

■ Notes to the Financial Statements

For the year ended 30th June, 2004

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, manufacture and distribution of healthcare products, property and investment holding and property development.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

In preparing the financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group in light of its net current liabilities of approximately HK\$73,062,000 at 30th June, 2004. The directors are satisfied that the Group has sufficient funding to be able to meet in full its liabilities as they fall due for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

3. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARD

In the current year, the Group adopted, for the first time, Statement of Standard Accounting Practice ("SSAP") 12 (Revised) "Income taxes" under the Hong Kong Financial Reporting Standards ("HKFRS(s)") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), the term of HKFRS is inclusive of SSAPs and Interpretation approved by the HKICPA. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred taxation. In previous years, provision was made for deferred taxation using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred taxation is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit with limited exceptions. In the absence of any specific transitional requirement in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. The adoption of SSAP 12 (Revised) has had no material effect on the results for the current or prior accounting periods and, accordingly, no prior period adjustment has been required.

4. 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, and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 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 are eliminated on consolidation.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities at the date of acquisition of a subsidiary.

Goodwill arising on acquisitions is capitalised and amortised on a straight line basis over its useful economic life and is presented separately in the balance sheet. On the disposal of a subsidiary, the attributable amount of unamortised goodwill is included in the determination of the profit and loss on disposal.

Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition over the cost of acquisition.

Negative goodwill arising on acquisitions prior to 1st July, 2001 continues to be held in reserves and will be credited to income at the time of disposal of the relevant subsidiary.

Negative goodwill arising on acquisitions since 1st July, 2001 is presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Negative goodwill (Cont'd)

To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised in income immediately.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment losses.

Revenue recognition

Sales of goods are 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 terms of the relevant lease.

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

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

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 surplus or deficit 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 deficit, in which case the excess of the deficit over the balance on the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Investment properties (Cont'd)

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 twenty years or less.

Property, plant and equipment

Property, plant and equipment, other than properties held for development, are stated at cost less depreciation or amortisation and accumulated impairment losses.

The cost of leasehold land is amortised over the period of the relevant leases using the straight line method.

The cost of buildings is amortised using the straight line method over their estimated useful lives of fifty years or, where shorter, the period of the relevant lease.

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

Depreciation and amortisation 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 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 ¹ / ₃ %
Motor boats	10% to 20%

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Other investments

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

Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost. 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 the net profit or loss for the period.

Inventories

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

4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**Assets held under finance leases**

Assets are classified as being held under 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 obligations under finance leases. Finance charges, 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 years 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 annual rentals are charged to the income statement on a straight line basis over the relevant lease terms.

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 Company. Treasury shares are recorded using the cost method and are separately disclosed and regarded as a deduction of the Group's equity.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred taxation.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods, and it further excludes items that are never taxable or deductible.

Deferred taxation is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

4. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Taxation (Cont'd)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred taxation is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred taxation is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred taxation is also dealt with in equity.

Foreign currencies

Transactions in currencies other than Hong Kong dollars are initially recorded at the approximate rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are re-translated into Hong Kong dollars 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 assets and liabilities of the Group's operations outside Hong Kong are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Retirement benefits scheme

The retirement benefit costs charged in the income statement represent the contributions payable in respect of the current year to the Group's defined contribution retirement benefits scheme and mandatory provident fund scheme.

5. TURNOVER

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Sales of goods	93,849	115,274
Rental income	10,221	10,592
	<u>104,070</u>	<u>125,866</u>

6. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into three (2003: four) operating divisions – manufacture and distribution of electronic products, property and investment holding, property development. These divisions are the basis on which the Group reports its primary segment information.

In prior year, the Group was also involved in the manufacture and distribution of healthcare products. This business was discontinued during the year; details are set out in note 10.

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

	Continuing operations			Discontinued operations	Total <i>HK\$'000</i>
	Manufacture and distribution of electronic products <i>HK\$'000</i>	Property and investment holding <i>HK\$'000</i>	Property development <i>HK\$'000</i>	Manufacture and distribution of healthcare products <i>HK\$'000</i>	
Turnover	<u>80,765</u>	<u>10,221</u>	<u>–</u>	<u>13,084</u>	<u>104,070</u>
Results					
Segment results	1,883	35,116	(6,540)	4,158	34,617
Unallocated corporate expenses					<u>(2,794)</u>
Profit from operations					31,823
Finance costs					(6,318)
Gain on disposal of subsidiaries					55,956
Gain on disposal of discontinued operations					<u>8,797</u>
Profit before taxation					90,258
Taxation					<u>(421)</u>
Profit before minority interests					89,837
Minority interests					<u>6,644</u>
Net profit for the year					<u><u>96,481</u></u>

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Cont'd)

Business segments (Cont'd)

	Continuing operations			Discontinued operations	Corporate	Total
	Manufacture and distribution of electronic products	Property and investment holding	Property development	Manufacture and distribution of healthcare products		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets						
Segment assets	20,594	219,488	233,662	–		473,744
Unallocated corporate assets						5,306
Consolidated total assets						<u>479,050</u>
Liabilities						
Segment liabilities	7,084	34,872	32	–		41,988
Unallocated corporate liabilities						87,985
Consolidated total liabilities						<u>129,973</u>
Other information						
Capital expenditure	3,748	17,560	152	38	556	22,054
Depreciation and amortisation of property, plant and equipment	3,959	2,799	6	258	352	7,374
Allowance for trade and other receivables	–	745	–	–	–	745
Impairment loss recognised in respect of property, plant and equipment	–	–	6,000	–	–	6,000

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Cont'd)

Business segments (Cont'd)

Business segment information for the year ended 30th June, 2003 is presented below:

	Continuing operations			Discontinued operations	Total <i>HK\$'000</i>
	Manufacture and distribution of electronic products <i>HK\$'000</i>	Property and investment holding <i>HK\$'000</i>	Property development <i>HK\$'000</i>	Manufacture and distribution of healthcare products <i>HK\$'000</i>	
Turnover	<u>109,263</u>	<u>10,592</u>	<u>–</u>	<u>6,011</u>	<u>125,866</u>
Results					
Segment results	(2,406)	(122,823)	(14,982)	(15,832)	(156,043)
Unallocated corporate expenses					<u>(56,931)</u>
Loss from operations					(212,974)
Finance costs					<u>(7,829)</u>
Loss before taxation					(220,803)
Taxation					<u>2,863</u>
Loss before minority interests					(217,940)
Minority interests					<u>50,554</u>
Net loss for the year					<u>(167,386)</u>

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Cont'd)

Business segments (Cont'd)

	Continuing operations			Discontinued operations	Corporate	Total
	Manufacture and distribution of electronic products	Property and investment holding	Property development	Manufacture and distribution of healthcare products		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets						
Segment assets	61,128	142,772	239,603	10,006		453,509
Unallocated corporate assets						44,181
						<u>497,690</u>
Consolidated total assets						<u>497,690</u>
Liabilities						
Segment liabilities	19,603	23,854	32	2,992		46,481
Unallocated corporate liabilities						174,245
						<u>220,726</u>
Consolidated total liabilities						<u>220,726</u>
Other information						
Capital expenditure	3,615	–	113	1,800	7,366	12,894
Depreciation and amortisation of property, plant and equipment	6,132	2,119	63	266	489	9,069
Deficit on revaluation of investment properties	1,193	76,819	–	–	–	78,012
Impairment losses recognised in respect of:						
Other investments	–	38,968	–	–	–	38,968
Property, plant and equipment	–	17,487	–	–	1,499	18,986
Allowance for trade and other receivables	–	2,613	15,000	–	–	17,613
Allowance for short-term loans receivable	–	–	–	–	23,990	23,990
Allowance for long-term receivable	1,180	–	–	–	–	1,180
Inventories written off	170	–	–	–	–	170

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Cont'd)

Geographical segments

The Group's operations are principally located in Hong Kong, United States of America and The People's Republic of China, other than Hong Kong (the "PRC"). The Group's administrative and manufacturing function is carried out in Hong Kong and the PRC.

The following table provides an analysis of the Group's turnover by geographical market, irrespective of the origin of the goods:

	Sales revenue by geographical market	
	2004	2003
	HK\$'000	HK\$'000
Hong Kong	49,275	79,774
PRC	10,154	9,795
Other Asian countries	6,968	8,222
Europe	64	742
United States of America	29,234	24,654
British Virgin Islands	1,427	1,013
Australia	6,948	1,664
Others	—	2
	104,070	125,866

The following is an analysis of the carrying amount of segment assets and additions to property, plant and equipment analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to investment properties and property, plant and equipment	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	211,676	148,123	17,750	10,321
PRC	174,699	229,568	1,596	2,015
Other Asian countries	—	2,722	—	—
Europe	—	136	—	—
United States of America	87	24,231	2,556	142
British Virgin Islands	92,464	92,173	152	95
Australia	—	613	—	321
	478,926	497,566	22,054	12,894

For the year ended 30th June, 2004

7. INVESTMENT INCOME

	2004	2003
	HK\$'000	HK\$'000
Dividend income from listed securities	272	17
Gain on disposal of other investments	–	3,159
	<u>272</u>	<u>3,176</u>

8. PROFIT (LOSS) FROM OPERATIONS

	2004	2003
	HK\$'000	HK\$'000
Profit (loss) from operations has been arrived at after charging:		
Staff costs, including directors' remuneration:		
Basic salaries and allowances	26,441	44,596
Retirement benefits scheme contributions, no forfeited contributions	394	643
Total staff costs	<u>26,835</u>	<u>45,239</u>
Amortisation of goodwill included in administrative expenses	110	220
Auditors' remuneration:		
Current year	1,265	1,497
Underprovision in prior years	513	280
Depreciation and amortisation:		
Owned assets	4,584	5,179
Assets held under finance leases	2,790	3,890
Loss on disposal of property, plant and equipment	904	8
Loss on disposal of other investments	202	–
and after crediting:		
Release of negative goodwill included in other operating income	1,359	2,326
Rental income from property, plant and equipment	40	–
Rental income from investment properties, net of outgoings of HK\$468,000 (2003: HK\$893,000)	<u>9,713</u>	<u>9,699</u>

9. FINANCE COSTS

	2004	2003
	HK\$'000	HK\$'000
Interest expense on:		
bank and other borrowings wholly repayable within five years	4,755	6,060
bank and other borrowings not wholly repayable within five years	827	902
Finance charges on obligations under finance leases	736	867
	6,318	7,829

10. DISCONTINUED OPERATIONS

The Group's operations in manufacture and distribution of healthcare products in Australia and USA has been discontinued after disposal of the entire interest in Quorum Global Limited and its subsidiaries in February 2004. A gain of HK\$8,797,000 arose from the disposal.

The results and carrying amounts of the assets and liabilities of the discontinued operations for the year were as follows:

	Year ended 30th June,	
	2004	2003
	HK\$'000	HK\$'000
Turnover	13,084	6,011
Segment results	4,158	(15,832)
Profit (loss) from operations	4,158	(15,832)
Total assets	-	10,006
Total liabilities	-	(2,992)

During the year, this operation did not contribute significant cash flows to the Group's net cash flows in respect of operating, investing and financing activities.

11. DIRECTORS' AND EMPLOYEES' REMUNERATION

(a) Directors' remuneration

	2004	2003
	HK\$'000	HK\$'000
Fees:		
Executive	–	–
Non-executive	50	100
Independent non-executive	200	400
Other emoluments:		
Executive		
Salaries and other benefits	9,314	7,402
Performance related incentive payments	–	9,076
Retirement benefits scheme contributions	24	24
	<u>9,588</u>	<u>17,002</u>

The directors' remuneration was within the following bands:

	Number of directors	
	2004	2003
Nil to HK\$1,000,000	4	4
HK\$3,000,001 to HK\$3,500,000	1	–
HK\$5,500,001 to HK\$6,000,000	1	–
HK\$7,000,001 to HK\$7,500,000	–	1
HK\$8,500,001 to HK\$9,000,000	–	1
	<u>–</u>	<u>1</u>

11. DIRECTORS' AND EMPLOYEES' REMUNERATION (Cont'd)

(b) Employees' remuneration

The five highest paid individuals included three (2003: three) directors, details of whose remuneration are set out above. The remuneration of the remaining two (2003: two) individuals is as follows:

	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries and other benefits	1,324	2,213
Retirement benefits scheme contributions	70	121
	<u>1,394</u>	<u>2,334</u>

Their remuneration is within the following bands:

	Number of employees	
	2004	2003
Nil to HK\$1,000,000	2	–
HK\$1,000,001 to HK\$1,500,000	–	2
	<u>–</u>	<u>2</u>

During the years ended 30th June, 2004 and 2003, 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, 2004 and 2003, no directors waived any emoluments.

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12. TAXATION

	2004	2003
	HK\$'000	HK\$'000
The charge (credit) comprises:		
Hong Kong Profits Tax		
Current year	–	250
Under (over) provision in previous year	<u>670</u>	<u>(2,850)</u>
	<u>670</u>	<u>(2,600)</u>
Deferred taxation (<i>Note 32</i>)		
Credit for the year	(249)	(324)
Effect of change in tax rate	<u>–</u>	<u>61</u>
	<u>(249)</u>	<u>(263)</u>
	<u>421</u>	<u>(2,863)</u>

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for the year.

Tax in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

12. TAXATION (Cont'd)

The charge (credit) for the year can be reconciled to the profit (loss) before taxation per the income statement as follows:

	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit (loss) before taxation	<u>90,258</u>	<u>(220,803)</u>
Tax at the domestic income tax rate of 17.5%	15,795	(38,640)
Tax effect of expenses that are not deductible in determining taxable profit	5,022	32,821
Tax effect of income that are not taxable in determining taxable profit	(25,770)	(4,078)
Under(over)provision in previous year	670	(2,850)
Tax effect of utilisation of deferred tax assets previously not recognised	(87)	–
Tax effect of tax losses not recognised	4,791	9,831
Increase in opening deferred tax liability resulting from an increase in applicable tax rate	–	61
Income tax on concessionary rate	–	(8)
	<hr/>	<hr/>
Tax charge (credit) for the year	<u>421</u>	<u>(2,863)</u>

Details of deferred taxation are set out in note 32.

13. EARNINGS (LOSS) PER SHARE

The calculation of the basic earnings (loss) per share is based on the net profit for the year of HK\$96,481,000 (2003: loss of HK\$167,386,000) and on the weighted average of 941,081,098 (2003: 941,080,745) ordinary shares of the Company in issue during the year.

No diluted earnings (loss) 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 and the conversion of the Group's outstanding convertible note is anti-dilutive for both years.

For the year ended 30th June, 2004

14. INVESTMENT PROPERTIES

	THE GROUP
	<i>HK\$'000</i>
VALUATION	
At 1st July, 2003	107,680
Transfer from property, plant and equipment (<i>Note 15</i>)	16,672
Additions	2,556
Disposals	(9,860)
Surplus on revaluation	85,228
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At 30th June, 2004	<u>202,276</u>

The investment properties were revalued at 30th June, 2004 on an open market value basis by RHL Appraisal Ltd., an independent firm of professional property valuers in Hong Kong.

The surplus arising on revaluation of investment properties amounting to HK\$78,012,000 has been credited to the income statement to set off deficit recognised in the income statement in previous year. The remaining balance of HK\$7,216,000 is credited to the investment property revaluation reserve.

The value of investment properties held by the Group comprises:

	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Held in Hong Kong:		
Long leases	173,500	71,600
Medium-term leases	920	2,920
Held outside Hong Kong:		
Medium-term leases	25,300	29,300
Freehold	2,556	3,860
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	<u>202,276</u>	<u>107,680</u>

15. 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>
THE GROUP								
COST								
At 1st July, 2003	258,713	39,732	2,763	80,978	83,717	13,087	16,298	495,288
Additions	152	-	9,137	1,427	1,719	7,063	-	19,498
Transfer to investment properties (<i>Note 14</i>)	-	(31,650)	-	-	-	-	-	(31,650)
Disposal of subsidiaries	(6,334)	(2,793)	(119)	(9,827)	(21,245)	(3,157)	-	(43,475)
Disposals	(12,806)	(252)	-	(270)	(249)	(3,570)	-	(17,147)
At 30th June, 2004	<u>239,725</u>	<u>5,037</u>	<u>11,781</u>	<u>72,308</u>	<u>63,942</u>	<u>13,423</u>	<u>16,298</u>	<u>422,514</u>
DEPRECIATION, AMORTISATION AND IMPAIRMENT								
At 1st July, 2003	7,440	19,168	1,416	73,056	72,699	11,646	16,296	201,721
Provided for the year	-	649	193	2,693	2,970	869	-	7,374
Transfer to investment properties (<i>Note 14</i>)	-	(14,978)	-	-	-	-	-	(14,978)
Eliminated on disposal of subsidiaries	(6,334)	(2,793)	(24)	(9,401)	(12,843)	(2,198)	-	(33,593)
Eliminated on disposals	(1,106)	(28)	-	(108)	(149)	(3,569)	-	(4,960)
Impairment loss	6,000	-	-	-	-	-	-	6,000
At 30th June, 2004	<u>6,000</u>	<u>2,018</u>	<u>1,585</u>	<u>66,240</u>	<u>62,677</u>	<u>6,748</u>	<u>16,296</u>	<u>161,564</u>
NET BOOK VALUES								
At 30th June, 2004	<u><u>233,725</u></u>	<u><u>3,019</u></u>	<u><u>10,196</u></u>	<u><u>6,068</u></u>	<u><u>1,265</u></u>	<u><u>6,675</u></u>	<u><u>2</u></u>	<u><u>260,950</u></u>
At 30th June, 2003	<u>251,273</u>	<u>20,564</u>	<u>1,347</u>	<u>7,922</u>	<u>11,018</u>	<u>1,441</u>	<u>2</u>	<u>293,567</u>

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15. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

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

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Leasehold properties held in Hong Kong under medium-term leases	1,031	1,087
Leasehold properties held in Hong Kong under long leases	–	17,200
Held in the PRC under medium-term land use rights	310	318
Held in the PRC under long-term land use rights	1,678	1,959
	<u>3,019</u>	<u>20,564</u>

The properties held for development of the Group comprise:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Freehold property held in the British Virgin Islands	89,642	89,490
Freehold properties held in the United States of America	–	11,700
Properties held in the PRC		
– Medium-term land use rights	2,949	2,949
– Long-term land use rights	141,134	147,134
	<u>233,725</u>	<u>251,273</u>

At 30th June, 2004, plant and machinery includes assets carried at a cost of HK\$3,195,000 (2003: nil) with accumulated depreciation of HK\$3,195,000 (2003: nil) held for use under operating leases. No depreciation charged in respect of those assets in the year.

The net book values of property, plant and equipment of the Group includes an aggregate amount of HK\$10,929,000 (2003: HK\$14,407,000) in respect of assets held under finance leases.

The directors reviewed the carrying amount of property, plant and equipment of the Group at the balance sheet date and identified that the recoverable amounts of the properties held for development in the PRC were lower than their carrying amounts by reference to their disposal values contracted subsequent to the balance sheet date. An impairment loss of HK\$6,000,000 has been charged to the income statement.

16. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2004	2003
	HK\$'000	<i>HK\$'000</i>
Unlisted investments, at cost	145,265	67,716
Amounts due from subsidiaries	760,005	882,511
	905,270	950,227
Less: Impairment loss recognised	(663,900)	(663,900)
	241,370	286,327
Amounts due to subsidiaries	(67,310)	(86,707)

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

Particulars of the principal subsidiaries at 30th June, 2004 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 <i>(Note a)</i>	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	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

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16. 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 (Note a)	Principal activities
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 (HuiYang) 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) (Note b)	PRC	Registered capital US\$11,720,000	100%	Property development
Batimate Limited	British Virgin Islands	Ordinary US\$2	100%	Investment holding
Elite Industries Limited	British Virgin Islands	Ordinary US\$1	100%	Investment holding
惠陽縣淡水新陽城建設有限公司 (Note b)	PRC	Registered capital HK\$50,000,000	60%	Property development
Incar Electronics Limited	Hong Kong	Ordinary HK\$7,545,000	100%	Property investment

16. 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 <i>(Note a)</i>	Principal activities
iQuorum Cybernet Limited ("iQuorum")	Hong Kong	Ordinary HK\$574,630,911	100%	Investment holding
Quorum Bio-Tech Limited	Hong Kong	Ordinary HK\$10,000,000	89%	Investment holding
盈聯多科技企業 (深圳) 有限公司 (Quorum Electronics (Shenzhen) Co., Ltd.) <i>(Note c)</i>	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
Renima, Inc.	California	Ordinary US\$100,000	100%	Property holding
RJP International Limited	Hong Kong	Ordinary HK\$500,000	100%	Provision of management services
Sound Collection Limited	Hong Kong	Ordinary HK\$2	100%	Property, plant and equipment holding
Tronicwatch Limited	Hong Kong	Ordinary HK\$10,000	100%	Property investment
Wideland Electronics Limited	Hong Kong	Ordinary HK\$200,000	51%	Manufacturing and trading of electronic products

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16. INTERESTS IN SUBSIDIARIES (Cont'd)

Notes:

- (a) The above principal subsidiaries are owned indirectly by the Company, with the exception of Applied Electronics Limited, Batimate Limited and iQuorum.
- (b) These PRC subsidiaries are sino-foreign joint ventures established in the PRC.
- (c) This PRC subsidiary is a wholly foreign owned enterprise established in the PRC.

None of the subsidiaries had any debt securities subsisting at 30th June, 2004.

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.

17. OTHER INVESTMENTS

Other investments of the Group represent antiques held for long-term investment purpose.

18. OTHER SECURITIES

	THE GROUP		THE COMPANY	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong listed securities, at cost	17,275	22,686	10,486	2,756
Overseas listed securities, at cost	411	449	–	–
Unlisted investments, at cost	–	619	–	–
	17,686	23,754	10,486	2,756
<i>Less:</i>				
Unrealised loss on revaluation	(3,435)	(15,991)	(941)	(1,787)
Impairment loss recognised	–	(619)	–	–
At fair value	14,251	7,144	9,545	969
Market value of listed securities	14,251	7,144	9,545	969

19. GOODWILL

	THE GROUP <i>HK\$'000</i>
COST	
At 1st July, 2003	1,100
Disposal of subsidiaries	(1,100)
	—
At 30th June, 2004	—
AMORTISATION	
At 1st July, 2003	330
Provide for the year	110
Elimination on disposal of subsidiaries	(440)
	—
At 30th June, 2004	—
NET BOOK VALUES	
At 30th June, 2004	—
At 30th June, 2003	770

Goodwill was amortised on a straight line basis over a period of 5 years.

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20. NEGATIVE GOODWILL

	THE GROUP
	<i>HK\$'000</i>
GROSS AMOUNT	
At 1st July, 2003	46,519
Disposal of subsidiaries	<u>(20,365)</u>
At 30th June, 2004	<u>26,154</u>
RELEASED TO INCOME	
At 1st July, 2003	2,726
Released in the year	1,359
Eliminated on disposal of subsidiaries	<u>(1,788)</u>
At 30th June, 2004	<u>2,297</u>
CARRYING AMOUNTS	
At 30th June, 2004	<u><u>23,857</u></u>
At 30th June, 2003	<u><u>43,793</u></u>

The negative goodwill is released to income on a straight line basis of 20 years.

21. INVENTORIES

	THE GROUP	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	580	6,490
Work in progress	–	736
Finished goods	–	<u>3,105</u>
	<u>580</u>	<u><u>10,331</u></u>

The above inventories are stated at cost.

22. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period from 30 to 90 days to its trade customers other than major customers.

Included in trade and other receivables of the Group are trade debtors of HK\$5,907,000 (2003: HK\$23,870,000) and their aging analysis is as follows:

	THE GROUP	
	2004	2003
	HK\$'000	<i>HK\$'000</i>
Within 90 days	5,733	15,887
More than 90 days and within 180 days	174	7,983
	<u>5,907</u>	<u>23,870</u>

23. SHORT-TERM LOANS RECEIVABLE

The short-term loans receivable of the Group were unsecured, carried interest based on commercial rates and were settled during the year.

24. TRADE AND OTHER PAYABLES

Included in trade and other payables of the Group are trade payables of HK\$4,307,000 (2003: HK\$14,295,000) and their aging analysis is as follows:

	THE GROUP	
	2004	2003
	HK\$'000	<i>HK\$'000</i>
Within 90 days	3,999	10,496
More than 90 days and within 180 days	308	2,499
More than 180 days	–	1,300
	<u>4,307</u>	<u>14,295</u>

25. AMOUNT DUE TO A DIRECTOR

The amount of the Group was unsecured, non-interest bearing and was fully settled during the year.

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26. BANK AND OTHER BORROWINGS

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
The bank and other borrowings comprise:				
Bank loans	54,155	73,154	–	–
Import loans	4,380	10,678	–	–
Bank overdrafts	1,840	8,576	–	264
Other loans	17,262	61,098	17,262	24,098
Loan from a minority shareholder of a subsidiary	–	5,198	–	5,198
	<u>77,637</u>	<u>158,704</u>	<u>17,262</u>	<u>29,560</u>
Secured	59,960	91,498	–	–
Unsecured	17,677	67,206	17,262	29,560
	<u>77,637</u>	<u>158,704</u>	<u>17,262</u>	<u>29,560</u>

The above bank and other borrowings are repayable as follows:

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Within 1 year	47,303	127,074	17,262	29,560
Between 1 to 2 years	3,949	2,592	–	–
Between 2 to 5 years	7,561	7,659	–	–
Over 5 years	18,824	21,379	–	–
	<u>77,637</u>	<u>158,704</u>	<u>17,262</u>	<u>29,560</u>
Less: Amount due within one year shown under current liabilities	<u>(47,303)</u>	<u>(127,074)</u>	<u>(17,262)</u>	<u>(29,560)</u>
Amount due after one year	<u>30,334</u>	<u>31,630</u>	<u>–</u>	<u>–</u>

The other loans are unsecured, carry interest on commercial rates and repayable within one year.

The loan from a minority shareholder of a subsidiary was unsecured, interest-bearing at 12% and was repaid during the year.

27. OBLIGATIONS UNDER FINANCE LEASES

	THE GROUP			
	Minimum lease payments		Present value of minimum lease payments	
	2004	2003	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
The maturity of obligations under finance leases is as follows:				
Within 1 year	2,716	6,029	2,495	5,709
Between 1 to 2 years	1,824	3,429	1,725	3,321
Between 2 to 5 years	1,007	462	988	520
	<u>5,547</u>	<u>9,920</u>	<u>5,208</u>	<u>9,550</u>
<i>Less: Finance charges relating to future periods</i>	<u>(339)</u>	<u>(370)</u>		
Present value of lease obligations	<u>5,208</u>	<u>9,550</u>		
<i>Less: Amount due within one year shown under current liabilities</i>			<u>(2,495)</u>	<u>(5,709)</u>
Amount due after one year			<u>2,713</u>	<u>3,841</u>

The average lease term is two years. For the year ended 30th June, 2004, the average effective borrowing rate was 14.13% (2003: 8.56%). Interest rates were fixed at the contract date. All leases are on a fixed repayment basis and no arrangement has been entered into for contingent rental payment.

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28. SHARE CAPITAL

	Number of ordinary shares	Amount HK\$'000
Authorised:		
Balance at 1st July, 2002 and 1st July, 2003 of HK\$0.20 each	2,000,000,000	400,000
Cancellation of HK\$0.19 of the paid up capital of each of 941,080,745 issued shares	–	(178,805)
Subdivision of one unissued shares into twenty shares of HK\$0.01 each	20,119,465,845	–
Reduction of authorised share capital	<u>(16,119,465,845)</u>	<u>(161,195)</u>
Balance at 30th June, 2004 of HK\$0.01 each	<u>6,000,000,000</u>	<u>60,000</u>
Issued and fully paid:		
Balance at 1st July, 2002 and 1st July, 2003 of HK\$0.20 each	941,080,745	188,216
Cancellation of HK\$0.19 of the paid up capital of each of 941,080,745 issued shares	–	(178,805)
Exercise of warrant subscription rights	<u>2,081</u>	<u>–</u>
Balance at 30th June, 2004 of HK\$0.01 each	<u>941,082,826</u>	<u>9,411</u>

Pursuant to resolutions passed on the special general meeting held on 16th June, 2004, the authorised share capital of the Company was reduced from HK\$400,000,000 divided into 2,000,000,000 shares of HK\$0.20 each to HK\$60,000,000 divided into 6,000,000,000 shares of HK\$0.01 each, upon completion of the capital reorganisation which involved: (i) the existing paid up capital and nominal value of each of the issued shares of the Company reduced from HK\$0.20 to HK\$0.01 each by the cancellation of HK\$0.19 of the paid up capital for each issued share of the Company; (ii) each authorised but unissued share of the Company subdivided into twenty shares of HK\$0.01 each; (iii) reduce the authorised share capital to HK\$60,000,000 divided into 6,000,000,000 shares of HK\$0.01 each; (iv) the credit of approximately HK\$178,805,000 arising from the cancellation of HK\$0.19 of the paid up capital of each issued share of the Company transferred to the contributed surplus account and fully utilised to eliminate the accumulated losses of the Company; and (v) an amount of approximately HK\$3,000 standing to the credit of the share premium account of the Company transferred to the contributed surplus account and applied to eliminate the balance of the accumulated losses of the Company.

28. SHARE CAPITAL (Cont'd)**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 a 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. During the year, registered holders of 2,081 warrants exercised their rights to subscribe for 2,081 ordinary shares in the Company at HK\$0.48 per share. All unexercised outstanding warrants expired on 30th April, 2004.

SHARE OPTION SCHEMES

The directors and employees of the Company and its subsidiaries are entitled to participate in the share option schemes operated by the Company and Applied (China) Limited ("ACL"), a former subsidiary of the Company. Details of these schemes are as follows:

(a) Share options of the Company*1997 Scheme*

The Company's share option scheme adopted on 28th May, 1997 (the "1997 Scheme") for the primary purpose of providing incentives to directors and eligible employees and was terminated on 16th September, 2002.

Under the 1997 Scheme, the board of directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company for a consideration of HK\$1 for each lot of share options granted. Options granted should be accepted within 30 days from the date of grant.

The exercise price is determined by the directors of the Company, and is the higher of the nominal value of the Company's shares and an amount which is not less than 80% of the average closing price of the shares for the five trading days immediately preceding the option is granted.

The total number of shares in respect of which options may be granted under the 1997 Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time.

Options granted under the 1997 Scheme are exercisable within a period of five years from the date the options are granted.

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28. SHARE CAPITAL (Cont'd)

SHARE OPTION SCHEMES (Cont'd)

(a) Share options of the Company (Cont'd)

1997 Scheme (Cont'd)

Details of share options granted under the 1997 Scheme to the directors of the Company are as follows:

	Date of grant	Exercisable period	Exercise price HK\$	Number of shares to be issued upon exercise of the share options		
				Options outstanding at 1.7.2002	Lapsed during the year	Options outstanding at 30.6.2003 and 30.6.2004
Directors	3rd July, 1997	3.7.1997 to 2.7.2002	0.36	15,400,000	(15,400,000)	-

Other than the share options disclosed above, no share options were held by the employees of the Group.

2002 Scheme

On 16th September, 2002, the Company adopted a new share option scheme (the "2002 Scheme") for the primary purpose of providing incentives to directors and eligible employees. The 2002 Scheme will expire on 15th September, 2012. Under the 2002 Scheme, the board of directors of the Company may grant options to any employees, including executive directors, or consultants of the Company and/or its subsidiaries, to subscribe for shares in the Company.

The total number of shares in respect of which options may be granted under the 2002 Scheme is not permitted to exceed the higher of 10% of the shares of the Company in issue at the date of adoption of the 2002 Scheme. The number of shares in respect of which options may be granted to any individual is not permitted to exceed the higher of 1% of the number of shares issued and issuable under the 2002 Scheme or any other limit as may be permitted under the Rules Governing the Listing of Securities on the Stock Exchange.

28. SHARE CAPITAL (Cont'd)

SHARE OPTION SCHEMES (Cont'd)

(a) Share options of the Company (Cont'd)

2002 Scheme (Cont'd)

Options granted must be taken up within 30 days of the date of grant, upon payment of HK\$1 per grant. Options may be exercised at any time from the date of grant to the 10th anniversary of the date of grant. In each grant of options, the board of directors may at their discretion determine the specific exercise period. The exercise price is determined by the directors of the Company, and will be less than the higher of (i) the closing price of the Company's share on the date of grant; (ii) the average closing price of the Company's shares for the five business days immediately preceding the date of grant, and (iii) the nominal value of the Company's shares.

No option has been granted under the 2002 Scheme since its adoption.

(b) Share options of ACL

ACL 2002 Scheme

On 16th September, 2002, ACL adopted a share option scheme (the "ACL 2002 Scheme"). The details of the ACL 2002 Scheme are the same as the 2002 Scheme of the Company.

No option has been granted under the ACL 2002 Scheme since its adoption.

29. TREASURY SHARES

	Number of treasury shares	Amount <i>HK\$'000</i>
Balance at 1st July, 2002, 1st July, 2003 and 30th June, 2004	<u>48,329,000</u>	<u>12,546</u>

Treasury shares represent ordinary shares of the Company held by iQuorum before iQuorum is 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.

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30. RESERVES

	Shares premium account HK\$'000	Investment revaluation reserve HK\$'000	Capital redemption reserve HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
THE COMPANY						
At 1st July, 2002	3	(1,516)	10,892	204,610	(184,675)	29,314
Deficit on revaluation of other securities	-	(270)	-	-	-	(270)
Net loss for the year	-	-	-	-	(47,317)	(47,317)
At 30th June, 2003	3	(1,786)	10,892	204,610	(231,992)	(18,273)
Capital reorganisation	(3)	-	-	-	178,808	178,805
Exercise of warrants for ordinary shares	1	-	-	-	-	1
Eliminated on disposal of other securities	-	1,786	-	-	-	1,786
Deficit on revaluation of other securities	-	(941)	-	-	-	(941)
Net loss for the year	-	-	-	-	(22,695)	(22,695)
At 30th June, 2004	1	(941)	10,892	204,610	(75,879)	138,683

Notes:

- (a) The capital reserve of the Group at 30th June, 2004 was arising from the cancellation of share premium account of the Company pursuant to a special resolution passed by the Company on 22nd February, 1999.
- (b) The distributable reserve of the Group was arising from the cancellation of share capital and share premium account of Applied Electronics Limited pursuant to a scheme of arrangement which became effective on 10th January, 1989.

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.

At 30th June, 2004, the Company has reserve of HK\$128,731,000 (2003: nil) available for distribution to the shareholders.

31. AMOUNT DUE TO A MINORITY SHAREHOLDER OF A SUBSIDIARY

The amount due to a minority shareholder of a subsidiary of the Group was unsecured, non-interest bearing and was fully settled during the year.

32. DEFERRED TAXATION

The following are the major deferred tax liabilities (assets) recognised by the Group and movements thereon during the current and prior years:

	Accelerated tax depreciation	Tax losses	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1st July, 2002	647	–	647
Credit to the income statement for the year	(142)	(182)	(324)
Effect of change in tax rate charge to the income statement for the year	61	–	61
At 30th June, 2003	566	(182)	384
Credit to the income statement	(207)	(42)	(249)
At 30th June, 2004	359	(224)	135

At 30th June, 2004, the Group and the Company had unused tax losses of HK\$289,145,000 (2003: HK\$270,537,000) and HK\$18,614,000 (2003: HK\$18,614,000), respectively, available for offset against future profits. A deferred tax asset of the Group has been recognised in respect of HK\$1,280,000 (2003: HK\$1,040,000) of such losses. No deferred tax asset was recognised in respect of the remaining HK\$287,865,000 (2003: HK\$269,497,000) due to the unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

At 30th June, 2004, the Group had deductible temporary differences of approximately HK\$20,307,000 (2003: HK\$20,804,000). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that sufficient taxable profit will be available against which the deductible temporary differences can be utilised.

33. CONVERTIBLE NOTE

The convertible note of the Group (the "Note") issued on 6th June, 2003, was unsecured, held by an independent third party and interest-bearing at 12% per annum. The Note, which was transferable in whole or in part, confers rights on the holder to convert into shares in Quorum Global (NA) Inc., a subsidiary of the Company which was disposed of during the year, at an initial conversion price per share of Quorum Global (NA) Inc. which equal to the first round offering price with no dilution on the shares of Quorum Global (NA) Inc.. Unless otherwise converted, the principal amount of the Note will be repayable by Quorum Global (NA) Inc. on 6th June, 2005.

The Note has not been converted since its issue.

34. CONTINGENT LIABILITIES

The Company has given guarantees to banks and other financial institutions in respect of credit facilities granted to its subsidiaries. The extent of such facilities utilised by the subsidiaries at 30th June, 2004 amounted to HK\$21,571,000 (2003: HK\$37,000,000).

35. OPERATING LEASE COMMITMENTS

The Group as lessee

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Minimum lease payments paid in respect of properties under operating leases	<u>2,515</u>	<u>6,952</u>

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Within one year	1,678	5,739
In the second to fifth year inclusive	<u>3,203</u>	<u>5,157</u>
	<u>4,881</u>	<u>10,896</u>

35. OPERATING LEASE COMMITMENTS (Cont'd)

The Group as lessee (Cont'd)

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

The Company had no operating lease commitments at the balance sheet date.

36. OPERATING LEASE ARRANGEMENTS

The Group as lessor

At the balance sheet date, the Group had contracted with tenants for future minimum lease payments, which represent rentals receivable by the Group for its investment properties, under non-cancellable operating leases which fall due as follows:

	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	8,644	7,782
In the second to fifth year inclusive	6,218	4,375
	14,862	12,157
	14,862	12,157

The properties are expected to generate rental yields of 7.2% on an ongoing basis.

37. CAPITAL COMMITMENTS

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

	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	—	3,693
	—	3,693

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

For the year ended 30th June, 2004

38. DISPOSAL OF SUBSIDIARIES/DISCONTINUED OPERATIONS

On 9th February, 2004, the Group disposed of its entire interest in ACL for an aggregate consideration of HK\$123 million.

As explained in note 10, the Group discontinued its business in manufacture and distribution of healthcare products at the time of disposal of certain subsidiaries. The operating results of these discontinued operations are disclosed in note 6.

The net assets of these disposed subsidiaries at the date of disposal were as follows:

	2004	2003
	HK\$'000	HK\$'000
Net assets disposed of:		
Property, plant and equipment	9,882	—
Inventories	9,798	—
Trade and other receivables	30,953	—
Pledged bank deposits	3,230	—
Bank balance and cash	36,448	—
Trade and other payables	(42,735)	—
Obligations under finance leases	(818)	—
Bank and other borrowings	(12,103)	—
Tax payable	(37)	—
Bank overdrafts	(5,854)	—
Amount due to a minority shareholder of a subsidiary	(721)	—
Minority interests	(19,601)	—
	<hr/>	<hr/>
	8,442	—
Release of negative goodwill	(18,577)	—
Release of translation reserve	852	—
Release of capital reserve	(10,680)	—
Goodwill	660	—
Gain on disposal of subsidiaries/discontinued operations	64,753	—
	<hr/>	<hr/>
Consideration	45,450	—
	<hr/> <hr/>	<hr/> <hr/>
Satisfied by:		
Cash	45,450	—
	<hr/> <hr/>	<hr/> <hr/>

38. DISPOSAL OF SUBSIDIARIES/DISCONTINUED OPERATIONS (Cont'd)

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

	2004	2003
	HK\$'000	HK\$'000
Cash consideration received	45,450	–
Bank balances and cash disposed of	(36,448)	–
Bank overdrafts disposed of	5,854	–
	14,856	–

The subsidiaries disposed of during the year contributed HK\$41,721,000 to the Group's turnover and had loss from operations of HK\$25,603,000.

39. 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\$6,282,000 (2003: HK\$10,398,000).

40. PLEDGE OF ASSETS

At 30th June, 2004, the Group pledged its investment properties and property, plant and equipment amounting to HK\$174,420,000 (2003: HK\$73,920,000) and HK\$2,616,048 (2003: HK\$18,287,000), respectively, to secure general banking facilities granted to the Group. At 30th June, 2003, the Group also pledged its fixed deposits of HK\$3,219,000.

41. POST BALANCE SHEET EVENTS

On 16th October, 2003, the Group entered into an agreement to dispose of its 59% equity interest in a subsidiary at a consideration of HK\$61 million. The transaction has not yet completed up to balance sheet date.

On 9th September, 2004, the Group entered into an agreement to dispose of its 100% equity interest in a subsidiary Applied Properties (Jiang Men) Limited S.A. at a consideration of RMB15 million (approximately HK\$14 million).

On 23rd September, 2004, the Group entered into another agreement to dispose of certain of its investment properties in the PRC at a consideration of RMB22,200,000 (approximately HK\$21 million).

For the year ended 30th June, 2004

42. RELATED PARTIES TRANSACTION

At 30th June, 2004, two directors of the Company, had outstanding joint and several guarantees, issued in favour of a bank in respect of credit facilities granted by the bank to a subsidiary amounting to HK\$24,373,000 (2003: HK\$24,373,000).

43. RETIREMENT BENEFITS SCHEME

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

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

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

With effective from 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 Scheme 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 MPF Scheme at rates specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contributions payable in future years.

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