NOTES TO THE FINANCIAL STATEMENTS

For the year ended September 30, 2000

1. Scheme of arrangement and basis of presentation of financial statements

The Company was incorporated in Bermuda on November 19, 1998 as an exempted company with limited liability under the Companies Act 1981 of Bermuda and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from July 30, 1999. Its former ultimate holding company is Sound Ocean Investment Limited ("Sound Ocean"), a company which was incorporated in the British Virgin Islands. As set out in note 24, following the several issues of new shares of the Company, the equity interest of Sound Ocean in the Company reduced to not more than 50 percent. As such, Sound Ocean is now a controlling shareholder of the Company.

Under a scheme of arrangement, details of which are set out in the document issued by the Company and Kosonic International Holdings Limited ("Kosonic") dated April 14, 1999 ("Scheme of Arrangement"), of the Company and Kosonic, whose shares were previously listed on the Stock Exchange, the Company issued one share at an issue price of HK$1.00 each and paid an additional cash payment of 5% for each dollar of debts owed to the banks and certain creditors. During the year ended September 30, 1999, 850 million new shares were issued to Sound Ocean at par for the purposes of the Scheme of Arrangement and working capital of the Company and 107,413,790 new shares were issued to Sound Ocean by way of capitalisation of the share premium account. During the year ended September 30, 2000, a further 12,586,210 new shares were issued to Sound Ocean by way of capitalisation of the share premium account.

The Group resulting from the Scheme of Arrangement is regarded as a continuing entity. Accordingly, the financial statements of the Group for the year ended September 30, 1999, were prepared on the basis as if the Company had always been the holding company of the Group. In the opinion of the directors, the financial statements for the year ended September 30, 1999, prepared on this basis, presented fairly the results, the cash flows and the state of affairs of the Group as a whole.

The principal activities of the Group are the manufacture, sales and distribution of electronic products.

2. Adoption of statements of standard accounting practice

In the current year, the Group has adopted the following Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants:

SSAP 1 (Revised)	Presentation of financial statements
SSAP 2 (Revised)	Net profit or loss for the period, fundamental errors and changes in accounting policies
SSAP 10 (Revised)	Accounting for investments in associates

SSAPs 1 (Revised) and 2 (Revised) are concerned with the presentation and disclosure of financial information. The presentation in the current year's financial statements has been modified in order to conform with the requirements of those standards. Comparative amounts have been restated in order to achieve a consistent presentation.

In particular:

— additional analyses of income and expenditure have been presented;

— items of income and expense that were separately identified on the face of the income statements as "exceptional items" in the prior year have been reclassified within an appropriate income or cost classification; and

— amounts owing by subsidiaries which had previously been presented together with the Company's investments in such enterprises have been reclassified as current assets according to the nature of the transactions giving rise to the balances.

In addition, the description of various components in the financial statements and the terminology used have been updated to reflect the terminology of the new standards.

None of the amendments outlined above has affected the results for the current or prior periods.

The revision of SSAP 10 has not resulted in any significant changes to the accounting treatment adopted for associates and accordingly no prior period adjustment has been required. Disclosures presented have been modified to meet the requirements of the new standard.

3. Significant accounting policies

The financial statements have been prepared under the historical cost convention as modified for the revaluation of certain properties and plant and machinery.

The financial statements have been prepared 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 September 30 each year.

Where a subsidiary operates under severe restrictions which significantly impair control by the Group over its assets and operations for the foreseeable future, the subsidiary is excluded from consolidation from the date in which the restriction came into force.

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

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

Goodwill

Goodwill represents the excess of the purchase consideration over the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a subsidiary and is written off to reserves immediately on acquisition. Negative goodwill, which represents the excess of the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a subsidiary over the purchase consideration is credited to reserves.

Any premium or discount arising on the acquisition of an interest in an associate, representing the excess or shortfall respectively of the purchase consideration over the fair value ascribed to the Group's share of the separable net assets of the associate at the date of acquisition, is dealt with in the same manner as that described above for goodwill.

On disposal of a subsidiary or associate, the attributable amount of goodwill previously eliminated against or credited to reserves is included in the determination of the profit or loss on disposal of the subsidiary or associate.

When there is impairment in value of goodwill that is other than temporary, the amount of goodwill impaired is reversed from the reserve and charged to the income statement as an expense.

Investments in subsidiaries

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or where the Company controls the composition of its board of directors or equivalent governing body.

Investments in subsidiaries are included in the Company's balance sheet at cost, as reduced by any decline in the value of the subsidiary that is other than temporary. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Interests in associates

An associate is an enterprise over which the Group is in a position to exercise significant influence, through participation in the financial and operating policy decisions of the investee.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. The carrying amount of such interests is reduced to recognise any decline, other than a temporary decline, in the value of individual investments.

Where a group enterprise transacts with an associate of the Group, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associate, except where unrealised losses provide evidence of an impairment of the asset transferred.

Revenue recognition

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

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

Rental income under operating leases is recognised on a straight line basis over the respective lease terms.

Property, plant and equipment

Property, plant and equipment are stated at cost or valuation less depreciation and amortisation. 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 assets have 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.

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

Where the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are not discounted to their present values.

Land and buildings, plant and machinery are stated in the balance sheet at their revalued amount, being the fair value on the basis of their existing use at the date of revaluation less any subsequent accumulated depreciation and amortisation. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on revaluation of land and buildings, plant and machinery 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. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

Depreciation and amortisation is provided to write off the cost or valuation of property, plant and equipment over their estimated useful lives using the straight line method, at the following rates per annum:

Leasehold land	Over the term of the lease
Buildings	2%
Leasehold improvements	20% to $33^1/_3$%
Toolings	$33^1/_3$%
Plant and machinery	10% to $33^1/_3$%
Furniture, fixtures and equipment	15% to $16^2/_3$%
Motor vehicles	$16^2/_3$% to $33^1/_3$%

Foreign currencies

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

On consolidation, the financial statements of overseas operations are translated at the rates ruling on the balance sheet date. All exchange differences arising on consolidation are dealt with in reserves.

Taxation

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

Operating leases

Rental expenses under operating leases are charged to the income statement on a straight line basis over the lease terms.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Cash equivalents

Cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired; less advances from banks repayable within three months from the date of the advances.

4. Turnover and segmental information

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

The Group’s turnover and loss from operations are derived from the sale of electronic products.

An analysis of the Group's turnover and loss from operations by geographical location is as follows:

	Turnover		Loss from operations	
	2000	1999	**2000**	1999
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**29,258**	4,410	**(17,247)**	(2,434)
Other regions of The People's Republic of China (the "PRC")	**7,464**	—	**(47,491)**	(106,489)
	36,722	4,410	**(64,738)**	(108,923)

5. Other income

	2000	1999
	HK$'000	*HK$'000*
Reimbursement of legal and professional fees from a controlling shareholder	**1,606**	—
Rental income	**768**	521
Interest earned on bank deposits	**282**	7
Others	**560**	100
	3,216	628

6. Loss from operations

	2000	1999
	HK$'000	*HK$'000*
Loss from operations has been arrived at after charging:		
Auditors' remuneration	**1,000**	600
Depreciation and amortisation	**8,061**	14,191
Rental payments under operating leases in respect of premises	**2,040**	360
Staff costs, including directors' emoluments	**9,734**	1,765
and after crediting:		
Rental income from property, plant and equipment net of negligible outgoings	**768**	521

7. Finance costs

The amount represents interest on bank and other borrowings wholly repayable within five years.

8. Waiver of non-bank creditors and bank borrowings

	2000	1999
	HK$'000	*HK$'000*
Waiver of non-bank creditors under the Scheme of Arrangement	**2,915**	48,588
Waiver of bank borrowings under the Scheme of Arrangement	**—**	8,349
	2,915	56,937

9. Gain on settlement of bank borrowings and creditors

	2000	1999
	HK$'000	*HK$'000*
Gain on settlement of bank borrowings *(Note i)*	**—**	22,000
Gain on settlement of creditors *(Note ii)*	**—**	10,813
	—	32,813

Notes:

i. During the year ended September 30, 1999, a director repaid bank borrowings of the Group whilst at the same time, waiving his rights against the Group for the recovery of the amount settled by him in this way.

ii. During the year ended September 30, 1999, creditors of Kosonic Industries (International) Limited, which operated in the PRC, arose prior to the Scheme of Arrangement amounting to approximately HK$25,755,000 had accepted property, plant and equipment with net book value of approximately HK$14,942,000 in full and final settlement of amounts owed to them.

10. Directors' emoluments

	2000	1999
	HK$'000	*HK$'000*
Directors' fees:		
— Executive	**—**	—
— Independent non-executive	**224**	20
	224	20
Other emoluments (executive directors):		
— Salaries and other benefits	**4,506**	588
— Contributions to retirement benefits scheme	**—**	—
	4,506	588
Total emoluments	**4,730**	608

The emoluments of the directors were within the following bands:

	2000	1999
	No. of directors	No. of directors
Nil to HK$1,000,000	**12**	8
HK$1,500,001 to HK$2,000,000	**1**	—
	13	8

11. Employees' emoluments

Of the five individuals with the highest emoluments in the Group, four (1999: two) were directors of the Company whose emoluments are included in the disclosures in note 10 above. The emoluments of the remaining one (1999: three) individual were as follows:

	2000	1999
	HK$'000	*HK$'000*
Salaries and other benefits	**700**	251

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 or as compensation for loss of office during either of the two years ended September 30, 2000. No directors had waived any emoluments during the two years ended September 30, 2000.

12. Taxation

	2000	1999
	HK$'000	*HK$'000*
The charge comprises:		
Hong Kong Profits Tax		
— Current year	**—**	294
— Underprovision in prior years	**—**	314
	—	608

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group incurred a tax loss for the year.

Hong Kong Profits Tax was calculated at 16% of the estimated assessable profits derived from Hong Kong during the year ended September 30, 1999.

The major components of unrecognised deferred tax credit for the year are as follows:

	2000	1999
	HK$'000	*HK$'000*
Tax effect of timing differences attributable to:		
Difference between tax allowances and depreciation	**(147)**	290
Estimated tax losses	**4,625**	23,341
	4,478	23,631

Details of the major deferred tax asset not provided for are set out in note 28.

13. Net (loss) profit for the year

Of the Group's net loss for the year of approximately HK$74,465,000 (1999: a profit of approximately HK$4,343,000), a loss of approximately HK$44,109,000 (1999: HK$484,627,000) has been dealt with in the financial statements of the Company.

14. (loss) earnings per share

The calculation of the basic and diluted (loss) earnings per share is based on the following data:

	2000	1999
	HK$'000	*HK$'000*
(Loss) profit for the purposes of basic (loss) earnings per share	**(74,465)**	4,343
Loss on settlement of debts by shares		(1,321)
Profit for the purposes of diluted earnings per share		3,022
Weighted average number of shares for the purposes of basic (loss) earnings per share	**1,795,983,887**	428,474,512
Effect of dilutive potential shares in respect of the Scheme of Arrangement		4,777,496
Weighted average number of shares for the purposes of diluted earnings per share		433,252,008

No diluted loss per share for the year ended September 30, 2000 has been presented as the effect of exercising the potential shares would be anti-dilutive.

Note: The basic and diluted earnings per share for the year ended September 30, 1999 was calculated as if the Company had been the holding company of the Group from the beginning of that year.

15. Property, plant and equipment

	Land and buildings HK$'000	Leasehold improvements HK$'000	Toolings HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
THE GROUP							
COST OR VALUATION							
At October 1, 1999	38,866	—	—	54,203	1,588	904	95,561
Additions	—	4,447	19,799	6,970	195	102	31,513
Disposals and write offs	—	—	—	(47,180)	—	(904)	(48,084)
At September 30, 2000	38,866	4,447	19,799	13,993	1,783	102	78,990
Comprising:							
At cost	—	4,447	19,799	6,970	1,783	102	33,101
At valuation - 1999	38,866	—	—	7,023	—	—	45,889
	38,866	4,447	19,799	13,993	1,783	102	78,990
DEPRECIATION AND AMORTISATION							
At October 1, 1999	541	—	—	8,723	18	50	9,332
Provided for the year	790	1,292	601	5,228	141	9	8,061
Eliminated on disposals and write offs	—	—	—	(11,722)	—	(50)	(11,772)
At September 30, 2000	1,331	1,292	601	2,229	159	9	5,621
NET BOOK VALUES							
At September 30, 2000	37,535	3,155	19,198	11,764	1,624	93	73,369
At September 30, 1999	38,325	—	—	45,480	1,570	854	86,229

The net book value of land and buildings shown above represents properties held outside Hong Kong under medium term leases which were valued at February 28, 1999 by American Appraisal Hongkong Limited, appraisal and property consultants, on an open market value basis.

The plant and machinery purchased before September 30, 1999 and remained in use by the Group at September 30, 2000 was valued at February 28, 1999 by American Appraisal Hongkong Limited under the premise of continued use basis at HK$7,023,000.

In the opinion of the directors, the fair value of the above revalued land and buildings and plant and machinery at September 30, 2000 would not be significantly different from their carrying values. Accordingly, these assets were stated at valuation in February 1999 less depreciation and amortisation.

In addition, the directors also consider that the fair value of plant and machinery purchased during the year ended September 30, 2000 of approximately HK$6,970,000 would not be significantly different from their net book value at September 30, 2000. Accordingly, these assets were stated at cost less depreciation.

At September 30, 1999, property, plant and equipment at valuation and accumulated depreciation of approximately HK$38,000,000 and HK$5,600,000 respectively were leased to third parties for rental income. There was no property, plant and equipment leased to third parties for rental income at September 30, 2000.

Had the Group's revalued land and buildings been carried at cost less accumulated depreciation and amortisation, the carrying value of such land and buildings would have been stated at approximately HK$67,330,000 (1999: HK$69,751,000).

At September 30, 2000, the title of and the rights of use in the Group's land and buildings have been held by 深圳市康家樂實業有限公司 (Shenzhen City Kang Jia Le Enterprise Limited) ("Kang Jia Le") under its name as a nominee for the Group.

16. Investments in subsidiaries

	THE COMPANY	
	2000	1999
	HK$'000	*HK$'000*
Unlisted shares, at cost	**19,056**	19,056
Less: provision	**(19,056)**	(19,056)
	—	—

Particulars of the Company's principal subsidiaries at September 30, 2000 are as follows:

Name of subsidiary	**Place of incorporation/ registration/ operation**	**Issued and fully paid up share capital/ registered capital**	**Proportion of nominal value of issued/registered capital held by the Company** %	**Principal activities**
Claymore Developments Limited	British Virgin Islands	US$1	100	Holding of property, plant and equipment
Kosonic	Bermuda	HK$47,640,288	100	Investment holding
Shunde Sound Electronic Company Limited	PRC	HK$5,000,000	100	Manufacturing and trading of electronic products
Sound Green Energy Limited	British Virgin Islands	US$1	100	Investment holding
Sound Hong Kong Limited	British Virgin Islands	US$1	100	Investment holding
Sound Industrial Limited	Hong Kong	HK$2	100	Trading of electronic products

Name of subsidiary	Place of incorporation/ registration/ operation	Issued and fully paid up share capital/ registered capital	Proportion of nominal value of issued/registered capital held by the Company %	Principal activities
Sound Management Services Limited	Hong Kong	HK$2	100	Providing management services and trading of electronic products
Sound Technologies Limited	Hong Kong	HK$2	100	Investment holding

The above principal subsidiaries are owned indirectly by the Company with the exception of Sound Hong Kong Limited which is owned directly by the Company.

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

The above list includes 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.

17. Interest in an associate

	THE GROUP	
	2000	1999
	HK$'000	*HK$'000*
Share of net deficit of an associate	**(353)**	—

As disclosed in note 36, the Group has committed to provide shareholder loan amounting to HK$4 million to Clear Network Limited ("Clear Network") and accordingly, the Group's share of net deficit of Clear Network for the year is recognised in the Group's consolidated results for the year.

As at September 30, 2000, the Group had interest in the following associate:

Name of entity	Form of business structure	Country of incorporation	Principal place of operation	Issued and fully paid up share capital	Proportion of nominal value of issued capital held by the Group	Nature of business
Clear Network	Incorporated	British Virgin Islands	Hong Kong	US$1,000	40%	Internet website operation

18. Inventories

	THE GROUP	
	2000	1999
	HK$'000	*HK$'000*
Raw materials	**2,835**	3,423
Work in progress	**2,292**	—
Finished goods	**5,573**	—
	10,700	3,423

Included in 1999 are raw materials of approximately HK$3,423,000 which are carried at net realisable value.

19. Trade debtors

The credit terms of the Group range from 0 to 180 days. The aging analysis of trade debtors is stated as follows:

	THE GROUP	
	2000	1999
	HK$'000	*HK$'000*
Aged		
Within 3 months	**10,844**	3,889
3 to 6 months	**4,155**	—
	14,999	3,889

20. Amount due from a controlling shareholder

	THE GROUP		
Name of entity	**At 9.30.2000**	At 10.1.1999	**Maximum debit balance outstanding during the year**
	HK$'000	*HK$'000*	*HK$'000*
Sound Ocean	**—**	125	1,507

The amount is unsecured, interest free and is repayable on demand.

Shum Siu Hung, Shum Siu Mau and Wu Hong Cho are directors of and have beneficial interests in Sound Ocean. Cen Ziniu has a beneficial interest in Sound Ocean. Cheung Ching Yu and Zhao Xinghuan are directors of Sound Ocean.

21. Amounts due from related companies

	THE GROUP		
	At 9.30.2000	At 10.1.1999	**Maximum amount outstanding during the year**
	HK$'000	*HK$'000*	*HK$'000*
Guangdong Huabao Electric Appliance Co., Limited ("Huabao")	**937**	—	937
Kang Jia Le	**736**	1,376	1,376
	1,673	1,376	

The amounts due from related companies are unsecured, interest free and are repayable on demand.

Shum Siu Hung is a director of Huabao. Cen Ziniu has a beneficial interest in Kang Jia Le.

22. Trade creditors

The aging analysis of trade creditors is stated as follows:

	2000	1999
	HK$'000	*HK$'000*
Aged		
Within 3 months	**4,374**	—
3 to 6 months	**69**	—
	4,443	—

23. Amounts due to related companies

	THE GROUP		THE COMPANY	
	2000	1999	**2000**	1999
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Kang Jia Le	**852**	—	**634**	634
Hallwin Development Limited ("Hallwin")	**—**	3,051	**—**	—
Kosan International Holdings Limited ("Kosan")	**—**	426	**—**	—
Pacific Group International Limited ("Pacific Group")	**—**	148	**—**	—
	852	3,625	**634**	634

The amounts due to related companies are unsecured, interest free and are repayable on demand.

A brother of Ko Kai Hing's spouse is a shareholder of Hallwin. Ko Kai Hing and Ko Hing Hung have beneficial interests in Kosan. Luk Yan has a beneficial interest in Pacific Group. Cen Ziniu has a beneficial interest in Kang Jia Le.

24. Share capital

	Number of shares		Amount	
	2000	1999	**2000**	1999
			HK$'000	*HK$'000*
Authorised share capital of HK$0.10 each:				
At the beginning of year	**2,500,000,000**	—	**250,000**	—
Initial authorised share capital	**—**	1,000,000	**—**	100
Increase during the year *(note a)*	**17,500,000,000**	2,499,000,000	**1,750,000**	249,900
At the end of year	**20,000,000,000**	2,500,000,000	**2,000,000**	250,000
Issued and fully paid share capital of HK$0.10 each:				
At the beginning of the year	**1,589,060,387**	—	**158,906**	—
Issue of initial shares at nil paid	**—**	1,000,000	**—**	100
Issue of shares under the Scheme of Arrangement				
— to settle amounts due to banks and non-bank creditors at HK$1.00 per share *(notes b and e)*	**20,690,276**	441,085,445	**2,069**	44,109
— to the then shareholders of Kosonic	**—**	190,561,152	**—**	19,056
— to Sound Ocean for cash at par	**—**	850,000,000	**—**	85,000
— to Sound Ocean by capitalisation of share premium account *(note f)*	**12,586,210**	107,413,790	**1,259**	10,741
Repurchases of shares	**—**	(1,000,000)	**—**	(100)
Issue of shares under an arrangement for placing and subscription *(note c)*	**150,000,000**	—	**15,000**	—
Issue of shares in consideration for the acquisition of 40% of Clear Network *(note d)*	**160,000,000**	—	**16,000**	—
Issue of shares under a placing agreement *(note g)*	**380,000,000**	—	**38,000**	—
At the end of the year	**2,312,336,873**	1,589,060,387	**231,234**	158,906

Notes:

(a) Pursuant to an ordinary resolution passed in a special general meeting of the Company held on August 23, 2000, the authorised share capital of the Company was increased from HK$250,000,000 to HK$2,000,000,000 by the creation of an additional 17,500,000,000 shares of HK$0.10 each.

(b) On January 21, 2000, 7,302,667 new shares of HK$0.10 each were issued at HK$1.00 per share to settle amounts due to certain creditors.

(c) On April 3, 2000, 150,000,000 new shares of HK$0.10 each were issued at HK$0.207 per share under an arrangement for the placing and subscription agreement dated March 21, 2000 to at least six independent third parties not connected with the directors, chief executive or substantial shareholders of the Company or its subsidiaries or their respective associates. The price of HK$0.207 per share represented a discount of approximately 11.5 percent to the closing price per share of HK$0.234 as quoted on the Stock Exchange on March 21, 2000. The net proceeds of the placement amounted to approximately HK$29.7 million and were used for general working capital purpose. These new shares were issued under the general mandate granted to the directors at the annual general meeting of the Company held on March 23, 2000.

(d) On April 14, 2000, 160,000,000 new shares of HK$0.10 each were issued at HK$0.207 per share as consideration for the purchase of 40% of the issued share capital of Clear Network pursuant to the sale and purchase agreement of 40% of the issued share capital of Clear Network dated March 21, 2000. The price of HK$0.207 per share represented a discount of approximately 11.5 percent to the closing price per share of HK$0.234 as quoted on the Stock Exchange on March 21, 2000. These new shares were issued under the general mandate granted to the directors at the annual general meeting of the Company held on March 23, 2000.

(e) On June 20, 2000, 13,387,609 new shares of HK$0.10 each were issued at HK$1.00 per share to settle amounts due to certain creditors.

(f) On June 20, 2000, 12,586,210 new shares of HK$0.10 each were issued as fully paid at par to Sound Ocean by way of capitalisation of the sum of HK$1,258,621 standing to the credit of the share premium account of the Company.

(g) On August 25, 2000, 380,000,000 new shares of HK$0.10 each were issued at HK$0.15 per share under a placing agreement dated July 25, 2000 to at least six independent third parties not connected with the directors, chief executive or substantial shareholders of the Company or its subsidiaries or their respective associates. The price of HK$0.15 per share represented a discount of approximately 1.31 percent to the closing price per share of HK$0.152 as quoted on the Stock Exchange on July 25, 2000. The net proceeds of the placement amounted to approximately HK$56.2 million and are used by the Group for general working capital purposes and for future investment opportunities as they arise. These new shares were issued under the general mandate granted to the directors at the special general meeting of the Company held on August 23, 2000.

All shares issued during the year by the Company rank pari passu with other shares in issue in all respects.

25. Share option scheme

Pursuant to the share option scheme (the "Scheme") adopted by the Company on April 9, 1999, the Board of Directors of the Company may at their discretion grant options to directors or employees of the Company and its subsidiaries to subscribe for shares in the Company in accordance with the terms of the Scheme. The subscription price (subject to adjustments as provided therein) is the higher of the nominal value of the shares and an amount which is not less than 80 percent of the average of the closing price per share on the Stock Exchange for the five trading days immediately preceding the date the option is granted. The maximum number of option shares in respect of which options may be granted under the Scheme shall not exceed 10 percent of the share capital of the Company in issue from time to time.

A summary of movements in the share options granted during the year to certain directors and employees of the Group under the Scheme were as follows:

Exercisable period	**Option price**	**Number of share options granted during the year**	**Number of share option lapsed upon resignation**	**Number of share options outstanding at September 30, 2000**
	HK$			
September 4, 2000 - September 2, 2005	0.180	153,200,000	(1,000,000)	152,200,000
December 21, 2000 - December 20, 2005	0.112	33,000,000	—	33,000,000
		186,200,000	(1,000,000)	185,200,000

No consideration was received by the Company or the Group for options granted during the year.

26. Reserves

	Share premium of the Company HK$'000	Capital redemption reserve of Kosonic HK$'000	Share premium of Kosonic HK$'000	Special reserve HK$'000	Asset Capital reserve HK$'000	revaluation reserve HK$'000	Goodwill reserve HK$'000	Exchange reserve HK$'000	Deficit HK$'000	Total HK$'000
THE GROUP										
At October 1, 1998	—	200	93,301	—	30,113	69	—	(170)	(639,531)	(516,018)
Premium arising from issue of shares	396,976	—	—	—	—	—	—	—	—	396,976
Expenses incurred in connection with the issue of shares	(5,100)	—	—	—	—	—	—	—	—	(5,100)
Capitalisation of the share premium account to pay up in full 107,413,790 shares	(10,741)	—	—	—	—	—	—	—	—	(10,741)
Transferred to special reserve as a result of the Scheme of Arrangement	—	(200)	(93,301)	93,501	—	—	—	—	—	—
Special reserve arising upon the Scheme of Arrangement	—	—	—	28,584	—	—	—	—	—	28,584
Released upon disposal	—	—	—	—	—	(69)	—	—	69	—
Surplus arising on revaluation	—	—	—	—	—	10,278	—	—	—	10,278
Exchange differences arising from translation of financial statements of overseas subsidiaries	—	—	—	—	—	—	—	170	—	170
Profit for the year	—	—	—	—	—	—	—	—	4,343	4,343
At September 30, 1999	381,135	—	—	122,085	30,113	10,278	—	—	(635,119)	(91,508)
Premium arising from issue of shares	70,792	—	—	—	—	—	—	—	—	70,792
Expenses incurred in connection with the issue of shares	(2,468)	—	—	—	—	—	—	—	—	(2,468)
Capitalisation of the share premium account to pay up in full 12,586,210 shares	(1,259)	—	—	—	—	—	—	—	—	(1,259)
Goodwill reserve arising from acquisition of an associate	—	—	—	—	—	—	(33,120)	—	—	(33,120)
Write off due to impairment of goodwill	—	—	—	—	—	—	16,560	—	—	16,560
Transfer of capital reserve to deficit on liquidation of certain subsidiaries	—	—	—	—	(30,113)	—	—	—	30,113	—
Released upon disposal	—	—	—	—	—	(8,947)	—	—	8,947	—
Exchange differences arising from translation of financial statements of overseas subsidiaries	—	—	—	—	—	—	—	(146)	—	(146)
Loss for the year	—	—	—	—	—	—	—	—	(74,465)	(74,465)
At September 30, 2000	448,200	—	—	122,085	—	1,331	(16,560)	(146)	(670,524)	(115,614)
THE COMPANY										
Premium arising from issue of shares	396,976	—	—	—	—	—	—	—	—	396,976
Expenses incurred in connection with the issue of shares	(5,100)	—	—	—	—	—	—	—	—	(5,100)
Capitalisation of the share premium account to pay up in full 107,413,790 shares	(10,741)	—	—	—	—	—	—	—	—	(10,741)
Loss for the year	—	—	—	—	—	—	—	—	(484,627)	(484,627)
At September 30, 1999	381,135	—	—	—	—	—	—	—	(484,627)	(103,492)
Premium arising from issue of shares	70,792	—	—	—	—	—	—	—	—	70,792
Expenses incurred in connection with the issue of shares	(2,468)	—	—	—	—	—	—	—	—	(2,468)
Capitalisation of the share premium account to pay up in full 12,586,210 shares	(1,259)	—	—	—	—	—	—	—	—	(1,259)
Loss for the year	—	—	—	—	—	—	—	—	(44,109)	(44,109)
At September 30, 2000	448,200	—	—	—	—	—	—	—	(528,736)	(80,536)

The deficit of the Group included a loss of approximately HK$353,000 (1999: Nil) retained by the associate of the Group.

As at September 30, 1999 and September 30, 2000, the Company has no reserves available for distribution to its shareholders.

The special reserve of the Group represents the difference between the share capital, share premium and capital redemption reserve of Kosonic whose shares were exchanged for the Company's shares and the nominal amount of the share capital issued by the Company pursuant to the Scheme of Arrangement dated April 14, 1999.

Capital reserve represents reserves arising from group reorganisation in 1992.

27. Creditors due after one year

The balance at September 30, 1999 represented outstanding debt claims from certain creditors and a related company. Under the Scheme of Arrangement, such outstanding debt claims would be settled by the issue of the Company's shares. During the year ended September 30, 2000, all the outstanding debt claims were either fully settled or waived under the Scheme of Arrangement.

28. Unprovided deferred taxation

A deferred tax asset has not been recognised in the financial statements because at the date of approval of these financial statements it is not certain that the deferred tax asset can be realised in the foreseeable future. At the balance sheet date, the major components of the unrecognised deferred tax asset are as follows:

	THE GROUP	
	2000	1999
	HK$'000	*HK$'000*
Tax effect of timing differences because of:		
Excess of tax allowances over depreciation	**—**	(147)
Estimated tax losses	**5,029**	43,066
	5,029	42,919

The surplus arising on revaluation of the Group's plant and machinery does not constitute a timing difference for taxation purposes as any profits realised on their subsequent disposal would not be subject to taxation.

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

29. Reconciliation of (loss) profit before taxation to net cash outflow from operating activities

	THE GROUP	
	2000	1999
	HK$'000	*HK$'000*
(Loss) profit before taxation	**(74,465)**	4,951
Interest income	**(282)**	(7)
Interest expenses	**342**	173
Depreciation and amortisation	**8,061**	14,191
Waiver of non-bank creditors and bank borrowings	**(2,915)**	(56,937)
Gain on settlement of bank borrowings and creditors	**—**	(32,813)
Gain on liquidation of subsidiaries	**(4,613)**	(24,297)
Inventories written off	**932**	51,775
Deficit on revaluation of property, plant and equipment	**—**	32,156
Loss on disposals and written offs of property, plant and equipment	**33,158**	4,832
Provision against impairment in value of goodwill arising on acquisition of an associate	**16,560**	—
Share of results of an associate	**353**	—
Increase in inventories	**(8,209)**	—
Increase in debtors, deposits and prepayments	**(16,422)**	(5,268)
Decrease (increase) in amount due from a controlling shareholder	**125**	(125)
Increase in amounts due from related companies	**(297)**	(1,376)
Increase in amount due to a non-consolidated subsidiary	**—**	270
Increase in amounts due to related companies	**704**	—
Increase (decrease) in creditors and accrued charges	**4,877**	(26,362)
Net cash outflow from operating activities	**(42,091)**	(38,837)

30. Liquidation of subsidiaries

	2000	1999
	HK$'000	*HK$'000*
Net liabilities of subsidiaries under liquidation/liquidated:		
Creditors and accrued charges	**(270)**	(18,735)
Amounts due to group companies	**(585,391)**	(122,436)
Amounts due to related companies	**(3,477)**	—
Taxation	**(938)**	(17,832)
Bank balances	**72**	—
	(590,004)	(159,003)
Written off of amounts due from liquidating/liquidated subsidiaries	**585,391**	122,436
Repayment of creditors	**—**	12,270
Gain on liquidation	**4,613**	24,297
	—	—

Analysis of net outflow of cash and cash equivalents in respect of subsidiaries under liquidation.

	2000	1999
	HK$'000	*HK$'000*
Bank balances	**(72)**	—

The subsidiaries under liquidation/liquidated did not make a significant contribution to the net cash flows or the results of the Group during the year.

31. Analysis of changes in financing during the year

	Share capital and share premium HK$'000	Bank loans HK$'000	Obligation under hire purchase contracts HK$'000	Amount due to Sound Ocean HK$'000	Amounts due to related companies HK$'000	Creditors HK$'000
Balance at October 1, 1998	140,941	336,057	1,611	20,000	6,425	—
Issue of shares to settle amount due to Sound Ocean	20,000	—	—	(20,000)	—	—
Issue of shares to Sound Ocean for cash	65,000	—	—	—	—	—
Expenses incurred in connection with the Scheme of Arrangement	(5,100)	—	—	—	—	—
Issue of shares to the then Kosonic's shareholders by way of share swap	19,056	—	—	—	—	—
Issue of shares to settle bank borrowings	285,635	(285,635)	—	—	—	—
Issue of shares to settle creditors	155,450	—	—	—	—	—
Eliminated on Scheme of Arrangement	(140,941)	—	—	—	—	—
Written-back of bank borrowings	—	(8,349)	—	—	—	—
Repayment by disposal of land and buildings	—	(5,040)	—	—	—	—
Repayment by a director	—	(22,000)	—	—	—	—
Repayment of borrowings	—	(15,033)	—	—	—	—
Reclassified (to) from creditors and accrued charges	—	—	(1,611)	—	—	20,589
Reclassified to creditors	—	—	—	—	(2,819)	2,819
Advances	—	—	—	—	19	—
Balance at September 30, 1999	540,041	—	—	—	3,625	23,408
Issue of shares in consideration for the acquisition of an associate	33,120	—	—	—	—	—
Issue of shares to settle creditors	20,691	—	—	—	—	(20,691)
Waiver of amounts by creditors	—	—	—	—	—	(2,717)
Written-off of amounts due to related companies from liquidating subsidiaries	—	—	—	—	(3,477)	—
Repayment of amounts due to related companies and creditors	—	—	—	—	(148)	—
Issue of shares to independent third parties for cash	88,050	—	—	—	—	—
Placement expenses	(2,468)	—	—	—	—	—
Balance at September 30, 2000	679,434	—	—	—	—	—

32. Material non-cash transactions

During the year, the Group had material non-cash transactions as follows:

i) 20,690,276 shares of HK$0.10 each were issued at HK$1.00 per share to settle approximately HK$20,690,000 due to certain creditors;

ii) 160,000,000 shares of HK$0.10 each were issued at HK$0.207 per share for the acquisition of 40% equity interest in Clear Network; and

iii) 12,586,210 shares of HK$0.10 each were issued to Sound Ocean by the capitalisation of approximately HK$1,259,000 of the share premium account of the Company.

33. Related party transactions

During the year, the Group entered into the following significant transactions with related parties:

	2000	1999
	HK$'000	*HK$'000*
Huabao		
Rental expenses paid to (ii)	**840**	—
Hunsworth Industrial Limited ("Hunsworth")		
Rental expenses paid to (ii)	**1,200**	300
Kang Jia Le		
Reimbursement of operating expenses paid on the Group's behalf (i)	**2,184**	2,202
Reimbursement of handling expenses relating to re-acquisition of property, plant and equipment paid to (i)	**—**	1,605
Reimbursement of income received on the Group's behalf	**477**	392
Sales of goods on the Group's behalf	**3,910**	—
Sound Ocean		
Restructuring expenses paid to (i)	**—**	5,100
Reimbursement of legal and professional fees from (i)	**1,606**	—

Kang Jia Le made payments for expenses and collected proceeds from sales and income on behalf of the Group.

Shum Siu Hung and his spouse are directors of Hunsworth. Shum Siu Hung has a beneficial interest in Hunsworth.

During the year ended September 30, 1999, Ko Kai Hing had entered into a service agreement (the "Service Agreement") with the Company and Sound Ocean for a term of two years commencing from the date on which the Company's shares commenced trading on the Stock Exchange ("Commencement Date"). Pursuant to the Service Agreement, Ko Kai Hing was entitled to require Sound Ocean to transfer to him 120 million of the Company's shares at a nominal consideration of HK$1 provided that the Service Agreement had not been terminated if and when the consolidated net profit after tax but before exceptional and extraordinary items of the Group (so far as it was attributable to the design, manufacture, marketing and distribution of consumer audio and video products) was not less than HK$20 million for the first 12-month period from the Commencement Date or after Ko Kai Hing had made up the shortfall if such profit was less than HK$20 million. Ko Kai Hing also gave a non-competition undertaking to the Group. The Service Agreement was terminated during the year following the resignation of Ko Kai Hing as director of the Company.

Kosonic entered into two supplemental agreements with Ko Kai Hing and Sound Ocean on November 18, 1998 and January 22, 1999 respectively, which amended certain terms and conditions of the agreement entered into by the same parties in May 1998, which sets out the main terms of the Scheme of Arrangement.

During the year ended September 30, 1999, bank borrowings amounting to HK$22,000,000 was settled by Ko Kai Hing who waived his rights against the Group for the recovery of the amount settled by him.

During the year ended September 30, 1999, for the purpose of implementation of the Scheme of Arrangement, Kang Jia Le entered into agreements with the Group on November 3, 1998 and December 22, 1998 respectively to re-acquire two batches of the core operating assets of subsidiaries in the PRC on behalf of the Group. These assets, together with an earlier batch re-acquired in September 1998 and the remaining surplus of the funds advanced by Sound Ocean to the Group for the purpose of the acquisitions, had been held by Kang Jia Le under its name as a nominee for the Group.

Notes:

In the opinion of directors:

(i) expenses were paid at cost; and

(ii) the rental amount was based on market rate.

Save as disclosed above and notes 20, 21 and 23, there were no other significant transactions with related parties during the year or significant balances with them at the end of the year.

34. Contingent liabilities

At September 30, 2000, the Company has given guarantees amounting to HK$1,000,000 to banks in respect of general facilities granted to one of its subsidiaries. None of such facilities was utilised at September 30, 2000. As September 30, 1999, the Company had no significant contingent liabilities.

At September 30, 2000, the Group had no significant contingent liabilities. At September 30, 1999, certain subsidiaries of the Company were named as defendants in various legal actions which in aggregate amounting to approximately HK$23,454,000 and approximately HK$2,967,000 had been provided for and included in creditors and accrued charges and amounts due to related companies respectively. As at September 30, 2000, these subsidiaries have been placed under liquidation.

35. Pledge of assets

At September 30, 2000, the Group did not pledge any assets to secure general banking facilities granted to the Group. At September 30, 1999, the Group pledged its bank deposits amounting to HK$5,000,000 to secure general banking facilities granted to the Group.

36. Commitments

At the balance sheet date, there were commitments contracted for but not provided in the financial statements as follows:

	THE GROUP		THE COMPANY	
	2000	1999	**2000**	1999
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Lease commitments payable in the next twelve months under non-cancellable operating leases in respect of rented premises expiring:				
— within one year	**500**	—	**—**	—
— in the second to fifth years inclusive	**1,440**	1,440	**—**	—
	1,940	1,440	**—**	—
Commitments in respect of prorated shareholder loan to an associate	**4,000**	—	**4,000**	—
Commitments in respect of payment of a fixed management fee to a PRC party which expires over five years	**—**	713	**—**	—

37. Post balance sheet events

The following events have taken place since September 30, 2000.

(a) On October 31, 2000, Sound Industrial Limited ("Sound Industrial"), a wholly-owned subsidiary of the Company, and Gold Decade Limited ("Gold Decade") entered into an agreement pursuant to which Gold Decade has granted to Sound Industrial an exclusive sub-licence to use the Trademarks of "華寶" and "HUABAO", well-known brand names for electrical appliance in the PRC, on all the electronic products manufacture and sell by the Group for an initial term of one year. A royalty fee of 1.5% of the net sale proceeds of the Group's products sold under the Trademarks shall be payable as sub-licence fee subject to a maximum annual payment of HK$8,000,000 and a minimum annual payment of HK$10,000. Sound Industrial has an option to renew for the agreement for two further terms of one year each after the expiry of the initial term of one year.

(b) On November 21, 2000, a conditional agreement was entered into by Sound Green Energy Limited ("Sound Green"), a wholly-owned subsidiary of the Company, and independent third parties for the purchases of 70% of the equity interest in Well Jade Limited ("Well Jade") for a consideration of HK$50,046,800 of which HK$1,250,000 will be satisfied in cash and HK$48,796,800 will be settled by the issue of 353,600,000 new shares of the Company. The principal activities of Well Jade are the wholesale and distribution of Liquefied Petroleum Gas ("LPG") in the PRC. Well Jade owns 55% equity interest in a sino-foreign equity joint venture, Daqing Longyou Green Energy Limited ("Daqing Longyou"), which was formed between Well Jade and Daqing Longyou Automobile Liquefied Petroleum Gas Equipment Services Company Limited on July 10, 2000. On September 20, 2000, Daqing Longyou obtained a non-exclusive business licence from Daqing Municipal Government to build and operate LPG autogas filling stations in Daqing, the PRC for 45 years. Well Jade aims to be the leading LPG fueling station operator and franchiser in the PRC.