

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Principal Accounting Policies and Basis of Preparation

Basis of Preparation

The interim financial statements have been prepared in accordance with the Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants, except that the comparative amounts of the condensed consolidated statement of recognised gains and losses and the condensed consolidated cash flow statement have not been prepared. Such departures are permitted under Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

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 or an interest in an associate. Goodwill arising on acquisition during the period is recognised as an asset and is amortized on a straight-line basis over its expected useful life. For acquisition prior to 1st October, 2000, goodwill was written off to reserves immediately on acquisition.

Except the above, the accounting policies and methods of computation used in preparation of these unaudited condensed consolidated interim financial statements are consistent with those used in the annual financial statements for the year ended 30th September, 2000.

Re-classification of comparative figures

Loss from operations for the last corresponding period was re-stated to (HK\$14,355,000) since (HK\$63,000) being finance costs and a credit of HK\$3,585,000 being gain on settlement of creditors were re-stated after "Loss from Operations" in order to conform to the current period's presentation and the revised SSAP No. 1 "Presentation of Financial Statements".

2. Turnover and Segmental Information

The Group's turnover and profit/(loss) from operations analyzed by principal activities and by geographical locations are as follows:—

	Turnover		Profit / (Loss) from operations	
	Unaudited Six months ended 31st March		Unaudited Six months ended 31st March	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
By Principal Activities:				
Manufacturing and sale of electronic products	28,089	25,478	(21,691)	(14,355)
Supply and installation of air-conditioners	1,205	—	60	—
Wholesale and distribution of liquefied petroleum gas	899	—	(844)	—
Corporate expenses	—	—	(3,164)	—
	<u>30,193</u>	<u>25,478</u>	<u>(25,639)</u>	<u>(14,355)</u>
By Geographical Locations:				
Hong Kong	14,046	8,189	(11,172)	(7,153)
Other regions of the People's Republic of China (the "PRC")	16,147	17,289	(14,467)	(7,202)
	<u>30,193</u>	<u>25,478</u>	<u>(25,639)</u>	<u>(14,355)</u>

3. Depreciation and amortization

During the period, depreciation of approximately HK\$5,887,000 (2000: HK\$7,113,000) was charged to the income statement in respect of the Group's property, plant and equipment.

During the period, amortization of approximately HK\$625,000 (2000: Nil) was charged to the income statement in respect of the Group's goodwill.

4. Provision Against Impairment in Value of Goodwill

Balance of goodwill arising from acquisition in the last financial year was further written off during the period and charged to the income statement as an expense due to impairment in value.

5. Taxation

No provision for Hong Kong Profits tax has been made as the Group incurred a tax loss for the period.

6. Loss Per Share

The calculation of the basic loss per share is based on the following data:—

	Unaudited six months ended 31st March,	
	2001	2000
	HK\$'000	HK\$'000
Loss for the purpose of basic loss per share	<u>(34,111)</u>	<u>(10,833)</u>
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss per share	<u>2,531,446,763</u>	<u>1,591,614,325</u>

Diluted loss per share for both periods are not shown as the effect was anti-dilative.

7. Goodwill

During the period, a goodwill of approximately HK\$50,000,000 arose on the acquisition of 70% of equity interest in Well Jade Limited ("Well Jade") by Sound Green Energy Limited ("Sound Green"), a wholly-owned subsidiary of the Company and is amortized over 20 years, reflecting its expected useful life.

8. Trade Debtors

Details of the aging analysis of trade debtors are as follows:

	Unaudited as at 31st March, 2001
	HK\$'000
0 - 30 days	3,190
31 - 60 days	2,062
61 - 90 days	1,134
> 90 days	7,706
	<u>14,092</u>

The Group has a defined credit policy and it varies with financial strength of individual customer.

9. Trade Creditors

Details of the aging analysis of trade creditors are as follows:

	Unaudited as at 31st March, 2001 HK\$'000
0 - 30 days	5,692
31 - 60 days	1,164
61 - 90 days	357
> 90 days	804
	<u>8,017</u>

10. Share Capital

Ordinary shares of par value of HK\$0.10 each

	Unaudited as at 31st March, 2001 HK\$'000
	Number of shares
<i>Authorised:</i>	
At beginning and at end of the period	<u>20,000,000,000</u> <u>2,000,000</u>
<i>Issued and fully paid:</i>	
At 30th September, 2000	2,312,336,873 231,234
Issue of shares	<i>Note (a)</i> 353,600,000 35,360
Shares issued on exercise of share options	<i>Note (b)</i> <u>10,000,000</u> <u>1,000</u>
At 31st March, 2001	<u>2,675,936,873</u> <u>267,594</u>

Notes:

- (a) On 12th December, 2000, the Company issued new 353,600,000 ordinary shares at HK\$0.138 per share as part of the consideration for acquisition of 70% equity interest in Well Jade by Sound Green. Total proceeds from the aforesaid issue and allotment amounted to approximately HK\$48,800,000 of which HK\$35,360,000 was credited to the share capital account and approximately HK\$13,440,000, being the premium on issue of ordinary shares, was credited to the share premium account.
- (b) During the period, options were exercised under the Company's employee share option scheme to subscribe for 10,000,000 shares in the Company at a consideration totaling HK\$1,120,000 of which HK\$1,000,000 was credited to share capital and the balance of HK\$120,000 was credited to the share premium account.

11. Reserves

	Share premium of the Company <i>HK\$'000</i>	Special reserve <i>HK\$'000</i>	Asset revaluation reserve <i>HK\$'000</i>	Goodwill reserve <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Deficit <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 30th September, 2000	448,200	122,085	1,331	(16,560)	(146)	(670,524)	(115,614)
Premium arising from issue of shares	13,436	—	—	—	—	—	13,436
Shares issued on exercise of share options	120	—	—	—	—	—	120
Write off due to impairment of goodwill	—	—	—	8,280	—	—	8,280
Exchange differences arising from translation of financial statements of overseas subsidiaries	—	—	—	—	1,538	—	1,538
Loss for the period	—	—	—	—	—	(34,111)	(34,111)
At 31st March, 2001	<u>461,756</u>	<u>122,085</u>	<u>1,331</u>	<u>(8,280)</u>	<u>1,392</u>	<u>(704,635)</u>	<u>(126,351)</u>

12. Related Party Transactions

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

	Unaudited six months ended 31st March 2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Guangdong Huabao Electric Appliance Co., Limited (“Huabao”)		
Rental expenses paid to	720	120
Hunsworth Industrial Limited (“Hunsworth”)		
Rental expenses paid to	600	600
Shenzhen City Kang Jia Le Enterprise Limited (“Kang Jia Le”)		
Reimbursement of operating expenses paid on the Group’s behalf	953	997
Reimbursement of income received on the Group’s behalf	986	81
Sales of goods on the Group’s behalf	—	3,910
Sound Ocean Investment Limited (“Sound Ocean”)		
Reimbursement of legal and professional fees from	—	1,606

Shum Siu Hung, a director of the Company, is a director of Huabao.

Shum Siu Hung and his spouse, Tong Shiu Ming, both directors of the Company, are directors of Hunsworth. Shum Siu Hung has a beneficial interest in Hunsworth.

Cen Ziniu, a director of the Company, has a beneficial interest in Kang Jie Le.

Shum Siu Hung, Shum Siu Mau, Cen Ziniu and Wu Hong Cho, directors of the Company, are directors of and have beneficial interests in Sound Ocean.

In the opinion of the Company’s directors, the above transactions were conducted in the usual course of business and on normal commercial terms.

13. Contingent Liabilities

The Company has given guarantees amounting to HK\$1,000,000 to banks in respect of general facilities granted to one of its subsidiaries at 31st March, 2001 (30th September, 2000: HK\$1,000,000). An amount of HK\$573,000 was utilised at 31st March, 2001 (30th September, 2000: Nil).

14. Pledge of Assets

The Group did not pledge any assets to secure general banking facilities granted to the Group at 31st March, 2001 (30th September, 2000: Nil).

15. Commitments

At 31st March, 2001, there were commitments contracted for but not provided in the financial statements as follows:

	The Group		The Company	
	Unaudited as at 31st March, 2001 HK\$'000	Audited as at 30th September, 2000 HK\$'000	Unaudited as at 31st March, 2001 HK\$'000	Audited as at 30th September, 2000 HK\$'000
Lease commitments payable in the next twelve months under non-cancellable operating leases in respect of rented premises expiring:				
— within one year	1,320	500	—	—
— in the second to fifth years inclusive	1,200	1,440	—	—
	<u>2,520</u>	<u>1,940</u>	<u>—</u>	<u>—</u>
Commitments in respect of prorated shareholder loan to an associate	<u>4,000</u>	<u>4,000</u>	<u>4,000</u>	<u>4,000</u>

16. Post Balance Sheet Events

On 30th May, 2001, a conditional sale and purchase agreement was entered into between the Company, Sound Industrial Limited (“Sound Industrial”), a wholly-owned subsidiary of the Company, and independent third parties for the purchase by Sound Industrial of 100% equity interest in Power Go Technology Limited (“Power Go”). The consideration payable (subject to certain adjustment) will amount to HK\$46,000,000 which will be satisfied by the issue of convertible notes (“Convertible Notes”) to the vendors in the aggregate amount of HK\$46,000,000. The initial conversion price of the Convertible Notes is HK\$0.10 per share of the Company, subject to adjustment. Interest is payable on the Convertible Notes at 2.0% on the amount outstanding on the Maturity Date, being the date which is twelve months after the issue date of the Convertible Notes. If portion of the Convertible Notes are not converted into shares of the Company, they shall be redeemed by the Company at 100% of the principal amount together with accrued interests payable.

Power Go has designed and developed a product that uses solar power to cool the interior of motor vehicles. The product is a custom designed product powered by solar energy and is designed to fit most vehicles.