

For the year ended 30 June 2004

1. GENERAL

The Company is an exempted company incorporated in Bermuda with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate holding company is MACRO-LINK Sdn. Bhd., a company incorporated in Malaysia.

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

2. ADOPTION OF REVISED HONG KONG FINANCIAL REPORTING STANDARD

In the current year, the Group has adopted, for the first time, the revised Statement of Standard Accounting Practice ("SSAP") 12 (Revised) "Income taxes" which is one of the Hong Kong Financial Reporting Standards ("HKFRS(s)") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The term of HKFRS is inclusive of SSAPs and Interpretations approved by the HKICPA.

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the revised accounting policy has been applied retrospectively. The adoption of SSAP 12 (Revised) has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment is required.

3. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 30 June each year.

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

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

For the year ended 30 June 2004

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill

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

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

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

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

Investments in subsidiaries

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

Turnover

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

Revenue recognition

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

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

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

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

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

For the year ended 30 June 2004

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investment properties

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

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

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

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

Property, plant and equipment

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

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

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

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

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

Leasehold improvements	20% or over the period of the relevant lease
Plant and machinery	10% - 25%
Tools, equipment and moulds	10% - 50%
Furniture and fixtures	10% - 25%
Motor vehicles	10% - 33⅓%

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

For the year ended 30 June 2004

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment *(continued)*

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

Impairment

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

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

Investments in securities

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

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

Other investments

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

Inventories

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

For the year ended 30 June 2004

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leased assets

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

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

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on the taxable profit for the period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or negative goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement.

For the year ended 30 June 2004

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)***Foreign currencies**

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Gains and losses arising on exchange are included in the profit or loss for the year.

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

Retirement benefits scheme

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

For the year ended 30 June 2004

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

(a) Business segments

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

Business segment information for the year ended 30 June 2004 is presented below:

	Manufacture and distribution of electronics products HK\$	Property and investment holding HK\$	Manufacture of health care products HK\$	Elimination HK\$	Total HK\$
Turnover	<u>77,092,935</u>	<u>3,677,660</u>	<u>2,598,520</u>	—	<u>83,369,115</u>
Results					
Segment results	1,385,864	1,079,959	(4,265,101)	—	(1,799,278)
Unallocated corporate income					2,171,552
Unallocated corporate expense					<u>(36,163,743)</u>
Loss from operations					(35,791,469)
Finance costs					(2,496,944)
Loss on disposal of subsidiaries					<u>(5,816,946)</u>
Loss before taxation					(44,105,359)
Tax credit					<u>(26,292)</u>
Loss before minority interests					<u><u>(44,079,067)</u></u>

For the year ended 30 June 2004

4. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*
(a) Business segments *(continued)*

	Manufacture and distribution of electronics products <i>HK\$</i>	Property and investment holding <i>HK\$</i>	Manufacture of health care products <i>HK\$</i>	Corporate <i>HK\$</i>	Total <i>HK\$</i>
Assets					
Segment assets	45,953,978	3,737	1,339,643	—	47,297,358
Unallocated corporate assets				81,226,007	<u>81,226,007</u>
Consolidated total assets					<u><u>128,523,365</u></u>
Liabilities					
Segment liabilities	(19,732,174)	—	(382,984)	—	(20,115,158)
Unallocated corporate liabilities				(21,094,627)	<u>(21,094,627)</u>
Consolidated total liabilities					<u><u>(41,209,785)</u></u>
Other information					
Capital expenditure	3,404,077	31,818	976,887	189,209	4,601,991
Depreciation of property, plant and equipment	1,549,344	1,051,724	473,562	1,574,001	4,648,631
Amortisation of goodwill	—	—	110,000	—	110,000
Allowance for bad and doubtful debts	136,448	—	6,059,891	2,869,171	9,065,510
Allowance on short-term loans receivable	2,187,846	—	—	—	2,187,846
Inventories written off	1,514,045	—	1,002,337	—	2,516,382
Impairment loss in respect of:					
Property, plant and equipment	—	—	463,183	5,067,681	5,530,864
Goodwill	—	—	660,000	—	660,000
Amounts due from fellow subsidiaries written off	—	—	—	11,336,399	11,336,399

For the year ended 30 June 2004

4. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

(a) **Business segments** *(continued)*

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

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

For the year ended 30 June 2004

4. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*
(a) Business segments *(continued)*

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

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4. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

(b) Geographical segments

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

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

	Turnover	
	2004	2003
	HK\$	HK\$
Hong Kong	44,300,429	35,127,245
United States of America	12,588,404	20,307,701
PRC	12,670,954	6,521,316
Other Asian countries	13,665,298	8,221,838
Europe	144,030	741,720
Others	—	1,693
	<u>83,369,115</u>	<u>70,921,513</u>

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

	Carrying amount of segment assets		Capital additions	
	2004	2003	2004	2003
	HK\$	HK\$	HK\$	HK\$
Hong Kong	103,459,954	194,071,247	1,499,163	7,595,984
United States of America	4,985,552	5,107,993	—	—
PRC	16,960,413	30,778,906	3,102,828	1,997,434
Other Asian countries	2,721,912	2,721,912	—	—
Europe	395,534	136,449	—	—
	<u>128,523,365</u>	<u>232,816,507</u>	<u>4,601,991</u>	<u>9,593,418</u>

For the year ended 30 June 2004

5. LOSS FROM OPERATIONS

	2004	2003
	<i>HK\$</i>	<i>HK\$</i>
Loss from operations has been arrived at after charging (crediting):		
Staff costs, including directors' remuneration		
- Basic salaries and allowances	18,880,066	22,216,198
- Retirement benefits scheme contributions	389,035	476,369
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Total staff costs	19,269,101	22,692,567
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Amortisation of goodwill (included in administrative expenses)	110,000	220,000
Auditors' remuneration	500,000	830,000
Cost of inventories recognised as expense	47,257,002	41,640,502
Depreciation	4,648,631	4,536,419
Impairment loss recognised in respect of goodwill	660,000	—
Loss on disposal of other investments	144,354	—
Dividend income from listed securities	(4,645)	(1,417)
(Gain) loss on disposal of property, plant and equipment	(30,000)	7,734
Gain on disposal of investment properties	(558,914)	—
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6. DIRECTORS' AND EMPLOYEES' REMUNERATION
(a) Directors' remuneration

	2004	2003
	<i>HK\$</i>	<i>HK\$</i>
Fees:		
Executive	—	—
Non-executive	1,100,000	—
Independent non-executive	220,000	200,000
	<hr/>	<hr/>
	1,320,000	200,000
	<hr/>	<hr/>
Other emoluments of executive directors:		
Salaries and other benefits	537,242	3,372,686
Performance related incentive payments	—	5,500,000
Retirement benefits scheme contributions	—	12,000
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	537,242	8,884,686
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	1,857,242	9,084,686
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For the year ended 30 June 2004

6. DIRECTORS' AND EMPLOYEES' REMUNERATION *(continued)*

(a) **Directors' remuneration** *(continued)*

The remuneration of the directors is within the following bands:

	2004	2003
	Number of directors	Number of directors
Up to HK\$1,000,000	11	4
HK\$1,000,001 to HK\$1,500,000	1	—
HK\$8,500,001 to HK\$9,000,000	—	1
	<u>12</u>	<u>5</u>

(b) **Employees' emoluments**

The five highest paid individuals for the year included two directors (2003: two directors) whose emoluments are set out in (a) above. The emoluments of the remaining three (2003: three) individuals are as follows:

	2004	2003
	HK\$	HK\$
Salaries and other benefits	2,278,000	2,631,846
Retirement benefits scheme contribution	139,100	120,900
	<u>2,417,100</u>	<u>2,752,746</u>

Their remuneration is within the following bands:

	2004	2003
	Number of employees	Number of employees
Up to HK\$1,000,000	2	1
HK\$1,000,001 to HK\$1,500,000	1	2
	<u>3</u>	<u>3</u>

During the years ended 30 June 2004 and 2003, no emoluments were paid by the Group to the five highest paid individuals, including directors, as an inducement to join or upon joining the Group as compensation for loss of office. In addition, during the years ended 30 June 2004 and 2003, no directors waived any emoluments.

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7. FINANCE COSTS

	2004	2003
	<i>HK\$</i>	<i>HK\$</i>
Interest on		
- Borrowings wholly repayable within five years	2,243,391	2,016,957
- Borrowings not wholly repayable within five years	—	863,567
- Obligations under finance leases	253,553	358,662
	<u>2,496,944</u>	<u>3,239,186</u>

8. TAX (CREDIT) CHARGE

	2004	2003
	<i>HK\$</i>	<i>HK\$</i>
The charge comprises:		
Hong Kong Profits Tax calculated at 17.5%		
of the estimated assessable profit for the year	—	250,000
(Over) underprovision in prior years	(26,292)	3,150,000
	<u>(26,292)</u>	<u>3,400,000</u>

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group and the Company has no assessable profit for the year.

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8. TAX (CREDIT) CHARGE *(continued)*

The tax (credit) charge for the year can be reconciled to the loss per the income statement as follows:

	2004		2003	
	HK\$	%	HK\$	%
Loss before taxation	<u>(44,105,359)</u>		<u>(163,829,314)</u>	
Tax at the Hong Kong Profits				
Tax rate of 17.5%	(7,718,437)	(17.5)	(28,670,130)	(17.5)
Tax effect of expenses not deductible for tax purpose	15,616,335	35.4	19,678,588	12.0
Tax effect of income not taxable for tax purpose	(9,248,626)	(20.9)	(910,059)	(0.6)
(Over) underprovision in respect of prior year	(26,292)	(0.1)	3,150,000	2.0
Tax effect of tax losses not recognised	1,242,577	2.8	9,830,797	6.0
Effect of tax concession granted to manufacturing operations in the PRC	54,659	0.1	(7,870)	(0.1)
Others	<u>53,492</u>	<u>0.1</u>	<u>328,674</u>	<u>0.2</u>
Tax charge and effective tax rate for the year	<u>(26,292)</u>	<u>(0.1)</u>	<u>3,400,000</u>	<u>2.0</u>

At the balance sheet date, the Group had unused tax losses of approximately HK\$55 million (2003: HK\$367 million) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

9. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss attributable to shareholders of HK\$44,214,629 (2003: HK\$166,578,231) and on the weighted average of 1,149,262,093 (2003: 1,149,261,820) shares in issue during the year.

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

For the year ended 30 June 2004

10. INVESTMENT PROPERTIES

	THE GROUP <i>HK\$</i>
VALUATION	
At 1 July 2003	82,200,000
Additions	2,556,190
Disposals	(4,000,000)
Disposal of subsidiaries	(80,756,190)
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At 30 June 2004	<hr/> <hr/>

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

	2004 <i>HK\$</i>	2003 <i>HK\$</i>
Under long leases in Hong Kong	—	71,600,000
Under medium-term leases in the PRC	—	10,600,000
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11. PROPERTY, PLANT AND EQUIPMENT

	Leasehold properties HK\$	Leasehold improvements HK\$	Properties held for development HK\$	Plant and machinery HK\$	Tools, equipment and moulds HK\$	Furniture and fixtures HK\$	Motor vehicles HK\$	Total HK\$
THE GROUP								
COST								
At 1 July 2003	37,668,569	2,762,398	6,334,040	25,581,242	45,844,941	20,056,524	6,319,502	144,567,216
Additions	—	962,479	—	41,233	1,417,731	1,398,458	782,090	4,601,991
Disposals	—	—	—	—	(125,000)	—	(210,000)	(335,000)
Attributable to disposal of subsidiaries	(37,668,569)	(2,651,516)	(6,334,040)	(16,322,033)	(35,882,976)	(13,371,311)	(3,863,609)	(116,094,054)
At 30 June 2004	—	1,073,361	—	9,300,442	11,254,696	8,083,671	3,027,983	32,740,153
DEPRECIATION AND IMPAIRMENT								
At 1 July 2003	18,738,569	1,415,897	6,334,040	24,975,085	38,874,654	17,341,889	5,638,015	113,318,149
Provided for the year	369,254	225,687	—	289,858	2,236,902	1,074,762	452,168	4,648,631
Eliminated on disposals	—	—	—	—	(125,000)	—	(210,000)	(335,000)
Impairment loss recognised in the income statement	—	—	—	—	5,072,183	458,681	—	5,530,864
Attributable to disposal of subsidiaries	(19,107,823)	(1,421,404)	(6,334,040)	(16,280,473)	(35,972,852)	(12,526,804)	(3,675,749)	(95,319,145)
At 30 June 2004	—	220,180	—	8,984,470	10,085,887	6,348,528	2,204,434	27,843,499
NET BOOK VALUES								
At 30 June 2004	—	853,181	—	315,972	1,168,809	1,735,143	823,549	4,896,654
At 30 June 2003	18,930,000	1,346,501	—	606,157	6,970,287	2,714,635	681,487	31,249,067

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11. PROPERTY, PLANT AND EQUIPMENT *(continued)*

	Tools, equipment and moulds <i>HK\$</i>
THE COMPANY	
COST	
At 1 July 2003	7,239,544
Additions	189,209
At 30 June 2004	<u>7,428,753</u>
DEPRECIATION	
At 1 July 2003	723,954
Provided for the year	1,454,450
Impairment loss recognised in the income statement	5,067,681
At 30 June 2004	<u>7,246,085</u>
NET BOOK VALUE	
At 30 June 2004	<u>182,668</u>
At 30 June 2003	<u>6,515,590</u>

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

	2004 <i>HK\$</i>	2003 <i>HK\$</i>
Under long leases in Hong Kong	—	17,200,000
Under long leases in the PRC	—	1,730,000
	<u>—</u>	<u>18,930,000</u>

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

	2004 <i>HK\$</i>	2003 <i>HK\$</i>
Plant and machinery	218,075	425,750
Motor vehicles	603,739	—
Tools, equipment and moulds	—	6,515,590
	<u>821,814</u>	<u>6,941,340</u>

For the year ended 30 June 2004

11. PROPERTY, PLANT AND EQUIPMENT *(continued)*

The directors have reviewed the carrying amount of property, plant and equipment at 30 June 2004. As certain of its subsidiaries had ceased their operations, an impairment loss on certain tools, equipment and moulds and furniture and fixtures with an aggregate amount of approximately HK\$5,531,000 (2003: HK\$6,202,000), representing the difference between the estimated net selling price and the carrying amounts of those property, plant and equipment, was identified and recognised in the consolidated income statement.

In addition, the directors of the Company reviewed the recoverable amount of the remaining leasehold properties at 30 June 2003. An impairment loss of approximately HK\$11,677,000 was recognised and charged to the consolidated income statement for the year ended 30 June 2003.

12. GOODWILL

	THE GROUP HK\$
COST	
At 1 July 2003 and 30 June 2004	1,100,000
AMORTISATION AND IMPAIRMENT	
At 1 July 2003	330,000
Charge for the year	110,000
Impairment loss recognised in the income statement	660,000
At 30 June 2004	1,100,000
NET BOOK VALUE	
At 30 June 2004	—
At 30 June 2003	770,000

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

The directors of the Company have reviewed the recoverable amount of the goodwill of a subsidiary and an impairment loss of HK\$660,000 was recognized in the consolidated income statement because of its unsatisfactory financial performance.

For the year ended 30 June 2004

13. INTERESTS IN SUBSIDIARIES

	2004 <i>HK\$</i>	2003 <i>HK\$</i>
Unlisted shares, at cost	3,000,016	265,973,827
Amounts due from subsidiaries	10,039,073	10,395,460
	<u>13,039,089</u>	<u>276,369,287</u>
Less: Impairment losses recognised	(9,400,000)	(184,000,000)
	<u><u>3,639,089</u></u>	<u><u>92,369,287</u></u>

For the year ended 30 June 2003, the carrying value of the unlisted shares was based on the directors' estimate of the values of the underlying separable net assets of the subsidiaries when the Company became the holding company of the Group.

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

During the year, the directors of the Company considered that in the light of the operating losses of certain subsidiaries and unfavourable market conditions, the amounts recoverable from these subsidiaries have been reduced to the estimated net realisable value of their identifiable net assets. Accordingly, an aggregated amount of impairment losses of HK\$9,400,000 in respect of the Company's interest in subsidiaries have been recognised and charged to the consolidated income statement for the year.

Particulars of the Company's principal subsidiaries at 30 June 2004 are set out in note 37.

14. OTHER SECURITIES

	THE GROUP	
	2004 <i>HK\$</i>	2003 <i>HK\$</i>
Hong Kong listed securities at fair value	—	2,861,497
Market value of listed securities at 30 June	—	2,861,497

Note: Included in Hong Kong listed securities at 30 June 2003 was an amount of HK\$2,803,082 representing a 5.14% interest in AIHL which was acquired prior to the Company became a subsidiary of AIHL in 1999.

For the year ended 30 June 2004

15. OTHER INVESTMENTS

	THE GROUP	
	2004	2003
	HK\$	HK\$
Balance brought forward	18,277,402	54,101,744
Impairment loss recognised	—	(35,824,342)
Disposals	(405,000)	—
Disposal of subsidiaries	(17,872,402)	—
	<u> </u>	<u> </u>
Balance carried forward	<u> </u>	<u>18,277,402</u>

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

16. INVENTORIES

	THE GROUP	
	2004	2003
	HK\$	HK\$
Raw materials	8,195,901	5,772,868
Work in progress	2,265,509	736,186
Finished goods	2,794,172	1,039,661
	<u> </u>	<u> </u>
	<u>13,255,582</u>	<u>7,548,715</u>

At 30 June 2004, raw materials of HK\$1,504,061 (2003: HK\$443) were carried at net realisable value. All other inventories were carried at cost.

For the year ended 30 June 2004

17. TRADE AND OTHER RECEIVABLES

The Group generally allows an average credit period ranging from 30 to 90 days (2003: 30 to 90 days) to its trade customers other than major customers with whom specific terms will be agreed.

Included in trade and other receivables are trade debtors of HK\$22,942,472 (2003: HK\$18,906,017) and their aged analysis is as follows:

	THE GROUP	
	2004	2003
	HK\$	HK\$
Within 90 days	17,487,556	10,934,680
More than 90 days and within 180 days	5,454,916	7,971,337
	<u>22,942,472</u>	<u>18,906,017</u>

18. SHORT-TERM LOANS RECEIVABLE

The short-term loans receivable were unsecured and carried interest based on commercial rates.

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

The amounts were unsecured, non-interest bearing and had no fixed terms of repayment.

20. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$16,192,788 (2003: HK\$10,309,806) and their aged analysis is as follows:

	THE GROUP	
	2004	2003
	HK\$	HK\$
Within 90 days	14,163,831	7,695,648
More than 90 days and within 180 days	2,028,957	1,314,095
More than 180 days	—	1,300,063
	<u>16,192,788</u>	<u>10,309,806</u>

21. AMOUNT DUE TO A DIRECTOR

The amount was unsecured, non-interest bearing and had no fixed terms of repayment. The amount was fully paid during the year.

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22. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2004	2003	2004	2003
	HK\$	HK\$	HK\$	HK\$
THE GROUP				
The maturity of obligations under finance leases is as follows:				
Within one year	413,016	3,044,784	379,359	2,899,427
More than one year, but not exceeding two years	247,188	2,766,222	232,284	2,698,657
More than two years, but not exceeding five years	18,502	166,026	17,603	230,497
	<u>678,706</u>	<u>5,977,032</u>	<u>629,246</u>	<u>5,828,581</u>
Less: Future finance charges	(49,460)	(148,451)	—	—
Present value of lease obligations	<u>629,246</u>	<u>5,828,581</u>	<u>629,246</u>	<u>5,828,581</u>
Less: Amounts due within one year shown under current liabilities			(379,359)	(2,899,427)
Amounts due after one year			<u>249,887</u>	<u>2,929,154</u>
THE COMPANY				
The maturity of obligations under finance leases is as follows:				
Within one year	—	2,795,016	—	2,672,389
More than one year, but not exceeding two years	—	2,600,394	—	2,557,102
More than two years, but not exceeding five years	—	166,026	—	230,497
	<u>—</u>	<u>5,561,436</u>	<u>—</u>	<u>5,459,988</u>
Less: Future finance charges	—	(101,448)	—	—
Present value of lease obligations	<u>—</u>	<u>5,459,988</u>	<u>—</u>	<u>5,459,988</u>
Less: Amounts due within one year shown under current liabilities			—	(2,672,389)
Amounts due after one year			<u>—</u>	<u>2,787,599</u>

For the year ended 30 June 2004

22. OBLIGATIONS UNDER FINANCE LEASES *(continued)*

It is the Group's policy to lease certain of its plant and equipment under finance leases. The average lease term is 3 years. For the year ended 30 June 2004, the average effective borrowing rate was 8.5% (2003: 5%) per annum. Interest rates were fixed at the contract date. All leases are on a fixed repayment basis and no arrangements has been entered into for contingent rental payments.

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

23. BANK BORROWINGS

	THE GROUP	
	2004	2003
	<i>HK\$</i>	<i>HK\$</i>
Secured bank borrowings comprise:		
Import loans	14,925,715	6,276,895
Bank overdrafts	4,078,410	6,780,375
Mortgage loans	—	31,970,277
Short-term bank loans	—	39,000,000
	<u>19,004,125</u>	<u>84,027,547</u>
The borrowings are repayable as follows:		
Within one year or on demand	19,004,125	54,110,634
More than one year, but not exceeding two years	—	2,106,524
More than two years, but not exceeding five years	—	6,652,502
More than five years	—	21,157,887
	<u>19,004,125</u>	<u>84,027,547</u>
Less: Amounts due within one year or on demand shown under current liabilities	<u>(19,004,125)</u>	<u>(54,110,634)</u>
Amounts due after one year	<u>—</u>	<u>29,916,913</u>

For the year ended 30 June 2004

24. SHARE CAPITAL

	Number of ordinary shares	Amount HK\$
Shares of HK\$0.01 each		
Authorised:		
At 1 July 2002, 30 June 2003 and 30 June 2004	16,000,000,000	160,000,000
Issued and fully paid:		
At 1 July 2002, 30 June 2003 and 1 July 2003	1,149,261,820	11,492,618
Exercise of warrants (note 25)	1,635	17
At 30 June 2004	1,149,263,455	11,492,635

25. WARRANTS

During the year, 1,635 new shares of HK\$0.01 each in the Company were issued on exercise of warrants. The remaining warrants lapsed on 30 April 2004.

At 30 June 2003, the Company had outstanding 114,926,182 warrants to be exercised at any time on or before 30 April 2004. Exercise in full of 2004 warrants would result in the issue of 114,926,182 additional shares of HK\$0.01 each.

26. RESERVES

	Share premium HK\$	Contributed surplus HK\$	Deficit HK\$	Total HK\$
THE COMPANY				
At 1 July 2002	34,619,060	260,227,518	(3,353,172)	291,493,406
Loss for the year	—	—	(191,169,680)	(191,169,680)
At 30 June 2003 and 1 July 2003	34,619,060	260,227,518	(194,522,852)	100,323,726
Exercise of warrants	1,506	—	—	1,506
Loss for the year	—	—	(29,038,990)	(29,038,990)
At 30 June 2004	34,620,566	260,227,518	(223,561,842)	71,286,242

For the year ended 30 June 2004

26. RESERVES *(continued)*

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

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

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

	2004 HK\$	2003 HK\$
Contributed surplus	260,227,518	260,227,518
Deficit	(223,561,842)	(194,522,852)
	<u>36,665,676</u>	<u>65,704,666</u>

27. AMOUNT DUE TO A MINORITY SHAREHOLDER

The amount due to the minority shareholder of a subsidiary was unsecured and non-interest bearing. The amount was fully paid during the year.

For the year ended 30 June 2004

28. DISPOSAL OF SUBSIDIARIES

	<i>HK\$</i>
NET ASSETS DISPOSED OF:	
Investment properties	80,756,190
Properties, plant and equipment	20,774,909
Other securities	2,861,497
Other investments	17,872,402
Trade and other receivables	12,726,982
Amount due from a fellow subsidiary	3,060,935
Bank balances and cash	391,582
Trade and other payables	(4,316,951)
Amount due to ultimate holding company	(11,788,958)
Bank borrowings	(49,794,165)
Taxation	(3,400,000)
Minority interests	(885,172)
	<hr/>
Group's share of net assets disposed of	68,259,251
Investment revaluation reserve realised on disposal	9,948,070
Currency translation reserve realised on disposal	4,866,996
Goodwill reserve realised on disposal	15,365
Net loss on disposal of subsidiaries	(5,816,946)
	<hr/>
Total consideration	<u>77,272,736</u>
SATISFIED BY:	
Cash	51,405,065
Trade receivable	1,881,677
Repayment of bank borrowings	20,000,000
Repayment of obligations under finance leases	3,985,994
	<hr/>
	<u>77,272,736</u>
Net cash inflow from disposal of subsidiaries is as follows:	
Cash consideration received	51,405,065
Bank balances and cash disposed of	(391,582)
	<hr/>
Net cash inflow from disposal of subsidiaries	<u>51,013,483</u>

The subsidiaries disposed of during the year contributed HK\$3,677,660 to the Group's turnover and HK\$35,789,765 to the Group's loss from operations.

For the year ended 30 June 2004

29. MAJOR NON-CASH TRANSACTION

During the year ended 30 June 2004, the Group entered into a finance lease arrangement in respect of the acquisition of property, plant and equipment of HK\$696,854 (2003: HK\$7,239,544).

30. PLEDGE OF ASSETS

At balance sheet date, the Group pledged the following assets to secure the banking facilities granted to the Group:

	2004	2003
	<i>HK\$</i>	<i>HK\$</i>
Time deposits	3,236,982	3,219,000
Leasehold properties	—	17,200,000
Investment properties	—	71,000,000
	<u>3,236,982</u>	<u>91,419,000</u>

31. CAPITAL COMMITMENTS

	THE GROUP	
	2004	2003
	<i>HK\$</i>	<i>HK\$</i>
Capital expenditure contracted for but not provided in the financial statements in respect of the acquisition of property, plant and equipment	<u>—</u>	<u>3,693,000</u>

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

For the year ended 30 June 2004

32. OPERATING LEASES

The Group as lessee

Minimum lease payment paid under operating leases during the year in respect of rented premises amounted to approximately HK\$2,762,000 (2003: HK\$3,479,000).

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

	THE GROUP	
	2004	2003
	HK\$	HK\$
Within one year	2,430,000	3,103,600
In the second to fifth year inclusive	393,000	900,000
	<u>2,823,000</u>	<u>4,003,600</u>

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

The Group as lessor

	THE GROUP	
	2004	2003
	HK\$	HK\$
Rental income, net of negligible outgoings	<u>3,677,660</u>	<u>6,584,382</u>

At 30 June 2003, investment properties with a carrying value of HK\$40,200,000 had committed tenants for the next year.

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

	THE GROUP	
	2004	2003
	HK\$	HK\$
Within one year	—	5,006,935
In the second to fifth year inclusive	—	2,598,864
	<u>—</u>	<u>7,605,799</u>

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

33. RETIREMENT BENEFITS SCHEME

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

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

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

With effective from 1 December 2001, the Group has joined a mandatory provident fund scheme (the “MPF Scheme”) for all other qualifying employees. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contributions payable in future years.

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

34. CONTINGENT LIABILITIES

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

35. SHARE OPTION SCHEMES

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

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

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35. SHARE OPTION SCHEMES *(continued)*

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

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

36. RELATED PARTY TRANSACTIONS

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

	2004 HK\$	2003 HK\$
Sales of goods	<u>2,318,000</u>	<u>3,593,000</u>

The above transactions were carried out at cost plus mark-up basis.

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

37. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 30 June 2004 are as follows:

Name of subsidiary	Place of incorporation/ registration and operation	Issued and full paid share capital/ registered capital	Proportion of equity interest held by the Company		Principal activities
			Directly %	Indirectly %	
Sharp Win Industrial Limited	Hong Kong	Ordinary HK\$2,500,000	—	80	Manufacture and trading of electronic products
天健生物 (深圳) 有限公司 (Note)	The People's Republic of China ("PRC")	Registered capital HK\$10,000,000	—	100	Manufacturing and trading of Chinese medicinal herbs

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

For the year ended 30 June 2004

37. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

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

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