

Notes to the Financial Statements

30 June 2001 (in HK Dollars)

1. CORPORATE INFORMATION

The Company was incorporated in Hong Kong as a public limited company and its shares are listed on The Stock Exchange of Hong Kong Limited. Trading of the Company's listed shares has been suspended since November 1986. Resumption of trading has been effected on 7 November 2000 due to the settlement of winding up proceedings. Further background details are set out below:

On 25 June 1996, the Company was served with a petition under a High Court action filed by the Securities & Futures Commission under sections 37A and 45 of the Securities & Future Commission Ordinance against the Company and Mr Chim Pui Chung, a former substantial shareholder and an ex-director of the Company, applying for the winding up of the Company and other relief against the Company. The hearing of these proceedings commenced on 10 May 1999 and the Joint and Several Provisional Liquidators were appointed on 23 July 1996. The Joint and Several Provisional Liquidators were subsequently discharged but were then re-appointed on 2 August 1996. Judgment in respect of the winding up proceedings was given on 19 November 1999. Mr Justice Burrell found that the affairs of the Company had been conducted in a manner unfairly prejudicial to the interests of its minority shareholders, and that the evidence was sufficient to justify an order that it is expedient in the public interest that the Company be would up and that it is just and equitable to do so.

On 6 July 2000, settlement of the winding up proceedings was made between the Securities & Futures Commission, the Joint and Several Provisional Liquidators and Mr Chim Pui Chung ("the Settlement Agreement"). Subsequent to the Settlement Agreement, the Joint and Several Provisional Liquidators were discharged by the High Court of Hong Kong on 21 July 2000. Pursuant to the Settlement Agreement, the Securities & Futures Commission agreed not to object to the lifting of the suspension of trading in the shares of the Company if at the time of the lifting of the suspension Mr Chim Pui Chung has divested himself of any material control or influence over the Company and the Company and the directors are in full compliance with the Listing Rules, the Takeovers Code, the Securities Ordinance, the Companies Ordinance and all applicable rules and regulations.

2. PRINCIPAL ACTIVITIES

The principal activities of the Company and its subsidiaries are the trading of listed securities, the manufacturing and trading of electrical equipment, the provision of electrical engineering and contracting services and the manufacture and trading of building materials. During the year under review, the Group has ceased its business of the manufacture and trading of building materials.

Notes to the Financial Statements *(Continued)*

30 June 2001 (in HK Dollars)

3. ADOPTION OF NEW OR REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”)

The following new or revised SSAPs issued by the Hong Kong Society of Accountants (“HKSA”) have been adopted, for the first time, in the preparation of the current year’s consolidated financial statements:

SSAP 9 (revised)	Events after Balance Sheet Date
SSAP 14 (revised)	Leases
SSAP 28	Provisions, Contingent Liabilities and Contingent Assets
SSAP 29	Intangible Assets
SSAP 30	Business Combinations
SSAP 31	Impairment of Assets
SSAP 32	Consolidated Financial Statements and Accounting for Investments in Subsidiaries

A summary of their major effects is as follows:

- (a) SSAP 9 (revised) prescribes the accounting treatment and disclosures for events occurring after the balance sheet date.
- (b) SSAP 14 (revised) prescribes the accounting treatment and disclosures for leases and hire purchase contracts. This SSAP has been applied prospectively. This has had no major impact on these financial statements; however, the disclosures for commitments under non-cancellable operating leases have been changed. In prior years, operating lease commitments were disclosed as payments committed to be made during the next year, analysed between those in which the commitment would expire within that year; in the second to fifth years, inclusive; and over five years. In current year, the disclosure has been changed to the total of the future minimum lease payments under non-cancellable operating leases analysed into those not later than one year; later than one year and not later than five years; and later than five years.
- (c) SSAP 28 prescribes the accounting treatment and disclosures for provisions, contingent liabilities and contingent assets.
- (d) SSAP 29 prescribes the accounting treatment and disclosures of intangible assets.
- (e) SSAP 30 prescribed the accounting treatment and disclosures for business combinations.

Notes to the Financial Statements *(Continued)*

30 June 2001 (in HK Dollars)

3. ADOPTION OF NEW OR REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”) *(Continued)*

- (f) SSAP 31 requires enterprises to consider whether assets are carried in excess of their recoverable amounts and prescribes the accounting treatment for any resulting impairment losses. This also applies to goodwill eliminated against reserves in accordance with the provisions of Interpretation 13 issued by the HKSA.
- (g) SSAP 32 prescribed the accounting treatment and disclosures in the preparation and presentation of consolidated financial statements.

4. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the HKSA, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. A summary of the significant accounting policies followed by the Group in the preparation of the financial statements is set out below:

(a) Basis of Preparation

The measurement basis used in the preparation of the financial statements is historical cost as modified for the revaluation of investments in securities and properties under development for sale as explained in the accounting policies set out below.

(b) Basis of Consolidation

The consolidated financial statements incorporated the financial statements of the Company and its subsidiaries made up to 30 June 2001.

Where a subsidiary operates under severe restrictions which significantly impair control by the Group over its assets and operations for the foreseeable future, the Group's interest in the subsidiary is stated in the consolidated financial statements at the amount at which it would have been included under the equity method of accounting at the date on which the restrictions came into force, less provision for any subsequent impairment in value.

The results of the subsidiaries and associates acquired or disposed of during the year are included in the consolidated income statement from the effective dates of acquisition and up to the effective dates of disposal, as appropriate.

Notes to the Financial Statements *(Continued)*

30 June 2001 (in HK Dollars)

4. ACCOUNTING POLICIES *(Continued)*

(b) Basis of Consolidation *(Continued)*

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

(c) Goodwill

Goodwill arising on consolidation of subsidiaries represents the excess purchase consideration paid for such companies ascribed to the net underlying assets at the date of acquisition and is capitalised and amortised on a straight-line basis over its useful economic life of 10 years.

Any premium or discount arising on the acquisition of an interest in an associate, representing the excess or shortfall respectively of the purchase consideration over the fair value ascribed to the Group's share of the separable net assets of the associate at the date of acquisition is written off to capital reserve immediately on acquisition.

Upon the actual disposal of investments in subsidiaries and associates, the attributable amount of unamortised goodwill previously eliminated against or credited to reserves is included in the determination of the profit or loss on disposal of the subsidiary and associate.

(d) Subsidiaries

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than 50% of the issued share capital or registered share capital, or controls more than 50% of the voting power, or where the Company controls the composition of its board of directors or equivalent governing body.

In the financial statements of the Company, investments in subsidiaries are stated at cost. Provision is made to the extent that the directors consider significant diminution in value, which is other than temporary, has taken place. Results of the subsidiary are accounted for by the Company on the basis of dividends received or receivable during the year.

Notes to the Financial Statements *(Continued)*

30 June 2001 (in HK Dollars)

4. ACCOUNTING POLICIES *(Continued)*

(e) Associates

An associates is an enterprise in which the Group has significant influence, but not control or joint control, and thereby has the ability to participate in their financial and operating policy decisions.

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates on acquisition in so far as it has not been written off.

When the Group transacts with its associates, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associates, except where unrealised losses provide evidence of an impairment of the asset transferred.

The results of associates are accounted for by the Company on the basis of dividends received and receivable during the year. In the Company's balance sheet, investments in associates are stated at cost less any provision considered necessary by the directors to reflect a diminution in value which is other than temporary.

(f) Turnover

Turnover represents the net amounts received and receivable for electrical equipment sold by and electrical engineering and contracting services provided by the Group to outside customers and trading of investments in securities.

(g) Recognition of Revenue

- i. Sale of products is recognised when goods are delivered and title has been passed.
- ii. Sale of securities is recognised when securities are traded on the trade day basis.
- iii. When the outcome of a construction contract can be estimated reliably, revenue from fixed price construction contracts is recognised on the percentage of completion method, measured by reference to the percentage of revenue certified to date to estimated total contract value. When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable that the costs incurred will be recovered.

Notes to the Financial Statements *(Continued)*

30 June 2001 (in HK Dollars)

4. ACCOUNTING POLICIES *(Continued)*

(g) Recognition of Revenue *(Continued)*

- iv. Dividend income from investments is recognised when the Company's rights to receive payment has been established.
- v. Interest income from bank deposit is recognised on a time apportioned basis on the principal outstanding and at the rates applicable.
- vi. Other interest income is recognised in the income statement as above, on a time apportioned basis, except in the case of receivables which are deemed to be doubtful at which stage interest accrual ceases.

(h) Tangible Fixed Assets and Depreciation

Tangible fixed assets are stated at cost less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs bringing the asset to its present working condition and location for its intended use. Subsequent expenditure relating to a tangible fixed asset that has already recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the enterprise. All other subsequent expenditure is recognised as an expense in the year which it is incurred.

Where the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are not discounted to their present values.

Depreciation is provided on the straight line method so as to write down the cost of tangible fixed assets to their estimated reliable value over their anticipated useful lives at the following annual rates:

Leasehold land	: Over the remaining unexpired term of the lease
Buildings	: Over the term of the leases
Furniture, fixtures and equipment	: 15% to 20%
Plant and machinery	: 15%
Tools	: 33 $\frac{1}{3}$ %
Motor vehicles	: 25%

Notes to the Financial Statements *(Continued)*

30 June 2001 (in HK Dollars)

4. ACCOUNTING POLICIES *(Continued)*

(h) Tangible Fixed Assets and Depreciation *(Continued)*

The gain and loss on disposal of a tangible fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

(i) Leased Assets

Assets held under finance leases and hire-purchase contracts have been capitalised. The interest element of the rental payments is charged to the income statement over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding. Depreciation is provided in accordance with the Group's depreciation (Note 4(h)).

All other leases are accounted for as operating leases and the rental payments are charged to the income statement on a straight line basis over the relevant lease term.

(j) Research and Development Costs

Expenditure on research and development is charged to the income statement in the year in which it is incurred except where a major project is undertaken and it is reasonably anticipated that development costs will be recovered through future commercial activity. Such development costs are deferred and written off over the life of the project from the date of commencement of commercial operation.

(k) Investments in Securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

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

Notes to the Financial Statements *(Continued)*

30 June 2001 (in HK Dollars)

4. ACCOUNTING POLICIES *(Continued)*

(k) Investments in Securities *(Continued)*

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the period.

(l) Inventories

Inventories are stated at the lower of cost and the net realisable value. Cost, which comprises all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(m) Construction Contracts

When the outcome of a construction contract can be estimated reliably, contract costs are charged to the income statement by reference to the stage of the completion of the contract activity at the balance sheet date on the same basis as the contract revenue is recognised.

When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the year in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Notes to the Financial Statements *(Continued)*

30 June 2001 (in HK Dollars)

4. ACCOUNTING POLICIES *(Continued)*

(m) Construction Contracts *(Continued)*

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as an amount due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as an amount due to customers for contract work. Amounts received before the related work is performed are included in the balance sheet, as a liability, as advance received. Amounts billed for work performed, but not yet paid by the customer, are included in the balance sheet within trade and other receivables.

(n) Properties under development for sale

Properties under development for sale are classified as current assets and are stated at the lower of cost and net realisable value which is determined by the directors based on prevailing market conditions.

(o) Current Assets and 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.

(p) Foreign Currencies

Transactions in foreign currencies are translated at the rates of exchange ruling at the date of transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet dates are translated at the applicable rates of exchange ruling at that date. All exchange gains and losses on translation of foreign currencies are dealt with in the income statement.

On consolidation, the financial statements of subsidiaries and associates which are denominated in currencies other than Hong Kong dollars and which operate in the People's Republic of China (the "PRC") and overseas are translated at the rates ruling at the balance sheet date. Exchange differences arising on consolidation, if any, are dealt with in reserves.

Notes to the Financial Statements *(Continued)*

30 June 2001 (in HK Dollars)

4. ACCOUNTING POLICIES *(Continued)*

(q) **Deferred Taxation**

Deferred taxation is provided on material timing differences, using the liability method, to the extent that there is a reasonable probability that a liability will arise in the foreseeable future.

(r) **Related Parties**

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

(s) **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.

(t) **Cash Equivalents**

Cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired; less advances from banks repayable within three months from the date of the advance.

(u) **Retirement Benefits Scheme**

The pension costs charged in the income statement represent the amount of contribution payable in respect to the Group's defined contribution retirement benefits scheme (the "DCRB Scheme")/Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Scheme Ordinance (the "MPFS Ordinance").

Notes to the Financial Statements *(Continued)*

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5. DISCONTINUED OPERATIONS

During the year, the Group ceased its businesses in manufacturing and trading of building materials and disposed its entire equity interest in Profit Sky Investments Limited ("PSI"), a wholly owned subsidiary of the Group to an independent third party at an aggregate consideration of \$1,000,000. The aggregate net loss arising from the disposal of the PSI Group amounted to \$2,281,444. The operating results of these subsidiaries are presented as discontinued operations in the note 6 to the financial statement.

6. (LOSS)/PROFIT FROM OPERATIONS

(a) Turnover:

	2001 <i>HK\$</i>	2000 <i>HK\$</i>
Continuing operations		
— Manufacturing and trading of electrical equipment	93,861,346	90,132,245
— Trading of listed securities	76,825,615	18,172,116
— Provision of electrical engineering and contracting services	27,332,074	43,956,342
Discontinued operations		
— Manufacturing and trading of building materials	5,355	400,175
	<u>198,024,390</u>	<u>152,660,878</u>

Notes to the Financial Statements *(Continued)*

30 June 2001 (in HK Dollars)

6. (LOSS)/PROFIT FROM OPERATIONS *(Continued)*

(b) (Loss)/Profit from operations is stated after charging:

	2001 <i>HK\$</i>	2000 <i>HK\$</i>
Amortisation of development costs	1,473,021	948,753
Amortisation of goodwill	1,654,299	1,587,230
Impairment of goodwill	29,400,000	—
Auditors' remuneration	685,460	692,620
Depreciation of owned tangible fixed assets	611,977	2,448,517
Depreciation of tangible fixed assets held under finance leases hire purchase contracts	48,800	—
Operating lease charges in respect of land and buildings	453,128	672,000
Provision for doubtful debts	865,000	835,364
Provision for diminution in value of properties	4,800,000	—
Provision for diminution in value of investment securities — other securities	551,325	—
Total staff costs, excluding directors' remuneration and including pension fund contributions	14,581,175	17,451,286
Pension fund contribution	523,623	334,374
Net realised loss and unrealised holding loss on current other investments	—	820,641
Provision for diminution in value of investment securities	—	—
Loss on disposal of a subsidiary	2,281,444	—
Cost of inventories expensed	<u>81,895,484</u>	<u>82,666,853</u>
and after crediting:		
Gain on disposal of non-current other investments	—	3,275,668
Gain on disposal of tangible fixed assets	<u>9,388,918</u>	<u>—</u>

Notes to the Financial Statements *(Continued)*

30 June 2001 (in HK Dollars)

6. (LOSS)/PROFIT FROM OPERATIONS *(Continued)*

(c) Other revenue:

	2001 <i>HK\$</i>	2000 <i>HK\$</i>
Interest income	1,901,953	3,862,038
Management fees	—	240,000
Rental income	128,000	144,000
Write back of provision for interest in an associate	—	43,226
Commission received	50,100	68,100
Dividend income — listed securities	1,400,000	2,270
Others	78,917	260,492
	<u>3,558,970</u>	<u>4,620,126</u>

7. LEGAL AND PROFESSIONAL FEES

	2001 <i>HK\$</i>	2000 <i>HK\$</i>
Fees and expenses of the Joint and Several Provisional Liquidators <i>(Note)</i>	—	1,188,366
Legal fees of the Joint and Several Provisional Liquidators	86,179	277,524
Professional fees paid to Securities & Futures Commission for various applications	174,000	—
Professional fees paid to financial advisors	1,005,000	—
Professional fees paid to professional accountants	262,327	—
Others	493,462	—
	<u>2,020,968</u>	<u>1,465,890</u>

Note: These expenses were relating to the provisional liquidation which was stopped after the settlement in July 2000 as detailed in note 1 to the financial statements.

Notes to the Financial Statements *(Continued)*

30 June 2001 (in HK Dollars)

8. FINANCE COSTS

	2001 <i>HK\$</i>	2000 <i>HK\$</i>
Interest on other loans	14,674	—
Interest on bank loans and overdrafts wholly repayable within five years	<u>—</u>	<u>26,491</u>
	<u><u>14,674</u></u>	<u><u>26,491</u></u>

9. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	2001 <i>HK\$</i>	2000 <i>HK\$</i>
Fees:		
Executive directors	—	—
Independent non-executive directors	<u>—</u>	<u>—</u>
	<u><u>—</u></u>	<u><u>—</u></u>
Salaries and other emoluments:		
Executive directors	4,505,343	—
Independent non-executive directors	<u>—</u>	<u>—</u>
	<u><u>4,505,343</u></u>	<u><u>—</u></u>

In addition to the above emoluments, certain directors were granted share options under the Company's share options scheme. The details of these benefits in kind are disclosed under the section entitled "Directors' Interests in Shares" in the directors' report. In the absence of a ready market for the share options granted on the shares of the Company, the directors are unable to arrive at an accurate assessment of the value of the share options granted to the respective directors.

Notes to the Financial Statements *(Continued)*

30 June 2001 (in HK Dollars)

9. DIRECTORS' REMUNERATION *(Continued)*

The remuneration of the directors is within the following bands:

	Number of Directors	
	2001	2000
HK\$Nil – HK\$1,000,000	6	3
HK\$1,000,001 – HK\$1,500,000	—	—
HK\$1,500,001 – HK\$2,000,000	1	—
HK\$2,500,001 – HK\$3,000,000	1	—
	<u>8</u>	<u>3</u>

There were no arrangements under which a director waived or agreed to waive any remuneration.

10. EMPLOYEES' EMOLUMENTS

The emoluments of the five highest paid individuals are as follows:

	2001	2000
	<i>HK\$</i>	<i>HK\$</i>
Salaries and other benefits	3,927,919	3,889,029
Pension contributions	120,897	119,700
	<u>4,048,816</u>	<u>4,008,729</u>

Their emoluments are within the following bands:

	2001	2000
	<i>Number of</i>	<i>Number of</i>
	<i>employees</i>	<i>employees</i>
HK\$ nil to HK\$1,000,000	4	4
HK\$1,000,001 to HK\$1,500,000	1	1
HK\$1,500,001 to HK\$2,000,000	—	—
	<u>5</u>	<u>5</u>

None of the five highest paid individuals are directors of the Company.

Notes to the Financial Statements *(Continued)*

30 June 2001 (in HK Dollars)

11. TAXATION

Hong Kong Profits Tax has been provided in the financial statements at a rate 16% (2000 — 16%) on the estimated assessable profits of the subsidiaries for the year. No provision for tax is required for the Company and its associated companies as no assessable profits were earned by the Company and the associated companies during the year.

	THE GROUP	
	2001	2000
	<i>HK\$</i>	<i>HK\$</i>
Current Taxation:		
Provision for the year		
— Hong Kong	1,247,309	1,394,512
Deferred Taxation:		
Provision/(Reversal) for the year	<u>(161,647)</u>	<u>(99,667)</u>
	<u>1,085,662</u>	<u>1,294,845</u>

No provision for deferred taxation has been made as the Company and the Group have no material potential liabilities arising from timing difference. A deferred tax asset has not been recognised in the financial statements in respect of tax losses available to offset future profits as it is not certain that the tax losses will be utilised in the foreseeable future.

12. NET (LOSS)/PROFIT FOR THE YEAR ATTRIBUTABLE TO SHAREHOLDERS

	2001	2000
	<i>HK\$</i>	<i>HK\$</i>
Dealt with in the financial statements of the Company	(19,227,833)	38,173,672
Attributable to subsidiaries	(27,761,468)	(34,179,527)
(Write back) elimination of provision for interest in associates	<u>—</u>	<u>(43,226)</u>
	<u>(46,989,301)</u>	<u>3,950,919</u>

Notes to the Financial Statements *(Continued)*

30 June 2001 (in HK Dollars)

13. (LOSS)/EARNINGS PER SHARE

The calculation of the basic (loss)/earnings per share is based on the net loss for the year of HK\$46,989,301 (2000 — net profit of \$3,950,919) and the weighted average of 887,349,507 (2000 — 884,200,000) shares in issue during the year. The weighted average numbers of shares outstanding for 2000 has been retrospectively adjusted for the affect of shares subdivision during the year as disclosed in Note 27(a) to the financial statements.

The calculation of diluted loss per share for the year is based on the net loss attributable to shareholders for the year of \$46,989,301 and the weighted average of ordinary shares in issue during the year. There was no dilutive potential ordinary shares in issue during the year ended 30 June 2000, and accordingly, the diluted earning per share was not shown. Deemed ordinary shares were identified as shown in reconciliation below for the purpose of calculating diluted loss per share during the year ended 30 June 2001. The effect is anti-dilutive and accordingly the diluted loss per share was not shown for the year ended 30 June 2001.

The reconciliation of the numbers of ordinary shares is as follows:

Weighted average numbers of ordinary shares used in calculating basic loss per share	887,349,507
Deemed issue of ordinary shares for no consideration	<u>1,200,000</u>
Weighted average numbers of ordinary shares used in calculating diluted loss per share	<u><u>888,549,507</u></u>

Notes to the Financial Statements (Continued)

30 June 2001 (in HK Dollars)

14. TANGIBLE FIXED ASSETS

	Long term leasehold land and buildings in Hong Kong HK\$	Buildings in the People's Republic of China HK\$	Plant and machinery HK\$	Furniture, fixtures and equipment HK\$	Computer equipment HK\$	Tools HK\$	Motor vehicles HK\$	Leasehold improvement HK\$	Total HK\$
The Group:									
At cost:									
At 1 July 2000	7,466,560	4,774,479	9,923,490	3,481,090	—	800,904	1,809,869	—	28,256,392
Additions	—	—	—	1,003,314	315,877	45,000	1,420,250	1,460,108	4,244,549
Disposals	(7,466,560)	—	(94,600)	(413,989)	—	—	(105,000)	—	(8,080,149)
Attributable to acquisition of subsidiaries	—	—	—	47,843	217,212	—	—	—	265,055
Attributable to disposal of subsidiaries	—	(4,774,479)	(8,919,924)	(492,003)	—	—	—	—	(14,186,406)
At 30 June 2001	—	—	908,966	3,626,255	533,089	845,904	3,125,119	1,460,108	10,499,441
Depreciation:									
At 1 July 2000	1,119,984	1,725,055	9,179,829	2,685,581	—	800,904	1,748,911	—	17,260,264
Charge for the year	4,767	—	51,048	323,091	24,812	1,500	206,002	49,557	660,777
On disposals written back	(1,124,751)	—	(94,600)	(401,971)	—	—	(15,750)	—	(1,637,072)
Attributable to acquisition of subsidiaries	—	—	—	20,479	112,488	—	—	—	132,967
Attributable to disposal of subsidiaries	—	(1,725,055)	(8,360,934)	(474,908)	—	—	—	—	(10,560,897)
At 30 June 2001	—	—	775,343	2,152,272	137,300	802,404	1,939,163	49,557	5,856,039
Net book value:									
At 30 June 2001	—	—	133,623	1,473,983	395,789	43,500	1,185,956	1,410,551	4,643,402
At 30 June 2000	6,346,576	3,049,424	743,661	795,509	—	—	60,958	—	10,996,128

The net book value of fixed assets includes an amount of \$439,200 (2000 — Nil) in respect of assets held under hire purchase contracts.

Notes to the Financial Statements *(Continued)*

30 June 2001 (in HK Dollars)

14. TANGIBLE FIXED ASSETS *(Continued)*

	Computer equipment <i>HK\$</i>	Motor vehicles <i>HK\$</i>	Total <i>HK\$</i>
The Company:			
At cost:			
At 1 July 2000	—	—	—
Additions	36,027	105,000	141,027
Disposals	—	(105,000)	(105,000)
	<u> </u>	<u> </u>	<u> </u>
At 30 June 2001	<u>36,027</u>	<u> </u>	<u>36,027</u>
Depreciation:			
At 1 July 2000	—	—	—
Charge for the year	4,637	15,750	20,387
On disposals written back	—	(15,750)	(15,750)
	<u> </u>	<u> </u>	<u> </u>
At 30 June 2001	<u>4,637</u>	<u> </u>	<u>4,637</u>
Net book value:			
30 June 2001	<u>31,390</u>	<u> </u>	<u>31,390</u>
30 June 2000	<u> </u>	<u> </u>	<u> </u>

Notes to the Financial Statements *(Continued)*

30 June 2001 (in HK Dollars)

15. DEVELOPMENT COSTS

	<i>HK\$</i>
The Group	
At cost:	
At 1 July 2000	2,846,260
Attributable to acquisition of subsidiaries	4,943,102
Additions	<u>724,298</u>
At 30 June 2001	<u>8,513,660</u>
Accumulated amortisation:	
At 1 July 2000	1,864,203
Attributable to acquisition of subsidiaries	348,139
Charge for the year	<u>1,821,160</u>
At 30 June 2001	<u>4,033,502</u>
Net book value:	
At 30 June 2001	<u><u>4,480,158</u></u>
At 30 June 2000	<u><u>982,057</u></u>

Notes to the Financial Statements *(Continued)*

30 June 2001 (in HK Dollars)

16. GOODWILL

	<i>HK\$</i>
The Group	
At cost:	
At 1 July 2000	22,991,508
Additions	<u>13,705,240</u>
At 30 June 2001	<u>36,696,748</u>
Accumulated amortisation:	
At 1 July 2000	19,545,636
Charge for the year	<u>1,654,299</u>
At 30 June 2001	<u>21,199,935</u>
Net book value:	
At 30 June 2001	<u><u>15,496,813</u></u>
At 30 June 2000	<u><u>3,445,872</u></u>

17. SUBSIDIARIES

	THE COMPANY	
	2001	2000
	<i>HK\$</i>	<i>HK\$</i>
Unlisted investments, at cost	63,120,059	63,123,041
Less: Provision for diminution in value	<u>(15,744,846)</u>	<u>(9,500,000)</u>
	<u><u>47,375,213</u></u>	<u><u>53,623,041</u></u>
Amounts due from subsidiaries	87,618,694	53,190,150
Less: Provision for amount due from subsidiaries	<u>(21,924,128)</u>	<u>(49,450,000)</u>
	<u><u>65,694,566</u></u>	<u><u>3,740,150</u></u>

The amounts due from subsidiaries are unsecured, interest free and are repayable on demand.

Notes to the Financial Statements *(Continued)*

30 June 2001 (in HK Dollars)

17. SUBSIDIARIES *(Continued)*

Particulars of the Company's subsidiaries at 30 June 2001 are as follows:

Name of subsidiary	Place of Incorporation/ Registration/operation/ establishment	Issued and fully paid ordinary share capital/ registered capital	Proportion of Nominal value of issued ordinary share capital/registered capital held by the Company		Principal activity
			Directly %	Indirectly %	
Great Well Global Limited	The British Virgin Islands	US\$1	100	—	Leasing
Gold Winner Asia Limited	The British Virgin Islands	US\$1	100	—	Trading of listed securities
Hebei Dezhi Industry Co., Ltd.*	The People's Republic of China	US\$6,000,000 (1)	89	—	Property development
Jumbo Profit Investments Limited	The British Virgin Islands	US\$1	100	—	Trading of listed securities
Lexwin Company Limited	Hong Kong	HK\$2	100	—	Assets holding
Goalstar Holdings Limited	The British Virgin Islands	US\$1	100	—	Investment holding
Linfield International Limited*	The British Virgin Islands	US\$2,850,000	80	—	Investment holding
Metrix Engineering Company Limited*	Hong Kong	HK\$600,000	—	80	Manufacture and trading of electrical equipment
Metrix Engineering (China) Limited*	Hong Kong	HK\$500,000	—	80	Inactive
Metrix Engineering International Limited*	Hong Kong	HK\$22,000,000	—	80	Investment holding
Metrix E & M Services Limited*	Hong Kong	HK\$500,000	—	80	Provision of electrical engineering and contracting services

Notes to the Financial Statements *(Continued)*

30 June 2001 (in HK Dollars)

17. SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of Incorporation/ Registration/operation/ establishment	Issued and fully paid ordinary share capital/ registered capital	Proportion of Nominal value of issued ordinary share capital/registered capital held by the Company		Principal activity
			Directly %	Indirectly %	
Discovery Net Limited	The British Virgin Islands	US\$500,000	—	100	Trading of listed securities
Prime Profit Investments Limited	The British Virgin Islands	US\$1	100	—	Trading of listed securities
Sources Investments Limited	Hong Kong	HK\$2	100	—	Trading of listed securities
Top Yield Investments Limited	The British Virgin Islands	US\$1	100	—	Trading of listed securities
World Target International Limited	The British Virgin Islands	US\$1	100	—	Trading of listed securities
Tenin Investments Limited	Hong Kong	HK\$2	—	100	Property development
Anwill Investments Limited	Hong Kong	HK\$2	—	100	Property development
M-Star Limited	Hong Kong	HK\$18,000	—	100	Developing and marketing computer

(1) As of the balance sheet date, an amount of US\$4,095,083 has been paid.

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

* *Companies not audited by HLB Hodgson Impey Cheng.*

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.

Notes to the Financial Statements *(Continued)*

30 June 2001 (in HK Dollars)

17. SUBSIDIARIES *(Continued)*

Hebei Dezhi Industry Co., Ltd. is included at cost as reduced by a decline in value that is other than temporary of HK\$17,220,000 based on financial information available as at 1 July 1998. However, in the absence of financial information regarding the current financial position of Hebei Dezhi Industry Co., Ltd., the directors have been unable to determine whether there has been any further decline in value that is other than temporary of that company.

18. SUBSIDIARY NOT CONSOLIDATED

	THE GROUP	
	2001	2000
	HK\$	HK\$
Unlisted shares at cost, net of provision	<u>17,172,219</u>	<u>17,172,219</u>

The investment in Hebei Dezhi Industry Co., Ltd., details of which are given in note 17 above, is held by the Company. Since 1 July 1998, the Company has not been able to participate in the management of the subsidiary and the directors have been unable to obtain any financial information in respect of any period subsequent to that date. Against this background, in the opinion of the directors, the Group has been unable to exercise effective control over Hebei Dezhi Industry Co., Ltd. Since 1 July 1998 and accordingly its results, assets and liabilities have not been consolidated in these financial statements. Moreover, in the absence of any financial information regarding the current financial position of Hebei Dezhi Industry Co., Ltd., the directors have been unable to determine whether there has been any diminution in value of that company since 1 July 1998.

19. ASSOCIATES

At 30 June 2001, the Company had interests in the following associates:

Name of Company	Principal place of operation	Nature of business	Percentage of		
			Ownership interest	Voting power	Profit/Loss sharing
Fu Tai Vacationing Development Company Limited <i>(Note)</i>	Hong Kong	Property development	38	40	38
Eastrip Development Limited <i>(Note)</i>	Hong Kong	Property development	50	50	50

Note: These associated companies have not yet commenced business for the year up to 30 June 2001.

Notes to the Financial Statements *(Continued)*

30 June 2001 (in HK Dollars)

19. ASSOCIATES *(Continued)*

Interest in Associates

	THE GROUP		THE COMPANY	
	2001 HK\$	2000 HK\$	2001 HK\$	2000 HK\$
Unlisted shares at cost	40,900,000	—	—	7,000
Goodwill arising on acquisition written off to capital reserve <i>(Note 28)</i>	<u>(29,400,000)</u>	<u>—</u>	<u>—</u>	<u>(7,000)</u>
	<u>11,500,000</u>	<u>—</u>	<u>—</u>	<u>—</u>
Amount due from an associate	—	20,144,000	—	20,144,000
Provision for amount due from an associate	<u>—</u>	<u>(20,144,000)</u>	<u>—</u>	<u>(20,144,000)</u>
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>11,500,000</u>	<u>—</u>	<u>—</u>	<u>—</u>

20. INVESTMENTS IN SECURITIES

	2001 HK\$	2000 HK\$
Investment securities	<u>5,998,534</u>	<u>5,998,534</u>
Analysed as follows:		
Investment securities		
Unlisted investments, at cost	14,878,500	14,878,500
Less: Provision for diminution in value	<u>(9,000,000)</u>	<u>(9,000,000)</u>
	<u>5,878,500</u>	<u>5,878,500</u>

Notes to the Financial Statements *(Continued)*

30 June 2001 (in HK Dollars)

20. INVESTMENTS IN SECURITIES *(Continued)*

Included in unlisted investment securities above is the Group's investment in Maxview Enterprises Limited, a company incorporated in the United States of America engaged in property investment. At 30 June 2001, the Group's unlisted investment represented a holding of 50% of the ordinary shares of Maxview Enterprises Limited.

Since 1 January 1999, in the opinion of the directors the Group has been unable to exercise any significant influence over Maxview Enterprises Limited and thus equity accounting has been discontinued from that date. Accordingly, Maxview Enterprises Limited is stated in the consolidated balance sheet at its equity carrying value as at 31 December 1998 of HK\$5,998,534 and in the Company's balance sheet at cost less provision of HK\$5,878,500. However, the directors have been unable to obtain any financial statements for any period subsequent to 1 January 1999 in order to assess whether there has been a diminution in value of Maxview Enterprises Limited since that date.

21. INVESTMENTS IN SECURITIES — EQUITY SECURITIES

	THE GROUP	
	2001	2000
	<i>HK\$</i>	<i>HK\$</i>
Equity securities:		
Listed in Hong Kong	<u>279,944</u>	<u>17,184,625</u>
Market value of listed securities	<u>268,740</u>	<u>17,184,625</u>

22. PROPERTIES UNDER DEVELOPMENT FOR SALE

	THE GROUP	
	<i>HK\$</i>	<i>HK\$</i>
At cost:		
At 1 July 2000	24,159,914	24,159,914
Additions	<u>32,000,000</u>	<u>—</u>
	56,159,914	24,159,914
Less: Provision for diminution in value	(4,800,000)	—
Less: Subsidiary not consolidated	<u>(24,159,914)</u>	<u>(24,159,914)</u>
At 30 June 2001	<u>27,200,000</u>	<u>—</u>

Notes to the Financial Statements *(Continued)*

30 June 2001 (in HK Dollars)

22. PROPERTIES UNDER DEVELOPMENT FOR SALE *(Continued)*

On 29 February 1996, Hebei Dezhi Industry Co., Ltd., a subsidiary of the Company entered into an agreement with Shijiazhuang Remittance Trading Company (the "Purchaser"), whereby Hebei Dezhi Industry Co., Ltd. agreed to sell the above development project at a total cash consideration of RMB33,600,000. At 30 June 2001, the transaction had not been completed and the title of the properties under development had not yet been passed to the purchaser.

23. INVENTORIES

	THE GROUP	
	2001	2000
	<i>HK\$</i>	<i>HK\$</i>
Raw materials	14,065,578	13,193,730
Work in progress	2,489,915	3,747,812
Finished goods	30,200	444,007
	<u>16,585,693</u>	<u>17,385,549</u>

24. CONSTRUCTION CONTRACTS

	THE GROUP	
	2001	2000
	<i>HK\$</i>	<i>HK\$</i>
Amount due from contract customers included in trade and other receivables <i>(Note 25)</i>	843,908	152,414
Amount due to contract customers included in trade and other payables <i>(Note 26)</i>	<u>(3,929,853)</u>	<u>(6,388,242)</u>
	<u>(3,085,945)</u>	<u>(6,235,828)</u>
Contract costs incurred plus recognised profits less recognised losses to date	16,753,490	27,824,374
Less: Progress	<u>(19,839,435)</u>	<u>(34,060,202)</u>
	<u>(3,085,945)</u>	<u>(6,235,828)</u>

At 30 June 2001, retentions held by customers for contract works as included in trade and other receivables under current assets amounted to approximately \$12,405 (2000 — Nil).

Notes to the Financial Statements *(Continued)*

30 June 2001 (in HK Dollars)

25. TRADE AND OTHER RECEIVABLES

	GROUP		COMPANY	
	2001 HK\$	2000 HK\$	2001 HK\$	2000 HK\$
Trade debtors	32,348,901	40,493,717	—	—
Loans receivable	6,000,000	—	—	—
Sundry deposit and prepayments	1,774,613	829,707	—	—
Other receivables	54,539	421,753	—	—
Amount due from contract customers (<i>Note 24</i>)	<u>843,908</u>	<u>152,414</u>	<u>—</u>	<u>45,727</u>
	<u>41,021,961</u>	<u>41,897,591</u>	<u>—</u>	<u>45,727</u>

Aging analysis of trade debtors is set out below:

	GROUP	
	2001 HK\$	2000 HK\$
Current	14,557,005	17,412,298
Over 30 days	9,504,670	12,957,989
Over 60 days	6,469,780	8,098,743
Over 90 days	<u>1,817,446</u>	<u>2,024,687</u>
	<u>32,348,901</u>	<u>40,493,717</u>

The credit terms for customers are generally granted in between 30–60 days.

Notes to the Financial Statements *(Continued)*

30 June 2001 (in HK Dollars)

26. TRADE AND OTHER PAYABLES

	GROUP		COMPANY	
	2001 HK\$	2000 HK\$	2001 HK\$	2000 HK\$
Trade creditors	13,097,766	13,772,834	—	—
Other payables	12,676,005	1,508,702	2,182,414	1,043,760
Accruals	3,097,947	2,637,587	—	—
Deposit received	30,000	—	—	—
Deferred income	181,342	—	—	—
Advance received	652,422	1,817,426	—	—
Amount due to contract customers <i>(Note 24)</i>	<u>3,929,853</u>	<u>6,388,242</u>	<u>—</u>	<u>—</u>
	<u>33,665,335</u>	<u>26,124,791</u>	<u>2,182,414</u>	<u>1,043,760</u>

Aging analysis of trade creditors is set out below:

	GROUP	
	2001 HK\$	2000 HK\$
Current	5,893,995	5,922,619
Over 30 days	3,929,330	4,407,007
Over 60 days	2,619,553	2,554,567
Over 90 days	<u>654,888</u>	<u>888,641</u>
	<u>13,097,766</u>	<u>13,772,834</u>

Notes to the Financial Statements *(Continued)*

30 June 2001 (in HK Dollars)

27. SHARE CAPITAL

	<i>HK\$</i>	<i>HK\$</i>
<i>Authorised:</i>		
10,000,000,000 ordinary shares of HK\$0.02 each (2000: 200,000,000 ordinary shares of HK\$1.00 each)	<u>200,000,000</u>	<u>200,000,000</u>
<i>Issued and fully paid:</i>		
900,340,000 ordinary shares of HK\$0.02 each (2000: 17,684,000 ordinary shares of HK\$1.00 each)	<u>18,006,800</u>	<u>17,684,000</u>

A summary of the above movements in the authorised and issued share capital of the Company is as follows:

	<i>Notes</i>	Number of ordinary shares of HK\$1.00 each	Number of ordinary shares of HK\$0.02 each	Amount HK\$
<i>Authorised:</i>				
As at 1 July 2000		200,000,000	—	200,000,000
Subdivision of 1 existing share of HK\$1.00 each into 50 shares of HK\$0.02 each	<i>(a)</i>	<u>(200,000,000)</u>	<u>10,000,000,000</u>	<u>—</u>
At 30 June 2001		<u>—</u>	<u>10,000,000,000</u>	<u>200,000,000</u>
<i>Issued and full paid:</i>				
As at 1 July 2000		17,684,000	—	17,684,000
Subdivision of 1 existing share of HK\$1.00 each into 50 shares of HK\$0.02 each	<i>(a)</i>	<u>(17,684,000)</u>	<u>884,200,000</u>	<u>—</u>
Consideration shares issued	<i>(b)</i>	<u>—</u>	<u>16,250,000</u>	<u>325,000</u>
Shares repurchased and cancelled	<i>(c)</i>	<u>—</u>	<u>(110,000)</u>	<u>(2,200)</u>
As at 30 June 2001		<u>—</u>	<u>900,340,000</u>	<u>18,006,800</u>

Notes to the Financial Statements *(Continued)*

30 June 2001 (in HK Dollars)

27. SHARE CAPITAL *(Continued)*

During the year, the following movements in the Company's authorised and issued share capital were recorded:

- (a) On 30 November 2000, the shareholders of the Company approved an ordinary resolution in relation to the share subdivision which was effected in the following manner:
 - (i) the nominal value of all the issued shares of the Company was reduced from HK\$1.00 each to HK\$0.02 each. The issued and fully paid capital remained as HK\$17,684,000;
 - (ii) each of the authorised, but unissued shares of the Company was sub-divided into 50 shares. The authorised share capital of the Company remained as HK\$200,000,000 as it was before the share subdivision, but now consists of 10,000,000,000 shares of HK\$0.02 each.
- (b) Pursuant to a special resolution passed in an extraordinary general meeting of members on 10 April 2001, a total of 16,250,000 shares were issued at an issue price of HK\$0.80 per share on 20 April 2001, as partial consideration in exchange for the 60% equity interest in M-Star Limited.
- (c) On 23 May 2001, the Company repurchased its shares listed on the Hong Kong Stock Exchange and then cancelled 110,000 of its ordinary shares of HK\$0.02 each. The aggregate consideration paid was HK\$20,790 and the price per share was HK\$0.189.

An amount of HK\$18,773 representing the premium and brokerage expenses on the aforesaid repurchases has been incurred.

Notes to the Financial Statements *(Continued)*

30 June 2001 (in HK Dollars)

27. SHARE CAPITAL *(Continued)*

Share options

Under the terms of the Share Option Scheme adopted by the Company on 30 November 2000 (the "Scheme"), the board of directors may, at its discretion, invite employees, including the directors of the Company and its subsidiaries, to take up options to subscribe for shares in the share capital of the Company. The subscription price for the Company's shares under the Scheme is determined by the board of directors and will not be less than 80% of the average of the closing prices of the Company's shares listed on the Stock Exchange on the five trading days immediately preceding the date of offer of the option or the nominal value of the Company's shares, whichever is the higher. The maximum number of shares in respect of which options may be granted may not exceed 10% of the issued share capital of the Company (excluding shares issued under the Scheme) from time to time and that the maximum number of shares in respect of which options may be granted to any one employee shall not exceed 25% of the aggregate number of shares under the Scheme.

During the year, options to subscribe for 37,200,000 shares of the Company were granted to eligible employees including certain directors of the Company at the subscription price of HK\$0.75 per share. A nominal consideration of HK\$1.00 was paid by the employees for each lot of share options granted. No share options have been exercised since the date of grant and up to 30 June 2001.

At 30 June 2001, the Company had outstanding options granted to eligible employees to subscribe for shares of the Company as follow:

Date of grant	No. of shares over which options were granted	Subscription price per share <i>HK\$</i>	Exercisable period	
			From	To
20 April 2001	37,200,000	0.75	20 April 2001	19 April 2004

Notes to the Financial Statements *(Continued)*

30 June 2001 (in HK Dollars)

28. RESERVES

	Share premium <i>HK\$</i>	Non- distributable reserve <i>HK\$</i>	Exchange reserve <i>HK\$</i>	Retained profits <i>HK\$</i>	Total <i>HK\$</i>
The Group:					
At 1 July 1999	—	1,264,081	(1,814,423)	86,035,711	85,485,369
Profit for the year	—	—	—	3,950,919	3,950,919
At 30 June 2000	—	1,264,081	(1,814,423)	89,986,630	89,436,288
Net loss for the year	—	—	—	(46,989,301)	(46,989,301)
Issue of shares at a premium	12,675,000	—	—	—	12,675,000
Goodwill arising on the acquisition of associates <i>(Note 19)</i>	—	(29,400,000)	—	—	(29,400,000)
Impairment of goodwill <i>(Note)</i>	—	29,400,000	—	—	29,400,000
Negative goodwill on acquisition of assets	—	1,000,002	—	—	1,000,002
Net recognised gains	—	—	326,523	—	326,523
At 30 June 2001	<u>12,675,000</u>	<u>2,264,083</u>	<u>(1,487,900)</u>	<u>42,997,329</u>	<u>56,448,512</u>

Note: Premium arising on the acquisition of associates is shown as goodwill which has been written off to capital reserve on acquisition. In accordance with the provisions of SSAP 31, the impairment of goodwill ascertained is recognised as an expense in the income statement.

Notes to the Financial Statements *(Continued)*

30 June 2001 (in HK Dollars)

28. RESERVES *(Continued)*

	Share premium <i>HK\$</i>	Non- distributable capital reserve <i>HK\$</i>	Retained profits <i>HK\$</i>	Total <i>HK\$</i>
The Company:				
At 1 July 1999	—	1,264,081	26,311,668	27,575,749
Net profit for the year	—	—	38,173,672	38,173,672
At 1 July 2000	—	1,264,081	64,485,340	65,749,421
Net loss for the year	—	—	(19,227,833)	(19,227,833)
Issue of shares at a premium	12,675,000	—	—	12,675,000
At 30 June 2001	<u>12,675,000</u>	<u>1,264,081</u>	<u>45,257,507</u>	<u>59,196,588</u>

29. AMOUNT DUE TO SUBSIDIARY NOT CONSOLIDATED/AMOUNTS DUE TO SUBSIDIARIES

The amounts due are unsecured, interest-free and have no fixed terms of repayments. In the opinion of directors, no portion of these amounts are repayable within next twelve months from the balance sheet date.

30. AMOUNT DUE TO AN INVESTEE COMPANY

The amount due is unsecured, interest-free and has no fixed terms of repayment. In the opinion of directors, no portion of this amount is repayable within next twelve months from the balance sheet date.

31. DEFERRED TAXATION

	THE GROUP	
	<i>HK\$</i>	<i>HK\$</i>
Balance at 1 July 2000	161,647	261,314
Credit for the year <i>(Note 11)</i>	<u>(161,647)</u>	<u>(99,667)</u>
Balance at 30 June 2001	<u>—</u>	<u>161,647</u>

Notes to the Financial Statements *(Continued)*

30 June 2001 (in HK Dollars)

32. RECONCILIATION OF (LOSS)/PROFIT BEFORE TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2001	2000
	<i>HK\$</i>	<i>HK\$</i>
Operating (loss)/profit before taxation	(42,769,379)	7,008,915
Interest income	(1,901,953)	(3,862,038)
Interest on bank loan and overdraft	14,674	26,491
Amortisation of goodwill	1,654,299	1,587,230
Impairment of goodwill	29,400,000	—
Amortisation of development costs	1,821,160	948,753
Depreciation of owned fixed assets	611,977	2,448,517
Depreciation of fixed assets held under hire purchase contract	48,800	—
Write back of provision for interest in an associate	—	(43,226)
Decrease/(increase) in inventories	799,856	(144,409)
Decrease/(increase) in other investments	16,904,681	(4,207,051)
Decrease in trade and other receivables	1,511,023	2,573,157
Decrease in amount due from a related company	2,787,217	3,652,329
Increase in amounts due to related companies	122,117	—
Increase in amounts due to directors	4,325,309	—
Increase/(decrease) in trade and other payables	6,553,257	(2,076,618)
Provision for doubtful debts	865,000	—
Provision for diminution in properties	4,800,000	—
Loss on disposal of subsidiaries	2,281,444	—
Provision for diminution in value of investment in securities — other investments	551,325	—
Gain on disposal of fixed assets	(9,388,918)	—
Decrease in amount due to minority shareholders of subsidiaries	<u>(11,424,479)</u>	<u>—</u>
Net cash inflow from operating activities	<u><u>9,567,410</u></u>	<u><u>7,912,050</u></u>

Notes to the Financial Statements *(Continued)*

30 June 2001 (in HK Dollars)

33. DISPOSAL OF SUBSIDIARIES

On 9 December 2000, the Group disposed of a subsidiary group which carried out all of its manufacture & trading of building materials.

Net liabilities disposed of:

	2001 <i>HK\$</i>	2000 <i>HK\$</i>
Property, plant and equipment	2,908,570	—
Inventories	1,751,687	—
Trade and other receivables	291,293	—
Bank balances	35,785	—
Amount due to holding company	(18,440,991)	—
Trade and other payables	(1,696,655)	—
Taxation payable	(55,385)	—
Bank loan	(280,374)	—
Exchange reserve	<u>326,523</u>	<u>—</u>
	(15,159,547)	
Amount due to holding company waived by the Company	<u>18,440,991</u>	<u>—</u>
	3,281,444	—
Loss on disposal of subsidiaries	<u>(2,281,444)</u>	<u>—</u>
	<u><u>1,000,000</u></u>	<u><u>—</u></u>
Satisfied by:		
Other receivable	865,000	
Decrease in accrued expenses	<u>135,000</u>	<u>—</u>
	<u><u>1,000,000</u></u>	<u><u>—</u></u>

Notes to the Financial Statements *(Continued)*

30 June 2001 (in HK Dollars)

34. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share premium <i>HK\$</i>	Issue of share <i>HK\$</i>	Obligations under hire- purchase contracts <i>HK\$</i>	Total <i>HK\$</i>
The Group:				
At 1 July 2000	—	—	—	—
Issue of shares at a premium	12,675,000	325,000	—	13,000,000
Inception of hire purchase contract	—	—	488,000	488,000
Repayment of capital element of hire purchase contract	—	—	(87,453)	(87,453)
	<u>—</u>	<u>—</u>	<u>(87,453)</u>	<u>(87,453)</u>
At 30 June 2001	<u>12,675,000</u>	<u>325,000</u>	<u>400,547</u>	<u>13,400,547</u>
				Amount due to minority shareholders of subsidiaries
At 1 July 1999				1,061,543
Advances from minority shareholders of subsidiaries				362,936
Dividend payable to minority shareholders of subsidiaries				<u>10,000,000</u>
At 30 June 2000				<u>11,424,479</u>

35. OPERATING LEASE COMMITMENTS

At 30 June 2001, the Group had commitments in respect of operating leases of land and buildings as follows:

	Group	
	2001 <i>HK\$</i>	2000 <i>HK\$</i>
Operating leases which expire:		
— In two to five years	<u>8,344,504</u>	<u>3,026,592</u>

Notes to the Financial Statements *(Continued)*

30 June 2001 (in HK Dollars)

36. RETIREMENT BENEFITS SCHEME

The Group operates defined contribution retirement benefits schemes for all qualified employees. The assets of the schemes are held separately from those of the Group in funds under the control of independent trustees.

The cost charged to the income statement represents contributions payable to the funds by the Group at rates specified in the rules of the schemes. Where there are employees who leave the schemes prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions.

At the balance sheet date, the total amount of forfeited contributions, which arose upon employees leaving the pension schemes and which are available to reduce the contributions payable in the future years was \$80,806 (2000 — \$291,093).

37. PLEDGE OF ASSETS

During the year ended 30 June 2001, certain subsidiary companies of the Group were given secured general banking facilities of approximately \$12,359,000 (2000 — Nil) by pledging the properties of a subsidiary of the Group and by a corporate guarantee.

As at 30 June 2001, certain subsidiary companies within the Group had pledged bank deposits of approximately \$5.1 million to secure general banking facilities granted to these subsidiary companies of the Group.

38. AMOUNT DUE BY A RELATED COMPANY

Name of company	Name of director having interest	Highest balance during year	The Group	
			2001	2000
			HK\$	HK\$
Gason Electrical Contracting Limited	So Chee Kwan Au Yee Mui	2,787,217	—	2,787,217

Notes to the Financial Statements *(Continued)*

30 June 2001 (in HK Dollars)

39. RELATED PARTY TRANSACTIONS — THE GROUP

During the year, the Group had entered into transactions with related parties which, in the opinion of the directors, were carried out on normal commercial terms and in the ordinary course of the Group's business, as shown below:

Name of related parties	Relationship	Nature of transactions	2001 HK\$	2000 HK\$
Gason Electrical Contracting Ltd. <i>(Note a)</i>	Company in which two directors have beneficial interests	Sales	18,364,244	24,795,223
Gold Arch Engineering Ltd. <i>(Note b)</i>	Company in which two directors have beneficial interests	Management fee paid	800,000	800,000
John Robert Lees & Desmond Chung Seng Chiong <i>(Note c)</i>	Joint & several provisional liquidators	Fees & expenses paid	—	1,188,366
Maxview Enterprises Ltd.	Investee company	Balance as at 30 June due by the Group	4,015,875	4,015,875

The amounts receivable from and payable to the above related parties are unsecured, interest-free and repayable on demand.

Notes:

- a. The transactions were carried out at market price or, where no market price was available, at cost plus a percentage profit mark-up.
- b. The transactions were based on amounts agreed between the parties concerned.
- c. The fees of the Joint and Several Provisional Liquidators were charged on a time basis at their firm's standard rates for this type of work.

Notes to the Financial Statements *(Continued)*

30 June 2001 (in HK Dollars)

40. MAJOR NON-CASH TRANSACTION

During the year, the Group entered into hire purchase contracts in respect of assets with a total capital value at the inception of the leases of \$488,000 (2000 — Nil).

41. PURCHASE OF SUBSIDIARIES

Net assets acquired	
Investment in securities	35,000,000
Properties under development	32,000,000
Goodwill	13,705,240
Development costs	4,594,963
Trade and other payables	(987,287)
Amount due to directors	(2,327,101)
Deposits received	<u>(1,196,463)</u>
	<u>80,789,352</u>
Satisfied by:	
Shares allotted	13,000,000
Cash	3,000,000
Accounts and other receivables	<u>64,789,352</u>
	<u>80,789,352</u>

42. CONTINGENT LIABILITIES

At the close of business on 30 June 2001, the purported unsecured debts of the Group included an amount due to an unconsolidated subsidiary of HK\$26 million, an amount due to an investee company of HK\$4 million, an amount due to a director of the Company of HK\$4.25 million (which was settled subsequent to 30 June 2001) and an amount due to a subsidiary's director of HK\$2.1 million. In addition, the Group had a finance lease of HK\$0.4 million.

During the year ended 30 June 2001, certain subsidiary companies of the Group were given secured general banking facilities of approximately HK\$12,359,000 (none of which was utilised by the Group) by pledging the properties of a subsidiary of the Group and by giving a corporate guarantee.

Notes to the Financial Statements *(Continued)*

30 June 2001 (in HK Dollars)

42. CONTINGENT LIABILITIES *(Continued)*

As of 30 June 2001, certain subsidiary companies within the Group had pledged bank deposits of approximately HK\$5.1 million to secure general banking facilities granted to these subsidiary companies of the Group which had not been utilised as at 30 June 2001.

	GROUP		COMPANY	
	2001 HK\$	2000 HK\$	2001 HK\$	2000 HK\$
Other guarantees	532,671	—	—	—
Other trade guarantees	<u>160,000</u>	<u>160,000</u>	<u>—</u>	<u>—</u>
	<u>692,671</u>	<u>160,000</u>	<u>—</u>	<u>—</u>

43. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, the Group had the following material post balance sheet events:

- (a) On 6 September 2001, 369 Holdings Limited, the substantial shareholder of the Company, entered into an agreement with First Securities (HK) Limited whereby 369 Holdings Limited agreed to place, through First Securities (HK) Limited, 106,700,000 shares in the Company to more than six independent professional individual investors at a price of HK\$0.05 per share. On the same day, 369 Holdings Limited entered into an agreement with the Company to subscribe for 160,000,000 new shares, representing approximately 17.77% of the then existing issued share capital of the Company, at a price of HK\$0.05 per share. The placement realised around HK\$7.8 million which was used to reduce the Company's short term debt.
- (b) In October 2001, Linfield International Limited, a 80% owned subsidiary of the Company had entered into a provisional agreement through its wholly owned subsidiary to acquire land and building in Hong Kong at a consideration of \$5,770,000.

— End of Notes —