



## NOTES TO FINANCIAL STATEMENTS

30 June 2000

### 1. BASIS OF PREPARATION

During the year ended 30 June 2000, the Company and its subsidiaries (collectively referred to as the "Group") have incurred a consolidated net loss of HK\$299,583,000. As at 30 June 2000, the Group had net current liabilities of HK\$384,856,000 and a net capital deficiency of HK\$291,237,000. The Group is currently in financial difficulty and is negotiating with their bankers and creditors to reschedule the indebtedness and to seek their ongoing support to the Group and the Company. However, due to failure of reschedule of debts, several of its subsidiaries have been put to compulsory winding up by the creditors subsequent to the balance sheet date. As a result of its liquidity problems, the Group has temporarily ceased bidding for significant new contracts from last financial year. Bidding may resume once the liquidity of the Group improves.

At the time of preparation of these financial statements:

- i) certain key members of staff within the Group, in particular, those in the accounting department, had resigned. Accordingly, the books and records of the Group, including those of the Company, subsequent to the balance sheet date have not yet been fully updated;
- ii) provisions have been made in the current year's income statement to write down the values of certain assets of the Group reflecting their impairment due to the Group's financial positions; and
- iii) as further detailed below, the directors of the Group and the Company are in the process of implementing various measures to improve the Group's and the Company's financial position, immediate liquidity, cash flows, profitability and operations. In formulating and implementing these measures, the directors of the Group and the Company have made use of financial information extracted from the books and records of the Group and the Company, which as aforementioned, have not yet been fully updated subsequently to the year end. Although the directors of the Company believe that they have taken all reasonable steps to identify all material transactions relevant to the preparation of these financial statements, the possibility exists that there may be unrecorded liabilities or other events that have occurred subsequent to the year end and which might cause the Group and the Company to have to increase their working capital requirements, which may not have been addressed by the measures detailed below.

To strengthen the capital base of the Group and the Company and to improve the Group and the Company's financial position, immediate liquidity, cash flows, restore profitability and normal levels of operations, the directors of the Group and the Company have adopted, and are in the process of implementing, the following measures:

- a) The issue of new share capital of the Company through various fund raising exercises, including, but not limited to, private placements for cash, exercise of share options for cash and settling the amounts due to creditors.
- b) The Group is in active negotiations with interested parties concerning the orderly disposal of certain of its investments.



## NOTES TO FINANCIAL STATEMENTS

30 June 2000

### 1. BASIS OF PREPARATION (continued)

- c) The directors of the Group are currently in negotiations with the bankers and creditors of the Group to seek their ongoing support to the Group by rescheduling the repayment schedules of the outstanding indebtedness.
- d) The directors of the Group have taken action to further tighten cost controls over the Group's contracting work and general and administrative overheads.

Up to the date on which these financial statements were approved, no formal agreements with respect to either a formal standstill arrangement with the Group's bankers and creditors, or for further equity or other capital injections, had been reached. Due to inability to settle the debts, several of the Company's subsidiaries have been put to compulsory winding up by creditors subsequent to the balance sheet date.

Since the Group and the Company continue to face a severe liquidity problem, the ability of the Group and the Company to continue to operate for the foreseeable future depends on the successful outcome of the aforementioned measures to be implemented to secure new/restructured funding for the Group and the Company and on the successful turnaround of their business.

Notwithstanding the foregoing, the directors of the Group and the Company remain optimistic as to the eventual successful outcome of the above measures and that the Group and the Company will have sufficient working capital for their current operational requirements and will return to commercially viable concerns. Accordingly, the financial statements of the Company have been prepared on a going concern basis, notwithstanding the Company's financial position and tight cash flows as at 30 June 2000 and subsequent thereto.

Should the Company be unable to continue in business as a going concern, adjustments would have to be made to restate the values of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. The effects of these adjustments have not been reflected in the financial statements.

### 2. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Statements of Standard Accounting Practice ("SSAP") issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Hong Kong Exchanges and Clearing Limited. Principal accounting policies are summarised below:

#### (a) Basis of measurement

The financial statements have been prepared on the historical cost basis as modified by the revaluation of land and buildings and construction-in-progress.



## NOTES TO FINANCIAL STATEMENTS

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### 2. *PRINCIPAL ACCOUNTING POLICIES (continued)*

#### **(b) Basis of consolidation**

The group accounts include the accounts of the Company and its subsidiaries made up to 30 June 2000. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the group's share of its net assets together with any goodwill or capital reserve which was not previously charged or recognised in the consolidated income statement.

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

#### **(c) Goodwill or capital reserve**

Goodwill or capital reserve arising on acquisition of subsidiaries, represents the excess or shortfall of the cost of acquisition over the Group's share of the fair value of the separable net assets of subsidiaries acquired, and is eliminated or recognised in the reserves in the year of acquisition. Upon disposal of investments in subsidiaries, the underlying goodwill or capital reserve previously eliminated or recognised is reversed and included as investment cost in determining gain or loss on disposal.

#### **(d) Subsidiaries**

A subsidiary is a company in which the Company, directly or indirectly, holds more than half of its issued share capital, or controls more than half of the voting power, or controls the composition of its board of directors.

In the Company's financial statements, the investments in subsidiaries are stated at cost less provision for any impairment in value, while income from subsidiaries is recorded to the extent of dividends received and receivable.



## NOTES TO FINANCIAL STATEMENTS

30 June 2000

### 2. *PRINCIPAL ACCOUNTING POLICIES (continued)*

#### (e) **Associates**

An associate is a company, not being a subsidiary, in which the Group holds 20% or more of the issued voting share capital as a long-term investment and can exercise significant influence over its management.

The investments in associates are accounted for in the consolidated balance sheet under the equity method whereby the investments are initially recorded at cost and adjusted thereafter for the post acquisition change in the company's share of net assets of the associates. The results of the associates are accounted for in the consolidated income statement to the extent of the company's share of the associates' results of operations.

#### (f) **Equity joint ventures**

An equity joint venture is a joint venture in which the joint venture partners' profit-sharing ratios and share of net assets upon the expiration of the joint venture period are in proportion to their equity interests as set out in the joint venture agreement. An equity joint venture is accounted for as (i) a subsidiary if the Group owns more than 50% of the joint venture and is able to govern and control its financial and operating policies and the composition of the board of directors; (ii) an associate if the Group owns 20% or more of the joint venture and is able to exercise significant influence over its management.

#### (g) **Investments in securities**

In order to comply with Statement 2.124 of SSAP "Accounting for Investments in Securities" issued by the Hong Kong Society of Accountants, which became effective during the year, the accounting policy for investments have been changed to adopt the "benchmark" as stated therein. The change in accounting policy has no material effect on the loss attributable to shareholders and accumulated losses for the years ended 30 June 1999 and 2000.

The Group's policies for investments in securities other than investments in subsidiaries and associates are as follows:

- (i) Investments held on a continuing basis for an identified long-term purpose are classified as investment securities. Investment securities are stated in the balance sheet at cost less any provisions for diminution in value. Provisions are made when the fair values have declined below the carrying amounts, unless there is evidence that the decline is temporary, and are recognised as an expense in the income statement, such provisions being determined for each investment individually.
- (ii) All other securities (whether held for trading or otherwise) are stated in the balance sheet at fair value. Changes in fair value are recognised in the income statement as they arise.
- (iii) Profits or losses on disposal of investments in securities are determined as the difference between the net disposal proceeds and the carrying amount of the investments and are accounted for in the income statement as they arise.



## NOTES TO FINANCIAL STATEMENTS

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### 2. PRINCIPAL ACCOUNTING POLICIES (continued)

#### (h) Property, plant and equipment and depreciation

##### (i) Land and buildings

Land and buildings are stated at cost or valuation, being the open market value for existing use at the date of revaluation, less subsequent accumulated depreciation. The Group has adopted the transitional provisions of SSAP 17 "Property, plant and equipment" issued by the Hong Kong Society of Accountants of not making regular revaluations by class of those assets which were revalued prior to the introduction of SSAP 17. These assets are stated at revalued amounts based on revaluations which were reflected in the prior years' financial statements. Upon the disposal of land and buildings, the relevant portion of the realised revaluation reserve in respect of previous valuations is transferred from the revaluation reserve to retained profits/accumulated losses.

Depreciation of land is provided on a straight-line basis to write off its cost or valuation over the unexpired periods of the leases.

Depreciation of buildings is provided on a straight-line basis to write off their cost or valuation over the unexpired periods of the leases or their estimated useful lives whichever is shorter. The annual rates used for this purpose are 2% to 5%.

##### (ii) Other properties, plant and equipment

Other properties, plant and equipment are stated at cost less accumulated depreciation. Depreciation is provided on a straight-line basis to write off the cost less residue value of each asset over its estimated useful life. The annual rates are as follows:

Leasehold improvements	25% — 30%
Machinery and equipment	10% — 30%
Furniture and fixtures	25% — 30%
Motor vehicles	20% — 25%

##### (iii) Cost of restoring and improving property, plant and equipment

Major expenditures on modifications and betterments of property, plant and equipment which will result in future economic benefits are capitalised, while expenditures on maintenance and repairs are expensed when incurred.

##### (iv) Impairing of property, plant and equipment

The carrying amounts of property, plant and equipment are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. Expected future cash flows have not been discounted in determining the recoverable amount.



## NOTES TO FINANCIAL STATEMENTS

30 June 2000

### 2. *PRINCIPAL ACCOUNTING POLICIES (continued)*

#### (h) **Property, plant and equipment and depreciation** (continued)

##### (v) Gain or loss on disposal of property, plant and equipment

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

#### (i) **Investment properties**

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential with rental income being negotiated at arm's length.

Investment properties are stated at cost or their estimated open market value as determined by the directors at the balance sheet date. Investment properties are not depreciated except where the unexpired term of the lease is 20 years or less in which case depreciation is provided on the carrying amount over the remaining term of the lease.

#### (j) **Assets under leases**

##### (i) Finance leases and hire purchase contracts

Leases that substantially transfer to the Group all the rewards and risks of ownership of assets, other than legal title, are accounted for as finance leases and hire purchase contracts. At the inception of a finance lease and hire purchase contract, the fair value of the asset is recorded together with the obligation, excluding the interest element, to pay future rentals.

Payment to the lessor are treated as consisting of capital and interest elements. Finance charges implicit in the finance lease and hire purchase payments are charged to the income statement in proportion to the capital balances outstanding.

Assets held under finance leases are depreciated over the shorter of the lease terms and estimated useful lives whereas assets held under hire purchase contracts are depreciated on the same basis as set out in note 2(h) above.

##### (ii) Operating leases

Leases where substantially all the risks and rewards of ownership of the leased assets remain with the lessors are accounted for as operating leases. Rental payments under operating leases are charged to the income statement on a straight-line basis over the periods of the relevant leases.



## NOTES TO FINANCIAL STATEMENTS

30 June 2000

### 2. *PRINCIPAL ACCOUNTING POLICIES (continued)*

#### (k) **Deferred expenditures**

Deferred expenditures represent pre-operating expenditures which are incidental costs incurred prior to the commencement of active operations of the equity joint ventures have previously been capitalised and amortised over a period not exceeding five years on the straight-line basis starting from the date of commencement of underlying operations of the relevant equity joint ventures.

In order to conform with the provisions of the revised Statement 2.101 of SSAP "Presentation of financial statements", commencing from the current year, deferred expenditures are charged to the income statement as incurred. This effect of Statement 2.101 of SSAP has had an insignificant impact on these financial statements.

#### (l) **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost includes costs of raw materials determined using the first-in, first-out basis. Net realisable value is based on estimated normal selling prices, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised.

#### (m) **Accounts receivable**

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet is stated net of such provision.

#### (n) **Revenue recognition**

Revenue is recognised when the outcome of a transaction can be measured reliably and when it is probable that the economic benefits associated with the transaction will flow to the Group. Revenue is recognised on the following basis:

- (i) Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Contract costs incurred comprises direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

Revenue from fixed price construction contracts is recognised on the percentage of completion method, measured by reference to the percentage of surveys of work performed to the estimated total contract revenue for each contract.



## NOTES TO FINANCIAL STATEMENTS

30 June 2000

### 2. **PRINCIPAL ACCOUNTING POLICIES** (continued)

#### (n) **Revenue recognition** (continued)

##### (i) (continued)

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers.

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

- (ii) Sales revenue is recognised when the merchandise is shipped and title has passed.
- (iii) Revenue from rendering of services is recognised when the services are rendered and the outcome of a transaction involving the rendering of services can be estimated reliably by reference to the stage of completion of transaction at the balance sheet date.
- (iv) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and at the interest rate applicable.
- (v) Rental income from letting of land and buildings is recognised on a straight-line basis over the terms of the leases.
- (vi) Income from investments is recognised when the right to receive payment is established.

#### (o) **Pension costs**

Pension costs are recognised as an expense in the period in which they are incurred.

#### (p) **Borrowing costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to prepare for its intended use or sale are capitalised as part of the cost of that asset. All other borrowing costs are recognised as an expense in the period in which they are incurred.





## NOTES TO FINANCIAL STATEMENTS

30 June 2000

### 2. *PRINCIPAL ACCOUNTING POLICIES* (continued)

#### (q) **Taxation**

Individual companies within the Group provide provision for profits tax on the basis of their profit for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for profits tax purposes.

Deferred taxation is provided under the liability method in respect of significant timing differences between profit as computed for taxation purposes and profit as stated in the financial statements, except when it is considered that no liability will arise in the foreseeable future. Deferred tax assets are not recognised unless the related benefits are expected to crystallise in the foreseeable future.

#### (r) **Cash equivalents**

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

#### (s) **Foreign currency translation**

Individual companies within the Group maintain their books and records in the primary currencies of their respective operations (“functional currencies”). In the accounts of the individual companies, transactions in other currencies during the year are translated into the respective functional currencies at the applicable rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in other currencies are translated into the respective functional currencies at the applicable rates of exchange in effect at the balance sheet date. Exchange gains or losses are dealt with in the income statement of the individual companies.

The Group prepares the consolidated financial statements in Hong Kong dollars. For the purpose of consolidation, assets and liabilities of subsidiaries with functional currencies other than Hong Kong dollars are translated into Hong Kong dollars at the applicable rates of exchange in effect at the balance sheet date; income and expense items are also translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. Exchange differences arising from such translations are dealt with as movements of cumulative translation adjustments.

#### (t) **Related parties**

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or entities.



## NOTES TO FINANCIAL STATEMENTS

30 June 2000

### 3. TURNOVER AND REVENUE

The Group is principally engaged in the interior decoration and renovation, building construction, electrical and mechanical engineering.

Turnover represents the value of services rendered, the invoiced value of goods sold, after allowances for returns and trade discounts, and gross rental income from investment properties, but excluding intra-group transactions. Analysis of turnover and revenue in the consolidated income statement is as follows:

	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Turnover		
— Interior decoration and renovation, building construction, electrical and mechanical engineering	<b>170,134</b>	563,996
— Trading of building and interior decoration materials	<b>26,359</b>	44,934
— Property holding	—	8,341
	<b>196,493</b>	617,271
Other revenue		
Interest income	<b>195</b>	388
Sale of properties	—	60,742
Gain from disposal of subsidiaries	<b>122,318</b>	—
Written off of long outstanding payable	<b>4,056</b>	—
Written back on provision for inventories	<b>3,975</b>	—
Written back on provision for bad and doubtful debts	<b>27,852</b>	—
Exchange gain	<b>181</b>	—
Others	<b>576</b>	—
	<b>159,153</b>	61,130
Total revenue	<b>355,646</b>	678,401



## NOTES TO FINANCIAL STATEMENTS

30 June 2000

### 4. LOSS FROM OPERATIONS

Loss from operations in the consolidated income statement is determined after crediting and charging the following items:—

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
<b>Crediting:</b>		
Interest income	195	388
Gross rental income	—	8,341
Less: Outgoings	—	(252)
Net rental income	—	8,089
Exchange difference	181	—
	<u>181</u>	<u>—</u>
<b>Charging:</b>		
Cost of goods sold and services provided	292,926	508,077
Staff cost (including directors' emoluments)	46,941	49,156
Depreciation		
— owned fixed assets	2,004	2,781
— assets acquired under finance leases and hire purchase contracts	1,466	1,592
Operating lease rentals in respect of rental premises	5,709	6,422
Pension scheme contribution	196	372
Provision for bad and doubtful debts	68,614	20,064
Provision for obsolete and slow-moving inventories	3,025	16,185
Provision for construction contracts	57,085	18,829
Goodwill written off arising on acquisition of a subsidiary	34,986	76,144
Provision for loss on trading of listed investment	9,838	—
Unrealised holding loss on other investments	15,208	—
Loss on disposal of trading of other investments	98,462	—
Loss on disposal of property, plant and equipment	863	26,798
Auditors' remuneration	993	1,956
Exchange losses	—	1,082
Write off of deferred pre-operating expenses	—	10,156
Provisions for diminution in values of equity interests of subsidiaries	—	40,350
Provisions for diminution in values of joint ventures	—	27,401
Provision for permanent diminution in value of a long term investment	—	3,102
Provision for diminution in values of assets held for disposal	—	25,737
Provision for diminution in values of properties under development and deposits paid for investment properties	—	95,453
Deficit on revaluation of investment properties	—	24,010
	<u>—</u>	<u>24,010</u>



## NOTES TO FINANCIAL STATEMENTS

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### 5. FINANCE COSTS

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Interest on:		
Bank loans and overdrafts wholly repayable within five years	20,737	13,843
Bank loans wholly repayable after five years	—	1,596
Other borrowings wholly repayable within five years	38,609	22,006
Obligations under finance leases and hire purchase contracts	464	501
Other borrowing costs	542	4,629
	<u>60,352</u>	<u>42,575</u>
Less: Amount capitalised	<u>(13,366)</u>	<u>(9,196)</u>
	<u><b>46,986</b></u>	<u><b>33,379</b></u>

### 6. TAXATION

Taxation in the consolidated income statement consists of:

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Hong Kong profits tax	—	951
Overseas taxation	16	3,512
Over-provision in prior years	<u>(1,035)</u>	<u>(5)</u>
	<u>(1,019)</u>	<u>4,458</u>
Share of taxation attributable to joint ventures	<u>60</u>	<u>16</u>
	<u>(959)</u>	<u>4,474</u>
Deferred taxation — <i>Note 23</i>	<u>29</u>	<u>—</u>
	<u><b>(930)</b></u>	<u><b>4,474</b></u>

Hong Kong profits tax was provided for at the rate of Nil (1999: 16%) on the estimated assessable profits arising in or derived from Hong Kong. PRC enterprise income tax was provided for at the appropriate current rates relating to profits of subsidiaries in PRC.



## NOTES TO FINANCIAL STATEMENTS

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### 7. *LOSS ATTRIBUTABLE TO SHAREHOLDERS*

The consolidated loss attributable to shareholders included a loss of approximately HK\$299,583,000 (1999: a loss of HK\$607,990,000) which has been dealt with in the financial statements of the Company.

### 8. *LOSS PER SHARE*

The calculation of basic loss per share for the year ended 30 June 2000 is based on the consolidated loss attributable to shareholders of approximately HK\$299,583,000 (1999: HK\$607,990,000) and on the weighted average number of approximately 1,881,605,572 (1999: 1,241,023,744) ordinary shares in issue during the year.

No diluted loss per share for the years ended 30 June 2000 and 1999 is shown as the effect of the potential ordinary shares outstanding during these two years would be anti-dilutive.

### 9. *PENSION SCHEME*

The Group operates a defined contribution provident fund scheme for its employees. Employees of the Group are entitled to join the scheme upon fulfilling certain conditions. The Group contributes an amount equal to a fixed percentage of the salary of each participating employee. Forfeited contributions in respect of unvested benefits of employees leaving the scheme are used to reduce the Group's ongoing contributions. Net contributions are charged to the income statement in the year to which they relate.



## NOTES TO FINANCIAL STATEMENTS

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### 10. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

(a) Details of directors' emoluments are:

	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Fees for executive directors	<b>180</b>	180
Fees for independent non-executive directors	<b>40</b>	60
Other emoluments for executive directors:		
— Basic salaries, allowances and benefits in kind	<b>11,051</b>	15,037
— Contribution to pension scheme	<b>—</b>	50
	<b>11,271</b>	15,327

(b) Details of directors' emoluments are:

Included in the above-mentioned emoluments, the Group provided residential apartment to some executive directors, the estimated monetary value of the accommodation so provided to the executive directors is HK\$1,578,000 (1999: HK\$1,592,000) for the year.

In the absence of a readily available market value for options on the shares of the Company, the emoluments disclosed above do not include the estimated monetary value of the share options granted to the directors. Details of the share option schemes of the Company are set out in note 25 and the report of the directors under the heading "Directors' rights to acquire shares".

Analysis of directors' emoluments by number of directors and emolument ranges is as follows:

	<b>2000</b>	1999
	<b>Number of Directors</b>	Number of Directors
Nil to HK\$1,000,000	<b>9</b>	3
HK\$1,000,001 to HK\$1,500,000	<b>—</b>	1
HK\$1,500,001 to HK\$2,000,000	<b>—</b>	2
HK\$2,500,001 to HK\$3,000,000	<b>1</b>	1
HK\$3,000,001 to HK\$3,500,000	<b>1</b>	1
HK\$4,000,001 to HK\$4,500,000	<b>1</b>	1
	<b>12</b>	9



## NOTES TO FINANCIAL STATEMENTS

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### 10. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS (continued)

- (c) Details of emoluments paid to the five highest paid individuals (including directors and other employees) are:

	<b>2000</b> <b>HK\$'000</b>	1999 HK\$'000
Basic salaries, allowances and benefits in kind	<b>12,723</b>	13,137
Contributions to pension scheme	—	—
	<u><b>12,723</b></u>	<u>13,137</u>

In the absence of a readily available market value for options on the shares of the Company, the emoluments disclosed above do not include the estimated monetary value of the share options granted to certain employees. Details of the share option schemes of the Company are set out in note 25 and the report of the directors under the heading "Directors' rights to acquire shares".

The five highest paid individuals included three (1999: five) directors of the Company, details of whose emoluments have been included in note 10(a) above.

During the year, no emoluments of the five highest paid individuals (including directors and other employees) were incurred as inducement to join or upon joining the Group.

Analysis of emoluments of the five highest paid individuals (including directors and other employees) by number of individuals and emolument range is as follows:

	<b>2000</b> <b>Number of</b> <b>Individual</b>	1999 Number of Individual
HK\$1,000,000 to HK\$1,500,000	<b>2</b>	—
HK\$1,500,001 to HK\$2,000,000	—	2
HK\$2,500,001 to HK\$3,000,000	<b>1</b>	1
HK\$3,000,001 to HK\$3,500,000	<b>1</b>	1
HK\$4,000,001 to HK\$4,500,000	<b>1</b>	1
	<u><b>5</b></u>	<u>5</u>



## NOTES TO FINANCIAL STATEMENTS

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### 11. PROPERTY, PLANT AND EQUIPMENT

(a) Movements of property, plant and equipment of the Group are:

	Investment properties <i>HK\$'000</i>	Other properties <i>HK\$'000</i>	Leasehold improve- ments <i>HK\$'000</i>	Machinery and equipment <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Group</b>							
Cost or valuation							
At 1 July 1999	187,000	46,420	3,060	7,553	5,673	10,287	259,993
Additions	—	—	—	137	33	330	500
Acquisition of subsidiary	—	—	138	757	212	—	1,107
Disposals	—	(1,706)	(224)	(5,628)	(3,586)	(2,611)	(13,755)
Disposal of subsidiaries	(187,000)	(5,381)	(15)	(596)	(655)	(751)	(194,398)
<b>At 30 June 2000</b>	<b>—</b>	<b>39,333</b>	<b>2,959</b>	<b>2,223</b>	<b>1,677</b>	<b>7,255</b>	<b>53,447</b>
Representing:							
At valuation	—	23,500	—	—	—	—	23,500
At cost	—	15,833	2,959	2,223	1,677	7,255	29,947
	—	39,333	2,959	2,223	1,677	7,255	53,447
Accumulated depreciation							
At 1 July 1999	—	3,464	2,406	6,102	3,966	5,910	21,848
Provision for the year	—	852	223	475	438	1,482	3,470
Disposals	—	—	(133)	(5,195)	(3,090)	(2,210)	(10,628)
Acquisition of subsidiary	—	—	15	97	26	—	138
Written back on disposal of subsidiaries	—	(1,279)	—	(283)	(7)	(509)	(2,078)
<b>At 30 June 2000</b>	<b>—</b>	<b>3,037</b>	<b>2,511</b>	<b>1,196</b>	<b>1,333</b>	<b>4,673</b>	<b>12,750</b>
Net book value:							
<b>At 30 June 2000</b>	<b>—</b>	<b>36,296</b>	<b>448</b>	<b>1,027</b>	<b>344</b>	<b>2,582</b>	<b>40,697</b>
At 30 June 1999	187,000	42,956	654	1,451	1,707	4,377	238,145





## NOTES TO FINANCIAL STATEMENTS

30 June 2000

### 11. PROPERTY, PLANT AND EQUIPMENT (continued)

- (b) Details of investment properties and other properties, at cost or valuation, of the Group were:

Geographical locations and tenure of titles:

	<b>2000</b> <b>HK\$'000</b>	1999 HK\$'000
Hong Kong		
— medium-term leases	<b>23,500</b>	110,500
— long-term leases	<b>9,941</b>	9,941
PRC		
— medium-term leases	—	94,500
— long-term leases	—	7,206
— Building Land Certificate for an unspecified duration	<b>5,892</b>	11,273
	<b>39,333</b>	233,420

- (c) On 30 June, 1995, the Group's other properties in Hong Kong were revalued by S.H. Ng & Co., Ltd., an independent firm of professional valuers, on an open market values based on existing use. Had the Group's other properties held at revalued amounts been carried at cost less accumulated depreciation, they would have been included in the financial statements at approximately HK\$12,441,000 (1999: HK\$12,723,000)
- (d) At 30 June 2000, all properties were pledged to banks and other loans creditors as securities for the facilities granted.
- (e) The aggregate net book value of assets of the Group held under finance leases and hire purchase contracts at 30 June 2000 amounted to approximately HK\$2,600,000 (1999: HK\$3,065,000).



## NOTES TO FINANCIAL STATEMENTS

30 June 2000

### 11. PROPERTY, PLANT AND EQUIPMENT (continued)

(f) Movements of property, plant and equipment of the Company are:

	Leasehold improvements <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Company</b>				
Cost				
At 1 July 1999	56	1,334	1,747	3,137
Disposals	—	—	(1,030)	(1,030)
<b>At 30 June 2000</b>	<b>56</b>	<b>1,334</b>	<b>717</b>	<b>2,107</b>
Accumulated depreciation				
At 1 July 1999	56	1,053	1,066	2,175
Provision for the year	—	264	227	491
Written back on disposal	—	—	(694)	(694)
<b>At 30 June 2000</b>	<b>56</b>	<b>1,317</b>	<b>599</b>	<b>1,972</b>
Net book value:				
<b>At 30 June 2000</b>	<b>—</b>	<b>17</b>	<b>118</b>	<b>135</b>
At 30 June 1999	—	281	681	962

(g) The aggregate net book value of assets of the Company held under finance leases and hire purchase contracts at 30 June 2000 amounted to approximately HK\$118,000 (1999: HK\$542,000).

### 12. INTERESTS IN SUBSIDIARIES

	Company	
	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Unlisted shares, at cost	56,720	56,720
Due from subsidiaries	534,442	660,435
Due to subsidiaries	(16,505)	(52,221)
	574,657	664,934
Less: Provision for permanent diminution in value	(569,223)	(569,233)
	<b>5,434</b>	<b>95,701</b>

Notes:

- The balances with subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment.
- Details of the Company's principal subsidiaries as at 30 June 2000 are set out in note 32.
- Certain shares of subsidiaries were pledged to a third party as securities for borrowings of the Company.



## NOTES TO FINANCIAL STATEMENTS

30 June 2000

### 13. INTERESTS IN ASSOCIATES

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Unlisted investment, at cost	451	451	1	1
Due to associates	(1)	(1)	(1)	(1)
	<u>450</u>	<u>450</u>	<u>—</u>	<u>—</u>
Less: Provision for permanent diminution in value	(450)	(450)	—	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Share of net assets	<u>13</u>	<u>13</u>	<u>—</u>	<u>—</u>

*Notes:*

- (a) The Group's share of the post-acquisition accumulated reserves of associates at the balance sheet date was a deficit of HK\$438,000 (1999: HK\$438,000)
- (b) Details of the associates as at 30 June 2000 were:

Name	Place of incorporation and operations	Fully paid registered capital	Percentage of equity interest held directly	Principal activities
Point Talent Development Limited *	Hong Kong	HK\$1,500,000	30%	Dormant
Strongain Group Limited	British Virgin Islands	US\$2	50%	Dormant

\* The above associate was not audited by Charles Chan, Ip & Fung CPA Ltd.



## NOTES TO FINANCIAL STATEMENTS

30 June 2000

### 14. INTERESTS IN JOINT VENTURES

	Group	
	2000 HK\$'000	1999 HK\$'000
Share of net assets	42,546	54,504
Less: Provisions for diminution in values	(16,495)	(28,201)
	<u>26,051</u>	<u>26,303</u>

Notes:

(a) Details of the joint ventures as at 30 June 2000 were:

Name	Business structure	Place of incorporation and operation	Percentage of equity interest held directly	Principal activities
Nanning Haiqi Real Estate Development Co., Ltd. *	Corporate	The People's Republic of China	52.7%	Property development
Sanya Artway Constructing Co. Ltd. **	Corporate	The People's Republic of China	35%	Dormant
Shanghai Shen Wei Construction Decorate Co., Ltd. #	Corporate	The People's Republic of China	50%	Interior decoration, renovation and building construction services
Shenyang Xin Weijian Decoration Engineering Ltd. ##	Corporate	The People's Republic of China	36.5%	Dormant

\* The Group's interest in this company has not been accounted for as a subsidiary because the Group's control over this company is restricted by certain provisions in the joint venture agreement. In the opinion of the directors, this company is subject to joint control and none of the participating parties has unilateral control over this company. Accordingly, the equity method of accounting is used to account for the Group's investment in this company.

\*\* Sanya Artway Constructing Co. Ltd. has commenced members' voluntary liquidation.

# Shanghai Shen Wei Construction Decorate Co., Ltd. is directly held by a subsidiary under compulsory winding up subsequent to the balance sheet date.

## Shenyang Xin Weijian Decoration Engineering Limited was registered in the PRC on 15 September 1994. At the balance sheet date, the Company had not commenced active business operations and its registered capital of RMB5,000,000 had not been paid up.

(b) All of the above joint ventures were not audited by Charles Chan, Ip & Fung CPA Ltd.



## NOTES TO FINANCIAL STATEMENTS

30 June 2000

### 15. INVESTMENTS IN SECURITIES

Under benchmark treatment:

	<b>Group</b>	
	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
<b>Equity securities</b>		
<b>Investment securities, at cost</b>		
Unlisted	<b>34,360</b>	9,360
Less: Capital returned	<b>(7,812)</b>	(7,534)
	<u>26,548</u>	<u>1,826</u>
Listed in overseas	<b>6,204</b>	6,204
Less: Provision for permanent diminution in value	<b>(3,102)</b>	(3,102)
	<u>3,102</u>	<u>3,102</u>
	<u>29,650</u>	<u>4,928</u>
<b>Other investments, at fair value</b>		
Listed in Hong Kong	<b>22,003</b>	—
	<u>51,653</u>	<u>4,928</u>
Market value of listed investments	<u>30,541</u>	<u>8,534</u>

At 30 June 2000, the carrying amounts of investments in each of the following companies which exceeded 10% of total assets of the company are as follows:

<b>Name</b>	<b>Place of incorporation</b>	<b>Particulars of issued share capital</b>	<b>Percentage of shares held</b>
Victory Tech Investment Limited	Hong Kong	2,000,000 ordinary shares	10%



## NOTES TO FINANCIAL STATEMENTS

30 June 2000

### 16. INVENTORIES

	<b>Group</b>	
	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Raw materials	<b>4,040</b>	—
Finished goods	<b>2,813</b>	9,779
	<b><u>6,853</u></b>	<u>9,779</u>

The carrying amount of inventories that are carried at net realisable value is approximately HK\$Nil (1999: HK\$8,448,000).

### 17. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLE

Included in other receivable of the Group and the Company there was an amount of approximately HK\$98 million due from Mr. Kwok Han Qiao ("Mr. Kwok"). The amount was originally advanced in July 1999 to Mr. Kwok for some potential investments in the PRC. However, up to the date of this report, neither new investment nor repayment was made and the whole amount was still outstanding. The Company has brought legal action against Mr. Kwok in June 2001 for the recovery of the amount. Besides, there were other receivable of the Group amounting to HK\$19,948,000 including sales proceeds of other investments of HK\$5,795,000 due from several third parties. The directors intend to take legal actions to recover these amounts.



## NOTES TO FINANCIAL STATEMENTS

30 June 2000

### 18. INTEREST-BEARING BORROWINGS

Interest-bearing borrowings consists of:

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Bank loans	98,652	209,678	32,194	90,000
Bank overdrafts	9,447	12,574	1	1,280
Other loans	93,884	168,797	62,792	88,567
	<u>201,983</u>	<u>391,049</u>	<u>94,987</u>	<u>179,847</u>
Secured	181,734	384,265	78,412	174,990
Unsecured	20,249	6,784	16,575	4,857
	<u>201,983</u>	<u>391,049</u>	<u>94,987</u>	<u>179,847</u>
Repayable as follows:				
Less than one year	201,983	355,057	94,987	179,847
One to two years	—	6,812	—	—
Two to five years	—	13,746	—	—
Over five years	—	15,434	—	—
	<u>201,983</u>	<u>391,049</u>	<u>94,987</u>	<u>179,847</u>
Portion classified as current liabilities	<u>(201,983)</u>	<u>(355,057)</u>	<u>(94,987)</u>	<u>(179,847)</u>
Non-current portion	<u>—</u>	<u>35,992</u>	<u>—</u>	<u>—</u>

Interest is charged at rates ranging from Hong Kong prime rate to 60% per annum.

The loans were supported by the followings:

- mortgages over certain of the Group's other properties;
- a pledge of certain investments of the Group;
- a floating charge on all undertakings, properties, assets and rights of certain wholly owned subsidiaries of the Company;
- an assignment of certain receivable of the Group;
- corporate guarantees executed by the Company; and
- personal guarantees executed by certain directors of the Company.



## NOTES TO FINANCIAL STATEMENTS

30 June 2000

### 19. NON INTEREST-BEARING BORROWINGS

Non interest-bearing borrowings consists of:

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Other loans, unsecured	489	—	489	—
Portion classified as current liabilities	(489)	—	(489)	—
Non-current portion	—	—	—	—

### 20. OBLIGATIONS UNDER FINANCE LEASES AND HIRE PURCHASE CONTRACTS

The maturity of obligation under finance leases and hire purchase contracts is as follows:

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Repayable within one year	1,291	1,391	121	429
Repayable in the second to fifth year	1,384	2,400	—	171
Repayable after fifth year	—	—	—	—
Current portion	2,675 (1,291)	3,791 (1,391)	121 (121)	600 (429)
Non-current portion	1,384	2,400	—	171





## NOTES TO FINANCIAL STATEMENTS

30 June 2000

### 21. CONSTRUCTION CONTRACTS

	<b>Gross amount due from customers for contract work HK\$'000</b>	<b>Gross amount due to customers for contract work HK\$'000</b>
Aggregate amount of costs incurred plus recognised profits less recognised losses to date	200,336	518,377
Less: progress billings	<u>(186,965)</u>	<u>(527,686)</u>
At 30 June 2000	<u>13,371</u>	<u>(9,309)</u>
At 30 June 1999	<u>21,716</u>	<u>(10,489)</u>

At 30 June 2000, retention monies held by customers for contract work included in accounts receivable under current assets amounted to approximately HK\$43,372,000 (1999: HK\$92,241,000).

At 30 June 2000, advances received from the customers for contract work included in deposits received under current liabilities amounted to approximately HK\$19,466,000 (1999: HK\$20,678,000).

### 22. CONVERTIBLE NOTES

During the year, the Company issued HK\$12.5 million convertible notes with conversion price of HK\$0.1 per share to Mr. Lee Bing Kwong as part of consideration for acquisition of a subsidiary, AVT Electronics Limited. The notes bore interest of 3% per annum with maturity date on the last date of the 2 years after the date of issue. Subsequent to the balance sheet date on 19 July 2000, the notes were exercised by Mr. Lee Bing Kwong and converted into 125 million of ordinary shares.



## NOTES TO FINANCIAL STATEMENTS

30 June 2000

### 23. DEFERRED TAXATION

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
At 1 July	—	—
Transfer to taxation ( <i>note 6</i> )	<u>29</u>	<u>—</u>
At 30 June	<u><u>29</u></u>	<u><u>—</u></u>
Provided for in respect of:		
Accelerated depreciation allowances	49	—
Other timing differences	<u>(20)</u>	<u>—</u>
	<u><u>29</u></u>	<u><u>—</u></u>

The major components of the Group's provision for deferred taxation and the potential deferred tax liability/(asset) not provided for at the balance sheet date are as follows:

	Group		Company	
	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Accelerated capital allowances	154	450	8	(5)
Tax losses available for future relief	(67,347)	(40,058)	(14,568)	(4,907)
Other timing differences	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u><u>(67,193)</u></u>	<u><u>(39,608)</u></u>	<u><u>(14,560)</u></u>	<u><u>(4,912)</u></u>

The benefit of any future tax relief, which arose from tax losses and general provision for doubtful debts incurred by the Company and/or certain of its subsidiaries, has not been included as an asset in the balance sheet because the directors consider it prudent not to recognise the benefit until it is assured beyond reasonable doubt.

Except for the unprovided benefit of any future tax relief, the Company had no other significant unprovided deferred taxation as at the balance sheet date.



## NOTES TO FINANCIAL STATEMENTS

30 June 2000

### 24. ISSUED CAPITAL

	Group and Company			
	2000		1999	
	No. of shares '000	HK\$'000	No. of shares '000	HK\$'000
Authorised:				
Ordinary shares of HK\$0.10 each (a)	<u>4,000,000</u>	<u>400,000</u>	<u>2,000,000</u>	<u>200,000</u>
Issued and fully paid (ordinary shares of HK\$0.10 each):				
Beginning of the year	1,460,235	146,024	879,950	87,995
Issued upon acquisition of a property	—	—	301,220	30,122
Issued upon share placements (b)	776,000	77,600	180,000	18,000
Issued upon settlement of debts (c)	474,030	47,403	—	—
Issued upon acquisition of a subsidiary (d)	250,000	25,000	99,065	9,907
Issued upon exercise of share options	<u>42,350</u>	<u>4,235</u>	<u>—</u>	<u>—</u>
End of the year	<u>3,002,615</u>	<u>300,262</u>	<u>1,460,235</u>	<u>146,024</u>

The following changes in the share capital of the Company took place during the year and subsequent to 30 June 2000:

- During the year, the authorised share capital of the Company was increased from HK\$200,000,000 to HK\$400,000,000 by the creation of an additional 2,000,000,000 new ordinary shares of HK\$0.10 each ranking pari passu in all respects with the existing ordinary shares of the Company. Subsequent to the balance sheet date in September 2000, the authorised share capital of the Company was further increased to HK\$600,000,000.
- During the year, the Company entered into several placing agreements with KGI Asia Limited and Kingsway SW Securities Limited for placing of totally 776,000,000 ordinary shares at a price of HK\$0.10 each. The net proceeds of approximately HK\$48,247,000 was used for repayment of the Group's borrowings and interests and as the Group's additional working capital.
- During the year, the Company issued totally 474,030,000 ordinary shares of HK\$0.10 each as fully-paid for the settlement of the outstanding loans and accruals of approximately HK\$47,403,000 owed by the Group to various creditors.



## NOTES TO FINANCIAL STATEMENTS

30 June 2000

### 24. ISSUED CAPITAL (continued)

- (d) On 18 May 2000, the Company issued 250,000,000 ordinary shares at a price of HK\$0.10 per share to Mr. Lee Bing Kwong as part of consideration for acquisition of interest in a subsidiary, AVT Electronics Limited.

Details of other movements in the issued share capital of the Company subsequent to the year end and the reasons therefor are set out in the note 31 to the financial statements.

### 25. SHARE OPTIONS

On 1 July 1993, the Company approved a share option scheme under which the directors may, at their discretion, at any time during the ten years from the date of approval, invite any eligible employee of the Group to take up options to subscribe for shares of the Company. Such options will lapse on the voluntary resignation or termination of any eligible employee's employment in accordance with the termination provision of his contract of employment other than by reason of redundancy. The maximum number of shares on which options may be granted may not exceed 10% of the share capital in issue at the time of grant. The aforesaid share option scheme became effective upon the listing of the Company's shares and warrants on 21 July 1993.

During the year, the Company granted a total of 50,000,000 share options, exercisable at HK\$0.10, which entitle the holders to subscribe for 50,000,000 shares of the Company at any time during the period of ten years from the date of grant of the options.

At 30 June 2000, the Company had 47,400,000 share options outstanding, of which 3,000,000, 8,200,000, 6,300,000, 700,000, 500,000, 3,000,000, 21,200,000, 4,500,000 options were exercisable at HK\$0.100, HK\$0.237, HK\$0.320, HK\$0.511, HK\$0.562, HK\$0.597, HK\$0.626 and HK\$0.751 per share (subject to adjustments), respectively, at any time during the period of ten years from the date of grant of the options. The exercise in full of such share options would, under the present capital structure of the Company, result in the issue of 47,400,000 additional shares.



## NOTES TO FINANCIAL STATEMENTS

30 June 2000

### 26. RESERVES

Movements of reserves are:

	2000						1999	
	Share premium	Capital reserve	Enterprise expansion and reserve funds	Asset revaluation reserve	Exchange fluctuation reserve	Retained profits/ losses (accumulated)	Total	Total
Group	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Beginning of the year	325,361	6,674	157	9,649	(1,870)	(601,706)	(261,735)	265,063
Issuance of new shares:								
Acquisition of a property	—	—	—	—	—	—	—	31,628
Acquisition of assets held for disposal	—	—	—	—	—	—	—	12,878
Share issue expenses	(30,181)	—	—	—	—	—	(30,181)	(2,165)
Disposal of an associate	—	—	—	—	—	—	—	1,934
Acquisition of subsidiaries	—	—	—	—	—	—	—	(38,927)
Disposal of subsidiaries	—	—	(78)	—	1,677	(1,599)	—	—
Write off of goodwill	—	—	—	—	—	—	—	76,144
Exchange adjustments on consolidation	—	—	—	—	—	—	—	(300)
Net loss for the year	—	—	—	—	—	(299,583)	(299,583)	(607,990)
End of the year	<u>295,180</u>	<u>6,674</u>	<u>79</u>	<u>9,649</u>	<u>(193)</u>	<u>(902,888)</u>	<u>(591,499)</u>	<u>(261,735)</u>
Reserves retained by:								
Company and subsidiaries	295,180	6,674	—	9,649	(351)	(898,471)	(587,319)	(257,807)
Associates	—	—	—	—	—	(438)	(438)	(438)
Joint ventures	—	—	79	—	158	(3,979)	(3,742)	(3,490)
	<u>295,180</u>	<u>6,674</u>	<u>79</u>	<u>9,649</u>	<u>(193)</u>	<u>(902,888)</u>	<u>(591,499)</u>	<u>(261,735)</u>



## NOTES TO FINANCIAL STATEMENTS

30 June 2000

### 26. RESERVES (continued)

Company	2000			1999	
	Share premium HK\$'000	Contributed surplus HK\$'000 <i>Note (ii)</i>	Accumulated losses HK\$'000	Total HK\$'000	Total HK\$'000
Beginning of the year	325,361	56,516	(643,612)	(261,735)	265,098
Issuance of new shares:					
Acquisition of a property	—	—	—	—	31,628
Acquisition of assets held for disposal	—	—	—	—	12,878
Share issue expenses	(30,181)	—	—	(30,181)	(2,165)
Net loss for the year	—	—	(53,173)	(53,173)	(569,174)
End of the year	<u>295,180</u>	<u>56,516</u>	<u>(696,785)</u>	<u>(345,089)</u>	<u>(261,735)</u>

Notes:

- (i) In accordance with accounting principles and financial regulations applicable in the PRC, certain subsidiaries and joint ventures in the PRC are required to transfer part of their profits after taxation to the enterprise expansion fund and the statutory reserve fund, which are non-distributable, before profit distributions to joint venture partners. The quanta of the transfers are subject to the approval of the board of directors of these companies in accordance with their respective joint venture agreements.
- (ii) The contributed surplus of the Company represents the difference between the nominal value of the Company's shares issued in exchange for the fair value of the shares of the subsidiaries acquired at the dates of acquisition. Under the Companies Act 1981 of Bermuda (as amended), the Company may make distributions to its members out of the contributed surplus under certain circumstances, which the Company is currently unable to satisfy.



## NOTES TO FINANCIAL STATEMENTS

30 June 2000

### 27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of loss before taxation to net cash outflow from operating activities:

	2000 HK\$'000	1999 HK\$'000
Loss before taxation	(301,827)	(688,343)
Interest income	(195)	(388)
Interest expense	46,444	28,750
Depreciation	3,470	4,114
Amortisation of deferred pre-operating expenses	—	233
Share of loss of joint ventures	192	2,876
Loss / (profit) on disposal of property, plant and equipment	863	(1,056)
Loss on disposal of other investments	98,462	—
Written off of long outstanding payable	(4,056)	—
Written off of research and development costs	614	—
Written off of deferred pre-operating expenses	—	10,156
Provisions for diminution in values of equity interests of subsidiaries	—	40,350
Provisions for diminution in values of joint venture	—	27,401
Provision for diminution in value of investment in securities	—	3,102
Provisions for diminution in values of assets held for disposals	—	25,737
Provisions for construction contracts	57,085	18,829
Provisions for obsolete and slow-moving inventories	3,025	—
Provisions for bad and doubtful debts	68,614	20,064
Unrealised holding loss of other investments	15,208	—
Goodwill written off arising on acquisition of subsidiaries	34,986	76,144
Provisions for diminution in values of properties under development and deposits paid for investment properties	—	95,453
Loss on disposal of investment properties and leasehold land and buildings	—	27,854
Deficit on revaluation of investment properties	—	24,010
Gain on disposal of subsidiaries	(122,318)	—
Loss on disposal of a joint venture	—	1,960
Loss on disposal of an associate	—	1,934
Decrease in due to joint ventures	—	(28)
Decrease in assets held for disposal	126,000	—
Decrease in accounts receivable	63,779	99,165
Increase in prepayments, deposits and other receivable	(123,740)	(218)
(Increase)/decrease in due from joint ventures	(2,227)	14,790
Decrease/(increase) in due from a substantial shareholder of subsidiaries	31,184	(31,184)
Decrease in inventories	6,754	23,280
(Increase)/decrease in gross amount due from customers for contract work	(49,607)	52,780
(Decrease)/increase in accounts payable, accrued liabilities and deposits received	(11,688)	92,054
(Decrease)/increase in gross amount due to customers for contract work	(1,180)	4,303
Net cash outflow from operating activities	<u>(60,158)</u>	<u>(25,878)</u>



## NOTES TO FINANCIAL STATEMENTS

30 June 2000

### 27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Acquisition of a subsidiary:

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Net assets acquired		
Non-current assets	1,583	186,880
Cash and bank deposits	245	1,365
Other current assets	17,106	36,203
Bank overdrafts and cash equivalent loans	(9,275)	—
Other current liabilities	(5,791)	(49,119)
Non-current liabilities	(1,354)	(204,350)
	<u>2,514</u>	<u>(29,021)</u>
Goodwill	<u>34,986</u>	<u>38,927</u>
	<u><b>37,500</b></u>	<u><b>9,906</b></u>
Satisfied by:		
• Cash	—	9,906
• Issue of capital	25,000	—
• Issue of convertible notes	12,500	—
	<u><b>37,500</b></u>	<u><b>9,906</b></u>

*Note:*

During the year, the Company acquired 65% interest in a company, AVT Electronics Limited, at a consideration of HK\$37.5 million satisfied by the issue of approximately 250 million new ordinary shares in the Company at par value and the issue of HK\$12.5 million convertible notes.





## NOTES TO FINANCIAL STATEMENTS

30 June 2000

### 27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(c) Disposal of subsidiaries

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Net assets disposed of		
Non-current assets	285,102	—
Cash and bank deposits	6,051	—
Other current assets	98,359	—
Bank overdrafts and cash equivalent loans	(30,613)	—
Other current liabilities	(75,228)	—
Non-current liabilities	(151,775)	—
	<u>131,896</u>	—
Gain on disposal of subsidiaries	<u>122,318</u>	—
	<u><b>254,214</b></u>	<u>—</u>
Satisfied by:		
• Off-set by accounts payable ( <i>note (i)</i> )	3,241	—
• Reclassification to other investments ( <i>note (ii)</i> )	<u>250,973</u>	—
	<u><b>254,214</b></u>	<u>—</u>

Notes:

- (i) The Company pledged the interest in a subsidiary, Nanjing Leadway Decoration Engineering Company Limited ("Nanjing Leadway"), as security for a loan granted from a creditor to Nanjing Leadway. However, due to default in payment, the creditor took over the subsidiary and the amount due to Nanjing Leadway was offset with the investment cost.
- (ii) The Company during the year reclassified the investment in a listed subsidiary as other investments and the deemed disposal consideration was calculated based on the respective market value at the date of reclassification.



## NOTES TO FINANCIAL STATEMENTS

30 June 2000

### 27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(d) Analysis of changes in financing during the year

	<b>Share capital and share premium</b> <i>HK\$'000</i>	<b>Bank loans and other loans</b> <i>HK\$'000</i>	<b>Obligations under finance lease and hire purchase contracts</b> <i>HK\$'000</i>	<b>Minority interests</b> <i>HK\$'000</i>
Balance at 1 July 1998	371,015	84,168	4,420	835
Net cash inflow/(outflow) from financing	16,165	84,629	(629)	—
Share of loss for the year	—	—	—	(84,827)
Shares issued for non-cash consideration	84,205	—	—	—
Arising on acquisition of subsidiaries	—	30,611	—	204,350
Capital contribution from a minority shareholder	—	—	—	1,606
Exchange differences	—	—	—	116
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 1 July 1999	471,385	199,408	3,791	122,080
Net cash inflow/(outflow) from financing	51,654	(14,757)	(1,116)	—
Share of loss for the year	—	—	—	(1,314)
Shares issued for non-cash consideration	72,403	—	—	—
Arising on disposal of subsidiaries	—	(78,240)	—	(120,741)
Arising on acquisition of a subsidiary	—	—	—	1,354
Settled by non-cash consideration	—	(12,038)	—	—
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 30 June 2000	<u>595,442</u>	<u>94,373</u>	<u>2,675</u>	<u>1,379</u>



## NOTES TO FINANCIAL STATEMENTS

30 June 2000

### 27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(e) Analysis of balances of cash and cash equivalents

	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Cash and bank deposits	<b>2,021</b>	7,235
Bank overdrafts	<b>(9,447)</b>	(12,574)
Bank and other borrowings with maturity within three months	<b>(98,652)</b>	(179,067)
	<u><b>(106,078)</b></u>	<u>(184,406)</u>

### 28. COMMITMENTS

(a) Capital commitments

Capital commitments not provided for in the financial statements are analysed as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2000</b>	1999	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
Contracted for but not provided for (note i)	<b>43,056</b>	60,063	—	—
Conditionally contracted for (note ii)	<u><b>112,834</b></u>	<u>112,834</u>	<u><b>112,834</b></u>	<u>112,834</u>
	<u><b>155,890</b></u>	<u>172,897</u>	<u><b>112,834</b></u>	<u>112,834</u>



## NOTES TO FINANCIAL STATEMENTS

30 June 2000

### 28. COMMITMENTS (continued)

Notes:

(i) Commitments contracted for

- (1) commitments in respect of capital contributions in subsidiaries and joint ventures in the PRC amounting to HK\$39,157,000 (1999: HK\$38,953,000); and
- (2) commitments in respect of the purchase of land and buildings amounting to HK\$3,899,000 (1999: HK\$3,648,000); and commitments in respect of the balance of payment for the acquisition of investment properties in the PRC of HK\$Nil (1999: HK\$17,462,000).

(ii) Commitments conditionally contracted for

As further detailed in note 31(b) to the financial statements, the consideration payable of approximately HK\$113 million for the acquisition of the second tranche of shares in eCyberChina Holdings Limited ("eCyberChina"), a former subsidiary of the Group, is included in the disclosed commitments conditionally contracted for of the Company at the balance sheet date. The expected completion date of the acquisition was 15 August 2000.

On 2 March 2000, a conditional agreement was entered into between Ultra Technology Limited ("Ultra"), an independent third party, and the Group. Pursuant to the agreement, the Group agreed to sell its rights in the second tranche of approximately 48 million shares (being approximately 23% of the eCyberChina issued share capital) in eCyberChina to Ultra for the consideration of approximately HK\$72 million in cash. Provision for diminution in values of equity interests of eCyberChina amounted to approximately HK\$41 million was included in exceptional items of last year's financial statements. The original expected completion date was 15 August 2000.

Up to the date on which these financial statements were approved, the above transactions were not yet completed and the commitment of approximately HK\$113 million was not yet paid. The Group is under negotiation with vendor for a further extension of the completion date.

Further details of the transactions are set out in the press announcements dated 7 January 2000, 14 January 2000, 23 February 2000 and 7 March 2000.



## NOTES TO FINANCIAL STATEMENTS

30 June 2000

### 28. COMMITMENTS (continued)

#### (b) Operating lease commitments

At 30 June 2000, the Company had commitments to make payments in the next twelve months under operating leases which expire as follows:

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Other properties				
Within one year	1,140	1,199	771	—
In the second to fifth years inclusive	2,276	3,739	—	1,919
Beyond five years	—	2,549	—	—
	<u>3,416</u>	<u>7,487</u>	<u>771</u>	<u>1,919</u>

### 29. RELATED PARTY TRANSACTIONS

Other than disclosed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year.

#### (a) Loan from a director

On 20 February 1998, Mr. Joseph Szeto, an executive director of the Company, entered into a promissory note agreement with the Company. Under the agreement, Mr. Joseph Szeto granted a short term unsecured advance to the Company amounting to HK\$5 million, which bears interest at 24% per annum. The amount was used for general working capital purposes. At 30 June 1999, HK\$925,000 remained outstanding. The amount was fully repaid during the year.

#### (b) Personal guarantees from directors

At the balance sheet date, certain directors of the Company had executed personal guarantees to the counter-indemnity against performance bonds issued to the Group amounting to HK\$36 million (1999: HK\$72 million).

#### (c) Advance to the joint ventures

During the year, the Group advanced HK\$2,763,000 (1999: HK\$Nil) to a joint venture. The joint venture repaid HK\$Nil (1999: HK\$14,762,000) to the Group.



## NOTES TO FINANCIAL STATEMENTS

30 June 2000

### 30. CONTINGENT LIABILITIES

(a) As at 30 June 2000, contingent liabilities not provided for in the financial statements were:

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Guarantee of credit facilities granted to subsidiaries utilised	—	—	93,150	111,071
Guarantee of insurance claims	1,500	1,500	—	—
Counter-indemnities against performance bonds issued	57,336	82,342	48,703	73,703
Guarantee of credit facilities utilised by subsidiaries of a minority interest	—	61,950	—	—
Guarantee to subsidiaries in respect of deposits and balances paid for investment properties	—	—	—	135,000
Guarantee of debts	13,660	—	13,660	—
Guarantee of loans to subsidiaries	—	—	25,000	—
Guarantee of finance leases	—	—	5,350	—
	<u>72,496</u>	<u>145,792</u>	<u>185,863</u>	<u>319,774</u>

The counter-indemnities against performance bonds issued, amounting to HK\$35,926,000 (1999: HK\$72,965,000), were supported by personal guarantees executed by certain directors of the Company.

- (b) At the balance sheet date, certain employees had completed the required number of years of service under the Employment Ordinance (the "Ordinance") to be eligible for long service payments upon termination of their employment. The Group is only liable to make such payments where the termination meets the required circumstance specified in the Ordinance. If the termination of all these employees met the circumstances required by the Ordinance, the Group's liability at the balance sheet date would have been approximately HK\$673,000 (1999: HK\$696,000). No provision has been made for this amount in the financial statements.
- (c) There were various legal proceedings and winding up petitions taken by the bankers and creditors against the Company and its subsidiaries during the year and subsequent to the balance sheet date. Except for the liabilities in the winding up subsidiaries, Ka Cheong Building Materials (International) Limited, Collections Interior Limited, CIL (Nominees) Limited and Sundart (CIL) Engineering Limited, the directors consider that the estimated liabilities for the Group and the Company were HK\$206 million and HK\$204 million (including a guarantee of HK\$60 million to a subsidiary) respectively, of which HK\$184 million and HK\$112 million were provided in the Group and Company's financial statements subsequent to the balance date. The estimation did not include those cases where no legal actions or solicitors' letters were issued as well as the legal costs and interests where not confirmed.



## NOTES TO FINANCIAL STATEMENTS

30 June 2000

### 31. SUBSEQUENT EVENTS

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

- (a) Referring to note 22, HK\$12.5 million convertible notes held by Mr. Lee Bing Kwong were converted into 125 million of ordinary shares on 19 July 2000.

On 31 July 2000, a sale and purchase agreement was entered between Flaconwood Limited ("Flaconwood"), a wholly-owned subsidiary of the Company and Mr. Lee Bing Kwong, a director and a shareholder of AVT Electronics Limited ("AVT") and Ms. Lo Yuen Lai ("Ms. Lo"), a director and a shareholder of AVT. Flaconwood agreed to acquire a 5% and a 20% interest in AVT from Mr. Lee and Ms. Lo, respectively, for an aggregate consideration of approximately HK\$14 million. The Company fully settled the payment on 1 December 2000.

AVT is principally engaged in the manufacturing of multi-media and digital communication products, broadband multi-media set-top boxes, CDMA mobile phones and DVD players.

- (b) The acquisition and the disposal of the second tranche of shares in eCyberChina were expected to be completed in August 2000. Up to the date on which these financial statements were approved, the above transactions were not completed. The Group is under negotiation with vendor for the further extension of the completion date.
- (c) On 21 August 2000, an agreement (the "NCT Agreement") was entered into between the Company and Cyber Strategy Technology Limited ("CSL"), an independent third party and a holding company of New Conceptual Technology Limited ("NCT"), a company incorporated in the British Virgin Islands. Pursuant to the NCT Agreement, the Company agreed to acquire 3.4% interest in NCT from CSL at a consideration of approximately HK\$37.5 million. The consideration of HK\$37.5 million was satisfied by the issue of approximately 375 million new shares in the Company at HK\$0.10 per share.

Further details of the transaction were set out in the Company's press announcement dated 22 August 2000. The transaction was completed on 1 September 2000.

On 15 September 2000, an agreement was entered between the Company and CSL that the Company agreed to purchase an additional 1.25% interest in NCT from CSL at a consideration of HK\$13,500,000.

According to the assignment of debt agreement signed on 30 November 2000, CSL assigned the debts HK\$13,500,000 due from the Company to Star Dragon Securities Limited ("Star Dragon"). In order to settle the debt HK\$22 million (which included the HK\$13.5 million) due to Star Dragon, a settlement agreement was signed between the Company and Star Dragon on 18 December 2000. A sum of HK\$17 million of the debt was converted into shares of the Company at a conversion price of HK\$0.01 each credited as fully paid and the Company had to pay HK\$5 million to Star Dragon together with any interest accrued thereon on 30 June 2001.



## NOTES TO FINANCIAL STATEMENTS

30 June 2000

### 31. SUBSEQUENT EVENTS (continued)

(c) (continued)

According to the directors, the transaction was completed, except the HK\$5 million was not settled, up to the date on which these financial statements were approved.

The sole asset of NCT is 100% interests in Century Technology ("Century"), a wholly foreign owned enterprise in the PRC. Century's principal asset is a 51% interest in a PRC joint venture ("PRC JV"). The principal activities of NCT, through Century and the PRC JV, are the provision of after-school training, extra-curricular information services, e-commerce and musical and art work.

(d) On 28 August 2000, an agreement (the "Victory Agreement") was entered among E-Development Limited ("E-Dev"), a wholly-owned subsidiary of the Company, HK Weaver Group Limited ("HK Weaver"), Mr. Wong Chi Keung ("Mr. Wong") and the Company. Both HK Weaver and Mr. Wong were independent third parties and shareholders of Victory Tech Investment Limited ("Victory Tech"). Pursuant to the Victory Agreement, E-Dev agreed to acquire a 7.97% and a 1.99% interest in Victory Tech from HK Weaver and Mr. Wong, respectively, for an aggregate consideration of approximately HK\$24.9 million. The consideration was satisfied by the issue of approximately 249 million new shares in the Company at HK\$0.10 per share. E-Dev acquired 10% interests in Victory Tech at a consideration of approximately HK\$25 million in June 2000. Following the completion of the Victory Agreement, E-Dev had interests in the equity of Victory Tech to the extent of approximately 19.96%.

Victory Tech is engaged in the development and operation of websites. Further details of the acquisition were set out in the Company's press announcement dated 28 August 2000.

The transaction was completed on 30 August 2000.

(e) On 10 October 2000, the Company and Everlasting Bright Investments Limited ("Everlasting"), an independent third party, a shareholder of Hightor Enterprises Limited ("Hightor") entered into an agreement that the Company agreed to acquire 33.3% of the entire issued share capital of Hightor. The consideration amounted to HK\$30 million was satisfied by the issue of 300 million new shares of HK\$0.10 per share.

The principal activities of Hightor, which was commenced in October 1999, through the development and operation of the website in Hong Kong, [workstender.com](http://workstender.com), are the provision of electronic tendering services and e-commerce business model for the construction industry. [Workstender.com](http://Workstender.com) aims to provide a platform to facilitate electronic tendering services for a wide variety of contractors, including quasi-government and commercial entities.

Further details of the transaction were set out in the Company's press announcement dated 11 October 2000. The transaction was completed in late October 2000.





## NOTES TO FINANCIAL STATEMENTS

30 June 2000

### 31. SUBSEQUENT EVENTS (continued)

- (f) On 30 October 2000, the Company and Mr. Yeung Lai Wah, an independent third party entered into an agreement that the Company acquired a 15% interest of the issued share capital of Grand Project Investments Limited (“Grand”). The total consideration payable by the Company was HK\$15 million and was satisfied by the allotment and issue of a total of 150 million new shares at the issue price of HK\$0.10 per share.

Grand is an investment holding company, incorporated on 31 March 2000, principally engaged in the development and operation of websites. The main operating businesses of Grand currently comprise the investment in SpecialtyMail.com Limited (“SpecialtyMail”) and 123gotoShopping.com Limited (“123gotoShopping”).

The principal activities of SpecialtyMail include the development and maintenance of the eMail system, accounts settlement with payment gateway provider, and marketing and promotion of the eMail franchising business.

123gotoShopping is the showcase eMail for the SpecialtyMail concept. It focuses on operating the eShops business in 123gotoShopping.com using facilities provided by a SpecialtyMail. It also has its sales and marketing department which concentrates on soliciting new eShop merchants, and its customers service department which answers enquires and deals with logistics handling.

Further details of the transaction were set out in the Company’s press announcement dated 31 October 2000. The transaction was completed in early November 2000.

- (g) On 1 November 2000, the Company and Charity.com Limited, an independent third party, entered into an agreement that the Company agreed to purchase 12.5% interest of CharityGlobal.com Limited (“CharityGlobal”). The consideration payable by the Company is HK\$30 million and was satisfied by the issue of 300 million new shares of HK\$0.1 per share.

The principal activities of CharityGlobal were commenced in April 2000 and were engaged in the development and operation of a website in Hong Kong, [www.charityglobal.com.hk](http://www.charityglobal.com.hk). CharityGlobal aims to commercialise the act of charity by offering an online platform for donors, goods and service providers (merchants) and charity organizations in Hong Kong and in the Mainland China. The CharityGlobal also aims to establish its website, [www.charityglobal.com.hk](http://www.charityglobal.com.hk) as a primer website that provides an one-stop-shop solution for registered members of CharityGlobal all year round.

Further details of the transaction were set out in the Company’s press announcement dated 2 November 2000. The transaction was completed on 8 November 2000.



## NOTES TO FINANCIAL STATEMENTS

30 June 2000

### 31. SUBSEQUENT EVENTS (continued)

- (h) Subsequent to the balance sheet date, several winding up petitions have been initiated by bankers and creditors against the Group.

In August 2000, winding up petitions against the Company were instituted by Mr. Lo Sing Pan ("Mr. Lo"), a former director of the Company, for approximately HK\$6 million, and by ICEA Financial Services Limited ("ICEA") regarding the repayment of a loan together with accrued interest thereof of approximately HK\$33 million.

As per the Company's press announcement dated 20 November 2000, the Company fully settled sums and accrued interest thereon due to Mr. Lo. In addition, the Company had paid ICEA in accordance with the revised schedule agreed with ICEA. The balance including the accrued interest thereof, of approximately HK\$27.7 million were agreed to be paid by the end of year 2000 in accordance with the revised schedule. The winding up petition was accordingly dismissed by the High Court on the same date. However, up to the date on which these financial statements were approved, the Company did not fully settle the outstanding balance.

Further details of the winding up petitions against the Group were set out in the Company's press announcements dated 15 August 2000, 28 August 2000, 4 September 2000 and 18 September 2000.

The Group was involved in legal proceedings in respect of a group of employees claiming for an amount of HK\$4 million.

Sin Hua Bank Limited applied for a winding up order against the Company since the Company did not repay an amount of HK\$5 million. The hearing has been adjourned to 30 July 2001.

- (i) Subsequent to the balance sheet date, the High Court issued winding up orders to the following subsidiaries: Ka Cheong Building Materials (International) Limited, Collections Interior Limited, CIL (Nominees) Limited and Sundart CIL (Engineering) Limited on 21 May 2001, 4 June 2001, 11 June 2001 and 26 June 2001 respectively.
- (1) Subsequent to the balance sheet date, a creditor of Ka Cheong Building Materials (International) Limited filed a petition to the High Court to wind up Ka Cheong Building Materials (International) Limited. As a consequence, a winding up order was issued by the High Court on 21 May 2001.
  - (2) A winding up petition, instituted by Kin Ching Besser Co. Limited against Collections Interior Limited, a wholly-owned subsidiary of the Company, was heard on 8 November 2000 and subsequently dismissed by the High Court.

However, another winding up order, instituted by Sin Hua Bank Limited against Collections Interior Limited, was subsequently issued by High Court on 4 June 2001.



## NOTES TO FINANCIAL STATEMENTS

30 June 2000

### 31. SUBSEQUENT EVENTS (continued)

- (i) (continued)
- (3) Subsequent to the balance sheet date on 8 March 2001, a creditor of the CIL (Nominees) Limited filed a petition to the High Court to wind up CIL (Nominees) Limited. The creditor, who filed the winding up petition, was a landlord of a property occupied by a subsidiary of the Group, with a tenancy agreement signed by CIL (Nominees) Limited itself. As a consequence, a winding up order was issued by the High Court on 11 June 2001.
- (4) Subsequent to the balance sheet date, a creditor of Sundart CIL (Engineering) Limited filed a petition to the High Court to wind up Sundart CIL (Engineering) Limited. As a consequence, a winding up order was issued by the High Court on 26 June 2001.
- (j) Subsequent to the balance sheet date, the Company had the following changes in share capital:
- (1) A special resolution was passed at a special general meeting of shareholders on 9 November 2000. It was resolved to (i) reduce the par value of the 4,502 million shares which were in issue up to 9 November 2000 in the Company from HK\$0.10 to HK\$0.01 each by the cancellation of HK\$0.09 paid up on each issued share; (ii) subdivide each authorized but unissued share capital of the Company into 10 new shares; (iii) utilise the entire credit arising from the capital reorganisation to eliminate part of the accumulated losses of the Company; and (iv) increase the board lot from 2,000 to 100,000 upon completion of the capital reorganisation. The reduction of the par value of the shares of the Company and share subdivision gave the Company greater flexibility in pricing any new issue of its shares.

Further details of the capital reduction were set out in the Company's press announcement dated 29 September 2000.

- (2) The Company entered into a placing agreement after the close of business on 22 November 2000 to place 900,000,000 placing shares at the placing price of HK\$0.011 per share on a best effort basis. The placing shares represent approximately 20 per cent of the Company's existing issued share capital of 4,502 million shares and 16.67 per cent of the enlarged issued share capital of the Company of 5,402 million shares. The placing would strengthen the financial position of the Company. The net proceeds from the placing was approximately HK\$9.5 million and it was used as general working capital for the Group.

Further details of the share placement were set out in the Company's press announcement dated 22 November 2000. The transaction was completed on 29 November 2000.



## NOTES TO FINANCIAL STATEMENTS

30 June 2000

### 31. SUBSEQUENT EVENTS (continued)

(j) (continued)

- (3) The Company agreed to: (i) place a maximum of 3,000 million new ordinary shares at a price of HK\$0.01 each to independent third parties, pursuant to the conditional placing agreement whereby the placing agent has agreed to place such shares on a best effort basis; (ii) issue an aggregate of about 11,300 million new ordinary shares to certain secured and unsecured creditors under the relevant settlement agreements; and (iii) issue an aggregate of 2,500 million new ordinary shares to HK Weaver and Mr. Wong under the settlement agreements.

Further details of the placement and settlement shares were set out in the Company's press announcement dated 18 December 2000.

However, as per the Company's press announcement dated 2 March 2001, the directors announced that the placing were not completed in accordance with the placing agreement dated 18 December 2000 entered into between the placing agent and the Company. It was because the placing agent did not come to final written agreements with potential placees before the expiry date of the placing agreement. The placing agent and the Company agreed to terminate the placing on 2 March 2001. The directors consider that there would be no significant consequence thereon. Further details were set out in the Company's press announcement dated 2 March 2001.

The Company issued 13,800 million new ordinary shares on 2 March 2001 in accordance with the settlement agreements.

- (k) On 9 February 2001, the Company and Mr. Zhang Xue Ping ("Mr. Zhang"), an independent third party entered into an agreement that the Company agreed to purchase 32.5% interest of 廣州市奧斯凱科技有限公司 ("奧斯凱"). The consideration was HK\$26 million to be satisfied by the issue of 2,600 million fully paid ordinary shares of HK\$0.01 per share.

奧斯凱 is a well established research and development company with the founder management, Mr. Zhang, an expert in corporate software development. The newly developed gas composition measuring equipment is superior in the sensitivity and accuracy of the measurements, and the convenience of carrying the requirement. It is expected the market potential of the equipment will be huge and the return of the investment will be encouraging.

Further details of the transaction were set out in the Company's press announcement dated 9 February 2001.

According to the directors, the transaction was completed.



## NOTES TO FINANCIAL STATEMENTS

30 June 2000

### 31. SUBSEQUENT EVENTS (continued)

- (l) On 5 March 2001, the Company and one or more shareholders of 廣州飛流熱水器有限公司 (“飛流”), independent third parties, entered into an agreement that the Company agreed to purchase 30% interest of 飛流. The consideration of HK\$21 million will be satisfied in full at completion by the issue of 2,100 million fully paid ordinary shares at HK\$0.01 each.

The principal business of 飛流 is the research and development, production, processing and sale of water heating equipment and accessories. 飛流 was incorporated on 14 December 2000 and commenced business shortly thereafter.

Further details of the transaction were set out in the Company’s press announcement dated 5 March 2001.

Up to the date on which these financial statements were approved, the above transactions were not yet completed. The Group is under negotiation with the shareholders of 飛流 for a further extension of the completion date.

- (m) On the 6 March 2001, the Company and 廣州華新實業有限公司 (“華新”), an independent third party, a 70% equity owner of a limited liability company established in the People’s Republic of China (“PRC Company”) which owned 中國神州酒店 (“神州”), entered into an agreement. The Company agreed to purchase from 華新 the operating receipts which represent a 10% net profits after taxation of 神州 from the operating rights of 華新 for the duration of approximately 13 years. The consideration of HK\$17 million will be satisfied in full at completion by the issue of 1,700 million fully paid ordinary shares at HK\$0.01 each.

神州 is located at a prime location in Kwangzhou City, the People’s Republic of China, with 300 rooms, a 4-storey restaurant building and a 6-storey sauna building. 神州 is currently managed and operated by another independent third party. 華新 expects shortly to secure from the PRC Company a 13-year operating right for 神州 in replacement of the existing manager of 神州 (this being a condition precedent to the completion of the conditional agreement).

Further details of the transaction were set out in the Company’s press announcement dated 6 March 2001.

Up to the date on which these financial statements were approved, the above transaction was not yet completed. The Group is under negotiation with 華新 for a further extension of the completion date.



## NOTES TO FINANCIAL STATEMENTS

30 June 2000

### 31. SUBSEQUENT EVENTS (continued)

- (n) On 10 April 2001, the Company and Goldhill Holdings Philippines (“Goldhill Holdings”) entered into an agreement that the Company agreed to purchase 100% equity interest of Goldhill Merchandising Inc. (“Goldhill Merchandising”) and shareholders’ loan in the sum of 58 million pesos (equivalent to approximately HK\$9 million) owned by Goldhill Merchandising to Goldhill Holdings and such other loan which may be advanced by Goldhill Holdings to Goldhill Merchandising before completion of the acquisition. The consideration of HK\$50 million will be satisfied as to HK\$43 million by the issue of 4,300 million fully paid shares at HK\$0.01 per share and the balance of HK\$7 million by the issue of a transferable promissory note in the amount of HK\$7 million payable without interest on or before the date falling 6 months after completion of the acquisition.

The principal business of Goldhill Merchandising is the provision of retail premises, leasing facilities and equipment and exclusive wholesale supply of merchandise to 18 convenient stores in Philippines.

Further details of the transaction were set out in the Company’s press announcement dated 11 April 2001.

Up to the date on which these financial statements were approved, the above transaction was not yet completed. The Group is under negotiation with Goldhill Holdings for a further extension of the completion date.

- (o) On 6 July 2000, the Kwangtung Provincial Bank took possession of the property with net book value of HK\$9,626,273 of Finemost Investments Limited, a wholly-owned subsidiary of the Company, at 30 June 2000 under legal charge as a result of deferred repayment of loan. The property was pledged to bank as security for banking facilities granted to a fellow subsidiary. The property was eventually forced to be disposed of at a consideration of HK\$1.5 million by the mortgagee in January 2001.

Subsequent to the balance sheet date on 14 September 2000, Finemost Investments Limited borrowed a loan of HK\$5 million from Mr. Lee Bing Kwong and Mr. Lee Fun Chun. Mr. Lee Bing Kwong was the director of a fellow subsidiary, AVT Electronics Limited. The loan was for general operation of the Group as a whole.

- (p) Subsequent to the balance sheet on 7 June 2001, a finance lease creditor of Modern Faith Limited (“Modern Faith”) filed a writ of summons to the High Court to claim damages against Modern Faith amounting to approximately HK\$1.2 million as a result of deferred repayment under the finance lease. The creditor had financed Modern Faith’s acquisition of a motor vehicle.



## NOTES TO FINANCIAL STATEMENTS

30 June 2000

### 32. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Name	Place of incorporation/ operation	Issued and fully paid share/ registered capital	Percentage of equity interest attributable to the Group	Principal activities
AVT Electronics Limited (note (a))	Hong Kong	HK\$4,500,100	65%	Manufacturing of multi-media products
Best Materials Supply Limited	Hong Kong	HK\$2	100%	Investment holding
Bravo Interior Products Limited	Hong Kong	HK\$2	100%	Trading of decorative products
Bravoheart Property Limited	British Virgin of Islands / the People's Republic of China (the "PRC")	US\$1	100%	Investment holding
Carpet Gallery Company Limited	Hong Kong	Ordinary HK\$306,123 **Non-voting deferred HK\$30,000	100%	Carpet contracting services
Carpet Gallery (Overseas) Company Limited	British Virgin Islands	US\$300	100%	Dormant
CIL Containers Limited (note (b))	British Virgin Islands / Hong Kong	US\$10	100%	Investment holding
CIL Decorative Products Limited (note (b))	Hong Kong	HK\$2	100%	Trading of decorative products
CIL Group Limited (note (b))	British Virgin Islands / Hong Kong	US\$10,405	100%	Investment holding
CIL Investment Limited	British Virgin Islands	US\$1	100%	Dormant
CIL Limited	Hong Kong	HK\$2,480,000	100%	Dormant
CIL (Nominees) Limited (note (c))	Hong Kong	HK\$1	100%	Dormant



## NOTES TO FINANCIAL STATEMENTS

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### 32. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Name	Place of incorporation/ operation	Issued and fully paid share/ registered capital	Percentage of equity interest attributable to the Group	Principal activities
Collections Construction Limited (note (d))	Hong Kong / PRC	HK\$2	100%	Interior decoration, renovation and building construction services
Collections Engineering Limited (note (d))	Hong Kong	HK\$100,000	100%	Dormant
Collections Interior Limited (note (c))	Hong Kong	HK\$1,000,000	100%	Interior decoration and renovation, electrical and mechanical engineering, contracting and building construction services
Collections International Limited	British Virgin Islands/PRC	US\$1	100%	Investment holding
David Woo & Associates (BVI) Ltd. (note (d))	British Virgin Islands	US\$1	100%	Dormant
Easymass Ltd.	Hong Kong	HK\$2	100%	Investment holding
E-Development Limited (note (b))	British Virgin Islands	US\$1	100%	Investment holding
Finmost Investments Limited	Hong Kong	HK\$2	100%	Property holding
First Manor Inc. (note (b))	British Virgin Islands / PRC	US\$1	100%	Investment holding
Flaconwood Ltd. (note (b))	British Virgin Islands	US\$1	100%	Investment holding
Fortune Carnival Limited	Hong Kong	HK\$2	100%	Dormant
Grace Decorative Materials Limited	Hong Kong	HK\$2	100%	Dormant
Hainan Ka Cheong Decoration Company Limited (notes (a) & (d))	PRC	HK\$5,000,000	100%	Dormant
Henredon Holdings Ltd.	British Virgin Islands/PRC	US\$1	100%	Investment holding





## NOTES TO FINANCIAL STATEMENTS

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### 32. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Name	Place of incorporation/ operation	Issued and fully paid share/ registered capital	Percentage of equity interest attributable to the Group	Principal activities
Huadong Limited	British Virgin Islands	US\$1	100%	Dormant
I.D.C. Group and Co. Ltd.	Hong Kong	HK\$100,000	100%	Dormant
Ka Cheong Building Materials (International) Limited (note (c))	Hong Kong	HK\$20	100%	Trading of building materials
Ka Cheong Holdings Limited	British Virgin Islands	US\$200	100%	Investment holding
Leadway Constructing Co. Ltd.	Hong Kong	HK\$2	100%	Dormant
Lucky Choice Assets Limited (note (b))	British Virgin Islands/Hong Kong	HK\$2	100%	Dormant
Modern Faith Ltd. (note (b))	Hong Kong	HK\$1	100%	Dormant
Nanjing Leadway Decoration Co. Ltd. (notes (a) & (d))	PRC	RMB10,591,100	70%	Interior decoration and renovation services and trading of interior decoration materials
南寧市億昌商貿有限公司 (note (a))	PRC	RMB500,000	60%	Dormant
Qi Chang (Nanning) Mass Land Estate Dev. Co. Ltd. (note (a))	PRC	HK\$9,300,000	100%	Dormant
上海匯建房地產有限公司 (note (a))	PRC	US\$5,000,000	94%	Dormant
Sumida International Interior Limited (note (d))	Hong Kong	HK\$100,000	73.6%	Dormant
Sundart (CIL) Engineering Limited (notes (b) & (c))	Hong Kong	HK\$2	100%	Construction and outfitting of steel and concrete framed buildings, including structure fire-proofing and interior decoration



## NOTES TO FINANCIAL STATEMENTS

30 June 2000

### 32. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Name	Place of incorporation/ operation	Issued and fully paid share/ registered capital	Percentage of equity interest attributable to the Group	Principal activities
三亞精英服務 有限公司 (note (a))	PRC	RMB500,000	100%	Interior decoration, trading of interior decoration materials, property management, consultancy services
Top Grand Investments Limited	Hong Kong	HK\$1	100%	Dormant
Wah Yee Decoration Company Ltd. (note (d))	Hong Kong	HK\$10,000	60%	Dormant

*Notes:*

- (a) Those subsidiaries are not audited by Charles Chan, Ip & Fung CPA Ltd.
- (b) Those subsidiaries are directly held by the Company.
- (c) Those subsidiaries are in the process of compulsory winding up at the date of the report.
- (d) Those subsidiaries are held by the subsidiaries mentioned in (c) above.

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

### 33. COMPARATIVE FIGURES

With the adoption of the revised SSAP 1 "Presentation of financial statements", SSAP 2 "Net profit or loss for the period, fundamental errors and changes in accounting policies", SSAP 10 "Accounting for investments in associates", SSAP 24 "Accounting for Investments in Securities" and SSAP 32 "Consolidated Financial Statements and Accounting for Investments in Subsidiaries", the presentation in the current year's financial statements has been modified in order to conform to the requirements of these standards. Comparative figures have been reclassified and restated in order to achieve a consistent presentation.

### 34. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 20 July 2001.