

## 1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability. Its shares and warrants are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company acts as an investment holding company. The Group is principally engaged in the design, manufacture, marketing and distribution of consumer electronic products and property investment and development.

## 2. ADOPTION OF STATEMENT OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group adopted the revised Statement of Standard Accounting Practice ("SSAP") 14 "Leases", issued by the Hong Kong Society of Accountants, for the first time.

The revised standard has introduced some amendments to the basis of accounting for finance and operating leases, and to the disclosures specified for the Group's leasing arrangements. These changes have not had any material effect on the results for the current or prior accounting periods and, accordingly, no prior period adjustment has been required. Disclosures for all of the Group's leasing arrangements have been modified so as to comply with the requirements of revised SSAP 14. Comparative amounts have been restated in order to achieve a consistent presentation.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of investment properties and investments in securities.

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 30th June each year.

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.

**3. SIGNIFICANT ACCOUNTING POLICIES** (cont'd)

**Goodwill or negative goodwill**

Goodwill or negative goodwill arising on consolidation, which represents the excess or shortfall of the purchase consideration over the Group's share of the fair value ascribed to the separable net assets at the date of acquisition of subsidiaries or associates, is written off or credited to reserves respectively. Goodwill will be charged to the income statement at the time it is determined as impaired.

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

**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.

**Investments in associates**

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

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates.

When the Group transacts with its associates, 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.

In the Company's balance sheet, investments in associates are stated at cost, as reduced by any decline in the value of the associate that is other than temporary.

**Other investments**

Other investments are antiques held for long-term purposes and are stated at cost less any identified impairment loss.

**3. SIGNIFICANT ACCOUNTING POLICIES** (cont'd)**Investments in securities**

Investments in securities are recognised on a trade-date basis and are initially measured at cost. At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity debt security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

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

Where securities are held for trading purposes, unrealised gains and losses are included in net profit or loss for the period. For other securities, unrealised gains and losses are dealt with in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss is included in net profit or loss for the period.

**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 the estimated costs necessary to make the sale.

**Leased assets**

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair values at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases and the rental expenses and income are charged and credited, respectively, to the income statement on a straight-line basis over the relevant lease term.

**3. SIGNIFICANT ACCOUNTING POLICIES** (cont'd)

**Revenue recognition**

Revenue arising from sales of goods is recognised when goods are delivered and title has passed.

Sales of investments in securities are recognised on a trade date basis.

Rental income, including rental invoiced in advance from property under operating leases is recognised on a straight-line basis over the relevant lease term.

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

Dividends from investments are recognised when the Group's right to receive payment has been established.

**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 an asset will crystallise in the foreseeable future.

**Treasury shares**

Treasury shares are ordinary shares of the Company held by a subsidiary which acquired these shares before it became a subsidiary of the Group. Treasury shares are recorded using the cost method and are separately disclosed and regarded as a deduction of the Group's equity.

**Convertible bonds**

Convertible bonds are separately disclosed and regarded as liabilities unless conversion actually occurs. The finance cost recognised in the income statement in respect of the convertible bonds, including the premium payable upon the final redemption of the convertible bonds, is calculated so as to produce a constant periodic rate of charge on the remaining balances of the convertible bonds for each accounting period.

The costs incurred in connection with the issue of convertible bonds are deferred and amortised on a straight-line basis over the lives of the convertible bonds from the date of issue of the bonds to their final redemption date. If any of the bonds are purchased and cancelled, redeemed or converted prior to the final redemption date, an appropriate portion of any remaining unamortised costs will be charged immediately to the income statement.

**3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)****Investment properties**

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market values based on independent professional valuations at the balance sheet. Any revaluation increase or decrease arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance of this reserve is insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve is charged to the income statement. Where a decrease has previously been charged to the income statement and a revaluation increase subsequently arises, this increase is credited to the income statement to the extent of the decrease previously charged.

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property is transferred to the income statement.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.

**Property, plant and equipment**

Property, plant and equipment, other than properties held for development, are stated at cost less 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 the asset has been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an asset, the expenditure is capitalised as an additional cost of the asset.

The gain or loss arising from 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.

Properties held for development are carried at cost, less any identified impairment loss. Cost includes land cost, construction and other incidental costs. Depreciation of these properties, on the same basis as other properties, commences when the assets are put into use.

**3. SIGNIFICANT ACCOUNTING POLICIES** (cont'd)

**Property, plant and equipment** (cont'd)

Depreciation is provided to write off the cost of items of property, plant and equipment, other than properties held for development, over their estimated useful lives, using the straight-line method, at the following rates per annum:

Freehold land	Nil
Leasehold properties	2% to 4% or the term of the lease, if shorter
Leasehold improvements	Over the term of the lease
Plant and machinery	10% to 25%
Furniture, fixtures and equipment	10% to 50%
Motor vehicles	10% to 33 <sup>1</sup> / <sub>3</sub> %
Motor boats	10% to 20%

Assets held under finance leases are depreciated over their estimated useful lives on the same basis as owned assets or, where shorter, the period of the relevant lease.

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are recognised as an expense in the period in which they are incurred.

**Foreign currencies**

Transactions in currencies other than Hong Kong dollar are translated into Hong Kong dollar at the rates ruling on the dates of the transactions or at the contracted settlement rate. Monetary assets and liabilities denominated in currencies other than Hong Kong dollar are re-translated into Hong Kong dollar 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 operations which are denominated in currencies other than the Hong Kong dollar are translated into Hong Kong dollar at the rates ruling on the balance sheet date. All exchange differences arising on translation are dealt with in reserves.

**3. SIGNIFICANT ACCOUNTING POLICIES** (cont'd)**Retirement benefits scheme**

Contributions payable in respect of the current year by the Group to its defined contribution retirement benefits scheme and mandatory provident fund scheme are charged to the income statement.

**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 dates of the advances.

For the year ended 30th June, 2001

**4. TURNOVER AND SEGMENTAL INFORMATION**

The Group's turnover and operating results analysed by business segment and geographical location are as follows:

	2001		2000	
	Turnover	Operating results	Turnover	Operating results
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
By business segment:				
Trading and manufacture of:				
Electronic products	197,473	801	212,789	7,569
Security products	–	–	2,106	(3,534)
Rental income	13,327	11,663	11,957	10,866
	<u>210,800</u>	<u>12,464</u>	<u>226,852</u>	<u>14,901</u>
Net central administrative expenses		<u>(45,388)</u>		<u>(682)</u>
(Loss) profit from operations		<u>(32,924)</u>		<u>14,219</u>
By geographical location:				
Hong Kong	146,474	6,360	90,505	3,854
The People's Republic of China other than Hong Kong (the "PRC")	9,938	2,452	77,736	10,958
Other Asian countries	8,125	(115)	28,962	753
Europe	34,048	(480)	15,716	409
United States of America	11,492	2,927	12,490	(1,777)
Others	723	1,320	1,443	704
	<u>210,800</u>	<u>12,464</u>	<u>226,852</u>	<u>14,901</u>
Net central administrative expenses		<u>(45,388)</u>		<u>(682)</u>
(Loss) profit from operations		<u>(32,924)</u>		<u>14,219</u>



**5. INVESTMENT INCOME**

	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Dividend income from listed securities	<b>25</b>	123
Gain on disposal of trading securities	<b>168</b>	8,286
Gain on disposal of other securities	<b>8,887</b>	14,193
	<u><b>9,080</b></u>	<u>22,602</u>

**6. PROVISIONS**

	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Provision for short-term loans receivable	–	(5,000)
Write back of doubtful debts and prepayments	–	590
	<u>–</u>	<u>(4,410)</u>

For the year ended 30th June, 2001

**7. (LOSS) PROFIT FROM OPERATIONS**

	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
(Loss) profit from operations has been arrived at after charging:		
Staff costs, including directors' remuneration:		
Basic salaries and allowances	<b>47,979</b>	59,014
Retirement benefits scheme contributions, net of forfeited contributions of HK\$75,000 (2000: HK\$35,000)	<b>421</b>	263
	<u><b>48,400</b></u>	<u>59,277</u>
Auditors' remuneration:		
Current year	<b>1,737</b>	1,706
Underprovision in prior years	<b>171</b>	437
Depreciation:		
Owned assets	<b>10,177</b>	11,805
Assets held under finance leases	<b>2,193</b>	2,985
Loss on disposal of property, plant and equipment, other than properties held for development	–	492
Rental expenses in respect of:		
Properties under operating leases	<b>4,942</b>	5,200
Other assets under operating leases	<b>480</b>	423
and after crediting:		
Rental income from investment properties, net of outgoings of HK\$1,664,000 (2000: HK\$1,091,000)	<b>11,663</b>	10,866
Gain on disposal of property, plant and equipment, other than properties held for development	<b>143</b>	–
Gain on repurchase of convertible bonds	<b>276</b>	1,578
	<u><b>276</b></u>	<u>1,578</u>

**8. FINANCE COSTS**

	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest expense on:		
borrowings wholly repayable within five years	4,208	1,513
borrowings not wholly repayable within five years	627	2,844
convertible bonds	2,393	6,901
Finance charges on obligations under finance leases	298	317
	7,526	11,575
 Amortisation of bond issue expenses	 206	 582
	7,732	12,157

**9. DIRECTORS' AND EMPLOYEES' REMUNERATION**

**(a) Directors' remuneration**

	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Fees:		
Executive	–	–
Non-executive	50	–
Independent non-executive	200	50
Other emoluments:		
Executive		
Salaries and other benefits	22,448	16,339
Retirement benefits scheme contributions	14	–
	22,712	16,389

The directors' remuneration was within the following bands:

	Number of directors	
	2001	2000
Nil to HK\$1,000,000	4	3
HK\$4,000,001 to HK\$4,500,000	1	–
HK\$5,000,001 to HK\$5,500,000	–	1
HK\$10,000,001 to HK\$10,500,000	–	1
HK\$17,000,001 to HK\$17,500,000	1	–

**9. DIRECTORS' AND EMPLOYEES' REMUNERATION** (cont'd)

**(b) Employees' remuneration**

The five highest paid individuals included two (2000: three) directors, details of whose remuneration are set out above. The remuneration of the remaining three (2000: two) individuals is as follows:

	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Salaries and other benefits	<b>3,464</b>	2,149
Retirement benefits scheme contributions	<b>139</b>	114
	<u><b>3,603</b></u>	<u>2,263</u>

Their remuneration is within the following bands:

	<b>Number of employees</b>	
	<b>2001</b>	2000
Nil to HK\$1,000,000	<b>1</b>	–
HK\$1,000,001 to HK\$1,500,000	<b>1</b>	2
HK\$1,500,001 to HK\$2,000,000	<b>1</b>	–
	<u><b>1</b></u>	<u>–</u>

During the years ended 30th June, 2001 and 2000, 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 the years ended 30th June, 2001 and 2000, no directors waived any emoluments.

**10. TAXATION**

	<b>2001</b>	<b>2000</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
The (credit) charge comprises:		
Hong Kong Profits Tax		
Current year	160	362
(Over)underprovision in prior year	<u>(74)</u>	<u>3</u>
	86	365
Deferred taxation (note 31)	<u>186</u>	<u>73</u>
	<u><b>272</b></u>	<u><b>438</b></u>

Hong Kong Profits Tax is calculated at 16% of the estimated assessable profit for the year.

Details of deferred taxation are set out in note 31.

**11. NET (LOSS) PROFIT FOR THE YEAR**

Of the Group's net (loss) profit for the year, a loss of HK\$155,321,000 (2000: profit of HK\$721,000) has been dealt with in the financial statements of the Company.

**12. (LOSS) EARNINGS PER SHARE**

The calculation of the basic (loss) earnings per share is based on the net loss for the year of HK\$23,495,000 (2000: profit of HK\$20,547,000) and on 941,080,745 (2000: weighted average of 948,742,575) ordinary shares of the Company in issue during the year.

No diluted (loss) earnings per share has been presented as the exercise prices of the Company's outstanding share options and warrants were higher than the average market price of the shares of the Company for both years.

The computation of diluted (loss) earnings per share does not assume the conversion of the Company's outstanding convertible bonds since their exercise would result in a decrease in loss per share in the current year and an increase in earnings per share in 2000.

For the year ended 30th June, 2001

**13. INVESTMENT PROPERTIES**

	<b>The Group</b> <i>HK\$'000</i>
VALUATION	
At 1st July, 2000	242,178
Disposals	(17,932)
Transfer from property, plant and equipment (note 14)	16,532
Deficit on revaluation	<u>(7,342)</u>
At 30th June, 2001	<u><u>233,436</u></u>

The investment properties were revalued at 30th June, 2001 on an open market value basis by RHL Appraisal Ltd., an independent firm of professional property valuers in Hong Kong.

The net deficit arising on revaluation of investment properties of HK\$7,342,000 comprised of a deficit of HK\$8,204,000 arising on revaluation of the investment properties owned by non wholly-owned subsidiaries and a surplus of HK\$862,000 arising on revaluation of other investment properties. After eliminating minority shareholders' share of surplus of investment properties held by the non-wholly-owned subsidiaries of HK\$3,376,000, the remaining deficit of HK\$3,966,000 has been changed to the investment property revaluation reserve.

The value of investment properties held by the Group comprises:

	<b>2001</b> <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Held in Hong Kong:		
Long-term leases	<b>158,600</b>	158,600
Medium-term leases	<b>3,900</b>	4,170
Held outside Hong Kong:		
Medium-term leases	<b>63,800</b>	54,000
Freehold	<b>7,136</b>	25,408
	<u><u><b>233,436</b></u></u>	<u><u>242,178</u></u>

**14. PROPERTY, PLANT AND EQUIPMENT**

	Properties held for development <i>HK\$'000</i>	Land and buildings <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Motor boats <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>THE GROUP</b>								
<b>Cost</b>								
At 1st July, 2000	253,834	73,292	-	82,025	75,388	13,779	18,467	516,785
Additions	2,457	9	2,559	6,008	736	-	-	11,769
Transfer to investment properties ( <i>note 13</i> )	-	(18,357)	-	-	-	-	-	(18,357)
Disposals	(103)	(4,894)	-	-	(402)	-	-	(5,399)
<b>At 30th June, 2001</b>	<b>256,188</b>	<b>50,050</b>	<b>2,559</b>	<b>88,033</b>	<b>75,722</b>	<b>13,779</b>	<b>18,467</b>	<b>504,798</b>
<b>Depreciation and Impairment</b>								
At 1st July, 2000	-	3,141	-	69,209	62,128	10,945	16,699	162,122
Provided for the year	-	1,002	23	4,961	3,844	912	1,628	12,370
Transfer to investment properties ( <i>note 13</i> )	-	(1,825)	-	-	-	-	-	(1,825)
Eliminated on disposals	-	-	-	-	(7)	-	-	(7)
Impairment loss	6,334	-	-	-	-	-	-	6,334
<b>At 30th June, 2001</b>	<b>6,334</b>	<b>2,318</b>	<b>23</b>	<b>74,170</b>	<b>65,965</b>	<b>11,857</b>	<b>18,327</b>	<b>178,994</b>
<b>Net Book Values</b>								
<b>At 30th June, 2001</b>	<b>249,854</b>	<b>47,732</b>	<b>2,536</b>	<b>13,863</b>	<b>9,757</b>	<b>1,922</b>	<b>140</b>	<b>325,804</b>
At 30th June, 2000	253,834	70,151	-	12,816	13,260	2,834	1,768	354,663

For the year ended 30th June, 2001

**14. PROPERTY, PLANT AND EQUIPMENT** (cont'd)

The net book values of land and buildings held by the Group comprises:

	<b>2001</b> <b>HK\$'000</b>	2000 HK\$'000
Leasehold properties held in Hong Kong under medium-term leases	<b>1,843</b>	2,326
Leasehold properties held in Hong Kong under long-term leases	<b>30,143</b>	30,776
Held in the PRC under medium-term Land Use Right Certificate	<b>5,070</b>	21,702
Held in the PRC under long-term lease Land Use Right Certificate	<b>225</b>	220
Freehold properties held in the United States of America	<b>10,451</b>	15,127
	<u><b>47,732</b></u>	<u>70,151</u>

The properties held for development of the Group comprise:

	<b>2001</b> <b>HK\$'000</b>	2000 HK\$'000
Freehold property held in the British Virgin Islands	<b>86,965</b>	84,611
Freehold properties held in the United States of America	<b>12,806</b>	12,806
Properties held in the PRC		
With Land Use Right Certificate:		
– Medium-term leases	<b>2,949</b>	2,949
– Long-term leases	<b>147,134</b>	147,134
Without Land Use Right Certificate (note):		
– Medium-term leases	<b>–</b>	6,334
	<u><b>249,854</b></u>	<u>253,834</u>

Note: The Group is in the process of obtaining land use right certificates.

The net book values of property, plant and equipment of the Group includes an aggregate amount of HK\$7,501,000 (2000: HK\$7,032,000) in respect of assets held under finance leases.



**15. INTERESTS IN SUBSIDIARIES**

	<b>The Company</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	<i>HK\$'000</i>
Unlisted investments, at cost	<b>67,716</b>	67,716
Amounts due from subsidiaries	<b>840,056</b>	1,065,456
	<b>907,772</b>	1,133,172
<i>Less: Impairment loss recognised</i>	<b>(623,900)</b>	(623,900)
	<b>283,872</b>	509,272
Amounts due to subsidiaries	<b>(64,339)</b>	(20,631)

The amounts due from (to) subsidiaries are unsecured, interest free and have no fixed terms of repayment. The Company and the subsidiaries have expressed their intention not to request repayment within twelve months of the balance sheet date and the amounts are therefore shown as non-current.

Particulars of the principal subsidiaries at 30th June, 2001 are as follows:

Name of subsidiary	Place of incorporation or registration/ operation	Nominal value of issued and paid up share capital/ registered capital	Proportion of issued share capital/ registered capital held by the Company	Principal activities
AEL (Bahamas) Limited	Bahamas/ PRC	Ordinary US\$5,000 Redeemable preference US\$300	100%	Property holding
Applied Action (BVI) Limited	British Virgin Islands/PRC	Ordinary US\$100	100%	Investment holding
Applied Electronics Limited	Hong Kong	Ordinary HK\$86,000,000	100%	Investment holding
Applied Electronics (Bahamas) Limited	Bahamas	Ordinary US\$5,000 Redeemable preference US\$300	100%	Investment holding

For the year ended 30th June, 2001

**15. INTERESTS IN SUBSIDIARIES** (cont'd)

<b>Name of subsidiary</b>	<b>Place of incorporation or registration/ operation</b>	<b>Nominal value of issued and paid up share capital/ registered capital</b>	<b>Proportion of issued share capital/ registered capital held by the Company</b>	<b>Principal activities</b>
Applied International Limited	Hong Kong	Ordinary HK\$1,000,000	100%	Property, plant and equipment holding
Applied Properties (Huang Jiang) Limited S.A.	Republic of Panama/ PRC	Ordinary US\$200	100%	Property holding in the PRC
Applied Properties (Hui Yang) Limited S.A.	Republic of Panama/ PRC	Ordinary US\$200	100%	Property holding in the PRC
Applied Properties (Jiang Men) Limited S.A.	Republic of Panama/ PRC	Ordinary US\$200	100%	Property holding in the PRC
Applied Properties Limited	Hong Kong	Ordinary HK\$10,000	100%	Property holding
江門實力發展(地產)有限公司 (Applied Properties (Jiangmen) Limited)	PRC	Registered capital US\$11,720,000	100%	Property development
Applied Technology Limited	Hong Kong	Ordinary HK\$5,000,000	55%	Property investment
Batimate Limited	British Virgin Islands	Ordinary US\$2	100%	Investment holding
Beachside Investment Limited	British Virgin Islands	Ordinary US\$1	55%	Property investment
Elite Industries Limited	British Virgin Islands	Ordinary US\$1	100%	Investment holding
iQuorum Cybernet Limited ("iQuorum")	Hong Kong	Ordinary HK\$574,630,000	55%	Investment holding

**15. INTERESTS IN SUBSIDIARIES (cont'd)**

Name of subsidiary	Place of incorporation or registration/ operation	Nominal value of issued and paid up share capital/ registered capital	Proportion of issued share capital/ registered capital held by the Company	Principal activities
惠陽縣淡水新陽城建設有限公司	PRC	Registered capital HK\$50,000,000	60%	Property development
Jardine Arizona Limited	United States of America	Ordinary US\$1,000	100%	Property development
盈聯多科技企業(深圳)有限公司 (Quorum Electronics (Shenzhen) Co., Ltd.)	PRC	Registered capital HK\$10,000,000	100%	Property, plant and equipment holding
Quorum Island (BVI) Limited	British Virgin Islands	Ordinary US\$10,000	100%	Property holding
Quorum Venture Canada Inc.	Canada	Ordinary C\$1	100%	Property holding
Renima, Inc.	California	Ordinary US\$100,000	100%	Property holding
RJP Finance Limited	Hong Kong	Ordinary HK\$200,000	55%	Provision of financial services
RJP International Limited	Hong Kong	Ordinary HK\$500,000	55%	Provision of management services
Sharp Win Industrial Limited	Hong Kong	Ordinary HK\$2,500,000	23%	Manufacture and trading of electronic products
Starwin Investments Limited	Hong Kong	Ordinary HK\$10,000	55%	Property investment

For the year ended 30th June, 2001

**15. INTERESTS IN SUBSIDIARIES** (cont'd)

Name of subsidiary	Place of incorporation or registration/ operation	Nominal value of issued and paid up share capital/ registered capital	Proportion of issued share capital/ registered capital held by the Company	Principal activities
Sound Collection Limited	Hong Kong	Ordinary HK\$2	100%	Property, plant and equipment holding
Tronicwatch Limited	Hong Kong	Ordinary HK\$10,000	55%	Property investment
Wideland Electronics Limited	Hong Kong	Ordinary HK\$200,000	51%	Manufacturing and trading of electronic products

The above principal subsidiaries are owned indirectly by the Company, with the exception of Applied Electronics Limited and Batimate Limited.

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 of the year or assets and liabilities of the Group. To give details of all other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

**16. INTERESTS IN ASSOCIATES**

	The Group	
	2001 HK\$'000	2000 HK\$'000
Share of net assets of associates	—	—

**16. INTERESTS IN ASSOCIATES** (cont'd)

Particulars of associates at 30th June, 2001 are as follows:

Name of associate	Place of incorporation	Proportion of issued share capital held by the Company indirectly	Principal activity
RJP (China) Investment Limited	Hong Kong	18%	Investment holding
RJP (China) Travel Agency Limited	Hong Kong	18%	Inactive
Suncity Development (Danshui) Limited	Hong Kong	50%	Inactive
Total Gain Holdings Limited	Hong Kong	18%	Inactive

**17. OTHER INVESTMENTS**

Other investments of the Group represent antiques held for long-term investment purpose. In the opinion of the directors, the other investments are worth at least their carrying amounts at the balance sheet date.

**18. OTHER SECURITIES**

	The Group		The Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Hong Kong listed securities, at cost	22,718	22,752	2,756	2,756
Overseas listed securities, at cost	557	567	–	–
Unlisted investments, at cost	3,119	17,713	–	–
	<u>26,394</u>	41,032	<u>2,756</u>	2,756
<i>Less:</i>				
Unrealised loss on revaluation	(12,273)	(3,086)	(1,194)	(954)
Impairment loss	(2,500)	(3,085)	–	–
	<u>11,621</u>	<u>34,861</u>	<u>1,562</u>	<u>1,802</u>
At fair value	<u>11,621</u>	<u>34,861</u>	<u>1,562</u>	<u>1,802</u>
Market value of listed securities	<u>11,621</u>	<u>13,865</u>	<u>1,562</u>	<u>1,802</u>

For the year ended 30th June, 2001

**18. OTHER SECURITIES (cont'd)**

In the opinion of the directors, the fair value of unlisted investments at 30th June, 2000 approximated their carrying values at the balance sheet date.

**19. INVENTORIES**

	<b>The Group</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Raw materials	<b>8,601</b>	16,735
Work in progress	<b>1,286</b>	2,310
Finished goods	<b>1,620</b>	2,452
	<u><b>11,507</b></u>	<u>21,497</u>

**20. TRADE AND OTHER RECEIVABLES**

The Group allows an average credit period ranged from 30 to 60 days to its trade customers other than major customers with whom specific terms will be agreed by both parties.

Include in trade and other receivable are trade debtors of HK\$29,038,000 (2000: HK\$39,078,000) and their aging analysis is as follows:

	<b>The Group</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Within 90 days	<b>23,822</b>	38,502
More than 90 days and within 180 days	<b>4,633</b>	390
More than 180 days	<b>583</b>	186
	<u><b>29,038</b></u>	<u>39,078</u>

**21. SHORT-TERM LOANS RECEIVABLE**

The short-term loans receivable of the Group are unsecured and carry interest at commercial rates.

**22. TRADING SECURITIES**

The trading securities of the Group and the Company represented listed shares in Hong Kong and were carried at their market values.

**23. TRADE AND OTHER PAYABLES**

Include in trade and other payables are trade payables of HK\$18,391,000 (2000: HK\$30,190,000) and their aging analysis is as follows:

	<b>The Group</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	<i>HK\$'000</i>
Within 90 days	<b>14,988</b>	23,002
More than 90 days and within 180 days	<b>2,103</b>	5,875
More than 180 days	<b>1,300</b>	1,313
	<u><b>18,391</b></u>	<u>30,190</u>

**24. BANK BORROWINGS**

	<b>The Group</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	<i>HK\$'000</i>
The bank borrowings comprise:		
Bank loans	<b>35,792</b>	33,707
Import loans	<b>13,623</b>	18,175
Bank overdrafts	<b>7,211</b>	3,372
	<u><b>56,626</b></u>	<u>55,254</u>
Secured	<b>54,594</b>	52,555
Unsecured	<b>2,032</b>	2,699
	<u><b>56,626</b></u>	<u>55,254</u>

For the year ended 30th June, 2001

**24. BANK BORROWINGS** (cont'd)

	<b>The Group</b>	
	<b>2001</b>	<b>2000</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
The bank borrowings are repayable as follows:		
Within 1 year	<b>42,094</b>	24,218
Between 1 to 2 years	<b>3,489</b>	2,956
Between 2 to 5 years	<b>10,162</b>	10,903
Over 5 years	<b>881</b>	17,177
	<u><b>56,626</b></u>	<u>55,254</u>
Less: Amount due within one year and shown under current liabilities	<u><b>(42,094)</b></u>	<u>(24,218)</u>
Amount due after one year	<u><u><b>14,532</b></u></u>	<u><u>31,036</u></u>

**25. OBLIGATIONS UNDER FINANCE LEASES**

	<b>The Group</b>			
	<b>Minimum</b>		<b>Present value of</b>	
	<b>lease payments</b>		<b>minimum lease payments</b>	
	<b>2001</b>	<b>2000</b>	<b>2001</b>	<b>2000</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
The maturity of obligations under finance leases is as follows:				
Within 1 year	<b>3,023</b>	1,247	<b>2,635</b>	1,153
Between 1 to 2 years	<b>1,939</b>	181	<b>1,816</b>	164
Between 2 to 5 years	<b>–</b>	32	<b>–</b>	24
	<u><b>4,962</b></u>	<u>1,460</u>	<u><b>4,451</b></u>	<u>1,341</u>
Less: Finance charges relating to future periods	<u><b>(511)</b></u>	<u>(119)</u>	<u>–</u>	<u>–</u>
Present value of lease obligations	<u><u><b>4,451</b></u></u>	<u><u>1,341</u></u>	<u><u><b>4,451</b></u></u>	<u><u>1,341</u></u>
Less: Amount due within one year and shown under current liabilities			<u><u><b>(2,635)</b></u></u>	<u><u>(1,153)</u></u>
Amount due after one year			<u><u><b>1,816</b></u></u>	<u><u>188</u></u>



**25. OBLIGATIONS UNDER FINANCE LEASES (cont'd)**

The average lease term is two years. For the year ended 30th June, 2001, the average effective borrowing rate was 14.25% (2000: 14.60%). Interest rates were fixed at the contract date. All leases are on a fixed repayment basis and no arrangement have been entered into for contingent rental payment. The lease obligations are denominated in Hong Kong dollar.

**26. CONVERTIBLE BONDS**

	<b>The Group and The Company</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Balance at beginning of the year	<b>121,056</b>	137,787
Convertible bonds repurchased	<b>(12,675)</b>	(16,731)
Convertible bonds redeemed	<b>(108,381)</b>	–
	<hr/>	<hr/>
Balance at end of the year	–	121,056
	<hr/>	<hr/>
Issue costs:		
Balance at beginning of the year	<b>229</b>	886
Eliminated on convertible bonds repurchased	<b>(23)</b>	(75)
Amortised during the year	<b>(206)</b>	(582)
	<hr/>	<hr/>
Balance at end of the year	–	229
	<hr/>	<hr/>
	–	120,827
<i>Less:</i> Amount due within one year and shown under current liabilities	<hr/>	<hr/>
	–	(120,827)
	<hr/>	<hr/>
Amount due after one year	<hr/> <hr/>	<hr/> <hr/>

On 30th November, 1993, the Company issued unsecured convertible bonds with a principal amount of US\$75,000,000. The bonds borne interest at the rate of 5.25% per annum, payable annually in arrears on 30th November of each year. If the closing price of the Company's shares on the Stock Exchange had been at least 140 per cent of the conversion price for a period of 30 consecutive dealing days, the Company might redeem all or part of the bonds during the period from 30th November, 1995 to 30th November, 2000 at a specified price.

For the year ended 30th June, 2001

**26. CONVERTIBLE BONDS** (cont'd)

The bondholders were entitled to convert their bonds into the Company's ordinary shares of HK\$0.20 each at an conversion price of HK\$5.21 per share, subject to adjustment, up to 23rd November, 2000. For the purpose of conversion, the exchange rate for United States dollar is fixed at HK\$7.7256 to US\$1. The shares issued upon conversion of the bonds would rank pari passu in all respects with the shares in issue on the relevant conversion date.

During the year, the Company repurchased certain of its convertible bonds on the Societe de la Bourse de Luxembourg S.A. as follows:

Month of repurchase	Nominal value of convertible bonds repurchased <i>US\$'000</i>	Price expressed as a percentage of the principal amount of the bonds		Aggregate price <i>US\$'000</i>
		Highest	Lowest	
July 2000	1,415	100.0	97.5	1,381
August 2000	210	98.0	98.0	206
	<u>1,625</u>			<u>1,587</u>

The repurchased convertible bonds were cancelled upon repurchase and, accordingly, the gain or loss on repurchase was credited or charged to the income statement. The gain or loss represents the difference between the proceeds paid and the net book value of the convertible bonds repurchased.

During the year, the aggregate price paid for repurchases amounted to HK\$12,376,000 (2000: HK\$15,078,000).

All bonds outstanding were redeemed on 30th November, 2000 at their principal amounts together with the accrued interest.

**27. SHARE CAPITAL**

	<b>Number of ordinary shares of HK\$0.20 each</b>	<b>Amount HK\$'000</b>
<b>Authorised:</b>		
Balance at 1st July, 1999 and 30th June, 2001	2,000,000,000	400,000
<b>Issued and fully paid:</b>		
Balance at 1st July, 1999	956,318,657	191,264
Exercise of warrants	2,088	–
Shares repurchased and cancelled	(15,240,000)	(3,048)
Balance at 30th June, 2000 and 30th June, 2001	941,080,745	188,216

**WARRANTS**

On 2nd May, 2000, the Company made a bonus issue of warrants on the basis of one warrant for every five shares. These warrants entitle the holders to subscribe in cash for new shares of the Company of HK\$0.20 each at subscription price of HK\$0.48 per share, subject to adjustment, at any time from 4th May, 2000 up to and including 30th April, 2004. At 30th June, 2001, the Company had outstanding warrants of HK\$90,880,000 (2000: HK\$90,880,000). Exercise in full of such warrants would result in the issue of approximately 189,334,000 (2000: 189,334,000) shares at subscription price of HK\$0.48 per share, subject to adjustment.

**SHARE OPTION SCHEME**

*The Company*

Pursuant to the share option scheme adopted by the Company on 28th May, 1997 (the "Scheme"), the board of directors of the Company may, at its discretion, grant options to directors or employees of the Company or any of its subsidiaries to subscribe for shares in the Company in accordance with the terms of the Scheme.

The maximum number of option shares in respect of which options may be granted under the Scheme may not exceed 10% of the issued share capital of the Company from time to time. Options granted under the Scheme are exercisable within a period of five years from the date the options are granted.

There were no movements in share options granted under the Scheme during the year.

The outstanding share options of 16,900,000 at an exercise price of HK\$0.36 per share at 30th June, 2001 can be exercised at any time on or before 2nd July, 2002.

For the year ended 30th June, 2001

**27. SHARE CAPITAL** (cont'd)

**SHARE OPTION SCHEME** (cont'd)

*iQuorum*

Pursuant to the share option scheme of iQuorum (the "iQuorum Scheme"), the board of directors of iQuorum may grant options to eligible employees including directors, to subscribe for shares in iQuorum in accordance with the terms of the iQuorum Scheme, subject to a maximum of 10% of the issued share capital of iQuorum from time to time. The subscription price (subject to adjustment as provided therein) is the higher of the nominal value of iQuorum's shares and an amount which is not less than 80% of the average of the closing prices of iQuorum's shares on the Stock Exchange for the five trading days immediately preceding the date the option is granted. Options granted under the iQuorum Scheme are exercisable within a period of three years from the date of grant.

Details of the movements of share options to subscribe for shares in iQuorum granted by iQuorum to the directors and employees of iQuorum and its subsidiaries during the year were as follows:

Date of grant	Exercise price HK\$	Number of share options		
		Outstanding at 1.7.2000	Lapsed during the year	Outstanding at 30.6.2001
3rd July, 1997	0.25	<u>19,070,400</u>	<u>(19,070,400)</u>	<u>—</u>

The share options lapsed on 2nd July, 2000.

**28. TREASURY SHARES**

	Number of treasury shares	Amount HK\$'000
Balance at 1st July, 1999 and 30th June, 2001	<u>48,329,000</u>	<u>12,546</u>

Treasury shares represent ordinary shares of the Company held by iQuorum before iQuorum became a subsidiary of the Company. There has been no movement of the treasury shares since iQuorum became a subsidiary of the Company.

In the opinion of the directors, these treasury shares are held for long-term and will be disposed of at an appropriate time.

29. RESERVES

	Shares premium account HK\$'000	Investment revaluation reserve HK\$'000	Investment property revaluation reserves HK\$'000	Capital redemption reserve HK\$'000	Capital reserve HK\$'000	Contributed surplus HK\$'000	Distributable reserve HK\$'000	Translation reserve HK\$'000	Deficit HK\$'000	Total HK\$'000
<b>The Group</b>										
At 1st July, 1999	-	16,013	-	7,844	212,941	-	93,961	(3,677)	(107,339)	219,743
Repurchase of shares	-	-	-	3,048	-	-	-	-	(4,284)	(1,236)
Goodwill arising on acquisition of subsidiaries	-	-	-	-	(75)	-	-	-	-	(75)
Eliminated on disposal of other securities	-	(7,628)	-	-	-	-	-	-	-	(7,628)
Deficit on revaluation of other securities	-	(14,563)	-	-	-	-	-	-	-	(14,563)
Capital reserve arising on acquisition of additional interest in a subsidiary	-	-	-	-	6,904	-	-	-	-	6,904
Exchange differences arising from translation of overseas operations	-	-	-	-	-	-	-	730	-	730
Surplus on revaluation of investment properties	-	-	24,053	-	-	-	-	-	-	24,053
Exercise of warrants	3	-	-	-	-	-	-	-	-	3
Net profit for the year	-	-	-	-	-	-	-	-	20,547	20,547
At 30th June, 2000	3	(6,178)	24,053	10,892	219,770	-	93,961	(2,947)	(91,076)	248,478
Eliminated on partial disposal of a subsidiary	-	-	(3,132)	-	-	-	-	-	-	(3,132)
Eliminated on disposal of investment properties	-	-	4,283	-	-	-	-	-	-	4,283
Eliminated on disposal of other securities	-	(4,022)	-	-	-	-	-	-	-	(4,022)
Impairment loss recognised in respect of other securities	-	535	-	-	-	-	-	-	-	535
Deficit on revaluation of other securities	-	(2,536)	-	-	-	-	-	-	-	(2,536)
Capital reserve arising on acquisition of additional interest in a subsidiary	-	-	-	-	495	-	-	-	-	495
Impairment loss in respect of goodwill	-	-	-	-	149	-	-	-	-	149
Exchange differences arising from translation of overseas operations	-	-	-	-	-	-	-	(28)	-	(28)
Deficit on revaluation of investment properties	-	-	(3,966)	-	-	-	-	-	-	(3,966)
Net loss for the year	-	-	-	-	-	-	-	-	(23,495)	(23,495)
<b>At 30th June, 2001</b>	<b>3</b>	<b>(12,201)</b>	<b>21,238</b>	<b>10,892</b>	<b>220,414</b>	<b>-</b>	<b>93,961</b>	<b>(2,975)</b>	<b>(114,571)</b>	<b>216,761</b>

For the year ended 30th June, 2001

**29. RESERVES** (cont'd)

The deficit of the Group included deficit of HK\$26,000 (2000: HK\$26,000) attributable to associates of the Group.

	Shares premium account HK\$'000	Investment revaluation reserve HK\$'000	Investment property revaluation reserves HK\$'000	Capital redemption reserve HK\$'000	Capital reserve HK\$'000	Contributed surplus HK\$'000	Distributable reserve HK\$'000	Translation reserve HK\$'000	Deficit HK\$'000	Total HK\$'000
<b>The Company</b>										
At 1st July, 1999	-	138	-	7,844	-	204,610	-	-	(21,936)	190,656
Exercise of warrants	3	-	-	-	-	-	-	-	-	3
Deficit on revaluation of other securities	-	(1,091)	-	-	-	-	-	-	-	(1,091)
Repurchase of shares	-	-	-	3,048	-	-	-	-	(4,284)	(1,236)
Net profit for the year	-	-	-	-	-	-	-	-	721	721
At 30th June, 2000	3	(953)	-	10,892	-	204,610	-	-	(25,499)	189,053
Deficit on revaluation of other securities	-	(240)	-	-	-	-	-	-	-	(240)
Net loss for the year	-	-	-	-	-	-	-	-	(155,321)	(155,321)
At 30th June, 2001	<u>3</u>	<u>(1,193)</u>	<u>-</u>	<u>10,892</u>	<u>-</u>	<u>204,610</u>	<u>-</u>	<u>-</u>	<u>(180,820)</u>	<u>33,492</u>

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

- (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

In the opinion of the directors, the Company's reserve available for distribution to shareholders represents the net amount of contributed surplus and deficit amounting to HK\$23,790,000 at 30th June, 2001 (2000: HK\$179,111,000).

**30. AMOUNT DUE TO A MINORITY SHAREHOLDER**

The amount due to a minority shareholder is unsecured and non-interest bearing. The minority shareholder has expressed his intention not to request repayment within twelve months of the balance sheet date and the amount is therefore shown as non-current.

**31. DEFERRED TAXATION**

The movements of deferred taxation of the Group during the year are as follows:

	<b>The Group</b>		<b>The Company</b>	
	<b>2001</b>	2000	<b>2001</b>	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At beginning of the year	<b>478</b>	405	–	–
Charge for the year ( <i>note 10</i> )	<b>186</b>	73	–	–
	<hr/>	<hr/>	<hr/>	<hr/>
At end of the year	<b>664</b>	478	–	–
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

At the balance sheet date, the major components of the deferred taxation (assets) liabilities, recognised and unrecognised, were as follows:

	<b>Recognised</b>		<b>Unrecognised</b>	
	<b>2001</b>	2000	<b>2001</b>	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>The Group</b>				
Tax effect of timing differences attributable to:				
Difference of tax allowances and depreciation charged in the financial statements	<b>664</b>	478	<b>1,679</b>	2,077
Taxation losses	–	–	<b>(59,507)</b>	(56,226)
	<hr/>	<hr/>	<hr/>	<hr/>
	<b>664</b>	478	<b>(57,828)</b>	(54,149)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

For the year ended 30th June, 2001

**31. DEFERRED TAXATION** (cont'd)

<b>Recognised</b>		<b>Unrecognised</b>	
<b>2001</b>	2000	<b>2001</b>	2000
<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000

**The Company**

Tax effect of timing differences  
attributable to:

Taxation losses	—	—	<b>(4,606)</b>	(3,120)
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Deferred taxation asset has not been recognised in the financial statements in respect of tax losses available to offset future profits as it is not certain that the tax losses will be utilised in the foreseeable future.

Deferred taxation credit for the year, which has not been recognised in the income statement, are as follows:

<b>2001</b>	2000
<b>HK\$'000</b>	HK\$'000

**The Group**

Tax effect of timing differences attributable to:

Difference of tax allowances and depreciation charged in the financial statements	<b>(398)</b>	(968)
Taxation losses arising	<b>(3,281)</b>	(1,716)
	<b>(3,679)</b>	(2,684)

**The Company**

Tax effect of timing differences attributable to:

Taxation losses arising	<b>(1,486)</b>	(1,144)
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**32. CONTINGENT LIABILITIES**

(a)

	<b>The Group</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Bill discounted with recourse	<b>413</b>	1,182

(b) At 30th June, 2001, the Group had a number of employees who have completed the required number of years of service under the Employment Ordinance (the "Ordinance") to be eligible for long service payments on termination of their employment. The Group is only liable to make such payments if the termination of employment meets the circumstances which are specified in the Ordinance. Had the employment of all eligible employees been terminated on 30th June, 2001 and long service payments been paid under the Ordinance, the maximum potential exposure of the Group would have been HK\$1,208,000 (2000: HK\$1,706,000). No provision has been made in the financial statements in respect of such contingent payments.

(c) At 30th June, 2000, the Company issued guarantees to the extent of HK\$34,200,000 of which HK\$25,823,000 were utilised in respect of the bank loan facilities granted to a subsidiary.

**33. OPERATING LEASE COMMITMENTS**

At the balance sheet date, the Group and the Company had commitments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	<b>The Group</b>		<b>The Company</b>	
	<b>2001</b>	2000	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
Operating leases which expire:				
Within one year	<b>4,758</b>	4,773	<b>911</b>	911
In the second to fifth year inclusive	<b>5,956</b>	6,981	<b>1,062</b>	1,973
Over five years	<b>1,652</b>	2,685	—	—
	<b>12,366</b>	14,439	<b>1,973</b>	2,884

Operating lease payments represent rentals payable by the Group for certain of its offices and warehouse properties. The average lease term is 3-5 years. Rentals are fixed and no arrangements has been entered into for contingent rental payments.

For the year ended 30th June, 2001

**34. OPERATING LEASE ARRANGEMENTS**

At the balance sheet date, the Group has minimum lease receipts, which represent rentals receivable by the Group for its investment properties, under non-cancellable operating leases which fall due as follows:

	<b>2001</b> <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Within one year	<b>8,702</b>	11,684
In the second to fifth year inclusive	<b>6,315</b>	9,997
	<u><b>15,017</b></u>	<u>21,681</u>

All of the investment properties held have committed tenants for the next year.

**35. CAPITAL COMMITMENTS**

At the balance sheet date, the Group had capital expenditure committed as follows:

	<b>2001</b> <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	<u>—</u>	<u>697</u>
Capital expenditure authorised but not contracted for in respect of acquisition of property, plant and equipment	<u><b>59,000</b></u>	<u>—</u>

The Company had no capital commitments at the balance sheet date.

**36. RECONCILIATION OF (LOSS) PROFIT BEFORE TAXATION TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES**

	<b>2001</b>	<b>2000</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
(Loss) profit before taxation	<b>(37,255)</b>	9,480
Share of results of associates	–	(38)
Interest income	<b>(4,158)</b>	(10,590)
Interest expenses	<b>7,526</b>	11,575
Dividend income	<b>(25)</b>	(123)
Depreciation	<b>12,370</b>	14,790
Loss (gain) on disposal of subsidiaries	<b>7</b>	(5,802)
Gain on repurchase of convertible bonds	<b>(276)</b>	(1,578)
Write back of provision for doubtful debts and prepayments	–	(590)
Provision for short-term loans receivable	–	5,000
Gain on disposal of other securities	<b>(8,887)</b>	(14,193)
Surplus on revaluation of investment properties	–	(4,004)
Amortisation of bond issue expenses	<b>206</b>	582
Impairment loss in respect of other securities	<b>2,500</b>	3,085
Impairment loss in respect of goodwill	<b>270</b>	–
Gain on disposal of properties held for development	–	(13,834)
(Gain) loss on disposal of property, plant and equipment, other than properties held for development	<b>(143)</b>	492
Gain on disposal of investment properties	<b>(516)</b>	–
Gain on partial disposal of a subsidiary	<b>(3,132)</b>	–
Impairment loss in respect of properties held for development	<b>6,334</b>	–
Decrease (increase) in inventories	<b>9,990</b>	(8,582)
Decrease (increase) in trade and other receivables	<b>10,642</b>	(21,779)
Decrease in trading securities	<b>1,375</b>	1,074
Decrease in trade and other payables	<b>(31,706)</b>	(15,502)
	<hr/>	<hr/>
Net cash outflow from operating activities	<b><u>(34,878)</u></b>	<b><u>(50,537)</u></b>

For the year ended 30th June, 2001

**37. ACQUISITION OF SUBSIDIARIES**

	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Net assets acquired:		
Property, plant and equipment	-	94
Trade and other receivables	-	638
Bank balances and cash	-	18
Trade and other payables	-	(86)
Minority interests	-	(272)
	<u>-</u>	<u>392</u>
Goodwill	-	153
	<u>-</u>	<u>545</u>
Satisfied by:		
Cash consideration	<u>-</u>	<u>545</u>

The subsidiaries acquired did not make a significant contribution to the net cash flows or the results of the Group.

Analysis of net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries:

	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Total cash paid	-	(545)
Bank balances and cash acquired	-	18
	<u>-</u>	<u>(527)</u>

**38. DISPOSAL OF SUBSIDIARIES**

	<b>2001</b>	2000
	<b>HK\$'000</b>	<b>HK\$'000</b>
Net assets disposed of		
Property, plant and equipment	–	32,046
Inventories	–	11,892
Trade and other receivables	–	6,358
Bank balances and cash	<b>46</b>	105
Trade and other payables	–	(23,087)
Bank overdraft	–	(323)
Minority interests	–	(24,793)
	<hr/>	<hr/>
	<b>46</b>	2,198
(Loss) gain on disposal of subsidiaries	<b>(7)</b>	5,802
	<hr/>	<hr/>
	<b>39</b>	8,000
	<hr/> <hr/>	<hr/> <hr/>
Satisfied by		
Cash	<b>39</b>	8,000
	<hr/> <hr/>	<hr/> <hr/>

Analysis of net (outflow) inflow of cash and cash equivalents in respect of the disposal of subsidiaries:

	<b>2001</b>	2000
	<b>HK\$'000</b>	<b>HK\$'000</b>
Cash consideration received	<b>39</b>	8,000
Bank balances and cash disposed of	<b>(46)</b>	(105)
Bank overdraft disposed of	–	323
	<hr/>	<hr/>
	<b>(7)</b>	8,218
	<hr/> <hr/>	<hr/> <hr/>

The cash flows contributed or utilised by the subsidiaries disposed of during the year were not significant.

For the year ended 30th June, 2001

**39. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR**

	Share capital and share premium HK\$'000	Bank loans HK\$'000	Other borrowings HK\$'000	Obligations under finance leases HK\$'000	Minority interests HK\$'000	Amount due to minority shareholders HK\$'000	Convertible bonds HK\$'000
Balance at 1st July, 1999	191,264	2,883	2,971	3,752	219,997	1,890	136,901
Shares repurchased and cancelled	(3,048)	-	-	-	-	-	-
Exercise of warrants	3	-	-	-	-	-	-
New borrowings raised	-	32,962	-	-	-	-	-
Inception of finance leases	-	-	-	1,201	-	-	-
Repayments	-	(2,138)	(12)	(3,612)	-	-	-
Acquisition of additional interest in a subsidiary	-	-	-	-	(16,595)	-	-
Eliminated on disposal of subsidiaries	-	-	-	-	(24,793)	-	-
Acquisition of subsidiaries	-	-	-	-	272	-	-
Loss for the year shared by minority shareholders	-	-	-	-	(11,505)	-	-
Revaluation surplus on investment properties arising during the year shared by minority shareholders	-	-	-	-	22,399	-	-
Revaluation deficit on other securities arising during the year shared by minority shareholders	-	-	-	-	(671)	-	-
Translation reserve arising during the year shared by minority shareholders	-	-	-	-	(55)	-	-
Goodwill arising from acquisition of subsidiaries shared by minority shareholders	-	-	-	-	(78)	-	-
Capital injected by minority shareholders	-	-	-	-	56,774	-	-
Nominal value of convertible bonds repurchased	-	-	-	-	-	-	(16,731)
Convertible bonds issue expenses amortised and eliminated on repurchase	-	-	-	-	-	-	657
Balance at 30th June, 2000	188,219	33,707	2,959	1,341	245,745	1,890	120,827
New borrowings raised	-	30,000	-	-	-	-	-
Inception of finance leases	-	-	-	5,238	-	-	-
Repayments	-	(27,915)	(434)	(2,128)	-	(817)	-
Acquisition of additional interest in a subsidiary	-	-	-	-	(640)	-	-
Loss for the year shared by minority shareholders	-	-	-	-	(14,032)	-	-
Revaluation deficit on investment properties arising during the year shared by minority shareholders	-	-	-	-	(3,376)	-	-
Revaluation deficit on other securities arising during the year shared by minority shareholders	-	-	-	-	(3,164)	-	-
Translation reserve arising during the year shared by minority shareholders	-	-	-	-	(24)	-	-
Impairment loss of goodwill shared by minority shareholders	-	-	-	-	121	-	-
Nominal value of convertible bonds repurchased	-	-	-	-	-	-	(12,675)
Nominal value of convertible bonds redeemed	-	-	-	-	-	-	(108,381)
Convertible bonds issue expenses amortised and eliminated on repurchase	-	-	-	-	-	-	229
Balance at 30th June, 2001	188,219	35,792	2,525	4,451	224,630	1,073	-

**39. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR (cont'd)**

The acquisition cost of the repurchased convertible bonds amounted to HK\$12,376,000 (2000: HK\$15,078,000). The amount paid for repurchase of ordinary shares in 2000 amounted to HK\$4,284,000.

**40. MAJOR NON-CASH TRANSACTION**

During the year, the Group entered into a finance lease arrangement in respect of the acquisition of assets with a total capital value at the inception of the lease of HK\$5,238,000 (2000: HK\$1,201,000).

**41. PLEDGE OF ASSETS**

At 30th June, 2001, the Group pledged its bank deposits, investment properties and property, plant and equipment amounting to HK\$5,132,000 (2000: HK\$25,576,000), HK\$81,700,000 (2000: HK\$82,000,000) and HK\$12,294,000 (2000: HK\$2,300,000), respectively, to secure general banking facilities granted to the Group.

**42. RELATED PARTIES TRANSACTION**

At 30th June, 2001, the banking facilities of a subsidiary were guaranteed by a director of the Company to the extent of HK\$3,919,000 (2000: HK\$4,495,000).

**43. RETIREMENT BENEFIT SCHEME**

The Group operates a defined contribution retirement scheme (the "Defined Contribution Scheme") for certain qualifying employees. The assets of the Defined Contribution Scheme are held separately from those of the Group in funds under the control of trustees.

The retirement benefits cost of Defined Contribution Scheme charged to the income statement represents contributions payable to the fund by the Group at rates specified in the rules of the scheme. Where there are employees who leave the scheme prior to vesting fully in the contribution, the contributions payable by the Group are reduced by the amount of forfeited contributions.

At the balance sheet date, there was no significant forfeited contributions which arose upon employees leaving the Defined Contribution Scheme and which was available to reduce the contributions payable in future years.

**43. RETIREMENT BENEFIT SCHEME** (cont'd)

With effective from 1st December, 2000, the Group has joined a mandatory provident fund scheme (the "MPF Scheme") for all other qualifying employees. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect to MPF Scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contributions payable in future years.

The retirement benefits cost of the MPF Scheme charged to the income statement represents contributions payable to the fund by the Group at rates specified in the rules of the scheme.

**44. POST BALANCE SHEET EVENTS**

Subsequent to the balance sheet date, the following transactions took place:

- (a) The Group disposed of an investment property with a consideration of HK\$3,300,000, resulting in a loss of HK\$410,000.
- (b) A subsidiary of the Company (the "Subsidiary") entered into a provisional agreement with an independent third party for the acquisition of a property under medium-term lease in Hong Kong at a consideration of HK\$45,000,000. The acquisition was completed in September 2001.
- (c) The Subsidiary also entered into a provisional agreement with another independent third party for the acquisition of certain properties under medium-term leases in Hong Kong at a consideration of HK\$14,000,000. The acquisition was completed in September 2001.