

## 1. CORPORATE INFORMATION

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

The Company acts as an investment holding company. The principal activities and other particulars of the Company's significant subsidiaries are set out in note 19 to the financial statements.

## 2. ADOPTION OF REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group adopted the following revised SSAPs issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") which are effective for the first time for the current year's financial statements:

SSAP 12 (Revised)	:	Income Taxes
-------------------	---	--------------

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. 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 amount 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 new accounting policy has been applied retrospectively.

The adoption of the SSAP 12 (Revised) had not had any material effect on the result for the current or prior accounting periods.

## 3. BASIS OF PREPARATION AND FUNDAMENTAL UNCERTAINTIES RELATING TO GOING CONCERN

### (a) Basis of Preparation

The financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below.

### 3. BASIS OF PREPARATION AND FUNDAMENTAL UNCERTAINTIES RELATING TO GOING CONCERN (Continued)

#### (b) Fundamental Uncertainties related to Going Concern

In preparing the financial statements, the directors have given careful consideration to the future liquidity of the Group in the light of its net current liabilities of HK\$7,398,000, net liabilities of HK\$6,454,000 and an accumulated loss of approximately HK\$228,267,000 as at 30 June 2004.

The financial statements have been prepared on a going concern basis, the validity of which depends upon future funding being available, the satisfactory resolution of the settlement of 8% convertible bonds due on 22 December 2004 and short term loan due on 1 October 2004, the successful attainment of profitable and positive cash flow operations and the successful outcome of the implementation of the measures noted below. The financial statements do not include any adjustments that would result from a failure of implementation of the measures noted below. If these measures were not to be successful or insufficient, or if the going concern basis were not to be appropriate, adjustments would have to be made to the financial statements to reduce the value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

The financial statements have been prepared on the assumption that the Group will continue to operate as a going concern notwithstanding the conditions prevailing as at 30 June 2004 and subsequently thereto up to the date of approval of these financial statements. In order to improve the Group's financial position, immediate liquidity, cash flows, profitability and operations, the directors have adopted several financing measures together with other measures in progress at the date of this report which include, but are not limited to, the following:

- (i) The Company obtained a direct confirmation from the bondholder of 8% convertible bonds amounting to HK\$16,000,000 that the bondholder confirmed not to demand for the settlement of the convertible bonds within twelve months from the expiry of the bonds on 22 December 2004; and
- (ii) The Company obtained a direct confirmation from the lender of the interest bearing short-term loan amounting to HK\$8,500,000 that the lender confirmed not to demand for the settlement of the loan within twelve months from the balance sheet date.

In the opinion of the directors, in light of the financial support mentioned above, the Group will have sufficient working capital to meet its financial obligations in full as they fall due in the foreseeable future. Accordingly, the directors are satisfied that it is appropriate to prepare the financial statements on a going concern basis, notwithstanding the Group's financial position and tight cash flows as at 30 June 2004.

## 4. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with all applicable SSAPs and Interpretation issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange. A summary of the principal accounting policies followed by the Group in the preparation of the financial statements is set out below:

### (a) Basis of Consolidation

The consolidated financial statements include 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 effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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

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

### (b) Subsidiaries

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

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

## 4. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### (c) Associates

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

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

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

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

### (d) Goodwill/Negative Goodwill

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

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

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

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

## 4. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### (d) Goodwill/Negative Goodwill (Continued)

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

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

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

### (e) Property, Plant and Equipment

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

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

## 4. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### (e) Property, Plant and Equipment (Continued)

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

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

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

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

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

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

### (f) Investment Properties

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

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

## 4. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### (g) Research and Development Costs

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

### (h) Investments in Securities

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

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

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

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

### (i) Turnover

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

## 4. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### (j) Revenue Recognition

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

- (i) Sales of goods are recognised when goods are delivered and title has passed.
- (ii) Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.
- (iii) Rental income, including rentals invoices in advance from properties under operating leases, recognised on a straight-line basis over the term of the relevant leases.

### (k) Inventories

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

### (l) Current Assets and Current Liabilities

Current assets are expected to be realised within twelve months of the balance sheet date or in the normal course of the Group's operating cycle. Current liabilities are expected to be settled within twelve months of the balance sheet date or in the normal course of the Group's operating cycle.

### (m) Foreign Currencies

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

On consolidation, the balance sheet items of overseas subsidiaries, jointly-controlled entities and associates are translated into Hong Kong dollars at the applicable rates of exchange rates ruling at the balance sheet date whilst the income and expenses items are translated at the average rates for that year. The resulting translation differences are dealt with in the exchange reserve.



## 4. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### (n) Leases

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

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

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

### (o) Convertible Bonds

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

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

### (p) Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit is the profit for the year, determined in accordance with the rules established by the taxation authorities, upon which income taxes are payable.

## 4. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### (p) Taxation (Continued)

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 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 difference 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 (other than a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investment 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 deferred tax asset to be utilised. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

### (q) Impairment of Assets

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

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

## 4. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### (r) Provisions

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

### (s) Contingent Liabilities and Contingent Assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group. Contingent assets are not recognised but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

### (t) Employee Benefits

- (i) Salaries, annual bonuses, paid annual leaves, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.
- (ii) Contributions to Mandatory Provident Funds are required under the Hong Kong Mandatory Provident Funds Schemes Ordinance are recognised as an expenses in the consolidated income statement as incurred.
- (iii) When the Group grants employees options to acquire shares of the Company at nil consideration, no employee benefit cost or obligation is recognised at the date of grant. When the options are exercised, equity is increased by the amount of the proceeds received.
- (iv) Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

## 4. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

### (u) Cash Equivalents

Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash and which 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.

### (v) Related Parties

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

### (w) Related Party Transactions

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

### (x) Segment Reporting

A segment is a distinguishable component of the Group that is either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has determined that business segments as the primary reporting format and geographical segment information as the secondary reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables, and property, plant and equipment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Intra-segment pricing is based on similar terms as those available to other external parties.

#### 4. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

##### (x) Segment Reporting (Continued)

Segment capital expenditure is the total cost incurred during the year to segment assets (both tangible and intangible) that are expected to be used for more than one year.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

#### 5. TURNOVER

Turnover represents revenue from the manufacture and sale of multimedia electronic products and toys and games. During the year ended 30 June 2004, the Group also engaged in the trading of telecommunication components from September 2003. The amounts of each significant category of revenue recognised during the year are as follows:

	2004 HK\$'000	2003 HK\$'000
Continuing operations:		
Manufacture and sale of		
– Multimedia electronic products	22,128	198,087
– Toys and games products	4,552	58,458
– Trading of telecommunication components	21,587	–
Others	1,288	23,294
	<b>49,555</b>	<b>279,839</b>

## 6. SEGMENT INFORMATION

### (a) Business Segments

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

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

	Multimedia electronic products		Toys and games products		Telecommunication products		Others		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers	22,128	198,087	4,552	58,458	21,587	–	1,288	23,294	49,555	279,839
Segment results	3,737	15,183	438	(19,987)	2,298	–	277	9,940	6,750	5,136
Interest income and unallocated gains									1,851	30,149
Unallocated corporate expenses									(27,365)	(77,701)
Revaluation decrease of investment properties									–	(6,500)
Reversal of revaluation decrease on disposal of investment properties									6,500	–
Gain on disposal of investment interest in an associate									–	(1,000)
Impairment loss in respect of investment in securities									–	(15,180)
Amortisation of operating rights									–	(453)
Impairment loss in respect of operating rights									–	(6,347)
Provision for doubtful debts									(14,646)	(22,233)
Deposit forfeited									–	(4,100)
Loss from operations									(26,910)	(98,229)
Amortisation on goodwill									(11)	(11)
Finance costs									(3,847)	(6,331)
Gain on disposal of subsidiaries									80,034	–
Profit/(loss) before taxation									49,266	(104,571)
Taxation									–	–
Net profit/(loss) for the year									49,266	(104,571)

## 6. SEGMENT INFORMATION (Continued)

### (a) Business Segments (Continued)

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

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

### (b) Geographical Segments

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

The following table presents revenue for the Group's geographical segments:

	North America		Europe		Japan		Hong Kong		China		Others		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from														
external customers	5,762	196,095	4,129	61,926	377	10,912	14,556	10,906	24,457	-	274	-	49,555	279,839

No information was available for the geographical segment results.

There are no sales between the geographical segments.

## 7. LOSS FROM OPERATIONS

	2004 HK\$'000	2003 HK\$'000
Loss from operations is stated after charging:		
Auditors' remuneration	280	965
Depreciation		
– owned assets	651	8,132
– assets held under finance leases	98	853
Loss on disposal of leasehold properties	–	167
Loss on disposal of property, plant and equipment	–	163
Fixed assets written off	–	434
Operating leases in respect of land and buildings	960	2,283
Research and development costs	–	829
Cost of inventories	42,805	274,703
Amortisation of development costs	–	636
Written off of development costs	–	3,291
Provision for obsolete inventories	7,444	31,991
Staff costs		
– Retirement benefit scheme contributions	161	1,089
– Severance payments	–	637
– Other staff costs, including directors' emoluments	7,212	47,952
	<b>7,373</b>	<b>49,678</b>
and after crediting:		
Reversal of revaluation decrease on disposal of investment properties	6,500	–
Interest income	24	216
Rental income	1,299	2,066



## 8. FINANCE COSTS

	2004 HK\$'000	2003 HK\$'000
Interest on:		
Bank borrowings wholly repayable		
– Within five years	937	2,691
– Over five years	–	835
Short-term borrowings	1,432	1,131
Loan from a shareholder	–	136
Convertible bonds	1,353	624
Obligations under finance leases	58	198
Amortisation of issue costs of convertible bonds	67	716
	<b>3,847</b>	<b>6,331</b>

## 9. GAIN ON DISPOSAL OF SUBSIDIARIES

	Quicky Technologies HK\$'000	Bestplus Profits Limited HK\$'000	Ruian Weiye Technology (Shenzhen) Limited HK\$'000	Indofast Technology Limited HK\$'000	Widax (China) Limited HK\$'000	WILL Group Limited HK\$'000	Total HK\$'000
Net liabilities	78,307	19	10,035	7,091	11,395	103,331	210,178
Add:							
Asset revaluation reserve release on disposal	–	–	–	–	–	1,461	1,461
Capital reserve on consolidation released on disposal	–	–	–	–	–	10,800	10,800
Less:							
Amount due to the Group written off on disposal	(76,838)	(21)	–	(7,564)	(11,374)	(47,013)	(142,810)
	1,469	(2)	10,035	(473)	21	68,579	79,629
Consideration received	1	1	400	1	1	1	405
Gain/(Loss) on disposal	1,470	(1)	10,435	(472)	22	68,580	80,034

## 10. TAXATION

No provision for Hong Kong profits tax has been made in the financial statements as the Company and its subsidiaries have agreed losses brought forward to set off the estimated assessable profits for the year (2003: Nil).

No provision for deferred tax liabilities has been made as the Group and the Company had no material temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

The Group has not recognised deferred tax assets in respect of losses due to the unpredictability of the future profit streams.

Reconciliation between tax expense and accounting profit/(loss) at applicable tax rate:

	2004		2003	
	HK\$'000	%	HK\$'000	%
Profit/(loss) before tax	49,266		(104,571)	
Tax at domestic income tax rate	8,622	17.5%	(18,300)	17.5%
Tax effect of income that is not taxable in determining taxable profit	(14,478)	(29.3)%	(4,439)	4.2%
Tax effect of expenses that are not deductible in determining taxable profit	5,535	11.2%	21,243	(20.3)%
Tax effect of unrecognised temporary differences	257	0.5%	(57)	0.1%
Tax effect of tax losses in prior year utilised this year	(825)	(1.7)%	–	–
Tax effect of unrecognised tax losses	889	1.8%	1,553	(1.5)%
Taxation charge for the year	–	–	–	–

## 11. NET PROFIT/(LOSS) FOR THE YEAR

Of the Group's net profit for the year of HK\$49,266,000 (2003: a loss of HK\$104,571,000), a loss of HK\$15,783,000 (2003: HK\$123,840,000) has been dealt with in the financial statements of the Company.

## 12. EARNINGS/(LOSS) PER SHARE

The calculation of basic and diluted earning per ordinary share is based on the following data:

	HK\$'000
Earnings for calculation of basic earnings per ordinary share (net profit attributable to ordinary shareholders)	49,266
Effect of dilutive potential ordinary shares – interest on convertible bonds	773
<hr/>	
Earnings for calculation of diluted earning per ordinary share	50,039
	<b>Number of shares</b>
	'000
Weighted average number of shares used in calculating basic earnings per share	10,423,960
Effect of dilutive potential ordinary shares – Convertible bonds	463,874
<hr/>	
Weighted average number of shares used in calculating diluted earning per ordinary share	10,887,834

The calculation of the basic loss per share for the year ended 30 June 2003 is based on the net loss for the year of HK\$104,571,000 and on the weighted average number of 8,511,616,632 ordinary shares in issue during the year.

The computation of diluted loss per share for the year ended 30 June 2003 does not assume the conversion of the Company's outstanding convertible bonds, warrants and share options since their exercise would result in a decrease in net loss per share from continuing ordinary operations.

## 13. DIVIDENDS

The directors do not recommend the payment of any dividend in respect of the year ended 30 June 2004 (2003: Nil).

## 14. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS

### (a) Directors' Emoluments

The aggregate amounts of emoluments payable to directors of the Company during the year are as follows:

	2004 HK\$'000	2003 HK\$'000
Directors' fees		
Executive directors	120	60
Non-executive director	–	–
Independent non-executive directors	200	120
	<hr/> 320	<hr/> 180
Other emoluments		
Executive directors		
– Salaries and other benefits	2,048	4,404
	<hr/> 2,368	<hr/> 4,584

The emoluments of the directors fell within the following bands:

	2004 Number of directors	2003 Number of directors
Nil to HK\$1,000,000	6	9
HK\$1,000,001 to HK\$1,500,000	–	3
HK\$1,500,001 to HK\$2,000,000	–	–

During the year, no share options (2003: 50,000,000) were granted to directors under the Company's share option scheme. The details of these benefits in kind are disclosed under section headed "Directors' Interests in Equity or Debt Securities" in Report of the Directors. In the absence of a readily available market value for an accurate assessment of the value of these share options, accordingly, no value has been included in the emoluments of the directors in respect thereof.

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

**14. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS (Continued)****(b) Five Highest Paid Individuals**

The five individuals whose emoluments were the highest in the Group for the year include three (2003: three) directors of the Company, details of whose emoluments are set out above. The emoluments payable to the remaining two (2003: two) individuals during the year are as follows:

	2004 HK\$'000	2003 HK\$'000
Salaries and other benefits	924	1,563

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

	2004 Number of employees	2003
Nil to HK\$1,000,000	2	2
HK\$1,000,001 to HK\$1,500,000	-	-
	2	2

**15. EMPLOYEE BENEFITS****Retirement Benefit Scheme**

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

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

## 15. EMPLOYEE BENEFITS (Continued)

### Retirement Benefit Scheme (Continued)

The employees of the Company's subsidiary in the People's Republic of China (the "PRC") are members of the state-sponsored retirement benefit scheme organised by the relevant local government authority in the PRC. The subsidiary is required to contribute, based on a certain percentage of the basic salary of its employees, to the retirement benefit scheme and has no further obligations for the actual payment of pension or post-retirement benefits beyond the annual contributions. The state-sponsored retirement benefit scheme represent the entire pension obligations payable to retired employees.

The Group does not have any other pension schemes for its employees in respect of its subsidiaries outside Hong Kong and the PRC.

### Equity Compensation Benefits

#### Share Options

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

Details of the share options outstanding as at 30 June 2004 which have been granted under the aforesaid share option scheme are as follows:

Exercise on or after	Exercise price HK\$	Outstanding as at 1 July 2003	Granted during year	Number of share options			Outstanding as at 30 June 2004
				Exercised during year	Lapsed during year	Cancelled during year	
20 February 2003	0.0170	150,000,000	-	-	(150,000,000)	-	-
24 April 2003	0.0174	50,000,000	-	-	-	-	50,000,000
		200,000,000	-	-	(150,000,000)	-	50,000,000

## 16. INTANGIBLE ASSETS

## Group

	Operating rights HK\$'000	Goodwill HK\$'000	Development costs HK\$'000	Total HK\$'000
Cost:				
At 1 July 2003	6,800	107	4,245	11,152
Disposal of subsidiaries	(6,800)	-	(4,245)	(11,045)
<b>At 30 June 2004</b>	<b>-</b>	<b>107</b>	<b>-</b>	<b>107</b>
Accumulated amortisation and impairment:				
At 1 July 2003	6,800	16	4,245	11,061
Provided for the year	-	11	-	11
Disposal of subsidiaries	(6,800)	-	(4,245)	(11,045)
<b>At 30 June 2004</b>	<b>-</b>	<b>27</b>	<b>-</b>	<b>27</b>
Net book value:				
<b>At 30 June 2004</b>	<b>-</b>	<b>80</b>	<b>-</b>	<b>80</b>
At 30 June 2003	-	91	-	91

## 17. PROPERTY, PLANT AND EQUIPMENT

### Group

	Leasehold properties HK\$'000	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Plant and machinery HK\$'000	Tools and moulds HK\$'000	Motor vehicles H\$'000	Total HK\$'000
Cost or valuation:							
At 1 July 2003	20,590	14,126	20,249	27,806	42,878	3,609	129,258
Additions	-	22	227	-	258	-	507
Disposals of subsidiaries	(20,590)	(14,118)	(19,999)	(27,806)	(42,878)	(2,519)	(127,910)
<b>At 30 June 2004</b>	<b>-</b>	<b>30</b>	<b>477</b>	<b>-</b>	<b>258</b>	<b>1,090</b>	<b>1,855</b>
Accumulated depreciation:							
At 1 July 2003	10,543	8,503	13,948	21,136	31,041	1,959	87,130
Charge for the year	-	99	172	367	13	98	749
Written back on disposal of subsidiaries	(10,543)	(8,595)	(13,860)	(21,503)	(31,041)	(1,850)	(87,392)
<b>At 30 June 2004</b>	<b>-</b>	<b>7</b>	<b>260</b>	<b>-</b>	<b>13</b>	<b>207</b>	<b>487</b>
Net book value:							
<b>At 30 June 2004</b>	<b>-</b>	<b>23</b>	<b>217</b>	<b>-</b>	<b>245</b>	<b>883</b>	<b>1,368</b>
At 30 June 2003	10,047	5,623	6,301	6,670	11,837	1,650	42,128
The net book value of certain of the above assets held under finance leases are analysed as follows:							
<b>At 30 June 2004</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>883</b>	<b>883</b>
At 30 June 2003	-	-	805	1,840	-	1,377	4,022

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

The Group disposed all the leasehold properties during the year (2003: HK\$10,047,000).



## 17. PROPERTY, PLANT AND EQUIPMENT (Continued)

## Company

	Leasehold improvements <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:				
At 1 July 2003	8	85	1,090	1,183
Additions	22	148	–	170
<b>At 30 June 2004</b>	<b>30</b>	<b>233</b>	<b>1,090</b>	<b>1,353</b>
Accumulated depreciation:				
At 1 July 2003	2	21	109	132
Charge for the year	5	43	98	146
<b>At 30 June 2004</b>	<b>7</b>	<b>64</b>	<b>207</b>	<b>278</b>
Net book value:				
<b>At 30 June 2004</b>	<b>23</b>	<b>169</b>	<b>883</b>	<b>1,075</b>
At 30 June 2003	6	64	981	1,051

The net book value of fixed assets includes an amount of approximately HK\$883,000 (2003: HK\$981,000) in respect of assets held under financial leases.

## 18. INVESTMENT PROPERTIES

	Group	
	2004	2003
	HK\$'000	HK\$'000
Valuation:		
At 1 July 2003/2002	28,000	34,500
Revaluation decrease	–	(6,500)
Disposal	(28,000)	–
	–	–
At 30 June 2004/2003	–	28,000

On 12 March 2004, the investment property has been sold at a consideration of HK\$34,500,000.

As at 30 June 2003, the investment property is stated at its market value, which was prepared by RHL Appraisal Ltd, an independent professional surveyor, on an open market basis.

## 19. INVESTMENT IN SUBSIDIARIES

	Company	
	2004	2003
	HK\$'000	HK\$'000
Unlisted shares, at cost	1	22,115
Less: Impairment loss recognised	–	(22,115)
	1	–
Net amounts due from subsidiaries, less provision	–	6,761
	1	6,761

The amounts due from subsidiaries are unsecured and interest free.

## 19. INVESTMENT IN SUBSIDIARIES (Continued)

The following is a list of the significant subsidiaries at 30 June 2004:

Name of subsidiary	Place of incorporation/ establishment/ operation	Nominal value of issued shares/ registered capital	Proportion of nominal value of issued shares/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
Cristine Holdings Limited	British Virgin Islands ("BVI")	US\$1	100%	–	Investment holding
Digital Infinity Limited	BVI	US\$1	100%	–	Investment holding
Fine Apex Limited	Hong Kong	HK\$4	–	100%	Intra-group service
Future Wealth Investments Ltd	BVI	US\$1	100%	–	Investment holding
Great Central Trading Limited	BVI	US\$1	100%	–	Investment holding
Profit Charter Holdings Limited	BVI	US\$1	100%	–	Investment holding
Ruian Technology Company Limited	Hong Kong	HK\$2	–	100%	Trading in digital cameras, games and multimedia electronic products
Transfer Networks Limited	BVI	US\$1	100%	–	Investment holding
Widax (Hong Kong) Limited	Hong Kong	HK\$2	–	100%	Trading of telecommunication and high technology components
Widax Company Limited	Hong Kong	HK\$2	–	100%	Inactive

## 19. INVESTMENT IN SUBSIDIARIES (Continued)

Notes:

- (i) All are ordinary share capital unless otherwise stated.
- (ii) Welback International Investments Limited and its subsidiaries ("WILL group") were disposed of on 12 November 2003 at a consideration of HK\$1. The Company holds 51% of equity interest in WILL group.
- (iii) Investment in Ruian Weiye Technology (Shenzhen) Limited was disposed of on 30 April 2004 at a consideration of HK\$400,000.
- (iv) Investment in Bestplus Profits Limited ("Bestplus") was disposed on 28 April 2004 at a consideration of US\$1.

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

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 of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

## 20. INTERESTS IN AN ASSOCIATE

	Group	
	2004 HK\$'000	2003 HK\$'000
Share of net assets	-	-
Goodwill unamortised	-	50,963
	-	50,963
Less: Provision for impairment loss	-	(48,887)
	-	2,076
Reclassified as investment in securities (Note)	-	(2,076)
	-	-

Note: Pursuant to a board resolution of Gen-Wan Technology Corporation ("Gen-Wan"), which was classified as an associate of the Group as at 30 June 2002, Gen-Wan will increase its share capital by NT\$70 million during the year ended 30 June 2003. The Group has given up its right to contribute additional investment in Gen-Wan and, accordingly, the Group's equity interest in Gen-Wan was diluted from 24.9% to 9.5% and the Group no longer has the power to participate in the financial and operating policy decision of Gen-Wan. As a result, the investment in Gen-Wan was reclassified as investments in securities as at 30 June 2003.

## 21. INVESTMENTS IN SECURITIES

	2004 HK\$'000	Group 2003 HK\$'000
<b>(a) Investment securities</b>		
Unlisted equity securities, at cost	–	28,931
Less: Impairment loss recognised	–	(28,931)
	–	–

	2004 HK\$'000	Group 2003 HK\$'000
<b>(b) Other securities</b>		
Unlisted securities	–	2,051
Less: Impairment loss recognised	–	(2,051)
	–	–

## 22. INVENTORIES

	2004 HK\$'000	Group 2003 HK\$'000
Raw materials	–	23,186
Work in progress	–	2,758
Finished goods	–	7,638
	–	33,582

## 23. INVESTMENT DEPOSITS

	Group	
	2004	2003
	HK\$'000	HK\$'000
Deposit for acquisition of a subsidiary (Note)	16,100	–

Note: On 10 September 2003, Transfer Networks Limited (“TNL”), a wholly owned subsidiary of the Company, entered into a conditional Investment Agreement (the “Investment Agreement”) with the shareholders of 深圳銀河通信息技術有限公司 (“SRT”), inter alia, to invest RMB17,000,000 (approximately HK\$16,100,000) in registered share capital of SRT.

Completion of the Investment Agreement was scheduled to take place within 45 days of signing the Investment Agreement. It was conditional upon the approval of the Investment Agreement by the board of SRT and TNL, the delivery of a PRC legal opinion in relation to the validity of the Investment Agreement in a form satisfactory to TNL, the subscription as described in more details in Note 32(b), the conversion of SRT into a sino-foreign joint venture and all necessary PRC government approvals being obtained. All conditions cannot be waived except that in relation to the obtaining of PRC legal opinion.

As some of the conditions of the Investment Agreement cannot be fulfilled within 45 days from the Investment Agreement, parties to the Investment Agreement agreed on two occasions to extend the completion date to 31 July 2004. On 21 July 2004, all of the conditions were fulfilled and the Investment Agreement was completed. As such, the amount injected into SRT was treated as an investment deposit as at the year end date, 30 June 2004.

## 24. TRADE AND OTHER RECEIVABLES

At 30 June 2004, the balances of trade and other receivables included trade receivables of approximately HK\$2,440,000 (2003: HK\$16,295,000). An aged analysis of trade receivables prepared on the basis of sales invoice date is as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
0 to 90 days	1,373	9,569
91 days or above	1,067	6,726
	<b>2,440</b>	<b>16,295</b>

The Group allows an average credit period of 90-180 days (2003: 90-180 days) to its trade customers.

**25. TRADE AND OTHER PAYABLES**

At 30 June 2004, the balances of trade and other payables included trade payables of approximately HK\$2,181,000 (2003: HK\$57,085,000). An aged analysis of trade payables prepared on the basis of supplier invoice date is as follows:

	2004 HK\$'000	Group 2003 HK\$'000
0 to 90 days	1,598	20,178
91 days or above	583	36,907
	<u>2,181</u>	<u>57,085</u>

**26. SHORT-TERM SECURED BANK BORROWINGS**

	2004 HK\$'000	Group 2003 HK\$'000
Trust receipts and import loans	1,442	16,302
Portion of secured term loan due within one year (Note 27)	-	2,052
Short-term secured bank borrowings	-	7,117
	<u>1,442</u>	<u>25,471</u>

**27. SECURED TERM LOAN**

	2004 HK\$'000	Group 2003 HK\$'000
At 30 June 2004, the Group's secured term loan is repayable as follows:		
- Within one year	-	2,052
- In the second year	-	1,793
- In the second to fifth year inclusive	-	5,800
- After the fifth year	-	11,670
	-	<u>21,315</u>
Less: Amount due within one year included under short-term secured bank borrowings in current liabilities (Note 26)	-	(2,052)
	-	<u>19,263</u>

Events of default have arisen under certain loan arrangements entered into by WILL group amounting to approximately HK\$291,000 during the year ended 30 June 2003. As a result, the relevant loans have become repayable on demand and have been reclassified as current liabilities.

## 28. OBLIGATIONS UNDER FINANCE LEASES

### Group

	Minimum lease payments		Present value of minimum lease payments	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Amounts payable under finance leases:				
Within one year	250	1,298	208	1,186
In the second to fifth year inclusive	542	792	504	712
	792	2,090	712	1,898
Less: Future finance charges	(80)	(192)	-	-
Present value of obligations under finance leases	712	1,898	712	1,898
Less: Amount due within one year shown under current liabilities			(208)	(1,186)
Amount due after one year			504	712

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



## 28. OBLIGATION UNDER FINANCE LEASES (Continued)

## Company

	Minimum lease payments		Present value of minimum lease payments	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Amounts payable under finance leases:				
Within one year	250	250	208	192
In the second to fifth year inclusive	542	792	504	712
	792	1,042	712	904
Less: Future finance charges	(80)	(138)	-	-
Present value of obligations under finance leases	712	904	712	904
Less: Amount due within one year shown under current liabilities			(208)	(192)
Amount due after one year			504	712

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

## 29. CONVERTIBLE BONDS

	Group and Company	
	2004	2003
	HK\$'000	HK\$'000
Principal amount		
At the beginning of year	15,602	15,602
Redemption during the year	(15,602)	–
Issue during the year	16,000	–
At the end of year	16,000	15,602
Less: Issue costs		
At the beginning of year	–	715
Incurred during the year	129	–
Amortisation during the year including amounts written back upon redemption	(67)	(715)
At the end of year	62	–
Carrying value at 30 June	15,938	15,602

The HK\$16,000,000 8% convertible bonds (the "Bonds") were issued on 23 December 2003 with maturity date on 22 December 2004. Up to the balance sheet date, no Bonds have been converted into, either in whole or in part, ordinary shares of the Company.

## 30. SHORT-TERM BORROWINGS/LOAN FROM A SHAREHOLDER

### Group and Company

Short-term borrowings of HK\$8,560,000 is unsecured, chargeable with interest at 10% p.a. and repayable on 1 October 2004.

The Loan from a shareholder amounting to HK\$3,136,000 as at 30 June 2003 is unsecured, chargeable with interest at 10% p.a. and repayable on 16 January 2005. The loan has been assigned to an independent third party by the shareholder on 31 May 2004 and reclassified as Short-Term Borrowings as at 30 June 2004.

## 31. AMOUNT DUE TO A RELATED COMPANY

The amount due to a related company was unsecured, interest free and repayable on demand.

## 32. SHARE CAPITAL

	<i>Note</i>	<b>Number of shares</b>	<b>Nominal value HK\$'000</b>
<i>Authorised:</i>			
Ordinary shares of HK\$0.01 each at 30 June 2003 and 30 June 2004		20,000,000,000	200,000
<hr/>			
		<b>Number of shares</b>	<b>Nominal value HK\$'000</b>
<i>Issued:</i>			
Ordinary shares of HK\$0.01 each at 1 July 2002		6,611,624,132	66,116
Issue of shares pursuant to			
– Subscription agreements		2,207,900,000	22,079
– Settlement agreement		492,100,000	4,921
Issue of shares from exercise of share options		300,000,000	3,000
Issue of shares from exercise of warrants		2,500,000	25
<hr/>			
Ordinary shares of HK\$0.01 each at 30 June 2003 and 1 July 2003		9,614,124,132	96,141
Issue of shares pursuant to			
– Subscription agreements	(a), (b)	1,000,000,000	10,000
<hr/>			
<b>Ordinary shares of HK\$0.01 each at 30 June 2004</b>		<b>10,614,124,132</b>	<b>106,141</b>

All new shares issued ranked pari passu with the then existing shares in all respects.

## 32. SHARE CAPITAL (Continued)

*Notes:*

The following movements in the Company's issued share capital took place during the year ended 30 June 2004:

- (a) On 27 May 2003, an agreement was entered into between the Company and six independent third parties, pursuant to which the independent third parties agreed to subscribe for and the Company agreed to issue 1,200,000,000 new shares of the Company at a subscription price of HK\$0.017 each. On 21 July 2003, it was noticed that three of the placees did not take up the 900,000,000 new shares of the Company. A total of 300,000,000 ordinary shares of HK\$0.01 each were allotted and issued at a subscription price of HK\$0.017 each for a total proceeds, before related expenses, of approximately HK\$5,100,000.
- (b) On 29 September 2003, pursuant to the subscription agreement dated 10 September 2003, a total of 700,000,000 ordinary shares of HK\$0.01 each were allotted and issued at a subscription price of HK\$0.016 each.

### Share Options

The Company operates a share option scheme (the "Scheme"), further details of which are set out under the heading "Equity Compensation Benefits" in note 15 to the financial statements.

## 33. RESERVES

## Group

	Share premium HK\$'000	Subscription right reserve HK\$'000	Asset revaluation reserve HK\$'000	Capital reserve on consolidation HK\$'000	Accumulated deficits HK\$'000	Total HK\$'000
At 1 July 2002	101,240	25,269	11,691	10,800	(173,656)	(24,656)
Premium arising on issue of shares in respect of exercise of share options	1,800	-	-	-	-	1,800
Premium arising on issue of shares pursuant to subscription agreements	3,926	-	-	-	-	3,926
Premium arising on issue of shares pursuant to settlement agreement	2,159	-	-	-	-	2,159
Premium arising on issue of shares in respect of exercise of warrants	275	-	-	-	-	275
Transfer from subscription right reserve to share premium	48	(48)	-	-	-	-
Revaluation decrease	-	-	(9,536)	-	-	(9,536)
Subscription rights expired	-	(25,221)	-	-	-	(25,221)
Reserve transferred to accumulated deficits upon disposal of a leasehold property	-	-	(694)	-	694	-
Net loss for the year	-	-	-	-	(104,571)	(104,571)
At 30 June 2003	109,448	-	1,461	10,800	(277,533)	(155,824)
At 1 July 2003	109,448	-	1,461	10,800	(277,533)	(155,824)
Premium arising on issue of shares pursuant to subscription agreements	6,224	-	-	-	-	6,224
Release upon disposal of subsidiaries	-	-	(1,461)	(10,800)	-	(12,261)
Net profit for the year	-	-	-	-	49,266	49,266
At 30 June 2004	115,672	-	-	-	(228,267)	(112,595)

## 33. RESERVES (Continued)

### Company

	Share premium HK\$'000	Subscription right reserve HK\$'000	Contributed surplus HK\$'000	Accumulated deficits HK\$'000	Total HK\$'000
At 1 July 2002	101,240	25,269	13,508	(108,098)	31,919
Premium arising on issue of shares in respect of exercise of share options	1,800	–	–	–	1,800
Premium arising on issue of shares pursuant to subscription agreement	3,926	–	–	–	3,926
Premium arising on issue of shares pursuant to settlement agreement	2,159	–	–	–	2,159
Premium arising on issue of shares in respect of exercise of warrants	275	–	–	–	275
Transfer from subscription right reserve to share premium	48	(48)	–	–	–
Subscription rights expired	–	(25,221)	–	–	(25,221)
Net loss for the year	–	–	–	(123,840)	(123,840)
At 30 June 2003	109,448	–	13,508	(231,938)	(108,982)
At 1 July 2003	109,448	–	13,508	(231,938)	(108,982)
Premium arising on issue of shares pursuant to subscription agreement	6,224	–	–	–	6,224
Release upon disposal of subsidiaries	–	–	(13,508)	–	(13,508)
Net loss for the year	–	–	–	(15,783)	(15,783)
At 30 June 2004	115,672	–	–	(247,721)	(132,049)

### 33. RESERVES (Continued)

The contributed surplus represents the difference between the consolidated shareholders' funds of WILL group at the date on which its shares were acquired by the Company and the nominal amount of the Company's shares issued for the acquisition. During the year ended 30 June 2004, the entire of equity interest of WILL group has been disposed. Accordingly, the contributed surplus brought forward was released upon the completion of disposal.

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

- (i) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or
- (ii) the realisable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

In the opinion of the directors, the Company did not have any reserves available for distribution to shareholders at 30 June 2004 and 30 June 2003.

## 34. DISPOSAL OF SUBSIDIARIES

	Note	2004 HK\$'000	2003 HK\$'000
Net assets disposed of:			
Property, plant and equipment		40,518	–
Inventories		26,751	–
Trade and other receivables		22,682	–
Bank balances and cash		2,598	–
Pledged bank deposit		8,997	–
Trade and other payables		(96,390)	–
Amount due to a related company		(38,301)	–
Secured short term bank borrowing		(16,593)	–
Obligation under finance leases – due within one year		(993)	–
Other secured borrowings		(14,378)	–
Amount due to the Group		(145,069)	–
<hr/>			
Net liabilities		(210,178)	–
Asset revaluation reserve released on disposal		(1,461)	–
Capital reserve on consolidation released on disposal		(10,800)	–
Amount due to the Group written off on disposal		142,810	–
Gain on disposal of subsidiaries	9	80,034	–
<hr/>			
		405	–
<hr/>			
Satisfied by:			
Cash consideration received		405	–
<hr/>			
Net cash outflow in respect of the disposal of a subsidiary:			
Cash consideration received		405	–
Bank balances and cash disposed of		(2,598)	–
<hr/>			
		(2,193)	–
<hr/>			

The subsidiaries disposed of during the year constituted to the Group's operating cash outflow, turnover and operating loss of approximately HK\$1,102,000, HK\$24,927,000 and HK\$22,279,000 respectively for the year ended 30 June 2004.



**35. OPERATING LEASES COMMITMENTS**

As at 30 June 2004, the Group had outstanding commitments under non-cancellable operating leases which fall due as follows:

	<b>Group</b>	
	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i>
Within one year	719	2,184
In the second to fifth year inclusive	180	3,048
	<b>899</b>	<b>5,232</b>

Operating lease payments represent rentals payable by the Group for certain of its office property and staff quarters. Leases and rentals were negotiated and fixed for an average term of two years (2003: two years).

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

	<b>Company</b>	
	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i>
Within one year	–	31

**36. CONTINGENT LIABILITIES**

	<b>Group</b>	
	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i>
Bills discounted with recourse	–	5,304

- (i) As at 30 June 2004, the Company provided corporate guarantees amounting to approximately HK\$24 million to a financial institution in respect of banking facilities granted to WIII group, approximately HK\$5.5 million of which was utilized by members of the WIII group and such amount was claimed by the financial institution as disclosed in point (iii) below.

## 36. CONTINGENT LIABILITIES (Continued)

- (ii) The Company and its ex-subsiary, P.N. Electronics Ltd. ("PNE") are in an arbitration with North American Foreign Trading Corporation ("NAFT") in respect of a gross receivable of HK\$18 million and related damages from various parties for goods shipped by PNE to NAFT in 1996. The arbitration proceedings was initiated by NAFT against the Company and PNE claiming for alleged damages in New York, USA. The Company has, upon legal advice, vigorously contested the alleged claims and has counterclaimed for the said sum of HK\$18 million as well as other damages in the said proceedings. At this time, the action is in a standstill and thus it is not possible to predict the outcome with reasonable certainty.
- (iii) By a Writ and Statement of Claim dated 13 October 2003, BII finance Company Limited ("BII Finance") has made a claim against the Company under a guarantee allegedly given by the Company in favour of BII Finance in respect of certain alleged liabilities of the Company's ex-subsiary, Welback Enterprises Limited. The claim is for a sum of approximately HK\$3,583,000 and US\$248,000 (equivalent to approximately HK\$1,934,000) together with interest and costs. The claim is being disputed by the Company. The Company has joined its former directors, Mr. Lee Chun Kwok and Mr. Fong Wing Seng, as third parties to the action. The Company's Defence was filed on 1 December 2003. BII Finance has now taken out summary judgement proceedings against the Company. The parties attended a hearing of BII Finance's summary judgement application on 16 July 2004, but the hearing was adjourned to 2 November 2004 due to typhoon.

The Company is considering the merits of these claims and regards some of these claims as groundless. Nonetheless, the Company is currently seeking financial and legal advice on the effect on the Company of these matters and on what further actions are appropriate.

## 37. SUBSEQUENT EVENTS

On 16 August 2004, the Group entered into a sale and purchase agreement for the disposal of the entire interest in Future Wealth Investments Limited for a consideration of US\$1.

## 38. AUTHORISATION FOR ISSUE OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 27 October 2004.

– End of Notes –