

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th June, 2003

1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The financial statements for the current year cover the 12 month period ended 30th June, 2003. The corresponding amounts shown for the income statement, statement of changes in equity, cash flow statement and related notes cover a 15 month period from 1st April, 2001 to 30th June, 2002, and therefore may not be comparable with amounts shown for current year. The period covered by 2002 financial statements was longer than twelve months so as to bring the balance sheet date of the Group and the Company in line with that of its principal subsidiaries acquired during the prior period. No further changes to reporting dates are anticipated.

The Company is an investment holding company. The activities of its principal subsidiaries, associates and jointly controlled entities are set out in notes 32, 15 and 16 respectively.

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first time, a number of new and revised Statements of Standard Accounting Practice (“SSAPs”) issued by the Hong Kong Society of Accountants. The adoption of these SSAPs has resulted in a change in the format of presentation of the cash flow statement and the statement of changes in equity and the changes in the accounting policies as follows:

Presentation of financial statements

The revisions to SSAP 1 (Revised) “Presentation of Financial Statements” have introduced the presentation of a statement of changes in equity in lieu of a statement of recognised gains and losses in the current year’s financial statements. Comparative figures have been restated to conform with the current year’s presentation.

Foreign currencies

The revisions to SSAP 11 “Foreign Currency Translation” have eliminated the choice of translating the income statements of overseas operations at the closing rate for the year. They are now required to be translated at an average rate. Accordingly, on consolidation, the assets and liabilities of the Group’s operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group’s translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of. This change in accounting policy does not have any significant effect on the results for the current or prior accounting periods.

Cash flow statements

In the current year, the Group has adopted SSAP 15 (Revised) “Cash Flow Statements”. Under SSAP 15 (Revised), cash flows are classified under three headings – operating, investing and financing, rather than the previously five headings. Interest paid and dividend paid, which were previously presented under a separate heading, are classified as operating and financing cash flows respectively. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities. Cash flows of overseas operations have been re-translated at the rates prevailing at the date of the cash flows rather than the rate of exchange ruling on the balance sheet date. Comparative figures have been restated to conform with the current year’s presentation.

Employee benefits

In the current year, the Group has adopted SSAP 34 “Employee Benefits”, which introduces measurement rules for employee benefits, including retirement benefit plans. As the Group participates only in defined contribution retirement benefit schemes, the adoption of SSAP 34 does not have any significant impact on the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th June, 2003

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of investments in securities and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

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

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

All significant inter-company transactions and balances within the Group have been eliminated on consolidation.

Goodwill

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

Goodwill is capitalised and amortised on a straight line basis over its useful economic life. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet. Goodwill arising on the acquisition of an associate or a jointly controlled entity is included within the carrying amount of the associate or jointly controlled entity.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of unamortised goodwill is included in the determination of the profit or loss on disposal.

Negative goodwill

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

Negative goodwill is released to income based on an analysis of the circumstances from which the balance resulted.

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

Negative goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a deduction from assets. Negative goodwill arising on the acquisitions of an associate or a jointly controlled entity is deducted from the carrying value of that associate or jointly controlled entity.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of unreleased negative goodwill is included in the determination of the profit and loss on disposal.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th June, 2003

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Revenue recognition

Service income is recognised when services are provided.

Proceeds from sale of trading securities are recognised when the relevant sales contracts become unconditional.

Rental income, including rentals invoiced in advance from properties let under operating leases, is recognised in a straight line basis over the term of the relevant lease.

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

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

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives, using the straight line method at the following rates per annum:

Leasehold improvements	4%–20% or over the lease terms, whichever is shorter
Furniture, fixtures and equipment	15%–25%
Motor vehicles	10%–25%

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

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

Assets held under finance leases

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

Investments in subsidiaries

A subsidiary is an enterprise in which the Company has control either directly or indirectly. Control is the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th June, 2003

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Investments in associates

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 less any identified impairment loss.

Investment in an associate is included in the Company's balance sheet at cost less any identified impairment loss. The results of the associate are accounted for by the Company on the basis of dividends received and receivable during the year.

Investments in jointly controlled entities

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Group's interest in jointly controlled entities are included in the consolidated balance sheet at the Group's share of the net assets of the jointly controlled entity less any identified impairment loss. The Group's share of post-acquisition results of its jointly controlled entities is included in the consolidated income statement.

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.

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.

Impairment

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th June, 2003

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Gains and losses arising on exchange are included in the net profit or loss for the year.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at the exchange rates prevailing on the balance sheet date. Income and expenses items are translated at the average exchange rates for the year. Exchange difference arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

Retirement benefit scheme

Payments to the retirement benefit schemes and mandatory provident fund schemes are charged as an expenses as they fall due.

Operating leases

Rentals payable under operating leases are charged to the income statement as expense on a straight-line basis over the relevant terms of leases.

4. TURNOVER AND SEGMENT INFORMATION

Turnover is analysed as follows:

	1/7/2002 to 30/6/2003 <i>HK\$'000</i>	1/4/2001 to 30/6/2002 <i>HK\$'000</i>
Telecommunication services income	150,191	143,289
Sales of other investments	55,012	46,967
Interest income	990	1,828
Rental income from sub-leasing of properties	–	1,711
	<u>206,193</u>	<u>193,795</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th June, 2003

4. TURNOVER AND SEGMENT INFORMATION (Cont'd)

Business segments

For management purposes, the Group is organised into four operating divisions – securities trading and investment holding, treasury activities, provision of telecommunication services and sub-leasing of properties. These divisions are the basis on which the Group reports its primary segment information.

In September 2001, the Group discontinued to sub-lease properties after entering into a deed of surrender with the landlord. The segment loss of HK\$8,199,000 was mainly attributed to the cost of surrender paid to the landlord during the last period.

In February 2003, the Group discontinued to provide telecommunication services after the disposal of certain subsidiaries. The segment profit of HK\$8,824,000 noted in the year ended 30th June, 2003 represented the results of the subsidiaries for the period from 1st July, 2002 to 28th February, 2003.

Segment information about these businesses is presented below.

Income statement for the year ended 30th June, 2003

	Continuing operations		Discontinued operations		Consolidated HK\$'000
	Securities trading and investment holding HK\$'000	Treasury activities HK\$'000	Provision of telecommunication services HK\$'000	Sub-leasing of properties HK\$'000	
TURNOVER					
External	55,012	990	150,191	–	206,193
Segment result	(13,732)	126	8,824	–	(4,782)
Unallocated other operating income					1,636
Unrealised gain on other investments	124				124
Release of negative goodwill			1,687		1,687
Unallocated corporate expenses					(30)
Loss from operations					(1,365)
Finance costs	(14)	(15)	(29)		(58)
Gain on disposal of subsidiaries					8,388
Loss on disposal of jointly controlled entities					(4,223)
Share of results of associates					(28,326)
Share of results of jointly controlled entities					815
Loss before taxation					(24,769)
Taxation charge					2,143
Loss before minority interests					(26,912)
Minority interests					6,586
Net loss for the year					(20,326)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th June, 2003

4. TURNOVER AND SEGMENT INFORMATION (Cont'd)

Business segments (Cont'd)

Income statement for the year ended 30th June, 2003 (Cont'd)

	Continuing operations		Discontinued operations		Consolidated HK\$'000
	Securities trading and investment holding HK\$'000	Treasury activities HK\$'000	Provision of telecommunication services HK\$'000	Sub-leasing of properties HK\$'000	
OTHER INFORMATION					
Capital expenditure	21	455	3,662	–	4,138
Depreciation and amortisation	439	28	3,309	–	3,776

Balance sheet at 30th June, 2003

	Continuing operations		Discontinued operations		Consolidated HK\$'000
	Securities trading and investment holding HK\$'000	Treasury activities HK\$'000	Provision of telecommunication services HK\$'000	Sub-leasing of properties HK\$'000	
ASSETS					
Segment assets	210,148	33,281	–	–	243,429
Interests in jointly controlled entities					11,105
Consolidated total assets					<u>254,534</u>
LIABILITIES					
Segment liabilities	828	379	–	–	<u>1,207</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th June, 2003

4. TURNOVER AND SEGMENT INFORMATION (Cont'd)

Business segments (Cont'd)

Income statement for the fifteen months ended 30th June, 2002

	Continuing operations		Discontinued operations		Consolidated HK\$'000
	Securities trading and investment holding HK\$'000	Treasury activities HK\$'000	Provision of telecommunication services HK\$'000	Sub-leasing of properties HK\$'000	
TURNOVER					
External	<u>46,967</u>	<u>1,828</u>	<u>143,289</u>	<u>1,711</u>	<u>193,795</u>
Segment result	<u>(14,715)</u>	<u>(4,104)</u>	<u>20,625</u>	<u>(8,199)</u>	<u>(6,393)</u>
Unallocated other operating income					1,970
Impairment loss recognised in respect of investment securities	(6,648)				(6,648)
Unrealised loss on other investments	(372)				(372)
Allowance for amounts due from/loan to jointly controlled entities	(2,179)				(2,179)
Amortisation of goodwill	(4,835)				(4,835)
Release of negative goodwill			1,898		1,898
Unallocated corporate expenses					<u>(887)</u>
Loss from operations					(17,446)
Finance costs			(17)		(17)
Gain on disposal of subsidiaries					2,802
Gain on disposal of jointly controlled entities					62
Share of results of associates					(58,489)
Share of results of jointly controlled entities					<u>5,681</u>
Loss before taxation					(67,407)
Taxation credit					<u>(911)</u>
Loss before minority interests					(66,496)
Minority interests					<u>11,585</u>
Net loss for the period					<u><u>(54,911)</u></u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th June, 2003

4. TURNOVER AND SEGMENT INFORMATION (Cont'd)

Business segments (Cont'd)

Income statement for the fifteen months ended 30th June, 2002

	Continuing operations		Discontinued operations		Consolidated HK\$'000
	Securities trading and investment holding HK\$'000	Treasury activities HK\$'000	Provision of telecommunication services HK\$'000	Sub-leasing of properties HK\$'000	
OTHER INFORMATION					
Capital expenditure	244	–	2,218	–	2,462
Depreciation and amortisation	5,437	–	3,821	–	9,258

Balance sheet at 30th June, 2002

	Continuing operations		Discontinued operations		Consolidated HK\$'000
	Securities trading and investment holding HK\$'000	Treasury activities HK\$'000	Provision of telecommunication services HK\$'000	Sub-leasing of properties HK\$'000	
ASSETS					
Segment assets	16,768	63,072	34,457	–	114,297
Interests in associates					28,326
Interests in jointly controlled entities					121,693
Unallocated corporate assets					334
Consolidated total assets					<u>264,650</u>
LIABILITIES					
Segment liabilities	6,412	–	31,838	–	<u>38,250</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th June, 2003

4. TURNOVER AND SEGMENT INFORMATION (Cont'd)

Geographical segments

The Group's operations are located in Hong Kong, Singapore and United Kingdom.

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

	Turnover by geographical market		Contribution to loss from operations	
	1/7/2002 to 30/6/2003 HK\$'000	1/4/2001 to 30/6/2002 HK\$'000	1/7/2002 to 30/6/2003 HK\$'000	1/4/2001 to 30/6/2002 HK\$'000
Hong Kong	205,857	191,401	(4,985)	(3,136)
Singapore	336	28	203	28
United Kingdom	–	2,366	–	(3,285)
	<u>206,193</u>	<u>193,795</u>	<u>(4,782)</u>	<u>(6,393)</u>
Unallocated other operating income			1,636	1,970
Release of negative goodwill			1,687	1,898
Unrealised gain (loss) on other investments			124	(372)
Impairment loss recognised in respect of investment securities			–	(6,648)
Allowance for amounts due from/loan to jointly controlled entities			–	(2,179)
Amortisation of goodwill			–	(4,835)
Unallocated corporate expenses			<u>(30)</u>	<u>(887)</u>
Loss from operations			<u>(1,365)</u>	<u>(17,446)</u>

Turnover from the Group's discontinued operations was derived principally from Hong Kong for this year and United Kingdom for prior period.

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

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Hong Kong	105,571	98,817	4,138	2,462
The PRC	148,963	150,019	–	–
Singapore	–	15,814	–	–
	<u>254,534</u>	<u>264,650</u>	<u>4,138</u>	<u>2,462</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th June, 2003

5. LOSS FROM OPERATIONS

	1/7/2002 to 30/6/2003 <i>HK\$'000</i>	1/4/2001 to 30/6/2002 <i>HK\$'000</i>
Loss from operations has been arrived at after charging (crediting):		
Auditors' remuneration:		
Current year	890	957
Overprovision in prior year	—	(10)
	<u>890</u>	<u>947</u>
Depreciation and amortisation:		
Owned assets	5,394	6,311
Assets held under finance leases	69	10
Operating lease rentals in respect of rented premises	1,817	3,262
(Gain) loss on disposal of property, plant and equipment	(17)	1,446
Staff costs including directors' remuneration	27,940	37,419
Allowance for bad and doubtful debts	4,531	2,547
	<u>4,531</u>	<u>2,547</u>

Contributions to retirement benefit scheme amounting to HK\$1,399,000 (2002: HK\$1,084,000) are included in staff costs.

Operating lease rentals amounting to HK\$886,000 (2002: HK\$2,293,000) are included in staff costs.

6. FINANCE COSTS

	1/7/2002 to 30/6/2003 <i>HK\$'000</i>	1/4/2001 to 30/6/2002 <i>HK\$'000</i>
Interest on:		
Other borrowings	14	11
Finance leases	44	6
	<u>58</u>	<u>17</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th June, 2003

7. DIRECTORS' REMUNERATION

	1/7/2002 to 30/6/2003 <i>HK\$'000</i>	1/4/2001 to 30/6/2002 <i>HK\$'000</i>
Fees:		
Executive directors	–	–
Non-executive directors	23	90
Independent non-executive directors	300	375
	<u>323</u>	<u>465</u>
Other emoluments:		
Basic salaries and allowances		
Executive directors	4,043	6,863
Retirement benefit scheme contributions		
Executive directors	143	331
	<u>4,509</u>	<u>7,659</u>

The directors' remunerations were within the following bands:

	Number of directors	
	1/7/2002 to 30/6/2003	1/4/2001 to 30/6/2002
Nil – HK\$1,000,000	8	4
HK\$1,000,001 – HK\$1,500,000	–	2
HK\$1,500,001 – HK\$2,000,000	1	–
HK\$2,000,001 – HK\$2,500,000	–	2
	<u>9</u>	<u>8</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th June, 2003

8. EMPLOYEES' REMUNERATION

The five highest paid individuals of the Group included three (2002: four) executive directors of the Company, whose emoluments are included in note 7 above. The emoluments of the remaining two (2002: one) individual are as follows:

	1/7/2002 to 30/6/2003 <i>HK\$'000</i>	1/4/2001 to 30/6/2002 <i>HK\$'000</i>
Basic salaries and allowances	1,314	1,258
Retirement benefit scheme contribution	<u>16</u>	<u>15</u>
	<u>1,330</u>	<u>1,273</u>
	Number of individuals	
	1/7/2002 to 30/6/2003	1/4/2001 to 30/6/2002
Nil – HK\$1,000,000	2	–
HK\$1,000,001 – HK\$1,500,000	<u>–</u>	<u>1</u>
	<u>2</u>	<u>1</u>

9. TAXATION CHARGE (CREDIT)

	1/7/2002 to 30/6/2003 <i>HK\$'000</i>	1/4/2001 to 30/6/2002 <i>HK\$'000</i>
The charge (credit) comprises:		
Profit for the year/period		
Other jurisdictions	<u>–</u>	<u>197</u>
Under(over)provision in respect of prior period/year		
Hong Kong	1,435	(331)
Other jurisdictions	<u>–</u>	<u>(1,207)</u>
	<u>1,435</u>	<u>(1,538)</u>
Deferred taxation (<i>note 28</i>)		
Current year/period	(802)	–
Underprovision in prior year/period	<u>1,510</u>	<u>–</u>
	<u>708</u>	<u>–</u>
Share of taxation attributable to jointly controlled entities	<u>–</u>	<u>430</u>
	<u>2,143</u>	<u>(911)</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th June, 2003

9. TAXATION (Cont'd)

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group has no assessable profit for the year/period.

Taxation arising in other jurisdictions was calculated at the rates prevailing in the respective jurisdictions.

Details of deferred taxation of the Group are set out in note 28.

10. LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss for the year ended 30th June, 2003 of HK\$20,326,000 (for the period ended 30th June, 2002: HK\$54,911,000), and on the weighted average number of 1,686,627,608 shares (for the period ended 30th June, 2002: 1,383,011,170 shares) in issue during the year/period.

The computation of diluted loss per share does not assume the exercise of the Company's outstanding share options as their exercise would result in a decrease in net loss per share for the year/period.

11. PROPERTY, PLANT AND EQUIPMENT

The Group

	Leasehold improvements <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
COST				
At 1st July, 2002	2,350	35,300	966	38,616
Additions	1,600	1,103	1,435	4,138
Disposal of subsidiaries	(1,634)	(33,801)	(980)	(36,415)
Disposals	(1,490)	(1)	(966)	(2,457)
At 30th June, 2003	<u>826</u>	<u>2,601</u>	<u>455</u>	<u>3,882</u>
DEPRECIATION AND AMORTISATION				
At 1st July, 2002	1,805	17,670	789	20,264
Provided for the year	628	4,731	104	5,463
Disposal of subsidiaries	(398)	(19,993)	(33)	(20,424)
Eliminated on disposals	(1,490)	–	(833)	(2,323)
At 30th June, 2003	<u>545</u>	<u>2,408</u>	<u>27</u>	<u>2,980</u>
NET BOOK VALUES				
At 30th June, 2003	<u><u>281</u></u>	<u><u>193</u></u>	<u><u>428</u></u>	<u><u>902</u></u>
At 30th June, 2002	<u><u>545</u></u>	<u><u>17,630</u></u>	<u><u>177</u></u>	<u><u>18,352</u></u>

The net book value of motor vehicles included an amount of HK\$403,000 (2002: HK\$42,900) in respect of asset held under a finance lease.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th June, 2003

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

The Company

	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
COST				
At 1st July, 2002	827	2,556	966	4,349
Additions	–	22	–	22
Disposals	–	–	(966)	(966)
At 30th June, 2003	<u>827</u>	<u>2,578</u>	<u>–</u>	<u>3,405</u>
DEPRECIATION AND AMORTISATION				
At 1st July, 2002	381	2,164	789	3,334
Provided for the year	166	224	43	433
Eliminated on disposals	–	–	(832)	(832)
At 30th June, 2003	<u>547</u>	<u>2,388</u>	<u>–</u>	<u>2,935</u>
NET BOOK VALUES				
At 30th June, 2003	<u>280</u>	<u>190</u>	<u>–</u>	<u>470</u>
At 30th June, 2002	<u>446</u>	<u>392</u>	<u>177</u>	<u>1,015</u>

12. GOODWILL

The Group

	HK\$'000
GROSS AMOUNT	
At 1st July, 2002	60,449
Eliminated on disposals	(59,111)
At 30th June, 2003	<u>1,338</u>
AMORTISATION AND IMPAIRMENT	
At 1st July, 2002	60,449
Eliminated on disposals	(59,111)
At 30th June, 2003	<u>1,338</u>
CARRYING AMOUNT	
At 30th June, 2003	<u>–</u>
At 30th June, 2002	<u>–</u>

Goodwill is amortised using the straight-line method over its estimated useful life of 3 to 5 years.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th June, 2003

13. NEGATIVE GOODWILL

The Group

	<i>HK\$'000</i>
GROSS AMOUNT	
At 1st July, 2002	12,650
Eliminated on disposals	<u>(12,650)</u>
At 30th June, 2003	<u>–</u>
RELEASED TO INCOME	
At 1st July, 2002	1,898
Released during the year	1,687
Eliminated on disposals	<u>(3,585)</u>
At 30th June, 2003	<u>–</u>
CARRYING AMOUNT	
At 30th June, 2003	<u>–</u>
At 30th June, 2002	<u>10,752</u>

The negative goodwill arose on the Group's acquisition of 80% interest in both One.Tel Limited and OneTel.Net Limited on 28th September, 2001. At the date of acquisition, HK\$12,650,000 of the negative goodwill was identified. The negative goodwill is released to income on a straight-line basis of 5 years, being the estimated weighted average useful lives of non-monetary assets acquired. All negative goodwill is released upon the disposals of the subsidiaries during the year.

14. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	11,088	98,558
Amounts due from subsidiaries	<u>494,978</u>	<u>1,507,814</u>
	506,066	1,606,372
Impairment loss recognised	<u>(491,946)</u>	<u>(1,318,197)</u>
	<u>14,120</u>	<u>288,175</u>

The amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayment. The Company has agreed not to demand repayment in the next twelve months from the balance sheet date and accordingly, the amounts are shown as non-current.

The investment costs of and amounts due from certain subsidiaries have been impaired as these subsidiaries were loss-making or inactive as at 30th June, 2003.

Particulars of the Company's principal subsidiaries as at 30th June, 2003 are set out in note 32.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th June, 2003

15. INTERESTS IN ASSOCIATES

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Share of net assets	—	28,326

Particulars of the Group's principal associate as at 30th June, 2003 are as follows:

Name of company	Form of business structure	Place of incorporation/ establishment and operation	Proportion of nominal value of registered capital held by the Group %	Principal activities
北京帥府大廈發展有限公司 Beijing Shuaifu Development Co., Ltd. ("Beijing Shuaifu")	Joint venture	The PRC	20	Property development

The above table lists the associate of the Group as at 30th June, 2003 which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the assets of the Group. To give details of the other associates would, in the opinion of the directors, result in particulars of excessive length.

The net assets of Beijing Shuaifu is mainly represented by the holding of a development right in respect of a parcel of land located at the junction of Shuai Fu Yuan Hu Tong and Xiao Wei Hu Tong (the "Land") in the Dongcheng District of Beijing, the PRC. The Land is located in a traditional shopping and commercial area of the Dongcheng District known as Wangfujing, in between the Dingdan commercial area and Wangfujing Boulevard.

The open market value of the development right on the basis of vacant possession in respect of the Land as at 30th June, 2003 was revalued by LCH (Asia Pacific) Surveyors Limited, an independent firm of professional valuers, at HK\$141,651,000 (2002: HK\$141,632,000).

However, there is no significant progress on the development plan of the Land since the development right granted from the PRC government. During the year, the Company took legal action against the major shareholder of Beijing Shuaifu to request it to acquire the Group's interest in Beijing Shuaifu as the development plan has further delayed. But the major shareholder of Beijing Shuaifu was unable to acquire the Group's interest in Beijing Shuaifu. In the opinion of the directors, the completion of the development plan of the Land in near future is remote and the amount of the development right of the Land should be fully impaired and recognised as at 30th June, 2003. Accordingly, the Group shared the attributable impairment loss of the development right of the Land of Beijing Shuaifu in the income statement.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th June, 2003

16. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Share of net assets	<u>11,105</u>	<u>121,693</u>

Particulars of the Group's jointly controlled entity as at 30th June, 2003 are as follows:

Name of company	Form of business structure	Place of incorporation/ establishment and operation	Proportion of nominal value of registered capital held by the Group %	Principal activities
山東國際經濟開發公司 Shandong International Economic Development Corporation ("SIEDC")	Joint venture	PRC	60	Investment holding

The Group holds 60% of the registered capital of SIEDC and controls voting power of 5 out of 9 in general meeting. However, under a shareholder's agreement, SIEDC is jointly controlled by the Group and the other significant shareholders. Therefore, SIEDC is classified as a jointly controlled entity of the Group.

The following details have been extracted from the unaudited financial statements of the Group's significant jointly controlled entities.

Results for the year/period

The interest in a jointly controlled entity, 吉聯(吉林)石油化學有限公司 Jilian (Jilin) Petrochemicals Limited ("Jilian (Jilin)"), was disposed of in September 2002. Accordingly, the results of Jilian (Jilin) for the three months ended 30th September, 2002 were shared by the Group during the year and details are set out below:

	Jilian (Jilin)		SIEDC	
	1/7/2002 to 30/6/2003 HK\$'000	1/1/2001 to 30/6/2002 HK\$'000	1/7/2002 to 30/6/2003 HK\$'000	1/4/2001 to 30/6/2002 HK\$'000
Turnover	<u>207,159</u>	<u>1,695,897</u>	<u>–</u>	<u>622</u>
Profit (loss) before taxation	<u>2,095</u>	<u>31,555</u>	<u>136</u>	<u>(3,858)</u>
Profit (loss) before taxation attributable to the Group	<u>733</u>	<u>11,045</u>	<u>82</u>	<u>(2,315)</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th June, 2003

16. INTERESTS IN JOINTLY CONTROLLED ENTITIES (Cont'd)

Financial position as at 30th June

	Jilian (Jilin)		SIEDC	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Non-current assets	–	760,861	1,487	1,871
Current assets	–	338,013	17,322	16,814
Current liabilities	–	(692,011)	(301)	(313)
Non-current liabilities	–	(90,666)	–	–
Net assets	–	316,197	18,508	18,372
Net assets attributable to the Group	–	110,670	11,105	11,023

17. INVESTMENTS IN SECURITIES

	Other investments		Investment securities		Total	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
THE GROUP						
Listed equity securities	1,734	2,390	–	–	1,734	2,390
Listed debt securities	–	8,487	–	–	–	8,487
Unlisted mutual funds	66,463	–	–	–	66,463	–
Unlisted equity securities in overseas	–	–	147,227	9,369	147,227	9,369
Impairment loss recognised	–	–	(7,423)	(6,648)	(7,423)	(6,648)
	<u>68,197</u>	<u>10,877</u>	<u>139,804</u>	<u>2,721</u>	<u>208,001</u>	<u>13,598</u>
Market value of listed securities	<u>1,734</u>	<u>10,877</u>	<u>–</u>	<u>–</u>	<u>1,734</u>	<u>10,877</u>
Carrying amount analysed for reporting purposes:						
Non-current	–	–	139,804	2,721	139,804	2,721
Current	<u>68,197</u>	<u>10,877</u>	<u>–</u>	<u>–</u>	<u>68,197</u>	<u>10,877</u>
	<u>68,197</u>	<u>10,877</u>	<u>139,804</u>	<u>2,721</u>	<u>208,001</u>	<u>13,598</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th June, 2003

17. INVESTMENTS IN SECURITIES (Cont'd)

	Other investments		Investment securities		Total	
	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE COMPANY						
Listed equity securities	1,734	2,390	–	–	1,734	2,390
Listed debt securities	–	8,487	–	–	–	8,487
Unlisted mutual funds	66,463	–	–	–	66,463	–
Unlisted equity securities in overseas	–	–	145,666	7,808	145,666	7,808
Impairment loss recognised	–	–	(5,862)	(5,862)	(5,862)	(5,862)
	<u>68,197</u>	<u>10,877</u>	<u>139,804</u>	<u>1,946</u>	<u>208,001</u>	<u>12,823</u>
Market value of listed securities	<u>1,734</u>	<u>10,877</u>	<u>–</u>	<u>–</u>	<u>1,734</u>	<u>10,877</u>
Carrying amount analysed for reporting purposes:						
Non-current	–	–	139,804	1,946	139,804	1,946
Current	<u>68,197</u>	<u>10,877</u>	<u>–</u>	<u>–</u>	<u>68,197</u>	<u>10,877</u>
	<u>68,197</u>	<u>10,877</u>	<u>139,804</u>	<u>1,946</u>	<u>208,001</u>	<u>12,823</u>

The impairment loss in respect of the investment securities recognised as at 30th June, 2003 is determined by the directors by reference to the consideration paid by the new investors to subscribe for the shares offered by the investee companies.

Investment securities included the Company's investment in 35% interest in the issued shares of CMEP Limited ("CMEP") at cost of HK\$137,858,000 (2002: nil). CMEP is a company incorporated in the British Virgin Islands and is principally engaged in holding of a contractual right to receive fees from the business of trading of television commercial airtime in the PRC.

Pursuant to the agreement in relation to the sale and purchase of 35% of the issued share capital in CMEP ("the Sale and Purchase Agreement") dated 2nd January, 2003 entered into between China Media International Group Limited ("CMI") and the Company, the Company acquired 35% interest in CMEP at a consideration of HK\$105,000,000 from CMI. The consideration was satisfied by cash of HK\$82,000,000 and by the allotment and issue of 200,000,000 new ordinary shares in the Company of HK\$0.02 each at an issue price of HK\$0.115 each. However, the cost of the investment in CMEP was based on the consideration of the new ordinary shares issued by reference to the closing market price of the shares of the Company at 10th February, 2003, the date of the allotment of shares, of HK\$0.275 per share.

In accordance with the Sale and Purchase Agreement, CMI undertakes to the Company that CMI should procure that the net profit after tax of CMEP for the period from 27th May, 2002 (the date of incorporation of CMEP) to 30th June, 2003, as shown in the audited financial statements of CMEP for such period, should not be less than HK\$100,000,000, and that for each of the year ending 30th June, 2004 and 30th June, 2005 should not be less than HK\$150,000,000. If the amount of the net profit after tax falls short of the undertaking amount, CMI should pay to or cause CMEP to pay, out of CMI's entitlement in CMEP's net profit for that period, to the Company the amounts of downward adjustment to the consideration.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th June, 2003

17. INVESTMENTS IN SECURITIES (Cont'd)

In addition, pursuant to the Shareholders Agreement dated 10th February, 2003 entered into between CMI and the Company, the board of directors of CMEP shall comprise not less than two and not more three directors, in which the Company should be entitled to appoint one director and CMI should be entitled to appoint up to two directors. However, after continuous negotiations between the Company and CMI, the Company could not appoint any representative to be on the board of CMEP. Since the Company does not have the ability to exercise significant influence over CMEP, the investment in CMEP is classified as investments in securities.

As CMEP is undergoing a business restructuring and the restructuring exercise is still in progress, the audited financial statements of CMEP for the period from 27th May, 2002 (date of incorporation of CMEP) to 30th June, 2003 were not yet available up to the date of approval of these financial statements. Accordingly, the directors of the Company were unable to obtain the audited financial statements of CMEP for the period from 27th May, 2002 (date of incorporation of CMEP) to 30th June, 2003 or other sufficiently reliable financial information of CMEP so as to assess whether an impairment loss in respect of the investment in CMEP should be recognised in the financial statements.

18. TRADE RECEIVABLES

The Group allowed an average credit period of 30 days to its trade customers.

The following is an aged analysis of trade receivables at the reporting date:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
0 – 30 days	–	23,740

19. PLEDGED BANK DEPOSITS

As at 30th June, 2002, deposits in the amount of HK\$4,312,000 were placed in designated bank accounts in accordance with the trading terms of certain service providers of a subsidiary of the Group for leasing local fixed telecommunication networks in Hong Kong. As the deposits will be matured within one year, the amounts are classified under current assets.

The subsidiary with deposits placed in designated bank accounts was disposed of during the year ended 30th June, 2003.

20. TRADE PAYABLES

The following is an aged analysis of trade payables at the reporting date:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
0 – 30 days	–	24,673
31 – 60 days	–	88
61 – 90 days	–	4
91 – 120 days	–	319
	–	25,084

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th June, 2003

21. AMOUNTS DUE TO SUBSIDIARIES

The amounts were unsecured, interest free and had no fixed terms of repayment.

22. OBLIGATIONS UNDER A FINANCE LEASE

	Minimum lease payments		Present value of minimum lease payments	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Amount payable under a finance lease				
Within one year	98	18	80	12
In the second year	98	18	84	14
In the third to fifth years inclusive	229	22	215	20
	<u>425</u>	<u>58</u>	<u>379</u>	<u>46</u>
Less: future finance charges	(46)	(12)	–	–
Present value of lease obligations	<u>379</u>	<u>46</u>	379	46
Less: Amount due within one year shown under current liabilities			(80)	(12)
Amount due after one year			<u>299</u>	<u>34</u>

It is the Group's policy to lease certain of its motor vehicle and office equipment under finance leases. The lease term is 5 years. For the year ended 30th June, 2003, the effective borrowing rate was 5%. Interest rate is fixed at the contract date. The lease is on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

23. SHARE CAPITAL

Shares

	Notes	Number of shares		Share capital	
		2003 '000	2002 '000	2003 HK\$'000	2002 HK\$'000
Ordinary shares of HK\$0.02 each					
Authorised:					
At beginning of the year/period and at end of the year/period		<u>100,000,000</u>	<u>100,000,000</u>	<u>2,000,000</u>	<u>2,000,000</u>
Issued and fully paid:					
At beginning of the year/period		1,383,011	1,383,011	27,660	27,660
Issue of shares for cash	(a)	270,000	–	5,400	–
Issued as consideration for the acquisition of investments in securities	(b)	200,000	–	4,000	–
At end of the year/period		<u>1,853,011</u>	<u>1,383,011</u>	<u>37,060</u>	<u>27,660</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th June, 2003

23. SHARE CAPITAL (Cont'd)

During the year, the following changes in the issued share capital of the Company took place:

- (a) On 29th August, 2002, 270,000,000 new ordinary shares of HK\$0.02 each in the Company were allotted and issued at a price of HK\$0.053 per share for cash to Tat Cheong Limited, an independent investor, pursuant to a placing agreement entered into between the Company and Tat Cheong Limited on 7th August, 2002. The new shares rank pari passu in all respects with the issued shares of the Company. The proceeds, net of related expenses, received by the Company from the placement of the new shares amounted to approximately HK\$14,243,000 and was intended to be used as working capital for the Group's information technology related business. The excess of the consideration received over the nominal value of the shares issued, in the amount of HK\$8,910,000, was credited to the share premium account.
- (b) Pursuant to an agreement entered into on 2nd January, 2003 in respect of the acquisition of the 35% interest in CMEP Limited as set out in note 17 above, the Company allotted and issued 200,000,000 new ordinary shares of HK\$0.02 each on 10th February, 2003 as part of the consideration for the acquisition. The consideration of these issued shares is by reference to the closing market price of the share of the Company on 10th February, 2003 of HK\$0.275 per share. The new shares rank pari passu in all respects with the issued shares of the Company. The excess of consideration over the nominal value of the shares issued, in the amount of HK\$51,000,000, was credited to the share premium account.

Options

The Company's share option scheme (the "Scheme"), was adopted pursuant to a resolution passed on 5th January, 1993 for the purpose of providing incentives to directors and eligible employees and, unless otherwise cancelled or amended, will expire on 4th January, 2003. Under the Scheme, the Board of Directors of the Company may grant options to eligible employees (including executive directors) of the Company and any of its subsidiaries, to subscribe for shares in the Company.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue from time to time. The maximum number of shares in respect of which options may be granted to any individual is not permitted to exceed 25% of the maximum number of shares in respect of which options may be granted under the Scheme.

The directors noted that an announcement was issued by the Stock Exchange on 23rd August, 2001 to introduce certain amendments to Chapter 17 (Equity Securities – Share Schemes) of The Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and that such amendments became effective on 1st September, 2001.

Prior to 1st September, 2001, the exercise price of the share options under the Scheme is determined by the directors of the Company at a price not less than 80% of the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of offer of the options or the nominal value of the shares, whichever is the higher. With effect from 1st September, 2001, the exercise price is determined by the directors of the Company, and will not be less than the higher of the closing price of the Company's shares on the date of grant, and the average closing price of the shares for the five business days immediately preceding the date of grant.

As the Scheme no longer complies with the amended rules in the Listing Rules governing share schemes, no further option can be granted under the Scheme from 1st September, 2001 unless the grant complies with the amended Chapter 17 of the Listing Rules. Nevertheless, options previously granted under the existing Scheme will continue to be exercisable in accordance with the Scheme.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th June, 2003

23. SHARE CAPITAL (Cont'd)

The following table shows the Company's share options granted under the share option scheme:

Date granted	Exercisable period	Exercise price per share HK\$	Consideration paid for the option granted HK\$	Number of shares option
16/06/1997	08/08/1997 to 07/08/2002	5.650	1.00	8,750,000
24/02/2000	24/03/2000 to 04/01/2003	0.422	1.00	21,500,000
04/09/2000	04/10/2000 to 04/01/2003	0.189	1.00	21,000,000
04/09/2000	07/10/2000 to 04/01/2003	0.189	1.00	8,000,000
04/09/2000	04/10/2000 to 03/10/2002	0.189	1.00	2,000,000

No share option was granted or exercised during the year. At 30th June, 2003, all the options granted had lapsed and the Scheme had expired.

24. SHARE PREMIUM AND RESERVES

Details of the movements in the share premium and reserves of the Group are set out in the Consolidated Statement of Changes in Equity on page 16.

	Share premium HK\$'000	Special capital reserve HK\$'000 (Note)	Capital redemption reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
THE COMPANY					
At 1st April, 2002	412,171	828,646	3,865	(1,158,943)	85,739
Profit for the period	–	–	–	95,753	95,753
At 30th June, 2002	412,171	828,646	3,865	(1,063,190)	181,492
Share issued at premium	8,910	–	–	–	8,910
Issue of shares for the acquisition of investments in securities	51,000	–	–	–	51,000
Share issue expenses	(95)	–	–	–	(95)
Loss for the year	–	–	–	(27,920)	(27,920)
At 30th June, 2003	<u>471,986</u>	<u>828,646</u>	<u>3,865</u>	<u>(1,091,110)</u>	<u>213,387</u>

Note: A summary of the terms of the undertaking given by the Company (the "Undertaking") in connection with the capital reduction during the year ended 31st March 2000 (the "Capital Reduction") in respect of the application of the special capital reserve is set out below:

- (i) The reserve shall not be treated as realised profits; and
- (ii) The reserve shall be treated as an undistributable reserve for as long as there shall remain any outstanding debts or claims which were in existence on the date of the cancellation of the shares of the Company pursuant to the Capital Reduction, provided that the amount of the reserve may be reduced by the amount of any future increase in the share capital and the share premium account. Any part of the reserve so reduced is released from the terms of the Undertaking and the Company may apply that part so released as a distributable reserve.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th June, 2003

24. SHARE PREMIUM AND RESERVES (Cont'd)

In the opinion of the directors, the Company did not have any distributable reserve as at 30th June, 2003 and 30th June, 2002.

25. ACQUISITION OF SUBSIDIARIES

During the last period, the Group acquired 80% of the issued share capital of One.Tel Limited and OneTel.Net Limited respectively. This acquisition had been accounted for by the acquisition method of accounting. The amount of negative goodwill arising as a result of the acquisition was HK\$12,650,000.

	1/7/2002 to 30/6/2003 HK\$'000	1/4/2001 to 30/6/2002 HK\$'000
Net assets acquired:		
Property, plant and equipment	–	20,780
Trade receivables	–	18,726
Other receivables, deposits and prepayments	–	3,446
Pledged bank deposits	–	312
Bank balances and cash	–	6,205
Trade payables	–	(18,487)
Other payables and accrued charges	–	(2,443)
Obligations under a finance lease	–	(55)
Minority interests	–	(4,000)
	<u>–</u>	<u>24,484</u>
Net assets acquired	–	24,484
Negative goodwill arising on acquisition	–	(12,650)
	<u>–</u>	<u>11,834</u>
Satisfied by:		
Cash consideration	<u>–</u>	<u>11,834</u>
Net cash outflow arising on acquisition:		
Cash consideration	–	(11,834)
Bank balances and cash acquired	–	6,205
	<u>–</u>	<u>(5,629)</u>

The subsidiaries acquired during the last period generated HK\$31,026,000 from the operating activities, and used HK\$4,853,000 and HK\$24,000,000 in respect of investing activities and financing activities respectively.

The subsidiaries acquired during the last period contributed HK\$119,010,000 to the Group's turnover and HK\$33,110,000 to the Group's profit from operations.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th June, 2003

26. DISPOSAL OF SUBSIDIARIES

	1/7/2002 to 30/6/2003 HK\$'000	1/4/2001 to 30/6/2002 HK\$'000
Net assets disposed of:		
Property, plant and equipment	15,991	385
Trade receivables	21,724	–
Other receivables, deposit and prepayment	8,471	5,391
Interests in associates	–	9,440
Interests in jointly controlled entities	–	1,498
Investments in securities	11,665	–
Pledged bank deposits	4,828	–
Bank balances and cash	9,756	8
Trade payables	(27,053)	–
Other payables and accrued charges	(20,064)	(2,210)
Amount due to an associate	–	(33)
Amount due to a jointly controlled entity	(622)	–
Taxation	(1,099)	(1,169)
Deferred taxation	(708)	–
Loan from an associate	–	(12,597)
Obligations under a finance lease	(907)	–
Minority interests	(6,553)	–
	<u>15,429</u>	<u>713</u>
Net assets disposed of	15,429	713
Attributable unreleased negative goodwill	(9,065)	–
Attributable unamortised goodwill	–	4,233
Exchange reserve released	248	(1,672)
Gain on disposal of subsidiaries	8,388	2,802
	<u>15,000</u>	<u>6,076</u>
Total consideration	15,000	6,076
Satisfied by:		
Cash consideration	15,000	3,476
Other receivables, deposit and prepayment	–	2,600
	<u>15,000</u>	<u>6,076</u>
Net cash inflow arising on disposal:		
Cash consideration	15,000	3,476
Bank balances and cash disposed of	(9,756)	(8)
	<u>5,244</u>	<u>3,468</u>

The subsidiaries disposed of during the year generated HK\$1,196,000 from the operating activities and used HK\$3,198,000 and HK\$18,494,000 in the investing activities and financing activities respectively.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th June, 2003

26. DISPOSAL OF SUBSIDIARIES (Cont'd)

The subsidiaries disposed of during the year contributed HK\$150,191,000 to the Group's turnover and HK\$10,511,000 to the Group's loss from operations.

The subsidiaries disposed of in last period did not have significant contribution to the Group's cash flows or operating results for last period.

27. MAJOR NON-CASH TRANSACTIONS

During the year, the Group entered into the following major non-cash transactions:

- (a) The Group entered into finance lease arrangements in respect of asset with a total capital value at the inception of the lease of HK\$1,410,000 (2002: nil).
- (b) 200,000,000 new shares of HK\$0.02 each in the Company were issued at an issue price of HK\$0.275 per share as part of the consideration for the acquisition of investments in securities during the year.

28. DEFERRED TAXATION

The movements of the deferred taxation which attributable to the shortfall of depreciation over tax allowance provided in the financial statements during the year/period are as follows:

	The Group	
	2003	2002
	HK\$'000	HK\$'000
Balance at beginning of year/period	–	–
Credit for the year/period (<i>note 9</i>)	708	–
Released upon disposal of subsidiaries	(708)	–
	<u>–</u>	<u>–</u>
Balance at end of year/period	<u>–</u>	<u>–</u>

At the balance sheet date, the major components of the potential deferred tax asset (liability) are as follows:

	The Group		The Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Tax effect of timing differences because of:				
Tax losses	35,638	40,597	19,241	19,767
Excess (shortfall) of depreciation over tax allowances	25	(2,151)	49	3
	<u>35,663</u>	<u>38,446</u>	<u>19,290</u>	<u>19,770</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th June, 2003

28. DEFERRED TAXATION (Cont'd)

The amount of the potential deferred tax (charge) credit for the year/period is as follows:

	The Group		The Company	
	1/7/2002 to 30/6/2003 HK\$'000	1/4/2001 to 30/6/2002 HK\$'000	1/7/2002 to 30/6/2003 HK\$'000	1/4/2001 to 30/6/2002 HK\$'000
Tax effect of timing differences because of:				
Tax loss (utilised) arising	(4,489)	(7,554)	773	(2,615)
Excess (shortfall) of depreciation over tax allowances	2,176	2,139	46	(15)
Effect of change in tax rate	3,000	–	1,583	–
Adjustments for tax losses in prior periods	(3,470)	–	(2,882)	–
	<u>(2,783)</u>	<u>(5,415)</u>	<u>(480)</u>	<u>(2,630)</u>

The 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.

29. RETIREMENT BENEFITS SCHEMES

Prior to 1st December, 2000, the Group operated a defined contribution retirement benefit 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 independent trustees. Where there are employees who leave the Defined Contribution Scheme prior to vesting fully in the contributions, the amounts of the forfeited contributions would be used to reduce future contributions payable by the Group.

With effect from 1st December, 2000, the Group has joined a Mandatory Provident Fund Scheme (“MPF Scheme”) for all employees in Hong Kong joined the Group thereafter. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of independent trustees.

Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect of MPF scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in the future years under the MPF Scheme.

The retirement benefit scheme contribution arising from the Defined Contribution Scheme and the MPF Scheme charged to the consolidated income statement represent contributions payable to the funds by the Group at the rates specified in the rules of the schemes.

During the year, the retirement benefit schemes contribution, net of forfeited contributions utilised of approximately HK\$58,000 (2002: HK\$180,000), amounted to approximately HK\$1,399,000 (2002: HK\$1,084,000).

At the balance sheet date, the Group had no significant forfeited contributions available to reduce the contributions payable by the Group in the future years.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th June, 2003

30. OPERATING LEASE ARRANGEMENTS

As lessee

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

	The Group		The Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	442	3,289	–	1,370
In the second to fifth years inclusive	–	2,102	–	–
	<u>442</u>	<u>5,391</u>	<u>–</u>	<u>1,370</u>

Operating lease payments represent rentals payable by the Group and the Company for certain of its office properties. Leases are negotiated for an average term of three years and rentals fixed over the terms of the leases.

As lessor

Property rental income earned during the year was HK\$1,387,000 (2002: HK\$2,123,000). Certain of the rented premises have been sub-leased and have committed tenants for the next two years.

At the balance sheet date, the Group and the Company had contracted with tenants for the following future minimum lease payments:

	The Group and The Company	
	2003	2002
	HK\$'000	HK\$'000
Within one year	37	449
In the second to fifth year inclusive	–	37
	<u>37</u>	<u>486</u>

31. CAPITAL COMMITMENTS

The Group did not have any capital commitment as at 30th June, 2003. As at 30th June, 2002, the Group had capital commitments in respect of the acquisition of property, plant and equipment of HK\$1,064,000 contracted for but not provided in the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th June, 2003

32. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 30th June, 2003 are as follows:

Name of company	Place of incorporation/ establishment and operation	Issued and paid up ordinary share capital	Proportion of nominal value of issued/registered capital held by the Company		Principal activities
			Directly %	Indirectly %	
Allied Petrochemicals Inc.	British Virgin Islands	US\$1	100	–	Investment holding
AII (Shindec SPV) Limited	British Virgin Islands	US\$1	100	–	Investment holding
Aust-Well Investments Limited	Hong Kong	HK\$10,000	100	–	Money lending
Millennium Technology Limited	Samoa	US\$1	100	–	Investment holding
Oakway Investment Limited	Hong Kong	HK\$2	100	–	Investment holding
Suregain Properties Limited	British Virgin Islands	US\$100	–	77	Investment holding

The above table lists the subsidiaries of the Company as at 30th June, 2003 which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the assets of the Group. To give details of the other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

The Group holds a 60% interest in the registered capital of 山西雁聯運輸有限公司 Shanxi Yanlian Transportation Limited ("Shanxi Yanlian"), a corporation established in the PRC which is principally engaged in coal haulage. The Group exercised control in the management of Shanxi Yanlian up to 30th November, 1998 when the minority shareholder decided to dissolve the corporation. Accordingly, the results of Shanxi Yanlian were taken in by the Group up to 30th November, 1998. The assets and liabilities of Shanxi Yanlian were classified to an interest in a subsidiary not consolidated since then.

Since the financial information of Shanxi Yanlian was not available to the Group, in the opinion of the directors, the remaining interests in the amount of HK\$6,327,000 are irrecoverable and impairment loss was recognised in previous years accordingly.

None of the subsidiaries has issued any debt securities at the end of the year.