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The English language text of this report shall prevail over the Chinese language text.

Corporate Information

DIRECTORS

Executive Directors

Yu Kam Kee, Lawrence, M.B.E., J.P. *(Chairman)*
Carl Chang *(Chief Executive Officer)*
Liao Chongde
Wu Jiahong
Yu Kam Yuen, Lincoln

Independent Non-executive Directors

Li Fui Lung, Danny
Ng Hoi Yue, Herman
John Paul McLellan

COMPANY SECRETARY

Ng Yuk Yee, Feona

AUDIT COMMITTEE

Li Fui Lung, Danny
Ng Hoi Yue, Herman
John Paul McLellan

AUDITORS

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

LEGAL ADVISER

Richards Butler

PRINCIPAL BANKERS

Jian Sing Bank Limited
Bank of China (Hong Kong) Limited

REGISTERED OFFICE

Clarendon House
Church Street
Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

2nd Floor, Talon Tower
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Hong Kong

HONG KONG BRANCH REGISTRAR AND TRANSFER OFFICE

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Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

WEBSITE

http://www.irasia.com/listco/hk/ruili

STOCK CODE

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On behalf of the Board of Directors (the "Board") of Ruili Holdings Limited (hereinafter referred to as the "Company"), I am pleased to announce the annual results of the Company, together with its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 30 June 2004.

BUSINESS REVIEW

The results of our core business for fiscal year 2003/2004 were encouraging amidst the current economic environment. The economies worldwide and locally have experienced a number of turbulent events in recent years. These events have gradually culminated to cause the unfavourable trading climates we are facing today.

In order to overcome the difficult and challenging business environment before us, the Group will adjust its management and business policies. For its investment portfolio, the Group intends to (i) mark quote shares into market price; (ii) assess unquoted shares on a fair valuation basis; (iii) divest those investments with negative to zero cash flows as far as practicable; and (iv) look for investments with stable growth and cash flows. The Group envisages that these strategies will strengthen and diversify the Group's business and hence maximize shareholder value.

LOOKING AHEAD

Going forward, the Group will pursue a dual business strategy towards geographic expansion of markets and improvement of operating efficiency. Notwithstanding the worldwide economic uncertainties, the Group is confident that our business will turn around from the dark time to a gleaming future with our active exploration of business opportunities and adoption of new business plans.

APPRECIATION

On behalf of the Group, I would also like to take this opportunity to extend our gratitude to customers and shareholders for their continuous support and our staff for their invaluable dedication and contribution in the past year.

Yu Kam Kee, Lawrence
MBE, JP
Chairman

Hong Kong, 27 October 2004

Management Discussion and Analysis

RESULTS

For the year ended 30 June 2004, the turnover of the Group reduced to HK$49.6 million, representing a decrease of 82% over that of last year. Despite the significant reduction in turnover, the gross profit for the year increased by 31% to HK$6.8 million compared with HK$5.1 million in last year. The encouraging result was mainly due to more stringent control exercised in cost and operation efficiency and an aggressive pricing strategy. During the year, several subsidiaries had been disposed of, resulting in a profit on disposal of HK$80 million. The recovery in Hong Kong property market during the year also provided a good opportunity for the Group to realize the capital gain over the investment property owned by the Group. The disposal of investment property had contributed HK$6.5 million to the Group's net profit. Net profit for the year under review was HK$49.3 million as compared with the net loss of HK$104.6 million for last year. Basic earning per share for year ended 30 June 2004 was HK$0.47 cents as compared with loss per share of HK$1.23 cents for last year.

OPERATIONS REVIEW

In the previous years, the loss-making Welback International Investment Limited and its subsidiaries ("WIIL group") and Ruian Weiye Technology Company Limited ("RWTL") had been a great burden to the Group. During the year, the Group had decided to dispose of these loss-making business arms of the Group in order to prevent it from deteriorating the overall performance of the Group.

Turnover for year dropped significantly compared with last year mainly due to the gradual wound down of WIIL Group and the effect of the disposal RWTL. During the year, the Group's had spent significant time and resources in resolving the matter arising from the WIIL group and much effort was put on achieving a higher efficiency from the remaining operations of the Group.

Multimedia Electronic Products Division

Multimedia Electronic Products Division continues to be the major business arm of the Group in which digital cameras and karaoke systems are the main products of this division. The turnover for the year amounted to HK$22.1 million, representing 45% of the turnover of the Group for the year. Compared with last year, the division's turnover dropped by 89%, mainly as a result of the gradual wound down and disposal of WIIL group in the year. The gross profit of this division amounted to HK$3.7 million for the year under review.

Toys and Games Products Division

Toys and games reported with an amount of HK$4.6 million represented about 9% of the Group's turnover. Compared with last year, the turnover decreased by 92% partially due to the effect of disposal of WIIL group mentioned above. An adverse market with fierce competition was also the cause of the result. Despite the significant reduction in turnover, the result for the year improved from the loss of HK$20.0 million in last year to HK$0.4 million in the current year.

OPERATIONS REVIEW (Continued)

Telecommunication Components Trading Division

As an exercise to diversify the business operation of the Group, a new telecommunication components trading business was started in the year. The performance of the division was encouraging. The division had recorded a turnover of about HK$21.6 million, representing about 44% of the turnover for the Group in the year. The gross profit of this division amounted to HK$2.3 million for the year under review.

GEOGRAPHICAL REVIEW

During the year, the Group's sales to most regions had been reduced significantly, mainly as a result of the disposal of WIIL Group mentioned above. However, the Group managed to obtain sales of HK$14.6 million in Hong Kong, representing a growth of 33% over last year. PRC is a new target market for our Group. Sales of HK$24.5 million from PRC had been achieved for the year under review. The sales in Hong Kong and PRC accounted for 79% of the sales for the period under review.

FUTURE BUSINESS PROSPECTS AND PLANS

For the purpose of diversification, the Group had acquired 55% interest in 深圳銀河通信息技術有限公司 (Shenzhen Yinhetong Information Technology Company Limited) in September 2003 and the transaction was completed in July 2004. The acquisition will diversify the business operation of the Group into system integration and development in PRC. The directors are of the view that this newly acquired investment can generate new incomes and earnings to the Group as well as increasing the shareholders' return.

After the disposal of loss-making WIIL Group and RWTL, the Group is currently exercising stringent control over the cost and operation efficiencies, such as by outsourcing the manufacturing process to RWTL and other third party manufacturers. The Directors are optimistic that the Group's financial performance and strength would be enhanced. In addition, the Group will continue to explore new investment opportunities and meanwhile closely monitor its existing investment portfolio to ensure that shareholders' funding will be placed in areas where there are high growth and earning potential.

Leveraging on the core competencies on the product development, the Group is now developing high technology digital cameras, karaoke combo systems with TV and DVD players and high definitions DVD players. While the responses from these new products have been encouraging, the Group will continue to development other new products to suit the demand of the customers.

In the last few months, the global economy has been gradually recovered from the economic downturn. Steady economic growth has been observed in PRC market. The Group will make use of its core competencies to capture a larger market share in PRC through its production connections in PRC and the know-how technology in multimedia electronic products. As the same time, by extensive participation in world trade exhibitions and aggressive pricing strategies, the market share in North America and Europe will be enhanced. Although there are uncertainty factors such as macroeconomic control by PRC Government, increase in global oil price and interest rates, the directors are optimistic about the performance and strength of the Group in future.

FINANCIAL REVIEW AND LIQUIDITY

As at 30 June 2004, the Group had net liabilities of HK$6.5 million with total assets of HK$25.2 million and total liabilities of HK$31.6 million. The current ratio, representing by current assets divided by current liabilities, was 0.76, which improved from the last year's figure of 0.39. At balance sheet date, the Group has time deposits, bank balance and cash with total amount of HK$1.9 million.

During the year, obligation under finance lease of HK$ 0.7 million, which were chargeable with interest at flat rate of 2.95%, was obtained.

As balance sheet date, the Company obtained two loans of approximately HK$8.5 million from an independent third party. The loans were initially granted by a former shareholder of the Company and were subsequently assigned to an independent third party on 31st May, 2004. These loans are unsecured, chargeable with interest rate at 10% per annum and repayable on 1st October, 2004 and 16th January, 2005 respectively.

As at 30 June 2004, the Company had outstanding convertible bonds in the principal amount of HK$16 million (2003: HK$16 million). It has coupon rate of 8% convertible at the initial conversion price of HK$0.018 per share which is exercisable at any time from and including the first date of the issue of the convertible bonds until the maturity date ending on 22nd December, 2004.

The gearing ratio, as a ratio of the total borrowings over total assets, at 30 June 2004, was 1.06 (2003: 0.55).

On balance sheet date, The Group had contingent liabilities of HK$24 million (2003: HK$5.3 million) mainly as a result of a corporate guarantee provided by the Company to a financial institution in respect of banking facilities granted to WIIL group. HK$5.5 million of the banking facilities were utilized by members of the WIIL Group and such amount was subjected to a claim by the financial institution.

In order to improve the Group's working capital, the directors will, at appropriate time, consider raising funds by suitable means such as extending the terms of the existing loans and/or by obtaining new banking facilities. Currently, the Company is in negotiation with independent third parties to extend the repayment of the convertible bonds and short-term loans due to them.

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES AND RELATED HEDGES

During the year, the sales of the Group were mainly denominated in US dollars and the purchases of raw materials were mainly denominated in US dollars, Hong Kong dollars and Renminbi. Borrowings in terms of loans and convertible bonds were also denominated in Hong Kong dollars with interest being charged on a fixed rate basis. As the exchange rates of Hong Kong dollars against US dollars and Renminbi were relatively stable during the year, the Group's exposure to fluctuations in exchange rates was minimal.

As at 30 June 2004, the Group did not have any foreign currency investments, which had been hedged by currency borrowings and other hedging instruments.

EMPLOYEE SCHEMES

As at 30 June 2004, there were 14 employees within the Group. The remuneration policy and package of the Group's employees are periodically reviewed and approved by the executive directors. Apart from pension funds and in-house training programmes, medical insurance scheme, discretionary bonuses and share options may also be awarded to employees according to the assessment of individual performance.

MAJOR LITIGATION AND ARBITRATION PROCEEDINGS

The Company and its former subsidiary, P.N. Electronics Ltd ("PNE"), are in an arbitration with North American Foreign Trading Corporation ("NAFT") in respect of a gross receivable of HK$18 million and related damages from various parties for goods shipped by PNE to NAFT in 1996. The arbitration proceedings was initiated by NAFT against the Company and PNE claiming for alleged damages in New York, USA. The alleged claims had been contested and a counterclaim for the sum of HK$18 million as well as other damages was made in the proceedings. At the balance sheet date, no further action has been taken by either party and thus it is not possible to predict the outcome with reasonable certainty.

On 13 October 2003, a writ of summons and statement of claim was made by BII Finance Company ("BII Finance") against the Company under a guarantee allegedly given by the Company in favour of BII Finance in respect of certain alleged liabilities of the Company's ex-subsidiary, Welback Enterprise Limited. The claim is for a sum of approximately HK$3,583,000 and US$248,000 (approximately HK$1,934,000) together with interest and costs. The claim is being disputed by the Company. The Company has joined its former directors, Mr. Lee Chun Kwok and Mr. Fong Wing Seng, as third parties to the action. The Company's defence was filed on 1 December 2003. BII Finance has now taken out summary judgement proceedings against the Company. The parties attended a hearing of BII Finance's summary judgment application on 16 July 2004, but the hearing was adjourned to 2 November 2004 due to typhoon.

The Company is considering the merits of these claims and regards some of these claims as groundless. Nonetheless, the Company is currently seeking financial and legal advice on the effect on the Company of these matters and on what further actions are appropriate.

AUDIT COMMITTEE

The Audit Committee currently comprises of three independent non-executive directors of the Company, namely Mr. Li Fui Lung, Danny, Mr. Ng Hoi Yue, Herman and Mr. John Paul McLellan. The Audit Committee has reviewed with the management and the Group's external auditor the accounting principles and practices adopted by the Group and discussed auditing, internal control and review the financial position to consider the Group's significant accounting policies and financial reporting matters during this financial year.

Report of the Directors

The directors have pleasure in presenting their report together with the audited financial statements of the Group for the year ended 30 June 2004.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. Details of the principal activities and other particulars of the Company's significant subsidiaries are set out in note 19 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

SEGMENT INFORMATION

An analysis of the Group's performance for the year by business and geographical segments is set out in note 6 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 30 June 2004 are set out in the consolidated income statement on page 20.

The states of affairs of the Group and the Company as at 30 June 2004 are set out in the balance sheets on page 21 and page 22 respectively.

The cashflows of the Group are set out in the statement on pages 24 to 25.

The directors do not recommend a payment of dividend nor transfer of any amount to reserves for the year.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on page 68.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in note 17 to the financial statements.

INVESTMENT PROPERTIES

Details of the movements in investment properties of the Group during the year are set out in note 18 to the financial statements.

SHARE CAPITAL, SHARE OPTIONS AND WARRANTS

Details of movements in the share capital, share options and warrants of the Company during the year are set out in note 32 to the financial statements.

RESERVES

Details of movements in the reserve of the Group and the Company during the year are set out in note 33 to the financial statements.

CONVERTIBLE BONDS

Details of the convertible bonds of the Group and the Company in issue during the year are set out in note 29 to the financial statements.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The directors in office during the financial year ended 30 June 2004 and those as at the date of this report were:

Executive directors

Yu Kam Kee, Lawrence, M.B.E., J.P.	(appointed on 24 August 2004)
Carl Chang	(appointed on 24 August 2004)
Yu Kam Yuen, Lincoln	(appointed on 24 August 2004)
Liao Chongde	
Wu Jiahong	
Zhang Yiwei	(resigned on 24 August 2004)
Lee Kwok Leung, Alan	(resigned on 24 August 2004)
Hu Yidong	(resigned on 24 August 2004)

Independent non-executive directors

Li Fui Lung, Danny	
Ng Hoi Yue, Herman	
John Paul McLellan	(appointed on 30 September 2004)

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS (Continued)

Pursuant to Bye-law 86 of the Company's bye-laws, Mr. Yu Kam Kee, Lawrence, Mr. Carl Chang, Mr. Yu Kam Yuen, Lincoln and Mr. John Paul McLellan, who were appointed by the Board of Directors, shall hold office until the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election at that meeting.

Pursuant to Bye-law 87 of the Company's bye-laws, Mr. Ng Hoi Yue, Herman shall retire from office by rotation at the forthcoming annual general meeting and, being eligible, offers himself for re-election at that meeting.

None of the directors has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

The Company has received from the independent non-executive directors written confirmations that they comply with the requirements of independence as set out in rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

DIRECTORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

There were no contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, which subsisted at the end of the financial year or at any time during the financial year.

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2004, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept by the Company under Section 352 of the SFO, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") were as follows:

(A) Shares

As at 30 June 2004, none of the directors has any interests in the share capital of the Company and its associated corporations as defined in Section 352 of the SFO.

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Continued)

(B) Share Options

The Company has a share option scheme under which the directors may, at their discretion, grant options to employees, including any directors of the Company or its subsidiaries to subscribe for shares in the Company, subject to the terms and conditions stipulated therein.

As at 30 June 2004, the outstanding share options granted to a director of the Company were as follows:

			No. of share options		
Name of director	Exercisable on or after	Exercise price *HK$*	Outstanding as at 1 July 2003	Lapsed during the period	Outstanding as at 30 June 2004
Wu Jiahong	20 February 2003	0.017	50,000,000	–	50,000,000

Save as aforesaid and other than certain nominee shares in subsidiaries held by directors in trust for the Group, as at 30 June 2004, to the knowledge of the Company, none of the Directors nor the chief executive of the Company had or was deemed to have any interest or short position in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which has been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of the SFO and have been recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or which has been notified to the Company and the Stock Exchange pursuant to the Model Code.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors or the chief executive of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate and none of the directors, the chief executive, their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right, save as the share options disclosed in the previous section headed "Directors' Interest in Shares, Underlying Shares and Debentures".

PROFILE OF DIRECTORS

Profile of Directors of the Company as at the date of the report are set out on pages 15 to 16.

INTEREST AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SECURITIES AND FUTURES ORDINANCE

So far as is known to any director or chief executive of the Company, as at 30 June 2004, shareholders (other than directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name of shareholder	Number of ordinary shares held Corporate interest	Approximate shareholding percentage
Achieve Well Group Limited	2,872,938,146	27.07%
Hu Man Grace *(Note 1)*	2,872,938,146	27.07%
Accurate Sino Holdings Limited *(Note 4)*	1,508,960,000	14.22%
Lu Chieh-kang *(Note 2)*	1,508,960,000	14.22%
Tung Fong Hung Finance (HK) Company Limited *(Note 4)*	700,000,000	6.59%
Chan Kwok Keung, Charles *(Note 3)*	700,000,000	6.59%
Chinaview International Limited *(Note 3)*	700,000,000	6.59%
Galaxyway Investments Limited *(Note 3)*	700,000,000	6.59%
ITC Corporation Limited *(Note 3)*	700,000,000	6.59%
ITC Investment Group Limited *(Note 3)*	700,000,000	6.59%
Victory Rich Ltd. *(Note 3)*	700,000,000	6.59%
Ng Yuen Lan, Macy *(Note 3)*	700,000,000	6.59%

Notes:

1. Achieve Well Group Limited is wholly owned by Ms. Hu Man Grace, and therefore, Ms. Hu Man Grace was deemed to be interested in 2,872,938,146 shares of the Company held by Achieve Well Group Limited.

2. Accurate Sino Holdings Limited is wholly owned by Mr. Lu Chieh-kang, and therefore, Mr. Lu Chieh-kang was deemed to be interested in 1,508,960,000 shares of the Company held by Accurate Sino Holdings Limited.

3. Tung Fong Hung Finance (HK) Company Limited ("Tung Fong Hung Finance") had interests in 700,000,000 shares of the Company as security interests.

   Dr. Chan Kwok Keung, Charles owns the entire interest of Chinaview International Limited ("Chinaview") which in turn owns the entire interest in Galaxyway Investments Limited ("Galaxyway").

   Galaxyway owns more than one-third of the entire issued ordinary share capital of ITC Corporation Limited ("ITC Corporation"). ITC Corporation owns the entire interest of ITC Investment Group Limited ("ITC Investment"). ITC Investment owns the entire interest in Victory Rich Ltd. ("Victory Rich"). Victory Rich owns the entire interest of Tung Fong Hung Finance. Ms. Ng Yuen Lan, Macy is the spouse of Dr. Chan Kwok Keung, Charles. Accordingly, Victory Rich, ITC Investment, ITC Corporation, Galaxyway, Chinaview, Chan Kwok Keung, Charles and Ng Yuen Lan, Macy are deemed to have security interests in 700,000,000 shares of the Company interested by Tung Fong Hung Finance.

4. Accurate Sino Holdings Limited has mortgaged, charged and assigned 700,000,000 shares of the Company to Tung Fong Hung Finance.

Save as disclosed above, the Company has not been notified of any other interests or short positions in the shares and underlying shares of the Company representing 5% or more of the issued share capital of the Company and recorded in the register maintained under Section 336 of the SFO as at 30 June 2004.

CONVERTIBLE BONDS, SECURITIES, OPTIONS, WARRANTS OR SIMILAR RIGHTS

Details of the convertible bonds of the Company in issue during the year are set out in note 29 to the financial statements.

Other than the convertible bonds and share options set out in notes 29 and 15 to the financial statements, the Company had no other outstanding convertible bonds, securities, options, warrants or similar rights as at 30 June 2004.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities during the year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, 61% of the Group's purchases were attributable to the Group's five largest suppliers with the largest supplier accounting for 24% of the Group's purchases. In addition, 58% of the Group's turnover was attributable to the Group's five largest customers with the largest customer accounting for 44% of the Group's turnover.

As at 30 June 2004, to the knowledge of the directors of the Company, none of the directors, their associates or any shareholders owing more than 5% of the Company's share capital had any beneficial interests in the Group's five largest suppliers and customers.

SUBSEQUENT EVENTS

Details of the significant subsequent events are set out in note 37 to the financial statements.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied throughout the financial year ended 30 June 2004 with the Code of Best Practice set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules").

AUDITORS

A resolution to re-appoint Messrs. HLB Hodgson Impey Cheng as auditors of the Company will be proposed at the forthcoming annual general meeting.

On Behalf of the Board
Yu Kam Kee, Lawrence
MBE, JP
Chairman

Hong Kong, 27 October, 2004

EXECUTIVE DIRECTORS

Mr. Yu Kam Kee, Lawrence M.B.E., J.P.

Aged 58, is appointed an executive director and the chairman of the Company on 24 August 2004. He has underwent training at Bayer AG and Cassella AG in Germany and has accumulated many years of extensive experience in the chemical industry. He is the Honorary Life President of the Hong Kong Dyestuffs Merchants Association Limited. He also serves on many charitable and social organisations. He is now the Co-chairman of the Campaign Committee of The Community Chest of Hong Kong, Governor of the Hong Kong Automobile Association, Director of the Hong Kong Football Association and Chairman of the Road Safety Campaign Committee. He is also the chairman of Softbank Investment International (Strategic) Limited and Wing On Travel (Holdings) Limited, shares of both companies are listed on the Stock Exchange.

As at the date of this report, Mr. Lawrence Yu holds 2,872,938,146 shares of the Company, representing approximately 27.07% of its total issued share capital. Mr. Lawrence Yu is a brother of Mr. Lincoln Yu, an executive director of the Company.

Mr. Carl Chang

Aged 48, is appointed an executive director and the chief executive officer of the Company on 24 August 2004. He graduated from the University of Hong Kong with a Bachelor of Arts Degree and has over 20 years of extensive media experience in the mass communications and entertainment industries. He has worked in key executive positions in various companies in broadcasting, films production, entertainment and media industries. Currently, he is an independent non-executive director of M21 Technology Limited, a company listed on the Stock Exchange. Mr. Chang also acts as a director of various members of the Group.

Yu Kam Yuen, Lincoln

Aged 49, is appointed an executive director of the Company on 24 August 2004. He is the holder of a Bachelor of Degree in Economics from the University of Western Ontario, Canada and has underwent training in dyestuffs technology at Bayer AG and Hoechst AG in Germany. He is the President of the Hong Kong Dyestuffs Merchants Association Limited and participates in many charitable organisations. He is also a non-executive director of Softbank Investment International (Strategic) Limited, a company listed on the Stock Exchange. Mr. Lincoln Yu is a brother of Mr. Lawrence Yu, a substantial shareholder and the chairman of the Company.

Liao Chongde

Aged 47, has been appointed an executive director of the Company since October 2003. Mr. Liao holds a Doctor of Jurisprudence degree from the Law School and an MBA from the College of Business Management of University of Oregon. Mr. Liao has more than 12 years of experience in senior management level in several international companies with comprehensive product offerings in the communications and telecommunications market. Mr. Liao had been employed as the Manager of Contracts Department, Director of Strategic Business Development, and Director of Sales for the Greater China Region with Harris Corporation, a New York Stock Exchange listed company. Mr. Liao also acts as a director of various members of the Group.

EXECUTIVE DIRECTORS (Continued)

Wu Jiahong

Aged 37, has been appointed an executive director since January 2003. Mr. Wu holds a BA diploma from Beijing Foreign Studies University and an MBA from Georgetown University in United States. Mr. Wu has more than 12 years of experience in corporate finance and strategic management. Mr. Wu has worked in both the Hong Kong and New York offices of Donaldson, Lufkin & Jenrette and as project manager in the corporate finance department of the Bank of China Head Office. In addition, Mr. Wu was the Chief Financial Officer of a Beijing company in PRC. Mr. Wu also acts as a director of various members of the Group.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Li Fui Lung, Danny

Aged 51, has been appointed as an independent non-executive director and a member of the audit committee of the Company since October 2001. He graduated with a Bachelor of Science Degree from the University of Hong Kong and subsequently obtained postgraduate certificate in accountancy from the University of Stirling in Scotland. He has over 25 years experience in the accounting profession and after qualifying as Chartered Accountant in 1980 with Ernst & Whinney in Scotland, has worked as finance manager, controller and internal auditor in major multinational companies. Upon his appointment with the Company, Mr. Li has been acting as the Chairman of the Company's audit committee. Mr. Li is the sole proprietor of Messrs. Danny Li & Company, a certified public accountants firm in Hong Kong, and has been practicing as a certified public accountant in Hong Kong for more than 3 years. He is a member of the Hong Kong Institute of Certified Public Accountants, the Institute of Chartered Accountants in Scotland and the Institute of Chartered Accountants in Australia.

Ng Hoi Yue, Herman

Aged 40, has been appointed an independent non-executive director and a member of the audit committee of the Company since May 2002. Mr. Ng is a fellow member of both the Hong Kong Institute of Certified Public Accountants and the Associate of Chartered Certified Accountants. He has been practicing as a certified public accountant in Hong Kong for more than 15 years.

John Paul McLellan

Aged 40, is appointed an independent non-executive director and a member of the audit committee of the Company on 30 September 2004. He is a partner of Haldanes and is in charge of media and entertainment practice in Asia. He represents a number of record companies (both major and independent), publishing companies, film studios and production companies and international and regional movie stars and musical talents. He acts as legal advisor to a number of industry bodies, for example, the Federation of Hong Kong Film Workers, the Hong Kong Performing Artists Guild and the Hong Kong Directors Guild. Besides, Mr. McLellan is a frequent speaker at international media conferences and also a visiting lecturer in media and entertainment law at Peking University.

HLB 國衛會計師事務所
Hodgson Impey Cheng

Chartered Accountants
Certified Public Accountants

6/F, Wheelock House
20 Pedder Street
Central
Hong Kong

TO THE MEMBERS OF
RUILI HOLDINGS LIMITED
(incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 20 to 67 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda, and for no other purpose. We do not assume responsibilities towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. However, the evidence available to us was limited as follows:

1. The corresponding amounts in the current year's financial statements are derived from the financial statements for the year ended 30 June 2003 which contained a disclaimer audit opinion.

   We were unable to carry out audit procedures necessary to obtain adequate assurance on the preceding year's figures. Accordingly, we are unable to express an opinion on the comparative figures appearing in the current year's financial statements.

We have not been able to ascertain whether the corresponding amounts will have any effect on the current year's balance sheet and profit and loss account items and in particular the opening inventories would have an effect on current year's cost of sales. Any adjustment to the opening inventories would have a consequential effect on the current year's profit.

2. The Company disposed of its 51% equity interests in Welback International Investments Limited and its subsidiaries ("WIIL group") on 12 November 2003. We were unable to obtain sufficient evidence to satisfy ourselves as to whether the gain on disposal of WIIL group of HK$68,580,000 was fairly stated in the financial statements.

3. During the year, the Company through Ruian Technology Company Limited, an indirect wholly owned subsidiary of the Company, disposed of the entire paid-up registered capital of Ruian Weiye Technology (Shenzhen) Limited ("Ruian Weiye"), a company established in the People's Republic of China. We have not been able to perform sufficient additional audit procedures to verify the net assets value of Ruian Weiye as at the date of disposal as to ascertain whether the gain on disposal of approximately HK$10,435,000.

There were no other satisfactory audit procedures that we could adopt to satisfy ourselves as to the matters set out above. Any adjustments that might have been found to be necessary in respect of the matters set out above would have a consequential impact on the net profit of the Group for the year ended 30 June 2004.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

FUNDAMENTAL UNCERTAINTIES RELATING TO THE GOING CONCERN BASIS OF THE GROUP

In forming our opinion we have considered the adequacy of the disclosures made in note 3 to the financial statements concerning the adoption of the going concern basis on which the financial statements have been prepared. As explained in note 3 to the financial statements, the directors are currently undertaking a number of measures to relieve the Group's current lack of profitability and to solve its liquidity problem.

The financial statements have been prepared on a going concern basis, the validity of which depends upon future funding being available, the satisfactory resolution of the settlement of convertible bonds due on 22 December 2004 and short term loan due on 1 October 2004, the successful attainment of profitable and positive cash flow operations and the successful outcome of the implementation of the measures noted above. The financial statements do not include any adjustments that would result from a failure of implementation of the measures noted above. If these measures were not to be successful or insufficient, or if the going concern basis were not to be appropriate, adjustments would have to be made to the financial statements to reduce the value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. We consider that the fundamental uncertainty has been adequately disclosed in the financial statements and our opinion is not qualified in this respect.

QUALIFIED OPINION: DISCLAIMER ON VIEW GIVEN BY THE FINANCIAL STATEMENTS

Because of the significance of the possible effects of the limitation of scope in respect of the evidence made available to us as referred to in the basis of opinion section above under paragraphs 1 to 3, we are unable to form an opinion as to whether the financial statements give a true and fair view of the state of affairs of the Group and of the Company as at 30 June 2004 or of the result and cash flows of the Group for the year then ended and as to whether the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

In respect alone of the limitations on our work relating to the matters as set out in the basis of opinion section of this report:

– We have not obtained all the information and explanations that we consider necessary for the purpose of our audit.

– We are unable to determine whether proper books of accounts have been kept.

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

Hong Kong, 27 October 2004

Consolidated Income Statement
For the year ended 30 June 2004

	Note	2004 HK$'000	2003 HK$'000
Turnover	5	**49,555**	279,839
Cost of Sales		**(42,805)**	(274,703)
Gross Profit		**6,750**	5,136
Other Revenue		**1,851**	4,928
Subscription Right Reserve Release		**–**	25,221
Distribution Costs		**(707)**	(10,285)
Administrative Expenses		**(26,658)**	(67,416)
Reversal of Revaluation Decrease on Disposal of Investment Properties		**6,500**	–
Revaluation Decrease of Investment Properties		**–**	(6,500)
Impairment Loss in respect of Interest in an Associate		**–**	(1,000)
Impairment Loss in respect of Investments in Securities		**–**	(15,180)
Amortisation of Operating Rights		**–**	(453)
Impairment Loss in respect of Operating Rights		**–**	(6,347)
Provision for Doubtful Debts		**(14,646)**	(22,233)
Deposit Forfeited		**–**	(4,100)
Loss from Operations	7	**(26,910)**	(98,229)
Amortisation on Goodwill		**(11)**	(11)
Finance Costs	8	**(3,847)**	(6,331)
Gain on Disposal of Subsidiaries	9	**80,034**	–
Profit/(Loss) before Taxation		**49,266**	(104,571)
Taxation	10	**–**	–
Net Profit/(Loss) for the Year	11	**49,266**	(104,571)
Dividends	13	**–**	–
Earning/(Loss) per Share			
Basic	12	**0.47 cent**	(1.23) cents
Diluted	12	**0.46 cent**	N/A

The accompanying notes form an integral part of these financial statements.

Consolidated Balance Sheet At 30 June 2004

	Note	2004 HK$'000	2003 HK$'000
Non-Current Assets			
Intangible assets	16	**80**	91
Property, plant and equipment	17	**1,368**	42,128
Investment properties	18	**–**	28,000
Interests in an associate	20	**–**	–
Investments in securities	21	**–**	–
		1,448	70,219
Current Assets			
Inventories	22	**–**	33,582
Investment deposits	23	**16,100**	–
Trade and other receivables	24	**5,670**	23,589
Pledged bank deposits		**–**	9,860
Time deposits, bank balances and cash		**1,942**	2,639
		23,712	69,670
Less: Current Liabilities			
Trade and other payables	25	**4,962**	81,478
Short-term secured bank borrowings	26	**1,442**	25,471
Obligations under finance leases due within one year	28	**208**	1,186
Convertible bonds	29	**15,938**	15,602
Other secured borrowings		**–**	14,423
Short-term borrowings	30	**8,560**	–
Amount due to a related company	31	**–**	38,301
		31,110	176,461
Net Current Liabilities		**(7,398)**	(106,791)
Total Assets Less Current Liabilities		**(5,950)**	(36,572)
Less: Non-Current Liabilities			
Secured term loan due after one year	27	**–**	19,263
Obligations under finance leases due after one year	28	**504**	712
Loan from a shareholder	30	**–**	3,136
		504	23,111
Net Liabilities		**(6,454)**	(59,683)
Financed by:			
Share Capital	32	**106,141**	96,141
Reserves	33	**(112,595)**	(155,824)
Shareholders' Deficits		**(6,454)**	(59,683)

Approved by the Board of Directors on 27 October 2004 and signed on its behalf by:

Carl Chang
Executive Director

Wu Jiahong
Executive Director

The accompanying notes form an integral part of these financial statements.

Balance Sheet At 30 June 2004

	Note	2004 HK$'000	2003 HK$'000
Non-Current Assets			
Property, plant and equipment	17	**1,075**	1,051
Investments in subsidiaries	19	**1**	–
Net amounts due from subsidiaries	19	**–**	6,761
		1,076	7,812
Current Assets			
Other receivables		**614**	169
Time deposits, bank balances and cash		**61**	121
		675	290
Less: Current Liabilities			
Other payables		**2,309**	1,301
Amount due to subsidiaries		**140**	–
Short-term borrowings	30	**8,560**	–
Obligations under finance leases due within one year	28	**208**	192
Convertible bonds	29	**15,938**	15,602
		27,155	17,095
Net Current Liabilities		**(26,480)**	(16,805)
Total Assets Less Current Liabilities		**(25,404)**	(8,993)
Less: Non-Current Liabilities			
Obligations under finance leases due after one year	28	**504**	712
Loan from a shareholder	30	**–**	3,136
		504	3,848
Net Liabilities		**(25,908)**	(12,841)
Financed by:			
Share Capital	32	**106,141**	96,141
Reserves	33	**(132,049)**	(108,982)
Shareholders' Deficits		**(25,908)**	(12,841)

Approved by the Board of Directors on 27 October 2004 and signed on its behalf by:

Carl Chang
Executive Director

Wu Jiahong
Executive Director

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Changes in Equity For the year ended 30 June 2004

	Note	2004 HK$'000	2003 HK$'000
Total equity as at 1 July 2003/2002		**(59,683)**	41,460
Net Gains and Losses not Recognised in the Consolidated Income Statement:			
Revaluation decrease		**–**	(9,536)
Movements in issued share capital, reserves and share premium:			
Issue of shares from exercise of share options		**–**	3,000
Premium arising on issue of shares in respect of exercise of share options		**–**	1,800
Issue of shares pursuant to			
– subscription agreements	32	**10,000**	22,079
– settlement agreement		**–**	4,921
Premium arising on issue of shares pursuant to			
– subscription agreements	33	**6,224**	3,926
– settlement agreement		**–**	2,159
Issue of shares from exercise of warrants		**–**	25
Premium arising on issue of shares in respect of exercise of warrants		**–**	275
Release upon disposal of subsidiaries			
– assets revaluation reserve	33	**(1,461)**	–
– capital reserve on consolidation	33	**(10,800)**	–
Movements in issue of warrants:			
Subscription rights expired		**–**	(25,221)
Net profit/(loss) for the year		**49,266**	(104,571)
Total equity as at 30 June 2004/2003		**(6,454)**	(59,683)

The accompanying notes form an integral part of these financial statements.

Consolidated Cash Flow Statement For the year ended 30 June 2004

	2004 HK$'000	2003 HK$'000
Cashflows from operating activities		
Profit/(Loss) before taxation	**49,266**	(104,571)
Adjustment for:		
Subscription right reserve release	–	(25,221)
Reversal of revaluation decrease in disposal of investment properties	**(6,500)**	–
Gain on disposal of subsidiaries	**(80,034)**	–
Interest income	**(24)**	(216)
Interest expenses	**3,847**	6,331
Depreciation	**749**	8,985
Amortisation of development costs	–	636
Written off of development costs	–	3,291
Amortisation on goodwill	**11**	11
Amortisation of operating rights	–	453
Written off of operating rights	–	6,347
Loss on disposal of property, plant and equipment	–	330
Written off of property, plant and equipment	–	434
Deficit arising on revaluation of investment properties	–	6,500
Provision for doubtful debts	**14,646**	22,233
Deposit forfeited	–	4,100
Provision for obsolete inventories	**7,444**	31,991
Provision for impairment loss of		
– Investment in an associate	–	1,000
– Investments in securities	–	15,180
Operating loss before working capital changes	**(10,595)**	(22,186)
(Increase)/decrease in inventories	**(7,444)**	4,171
(Increase)/decrease in trade and other receivables	**(19,742)**	32,928
Incresae/(decrease) in trade and other payables	**3,498**	(33,281)
Net cash used in operations	**(34,283)**	(18,368)

	2004 HK$'000	2003 HK$'000
Cashflows from investing activities		
Interest income received	**24**	116
Purchase of property, plant and equipment	**(507)**	(2,982)
Proceeds from disposal of property, plant and equipment	**–**	2,440
Proceeds from disposal of investment property	**34,500**	–
Acquisition of operating rights	**–**	(6,800)
Payment of investment deposits	**(16,100)**	–
Purchase of investments in securities	**–**	(5,700)
Deposit for internet platform	**–**	(4,000)
Increase in pledged bank deposits	**–**	(1,214)
Disposal of subsidiaries (net of cash and cash equivalents disposed of)	**(2,193)**	–
Net cash generated from/(used in) investing activities	**15,724**	(18,140)
Cashflows from financing activities		
Proceeds from issue of shares	**16,300**	32,150
Proceeds from issue of convertible bonds	**16,000**	–
Increase in short-term borrowings	**8,560**	–
(Repayment to)/advance from a shareholder	**(3,136)**	3,000
Repayment of convertible bonds	**(15,602)**	–
Net (decrease)/increase in secured short-term loan	**(1,761)**	7,117
Net increase in other secured borrowings	**–**	9,423
Net increase/(decrease) in trust receipts and import loans	**1,442**	(4,194)
Net decrease in amount due to a related company	**–**	(2,157)
Issue costs of shares	**(76)**	(1,445)
Issue costs of convertible bonds	**(129)**	–
Repayment of term loans	**–**	(1,806)
Repayment of obligations under finance leases	**(193)**	(1,632)
Interest expenses paid	**(3,485)**	(4,657)
Interest on obligations under finance leases	**(58)**	(198)
Net cash generated from financing activities	**17,862**	35,601
Net decrease in cash and cash equivalents	**(697)**	(907)
Cash and cash equivalents at the beginning of the year	**2,639**	3,546
Cash and cash equivalents at the end of the year	**1,942**	2,639
Analysis of the balances of cash and cash equivalents		
Time deposits, bank balances and cash	**1,942**	2,639

The accompanying notes form an integral part of these financial statements.

1. CORPORATE INFORMATION

The Company was incorporated in Bermuda on 27 March 1992 as an exempted company with limited liability under the Companies Act 1981 of Bermuda (as amended) and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company acts as an investment holding company. The principal activities and other particulars of the Company's significant subsidiaries are set out in note 19 to the financial statements.

2. ADOPTION OF REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group adopted the following revised SSAPs issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") which are effective for the first time for the current year's financial statements:

SSAP 12 (Revised)	:	Income Taxes

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax 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 tax is recognised in respect of all temporary differences between the carrying amount 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 requirements in SSAP 12 (Revised) the new accounting policy has been applied retrospectively.

The adoption of the SSAP 12 (Revised) had not had any material effect on the result for the current or prior accounting periods.

3. BASIS OF PREPARATION AND FUNDAMENTAL UNCERTAINTIES RELATING TO GOING CONCERN

(a) Basis of Preparation

The financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below.

3. BASIS OF PREPARATION AND FUNDAMENTAL UNCERTAINTIES RELATING TO GOING CONCERN (Continued)

(b) Fundamental Uncertainties related to Going Concern

In preparing the financial statements, the directors have given careful consideration to the future liquidity of the Group in the light of its net current liabilities of HK$7,398,000, net liabilities of HK$6,454,000 and an accumulated loss of approximately HK$228,267,000 as at 30 June 2004.

The financial statements have been prepared on a going concern basis, the validity of which depends upon future funding being available, the satisfactory resolution of the settlement of 8% convertible bonds due on 22 December 2004 and short term loan due on 1 October 2004, the successful attainment of profitable and positive cash flow operations and the successful outcome of the implementation of the measures noted below. The financial statements do not include any adjustments that would result from a failure of implementation of the measures noted below. If these measures were not to be successful or insufficient, or if the going concern basis were not to be appropriate, adjustments would have to be made to the financial statements to reduce the value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

The financial statements have been prepared on the assumption that the Group will continue to operate as a going concern notwithstanding the conditions prevailing as at 30 June 2004 and subsequently thereto up to the date of approval of these financial statements. In order to improve the Group's financial position, immediate liquidity, cash flows, profitability and operations, the directors have adopted several financing measures together with other measures in progress at the date of this report which include, but are not limited to, the following:

(i) The Company obtained a direct confirmation from the bondholder of 8% convertible bonds amounting to HK$16,000,000 that the bondholder confirmed not to demand for the settlement of the convertible bonds within twelve months from the expiry of the bonds on 22 December 2004; and

(ii) The Company obtained a direct confirmation from the lender of the interest bearing short-term loan amounting to HK$8,500,000 that the lender confirmed not to demand for the settlement of the loan within twelve months from the balance sheet date.

In the opinion of the directors, in light of the financial support mentioned above, the Group will have sufficient working capital to meet its financial obligations in full as they fall due in the foreseeable future. Accordingly, the directors are satisfied that it is appropriate to prepare the financial statements on a going concern basis, notwithstanding the Group's financial position and tight cash flows as at 30 June 2004.

4. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with all applicable SSAPs and Interpretation issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange. A summary of the principal accounting policies followed by the Group in the preparation of the financial statements is set out below:

(a) Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 30 June each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from 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.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated income statement and also any related accumulated foreign currency translation reserve.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

(b) Subsidiaries

A subsidiary is an enterprise controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefit from its activities.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

4. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

(c) Associates

An associate is a company, not being a subsidiary, in which an equity interest is held for the long-term and significant influence is exercised in its management. Significant influence is the power to participate in, but not control, the financial and operating policy decisions of the investee.

Investment in associate is accounted for in the consolidated financial statements using equity method. The consolidated income statement includes the Group's share of the post-acquisition results of associates for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associates and also goodwill/negative goodwill (net of accumulated amortisation) on acquisition.

In the Company's balance sheet, the investments in associates are stated at cost less provision for impairment losses. The results of associates are accounted for by the Company on the basis of dividends received and receivable.

Equity accounting is discontinued when the carrying amount of the investment in associates reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associate.

(d) Goodwill/Negative Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiaries and associates at the date of acquisition.

In accordance with SSAP 30, goodwill arising on acquisitions occurring on or after 1 July 2001 is included in intangible assets and is amortised using the straight-line method over its estimated useful life. Goodwill arising on major strategic acquisitions of the Group to expand its product or geographical market coverage is amortised over a maximum period of 15 years. For all other acquisitions goodwill is generally amortised over 5 to 10 years.

Goodwill on acquisitions that occurred prior to 1 January 2001 was written off against reserves. The Group has taken advantage of the transitional provision 1(a) in SSAP 30 and goodwill previously written off against reserves has not been restated. However, any impairment arising on such goodwill will be accounted for in accordance with SSAP 31.

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition.

4. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

(d) Goodwill/Negative Goodwill (Continued)

For acquisitions on or after 1 July 2001, negative goodwill is presented in the same balance sheet classification as goodwill. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised in the income statement when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the income statement over the remaining weighted average useful life of those assets; negative goodwill in excess of the fair values of those non-monetary assets is recognised in the income statement immediately.

For acquisitions prior to 1 July 2001, negative goodwill was taken directly to reserves on acquisition. The Group has taken advantage of the transitional provisions in SSAP 30 and such negative goodwill has not been restated.

The gain or loss on disposal of an entity includes the unamortised balance of goodwill relating to the entity disposed of or, for pre 1 July 2001 acquisitions, the related goodwill written off against reserve to the extent it has not previously been realised in the income statement.

(e) Property, Plant and Equipment

Property, plant and equipment, other than leasehold properties, are stated at cost less accumulated depreciation and accumulated impairment losses at the balance sheet date. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the 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 the asset, the expenditure is capitalised as an additional cost of the asset.

Leasehold properties are stated in the balance sheet at their revalued amounts, being the fair values on the basis of their existing use at the date of revaluation, less any subsequent accumulated depreciation and accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from that which would be determined using fair values at the balance sheet date.

4. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

(e) Property, Plant and Equipment (Continued)

Any revaluation increase arising on the revaluation of leasehold properties is credited to the asset revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset.

Depreciation is charged so as to write off the valuation of leasehold properties over their estimated useful lives, using the straight-line basis, at the following annual rates:

Leasehold land	:	Term of lease
Buildings	:	Over 40 years or term of lease, whichever is shorter

Depreciation is charged so as to write off the cost of other property, plant and equipment over their estimated useful lives, using the reducing balance basis, at the rate of 20% per annum.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in property, plant and equipment are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the income statement except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

The gain or loss on disposal or retirement of an asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained profits and is shown as a movement in reserves.

(f) Investment Properties

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

On disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuation is released to the income statement.

4. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

(g) Research and Development Costs

Research costs are expensed as incurred. Cost incurred on development projects relating to the design and testing of new or improved products are recognised as an intangible asset where the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. Such development costs are recognised as an asset and amortised on a straight-line basis over a period of not more than 5 years to reflect the pattern in which the related economic benefits are recognised. Development costs that do not meet the above criteria are expensed as incurred. Development costs that do not meet the above criteria are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

(h) Investments in Securities

Investment which are intended to be held on a continuing basis, and which are held for an identified long term purpose documented at the time of acquisition or change of purpose and are clearly identified for the documented purpose, are classified as investment securities stated at cost less any impairment losses, on an individual investment basis.

When impairments in values have occurred, the carrying amounts of the securities are reduces to their fair values, as estimated by the directors, and the amounts of the impairments are charged to the income statement for the period in which they arise.

When the circumstances and events which led to the impairments in values cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the appreciation in fair value is credited to the income statement, on individual investment basis, to the extent of the amount previously charged.

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

(i) Turnover

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

4. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

(j) Revenue Recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue can be measured reliably, revenue is recognised in the income statement as follows:

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

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

(iii) Rental income, including rentals invoices in advance from properties under operating leases, recognised on a straight-line basis over the term of the relevant leases.

(k) Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price in the ordinary course of business less all costs to completion and costs to make the sale.

(l) Current Assets and Current Liabilities

Current assets are expected to be realised within twelve months of the balance sheet date or in the normal course of the Group's operating cycle. Current liabilities are expected to be settled within twelve months of the balance sheet date or in the normal course of the Group's operating cycle.

(m) Foreign Currencies

Transactions in foreign currencies other than Hong Kong dollars are translated into Hong Kong Dollars at the rates of exchange ruling on the dates of the transactions or at the contracted settlement rate. Monetary assets and liabilities denominated in foreign currencies other than Hong Kong Dollars are re-translated into Hong Kong Dollars at the rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

On consolidation, the balance sheet items of overseas subsidiaries, jointly-controlled entities and associates are translated into Hong Kong dollars at the applicable rates of exchange rates ruling at the balance sheet date whilst the income and expenses items are translated at the average rates for that year. The resulting translation differences are dealt with in the exchange reserve.

4. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

(n) Leases

Leases are classified as finance leases whenever the terms of the contract transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are capitalised at their fair value at the date of acquisition or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as an obligation under finance leases. Finance charges, which represent the difference between the total leasing commitments and the recorded value of the assets acquired, are charged to the income statement over the term of the relevant leases so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Rental payable under operating leases are charge to income statement on a straight-line basis over the term of the relevant lease.

(o) Convertible Bonds

Convertible bonds are stated at the aggregate of the net proceeds from the issue.

The net proceeds represent the amount received on the issue of the convertible bonds after deduction of direct issue costs. Direct issue costs are amortised to the income statement on a straight-line basis over the period from the date of issue to their final redemption date. If any of the convertible bonds are purchased and cancelled, redeemed or converted prior to the final redemption date, any remaining unamortised issue costs attributable to the convertible bonds purchased, redeemed or converted will be written off immediately to the income statement.

(p) Taxation

Income tax expenses represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit is the profit for the year, determined in accordance with the rules established by the taxation authorities, upon which income taxes are payable.

4. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

(p) Taxation (Continued)

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount 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 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 difference 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 a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investment 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 deferred tax asset to be utilised. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

(q) Impairment of Assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of one of these assets may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss representing the difference between the carrying amount and the recoverable amount of an asset, is recognised in the income statement. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of the disposal, while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

Reversal of an impairment loss of an asset recognised in prior years is recorded when there is an indication that the impairment loss recognised for the asset no longer exists or has decreased. The reversal is recorded in the income statement.

4. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

(r) Provisions

A provision is recognised when there is a present obligation, legal or constructive, as a result of a past event and it probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed regularly and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

(s) Contingent Liabilities and Contingent Assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group. Contingent assets are not recognised but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(t) Employee Benefits

(i) Salaries, annual bonuses, paid annual leaves, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Contributions to Mandatory Provident Funds are required under the Hong Kong Mandatory Provident Funds Schemes Ordinance are recognised as an expenses in the consolidated income statement as incurred.

(iii) When the Group grants employees options to acquire shares of the Company at nil consideration, no employee benefit cost or obligation is recognised at the date of grant. When the options are exercised, equity is increased by the amount of the proceeds received.

(iv) Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

4. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

(u) Cash Equivalents

Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

(v) Related Parties

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

(w) Related Party Transactions

A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

(x) Segment Reporting

A segment is a distinguishable component of the Group that is either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has determined that business segments as the primary reporting format and geographical segment information as the secondary reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables, and property, plant and equipment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Intra-segment pricing is based on similar terms as those available to other external parties.

4. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (Continued)

(x) Segment Reporting (Continued)

Segment capital expenditure is the total cost incurred during the year to segment assets (both tangible and intangible) that are expected to be used for more than one year.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

5. TURNOVER

Turnover represents revenue from the manufacture and sale of multimedia electronic products and toys and games. During the year ended 30 June 2004, the Group also engaged in the trading of telecommunication components from September 2003. The amounts of each significant category of revenue recognised during the year are as follows:

	2004	2003
	HK$'000	*HK$'000*
Continuing operations:		
Manufacture and sale of		
– Multimedia electronic products	**22,128**	198,087
– Toys and games products	**4,552**	58,458
– Trading of telecommunication components	**21,587**	–
Others	**1,288**	23,294
	49,555	279,839

6. SEGMENT INFORMATION

(a) Business Segments

Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

The following table present revenue and results for the Group's business segments.

	Multimedia electronic products		Toys and games products		Telecommunication products		Others		Consolidated	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue from external customers	**22,128**	198,087	**4,552**	58,458	**21,587**	–	**1,288**	23,294	**49,555**	279,839
Segment results	**3,737**	15,183	**438**	(19,987)	**2,298**	–	**277**	9,940	**6,750**	5,136
Interest income and unallocated gains									**1,851**	30,149
Unallocated corporate expenses									**(27,365)**	(77,701)
Revaluation decrease of investment properties									**–**	(6,500)
Reversal of revaluation decrease on disposal of investment properties									**6,500**	–
Gain on disposal of investment interest in an associate									**–**	(1,000)
Impairment loss in respect of investment in securities									**–**	(15,180)
Amortisation of operating rights									**–**	(453)
Impairment loss in respect of operating rights									**–**	(6,347)
Provision for doubtful debts									**(14,646)**	(22,233)
Deposit forfeited									**–**	(4,100)
Loss from operations									**(26,910)**	(98,229)
Amortisation on goodwill									**(11)**	(11)
Finance costs									**(3,847)**	(6,331)
Gain on disposal of subsidiaries									**80,034**	–
Profit/(loss) before taxation									**49,266**	(104,571)
Taxation									**–**	–
Net profit/(loss) for the year									**49,266**	(104,571)

6. SEGMENT INFORMATION (Continued)

(a) Business Segments (Continued)

There are no sales or other transactions between the business segments.

Analysis of assets and liabilities by business segments has not been disclosed as most of the Group's assets and liabilities are unallocated.

(b) Geographical Segments

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers. More than 90% of the Group's assets are located in the region of Hong Kong and mainland China. Accordingly, analysis of segment assets based on the geographical segments has not been disclosed.

The following table presents revenue for the Group's geographical segments:

	North America		Europe		Japan		Hong Kong		China		Others		Consolidated	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue from external customers	**5,762**	196,095	**4,129**	61,926	**377**	10,912	**14,556**	10,906	**24,457**	–	**274**	–	**49,555**	279,839

No information was available for the geographical segment results.

There are no sales between the geographical segments.

7. LOSS FROM OPERATIONS

	2004 HK$'000	2003 HK$'000
Loss from operations is stated after charging:		
Auditors' remuneration	**280**	965
Depreciation		
– owned assets	**651**	8,132
– assets held under finance leases	**98**	853
Loss on disposal of leasehold properties	**–**	167
Loss on disposal of property, plant and equipment	**–**	163
Fixed assets written off	**–**	434
Operating leases in respect of land and buildings	**960**	2,283
Research and development costs	**–**	829
Cost of inventories	**42,805**	274,703
Amortisation of development costs	**–**	636
Written off of development costs	**–**	3,291
Provision for obsolete inventories	**7,444**	31,991
Staff costs		
– Retirement benefit scheme contributions	**161**	1,089
– Severance payments	**–**	637
– Other staff costs, including directors' emoluments	**7,212**	47,952
	7,373	49,678
and after crediting:		
Reversal of revaluation decrease on disposal of investment properties	**6,500**	–
Interest income	**24**	216
Rental income	**1,299**	2,066

8. FINANCE COSTS

	2004	2003
	HK$'000	*HK$'000*
Interest on:		
Bank borrowings wholly repayable		
– Within five years	**937**	2,691
– Over five years	**–**	835
Short-term borrowings	**1,432**	1,131
Loan from a shareholder	**–**	136
Convertible bonds	**1,353**	624
Obligations under finance leases	**58**	198
Amortisation of issue costs of convertible bonds	**67**	716
	3,847	6,331

9. GAIN ON DISPOSAL OF SUBSIDIARIES

	Quicky Technologies	**Bestplus Profits Limited**	**Ruian Weiye Technology (Shenzhen) Limited**	**Indofast Technology Limited**	**Widax (China) Limited**	**WIIL Group Limited**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Net liabilities	78,307	19	10,035	7,091	11,395	103,331	210,178
Add:							
Asset revaluation reserve release on disposal	–	–	–	–	–	1,461	1,461
Capital reserve on consolidation released on disposal	–	–	–	–	–	10,800	10,800
Less:							
Amount due to the Group written off on disposal	(76,838)	(21)	–	(7,564)	(11,374)	(47,013)	(142,810)
	1,469	(2)	10,035	(473)	21	68,579	79,629
Consideration received	1	1	400	1	1	1	405
Gain/(Loss) on disposal	1,470	(1)	10,435	(472)	22	68,580	80,034

10. TAXATION

No provision for Hong Kong profits tax has been made in the financial statements as the Company and its subsidiaries have agreed losses brought forward to set off the estimated assessable profits for the year (2003: Nil).

No provision for deferred tax liabilities has been made as the Group and the Company had no material temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

The Group has not recognised deferred tax assets in respect of losses due to the unpredictability of the future profit streams.

Reconciliation between tax expense and accounting profit/(loss) at applicable tax rate:

	2004		2003	
	HK$'000	%	*HK$'000*	%
Profit/(loss) before tax	**49,266**		(104,571)	
Tax at domestic income tax rate	**8,622**	**17.5%**	(18,300)	17.5%
Tax effect of income that is not taxable in determining taxable profit	**(14,478)**	**(29.3)%**	(4,439)	4.2%
Tax effect of expenses that are not deductible in determining taxable profit	**5,535**	**11.2%**	21,243	(20.3)%
Tax effect of unrecognised temporary differences	**257**	**0.5%**	(57)	0.1%
Tax effect of tax losses in prior year utilised this year	**(825)**	**(1.7)%**	–	–
Tax effect of unrecognised tax losses	**889**	**1.8%**	1,553	(1.5)%
Taxation charge for the year	**–**	**–**	–	–

11. NET PROFIT/(LOSS) FOR THE YEAR

Of the Group's net profit for the year of HK$49,266,000 (2003: a loss of HK$104,571,000), a loss of HK$15,783,000 (2003: HK$123,840,000) has been dealt with in the financial statements of the Company.

12. EARNINGS/(LOSS) PER SHARE

The calculation of basic and diluted earning per ordinary share is based on the following data:

	HK$'000
Earnings for calculation of basic earnings per ordinary share (net profit attributable to ordinary shareholders)	49,266
Effect of dilutive potential ordinary shares – interest on convertible bonds	773
Earnings for calculation of diluted earning per ordinary share	50,039

	Number of shares *'000*
Weighted average number of shares used in calculating basic earnings per share	10,423,960
Effect of dilutive potential ordinary shares – Convertible bonds	463,874
Weighted average number of shares used in calculating diluted earning per ordinary share	10,887,834

The calculation of the basic loss per share for the year ended 30 June 2003 is based on the net loss for the year of HK$104,571,000 and on the weighted average number of 8,511,616,632 ordinary shares in issue during the year.

The computation of diluted loss per share for the year ended 30 June 2003 does not assume the conversion of the Company's outstanding convertible bonds, warrants and share options since their exercise would result in a decrease in net loss per share from continuing ordinary operations.

13. DIVIDENDS

The directors do not recommend the payment of any dividend in respect of the year ended 30 June 2004 (2003: Nil).

14. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' Emoluments

The aggregate amounts of emoluments payable to directors of the Company during the year are as follows:

	2004	2003
	HK$'000	*HK$'000*
Directors' fees		
Executive directors	**120**	60
Non-executive director	**–**	–
Independent non-executive directors	**200**	120
	320	180
Other emoluments		
Executive directors		
– Salaries and other benefits	**2,048**	4,404
	2,368	4,584

The emoluments of the directors fell within the following bands:

	2004	2003
	Number of directors	
Nil to HK$1,000,000	**6**	9
HK$1,000,001 to HK$1,500,000	**–**	3
HK$1,500,001 to HK$2,000,000	**–**	–

During the year, no share options (2003: 50,000,000) were granted to directors under the Company's share option scheme. The details of these benefits in kind are disclosed under section headed "Directors' Interests in Equity or Debt Securities" in Report of the Directors. In the absence of a readily available market value for an accurate assessment of the value of these share options, accordingly, no value has been included in the emoluments of the directors in respect thereof.

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

14. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS (Continued)

(b) Five Highest Paid Individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2003: three) directors of the Company, details of whose emoluments are set out above. The emoluments payable to the remaining two (2003: two) individuals during the year are as follows:

	2004	2003
	HK$'000	*HK$'000*
Salaries and other benefits	**924**	1,563

The emoluments of the non-director individuals fell within the following bands:

	2004	2003
	Number of employees	
Nil to HK$1,000,000	**2**	2
HK$1,000,001 to HK$1,500,000	**–**	–
	2	2

15. EMPLOYEE BENEFITS

Retirement Benefit Scheme

Prior to 1 December 2000, the Group operated a defined contribution retirement benefits scheme ("Defined Contribution Scheme") for its qualifying employees in Hong Kong. The assets of the scheme were held separately from those of the Group in funds under the control of an independent trustee. Where there are employees who leave the Defined Contribution Scheme prior to vesting fully in the contributions, the amount of the forfeited contributions would be used to reduce the contributions payable by the Group. The Defined Contribution Scheme was terminated on 1 December 2000.

Effective from 1 December 2000, the Group joined the MPF Scheme for all of its employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Authority under the Mandatory Provident Fund Schemes Ordinance in Hong Kong. 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 Group and its employees are each required to make contributions to the MPF Scheme at rates specified in the rules. No forfeited contribution is available to reduce the contribution payable in the future years.

15. EMPLOYEE BENEFITS (Continued)

Retirement Benefit Scheme (Continued)

The employees of the Company's subsidiary in the People's Republic of China (the "PRC") are members of the state-sponsored retirement benefit scheme organised by the relevant local government authority in the PRC. The subsidiary is required to contribute, based on a certain percentage of the basic salary of its employees, to the retirement benefit scheme and has no further obligations for the actual payment of pension or post-retirement benefits beyond the annual contributions. The state-sponsored retirement benefit scheme represent the entire pension obligations payable to retired employees.

The Group does not have any other pension schemes for its employees in respect of its subsidiaries outside Hong Kong and the PRC.

Equity Compensation Benefits

Share Options

The Company has adopted a share option scheme on 23 November 2001 under which the directors may grant options to employees, including any directors, of the Company, its subsidiaries or its invested entities to subscribe for shares in the Company. The subscription price will be determined by the director (subject to adjustment), and will not be less than (i) the closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheet for trades in one or more board lots of shares on the date of offer of the options; (ii) the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of offer of the options; or (iii) the nominal value of the shares of the Company, whichever is the higher. The maximum number of shares in respect of which options may be granted under this scheme may not exceed 10% of the issued share capital of the Company from time to time. An option may be exercised at any time before the expiration of ten years from the date of adoption of the relevant share option scheme.

Details of the share options outstanding as at 30 June 2004 which have been granted under the aforesaid share option scheme are as follows:

		Number of share options					
Exercise on or after	Exercise price *HK$*	Outstanding as at 1 July 2003	Granted during year	Exercised during year	Lapsed during year	Cancelled during year	Outstanding as at 30 June 2004
20 February 2003	0.0170	150,000,000	–	–	(150,000,000)	–	–
24 April 2003	0.0174	50,000,000	–	–	–	–	50,000,000
		200,000,000	–	–	(150,000,000)	–	50,000,000

16. INTANGIBLE ASSETS

Group

	Operating rights HK$'000	Goodwill HK$'000	Development costs HK$'000	Total HK$'000
Cost:				
At 1 July 2003	6,800	107	4,245	11,152
Disposal of subsidiaries	(6,800)	–	(4,245)	(11,045)
At 30 June 2004	**–**	**107**	**–**	**107**
Accumulated amortisation and impairment:				
At 1 July 2003	6,800	16	4,245	11,061
Provided for the year	–	11	–	11
Disposal of subsidiaries	(6,800)	–	(4,245)	(11,045)
At 30 June 2004	**–**	**27**	**–**	**27**
Net book value:				
At 30 June 2004	**–**	**80**	**–**	**80**
At 30 June 2003	–	91	–	91

17. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold properties HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Plant and machinery HK$'000	Tools and moulds HK$'000	Motor vehicles H$'000	Total HK$'000
Cost or valuation:							
At 1 July 2003	20,590	14,126	20,249	27,806	42,878	3,609	129,258
Additions	–	22	227	–	258	–	507
Disposals of subsidiaries	(20,590)	(14,118)	(19,999)	(27,806)	(42,878)	(2,519)	(127,910)
At 30 June 2004	**–**	**30**	**477**	**–**	**258**	**1,090**	**1,855**
Accumulated depreciation:							
At 1 July 2003	10,543	8,503	13,948	21,136	31,041	1,959	87,130
Charge for the year	–	99	172	367	13	98	749
Written back on disposal of subsidiaries	(10,543)	(8,595)	(13,860)	(21,503)	(31,041)	(1,850)	(87,392)
At 30 June 2004	**–**	**7**	**260**	**–**	**13**	**207**	**487**
Net book value:							
At 30 June 2004	**–**	**23**	**217**	**–**	**245**	**883**	**1,368**
At 30 June 2003	10,047	5,623	6,301	6,670	11,837	1,650	42,128

The net book value of certain of the above assets held under finance leases are analysed as follows:

At 30 June 2004	**–**	**–**	**–**	**–**	**–**	**883**	**883**
At 30 June 2003	–	–	805	1,840	–	1,377	4,022

Apart from the leasehold properties, which are stated at valuation, all other property, plant and equipment are stated at cost.

The Group disposed all the leasehold properties during the year (2003: HK$10,047,000).

17. PROPERTY, PLANT AND EQUIPMENT (Continued)

Company

	Leasehold improvements *HK$'000*	Furniture, fixtures and equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
Cost:				
At 1 July 2003	8	85	1,090	1,183
Additions	22	148	–	170
At 30 June 2004	**30**	**233**	**1,090**	**1,353**
Accumulated depreciation:				
At 1 July 2003	2	21	109	132
Charge for the year	5	43	98	146
At 30 June 2004	**7**	**64**	**207**	**278**
Net book value:				
At 30 June 2004	**23**	**169**	**883**	**1,075**
At 30 June 2003	6	64	981	1,051

The net book value of fixed assets includes an amount of approximately HK$883,000 (2003: HK$981,000) in respect of assets held under financial leases.

18. INVESTMENT PROPERTIES

	Group	
	2004	2003
	HK$'000	*HK$'000*
Valuation:		
At 1 July 2003/2002	**28,000**	34,500
Revaluation decrease	**–**	(6,500)
Disposal	**(28,000)**	–
At 30 June 2004/2003	**–**	28,000

On 12 March 2004, the investment property has been sold at a consideration of HK$34,500,000.

As at 30 June 2003, the investment property is stated at its market value, which was prepared by RHL Appraisal Ltd, an independent professional surveyor, on an open market basis.

19. INVESTMENT IN SUBSIDIARIES

	Company	
	2004	2003
	HK$'000	*HK$'000*
Unlisted shares, at cost	**1**	22,115
Less: Impairment loss recognised	**–**	(22,115)
	1	–
Net amounts due from subsidiaries, less provision	**–**	6,761
	1	6,761

The amounts due from subsidiaries are unsecured and interest free.

19. INVESTMENT IN SUBSIDIARIES (Continued)

The following is a list of the significant subsidiaries at 30 June 2004:

Name of subsidiary	Place of incorporation/ establishment operation	Nominal value of issued shares/ registered capital	Proportion of nominal value of issued shares/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
Cristine Holdings Limited	British Virgin Islands ("BVI")	US$1	100%	–	Investment holding
Digital Infinity Limited	BVI	US$1	100%	–	Investment holding
Fine Apex Limited	Hong Kong	HK$4	–	100%	Intra-group service
Future Wealth Investments Ltd	BVI	US$1	100%	–	Investment holding
Great Central Trading Limited	BVI	US$1	100%	–	Investment holding
Profit Charter Holdings Limited	BVI	US$1	100%	–	Investment holding
Ruian Technology Company Limited	Hong Kong	HK$2	–	100%	Trading in digital cameras, games and multimedia electronic products
Transfer Networks Limited	BVI	US$1	100%	–	Investment holding
Widax (Hong Kong) Limited	Hong Kong	HK$2	–	100%	Trading of telecommunication and high technology components
Widax Company Limited	Hong Kong	HK$2	–	100%	Inactive

19. INVESTMENT IN SUBSIDIARIES (Continued)

Notes:

(i) All are ordinary share capital unless otherwise stated.

(ii) Welback International Investments Limited and its subsidiaries ("WIIL group") were disposed of on 12 November 2003 at a consideration of HK$1. The Company holds 51% of equity interest in WIIL group.

(iii) Investment in Ruian Weiye Technology (Shenzhen) Limited was disposed of on 30 April 2004 at a consideration of HK$400,000.

(iv) Investment in Bestplus Profits Limited ("Bestplus") was disposed on 28 April 2004 at a consideration of US$1.

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

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

20. INTERESTS IN AN ASSOCIATE

	Group	
	2004	2003
	HK$'000	*HK$'000*
Share of net assets	–	–
Goodwill unamortised	–	50,963
	–	50,963
Less: Provision for impairment loss	–	(48,887)
	–	2,076
Reclassified as investment in securities *(Note)*	–	(2,076)
	–	–

Note: Pursuant to a board resolution of Gen-Wan Technology Corporation ("Gen-Wan"), which was classified as an associate of the Group as at 30 June 2002, Gen-Wan will increase its share capital by NT$70 million during the year ended 30 June 2003. The Group has given up its right to contribute additional investment in Gen-Wan and, accordingly, the Group's equity interest in Gen-Wan was diluted from 24.9% to 9.5% and the Group no longer has the power to participate in the financial and operating policy decision of Gen-Wan. As a result, the investment in Gen-Wan was reclassified as investments in securities as at 30 June 2003.

21. INVESTMENTS IN SECURITIES

	Group 2004 HK$'000	2003 HK$'000
(a) Investment securities		
Unlisted equity securities, at cost	–	28,931
Less: Impairment loss recognised	–	(28,931)
	–	–

	Group 2004 HK$'000	2003 HK$'000
(b) Other securities		
Unlisted securities	–	2,051
Less: Impairment loss recognised	–	(2,051)
	–	–

22. INVENTORIES

	Group 2004 HK$'000	2003 HK$'000
Raw materials	–	23,186
Work in progress	–	2,758
Finished goods	–	7,638
	–	33,582

23. INVESTMENT DEPOSITS

	Group	
	2004	2003
	HK$'000	*HK$'000*
Deposit for acquisition of a subsidiary *(Note)*	**16,100**	–

Note: On 10 September 2003, Transfer Networks Limited ("TNL"), a wholly owned subsidiary of the Company, entered into a conditional Investment Agreement (the "Investment Agreement") with the shareholders of 深圳銀河通信息技術有限公司 ("SRT"), inter alia, to invest RMB17,000,000 (approximately HK$16,100,000) in registered share capital of SRT.

Completion of the Investment Agreement was scheduled to take place within 45 days of signing the Investment Agreement. It was conditional upon the approval of the Investment Agreement by the board of SRT and TNL, the delivery of a PRC legal opinion in relation to the validity of the Investment Agreement in a form satisfactory to TNL, the subscription as described in more details in Note 32(b), the conversion of SRT into a sino-foreign joint venture and all necessary PRC government approvals being obtained. All conditions cannot be waived except that in relation to the obtaining of PRC legal opinion.

As some of the conditions of the Investment Agreement cannot be fulfilled within 45 days from the Investment Agreement, parties to the Investment Agreement agreed on two occasions to extend the completion date to 31 July 2004. On 21 July 2004, all of the conditions were fulfilled and the Investment Agreement was completed. As such, the amount injected into SRT was treated as an investment deposit as at the year end date, 30 June 2004.

24. TRADE AND OTHER RECEIVABLES

At 30 June 2004, the balances of trade and other receivables included trade receivables of approximately HK$2,440,000 (2003: HK$16,295,000). An aged analysis of trade receivables prepared on the basis of sales invoice date is as follows:

	Group	
	2004	2003
	HK$'000	*HK$'000*
0 to 90 days	**1,373**	9,569
91 days or above	**1,067**	6,726
	2,440	16,295

The Group allows an average credit period of 90-180 days (2003: 90-180 days) to its trade customers.

25. TRADE AND OTHER PAYABLES

At 30 June 2004, the balances of trade and other payables included trade payables of approximately HK$2,181,000 (2003: HK$57,085,000). An aged analysis of trade payables prepared on the basis of supplier invoice date is as follows:

	Group	
	2004	2003
	HK$'000	*HK$'000*
0 to 90 days	**1,598**	20,178
91 days or above	**583**	36,907
	2,181	57,085

26. SHORT-TERM SECURED BANK BORROWINGS

	Group	
	2004	2003
	HK$'000	*HK$'000*
Trust receipts and import loans	**1,442**	16,302
Portion of secured term loan due within one year *(Note 27)*	**–**	2,052
Short-term secured bank borrowings	**–**	7,117
	1,442	25,471

27. SECURED TERM LOAN

	Group	
	2004	2003
	HK$'000	*HK$'000*
At 30 June 2004, the Group's secured term loan is repayable as follows:		
– Within one year	**–**	2,052
– In the second year	**–**	1,793
– In the second to fifth year inclusive	**–**	5,800
– After the fifth year	**–**	11,670
	–	21,315
Less: Amount due within one year included under short-term secured bank borrowings in current liabilities *(Note 26)*	**–**	(2,052)
	–	19,263

Events of default have arisen under certain loan arrangements entered into by WIIL group amounting to approximately HK$291,000 during the year ended 30 June 2003. As a result, the relevant loans have become repayable on demand and have been reclassified as current liabilities.

28. OBLIGATIONS UNDER FINANCE LEASES

Group

	Minimum lease payments		Present value of minimum lease payments	
	2004	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amounts payable under finance leases:				
Within one year	**250**	1,298	**208**	1,186
In the second to fifth year inclusive	**542**	792	**504**	712
	792	2,090	**712**	1,898
Less: Future finance charges	**(80)**	(192)	**–**	–
Present value of obligations under finance leases	**712**	1,898	**712**	1,898
Less: Amount due within one year shown under current liabilities			**(208)**	(1,186)
Amount due after one year			**504**	712

The average lease term is five years. All leases are on fixed repayment basis and no arrangement have been entered into for contingent rental payments.

28. OBLIGATION UNDER FINANCE LEASES (Continued)

Company

	Minimum lease payments		Present value of minimum lease payments	
	2004	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amounts payable under finance leases:				
Within one year	**250**	250	**208**	192
In the second to fifth year inclusive	**542**	792	**504**	712
	792	1,042	**712**	904
Less: Future finance charges	**(80)**	(138)	**–**	–
Present value of obligations under finance leases	**712**	904	**712**	904
Less: Amount due within one year shown under current liabilities			**(208)**	(192)
Amount due after one year			**504**	712

The average lease term is five years. All leases are on fixed repayment basis and no arrangements have been entered into for contingent rental payments.

29. CONVERTIBLE BONDS

	Group and Company	
	2004	2003
	HK$'000	*HK$'000*
Principal amount		
At the beginning of year	**15,602**	15,602
Redemption during the year	**(15,602)**	–
Issue during the year	**16,000**	–
At the end of year	**16,000**	15,602
Less: Issue costs		
At the beginning of year	**–**	715
Incurred during the year	**129**	–
Amortisation during the year including amounts written back upon redemption	**(67)**	(715)
At the end of year	**62**	–
Carrying value at 30 June	**15,938**	15,602

The HK$16,000,000 8% convertible bonds (the "Bonds") were issued on 23 December 2003 with maturity date on 22 December 2004. Up to the balance sheet date, no Bonds have been converted into, either in whole or in part, ordinary shares of the Company.

30. SHORT-TERM BORROWINGS/LOAN FROM A SHAREHOLDER

Group and Company

Short-term borrowings of HK$8,560,000 is unsecured, chargeable with interest at 10% p.a. and repayable on 1 October 2004.

The Loan from a shareholder amounting to HK$3,136,000 as at 30 June 2003 is unsecured, chargeable with interest at 10% p.a. and repayable on 16 January 2005. The loan has been assigned to an independent third party by the shareholder on 31 May 2004 and reclassified as Short-Term Borrowings as at 30 June 2004.

31. AMOUNT DUE TO A RELATED COMPANY

The amount due to a related company was unsecured, interest free and repayable on demand.

32. SHARE CAPITAL

	Note	Number of shares	Nominal value HK$'000
Authorised:			
Ordinary shares of HK$0.01 each at 30 June 2003 and 30 June 2004		20,000,000,000	200,000

	Note	Number of shares	Nominal value HK$'000
Issued:			
Ordinary shares of HK$0.01 each at 1 July 2002		6,611,624,132	66,116
Issue of shares pursuant to			
– Subscription agreements		2,207,900,000	22,079
– Settlement agreement		492,100,000	4,921
Issue of shares from exercise of share options		300,000,000	3,000
Issue of shares from exercise of warrants		2,500,000	25
Ordinary shares of HK$0.01 each at 30 June 2003 and 1 July 2003		9,614,124,132	96,141
Issue of shares pursuant to			
– Subscription agreements	(a), (b)	1,000,000,000	10,000
Ordinary shares of HK$0.01 each at 30 June 2004		**10,614,124,132**	**106,141**

All new shares issued ranked pari passu with the then existing shares in all respects.

32. SHARE CAPITAL (Continued)

Notes:

The following movements in the Company's issued share capital took place during the year ended 30 June 2004:

(a) On 27 May 2003, an agreement was entered into between the Company and six independent third parties, pursuant to which the independent third parties agreed to subscribe for and the Company agreed to issue 1,200,000,000 new shares of the Company at a subscription price of HK$0.017 each. On 21 July 2003, it was noticed that three of the placees did not take up the 900,000,000 new shares of the Company. A total of 300,000,000 ordinary shares of HK$0.01 each were allotted and issued at a subscription price of HK$0.017 each for a total proceeds, before related expenses, of approximately HK$5,100,000.

(b) On 29 September 2003, pursuant to the subscription agreement dated 10 September 2003, a total of 700,000,000 ordinary shares of HK$0.01 each were allotted and issued at a subscription price of HK$0.016 each.

Share Options

The Company operates a share option scheme (the "Scheme"), further details of which are set out under the heading "Equity Compensation Benefits" in note 15 to the financial statements.

33. RESERVES

Group

	Share premium HK$'000	Subscription right reserve HK$'000	Asset revaluation reserve HK$'000	Capital reserve on consolidation HK$'000	Accumulated deficits HK$'000	Total HK$'000
At 1 July 2002	101,240	25,269	11,691	10,800	(173,656)	(24,656)
Premium arising on issue of shares in respect of exercise of share options	1,800	–	–	–	–	1,800
Premium arising on issue of shares pursuant to subscription agreements	3,926	–	–	–	–	3,926
Premium arising on issue of shares pursuant to settlement agreement	2,159	–	–	–	–	2,159
Premium arising on issue of shares in respect of exercise of warrants	275	–	–	–	–	275
Transfer from subscription right reserve to share premium	48	(48)	–	–	–	–
Revaluation decrease	–	–	(9,536)	–	–	(9,536)
Subscription rights expired	–	(25,221)	–	–	–	(25,221)
Reserve transferred to accumulated deficits upon disposal of a leasehold property	–	–	(694)	–	694	–
Net loss for the year	–	–	–	–	(104,571)	(104,571)
At 30 June 2003	109,448	–	1,461	10,800	(277,533)	(155,824)
At 1 July 2003	109,448	–	1,461	10,800	(277,533)	(155,824)
Premium arising on issue of shares pursuant to subscription agreements	6,224	–	–	–	–	6,224
Release upon disposal of subsidiaries	–	–	(1,461)	(10,800)	–	(12,261)
Net profit for the year	–	–	–	–	49,266	49,266
At 30 June 2004	**115,672**	**–**	**–**	**–**	**(228,267)**	**(112,595)**

33. RESERVES (Continued)

Company

	Share premium HK$'000	Subscription right reserve HK$'000	Contributed surplus HK$'000	Accumulated deficits HK$'000	Total HK$'000
At 1 July 2002	101,240	25,269	13,508	(108,098)	31,919
Premium arising on issue of shares in respect of exercise of share options	1,800	–	–	–	1,800
Premium arising on issue of shares pursuant to subscription agreement	3,926	–	–	–	3,926
Premium arising on issue of shares pursuant to settlement agreement	2,159	–	–	–	2,159
Premium arising on issue of shares in respect of exercise of warrants	275	–	–	–	275
Transfer from subscription right reserve to share premium	48	(48)	–	–	–
Subscription rights expired	–	(25,221)	–	–	(25,221)
Net loss for the year	–	–	–	(123,840)	(123,840)
At 30 June 2003	109,448	–	13,508	(231,938)	(108,982)
At 1 July 2003	109,448	–	13,508	(231,938)	(108,982)
Premium arising on issue of shares pursuant to subscription agreement	6,224	–	–	–	6,224
Release upon disposal of subsidiaries	–	–	(13,508)	–	(13,508)
Net loss for the year	–	–	–	(15,783)	(15,783)
At 30 June 2004	**115,672**	**–**	**–**	**(247,721)**	**(132,049)**

33. RESERVES (Continued)

The contributed surplus represents the difference between the consolidated shareholders' funds of WIIL group at the date on which its shares were acquired by the Company and the nominal amount of the Company's shares issued for the acquisition. During the year ended 30 June 2004, the entire of equity interest of WIIL group has been disposed. Accordingly, the contributed surplus brought forward was released upon the completion of disposal.

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

(i) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or

(ii) the realisable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

In the opinion of the directors, the Company did not have any reserves available for distribution to shareholders at 30 June 2004 and 30 June 2003.

34. DISPOSAL OF SUBSIDIARIES

	Note	2004 HK$'000	2003 HK$'000
Net assets disposed of:			
Property, plant and equipment		**40,518**	–
Inventories		**26,751**	–
Trade and other receivables		**22,682**	–
Bank balances and cash		**2,598**	–
Pledged bank deposit		**8,997**	–
Trade and other payables		**(96,390)**	–
Amount due to a related company		**(38,301)**	–
Secured short term bank borrowing		**(16,593)**	–
Obligation under finance leases – due within one year		**(993)**	–
Other secured borrowings		**(14,378)**	–
Amount due to the Group		**(145,069)**	–
Net liabilities		**(210,178)**	–
Asset revaluation reserve released on disposal		**(1,461)**	–
Capital reserve on consolidation released on disposal		**(10,800)**	–
Amount due to the Group written off on disposal		**142,810**	–
Gain on disposal of subsidiaries	9	**80,034**	–
		405	–
Satisfied by:			
Cash consideration received		**405**	–
Net cash outflow in respect of the disposal of a subsidiary:			
Cash consideration received		**405**	–
Bank balances and cash disposed of		**(2,598)**	–
		(2,193)	–

The subsidiaries disposed of during the year constituted to the Group's operating cash outflow, turnover and operating loss of approximately HK$1,102,000, HK$24,927,000 and HK$22,279,000 respectively for the year ended 30 June 2004.

35. OPERATING LEASES COMMITMENTS

As at 30 June 2004, the Group had outstanding commitments under non-cancellable operating leases which fall due as follows:

	Group	
	2004	2003
	HK$'000	*HK$'000*
Within one year	**719**	2,184
In the second to fifth year inclusive	**180**	3,048
	899	5,232

Operating lease payments represent rentals payable by the Group for certain of its office property and staff quarters. Leases and rentals were negotiated and fixed for an average term of two years (2003: two years).

At the balance sheet date, the Company had outstanding commitments under non-cancellable operating leases which fall due as follows:

	Company	
	2004	2003
	HK$'000	*HK$'000*
Within one year	**–**	31

36. CONTINGENT LIABILITIES

	Group	
	2004	2003
	HK$'000	*HK$'000*
Bills discounted with recourse	**–**	5,304

(i) As at 30 June 2004, the Company provided corporate guarantees amounting to approximately HK$24 million to a financial institution in respect of banking facilities granted to WIIL group, approximately HK$5.5 million of which was utilized by members of the WIIL group and such amount was claimed by the financial institution as disclosed in point (iii) below.

36. CONTINGENT LIABILITIES (Continued)

(ii) The Company and its ex-subsidiary, P.N. Electronics Ltd. ("PNE") are in an arbitration with North American Foreign Trading Corporation ("NAFT") in respect of a gross receivable of HK$18 million and related damages from various parties for goods shipped by PNE to NAFT in 1996. The arbitration proceedings was initiated by NAFT against the Company and PNE claiming for alleged damages in New York, USA. The Company has, upon legal advice, vigorously contested the alleged claims and has counterclaimed for the said sum of HK$18 million as well as other damages in the said proceedings. At this time, the action is in a standstill and thus it is not possible to predict the outcome with reasonable certainty.

(iii) By a Writ and Statement of Claim dated 13 October 2003, BII finance Company Limited ("BII Finance") has made a claim against the Company under a guarantee allegedly given by the Company in favour of BII Finance in respect of certain alleged liabilities of the Company's ex-subsidiary, Welback Enterprises Limited. The claim is for a sum of approximately HK$3,583,000 and US$248,000 (equivalent to approximately HK$1,934,000) together with interest and costs. The claim is being disputed by the Company. The Company has joined its former directors, Mr. Lee Chun Kwok and Mr. Fong Wing Seng, as third parties to the action. The Company's Defence was filed on 1 December 2003. BII Finance has now taken out summary judgement proceedings against the Company. The parties attended a hearing of BII Finance's summary judgement application on 16 July 2004, but the hearing was adjourned to 2 November 2004 due to typhoon.

The Company is considering the merits of these claims and regards some of these claims as groundless. Nonetheless, the Company is currently seeking financial and legal advice on the effect on the Company of these matters and on what further actions are appropriate.

37. SUBSEQUENT EVENTS

On 16 August 2004, the Group entered into a sale and purchase agreement for the disposal of the entire interest in Future Wealth Investments Limited for a consideration of US$1.

38. AUTHORISATION FOR ISSUE OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 27 October 2004.

– End of Notes –

Five Year Financial Summary

The following is a summary of the published results and of the assets and liabilities of the Group for the five years ended 30 June 2004:

RESULTS

	Year ended 30 June				
	2000	2001	2002	2003	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Turnover					
Continuing operations	348,768	382,764	349,933	279,839	**49,555**
Discounting operations	–	–	52,191	–	**–**
	348,768	382,764	402,124	279,839	**49,555**
(Loss)/Profit before taxation	(23,121)	(32,579)	(106,211)	(104,571)	**49,266**
Taxation credit	1,388	–	–	–	**–**
(Loss)/Profit before minority interests	(21,733)	(32,579)	(106,211)	(104,571)	**49,266**
Minority interests	(351)	(102)	78	–	**–**
Net (loss)/profit for the year	(22,084)	(32,681)	(106,133)	(104,571)	**49,266**

ASSETS AND LIABILITIES

	At 30 June				
	2000	2001	2002	2003	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Total assets	301,834	255,497	270,451	139,889	**25,160**
Total liabilities	(148,678)	(135,982)	(228,991)	(199,572)	**(31,614)**
	153,156	119,515	41,460	(59,683)	**(6,454)**
Minority interests	(598)	(551)	–	–	**–**
Shareholders' funds/(deficits)	152,558	118,964	41,460	(59,683)	**(6,454)**