1. GENERAL

The Company was incorporated in Bermuda under the Company Act 1981 of Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company's shares have been suspended for trading on the Stock Exchange since 5 February 2001.

As a result of the Company's poor financial position, joint and several provisional liquidators of the Company (the "Provisional Liquidators") were appointed on 20 April 2000 and a financial restructuring of the Company was implemented and completed on 27 October 2000. Details of the restructuring are set out in the circular dated 29 September 2000. Upon successful completion of the restructuring, the winding-up petition was withdrawn and the Provisional Liquidators were released and discharged. However, another winding-up petition was submitted by the trustee for the convertible bondholders of the Company on 15 February 2001. As a result, pursuant to the Order of the Supreme Court of Bermuda dated 16 February 2001, the Provisional Liquidators were appointed on the same date.

On 14 November 2001, Deloitte Touche Tohmatsu were engaged by the Provisional Liquidators to perform an audit of the financial statements for the year ended 30 June 2001 prepared in accordance with an undertaking provided by the Company to the Stock Exchange as set out in the circular of the Company dated 22 October 2001 (the "Circular"). These financial statements are not statutory financial statements, for the purposes of the Company Ordinance insofar as they have not been audited by the Company's incumbent auditors who have not yet been able to resign or be terminated.

The Provisional Liquidators, as agents of the Company, jointly and severally accept the responsibility for the preparation of the financial statements as the Company has undertaken to the Stock Exchange to publish its audited accounts for the year ended 30 June 2001 as set out in the Circular.

The Circular sets out the following in this regard: "the Company undertakes to the Stock Exchange to publish its audited accounts for the year ended 30 June 2001 as required by the Companies Ordinance before the resumption of trading in the Shares and undertakes to the Stock Exchange to publish its audited accounts for the two years ended 30 June 1999 and 30 June 2000 as soon as practicable after the resumption of trading in the Shares."

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are set out in note 12.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements for the year ended 30 June 2001 have been prepared on the following bases:

(a) As a result of severe working capital difficulties, the operations of the Group were significantly curtailed during the year. On 2 August 2001, the Company entered into a conditional subscription agreement and a conditional restructuring agreement with a new investor, Sourcebase Development Limited ("Sourcebase"), and with the trustee for the convertible bondholders of the Company respectively (collectively referred to as the "Restructuring Agreements"). The proposals under the Restructuring Agreements are for debt restructuring involving creditors' schemes of arrangements, subscription of new shares and warrants, whitewash waiver and creeper authorisation. Completion of the Restructuring Agreements will require the fulfilment of certain conditions including the relevant approvals from the regulatory authorities, including the Stock Exchange and the Securities and Futures Commission. The independent shareholders approved the Restructuring Agreements at a special general meeting held by the Company on 13 November 2001. Sourcebase has agreed to provide and procure the provision of working facilities to the Company such that the Group will have sufficient working capital for its operations for 12 months after the completion of the Restructuring Agreements (the "Completion").

Against this background, the Provisional Liquidators have prepared the financial statements on a going concern basis on the basis that the terms set out in the Restructuring Agreements will be implemented in full on the Completion and in particular:

(i) the proposed subscription of 5,500,000,000 new ordinary shares of the Company by Sourcebase for a consideration of HK$55.0 million will be completed;

(ii) Sourcebase will subscribe for the 3-year unlisted and transferable warrants of the Company upon completion of the Restructuring Agreements, for a total cash consideration of HK$1, which will entitle the holder thereof to subscribe for in aggregate up to HK$165.0 million for new ordinary shares of the Company at a price of HK$0.01 each which is subject to adjustment;

(iii) the creditors' indebtedness of the Company, including convertible bonds and amounts due to all other creditors of the Company as at 16 February 2001 will be discharged in full by way of a cash payment of HK$72.5 million on a pro-rata basis; and

(iv) Sourcebase will provide and procure the provision of working capital facilities to the Company such that the Group have sufficient working capital for its operations for 12 months after the Completion.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (continued)

(b) The Provisional Liquidators have found that accounting records have been mislaid and accordingly have encountered the limitations referred to below in preparing the financial statements:

(i) Turnover includes recorded sales of approximately HK$2.9 million in respect of which the Provisional Liquidators were unable to locate either sales invoices or supporting delivery documentation. Accordingly, the Provisional Liquidators have been unable to satisfy themselves as to whether these sales are fairly stated in the financial statements.

(ii) Loss before taxation has been arrived at after charging/crediting the following amounts in respect of which the Provisional Liquidators were unable to locate third party supporting documentation:

- cost of sales of approximately HK$2.9 million;
- other revenue of approximately HK$0.5 million;
- provision for bad and doubtful debts of approximately HK$13.0 million in respect of amount transferred to or for the benefit of Liuzhou Wuling Holdings Limited ("Liuzhou") as further explained in note 20;
- administrative expenses of approximately HK$11.7 million; and
- provision for taxation written back of approximately HK$9.8 million.

Accordingly, the Provisional Liquidators have been unable to satisfy themselves as to whether these amounts are fairly stated in the financial statements.

(c) The Provisional Liquidators were unable to obtain sufficient information to satisfy themselves as to whether:

- debts receivable of approximately HK$15.7 million recorded in the books of account are recoverable; and
- the Group has title to property, plant and equipment recorded in the books of account at approximately HK$25.6 million.

In respect of the above amounts, provision has been made for the debts and the property, plant and equipment have been written off. However, in view of the lack of evidence available, the Provisional Liquidators have been unable to satisfy themselves regarding the appropriateness of this provision and write off.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (continued)

(d) In the absence of any financial information concerning certain subsidiaries during the year, the Provisional Liquidators have formed the opinion that the Group is no longer able to exercise effective control over these subsidiaries and, accordingly, their aggregate recorded carrying amount in the sum of approximately HK$3.6 million has been written off.

(e) The Provisional Liquidators were unable to satisfy themselves as to the completeness of other payables and accrued charges and borrowings of approximately HK$9.8 million and approximately HK$203.0 million, respectively, as at 30 June 2001. Accordingly, they have been unable to satisfy themselves as to whether these amounts are fairly stated in the financial statements.

(f) The financial statements have been prepared based on the available books and records maintained by the Company and its subsidiaries. However, in view of the lack of evidence available, the Provisional Liquidators are unable to represent that all transactions entered into by the Company and its subsidiaries prior to their appointments are reflected in the books and records and in the financial statements.

(g) The following required disclosures have not been made in the financial statements:

(i) Details of related party disclosures as required by Statement of Standard Accounting Practice (“SSAP”) 20 “Related Party Disclosures”;

(ii) Details of deferred taxation disclosures as required by SSAP 12 “Accounting for Deferred Tax”;

(iii) Details of diluted loss per share disclosures as required by SSAP 5 (Revised) “Earnings Per Share”;

(iv) Details of segment information, directors’ and employees’ emoluments, pension schemes and analysis of borrowings as required by Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange; and

(v) Details of analysis of finance costs, share option scheme, contingencies and commitments as required by the Companies Ordinance.

(h) The comparative figures have been extracted from the available books and records of the Group. However, the Provisional Liquidators have been unable to satisfy themselves that the comparative figures at 30 June 2000 shown in the balance sheets of the Group and of the Company on pages 17 and 18 respectively, and in the consolidated income statement and the consolidated cash flow statement for the year then ended on pages 16 and 19, respectively, are free from material misstatement.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong.

The principal accounting policies adopted are as follows:

Basis of consolidation

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

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

Investments in subsidiaries

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

Investments in subsidiaries are included in the Company's balance sheet at cost, as reduced by any decline in the value of the subsidiary that is other than temporary.

Revenue recognition

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

Service income is recognised when the services are rendered.

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

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the assets have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of the asset.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

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

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

Depreciation is provided to write off the cost or valuation of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, at the following rates per annum:

Leasehold land	Over the unexpired terms of the lease
Buildings	Over the shorter of the term of the lease, or 50 years
Leasehold improvements	Over the shorter of the term of the leases, or 5 years
Furniture and fixtures	10 - 20%
Plant and machinery	10 - 20%
Motor vehicles	10 - 20%

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on professional valuations at the balance sheet date. Any revaluation increase or decrease arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve is charged to the income statement.

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property disposed of is credited to the income statement.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

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

Convertible bonds

Convertible bonds are regarded as liabilities until conversion actually occurs. The finance cost recognised in the income statement in respect of the convertible bonds, including the premium payable upon the final redemption of the convertible bonds, is calculated so as to produce a constant periodic rate of charge on the remaining balance of the convertible bonds for each accounting period.

Taxation

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

Cash equivalents

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

4. TURNOVER

	2001	2000
	HK$'000	*HK$'000*
Sale of goods	**3,575**	132,516
Service income	**180**	–
	3,755	132,516

5. OTHER REVENUE

	2001	2000
	HK$'000	*HK$'000*
Interest on bank deposits	**519**	603
Others	**217**	560
	736	1,163

6. LOSS FROM OPERATIONS

	2001	2000
	HK$'000	*HK$'000*
Loss from operations has been arrived at after charging:		
Auditors' remuneration	**350**	–
Staff costs	**2,669**	7,561

7. TAXATION CREDIT

The amount represents overprovision for taxation in prior years.

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group incurred a tax loss for the year.

8. NET LOSS FOR THE YEAR

Of the Group's net loss for the year of approximately HK$60,529,000 (2000: HK$66,508,000), a loss of approximately HK$60,228,000 (2000: HK$26,081,000) has been dealt with in the financial statements of the Company.

9. BASIC LOSS PER SHARE

The calculation of the basic loss per share is based on the following data:

	2001	2000
	HK$'000	*HK$'000*
Net loss for the year for the purposes of basic loss per share	**60,529**	66,508
	'000	*'000*
Weighted average number of ordinary shares for the purposes of basic loss per share	**3,569,305**	804,531

No diluted loss per share is disclosed as, in the absence of complete books and records in respect of the potential ordinary shares, the Provisional Liquidators were unable to calculate the effect of dilutive potential ordinary shares.

For the year ended 30 June 2000, the weighted average number of ordinary shares for the purposes of basic loss per share has been adjusted for share consolidation on 27 October 2000.

10. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and building	**Leasehold improvements**	**Furniture, fixtures, office equipment and motor vehicles**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
THE GROUP				
COST				
At 1 July 2000	24,551	2,098	664	27,313
Additions	–	–	106	106
Write offs	(24,551)	(2,098)	(770)	(27,419)
At 30 June 2001	–	–	–	–
DEPRECIATION				
At 1 July 2000	–	1,593	127	1,720
Eliminated on write offs	–	(1,593)	(127)	(1,720)
At 30 June 2001	–	–	–	–
NET BOOK VALUES				
At 30 June 2001	–	–	–	–
At 30 June 2000	24,551	505	537	25,593

10. PROPERTY, PLANT AND EQUIPMENT (continued)

	Furniture, fixtures, office equipment and motor vehicles HK$'000
THE COMPANY	
COST	
Additions during the year	82
Write offs	(82)
At 30 June 2001	–
DEPRECIATION	
At 1 July 2000 and at 30 June 2001	–
NET BOOK VALUES	
At 30 June 2001 and at 30 June 2000	–

11. INVESTMENT PROPERTY

	THE GROUP	
	2001	2000
	HK$'000	*HK$'000*
At 1 July	**15,600**	34,700
Deficit on revaluation	**–**	(13,281)
Disposals	**(15,600)**	(5,819)
At 30 June	**–**	15,600

At 30 June 2000, investment property was valued on an open market basis by Chesterton Petty Limited at HK$15,600,000. This valuation gave rise to a revaluation deficit of HK$13,281,000 which has been debited to the investment property revaluation reserve (note 16).

At 30 June 2000, the investment property of the Group was situated in the People's Republic of China and was held under a medium-term lease.

12. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2001	2000
	HK$'000	*HK$'000*
Unlisted investments, at cost	**67,085**	67,085
Due from subsidiaries	**172,701**	170,666
Due to subsidiaries	**(4,087)**	(4,218)
Less: Impairment loss recognised	**(235,699)**	(233,533)
	–	–

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

Name	**Place of incorporation/ registration**	**Nominal value of issued share capital**	**Proportion of nominal value of issued share capital held by the Company** %	**Principal activities**
Wah Lee Resources Trading (China) Company Limited	Hong Kong	HK$10,000 Ordinary	100	Trading of iron steel
Wah Lee Enterprise Limited	British Virgin Islands	US$1,000 Ordinary	100	Trading of audio–visual products, VCD & DVD products
Ecflyer.com Limited	Hong Kong	HK$2 Ordinary	100	Travelling agency services (Ticketing and provision of hotel reservation services)

The above table lists the subsidiaries of the Company which, in the opinion of the Provisional Liquidators, principally affects the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the Provisional Liquidators, result in particulars of excessive length.

None of the subsidiaries had any debt securities outstanding at the end of the year, or at any time during the year.

13. INVENTORIES

THE GROUP

The amount at 30 June 2000 represented finished goods which were stated at cost.

14. BORROWINGS

	THE GROUP	
	2001	2000
	HK$'000	*HK$'000*
Borrowings comprise the following:		
Bank loans and overdrafts	**–**	239,306
Convertible bonds	**202,053**	–
Other borrowings	**950**	34,678
	203,003	273,984

	THE COMPANY	
	2001	2000
	HK$'000	*HK$'000*
Other borrowings	**950**	34,766

Pursuant to the compromise agreement dated 12 July 2000 entered into between the Company, the subsidiaries of the Company, the financial creditors and the non-financial creditors of the Group, the Provisional Liquidators and the investor, Liuzhou, series A and series B convertible bonds ("Convertible Bonds") with an aggregate principal amount of HK$205 million were issued on 27 October 2000 to the financial creditors of the Group as partial settlement of the unsecured indebtedness of the Group, as described more fully in the section headed "Debt Restructuring" in the circular dated 29 September 2000 (the "Circular"). The Convertible Bonds are seured by a first charge over all the assets of the Company.

The interest bearing series A convertible bonds at 6% per annum of HK$150 million will mature on 27 October 2003 and the non-interest bearing series B convertible bonds of HK$55 million matured on 29 January 2001. As explained in note 2(a)(iii), under the Restructuring Agreements, these amounts will be discharged in full on a pro-rata basis.

15. SHARE CAPITAL

	Notes	**Authorised** *HK$'000*	**Issued and fully paid** *HK$'000*
Ordinary shares			
Balance at 1 July 1999, shares of HK$0.10 each		200,000	156,818
Increase in authorised share capital		100,000	–
Issue of shares		–	4,088
Balance at 1 July 2000, shares of HK$0.10 each		300,000	160,906
Capital reduction, shares of HK$0.005 each	*(1a)*	(285,000)	(152,861)
Cancellation of authorised share capital	*(1b)*	(6,955)	–
Share consolidation, shares of HK$0.01 each	*(1c)*	–	–
Increase in authorised share capital	*(1d)*	491,955	–
Issue of shares	*(2)*	–	40,573
Balance at 30 June 2001, shares of HK$0.01 each		500,000	48,618

Notes:

(1) Restructuring proposals

Pursuant to the Circular, the Company has entered into restructuring proposals (the "Restructuring Proposals") with Liuzhou, the Provisional Liquidators, the financial creditors and the non-financial creditors of the Group. The Restructuring Proposals are for capital restructuring, debt restructuring, cash subscription of new shares, and issue of convertible bonds and new shares, which have been approved by shareholders of the Company on 27 October 2000. Details of the Restructuring Proposals were as follows:

(a) Capital reduction

The nominal value of every issued share was reduced from HK$0.10 to HK$0.005 upon the capital reduction (the "Capital Reduction"). On the basis of approximately 1,609,063,000 issued share of HK$0.10 each, the issued share capital of the Company was reduced from approximately HK$160,906,000 to HK$8,045,000 by cancelling the paid-up capital of approximately HK$152,861,000.

The surplus of the amount of approximately HK$152,861,000 arising from the Capital Reduction together with the credit balance of HK$790,000 standing in the share premium account as at 31 July 2000 were transferred to the accumulated losses of the Company.

(b) Share cancellation

Upon the Capital Reduction, on the basis of the authorised issued share capital of HK$15,000,000 divided into 3,000,000,000 share of HK$0.005 each, the unissued share capital of approximately HK$6,955,000 were cancelled and diminished to approximately HK$8,045,000 for both authorised and issued share capital.

15. SHARE CAPITAL (continued)

(1) Restructuring proposals (continued)

(c) Share consolidation

Upon the Capital Reduction, every two issued shares of HK$0.005 each in the capital of the Company were consolidated into one new share of HK$0.01 each. Accordingly, on the basis of approximately 1,609,063,000, issued shares, the Company had an authorised and issued share capital of approximately HK$8,045,000 divided into approximately 804,531,000 shares of HK$0.01 each upon the share consolidation (the "Share Consolidation").

(d) Increase in authorised share capital

Upon the Share Consolidation, the Company increased its authorised share capital from approximately HK$8,045,000 to HK$500,000,000 divided into 50,000,000,000 shares of HK$0.01 each.

(2) Issue of shares

(a) Pursuant to the resolutions of the special general meeting dated 23 October 2000:

(i) 2,532,600,000 new shares of HK$0.01 each for an aggregate amount of HK$25,326,000 in cash were issued and allotted to Liuzhou upon completion of the cash subscription pursuant to the terms of the subscription agreement dated 12 July 2000. The net proceeds of the subscription were used to repay the unsecured indebtedness of the Group;

(ii) 500,000,000 new shares of HK$0.01 each were issued and allotted at par to Liuzhou pursuant to the terms of the compromise agreement dated 12 July 2000 to capitalise its claims against the Company up to a maximum amount of HK$5.0 million in respect of the Restructuring Proposals completed on 27 October 2000; and

(iii) 744,700,000 new shares of HK$0.01 each were issued and allotted to the non-financial creditors of the Group at a price of HK$0.10 per share pursuant to the terms of the compromise agreement dated 12 July 2000 as a discharge in full of the amounts due by the Company to the non-financial creditors of the Group.

(b) On 9 November 2000, the Company issued 120,000,000 new shares of HK$0.01 each to independent investors at a price of HK$0.17 per share. The net proceeds of the placing were used to provide general working capital for the Group.

(c) On 7 December 2000, the Company issued 160,000,000 new shares of HK$0.01 each to independent investors at a price of HK$0.185 per share. The net proceeds of the placing were used to provide general working capital for the Group.

These shares ranked pari passu with all other shares in issue in all respects.

15. SHARE CAPITAL (continued)

Warrants

The warrant instrument dated 29 April 1999 entitled each warrantholder to subscribe in cash for the shares of the Company at a subscription price of HK$0.148 each until 30 April 2001. The subscription price was adjusted to HK$0.30 each upon a capital restructuring of the Company becoming effective on 27 October 2000. Pursuant to section 166 of the Companies Act 1981 of Bermuda (as amended), any alteration in the status of the members of the Company made after the commencement of its winding-up shall be void unless the Supreme Court of Bermuda orders. As the Provisional Liquidators were appointed to the Company on 16 February 2001, any exercise of the subscription rights attaching to the warrants were void. In light of this and as trading in the securities of the Company has been suspended since 5 February 2001, the subscription rights attaching to the 148,076,763 outstanding warrants of the Company were expired after the close of business on 30 April 2001.

16. RESERVES

	Share premium	Other properties revaluation reserve	Investment property revaluation reserves	Contributed surplus	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
THE GROUP						
At 1 July 1999	90	2,949	13,281	–	(372,423)	(356,103)
Issue of shares	700	–	–	–	–	700
Deficit on revaluation	–	(2,949)	(13,281)	–	–	(16,230)
Loss for the year	–	–	–	–	(66,508)	(66,508)
At 1 July 2000	790	–	–	–	(438,931)	(438,141)
Reduction of share premium transferred to accumulated losses	(790)	–	–	–	790	–
Reduction of share capital transferred to accumulated losses	–	–	–	–	152,861	152,861
Issue of shares	114,223	–	–	–	–	114,223
Loss for the year	–	–	–	–	(60,529)	(60,529)
At 30 June 2001	114,223	–	–	–	(345,809)	(231,586)

16. RESERVES (continued)

	Share premium *HK$'000*	Other properties revaluation reserve *HK$'000*	Investment property revaluation reserves *HK$'000*	Contributed surplus *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
THE COMPANY						
At 1 July 1999	90	–	–	16,048	(224,418)	(208,280)
Issue of shares	700	–	–	–	–	700
Loss for the year	–	–	–	–	(26,081)	(26,081)
At 1 July 2000	790	–	–	16,048	(250,499)	(233,661)
Reduction of share premium transferred to accumulated losses	(790)	–	–	–	790	–
Reduction of share capital transferred to accumulated losses	–	–	–	–	152,861	152,861
Issue of shares	114,223	–	–	–	–	114,223
Loss for the year	–	–	–	–	(60,228)	(60,228)
At 30 June 2001	114,223	–	–	16,048	(157,076)	(26,805)

The contributed surplus of the Company brought forward represents the excess of the then combined net assets of the subsidiaries acquired pursuant to the Group reorganisation completed on 15 October 1996, over the nominal value of the Company's shares issued in exchange therefore.

In accordance with the Companies Act 1981 of Bermuda (as amended), the Company's contributed surplus is available for cash distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of the contributed surplus account if:

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

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

In the opinion of the Provisional Liquidators, the Company has no reserves available for distribution to its shareholders at the balance sheet date.

17. RECONCILIATION OF LOSS BEFORE TAXATION TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2001	2000
	HK$'000	*HK$'000*
Loss before taxation	**(70,327)**	(66,508)
Interest income	**(519)**	(603)
Interest expenses	**1,413**	18,767
Amounts written off in respect of property, plant and equipment	**25,699**	6,351
Provision for bad and doubtful debts	**28,731**	18,421
Increase in accounts receivable	**–**	(18,421)
(Increase) decrease in prepayments, deposits and other receivables	**(23,472)**	6,696
Decrease in inventories	**1,315**	37,840
Decrease in accounts payable and accrued charges	**(40,690)**	(29,146)
Net cash outflow from operating activities	**(77,850)**	(26,603)

18. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Borrowings	**Share capital and share premium**
	HK$'000	*HK$'000*
At 1 July 1999	267,357	156,908
Net cash inflow from financing	12,446	–
Realisation of investment properties	(5,819)	–
Issue of shares	–	4,788
At 1 July 2000	273,984	161,696
Net cash inflow from financing	24,089	–
Proceeds from issue of shares	–	75,326
Other movements not involving cash flows:		
Reduction of share capital and share premium transferred to accumulated losses	–	(153,651)
Issue of shares	(79,470)	79,470
Realisation of investment property	(15,600)	–
At 30 June 2001	203,003	162,841

19. MAJOR NON-CASH TRANSACTIONS

(a) During the year, investment property of HK$15,600,000 (2000: HK$5,819,000) was assigned to the financial creditors of the Group as the partial settlement of the secured indebtedness of the Group owned to them.

(b) During the year, 500,000,000 new shares of HK$0.01 each were issued and allotted at par to Liuzhou to capitalise its claims against the Company up to a maximum amount of HK$5.0 million in respect of the Restructuring Proposals completed on 27 October 2000.

(c) During the year, 744,700,000 new shares of HK$0.01 each were issued and allotted to the non-financial creditors of the Group at a price of HK$0.10 per share as the full settlement of the amounts due by the Company.

(d) During the year, Convertible Bonds with an aggregate principal amount of HK$205.0 million were issued to the financial creditors of the Group as partial settlement of the unsecured indebtedness due by the Group.

20. INVESTIGATION

On 9 November 2000, the Company raised net proceeds of approximately HK$19 million from placement of 120,000,000 ordinary shares of the Company, in which approximately HK$6 million was used by the Company as working capital including legal and professional fees and purchases. In the opinion of the Provisional Liquidators, the remaining balance of approximately HK$13 million was transferred to or for the benefit of Liuzhou. However, this amount, although it has been provided for in full (note 2(b)(ii)), remains the subject of investigation by the Provisional Liquidators.