

# Notes to Financial Statements

30 April 2001

## **1. CORPORATE INFORMATION**

The principal activity of the Company is investment holding. The subsidiaries of the Company are mainly engaged in the manufacture and sale of electrical adapters, transformers and related accessories, plastic moulds and electrical products. There were no significant changes in the nature of the Group's principal activities during the year.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Basis of preparation**

These financial statements have been prepared in accordance with the Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the remeasurement of investment properties and investments in marketable securities, as further explained below.

### **Basis of consolidation**

The consolidated financial statements include the audited financial statements of the Company and its subsidiaries for the year ended 30 April 2001. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

### **Subsidiaries**

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors.

Interests in subsidiaries are stated at cost unless, in the opinion of the directors, there have been diminutions in values other than those considered to be temporary in nature, when they are written down to values determined by the directors.

### **Associate**

An associate is a company, not being a subsidiary, in which the Group has a long term interest of not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results of its associate is included in the consolidated profit and loss account and is calculated from the latest financial statements of the associate which are made up to 31 March 2001. The Group's interest in an associate is stated in the consolidated balance sheet at the Group's share of its net assets under the equity method of accounting less any provision for diminution in value, other than those considered to be temporary in nature, deemed necessary by the directors.

### **Goodwill**

Goodwill arising on the consolidation of subsidiaries and on the acquisition of associates represents the excess of the purchase consideration paid over the fair values ascribed to the net underlying assets acquired and is eliminated against reserves in the year of acquisition. Goodwill eliminated against reserves is written off to the profit and loss account in the case of any diminutions in value other than these considered to be temporary in nature.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Goodwill (continued)

Upon the disposal of such subsidiaries and associates, the relevant portion of attributable goodwill previously eliminated against reserves is accounted for in arriving at the gain or loss on disposal.

### Fixed assets and depreciation

Fixed assets, other than investment properties, are stated at cost less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance costs, are normally charged to the profit and loss account 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 fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold improvements	Shorter of lease terms and useful lives
Plant and machinery	20%
Furniture, fixtures and equipment	20%
Moulds	20%
Motor vehicles	20%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

### Investment properties

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

Upon the disposal of an investment property, the relevant portions of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

### Deferred cost

Cost incurred in obtaining approvals from safety boards for products which will be produced and profitable, and whose technical feasibility has been demonstrated, is recognised as an asset and amortised over a period of five years to reflect the pattern in which the related economic benefits are recognised.

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## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Accounting for hire purchase contracts and leases

(i) Hire purchase contracts

Hire purchase contracts are accounted for as finance leases. At the inception of the contract, the cost of the asset is capitalised at the present value of the minimum contract payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under hire purchase contracts are included in fixed assets and depreciated over their estimated useful lives. The finance costs of such contracts are charged to the profit and loss account so as to provide a constant periodic rate of charge over the contract terms.

(ii) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged/credited to the profit and loss account on the straight-line basis over the lease terms.

### Borrowing costs

Borrowing costs are charged to the profit and loss account in the period in which they are incurred.

### Investments in securities

- (i) Long term investments in unlisted equity securities, which are intended to be held on a continuing basis, and which are held for an identified long term purpose documented at the time of acquisition or change of purpose and are clearly identifiable for the documented purpose, are stated at cost less any provision for diminution in value considered to be other than temporary in nature as deemed necessary by the directors, on an individual investment basis. Any reductions in carrying amounts are charged to the profit and loss account.

When the circumstances and events that led to the write-downs or write-offs of long term investments cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the appreciation in fair value is credited to profit and loss account, on an individual investment basis, to the extent of the amount previously charged.

- (ii) Investments in marketable securities are stated at their fair values on the basis of their quoted market prices at the balance sheet date on an individual investment basis. The gains or losses arising from changes in their respective fair values are credited or charged to the profit and loss account for the period in which they arise.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences in the recognition of revenue and expenses for tax and financial reporting purposes to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

### Foreign currencies

Foreign currency transactions are recorded at the rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries denominated in foreign currencies are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. Any resulting translation differences are included in the exchange fluctuation reserve.

### Pension scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the Scheme. The Scheme became effective from 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the Scheme.

Prior to the Scheme being effective, the Group operated a defined contributions retirement benefits scheme for those employees who were eligible to participate in the scheme. This scheme operated in a similar way to the Mandatory Provident Fund retirement benefits scheme, except that when an employee left the scheme prior to his/her interest in the Group's employer contributions vesting fully, the ongoing contributions payable by the Group were reduced by the relevant amount of forfeited contributions. With effect from 1 December 2000, this scheme was terminated.

### Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) rental income, on a time proportion basis over the lease terms;
- (c) interest income, on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable;
- (d) dividend income, when the shareholders' right to receive payment is established; and
- (e) trading of securities, on the trade date.

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## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

### **Related parties**

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

### **Cash equivalents**

For the purpose of the consolidated cash flow statement, 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 advance. For the purpose of balance sheet classification, cash and bank balances represent assets which are not restricted as to use.

## **3. TURNOVER**

Turnover represents the aggregate of the net invoiced value of goods sold, after allowances for returns and trade discounts, and after elimination of all significant intra-group transactions.

## 4. SEGMENTAL INFORMATION

An analysis of the Group's turnover and contribution to profit/(loss) from operating activities by principal activity and geographical area of markets, disclosed pursuant to the requirements of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), is as follows:

	Turnover	
	2001 HK\$'000	2000 HK\$'000
<b>By principal activity:</b>		
Manufacture and sale of:		
EI transformers and adapters	180,764	206,282
Toroidal transformers	52,662	54,586
Electrical products	87,101	49,745
Other products	11,317	33,843
	<b>331,844</b>	<b>344,456</b>
<b>By geographical area:</b>		
Europe	138,588	139,438
North America	93,701	103,934
Japan	48,114	38,113
People's Republic of China (the "PRC")	43,867	56,377
Others	7,574	6,594
	<b>331,844</b>	<b>344,456</b>

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## 4. SEGMENTAL INFORMATION (continued)

	Contribution to profit/(loss) from operating activities	
	2001 HK\$'000	2000 HK\$'000
<b>By principal activity:</b>		
Manufacture and sale of:		
EI transformers and adapters	1,206	4,793
Toroidal transformers	701	2,446
Electrical products	540	1,080
Other products	15	200
	<b>2,462</b>	<b>8,519</b>
Less: Provisions for long term investments	(37,902)	–
Goodwill reserve written off	(45,181)	–
	<b>(80,621)</b>	<b>8,519</b>
<b>By geographical area:</b>		
Europe	984	3,265
North America	811	2,959
Japan	317	829
PRC	337	1,427
Others	13	39
	<b>2,462</b>	<b>8,519</b>
Less: Provisions for long term investments	(37,902)	–
Goodwill reserve written off	(45,181)	–
	<b>(80,621)</b>	<b>8,519</b>

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## 5. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

The Group's profit/(loss) from operating activities is arrived at after charging/(crediting):

	2001 HK\$'000	2000 HK\$'000
Cost of inventories sold	296,184	306,471
Depreciation:		
Owned fixed assets	13,400	11,445
Leased fixed assets	3,952	4,760
Amortisation of deferred cost	1,061	840
Operating lease rentals in respect of:		
Land and buildings	7,275	7,575
Plant and machinery	–	77
Auditors' remuneration	680	550
Staff costs (excluding directors' remuneration – note 7)		
Salaries and allowances	42,849	39,603
Pension scheme contributions	901	248
	43,750	39,851
Loss on disposal of fixed assets	1	2,416
Provisions for doubtful debts	3,005	89
Write off of inventories	–	3,590
Net losses on securities trading	3,138	–
Gross and net rental income from investment properties	(252)	(93)
Deficit/(surplus) on revaluation of investment properties	(279)	600
Exchange gains, net	(989)	(2,896)
Interest income	(1,411)	(1,554)
Dividend income	–	(1,144)

The cost of inventories sold includes approximately HK\$59,805,000 (2000: HK\$61,882,000) relating to direct staff costs, operating lease rentals in respect of land and buildings and depreciation of manufacturing facilities, which are also included in the respective total amounts disclosed above for each of these types of expenses.



# Notes to Financial Statements

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## 6. FINANCE COSTS

	Group	
	2001 HK\$'000	2000 HK\$'000
Interest on trust receipt loans wholly repayable within one year	1,638	1,620
Interest on other loans wholly repayable within five year	390	576
Interest on obligations under hire purchase contracts	1,028	1,375
	<b>3,056</b>	<b>3,571</b>

## 7. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

The remuneration of the directors of the Company disclosed pursuant to the Listing Rules of the Stock Exchange and Section 161 of the Hong Kong Companies Ordinance is analysed as follows:

	2001 HK\$'000	2000 HK\$'000
Fees:		
Executive directors	–	–
Independent non-executive directors	494	375
	<b>494</b>	<b>375</b>
Other emoluments:		
Executive directors		
Salaries, allowances and benefits in kind	6,688	21,259
Bonuses	482	421
Pension scheme contributions	195	–
Non-executive directors		
Pension scheme contributions	15	–
	<b>7,380</b>	<b>21,680</b>
	<b>7,874</b>	<b>22,055</b>

The remuneration of the directors fell within the following bands:

	Number of directors	
	2001	2000
Nil to HK\$1,000,000	10	6
HK\$1,500,001 to HK\$2,000,000	2	–
HK\$2,000,001 to HK\$2,500,000	1	1
HK\$5,500,001 to HK\$6,000,000	–	2
HK\$7,000,001 to HK\$7,500,000	–	1

## 7. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

(continued)

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

No value is included in the directors' remuneration in respect of the share options granted during the year because, in the absence of a readily available market value for the options on the Company's shares, the directors were unable to arrive at an accurate assessment of the value of the options granted. Details of the options granted to the directors during the year are set out in "Directors' rights to acquire shares" in the Report of the Directors.

The five highest paid employees of the Group during the year were all directors (2000: Four), details of whose remuneration are set out above. Details of the remuneration of the remaining one highest paid, non-director individual in 2000, which fell within the range of HK\$1,000,001 to HK\$1,500,000, are as follows:

	2001 HK\$'000	2000 HK\$'000
Salaries, allowances and benefits in kind	–	1,386
Bonuses	–	45
Pension scheme contributions	–	19
	–	1,450

## 8. TAX

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profits arising in Hong Kong during the year.

	2001 HK\$'000	Group 2000 HK\$'000
Current year provision	700	373
Underprovision in the prior year	–	548
Tax refund in respect of the prior year	–	(134)
Tax charge for the year	700	787

Bai Mei Qin Electrical (Shenzhen) Limited ("Bai Mei Qin"), a wholly-owned subsidiary established in the PRC, was exempt from PRC corporate income tax for two years starting from its first profit-making year of operations, which is current year, and thereafter is eligible for a 50% relief from PRC corporate income tax for the following three years under the relevant PRC tax laws. The standard PRC corporate income tax rate applicable to Bai Mei Qin is 15%.

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## 9. NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is approximately HK\$63,811,000 (2000: profit of HK\$5,000).

## 10. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the net loss from ordinary activities attributable to shareholders for the year of HK\$85,070,000 (2000: profit of HK\$4,162,000) and the weighted average of 2,610,711,000 (2000: 1,813,503,000) ordinary shares in issue during the year.

The calculation of diluted earnings/(loss) per share is based on the net loss from ordinary activities attributable to shareholders for the year of HK\$85,070,000 (2000: profit of HK\$4,162,000) and 2,617,253,000 ordinary shares (2000: 1,817,985,000), being the weighted average number of ordinary shares in issue during the year, adjusted for the effects of dilutive potential ordinary shares outstanding during the year.

The reconciliation of the weighted average number of shares used in calculating the basic and diluted earnings/(loss) per share calculations is as follows:

	2001	2000
Weighted average number of ordinary shares used in calculating basic earnings/(loss) per share	2,610,711,000	1,813,503,000
Weighted average number of ordinary shares assumed issued at no consideration on deemed exercise of all share options outstanding during the year	6,542,000	4,482,000
Weighted average number of ordinary shares used in calculating diluted earnings/(loss) per share	2,617,253,000	1,817,985,000

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## 11. FIXED ASSETS

### Group

	Investment properties HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and equipment HK\$'000	Moulds HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost or valuation:							
At the beginning of year	2,521	14,874	62,849	11,781	13,645	671	106,341
Additions	–	3,142	3,359	3,585	2,789	–	12,875
Disposals	–	–	–	(20)	–	–	(20)
Revaluation surplus	279	–	–	–	–	–	279
<b>At 30 April 2001</b>	<b>2,800</b>	<b>18,016</b>	<b>66,208</b>	<b>15,346</b>	<b>16,434</b>	<b>671</b>	<b>119,475</b>
Accumulated depreciation:							
At the beginning of year	–	2,646	33,691	4,456	5,266	268	46,327
Provided during the year	–	1,693	10,079	2,618	2,828	134	17,352
Disposals	–	–	–	(4)	–	–	(4)
<b>At 30 April 2001</b>	<b>–</b>	<b>4,339</b>	<b>43,770</b>	<b>7,070</b>	<b>8,094</b>	<b>402</b>	<b>63,675</b>
Net book value:							
<b>At 30 April 2001</b>	<b>2,800</b>	<b>13,677</b>	<b>22,438</b>	<b>8,276</b>	<b>8,340</b>	<b>269</b>	<b>55,800</b>
At 30 April 2000	2,521	12,228	29,158	7,325	8,379	403	60,014
Analysis of cost or valuation:							
At cost	–	18,016	66,208	15,346	16,434	671	116,675
At valuation	2,800	–	–	–	–	–	2,800
	2,800	18,016	66,208	15,346	16,434	671	119,475

The tenures and locations of the Group's investment properties are as follows:

	Hong Kong HK\$'000	Mainland China HK\$'000	Total HK\$'000
Medium term leases	1,800	1,000	2,800

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## 11. FIXED ASSETS (continued)

In prior years, revaluation deficits of HK\$1,301,000 resulting from valuations on an open market value existing use basis were charged to the profit and loss accounts for the respective years. In the current year, the investment properties were revalued on 30 April 2001 by Dudley Surveyors Limited, an independent firm of professional valuers, on an open market value existing use basis at HK\$2,800,000. The revaluation surplus of HK\$279,000 resulting from the above valuation has been credited to the profit and loss account.

The investment properties situated in Hong Kong were pledged to secure the other loan granted to the Group (note 21).

The net book value of fixed assets of the Group held under hire purchase contracts included in the total amount of fixed assets at 30 April 2001 amounted to HK\$8,282,000 (2000: HK\$12,234,000).

## 12. DEFERRED COST

	Group HK\$'000
Cost:	
At the beginning of year	4,106
Additions	2,277
<b>At 30 April 2001</b>	<b>6,383</b>
Accumulated amortisation:	
At the beginning of year	983
Provided during the year	1,061
<b>At 30 April 2001</b>	<b>2,044</b>
Net book value:	
<b>At 30 April 2001</b>	<b>4,339</b>
At 30 April 2000	3,123

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## 13. INTERESTS IN SUBSIDIARIES

	Company	
	2001 HK\$'000	2000 HK\$'000
Unlisted shares, at cost	106,167	56,142
Due from subsidiaries	124,486	112,410
	230,653	168,552
Less: Provisions	(79,050)	–
	151,603	168,552

The amounts due from subsidiaries are unsecured, interest-free and are not repayable within the next twelve months.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued/ registered paid-up capital	Percentage of equity attributable to the Company		Principal activities
			2001	2000	
MAE Enterprises Limited	British Virgin Islands	Ordinary US\$10	100%	100%	Investment holding
MAE Investments Limited	British Virgin Islands	Ordinary US\$2	100%	100%	Investment holding
Mei Ah Electrical & Industry (HK) Limited	Hong Kong	Ordinary HK\$10 *Non-voting deferred HK\$1,000,000	100%	100%	Manufacture and sale of transformers, adapters and electrical products
Mei Ah Plastic Moulds Company Limited	Hong Kong	Ordinary HK\$10,000	100%	100%	Processing of plastic components and plastic moulds

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## 13. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued/ registered paid-up capital	Percentage of equity attributable to the Company		Principal activities
			2001	2000	
Mei Ah Technology Limited	Hong Kong	Ordinary HK\$10,000	100%	100%	Manufacture and sale of electronics products
Mei Ah Sourcing Limited	Hong Kong	Ordinary HK\$2	100%	100%	Sourcing of raw materials for Group companies
Mei Ah Lighting Industrial Limited	Hong Kong	Ordinary HK\$10,000	100%	100%	Manufacture and sale of energy saving lamps
Mei Ah Management Services Limited	Hong Kong	Ordinary HK\$2	100%	100%	Provision of management services to Group companies
Bai Mei Qin	PRC	US\$350,000	100%	100%	Manufacture and sale of transformers, adapters and electrical products
Star Technology Inc.	British Virgin Islands	Ordinary US\$1	100%	100%	Investment holding
Perfect-Tech Electronics Limited	Hong Kong	Ordinary HK\$2	100%	–	Manufacture and sale of electronics products

- \* The holders of the deferred shares are entitled to minimum rights as to dividends and return of capital, and are not entitled to share in the Company's profit or to attend or vote at any general meeting of the Company, which rights are vested in the ordinary shares.

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## 13. INTERESTS IN SUBSIDIARIES (continued)

Except for MAE Enterprises Limited and MAE Investments Limited, all of the above subsidiaries are indirectly held by the Company.

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

## 14. INTEREST IN AN ASSOCIATE

	2001 HK\$'000	Group 2000 HK\$'000
Share of net assets	4,490	–

Particulars of the associate are as follows:

Name	Business structure	Place of incorporation and operations	Percentage of ownership interest attributable to the Group		Principal activities
			2001	2000	
HK Sky Home Limited ("Sky Home")	Corporate	Hong Kong	40%	–	Trading of home related products

## 15. LONG TERM INVESTMENTS

	2001 HK\$'000	Group 2000 HK\$'000
Unlisted investments, at cost	39,902	39,750
Loan to an investee company	2,000	800
	41,902	40,550
Less: Provisions	(37,902)	–
	4,000	40,550



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## 15. LONG TERM INVESTMENTS (continued)

The above investments include a 30% equity interest in a private company whose particulars are as follows:

Name	Place of incorporation	Class of shares held	Principal activities
TCM Cyberport Holdings Limited	British Virgin Islands	Ordinary	Development and operation of an Internet portal providing traditional Chinese medicine information and related products

The percentage of equity in the above investment attributable to the Group amounts to over 20%. This investment, however, is not equity-accounted for in accordance with SSAP 10, "Accounting for Investments in Associates", because the directors consider that the Group is not in a position to exercise significant influence over its operations.

In the opinion of the directors, the carrying values of these investments as at 30 April 2001 approximated to their fair values as at that date. The results of these companies are dealt with in the consolidated profit and loss account to the extent of dividends received from these companies.

The loan to an investee company is unsecured, interest-free and is not repayable within the next twelve months.

## 16. INVENTORIES

	2001 HK\$'000	Group 2000 HK\$'000
Raw materials	47,632	36,668
Work in progress	6,461	3,007
Finished goods	8,445	9,182
	<b>62,538</b>	<b>48,857</b>

## 17. TRADE RECEIVABLES

The ageing analysis of the trade receivables is as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
Within three months	46,622	58,793
Within four to six months	453	16,084
Over six months	691	–
	47,766	74,877
Less: Provisions	(644)	(589)
	47,122	74,288

The credit period granted by the Group varies by customers. The Group granted its customers an average credit period of one month from the date of recognition of the sales. An estimate for doubtful debts is made and deducted when collection of the full amount is no longer probable. Bad debts are written off as incurred.

## 18. MARKETABLE SECURITIES

The marketable securities represent listed investments in Hong Kong and are stated at market value at the balance sheet date.

## 19. CASH AND BANK BALANCES

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Cash on hand and in banks	13,183	32,205	167	981
Bank deposits	5,940	1,022	–	–
	19,123	33,227	167	981

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## 20. TRADE PAYABLES

The ageing analysis of trade payables is as follows:

	2001 HK\$'000	Group 2000 HK\$'000
Within three months	32,804	39,602
Within four to six months	14,576	4,842
Over six months	1,163	–
	<b>48,543</b>	<b>44,444</b>

## 21. INTEREST-BEARING BANK LOANS AND OTHER LOANS

	2001 HK\$'000	Group 2000 HK\$'000
Trust receipt loans, secured	5,276	16,545
Other loan, secured	1,275	2,076
Other loan, unsecured	1,288	3,780
	<b>7,839</b>	<b>22,401</b>
Loans repayable:		
Within one year	6,809	18,624
In the second year	805	2,312
In the third to fifth years, inclusive	225	1,465
	<b>7,839</b>	<b>22,401</b>
Portion classified as current liabilities	<b>(6,809)</b>	<b>(18,624)</b>
Non-current portion	<b>1,030</b>	<b>3,777</b>

The other secured loan bears interest at 8.25% per annum and is secured by the pledge of the Group's investment properties situated in Hong Kong.

The other unsecured loan bears interest at Hong Kong prime rate plus 2.5% per annum and is repayable by 36 monthly instalments commencing on 3 October 1999.

## 22. OBLIGATIONS UNDER HIRE PURCHASE CONTRACTS

There were obligations under hire purchase contracts at the balance sheet date as follows:

	2001 HK\$'000	Group 2000 HK\$'000
Amounts payable:		
Within one year	5,577	5,831
In the second year	2,452	4,766
In the third to fifth years, inclusive	–	2,057
Total minimum contract payments	8,029	12,654
Less: Future finance charges	(533)	(1,561)
Total net obligations under hire purchase contracts	7,496	11,093
Portion classified as current liabilities	(5,127)	(4,802)
Non-current portion	2,369	6,291

## 23. DEFERRED TAX

Deferred tax has been provided, under the liability method, at the rate of 16% (2000: 16%) on the significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. The Group's provision for deferred tax is principally in respect of accelerated depreciation allowances to the extent that a liability is expected to crystallise.

The revaluation of the Group's investment properties does not constitute a timing difference and, consequently, the amount of potential deferred tax thereon has not been quantified.

The Group and the Company did not have any significant unprovided deferred tax liabilities as at 30 April 2001 (2000: Nil).

# Notes to Financial Statements

30 April 2001

## 24. SHARE CAPITAL

### (a) Shares

	2001 HK\$'000	Company 2000 HK\$'000
Authorised:		
5,000,000,000 ordinary shares of HK\$0.01 each	50,000	50,000
Issued and fully paid:		
2,599,980,000 (2000: 2,209,700,000) ordinary shares of HK\$0.01 each	26,000	22,097

The following changes in the Company's issued share capital took place during the year:

- (i) Pursuant to an agreement dated 24 May 2000, the Group acquired a 40% equity interest in Sky Home at a consideration of HK\$50,025,000, which was satisfied by way of the allotment and issue of a total of 435,000,000 new shares of HK\$0.01 each at an issue price HK\$0.115 per share.
- (ii) During the year, the Company repurchased and cancelled 47,720,000 ordinary shares of HK\$0.01 each from the Stock Exchange at a total consideration of approximately HK\$3,109,000. The premium of HK\$2,632,000 paid on the repurchase of these shares has been charged against the share premium account and an amount of HK\$477,000 was transferred from the retained profits to the capital redemption reserve, as set out in note 25 to the financial statements.

The movements in the issued share capital of the Company are summarised as follows:

	Number of shares issued '000	Par value HK\$'000
At the beginning of year	2,209,700	22,097
Shares issued as consideration for acquisition of equity interests in Sky Home	435,000	4,350
Repurchase of shares	(47,720)	(477)
Exercise of 3,000,000 share options (note 24(b))	3,000	30
<b>At 30 April 2001</b>	<b>2,599,980</b>	<b>26,000</b>

## 24. SHARE CAPITAL (continued)

### (b) Share options

Pursuant to the Company's share option scheme approved and adopted by the shareholders of the Company on 10 November 1998, the directors of the Company may, at their discretion, grant share option to any directors of the Company or employees of the Group to subscribe for shares in the Company. The subscription price is required to be the higher of 80% of the average of the closing price of the shares on the Stock Exchange for the five trading days immediately preceding the date of the offer of the options and the nominal value of the shares. The maximum number of shares in respect of which options may be granted under the share option scheme may not exceed, in nominal amount, 10% of the issued share capital of the Company which has been duly allotted and issued.

Details of the share options granted to the directors and employees of the Group are as follows:

Date share options granted	Number of share options					Exercise period of share options	Exercise price of share options HK\$
	At the beginning of year	Granted during the year	Exercised during the year	Lapsed during the year	At the end of year		
3 September 1999	11,900,000	-	(3,000,000)	(2,500,000)	6,400,000	3 September 1999 to 9 November 2008	0.107
12 October 1999	21,000,000	-	-	(12,750,000)	8,250,000	12 October 1999 to 9 November 2008	0.210
28 January 2000	8,332,500	-	-	(8,332,500)	-	28 January 2000 to 9 November 2008	0.176
14 February 2000	900,000	-	-	(300,000)	600,000	14 February 2000 to 9 November 2008	0.180
24 June 2000	-	32,360,000	-	(13,160,000)	19,200,000	24 June 2000 to 9 November 2008	0.090
29 June 2000	-	4,780,000	-	(760,000)	4,020,000	29 June 2000 to 9 November 2008	0.090
3 July 2000	-	2,120,000	-	-	2,120,000	3 July 2000 to 9 November 2008	0.090
5 July 2000	-	7,200,000	-	(520,000)	6,680,000	5 July 2000 to 9 November 2008	0.090
	<u>42,132,500</u>	<u>46,460,000</u>	<u>(3,000,000)</u>	<u>(38,322,500)</u>	<u>47,270,000</u>		

# Notes to Financial Statements

30 April 2001

## 24. SHARE CAPITAL (continued)

### (b) Share options (continued)

During the year, on 27 June 2000 and 17 July 2000, a total of 3,000,000 share options were exercised, resulting in the issue of 3,000,000 ordinary shares and generating cash proceeds for the Company of approximately HK\$321,000.

At 30 April 2001, the Company had 47,270,000 outstanding share options. The exercise in full of such share options would, under the present capital structure of the Company, result in the issue of 47,270,000 additional ordinary shares of HK\$0.01 each and would generate cash proceeds, before the related issue expenses, of approximately HK\$5,407,000 for the Company.

## 25. RESERVES

### Group

	Share premium HK\$'000	Capital reserve/ goodwill reserve HK\$'000	Capital redemption reserve HK\$'000	Retained profits/ (accumulated losses) HK\$'000	Total HK\$'000
At 1 May 1999	28,135	800	–	61,295	90,230
New shares issued	76,538	–	–	–	76,538
Share issue expenses	(2,385)	–	–	–	(2,385)
Goodwill arising on acquisition of a subsidiary	–	(42)	–	–	(42)
Net profit for the year	–	–	–	4,162	4,162
At 30 April 2000 and at 1 May 2000	102,288	758	–	65,457	168,503
Shares issued on acquisition of an associate	45,675	–	–	–	45,675
Share issue expenses	(200)	–	–	–	(200)
Goodwill arising on acquisition of an associate	–	45,181	–	–	45,181
Shares issued on exercise of share options	291	–	–	–	291
Arising from repurchase of shares	(2,632)	–	477	(477)	(2,632)
Write off of goodwill reserve	–	(45,181)	–	–	(45,181)
Net loss for the year	–	–	–	(85,070)	(85,070)
At 30 April 2001	145,422	758	477	(20,090)	126,567

# Notes to Financial Statements

30 April 2001

## 25. RESERVES (continued)

Reserves retained by:

	2001 HK\$'000	2000 HK\$'000
Company and subsidiaries	127,260	168,503
Associate	(693)	–
At 30 April	126,567	168,503

The provisions for long term investments and goodwill reserve written off are estimated by the directors based on the recoverable amounts of the relevant investments. In the opinion of the directors, such provisions and goodwill reserve written off arose from the prevailing unfavourable economic environment in the high technology sector.

### Company

	Share premium HK\$'000	Contributed surplus HK\$'000	Capital redemption reserve HK\$'000	Retained profits/ (accumulated losses) HK\$'000	Total HK\$'000
At 1 May 1999	28,135	44,942	–	9	73,086
New shares issued	76,538	–	–	–	76,538
Share issue expenses	(2,385)	–	–	–	(2,385)
Net profit for the year	–	–	–	5	5
At 30 April 2000 and at 1 May 2000	102,288	44,942	–	14	147,244
Shares issued on acquisition of an associate	45,675	–	–	–	45,675
Share issue expenses	(200)	–	–	–	(200)
Shares issued on exercise of share options	291	–	–	–	291
Arising from repurchase of shares	(2,632)	–	477	(477)	(2,632)
Net loss for the year	–	–	–	(63,811)	(63,811)
At 30 April 2001	145,422	44,942	477	(64,274)	126,567

- (a) The capital reserve of the Group represents the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to the Group reorganisation on 22 October 1998 and the nominal value of the shares issued by the Company as consideration therefor.



# Notes to Financial Statements

30 April 2001

## 25. RESERVES (continued)

- (b) The contributed surplus of the Company represents the difference between the then combined net asset value of the subsidiaries acquired pursuant to the same Group reorganisation, over the nominal value of the shares of the Company issued in exchange therefor. Under the Companies Act 1981 of Bermuda (as amended), the Company may make distributions to its members out of its contributed surplus in certain circumstances.

## 26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

- (a) Reconciliation of profit/(loss) from operating activities to net cash inflow from operating activities

	2001 HK\$'000	2000 HK\$'000
Profit/(loss) from operating activities	(80,621)	8,519
Interest income	(1,411)	(1,554)
Depreciation	17,352	16,205
Dividend income	–	(1,144)
Loss on disposal of fixed assets	1	2,416
Deficit/(surplus) on revaluation of investment properties	(279)	600
Amortisation of deferred cost	1,061	840
Provisions for long term investments	37,902	–
Goodwill reserve written off	45,181	–
Decrease/(increase) in inventories	(13,681)	430
Decrease/(increase) in trade receivables	27,166	(23,453)
Increase in prepayments, deposits and other receivables	(14,518)	(433)
Increase in marketable securities	(371)	–
Increase/(decrease) in bills payable	(3,091)	2,899
Increase in trade payables	4,099	4,009
Increase in accrued liabilities and other payables	4,966	3,409
Net cash inflow from operating activities	23,756	12,743

## 26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

### (b) Analysis of changes in financing during the year

	Share capital (including share premium) HK\$'000	Other loans HK\$'000	Obligations under hire purchase contracts HK\$'000	Minority interests HK\$'000
Balance at 1 May 1999	43,135	4,957	16,388	662
Net cash inflow/(outflow) from financing	49,500	899	(5,295)	–
Shares issued for acquisition of long term investments	31,750	–	–	–
Share of loss after tax of subsidiaries	–	–	–	(1)
Acquisition of shares from the minority shareholder	–	–	–	(661)
Balance at 30 April 2000 and at 1 May 2000	124,385	5,856	11,093	–
Net cash outflow from financing	(2,988)	(3,293)	(3,597)	–
Shares issued for acquisition of an associate	50,025	–	–	–
<b>Balance at 30 April 2001</b>	<b>171,422</b>	<b>2,563</b>	<b>7,496</b>	<b>–</b>

### (c) Major non-cash transaction

During the year, the Group acquired a 40% equity interest in Sky Home at a consideration of HK\$50,025,000, which was satisfied by way of the allotment and issue of a total of 435,000,000 new shares of HK\$0.01 each at an issue price of HK\$0.115 per share (note 24).

# Notes to Financial Statements

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## 27. COMMITMENTS

Annual commitments payable in the following year under non-cancellable operating leases in respect of land and buildings expiring:

	2001 HK\$'000	Group 2000 HK\$'000
Within one year	340	408
In the second to fifth years, inclusive	1,700	655
After the fifth year	4,231	6,007
	6,271	7,070

The Company did not have any significant commitments at the balance sheet date. In last year, the Group had contracted commitments in respect of the purchase of plant and equipment amounting to approximately HK\$1,234,000 and commitment to advance a shareholders' loan of HK\$1,200,000 to an investee company at 30 April 2000.

## 28. BANKING FACILITIES

At 30 April 2001, the Group had available banking facilities totalling HK\$49,900,000 (2000: HK\$33,500,000) of which HK\$5,913,000 (2000: HK\$20,273,000) was utilised. The banking facilities were secured by the pledge of deposits placed with banks by certain subsidiaries.

## 29. POST BALANCE SHEET EVENT

On 29 June 2001, the Company entered into a placing agreement with Mr. Yip Wai Chau, an independent third party, for the placement of 260,000,000 new shares of HK\$0.01 each. The placing price was HK\$0.065 per placing share. On 16 July 2001, the 260,000,000 new shares of the Company were duly allotted and issued for cash, generating a cash inflow of approximately HK\$16,900,000 before share issuance expenses. The proceeds from the new shares of HK\$16,900,000 were placed as deposits in various banks in Hong Kong. The proceeds will be used as working capital for the Group.

## 30. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 24 August 2001.