\$'000 | Plant and<br>machinery<br>HK\$'000 | Motor<br>vehicles<br>HK\$'000 | Furniture,<br>fixtures and<br>equipment<br>HK\$'000 | Moulds<br>HK\$'000 | Tools<br>HK\$'000 | Total<br>HK\$'000 |
|---|-----------------------------------|---------------------------------------|------------------------------------|-------------------------------|---|--------------------|-------------------|-------------------|
| Cost or valuation:                          |                                   |                                       |                                    |                               |   |                    |                   |                   |
| At beginning of year                        | 20,637                            | 12,631                                | 140,904                            | 7,192                         | 43,912  | 5,525              | 2,470             | 233,271           |
| Additions                                   | -                                 | 144                                   | 3,048                              | 2,027                         | 1,233   | 1,440              | 247               | 8,139             |
| Write-off                                   | -                                 | -                                     | (4,915)                            | (625)                         | (7,002)   | -                  | -                 | (12,542)          |
| Disposals: Arising from disposal            |                                   |                                       |                                    |                               |   |                    |                   |                   |
| of subsidiaries                             |                                   |                                       |                                    |                               |   |                    |                   |                   |
| (note 30(b))                                | (18,713)                          | (12,775)                              | (127,913)                          | (4,085)                       | (25,987)  | (3,884)            | (2,484)           | (195,841)         |
| Other                                       | -                                 | -                                     | -                                  | (350)                         | -   | -                  | -                 | (350)             |
| At 31 July 2003                             | 1,924                             | -                                     | 11,124                             | 4,159                         | 12,156  | 3,081              | 233               | 32,677            |
| At cost                                     | 1,924                             | -                                     | 11,124                             | 4,159                         | 12,156  | 3,081              | 233               | 32,677            |
| Accumulated depreciation and<br>impairment: |                                   |                                       |                                    |                               |   |                    |                   |                   |
| At beginning of year                        | 8,831                             | 4,669                                 | 72,123                             | 3,116                         | 22,476  | 3,288              | 2,166             | 116,669           |
| Provided during the year                    | 638                               | 1,277                                 | 10,754                             | 1,263                         | 3,772   | 1,715              | 283               | 19,702            |
| Write-off                                   | -                                 | -                                     | (3,149)                            | (253)                         | (5,083)   | -                  | -                 | (8,485)           |
| Disposals: Arising from disposal            |                                   |                                       |                                    |                               |   |                    |                   |                   |
| of subsidiaries                             |                                   |                                       |                                    |                               |   |                    |                   |                   |
| (note 30(b))                                | (9,411)                           | (5,946)                               | (72,041)                           | (2,809)                       | (15,065)  | (2,925)            | (2,245)           | (110,442)         |
| Other                                       | -                                 | -                                     | -                                  | (168)                         | -   | -                  | -                 | (168)             |
| At 31 July 2003                             | 58                                | -                                     | 7,687                              | 1,149                         | 6,100   | 2,078              | 204               | 17,276            |
| Net book value:                             |                                   |                                       |                                    |                               |   |                    |                   |                   |
| At 31 July 2003                             | 1,866                             | -                                     | 3,437                              | 3,010                         | 6,056   | 1,003              | 29                | 15,401            |
| At 31 July 2002                             | 11,806                            | 7,962                                 | 68,781                             | 4,076                         | 21,436  | 2,237              | 304               | 116,602           |

The Group's land and buildings are situated in the People's Republic of China and are held under long term leases. In the prior year, certain of the Group's leasehold land and buildings were pledged to secure general banking facilities granted to the Group (note 25).

**15. INTERESTS IN SUBSIDIARIES**

|                          | Company          |                  |
|--------------------------|------------------|------------------|
|                          | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
| Unlisted shares, at cost | 1                | 64,153           |
| Due from subsidiaries    | 328,747          | 376,183          |
| Due to subsidiaries      | (2,000)          | -                |
|                          | <b>326,748</b>   | <b>440,336</b>   |

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

The amounts due from/to subsidiaries are unsecured, interest-free and have no fixed terms of repayment. In the prior year, a loan was advanced to a subsidiary which bore interest at the Hong Kong dollar prime rate plus 2% 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 |
| Golite International Limited                              | Hong Kong/ Hong Kong & Mainland China               | HK\$2,000,000                                     | –  | 100      | Manufacture and distribution of silicone rubber products              |
| Alta Financial Holdings Limited ("Alta")                  | BVI/Hong Kong                                       | US\$1,000   | –  | 100      | Investment holding  |
| Best On Development Ltd.                                  | BVI/Hong Kong                                       | US\$1   | –  | 100      | Investment holding  |
| Best Income Limited                                       | Hong Kong   | HK\$2   | –  | 100      | Property 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  |
| Royal Eastern Limited                                     | Hong Kong   | HK\$2   | –  | 100      | Property holding  |

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

Particulars of the principal subsidiaries are as follows:

| Name of subsidiary                        | Place of incorporation/<br>registration<br>and operations | Nominal value<br>of issued/<br>registered<br>share capital | Percentage<br>of equity<br>attributable<br>to the Company |          | Principal<br>activities |
|---|---|--|---|----------|-------------------------|
|   |   |  | Direct  | Indirect |                         |
| 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. ("Zhongda") | BVI/Hong Kong   | US\$10,000   | –   | 100      | 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.

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

|                                      | Group            |                  |
|--------------------------------------|------------------|------------------|
|                                      | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
| Share of net assets                  | 70,397           | 56,130           |
| Goodwill arising on acquisition      | 9,734            | 32,081           |
|                                      | <b>80,131</b>    | 88,211           |
| Due from a jointly-controlled entity | –                | 500              |
|                                      | <b>80,131</b>    | 88,711           |

The amount due from the jointly-controlled entity was unsecured, interest-free and was repaid during the current year.

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

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**16. INTEREST IN A JOINTLY-CONTROLLED ENTITY (continued)**

Movements in goodwill arising from the acquisition of a jointly-controlled entity, which has been capitalised as an asset in the consolidated balance sheet and included in interest in a jointly-controlled entity, are as follows:

|  | Group            |                  |
|--|------------------|------------------|
|  | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
| Cost:                                    |                  |                  |
| As beginning of year                     | 32,350           | –                |
| Additions                                | 1,918            | 32,350           |
| At 31 July                               | 34,268           | 32,350           |
| Accumulated amortisation and impairment: |                  |                  |
| At beginning of year                     | 269              | –                |
| Provided during the year                 | 1,665            | 269              |
| Impairment provided during the year      | 22,600           | –                |
| At 31 July                               | 24,534           | 269              |
| Net book value:                          |                  |                  |
| At 31 July                               | 9,734            | 32,081           |

Particulars of the jointly-controlled entity are as follows:

| Name                             | Business structure | Place of incorporation/<br>registration and operations | Percentage of ownership interest | Principal activities   |
|----------------------------------|--------------------|--|----------------------------------|--|
| China City Natural Gas Co., Ltd. | Corporate          | Mainland China   | 50                               | 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 for the year ended 31 July 2003 and financial position at that date of the jointly-controlled entity are as follows:

|  | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|--|------------------|------------------|
| Turnover                                       | 116,729          | –                |
| Net profit/(loss) attributable to shareholders | 780              | (1,602)          |
| Non-current assets                             | 208,827          | 11,417           |
| Current assets                                 | 153,784          | 146,934          |
| Current liabilities                            | (113,394)        | (19,208)         |
| Non-current liabilities                        | (109,294)        | –                |

**16. INTEREST IN A JOINTLY-CONTROLLED ENTITY (continued)**

As at 31 July 2003, the Group's share of its jointly-controlled entity's own capital commitments amounted to approximately HK\$37 million. In the prior year, 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.

As at 31 July 2003, a guarantee of HK\$47 million was given by the jointly-controlled entity to a bank in connection with facilities granted to one of its jointly-controlled entities. The guarantee was utilised to the extent of approximately HK\$24 million as at 31 July 2003.

**17. LONG TERM INVESTMENTS**

|   | Group            |                  | Company          |                  |
|---|------------------|------------------|------------------|------------------|
|   | 2003<br>HK\$'000 | 2002<br>HK\$'000 | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
| Listed equity investments, at market value: |                  |                  |                  |                  |
| Hong Kong                                   | –                | 4,155            | –                | –                |
| Elsewhere                                   | 560              | 2,136            | 560              | 2,136            |
|   | 560              | 6,291            | 560              | 2,136            |
| Unlisted equity investments, at fair value  | 100,344          | 106,697          | 8,091            | 36,380           |
|   | 100,904          | 112,988          | 8,651            | 38,516           |

**18. INVENTORIES**

|                  | Group            |                  |
|------------------|------------------|------------------|
|                  | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
| Raw materials    | 1,016            | 24,328           |
| Work in progress | 349              | 8,003            |
| Finished goods   | 766              | 21,938           |
|                  | 2,131            | 54,269           |

**19. TRADE RECEIVABLES**

An aged analysis of trade receivables is as follows:

|                    | Group            |                  |
|--------------------|------------------|------------------|
|                    | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
| Current to 90 days | 2,337            | 38,008           |
| 91 to 180 days     | 42               | 971              |
| Over 180 days      | 11               | –                |
| Total              | 2,390            | 38,979           |

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**19. TRADE RECEIVABLES (continued)**

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 the 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.

**20. LOAN RECEIVABLES**

The loan receivables from an independent third party are guaranteed by the holding company of the independent third party, bear interest at the Hong Kong dollar prime rate plus 1% per annum and are repayable in nine months from the dates on which the loans are drawn down.

**21. SHORT TERM INVESTMENTS**

|   | Group            |                  |
|---|------------------|------------------|
|   | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
| Listed equity investments, at market value: |                  |                  |
| Hong Kong                                   | <b>87,713</b>    | 84,298           |

The market value of the Group's short term listed equity investments at the date of approval of these financial statements was approximately HK\$94 million.

**22. CASH AND CASH EQUIVALENTS**

|                          | Group            |                  | Company          |                  |
|--------------------------|------------------|------------------|------------------|------------------|
|                          | 2003<br>HK\$'000 | 2002<br>HK\$'000 | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
| Cash and bank balances   | <b>81,324</b>    | 95,240           | <b>22,735</b>    | 68,887           |
| Time deposits, unpledged | –                | 90,531           | –                | 88,000           |
|                          | <b>81,324</b>    | 185,771          | <b>22,735</b>    | 156,887          |

**23. TRADE PAYABLES**

An aged analysis of trade payables is as follows:

|                    | Group            |                  |
|--------------------|------------------|------------------|
|                    | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
| Current to 90 days | <b>2,064</b>     | 36,061           |
| 91 to 180 days     | <b>85</b>        | 345              |
| Over 180 days      | <b>132</b>       | 554              |
| Total              | <b>2,281</b>     | 36,960           |

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

**23. TRADE PAYABLES (continued)**

Included in trade payables in the prior year was a trade-related balance due to the minority shareholders of subsidiaries amounting to HK\$124,000. The balance was unsecured, interest-free and was repayable on normal trading terms.

**24. OTHER PAYABLES AND ACCRUALS**

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

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

|   | Group            |                  |
|---|------------------|------------------|
|   | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
| Bank loans, secured and repayable within one year | –                | 9,804            |
| Trust receipt loans                               | –                | 4,843            |

In the prior year, certain of the Group's bank loans and trust receipt loans were secured by:

- (a) mortgages over certain of the Group's leasehold land and buildings (note 14); and
- (b) the Group's bank deposits of HK\$28,158,000.

**26. DEFERRED TAX**

|                                       | Group            |                  |
|---------------------------------------|------------------|------------------|
|                                       | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
| Balance at beginning of year          | 4,935            | 5,753            |
| Disposal of subsidiaries (note 30(b)) | (4,570)          | (1,373)          |
| Charge for the year (note 10)         | –                | 555              |
| At end of year                        | 365              | 4,935            |

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

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

|                                     | Group            |                  |
|-------------------------------------|------------------|------------------|
|                                     | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
| Accelerated depreciation allowances | –                | 431              |
| Tax losses                          | (2,103)          | (6,259)          |
|                                     | (2,103)          | (5,828)          |



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**27. SHARE CAPITAL**

| Shares  | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|---|------------------|------------------|
| Authorised:   |                  |                  |
| 20,000,000,000 ordinary shares of HK\$0.025 each                      | 500,000          | 500,000          |
| Issued and fully paid:  |                  |                  |
| 8,685,651,423 (2002: 8,104,861,423) ordinary shares of HK\$0.025 each | 217,141          | 202,622          |

During the year, the movements in share capital were as follows:

- (a) Pursuant to acquisition agreements dated 20 December 2002, 180,000,000 new shares of the Company of HK\$0.025 each, ranking pari passu in all respects with the existing share capital of the Company, were issued at a price of HK\$0.089 per share as consideration for the acquisition of the remaining 19.1% of the issued share capital of two subsidiaries namely, Alta and Zhongda.
- (b) Subscription rights attaching to 380,000,000 and 20,790,000 option shares were exercised at the subscription prices of HK\$0.104 per share and HK\$0.055 per share, respectively, resulting in the issue of 400,790,000 shares of HK\$0.025 each for a total cash consideration, before expenses, of approximately HK\$40,663,000.

Subsequent to the balance sheet date, subscription rights attaching to 51,190,000 and 285,000,000 option shares were exercised at the subscription price of HK\$0.055 per share and HK\$0.037 per share, respectively, resulting in an issue of 336,190,000 shares of HK\$0.025 each for a total cash consideration before expenses, of approximately HK\$13,360,000.

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

|  | Carrying amount<br>HK\$'000 | Number of<br>shares issued |
|--|-----------------------------|----------------------------|
| At beginning of year   | 202,622                     | 8,104,861,423              |
| Movements during the year:                                     |                             |                            |
| (a) Subscription of shares                                     | 4,500                       | 180,000,000                |
| (b) Exercise of subscription rights attaching to share options | 10,019                      | 400,790,000                |
| At end of year   | 217,141                     | 8,685,651,423              |
| Share options exercised  | 8,405                       | 336,190,000                |
| At the date of approval of the financial statements            | 225,546                     | 9,021,841,423              |

**Warrants**

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 2003 and the aforesaid 800,000,000 warrants remained outstanding at the balance sheet date.

## 28. SHARE OPTION SCHEMES

SSAP 34 was adopted during the year, as explained in note 2 and under the heading “Employee benefits” in note 3 to the financial statements. As a result, the following detailed disclosures relating to the Company’s share option schemes are now included in the notes to the financial statements. In the prior year, these disclosures were included in the Report of the Directors, as their disclosure is also a requirement of the Listing Rules.

On 11 May 1993, the Company adopted a share option scheme (the “1993 Scheme”). Pursuant to the 1993 Scheme, the Board may at its discretion offer to any full-time employees, including executive directors of the Company or its subsidiaries options to subscribe for shares in the Company (the “Option Shares”) in accordance with the terms and conditions stipulated therein.

The maximum number of shares in respect of which options may be granted (together with options exercised and options then outstanding) under the 1993 Scheme will not exceed 10% of the issued share capital of the Company, excluding any shares issued pursuant to the 1993 Scheme, from time to time. The maximum entitlement of each eligible person under the 1993 Scheme must not exceed 25% of the aggregate number of shares for the time being issued and issuable under the 1993 Scheme.

The offer of a grant of options may be accepted within 28 days from the date of the offer, upon the payment of a nominal consideration of HK\$1 by the grantee for the grant thereof. The exercise period within which an option may be exercised shall be determined by the Board, and in any event such period of time shall not exceed a period of three years commencing on the expiry of six months after the date of acceptance of the offer and expiring on either the last day of the three-year period or the expiry date of the 1993 Scheme, whichever is the earlier.

The subscription price for the Option Shares shall be determined by the Board and shall be the higher of (i) a price being not less than 80% of the average of the closing prices of the shares on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on the five trading days immediately preceding the date of offer of an option; and (ii) the nominal value of a share.

The 1993 Scheme was terminated on 31 January 2002 but remained in force until 11 May 2003 so as to give effect to the exercise of all outstanding options granted prior to the date of termination.

Pursuant to a resolution passed by the shareholders on 31 January 2002, the Company terminated the 1993 Scheme and adopted a new share option scheme (the “2002 Scheme”).

Pursuant to the 2002 Scheme, the Board may at its discretion offer options to any eligible participant (“Eligible Participant”) who is an employee, executive or officer of the Company or its subsidiaries (including executive and non-executive directors of the Company or its subsidiaries) and any suppliers, consultants or advisers who will provide or have provided services to the Company or its subsidiaries.

The maximum number of shares in respect of which options may be granted under the 2002 Scheme, subject to further refreshment of the limit on the grant of options by shareholders, is 10% of the issued shares as at 31 January 2002, being the date of shareholders’ approval of the 2002 Scheme. On 14 August 2002, the shareholders of the Company passed an ordinary resolution approving the refreshment of the 10% limit on the grant of options under the 2002 Scheme.

The maximum entitlement of each Eligible Participant in any twelve-month period shall not exceed 1% of the number of shares in issue on the date of offer of an option.

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## 28. SHARE OPTION SCHEMES (continued)

The offer of a grant of options may be accepted within 28 days after the date of the offer, with a consideration of HK\$1 for the grant thereof. Exercise period in respect of the options granted shall be determined by the Board and in any event such period of time shall not exceed a period of 10 years commencing on the date upon which such option is deemed to be granted and accepted.

The exercise price in relation to each option offered to an Eligible Participant under the 2002 Scheme shall be determined by the Board at its absolute discretion but in any event shall not be less than the highest of: (a) the official closing price of the shares as stated in the daily quotation sheet of the Stock Exchange on the date of offer of an option; (b) the average of the official closing price of the shares as stated in the daily quotation sheets of the Stock Exchange for the five business days immediately preceding the date of offer of an option; and (c) the nominal value of a share.

The 2002 Scheme shall be valid for 10 years from 31 January 2002 to 31 January 2012 (both dates inclusive).

During the year, no share option outstanding under the 1993 Scheme was exercised and the outstanding share options granted under the 1993 Scheme amounting to 159,600,000 Option Shares lapsed on either the expiry of the exercise period or the expiry of the 1993 Scheme.

Under the 2002 Scheme, 699,000,000 Option Shares at exercise prices ranging from HK\$0.0856 per share to HK\$0.104 per share were granted to the Group's employees and consultants during the year; 400,790,000 shares were allotted and issued upon the exercise of subscription rights by the option holders; and 221,178,000 Option Shares lapsed upon the cessation of employment of certain employees, resignation of a director or expiry of the exercise period. At 31 July 2003, the Company had outstanding options to subscribe for 471,190,000 shares under the 2002 Scheme.

Subsequent to the balance sheet date, options to subscribe for 285,000,000 shares at an exercise price of HK\$0.037 per share were granted to the Group's employees and consultants under the 2002 Scheme. Upon the exercise of subscription rights by the option holders, 51,190,000 shares and 285,000,000 shares were allotted and issued at exercise prices of HK\$0.055 per share and HK\$0.037 per share, respectively. In addition, 296,200,000 Option Shares lapsed upon expiry of the exercise period, resignation of a director or cessation of employment of certain employees.

**28. SHARE OPTION SCHEMES (continued)**

Movements in the Company's share option during the year are as follows:

| Category of Participant | Scheme Type | Date of Grant | Exercise Price per Share HK\$ | Exercise Period       | Closing Price Before Date of Grant HK\$ | Movements of Option Shares during the year |             |             |             | As at 31.7.2003 | Price of share at exercise date of options HK\$ |
|-------------------------|-------------|---------------|-------------------------------|-----------------------|---|--|-------------|-------------|-------------|-----------------|---|
|                         |             |               |                               |                       |   | As at 1.8.2002                             | Granted     | Exercised   | Lapsed      |                 |   |
| (i) Directors           | 1993        | 20.04.2000    | 0.7392                        | 20.10.2000-19.04.2003 | 0.690                                   | 120,000,000                                | -           | -           | 120,000,000 | -               | -   |
|                         | 1993        | 19.05.2000    | 0.5568                        | 19.11.2000-11.05.2003 | 0.680                                   | 8,000,000                                  | -           | -           | 8,000,000   | -               | -   |
|                         | 1993        | 12.12.2000    | 0.2096                        | 12.06.2001-11.05.2003 | 0.265                                   | 15,600,000                                 | -           | -           | 15,600,000  | -               | -   |
|                         | 1993        | 15.08.2001    | 0.0893                        | 15.02.2002-11.05.2003 | 0.116                                   | 4,800,000                                  | -           | -           | 4,800,000   | -               | -   |
|                         | 2002        | 15.03.2002    | 0.0550                        | 15.04.2002-14.03.2004 | 0.055                                   | 19,890,000                                 | -           | -           | -           | 19,890,000      | -   |
|                         | 2002        | 03.06.2002    | 0.1530                        | 03.06.2002-31.05.2004 | 0.151*                                  | 46,600,000                                 | -           | -           | -           | 46,600,000      | -   |
|                         | 2002        | 04.07.2002    | 0.1180                        | 04.07.2002-03.07.2004 | 0.118                                   | 4,600,000                                  | -           | -           | -           | 4,600,000       | -   |
| (ii) Employees          | 1993        | 19.05.2000    | 0.5568                        | 19.11.2000-11.05.2003 | 0.680                                   | 4,000,000                                  | -           | -           | 4,000,000   | -               | -   |
|                         | 1993        | 15.08.2001    | 0.0893                        | 15.02.2002-11.05.2003 | 0.116                                   | 7,200,000                                  | -           | -           | 7,200,000   | -               | -   |
|                         | 2002        | 15.03.2002    | 0.0550                        | 15.04.2002-14.03.2004 | 0.055                                   | 67,990,000                                 | -           | 15,690,000  | -           | 52,300,000      | 0.086 and 0.108                                 |
|                         | 2002        | 04.07.2002    | 0.1180                        | 04.08.2002-03.07.2004 | 0.118                                   | 8,800,000                                  | -           | -           | -           | 8,800,000       | -   |
|                         | 2002        | 06.01.2003    | 0.0856                        | 01.02.2003-31.01.2005 | 0.092                                   | -  | 16,000,000  | -           | -           | 16,000,000      | -   |
|                         | 2002        | 06.01.2003    | 0.0856                        | 02.07.2003-30.06.2005 | 0.092                                   | -  | 37,400,000  | -           | -           | 37,400,000      | -   |
| (iii) Consultants       | 2002        | 06.05.2002    | 0.1530                        | 06.06.2002-06.05.2003 | 0.151                                   | 170,000,000                                | -           | -           | 170,000,000 | -               | -   |
|                         | 2002        | 04.07.2002    | 0.1180                        | 04.08.2002-03.07.2003 | 0.118                                   | 13,578,000                                 | -           | -           | 13,578,000  | -               | -   |
|                         | 2002        | 22.08.2002    | 0.1040                        | 23.08.2002-15.08.2003 | 0.110                                   | -  | 160,000,000 | 80,000,000  | -           | 80,000,000      | 0.105   |
|                         | 2002        | 26.08.2002    | 0.1040                        | 27.08.2002-15.08.2003 | 0.113                                   | -  | 160,000,000 | 80,000,000  | -           | 80,000,000      | 0.108   |
|                         | 2002        | 10.09.2002    | 0.1040                        | 11.09.2002-15.08.2003 | 0.099                                   | -  | 320,000,000 | 220,000,000 | -           | 100,000,000     | 0.108 and 0.101                                 |
| (iv) Former directors   | 2002        | 02.05.2002    | 0.1540                        | 02.06.2002-02.05.2004 | 0.154                                   | 30,000,000                                 | -           | -           | 30,000,000  | -               | -   |
|                         | 2002        | 03.06.2002    | 0.1530                        | 03.06.2002-31.05.2004 | 0.151*                                  | 20,000,000                                 | -           | -           | -           | 20,000,000      | -   |
| (v) Former employees    | 2002        | 15.03.2002    | 0.0550                        | 15.04.2002-14.03.2004 | 0.055                                   | 9,100,000                                  | -           | 5,100,000   | -           | 4,000,000       | 0.108 and 0.083                                 |
|                         | 2002        | 04.07.2002    | 0.1180                        | 04.08.2002-03.07.2004 | 0.118                                   | 3,600,000                                  | -           | -           | 3,600,000   | -               | -   |
|                         | 2002        | 06.01.2003    | 0.0856                        | 01.02.2003-31.01.2005 | 0.092                                   | -  | 4,000,000   | -           | 4,000,000   | -               | -   |
|                         | 2002        | 06.01.2003    | 0.0856                        | 02.07.2003-30.06.2005 | 0.092                                   | -  | 1,600,000   | -           | -           | 1,600,000       | -   |
| Total                   |             |               |                               |                       |   | 553,758,000                                | 699,000,000 | 400,790,000 | 380,778,000 | 471,190,000     |   |

\* The closing price refers to the closing price on the date of the Board meeting at which the Board proposed to grant options to the director/former director.

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**29. RESERVES****Group**

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 19 of the financial statements.

**Company**

|   | Share<br>premium<br>account<br>HK\$'000 | Capital<br>redemption<br>reserve<br>HK\$'000 | Investment<br>revaluation<br>reserve<br>HK\$'000 | Warrant<br>reserve<br>HK\$'000 | Contributed<br>surplus<br>HK\$'000 | Accumulated<br>losses<br>HK\$'000 | Total<br>HK\$'000 |
|---|---|--|--|--------------------------------|------------------------------------|-----------------------------------|-------------------|
| At 1 August 2001  | 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<br>long term investments   | -                                       | -  | 19,083   | -                              | -                                  | -                                 | 19,083            |
| Impairment losses in long term<br>investments transferred to<br>the profit and loss account | -                                       | -  | 39,017   | -                              | -                                  | -                                 | 39,017            |
| Loss for the year   | -                                       | -  | -  | -                              | -                                  | (407,419)                         | (407,419)         |
| At 31 July 2002 and<br>beginning of year  | 939,856                                 | 675  | (9,361)  | 25,341                         | 49,753                             | (572,514)                         | 433,750           |
| Issue of shares   | 42,163                                  | -  | -  | -                              | -                                  | -                                 | 42,163            |
| Changes in fair value of<br>long term investments   | -                                       | -  | (84,580)   | -                              | -                                  | -                                 | (84,580)          |
| Impairment losses in long term<br>investments transferred to<br>the profit and loss account | -                                       | -  | 93,291   | -                              | -                                  | -                                 | 93,291            |
| Loss for the year   | -                                       | -  | -  | -                              | -                                  | (331,010)                         | (331,010)         |
| At 31 July 2003   | 982,019                                 | 675  | (650)  | 25,341                         | 49,753                             | (903,524)                         | 153,614           |

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.

**30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT****(a) Changes to the layout of the consolidated cash flow statement**

SSAP 15 (Revised) was adopted during the current year, as detailed in note 2 to the financial statements, which has resulted in a change to the layout of the consolidated cash flow statement. The consolidated cash flow statement is now presented under three headings: cash flows from operating activities, investing activities and financing activities. Previously five headings were used, comprising the three headings listed above, together with cash flows from returns on investments and servicing of finance and from taxes paid. The significant reclassifications resulting from the change in presentation are that taxes are now included in cash flows from operating activities, interest received is now included in cash flows from investing activities, and interest paid is now included in cash flows from financing activities. The presentation of the 2002 comparative consolidated cash flow statement has been changed to accord with the new layout.

**30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)****(a) Changes to the layout of the consolidated cash flow statement (continued)**

Also, the definition of “cash equivalents” under the revised SSAP 15 has been revised from that under the previous SSAP 15, as explained under the heading “Cash and cash equivalents” in note 3 to the financial statements. This has resulted in trust receipt loans no longer qualifying as cash equivalents. The amount of cash equivalents in the consolidated cash flow statement at 31 July 2002 has been adjusted to remove trust receipt loans amounting to HK\$4,538,000 previously included at that date. The year’s movement in trust receipt loans is now included in cash flows from financing activities and the comparative cash flow statement has been changed accordingly.

**(b) Disposal of subsidiaries**

|   | Notes | 2003<br>HK\$'000 |
|---|-------|------------------|
| Net assets disposed of:                     |       |                  |
| Fixed assets                                | 14    | 85,399           |
| Other assets                                |       | 311              |
| Cash and bank balances                      |       | 51,103           |
| Inventories                                 |       | 67,024           |
| Trade receivables                           |       | 30,921           |
| Prepayments, deposits and other receivables |       | 11,248           |
| Due from minority shareholders              |       | 14,370           |
| Trade payables                              |       | (38,992)         |
| Other payables and accruals                 |       | (41,150)         |
| Tax   |       | (8,734)          |
| Deferred tax                                | 26    | (4,570)          |
| Bank loans                                  |       | (8,914)          |
| Trust receipt loans                         |       | (15,949)         |
|   |       | 142,067          |
| Loss on disposal of subsidiaries            |       | (105,067)        |
|   |       | 37,000           |
| Satisfied by:                               |       |                  |
| Cash  |       | 37,000           |

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

|  | 2003<br>HK\$'000 |
|--|------------------|
| Cash consideration   | 37,000           |
| Cash and bank balances disposed of   | (51,103)         |
| Net outflow of cash and cash equivalents<br>in respect of the disposal of subsidiaries | (14,103)         |

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**30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)****(c) Major non-cash transaction**

During the year, the Group acquired 19.1% additional equity interests in two subsidiaries at a consideration of HK\$16,020,000, which was satisfied by the issue of 180,000,000 shares of HK\$0.025 each in the capital of the Company at a price of HK\$0.089 per share, which represented the closing share price at the date of the completion of the transaction.

**31. LITIGATION**

On 11 August 2003, legal proceedings were brought by a third party against the Company for an alleged breach of an arrangement relating to a proposed sale and purchase of certain subsidiaries of the Company including an exclusivity arrangement. The amount claimed by the third party against the Company are damages of (i) the chance to acquire HK\$129 million worth of assets being the combined net asset value of those subsidiaries as at 31 March 2003 at the consideration of HK\$40 million and (ii) breach of terms in the relevant agreements for a sum of HK\$3 million. Based on legal advice, the directors of the Company consider that it is not probable that the claim will result in a material future outflow of resources from the Group.

**32. CONTINGENT LIABILITIES**

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

|   | Group            |                  | Company          |                  |
|---|------------------|------------------|------------------|------------------|
|   | 2003<br>HK\$'000 | 2002<br>HK\$'000 | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
| Guarantees given to banks in connection with facilities granted to: |                  |                  |                  |                  |
| Subsidiaries  | –                | –                | 32,500           | 52,600           |
| Subsidiaries disposed of *  | 47,600           | –                | 47,600           | –                |

As at 31 July 2003, guarantees given to banks in connection with facilities granted to subsidiaries and subsidiaries disposed of by the Company and the Group, were utilised to the extent of approximately HK\$15,949,000 (2002: HK\$14,646,000) and HK\$15,949,000 (2002: Nil), respectively.

\* Subsequent to the balance sheet date, all the guarantees given to the banks were released.

**33. PLEDGE OF ASSETS**

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

### 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 three years.

At 31 July 2003, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

|   | Group            |                  | Company          |                  |
|---|------------------|------------------|------------------|------------------|
|   | 2003<br>HK\$'000 | 2002<br>HK\$'000 | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
| Land and buildings expiring:                    |                  |                  |                  |                  |
| Within one year                                 | 3,229            | 9,232            | 230              | 1,949            |
| In the second to fifth years,<br>inclusive      | 4,114            | 20,555           | –                | 226              |
| After five years                                | –                | 4,298            | –                | –                |
|   | <b>7,343</b>     | <b>34,085</b>    | <b>230</b>       | <b>2,175</b>     |
| Plant and machinery expiring<br>within one year | –                | 1,520            | –                | –                |
|   | <b>7,343</b>     | <b>35,605</b>    | <b>230</b>       | <b>2,175</b>     |

### 35. COMMITMENTS

Other than the events described in notes 16 and 34 to the financial statements, the Group and the Company had no significant commitments at the balance sheet date.

### 36. POST BALANCE SHEET EVENTS

In addition to the events described in notes 21, 27, 28, 31 and 32 to the financial statements, subsequent to the balance sheet date, in August 2003, the Group acquired two long term investments at a total consideration of approximately HK\$60 million.

### 37. 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.

### 38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 24 November 2003.