

NOTES TO THE FINANCIAL STATEMENTS

For the period from 1 July 2004 to 31 December 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 28.

The financial statements for the current period cover the 6 month period ended 31 December 2004. The corresponding amounts shown for the income statement, statement of changes in equity, cash flow statement and related notes cover a 6 month period from 1 July 2004 to 31 December 2004 and therefore may not be comparable with the amounts shown for the prior period, which cover a 12 month period from 1 July 2003 to 30 June 2004. No further changes to reporting dates are anticipated.

2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants (the "HKICPA") issued a number of new or revised Hong Kong Accounting Standards ("HKASs") and Hong Kong Financial Reporting Standards ("HKFRSs") (herein collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the period ended 31 December 2004.

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These new HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

NOTES TO THE FINANCIAL STATEMENTS

For the period from 1 July 2004 to 31 December 2004

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention 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 31 December each year.

The results of subsidiaries acquired or disposed of during the period/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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the period from 1 July 2004 to 31 December 2004

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition

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

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

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% - 33 $\frac{1}{3}$ %

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the period from 1 July 2004 to 31 December 2004

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its 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.

Inventories

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

Leased assets

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the lessees. Assets held under finance leases are capitalised at their fair values at the date of inception. 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.

NOTES TO THE FINANCIAL STATEMENTS

For the period from 1 July 2004 to 31 December 2004

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 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.

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 period/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.

NOTES TO THE FINANCIAL STATEMENTS

For the period from 1 July 2004 to 31 December 2004

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

(a) Business segments

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

The Group was also engaged in the property and investment holdings which was discontinued in the year ended 30 June 2004.

Business segment information for the period from 1 July 2004 to 31 December 2004 is presented below:

	Continuing operations			Total HK\$
	Manufacture and distribution of electronics products HK\$	Manufacture of health care products HK\$	Elimination HK\$	
Turnover	55,780,696	—	—	55,780,696
Results				
Segment results	(5,047,160)	(824,991)	—	(5,872,151)
Unallocated corporate income				55,800
Unallocated corporate expense				(3,223,657)
Loss from operations				(9,040,008)
Finance costs				(602,373)
Loss before taxation				(9,642,381)
Tax credit				—
Loss before minority interests				(9,642,381)
Minority interests				(3,320,668)
Loss attributable to shareholders				(6,321,713)

NOTES TO THE FINANCIAL STATEMENTS

For the period from 1 July 2004 to 31 December 2004

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments (continued)

	Continuing operations			Total HK\$
	Manufacture and distribution of electronics products HK\$	Manufacture of health care products HK\$	Corporate HK\$	
Assets				
Segment assets	28,676,303	—	—	28,676,303
Unallocated corporate assets	—	—	81,028,807	81,028,807
Consolidated total assets				<u>109,705,110</u>
Liabilities				
Segment liabilities	(13,768,530)	—	—	(13,768,530)
Unallocated corporate liabilities	—	—	(18,265,381)	(18,265,381)
Consolidated total liabilities				<u>(32,033,911)</u>
Other information				
Capital expenditure	1,768,035	—	17,570	1,785,605
Depreciation of property, plant and equipment	997,636	144,426	20,033	1,162,095
Allowance for bad and doubtful debts	4,200,000	—	—	4,200,000
Allowance for obsolete inventories	1,650,000	—	—	1,650,000
Impairment loss in respect of property, plant and equipment	—	1,135,486	—	1,135,486

NOTES TO THE FINANCIAL STATEMENTS

For the period from 1 July 2004 to 31 December 2004

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

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

	Continuing operations			Discontinued operation	Total
	Manufacture and distribution of electronics products <i>HK\$</i>	Manufacture of health care products <i>HK\$</i>	Elimination <i>HK\$</i>	Property and investment holding <i>HK\$</i>	
Turnover	77,092,935	2,598,520	—	3,677,660	83,369,115
Results					
Segment results	1,385,864	(4,265,101)	—	1,079,959	(1,799,278)
Unallocated corporate income					2,171,552
Unallocated corporate expense					(36,163,743)
Loss from operations					(35,791,469)
Finance costs					(2,496,944)
Loss on disposal of subsidiaries					(5,816,946)
Loss before taxation					(44,105,359)
Tax credit					(26,292)
Loss before minority interests					(44,079,067)
Minority interests					135,562
Loss attributable to shareholders					(44,214,629)

NOTES TO THE FINANCIAL STATEMENTS

For the period from 1 July 2004 to 31 December 2004

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments (continued)

	Continuing operations			Discontinued operation	
	Manufacture and distribution of electronics products	Manufacture of health care products	Corporate	Property and investment holding	Total
	HK\$	HK\$	HK\$	HK\$	HK\$
Assets					
Segment assets	45,953,978	1,339,643	—	3,737	47,297,358
Unallocated corporate assets	—	—	81,226,007	—	81,226,007
Consolidated total assets					128,523,365
Liabilities					
Segment liabilities	(19,732,174)	(382,984)	—	—	(20,115,158)
Unallocated corporate liabilities	—	—	(21,094,627)	—	(21,094,627)
Consolidated total liabilities					(41,209,785)
Other information					
Capital expenditure	3,404,077	976,887	189,209	31,818	4,601,991
Depreciation of property, plant and equipment	1,549,344	473,562	1,574,001	1,051,724	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
Allowance for obsolete inventories	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
Amount due from fellow subsidiaries written off	—	—	11,336,399	—	11,336,399

NOTES TO THE FINANCIAL STATEMENTS

For the period from 1 July 2004 to 31 December 2004

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	
	1.7.2004 to 31.12.2004 HK\$	1.7.2003 to 30.6.2004 HK\$
Hong Kong	40,283,750	44,300,429
United States of America	874,868	12,588,404
PRC	6,333,507	12,670,954
Other Asian countries	8,225,852	13,665,298
Europe	62,719	144,030
	<u>55,780,696</u>	<u>83,369,115</u>

NOTES TO THE FINANCIAL STATEMENTS

For the period from 1 July 2004 to 31 December 2004

5. LOSS FROM OPERATIONS

	1.7.2004 to 31.12.2004 <i>HK\$</i>	1.7.2003 to 30.6.2004 <i>HK\$</i>
Loss from operations has been arrived at after charging (crediting):		
Staff costs, including directors' remuneration		
— Basic salaries and allowances	9,166,630	18,880,066
— Retirement benefits scheme contributions	241,420	389,035
Total staff costs	<u>9,408,050</u>	<u>19,269,101</u>
Amortisation of goodwill (included in administrative expenses)	—	110,000
Auditors' remuneration	450,000	500,000
Cost of inventories recognised as expense	39,682,895	47,257,002
Depreciation	1,162,095	4,648,631
Impairment loss recognised in respect of goodwill	—	660,000
Loss on disposal of other investments	—	144,354
Dividend income from listed securities	—	(4,645)
Gain on disposal of property, plant and equipment	(61,062)	(30,000)
Gain on disposal of investment properties	—	(558,914)

NOTES TO THE FINANCIAL STATEMENTS

For the period from 1 July 2004 to 31 December 2004

6. DIRECTORS' AND EMPLOYEES' REMUNERATION

(a) Directors' remuneration

The emoluments paid or payable to each of the 10 (30.6.2004: 12) directors were as follows:

For the period from 1 July 2004 to 31 December 2004:

	Fu Kwan	Wu Xiang Dong	Shu Shi Ping	Wang Xiao Ming	Chan Yeuk	Zhang Jian	Hung Kin Sang, Raymond	Cao Kuangyu	Ting Leung Huel, Stephen	E Meng	Total
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Fees	—	—	—	—	—	—	60,000	60,000	60,000	30,000	210,000
Other emoluments											
Salaries and other benefits	600,000	—	90,000	60,000	—	—	—	—	—	—	750,000
Performance related incentive payments (Note)	—	—	—	—	—	—	—	—	—	—	—
Retirement benefits scheme contributions	—	—	—	—	—	—	—	—	—	—	—
Total emolument	600,000	—	90,000	60,000	—	—	60,000	60,000	60,000	30,000	960,000

For the year ended 30 June 2004:

	Fu Kwan	Wu Xiang Dong	Wang Xiao Ming	Chan Yeuk	Zhang Jian	Hung Wong Kar Gee, Mimi	Hung Kin Sang Raymond	Fong Chin Ping	Cao Kuangyu	Ting Leung Huel, Stephen	Lun Tsan Kau	Lo Yun Tai	Total
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Fees	—	—	—	—	—	—	1,100,000	100,000	60,000	60,000	—	—	1,320,000
Other emoluments													
Salaries and other benefits	417,242	—	120,000	—	—	—	—	—	—	—	—	—	537,242
Performance related incentive payments (Note)	—	—	—	—	—	—	—	—	—	—	—	—	—
Retirement benefits scheme contributions	—	—	—	—	—	—	—	—	—	—	—	—	—
Total emoluments	417,242	—	120,000	—	—	—	1,100,000	100,000	60,000	60,000	—	—	1,857,242

Note:

The performance related incentive payments is determined as a percentage of the turnover of the Group for the period from 1 July 2004 to 31 December 2004 and for the year ended 30 June 2004.

NOTES TO THE FINANCIAL STATEMENTS

For the period from 1 July 2004 to 31 December 2004

6. DIRECTORS' AND EMPLOYEES' REMUNERATION (continued)**(b) Employees' emoluments**

The five highest paid individuals for the period included one director (1.7.2003 to 30.6.2004: two directors) whose emoluments are set out in (a) above. The emoluments of the remaining four (1.7.2003 to 30.6.2004: three) individuals are as follows:

	1.7.2004 to 31.12.2004 HK\$	1.7.2003 to 30.6.2004 HK\$
Salaries, performance related incentive payments and other benefits	1,466,700	2,278,000
Retirement benefits scheme contribution	88,760	139,100
	<u>1,555,460</u>	<u>2,417,100</u>

Their remuneration is within the following bands:

	1.7.2004 to 31.12.2004 Number of employees	1.7.2003 to 30.6.2004 Number of employees
Up to HK\$1,000,000	4	2
HK\$1,000,001 to HK\$1,500,000	—	1
	<u>4</u>	<u>3</u>

During the period from 1 July 2004 to 31 December 2004, 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 period from 1 July 2004 to 31 December 2004, no directors waived any emoluments.

NOTES TO THE FINANCIAL STATEMENTS

For the period from 1 July 2004 to 31 December 2004

7. FINANCE COSTS

	1.7.2004 to 31.12.2004 HK\$	1.7.2003 to 30.6.2004 HK\$
Interest on		
- Borrowings wholly repayable within five years	580,797	2,243,391
- Obligations under finance leases	21,576	253,553
	<u>602,373</u>	<u>2,496,944</u>

8. TAX CREDIT

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 period/year.

The tax credit for the year ended 30 June 2004 represented overprovision of Hong Kong Profits Tax in prior year.

The tax credit for the period/year can be reconciled to the loss per the income statement as follows:

	1.7.2004 to 31.12.2004 HK\$	1.7.2003 to 30.6.2004 HK\$
Loss before taxation	(9,642,381)	(44,105,359)
Tax at the Hong Kong Profits Tax rate of 17.5%	(1,687,417)	(7,718,437)
Tax effect of expenses not deductible for tax purpose	271,785	15,616,335
Tax effect of income not taxable for tax purpose	(17,073)	(9,248,626)
Overprovision in respect of prior year	—	(26,292)
Tax effect of tax losses not recognised	1,331,622	1,242,577
Effect of tax concession granted to manufacturing operations in the PRC	101,083	54,659
Others	—	53,492
	<u>—</u>	<u>(26,292)</u>
Tax credit for the period/year	<u>—</u>	<u>(26,292)</u>

At the balance sheet date, the Group had unused tax losses of approximately HK\$58 million (1.7.2003 to 30.6.2004: 55 million) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

NOTES TO THE FINANCIAL STATEMENTS

For the period from 1 July 2004 to 31 December 2004

9. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss attributable to shareholders of HK\$6,321,713 (1.7.2003 to 30.6.2004: HK\$44,214,629) and on 1,149,263,455 (1.7.2003 to 30.6.2004: the weighted average of 1,149,262,093) shares in issue during the period.

The computation of diluted loss per share for the period ended 31 December 2004 does not assume the exercise of warrants as all the warrants were lapsed on 30 April 2004.

The computation of diluted loss per share for the year ended 30 June 2004 does not assume the exercise of warrants as their exercise prices were higher than the market price of the Company's shares during the year ended 30 June 2004.

10. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements 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 2004	1,073,361	9,300,442	11,254,696	8,083,671	3,027,983	32,740,153
Additions	—	—	41,289	1,169,352	574,964	1,785,605
Disposals	—	(34,473)	(1,432)	(518,333)	(1,947,107)	(2,501,345)
At 31 December 2004	1,073,361	9,265,969	11,294,553	8,734,690	1,655,840	32,024,413
DEPRECIATION AND IMPAIRMENT						
At 1 July 2004	220,180	8,984,470	10,085,887	6,348,528	2,204,434	27,843,499
Provided for the period	53,452	126,072	460,217	336,447	185,907	1,162,095
Impairment loss recognised in the income statement	799,729	—	—	175,491	160,266	1,135,486
Eliminated on disposals	—	(34,473)	(32)	(495,861)	(1,946,449)	(2,476,815)
At 31 December 2004	1,073,361	9,076,069	10,546,072	6,364,605	604,158	27,664,265
NET BOOK VALUES						
At 31 December 2004	—	189,900	748,481	2,370,085	1,051,682	4,360,148
At 30 June 2004	853,181	315,972	1,168,809	1,735,143	823,549	4,896,654

NOTES TO THE FINANCIAL STATEMENTS

For the period from 1 July 2004 to 31 December 2004

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

	Tools, equipment and moulds HK\$
THE COMPANY	
COST	
At 1 July 2004	7,428,753
Additions	17,570
Disposals	(242)
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At 31 December 2004	7,446,081
	<hr/>
DEPRECIATION	
At 1 July 2004	7,246,085
Provided for the period	20,033
Eliminated on disposals	(32)
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At 31 December 2004	7,266,086
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NET BOOK VALUE	
At 31 December 2004	179,995
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At 30 June 2004	182,668
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The net book value of property, plant and equipment of the Group in respect of assets held under finance leases comprises the following:

	31.12.2004 HK\$	30.6.2004 HK\$
Plant and machinery	114,238	218,075
Motor vehicles	473,391	603,739
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	587,629	821,814
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The directors have reviewed the carrying amount of property, plant and equipment at 31 December 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\$1,135,000 (30.6.2004: HK\$5,531,000), 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.

NOTES TO THE FINANCIAL STATEMENTS

For the period from 1 July 2004 to 31 December 2004

11. INTERESTS IN SUBSIDIARIES

	31.12.2004 HK\$	30.6.2004 HK\$
Unlisted shares, at cost	3,000,016	3,000,016
Less: Impairment loss recognised	(2,579,516)	—
	<u>420,500</u>	<u>3,000,016</u>
Amounts due from subsidiaries	10,039,073	10,039,073
Less: Allowance on amounts due from subsidiaries	(10,039,073)	(9,400,000)
	<u>—</u>	<u>639,073</u>
	<u><u>420,500</u></u>	<u><u>3,639,089</u></u>

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 period ended 31 December 2004, 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 and allowance on amounts due from subsidiaries of HK\$12,618,589 (30.6.2004: 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 period/year.

Particulars of the Company's principal subsidiaries at 31 December 2004 are set out in note 28.

NOTES TO THE FINANCIAL STATEMENTS

For the period from 1 July 2004 to 31 December 2004

12. INVENTORIES

	THE GROUP	
	31.12.2004	30.6.2004
	HK\$	HK\$
Raw materials	7,499,877	8,195,901
Work in progress	970,651	2,265,509
Finished goods	1,276,374	2,794,172
	<u>9,746,902</u>	<u>13,255,582</u>

At 31 December 2004, raw materials of HK\$813,288 (30.6.2004: HK\$1,504,061) were carried at net realisable value. All other inventories were carried at cost.

13. TRADE AND OTHER RECEIVABLES

The Group generally allows an average credit period ranging from 30 to 90 days (30.6.2004: 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\$13,612,254 (30.6.2004: HK\$22,942,472) and their aged analysis is as follows:

	THE GROUP	
	31.12.2004	30.6.2004
	HK\$	HK\$
Within 90 days	11,396,113	17,487,556
90 days to 180 days	481,808	5,454,916
More than 180 days and within 360 days	1,734,333	—
	<u>13,612,254</u>	<u>22,942,472</u>

NOTES TO THE FINANCIAL STATEMENTS

For the period from 1 July 2004 to 31 December 2004

14. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$10,873,909 (30.6.2004: HK\$16,192,788) and their aged analysis is as follows:

	THE GROUP	
	31.12.2004	30.6.2004
	HK\$	HK\$
Within 90 days	9,314,615	14,163,831
90 to 180 days	1,542,299	2,028,957
More than 180 days and within 360 days	16,995	—
	<u>10,873,909</u>	<u>16,192,788</u>

15. AMOUNT DUE TO IMMEDIATE HOLDING COMPANY

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

NOTES TO THE FINANCIAL STATEMENTS

For the period from 1 July 2004 to 31 December 2004

16. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	31.12.2004	30.6.2004	31.12.2004	30.6.2004
	HK\$	HK\$	HK\$	HK\$
THE GROUP				
The maturity of obligations under finance leases is as follows:				
Within one year	288,132	413,016	262,083	379,359
More than one year, but not exceeding two years	142,096	247,188	140,260	232,284
More than two years, but not exceeding five years	—	18,502	—	17,603
	<u>430,228</u>	<u>678,706</u>	<u>402,343</u>	<u>629,246</u>
Less: Future finance charges	<u>(27,885)</u>	<u>(49,460)</u>	<u>—</u>	<u>—</u>
Present value of lease obligations	<u>402,343</u>	<u>629,246</u>	<u>402,343</u>	<u>629,246</u>
Less: Amounts due within one year shown under current liabilities			<u>(262,083)</u>	<u>(379,359)</u>
Amounts due after one year			<u>140,260</u>	<u>249,887</u>

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 period from 1 July 2004 to 31 December 2004, the average effective borrowing rate was 8.5% (1.7.2003 to 30.6.2004: 8.5%) 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 is secured by the lessor's charge over the relevant leased assets.

NOTES TO THE FINANCIAL STATEMENTS

For the period from 1 July 2004 to 31 December 2004

17. BANK BORROWINGS

	THE GROUP	
	31.12.2004	30.6.2004
	HK\$	HK\$
Secured bank borrowings comprise:		
Import loans	15,208,631	14,925,715
Bank overdrafts	1,726,610	4,078,410
	<u>16,935,241</u>	<u>19,004,125</u>
The borrowings are repayable as follows:		
Within one year or on demand	16,935,241	19,004,125
Less: Amounts due within one year or on demand shown under current liabilities	<u>(16,935,241)</u>	<u>(19,004,125)</u>
Amounts due after one year	<u>—</u>	<u>—</u>

18. SHARE CAPITAL

	Number of	Amount
	ordinary shares	HK\$
Shares of HK\$0.01 each		
Authorised:		
At 1 July 2003, 30 June 2004 and 31 December 2004	16,000,000,000	160,000,000
Issued and fully paid:		
At 1 July 2003	1,149,261,820	11,492,618
Exercise of warrants (note 19)	1,635	17
At 30 June 2004 and 31 December 2004	<u>1,149,263,455</u>	<u>11,492,635</u>

NOTES TO THE FINANCIAL STATEMENTS

For the period from 1 July 2004 to 31 December 2004

19. WARRANTS

During the year ended 30 June 2004, 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. No warrant was issued by the Company subsequent to the lapse of the warrants on 30 April 2004.

20. RESERVES

	Share premium <i>HK\$</i>	Contributed surplus <i>HK\$</i>	Deficit <i>HK\$</i>	Total <i>HK\$</i>
THE COMPANY				
At 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)
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 2004	34,620,566	260,227,518	(223,561,842)	71,286,242
Loss for the period	—	—	(6,406,187)	(6,406,187)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2004	<u>34,620,566</u>	<u>260,227,518</u>	<u>(229,968,029)</u>	<u>64,880,055</u>

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:

	31.12.2004 <i>HK\$</i>	30.6.2004 <i>HK\$</i>
Contributed surplus	260,227,518	260,227,518
Deficit	(229,968,029)	(223,561,842)
	<hr/>	<hr/>
	<u>30,259,489</u>	<u>36,665,676</u>

NOTES TO THE FINANCIAL STATEMENTS

For the period from 1 July 2004 to 31 December 2004

21. DISPOSAL OF SUBSIDIARIES

	1.7.2004 to 31.12.2004 HK\$	1.7.2003 to 30.6.2004 HK\$
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
Amounts due from fellow subsidiaries	—	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/>	<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/>	<hr/>
Total consideration	—	77,272,736
	<hr/> <hr/>	<hr/> <hr/>
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/>	<hr/>
	—	77,272,736
	<hr/> <hr/>	<hr/> <hr/>
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/>	<hr/>
Net cash inflow from disposal of subsidiaries	—	51,013,483
	<hr/> <hr/>	<hr/> <hr/>

The subsidiaries disposed of during the year ended 30 June 2004 contributed HK\$3,677,660 to the Group's turnover and HK\$35,789,765 to the Group's loss from operations.

NOTES TO THE FINANCIAL STATEMENTS

For the period from 1 July 2004 to 31 December 2004

22. 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.

23. PLEDGE OF ASSETS

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

	31.12.2004	30.6.2004
	<i>HK\$</i>	<i>HK\$</i>
Time deposits	<u>3,256,497</u>	<u>3,236,982</u>

24. 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\$1,392,000 (30.6.2004: HK\$2,762,000).

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	
	31.12.2004	30.6.2004
	<i>HK\$</i>	<i>HK\$</i>
Within one year	1,230,000	2,430,000
In the second to fifth year inclusive	<u>378,000</u>	<u>393,000</u>
	<u>1,608,000</u>	<u>2,823,000</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.

NOTES TO THE FINANCIAL STATEMENTS

For the period from 1 July 2004 to 31 December 2004

24. OPERATING LEASES (continued)

The Group as lessor

	THE GROUP	
	1.7.2004 to 31.12.2004 HK\$	1.7.2003 to 30.6.2004 HK\$
Rental income, net of negligible outgoings	—	3,677,660

25. 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.

NOTES TO THE FINANCIAL STATEMENTS

For the period from 1 July 2004 to 31 December 2004

26. 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.

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 not 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.

27. RELATED PARTY TRANSACTIONS

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

	1.7.2004 to 31.12.2004 HK\$	1.7.2003 to 30.6.2004 HK\$
Sales of goods	—	2,318,000

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

Details of the outstanding balances with other related parties are set out in note 15.

NOTES TO THE FINANCIAL STATEMENTS

For the period from 1 July 2004 to 31 December 2004

28. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 31 December 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 %	
Panorama Limited	British Virgin Island	Registered capital US\$50,000 issued US\$1	100	—	Investment holding
Workplace Logistics Limited	British Virgin Island	Registered capital US\$50,000 issued US\$1	100	—	Investment holding
Sharp Win (Holdings) Limited	Hong Kong	Ordinary HK\$10,000	—	51	Investment holding
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 medical herbs

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the period from 1 July 2004 to 31 December 2004

29. SUBSEQUENT EVENTS

The following events took place subsequent to 31 December 2004.

On 23 February 2005, the Company and 北京金六福酒有限公司 (“金六福”) entered into a sale and purchase agreement, pursuant to which the Company agreed to acquire from 金六福, an equity interest of 70% in Yunnan Shangeli-La Winery Co., Ltd (“Shangeli-La”) for a consideration of HK\$65,000,000 to be satisfied by cash as to HK\$58,500,000 (90% of the total consideration) at completion and HK\$6,500,000 (10% of the total consideration) on or before 23 February 2006, being the first anniversary of the date of the sale and purchase agreement. As at 23 February 2005, 金六福 is owned (i) as to 90% by 新華聯控股有限公司 which is a company in which Fu Kwan, a director of the Company, has 41% interest and (ii) as to 10% by 湖南省海達汽車機電銷售有限公司. The audited net asset value and total assets of Shangeli-La as at 30 September 2004 are approximately HK\$70,100,000 and approximately HK\$117,090,000 respectively. In addition, Shangeli-La recorded an audited net profit after taxation and minority interest of approximately HK\$14,120,000 for the nine months ended 30 September 2004.

On 23 February 2005, the Company and MACRO-LINK Sdn Bhd entered into a sale and purchase agreement, pursuant to which the Company agreed to acquire from MACRO-LINK Sdn Bhd, a 25% equity interest in Shangeli-la (Qinhuangdao) Winery Ltd (“Qinhuangdao”) for a consideration of HK\$4,407,645 to be satisfied in cash as to HK\$3,966,880.50 (90% of the total consideration) at completion and HK\$440,764.50 (10% of the total consideration) on or before 23 February 2006, being the first anniversary of the sale and purchase agreement. As at 23 February 2005, MACRO-LINK Sdn Bhd, through its wholly-owned subsidiary, MACRO-LINK International Investment Co., Ltd., is interested in approximately 74.99% of the entire issued share capital in the Company. The unaudited net asset value and total assets of Qinhuangdao as at 30 September 2004 are approximately HK\$17,630,000 and approximately HK\$50,630,000 respectively. In addition, Qinhuangdao recorded an unaudited net loss of approximately HK\$950,000 for the nine months ended 30 September 2004.

Both the above transactions have been approved by independent shareholders at special general meeting on 20 April 2005.

As the completion date of the above transaction is close to the date that the report is authorised to issue, it is impracticable to disclose information as required by HKFRS3, Business Combination which is effective for agreement signed on or after 1 January 2005.