

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th June, 2001

1. GENERAL

The Company is incorporated and registered as an exempted company in Bermuda with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited.

The Company acts as an investment holding company. The principal activities of its principal subsidiaries and associates are set out in notes 21 to 23 to the financial statements.

2. PRESENTATION OF FINANCIAL STATEMENTS

The financial statements for the current year cover a twelve-month period from 1st July, 2000 to 30th June, 2001. The corresponding amounts for the consolidated income statement, consolidated cash flow statement, consolidated statement of recognised gains and losses and related notes covered a fifteen-month period from 1st April, 1999 to 30th June, 2000 and therefore may not be comparable with amounts shown for the current year. After taken into account the statutory financial year end date of all those group companies in the People's Republic of China ("PRC"), i.e. 31st December, the directors resolved to change the Group's financial year end date to 30th June to allow the Group to prepare and update its financial results on a semi-annual basis so as to rationalise its internal resources.

3. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

In preparing the financial statements, the directors have given careful consideration to the future liquidity of the Group in the light of its net current liabilities of HK\$13,269,000 as at 30th June, 2001. The directors are currently considering various options for the future financing of the Group. In particular, the Group is, through its financial advisors, conducting discussions with certain potential strategic investors with a view to potential equity injection. The Group, its bankers and its advisers are currently considering various proposals. Provided that the negotiations can be successfully completed with the Group's bankers to restructure the Group's borrowing facilities and with the potential investors for the injection of new equity capital, the directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

4. ADOPTION OF REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first, time, the revised Statement of Standard Accounting Practice ("SSAP") No. 14 "Leases" issued by the Hong Kong Society of Accountants.

Adoption of this SSAP has resulted in amendment to the related disclosures but with no effect on the results for the current or prior periods.

5. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the valuation of investment properties and investments in securities.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries other than those excluded for the reasons referred to below made up to the balance sheet date.

Where the Group holds more than half of the issued share capital of a subsidiary, but does not control the composition of the board of directors or equivalent governing body, the financial statements of the subsidiary are not consolidated because to do so would be misleading. Where the Group is in a position to exercise significant influence or joint control, such investments are dealt with as associates or jointly controlled entities as appropriate. Otherwise, they are dealt with as investments in securities.

The results of the subsidiaries and associates which are acquired or disposed of during the year/period 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.

Goodwill

Goodwill represents the excess of the purchase consideration over the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a subsidiary and is written off to reserves immediately on acquisition. Negative goodwill, which represents the excess of the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a subsidiary over the purchase consideration is credited to reserves.

Any premium or discount arising on the acquisition of an interest in an associate, representing the excess or shortfall respectively of the purchase consideration over the fair value ascribed to the Group's share of the separable net assets of the associate at the date of acquisition, is dealt with in the same manner as that described above for goodwill arising on acquisition of subsidiaries.

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

5. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 less identified impairment losses.

The results of the subsidiaries not consolidated are accounted for at the carrying amount of the Group's interest in them at the date of deconsolidation less any identified impairment losses.

Investments in associates

An associate is an enterprise over which the Group is in a position to exercise significant influence, including participation in financial and operating policy decisions.

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year/period. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates.

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

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

Revenue recognition

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

Service income is recognised when the relevant services are rendered.

Sales of investments in securities are recognised when the sales contract become unconditional.

5. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition *(continued)*

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

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

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 independent professional valuations at the balance sheet date. Any surplus or deficit 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 deficit, in which case the excess of the deficit over the balance of the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

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

No depreciation and amortisation is provided on investment properties except where the unexpired term, including the renewal period, of the relevant lease is twenty years or less.

Property, plant and equipment

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

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

5. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment *(continued)*

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 and amortisation are provided to write off the costs of the assets over their estimated useful lives, using the straight line method, at the following rates per annum:

Land held on long leases	Over the terms of the leases
Land held on medium term leases	2.5% or over the terms of the leases whichever is shorter
Buildings	2.5% or over the terms of the leases whichever is shorter
Leasehold improvement	10% or over the terms of the leases whichever is shorter
Furniture, fixture and equipment	10-20%
Plant and machinery	10%
Motor vehicles	20%

Investments in securities

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

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

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any identified impairment losses.

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

Club debenture

Club debenture is stated at cost less any identified impairment loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, cost of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average 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.

5. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

On consolidation, the financial statements of the subsidiaries which are denominated in currencies other than Hong Kong dollars are translated at the rates ruling on the balance sheet date. Exchange differences arising on consolidation are dealt with in reserves.

Taxation

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

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight line basis over the period of the respective leases.

Retirement benefit scheme

The retirement benefit scheme contributions relating to the mandatory provident fund scheme charged to the income statement represent contributions payable to the schemes by the Group at rates specified in the rules of the schemes.

The amount of contributions payable to pension schemes in jurisdictions other than Hong Kong are charged to the income statement.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th June, 2001

6. TURNOVER AND SEGMENTAL INFORMATION

An analysis of the Group's turnover and contributions to operating results by principal activity and geographical market is as follows:

	1.7.2000 to 30.6.2001		1.4.1999 to 30.6.2000	
	Turnover	Contributions to loss from operations	Turnover	Contributions to loss from operations
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
By principal activity:				
Manufacture and sales of food products	9,058	(6,192)	13,810	(5,589)
Manufacture and sales of electronic products	15,328	(2,518)	–	–
Sales of health products	370	(957)	–	–
Provision of financial information services	5,102	(1,471)	–	–
Provision of internet consultancy services	213	(3,406)	–	–
	<u>30,071</u>	<u>(14,544)</u>	<u>13,810</u>	<u>(5,589)</u>
Unallocated corporate expenses		<u>(52,463)</u>		<u>(14,771)</u>
Loss from operations		<u>(67,007)</u>		<u>(20,360)</u>
Finance costs		<u>(2,549)</u>		<u>(1,335)</u>
Share of losses of associates		–		<u>(31,358)</u>
Loss attributable to investments		<u>(26,737)</u>		<u>(17,240)</u>
Gain on waiver of obligations		<u>8,069</u>		–
Gain attributable to financial restructuring		–		<u>133,651</u>
Provision for impairment in value of property, plant and equipment		<u>(4,480)</u>		<u>(23,338)</u>
Provision for payments under guarantee		–		<u>(5,671)</u>
(Loss) profit before taxation		<u><u>(92,704)</u></u>		<u><u>34,349</u></u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th June, 2001

6. TURNOVER AND SEGMENTAL INFORMATION *(continued)*

	1.7.2000 to 30.6.2001		1.4.1999 to 30.6.2000	
	Turnover	Contributions to loss from operations	Turnover	Contributions to loss from operations
By geographical market:				
Hong Kong	16,075	(6,841)	–	–
People's Republic of China, excluding Hong Kong ("PRC")	12,041	(7,488)	13,810	(5,589)
Other Asian countries	1,955	(215)	–	–
	<u>30,071</u>	<u>(14,544)</u>	<u>13,810</u>	<u>(5,589)</u>
Unallocated corporate expenses		(52,463)		(14,771)
Loss from operations		(67,007)		(20,360)
Finance costs		(2,549)		(1,335)
Share of losses of associates		–		(31,358)
Loss attributable to investments		(26,737)		(17,240)
Gain on waiver of obligations		8,069		–
Gain attributable to financial restructuring		–		133,651
Provision for impairment in value of property, plant and equipment		(4,480)		(23,338)
Provision for payments under guarantee		–		(5,671)
(Loss) profit before taxation		<u>(92,704)</u>		<u>34,349</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th June, 2001

7. LOSS ATTRIBUTABLE TO PROPERTIES

	1.7.2000 to 30.6.2001 <u>HK\$'000</u>	1.4.1999 to 30.6.2000 <u>HK\$'000</u>
Deficit on revaluation of investment properties	(320)	(1,054)
(Loss) gain on disposal of investment properties	(400)	49
	<u>(720)</u>	<u>(1,005)</u>

8. LOSS FROM OPERATIONS

	1.7.2000 to 30.6.2001 <u>HK\$'000</u>	1.4.1999 to 30.6.2000 <u>HK\$'000</u>
Loss from operations has been arrived at after charging:		
Staff costs:		
Directors' remuneration (note 10)	27,530	3,730
Other staff costs	13,830	2,948
Total staff costs	<u>41,360</u>	<u>6,678</u>
Auditors' remuneration:		
Current year	1,100	900
Overprovision in prior year	–	(49)
Depreciation and amortisation		
Owned assets	4,238	4,015
Assets held under hire purchase contracts	–	23
Loss on disposal of property, plant and equipment	2,342	612
Operating lease payments in respect of rented premises	8,424	1,991
and after crediting:		
Interest income	903	202
Rental income from properties under operating leases, net of outgoings of HK\$10,000 (2000: HK\$15,000)	<u>533</u>	<u>65</u>

9. FINANCE COSTS

	1.7.2000 to 30.6.2001 <u>HK\$'000</u>	1.4.1999 to 30.6.2000 <u>HK\$'000</u>
Interest on:		
Bank and other borrowings wholly repayable within five years	2,462	1,310
Convertible notes	87	–
Hire purchase contracts	–	25
	<u>2,549</u>	<u>1,335</u>

10. DIRECTORS' REMUNERATION

	1.7.2000 to 30.6.2001 <u>HK\$'000</u>	1.4.1999 to 30.6.2000 <u>HK\$'000</u>
Directors' fees:		
Executive	–	–
Non-executive	–	–
Independent non-executive	–	–
	<u>–</u>	<u>–</u>
Other emoluments		
Executive		
Salaries and other benefits	11,828	3,330
Discretionary bonus	14,936	–
Contributions to retirement benefit scheme	28	–
Compensation for loss of office	551	–
Independent non-executive	187	400
	<u>27,530</u>	<u>3,730</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th June, 2001

10. DIRECTORS' REMUNERATION *(continued)*

The emoluments of the directors were within the following bands:

	No. of directors	
	1.7.2000 to 30.6.2001	1.4.1999 to 30.6.2000
Nil to HK\$1,000,000	9	10
HK\$1,000,001 to HK\$1,500,000	1	2
HK\$2,000,001 to HK\$2,500,000	1	–
HK\$3,500,001 to HK\$4,000,000	2	–
HK\$15,000,001 to HK\$15,500,000	1	–

The five highest paid individuals of the Group for the year ended 30th June, 2001 and for the period from 1st April, 1999 to 30th June, 2000 were all directors of the Company and details of their emoluments are set out above.

During the year, an amount of HK\$551,000 (2000: nil) was paid to one director as compensation for loss of office. Other than that, no emoluments were paid by the Group to any of the directors as an inducement to join the Group or as compensation for loss of office.

11. LOSS ATTRIBUTABLE TO INVESTMENTS

	1.7.2000 to 30.6.2001 <i>HK\$'000</i>	1.4.1999 to 30.6.2000 <i>HK\$'000</i>
Gain (loss) on disposal/dilution of subsidiaries (a)	7,316	(9,324)
Less: Goodwill previously written off against reserves	(568)	–
	6,748	(9,324)
Gain on disposal of investments in securities	156	–
Provision for payments made in connection with investment projects (b)	(13,633)	–
Impairment loss recognised in respect of goodwill (c)	(18,000)	–
Unrealised loss in investments in securities	(2,008)	–
Loss arising in connection with committed acquisition of additional interests in associate (d)	–	(5,965)
Loss arising in connection with committed repurchase of interest in a subsidiary (e)	–	(1,951)
	(26,737)	(17,240)

11. LOSS ATTRIBUTABLE TO INVESTMENTS *(continued)*

- (a) The net gain on disposal/dilution of subsidiaries during the year comprises (i) the gain on disposal of the Group's entire interest in Vincent Honour Limited of HK\$7,468,000; and (ii) the net loss on dilution of the Group's interest in Thinking Group Holdings Limited of HK\$720,000.

During the period from 1st April, 1999 to 30th June, 2000, the amount represented loss on disposal of the Group's entire interest in Chung Hwa Media Holdings Limited ("Chung Hwa Media") and those subsidiaries held under Chung Hwa Media.

- (b) During the year, the Group entered into an agreement ("Acquisition Agreement") with a third party to acquire a 25% equity interest in a company which operates a website for provision of trade information in the PRC. A payment of HK\$13,000,000 was made by the Group for such investment.

As the transfer of equity interest has not been completed, and following an assessment of business prospects of the web site, the Group entered into agreement to terminate the Acquisition Agreement and the payment made, which was accordingly treated as deposit and prepayment, will be refunded to the Group. A provision of HK\$9,500,000 was made during the year in view of the uncertainty on the recoverability of the outstanding amount.

The Group entered into agreement with two other third parties to establish an internet based business to business trading platform for online trading of sugar and wine in the PRC. An initial payment of HK\$4,133,000 was made for this investment project. Due to changes in market conditions, the investment project was temporarily suspended and a provision of HK\$4,133,000 was accordingly made against the initial payment.

- (c) The amount represented an impairment loss recognised in respect of all of the goodwill relating to the acquisition of the entire interest in Cheung On Consultants Limited and 20% interest in Coriolan Limited during the year.
- (d) At the time of the formation of Chung Hwa Food & Beverages Limited ("CHFBL") on 25th May, 1996, the Group and the other investors of CHFBL ("JV Partners") signed an agreement ("JV Agreement") which stated that CHFBL would seek a listing on an appropriate stock exchange within three years from the date of signing of the JV Agreement. In the event that such listing did not take place, the JV Agreement provided that the JV Partners have an option to exchange their shares in CHFBL for the Company's shares, during the period commencing from the third anniversary (i.e. 25th May, 1999) and ending on the fourth anniversary of the date of the JV Agreement. The number of shares to be issued pursuant to the exercise of the option by the JV Partners would depend on the prevailing market price of the Company's shares at the time when the option notice is served by the JV Partners.

11. LOSS ATTRIBUTABLE TO INVESTMENTS *(continued)*

On 29th December, 1999, the Group entered into a supplementary agreement to the JV Agreement with the JV Partners whereby the Group agreed to issue and allot 504,505,807 shares of HK\$0.10 per share to the JV Partners to discharge in full all the obligations of the Group under the JV Agreement and a provision of HK\$50,451,000 for the purchase of shares in CHFBL was made in the financial statements for the year ended 31st March, 1999.

During the period from 1st April, 1999 to 30th June, 2000, the Company issued and allotted 504,505,807 shares of HK\$0.10 each to the JV Partners in exchange for its 50% shareholding in CHFBL, which then became a wholly-owned subsidiary of the Group. An additional loss of approximately HK\$5,965,000 arose from such acquisition of interests in CHFBL.

- (e) On 26th February, 1997, the Group entered into an agreement (the "CHFB Agreement") with a third party ("Investor") for the sale of its 21.01% interest in Chung Hwa Food & Beverages Holdings Limited ("CHFBHL"), a wholly-owned subsidiary of the Group. Pursuant to the CHFB Agreement, if this subsidiary failed to obtain a listing status three years from the date of the CHFB Agreement, the Investor would be granted a put option one year thereafter which requires the Group to repurchase the 21.01% interest in CHFBHL from the Investor at a consideration of approximately HK\$27,300,000. The consideration would be satisfied by either issue and allotment of the Company's shares or by payment in cash plus interest thereon at 20% per annum charging from the date the CHFB Agreement was completed. The number of shares to be issued pursuant to the exercise of the option by the Investor would depend on the prevailing market price of the Company's shares at the time when the option notice was served by the Investor.

Following the exercise of the put option by the Investor, the Group agreed with the Investor to repurchase the 21.01% interests in CHFBHL in cash. Accordingly, a provision of HK\$32,008,000 was made in the financial statements for the year ended 31st March, 1999.

During the period from 1st April, 1999 to 30th June, 2000, a further amount of HK\$1,951,000 in respect of accrued interest was provided in the financial statements.

12. GAIN ON WAIVER OF OBLIGATIONS

The amount represents the waiver of the Group's outstanding obligations to certain creditors during the year.

13. GAIN ATTRIBUTABLE TO FINANCIAL RESTRUCTURING

	1.7.2000 to 30.6.2001 <u>HK\$'000</u>	1.4.1999 to 30.6.2000 <u>HK\$'000</u>
Waiver of unsecured financial obligations by banks, a financial institution and creditors	–	125,985
Gain on discharge of a secured financial obligation*	–	7,000
Waiver of accrued interest	–	2,545
	<u>–</u>	<u>135,530</u>
Less: Expenses incurred in connection with the financial restructuring	–	(1,879)
	<u>–</u>	<u>133,651</u>

* The gain arose when the obligation was satisfied by transferring the collateral to a bank. The amount represents the difference between the agreed value of the collateral to satisfy the obligation to the bank and the carrying value of such collateral as stated in the Group's financial statements.

14. IMPAIRMENT LOSS RECOGNISED IN RESPECT OF PROPERTY, PLANT AND EQUIPMENT

The amount represents the impairment loss recognised in respect of property, plant and equipment in respect of certain subsidiaries in the PRC following a rationalisation of the Group's business.

15. PROVISION FOR PAYMENTS UNDER GUARANTEE

During the period from 1st April, 1999 to 30th June, 2000, the amount represented provision for obligations crystallising on guarantees given by the Group to third parties.

16. TAXATION

The charge for the year/period represented underprovision of Hong Kong Profits Tax in prior year.

No provision for taxation has been made in the financial statements as the Group had incurred tax loss for the year/period.

Taxation in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. As the Company's PRC subsidiaries are Sino-foreign joint venture enterprises, they are eligible for certain tax holidays and concessions. Accordingly, certain of the PRC subsidiaries were subject to PRC income tax at reduced rates. No provision for taxation has been made in the financial statements as the PRC subsidiaries had incurred tax losses for the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th June, 2001

16. TAXATION *(continued)*

The Group has no other assessable income subject to income tax in other jurisdictions.

Details of unrecognised deferred taxation are set out in note 33.

17. NET (LOSS) PROFIT FOR THE YEAR/PERIOD

Of the Group's net loss for the year of HK\$92,483,000 (1.4.1999 to 30.6.2000: a profit of HK\$34,220,000), a loss of HK\$142,032,000 (1.4.1999 to 30.6.2000: a profit of HK\$60,259,000) has been dealt with in the financial statements of the Company.

18. (LOSS) EARNINGS PER SHARE

The calculation of the basic (loss) earnings per share is based on the net loss for the year of HK\$92,483,000 (1.4.1999 to 30.6.2000: profit of HK\$34,220,000) and on the weighted average number of 14,608,274,971 (1.4.1999 to 30.6.2000: weighted average number of 1,719,225,884) ordinary shares in issue.

No diluted loss per share has been presented for the current year as the exercise of the share options and conversion of the convertible notes would result in a decrease in the loss per share.

The diluted earnings per share for the period from 1st April, 1999 to 30th June, 2000 was based on the profit for the period of HK\$34,220,000 and on the adjusted weighted average number of 1,806,370,942 ordinary shares in issue during the period, after adjustment for the effect of dilutive potential ordinary shares on unexercised share options during the period.

19. INVESTMENT PROPERTIES

	THE GROUP
	<i>HK\$'000</i>
AT VALUATION	
At 1st July, 2000	5,431
Disposals	(2,891)
Deficit arising on revaluation (note 7)	(320)
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At 30th June, 2001	2,220
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The Group's investment properties were revalued at 30th June, 2001 by LCH (Asia-Pacific) Surveyors Limited, an independent firm of professional property valuers, on an open market value basis. The deficit arising on revaluation has been charged to the income statement.

The Group's investment properties were vacant during the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th June, 2001

19. INVESTMENT PROPERTIES *(continued)*

The carrying value of the investment properties comprises:

	THE GROUP	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Properties held under long term leases in Hong Kong	2,220	3,870
Properties held under medium-term leases in Hong Kong	–	1,561
	2,220	5,431

20. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings	Leasehold improvement	Furniture, fixtures and equipment	Plant and machinery	Motor vehicles	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
THE GROUP						
COST						
At 1st July, 2000	13,076	14,816	4,283	34,166	1,334	67,675
Additions	–	1,918	6,328	461	497	9,204
On acquisition of subsidiaries	7,364	750	1,547	672	172	10,505
Disposals	(3,723)	(1,918)	(269)	–	(547)	(6,457)
At 30th June, 2001	16,717	15,566	11,889	35,299	1,456	80,927
DEPRECIATION AND AMORTISATION						
At 1st July, 2000	4,714	13,311	4,020	26,399	1,131	49,575
Impairment	4,480	–	–	–	–	4,480
Provided for the year	487	958	1,047	1,706	40	4,238
Eliminated on disposals	(1,811)	(383)	(91)	–	(365)	(2,650)
At 30th June, 2001	7,870	13,886	4,976	28,105	806	55,643
NET BOOK VALUES						
At 30th June, 2001	8,847	1,680	6,913	7,194	650	25,284
At 30th June, 2000	8,362	1,505	263	7,767	203	18,100

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th June, 2001

20. PROPERTY, PLANT AND EQUIPMENT *(continued)*

The net book value of properties of the Group shown above comprises leasehold properties held in the PRC under medium-term leases.

	Furniture, fixtures and equipment	Motor vehicles	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
THE COMPANY			
COST			
At 1st July, 2000	255	206	461
Additions	3,862	123	3,985
Disposals	–	(206)	(206)
At 30th June, 2001	4,117	123	4,240
DEPRECIATION			
At 1st July, 2000	4	3	7
Provided for the year	318	31	349
Eliminated on disposals	–	(24)	(24)
At 30th June, 2001	322	10	332
NET BOOK VALUES			
At 30th June, 2001	3,795	113	3,908
At 30th June, 2000	251	203	454

21. INTERESTS IN SUBSIDIARIES

	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost less provision	2,000	–
Amounts due from subsidiaries	164,939	59,469
Less: Provision	(160,832)	(59,469)
	6,107	–

The amounts due from subsidiaries are unsecured, non-interest bearing and have no fixed repayment terms. In the opinion of the directors, the amounts are unlikely to be repaid within one year from the balance sheet date and are therefore classified as non-current.

21. INTERESTS IN SUBSIDIARIES *(continued)*

Details of the principal subsidiaries as at 30th June, 2001 are as follows:

Name	Place of incorporation/ registration and operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital held by the Company		Principal activities
			Directly	Indirectly	
Cheung On Consultants Limited	British Virgin Islands ("BVI")	US\$100	–	100%	Investment holding
CHFBHL	BVI	Ordinary shares US\$5,760	100%	–	Investment holding
		Preference shares 'A' US\$3,498,790, non-voting, priority on liquidation to ordinary shares and	100%	–	
		Preference shares 'B' US\$13,199,450, non-voting, priority on liquidation to ordinary shares	100%	–	
CHFBL	Hong Kong	Ordinary shares HK\$10,000	100%	–	Investment holding
		Preference shares 'A' HK\$37,995,000			
		Preference shares 'B' HK\$37,995,000			
China Eastern Investment Limited	BVI	US\$1	–	100%	Investment holding
Cosmos Wealth Investment Limited	Hong Kong	HK\$2	–	100%	Property holding
Fu Yuk DNA Holistic Limited	Hong Kong products	HK\$2	–	100%	Trading of health

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For the year ended 30th June, 2001

21. INTERESTS IN SUBSIDIARIES *(continued)*

Name	Place of incorporation/ registration and operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital held by the Company		Principal activities
			Directly	Indirectly	
Full Support Technology Limited	BVI	US\$1	–	100%	Investment holding
Harbin Dongfang (Hong Kong) Food Company Limited (“Harbin Dongfang”)	PRC	RMB16,905,299	–	100%	Manufacture and sale of food products
Harbin HDL (New Zealand) Limited	PRC	RMB5,618,976	–	100%	Manufacture and sale of food products
High Stone Assets Limited (“High Stone”)	BVI	US\$1	–	100%	Investment holding
iTech Investments Inc. (“iTech”)	BVI	US\$10	–	80%	Investment holding
Jamison Group Limited	BVI	HK\$75,000,000	–	100%	Investment holding
Rich City Investments Limited	Hong Kong	HK\$2	100%	–	Investment holding
Six Forest Bio-Science Holdings Limited	BVI	US\$1	100%	–	Investment holding
Star Cyber DNA Limited	Hong Kong	HK\$2	–	100%	Development of e-business security
Star Cyberpower Limited	BVI	US\$1	100%	–	Investment holding
Star Cyberpower Management Limited	Hong Kong	HK\$10,000	100%	–	Provision of management services

21. INTERESTS IN SUBSIDIARIES *(continued)*

Name	Place of incorporation/ registration and operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital held by the Company		Principal activities
			Directly	Indirectly	
Star Cyberpower V.F. Limited	BVI	US\$1	100%	–	Investment holding
Special Gold Assets Limited	BVI	HK\$3,900,000	–	100%	Investment holding
Starstruck Group Limited	BVI	US\$1	–	100%	Investment holding
Star Internet Financial Information Services Limited	Hong Kong	HK\$200	–	100%	Provision of financial information services
Star Paging Telecom Technology (Shenzhen) Company Limited	PRC	HK\$15,000,000	–	80%	Manufacture and sale of financial pagers
Thinking Group Limited	Hong Kong	HK\$3,708,235	–	67%	Trading of electronic products
Thinking Group Holdings Limited	BVI	HK\$4,500,000	–	67%	Investment holding
Xiamen Dongchen Food Industry Company Limited	PRC	RMB15,000,000	–	100%	Manufacture and sale of food products

A subsidiary of CHFBL has debt securities outstanding at 30th June, 2001, details of which are set out in note 28 to the financial statements.

None of the other subsidiaries of the Group had any debt securities outstanding at the balance sheet date or at any time during the year/period.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th June, 2001

22. INTEREST IN A SUBSIDIARY NOT CONSOLIDATED

	THE GROUP	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Share of net assets	—	—
The above is represented by:		
Share of net assets of subsidiary not consolidated	13,853	13,853
Less: Impairment loss recognised	(13,853)	(13,853)
	—	—

Details of the subsidiary not consolidated as at 30th June, 2001 are as follows:

<u>Name</u>	<u>Place of incorporation/ and operation</u>	<u>Issued and fully paid registered capital</u>	<u>Proportion of nominal value of registered capital held indirectly by the Company</u>	<u>Principal activity</u>
Nanchang Pepsi Cola Beverage Co. Ltd. ("Nanchang Pepsi")	PRC	US\$2,154,000	75%	Bottling of beverages

The Group through CHFBL holds 75% interest in Nanchang Pepsi. The Group does not have control or significant influence over Nanchang Pepsi as there are restrictions imposed on the Group's ability to appoint directors into the board of directors of Nanchang Pepsi. Accordingly, Nanchang Pepsi is considered as a subsidiary not consolidated and dealt with as investment in securities. The investment in Nanchang Pepsi is stated at the carrying amount at the date of lost control less any subsequent impairment loss.

For the year ended 30th June, 2001

23. INTERESTS IN ASSOCIATES

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Share of net assets	-	-

Details of the principal associates as at 30th June, 2001 are as follows:

Name of company	Place of incorporation	Proportion of nominal value of issued share capital held by the Group	Principal activity
Coriolan Limited	BVI	20%	Investment holding
Stareasy.com Limited	Hong Kong	20%	Provision of media agency services

24. INVESTMENTS IN SECURITIES OTHER INVESTMENTS

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Equity securities in Hong Kong:		
Listed	3,141	-
Unlisted	4,000	-
	7,141	-
Club debenture	150	150
	7,291	150
Classified as		
Current	3,141	-
Non-current	4,150	150
	7,291	150
Market value of listed securities	3,141	-

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th June, 2001

25. INVENTORIES

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Raw materials	2,380	958
Work in progress	714	–
Finished goods	4,685	142
	<u>7,779</u>	<u>1,100</u>

Inventories are stated at cost.

26. DEBTORS, DEPOSITS AND PREPAYMENTS

Included in the debtors, deposits and prepayments was an amount of HK\$14,586,000 in respect of payment made in connection with an investment.

The Group entered into agreement (“Cooperation Agreement”) with a third party (the “Partner”) in which both parties agreed to invest in a company which is mainly engaged in the research, development and marketing of Chinese character input software and Chinese language technology. The Group was required to inject an amount of US\$3,000,000 (equivalent to approximately HK\$23,400,000) in return for 25% equity interest in this company within a specified period of time (“Period”). As at 30th June, 2001, the Group had injected the amount of HK\$14,586,000. Having failed to make the injection in full within the Period, the Group is subject to a forfeiture of US\$1,000,000 (equivalent to approximately HK\$7,800,000) according to the Cooperation Agreement. The Company is currently in the process of negotiation with the Partner for the extension of the Period and, accordingly, no provision for any amount to be forfeited has been made in these financial statements.

26. DEBTORS, DEPOSITS AND PREPAYMENTS *(continued)*

The Group allows an average credit period of 60 days to its trade customers. Included in debtors, deposits and prepayments are trade debtors with the following aged analysis:

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
0-60 days	3,553	–
61-90 days	–	–
Over 90 days	–	207
	3,553	207
Other debtors, deposits and prepayments	25,176	9,974
	28,729	10,181

27. CREDITORS AND ACCRUED CHARGES

Included in creditors and accrued charges are trade creditors with the following aged analysis:

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
0-60 days	4,325	1,701
61-90 days	430	31
Over 90 days	3,923	3,520
	8,678	5,252
Accrued charges	33,685	34,464
	42,363	39,716

28. LOAN

The loan was granted by a minority shareholder of a subsidiary of CHFBL in previous year. The loan is unsecured, bears interest at 8% per annum and the holder of the loan has the right on the repayment date to convert the loan into ordinary shares of that subsidiary.

No conversion rights have been exercised during the year. At 30th June, 2001, the convertible loan is due for repayment.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th June, 2001

29. SHARE CAPITAL

	Number of shares	Value <i>HK\$'000</i>
Authorised		
Ordinary shares of HK\$0.10 each at 1st April, 1999	6,000,000,000	600,000
Share subdivision	54,000,000,000	–
Ordinary shares of HK\$0.01 each at 1st July, 2000 and 30th June, 2001	60,000,000,000	600,000
Issued and fully paid		
Ordinary shares of HK\$0.10 each at 1st April, 1999	2,522,529,039	252,253
Issue of new shares at HK\$0.10 each	504,505,807	50,451
Ordinary shares of HK\$0.10 each	3,027,034,846	302,704
Share reduction	–	(287,568)
Share consolidation	(1,513,517,423)	–
Issue of new shares of HK\$0.01 each	11,466,650,310	114,666
Ordinary shares of HK\$0.01 each at 1st July, 2000	12,980,167,733	129,802
Issue of new shares of HK\$0.01 each	2,643,425,890	13,834
Conversion of convertible notes	2,500,000,000	25,000
Exercise of share options	1,336,033,547	25,960
Ordinary shares of HK\$0.01 each at 30th June, 2001	19,459,627,170	194,596

The movements in the ordinary share capital for the period from 1st April, 1999 to 30th June, 2000 were as follows:

- (a) 504,505,807 ordinary shares of HK\$0.10 each were issued to the JV Partners at HK\$0.10 per share to discharge all the obligations of the Group under the JV Agreement, details of which are set out in note 11(d).

29. SHARE CAPITAL *(continued)*

- (b) Pursuant to resolutions passed at a special general meeting of the Company on 12th June, 2000:
- (i) The Group's financial restructuring was carried out and completed on 14th June, 2000, which involved the restructuring of the share capital:
- The par value of the issued shares was reduced from HK\$0.10 each to HK\$0.005 each.
 - Every two issued shares of HK\$0.005 each in the capital of the Company was consolidated into one new share of HK\$0.01 each.
 - Every unissued shares of HK\$0.10 each in the authorised share capital of the Company existing after completion of the Share Reduction and the Share Consolidation is subdivided into 10 shares of HK\$0.01 each.
- (ii) 5,500,000,000 shares of HK\$0.01 each were subscribed by Sheung Hai Developments Limited ("Sheung Hai"), a company beneficially owned by Wong Kam Fu, Nelson at HK\$0.01 per share.
- (iii) 4,500,000,000 shares of HK\$0.01 each were issued and allotted to institutional investors at HK\$0.01 per share by placements.
- (iv) 1,466,650,310 shares of HK\$0.01 each were issued and allotted to banks, a financial institution and creditors at HK\$0.01 per share as part of the consideration to discharge the Group's obligations to these parties, under the restructuring of the Group's obligations to banks, a financial institution and creditors pursuant to the Group's financial restructuring.

The movements in the ordinary share capital for the year ended 30th June, 2001 are as follows:

- (a) Pursuant to a resolution passed at a special general meeting of the Company on 12th June, 2000, 33,425,890 shares of HK\$0.01 each were issued and allotted to a creditor at HK\$0.01 per share as part of the consideration to discharge in full all the obligations of the Group pursuant to the Group's financial restructuring.
- (b) 150,000,000 shares of HK\$0.01 each were issued and allotted to Millennium Group Limited at HK\$0.04 per share, representing a discount of approximately 7% on the closing price of HK\$0.043 per share on 14th July, 2000, under a private share placement.

29. SHARE CAPITAL *(continued)*

- (c) 1,200,000,000 shares of HK\$0.01 each were issued and allotted to institutional investors at HK\$0.018 per share, representing a discount of approximately 33.3% on the closing price of HK\$0.027 per share on 1st November, 2000 under a private share placement.

Both shares mentioned in (b) and (c) were issued under the general mandate granted to the directors on 30th June, 2000.

- (d) 1,260,000,000 shares of HK\$0.01 each were issued and allotted to Wong Kam Fu, Nelson to satisfy the partial consideration for the acquisition of 80% interest in iTech.

The issue price of HK\$0.01 per share was same as the closing price of HK\$0.01 per share on 22nd February, 2001 and the shares were issued under the general mandate granted to the directors on 15th December, 2000.

- (e) 1,600,000,000 shares and 900,000,000 shares of HK\$0.01 each were issued and allotted to Gain Master Assets Limited ("Gain Master") and Direct Gain Profits Limited ("Direct Gain") at HK\$0.018 and HK\$0.01 per share, respectively, as a result of the conversion of convertible notes issued to these two parties during the year.

- (f) As a result of the exercise of share options, 1,336,033,547 shares of HK\$0.01 each were issued and allotted to Wong Kam Fu, Nelson.

All the shares issued during the year rank *pari passu* in all respects with the then existing shares.

30. SHARE OPTION

The Company has an employee share option scheme (the "Scheme") under which the board of directors of the Company may grant options to eligible employees, including executive directors, of the Company and its subsidiaries, to subscribe for shares in the Company at a price equal to the higher of the nominal value of the Company's shares and 80% of the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of the grant of the options. The maximum number of shares in respect of which options may be granted under the Scheme shall not exceed 10% of the issued share capital of the Company from time to time.

Options granted are exercisable at any time during the two year period commencing six months after the date on which the option is accepted and expiring on the last day of the two year period or 10th April, 2004, whichever is the earlier.

30. SHARE OPTION (continued)

Movements in the number of employee share options granted under the Scheme during the year are as follows:

Exercisable period	Exercise price <i>HK\$</i>	Number of share options				
		Outstanding at 1.7.2000	Granted during the year	Exercised during the year	Lapsed/ cancelled* during the year	Outstanding at 30.6.2001
14.6.2000 – 13.6.2001	0.01	2,596,033,547	–	(1,336,033,547)	(1,260,000,000)	–
21.2.2001 – 5.3.2003***	0.03842 **	–	800,000,000	–	(223,000,000)	577,000,000
30.4.2001 – 27.5.2003***	0.0163	–	201,000,000	–	(27,000,000)	174,000,000
7.5.2001 – 6.5.2003	0.0168	–	429,000,000	–	–	429,000,000
18.11.2001 – 17.11.2003	0.01	–	400,000,000	–	–	400,000,000
		<u>2,596,033,547</u>	<u>1,830,000,000</u>	<u>(1,336,033,547)</u>	<u>(1,510,000,000)</u>	<u>1,580,000,000</u>

* Upon the acquisition of 80% interest in iTech from Wong Kam Fu, Nelson by the issue and allotment of 1,260,000,000 shares of HK\$0.01 each in the Company, the number of shares options granted to Wong Kam Fu, Nelson was reduced by 1,260,000,000 accordingly.

** The exercise price of the aforesaid share options was amended from HK\$0.0352 to HK\$0.03842.

*** The exercisable periods are longer than two years because certain grantee of the options accepted the options on different dates.

The amount of consideration received by the Company for options granted during the year is not material.

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For the year ended 30th June, 2001

31. RESERVES

	Share premium	Contributed surplus	Capital reserve	Goodwill reserve	Deficit	Total
	<i>HK\$'000</i>	<i>HK\$'000</i> <i>(Note a)</i>	<i>HK\$'000</i> <i>(Note b)</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
THE GROUP						
At 1st April, 1999	162,707	–	1,700	–	(588,880)	(424,473)
Effect of share reduction	–	–	–	–	287,568	287,568
Arising on acquisition of interests in subsidiaries	–	–	–	9,052	–	9,052
Share issue expenses	(3,256)	–	–	–	–	(3,256)
Net profit for the period	–	–	–	–	34,220	34,220
At 30th June, 2000	159,451	–	1,700	9,052	(267,092)	(96,889)
Premium on issue of shares	26,900	–	–	–	–	26,900
Share issue expenses	(1,447)	–	–	–	–	(1,447)
Arising on acquisition of subsidiaries and associates	–	–	–	(41,539)	–	(41,539)
Impairment loss recognised	–	–	–	18,000	–	18,000
Realised on dilution of interest in subsidiaries	–	–	–	568	–	568
Net loss for the year	–	–	–	–	(92,483)	(92,483)
At 30th June, 2001	184,904	–	1,700	(13,919)	(359,575)	(186,890)
Attributed to:						
The Company and subsidiaries	184,904	–	1,700	(13,919)	(359,575)	(186,890)
Associates	–	–	–	–	–	–
At 30th June, 2001	184,904	–	1,700	(13,919)	(359,575)	(186,890)

31. RESERVES (continued)

	Share premium	Contributed surplus	Capital reserve	Goodwill reserve	Deficit	Total
	<i>HK\$'000</i>	<i>HK\$'000</i> <i>(Note a)</i>	<i>HK\$'000</i> <i>(Note b)</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
THE COMPANY						
At 1st April, 1999	162,707	93,289	–	–	(685,983)	(429,987)
Effect of share reduction	–	–	–	–	287,568	287,568
Share issue expenses	(3,256)	–	–	–	–	(3,256)
Net profit for the period	–	–	–	–	60,259	60,259
At 30th June, 2000	159,451	93,289	–	–	(338,156)	(85,416)
Premium on issue of shares	26,900	–	–	–	–	26,900
Share issue expenses	(1,447)	–	–	–	–	(1,447)
Net loss for the year	–	–	–	–	(142,032)	(142,032)
At 30th June, 2001	184,904	93,289	–	–	(480,188)	(201,995)

Notes:

- (a) The contributed surplus of the Company includes (i) the difference between the consolidated shareholders' funds of the subsidiaries at the date at which they were acquired by the Company, and the nominal amount of the Company's shares issued for the acquisition at the time of the group reorganisation prior to the listing of the Company's shares in 1994 and; (ii) the surplus arising from the group reorganisation in 1998.
- (b) The capital reserve of the Group represents the difference between the nominal amount of shares issued by the Company and the aggregate nominal amount of the issued share capital of subsidiaries acquired at the time of the group reorganisation prior to the listing of the Company's shares in 1994.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus 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 directors, no reserves are available for distribution to shareholders at 30th June, 2001 and 30th June, 2000.

32. CONVERTIBLE NOTE

	THE GROUP AND THE COMPANY	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Gain Master (a)	(28,800)	–
Less: Conversion into 1,600,000,000 shares of HK\$0.01 each	(28,800)	–
	–	–
Direct Gain (b)	13,800	–
Less: Conversion into 900,000,000 shares of HK\$0.01 each	(9,000)	–
	4,800	–
	4,800	–

- (a) The Group issued a convertible note in the amount of HK\$28,800,000 to Gain Master. The convertible note bears interest at 4% per annum and is redeemable on 6th April, 2003 unless it is previously converted or cancelled. The holder of the convertible note has the option to convert the convertible note into ordinary shares of the Company of HK\$0.01 each at an initial conversion price of HK\$0.018 per share, subject to adjustment, at any time during the period from 7th April, 2001 to 6th April, 2003.

During the year, the holder of the convertible note exercised the option to convert the whole convertible note into 1,600,000,000 shares of HK\$0.01 each at the conversion price of HK\$0.018 per share.

- (b) The Group issued a convertible note in the amount of HK\$13,800,000 to Direct Gain Profits. The convertible note bears interest at the higher of (i) the difference between the prime lending rate of the business day immediately before any date of interest payment quoted by the Hongkong and Shanghai Banking Corporation Limited and 2%; and (ii) 2% per annum and is redeemable on 18th June, 2004 unless previously converted or cancelled. The holder of the convertible note has the option to convert the convertible note into ordinary shares of the Company of HK\$0.01 each at an initial conversion price of HK\$0.01 per share, subject to adjustment, at any time during the period from 19th June, 2001 to 18th June, 2004.

During the year, the holder of the convertible note exercised the option to convert part of the convertible note into 900,000,000 shares of HK\$0.01 each at a price of HK\$0.01 per share.

33. DEFERRED TAXATION

At the balance sheet date, the net potential deferred tax asset, not recognised in the balance sheet, is analysed as follows:

	THE GROUP		THE COMPANY	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Tax effect of timing differences attributable to:				
Excess of tax allowances over depreciation	(821)	(35)	(605)	(42)
Tax losses unutilised	61,658	53,122	15,707	8,561
	60,837	53,087	15,102	8,519

The net potential deferred tax asset has not been recognised in the financial statements as it is not certain that the asset will be realised in the foreseeable future.

The net potential deferred tax credit (charge) arising during the year/period, which has not been recognised in the income statement, is as follows:

	THE GROUP		THE COMPANY	
	1.7.2000 to 30.6.2001 <i>HK\$'000</i>	1.4.1999 to 30.6.2000 <i>HK\$'000</i>	1.7.2000 to 30.6.2001 <i>HK\$'000</i>	1.4.1999 to 30.6.2000 <i>HK\$'000</i>
Tax effect of timing differences attributable to:				
(Excess) shortfall of tax allowance over depreciation	(786)	75	(563)	(38)
Tax losses arising	8,536	18,661	7,146	1,506
	7,750	18,736	6,583	1,468

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th June, 2001

34. RECONCILIATION OF (LOSS) PROFIT BEFORE TAXATION TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
(Loss) profit before taxation	(92,704)	34,349
Interest income	(903)	(202)
Interest expenses	2,549	1,335
Depreciation and amortisation	4,238	4,038
Loss on disposal of property, plant and equipment	2,342	612
Loss attributable to properties	720	2,725
Share of losses of associates	–	31,358
Gain on waiver of obligation	(8,069)	–
Provision for impairment in value of property, plant and equipment	4,480	21,618
Gain attributable to financial restructuring	–	(135,530)
Loss attributable to investments	26,737	17,240
Provision for payments under guarantee	–	5,671
Decrease in inventories	600	2,146
Increase in debtors, deposits and prepayments	(10,463)	(3,526)
(Decrease) increase in creditors and accrued charges	(109)	1,308
Net cash outflow from operating activities	(70,582)	(16,858)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th June, 2001

35. PURCHASE OF SUBSIDIARIES

	1.7.2000 to 30.6.2001 <u>HK\$'000</u>	1.4.1999 to 30.6.2000 <u>HK\$'000</u>
Net assets acquired:		
Property, plant and equipment	10,505	472
Inventories	7,279	–
Debtors, deposits and prepayments	6,833	1,038
Taxation receivable	617	–
Bank balances and cash	9,387	2
Creditors and accrued charges	(18,551)	(8,824)
Amounts due to group companies	–	(37,772)
Loan	–	(12,500)
Minority interest	(4,059)	–
	<u>12,011</u>	<u>(57,584)</u>
Loss attributable to investments	–	5,965
	<u>12,011</u>	<u>(51,619)</u>
Less: interest previously acquired as interest in associate	–	51,619
	<u>12,011</u>	<u>–</u>
Goodwill arising on acquisition of subsidiaries	32,539	–
	<u>44,550</u>	<u>–</u>
Satisfied by:		
Issue of shares	12,600	–
Cash	31,950	–
	<u>44,550</u>	<u>–</u>
Analysis of the net (outflow) inflow of cash and cash equivalents in connection with the purchase of subsidiaries:		
Cash consideration paid	(31,950)	–
Bank balances acquired	9,387	2
	<u>(22,563)</u>	<u>2</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th June, 2001

35. PURCHASE OF SUBSIDIARIES *(continued)*

The subsidiaries acquired during the year contributed cash outflow of HK\$8,853,000 to the Group's net operating cash outflow, received HK\$12,000 in respect of net returns on investments and servicing of finance, received refund of income tax of HK\$603,000 and utilized HK\$724,000 in respect of investing activities.

The subsidiaries acquired during the year contributed HK\$20,411,000 to the Group's turnover and HK\$7,775,000 to the Group's loss from operations.

The subsidiaries acquired during the period from 1st April, 2000 to 30th June, 2001 did not have material contribution to the net cash flows and results of the Group.

36. DISPOSAL/DILUTION OF SUBSIDIARIES

	1.7.2000 to 30.6.2001 <u>HK\$'000</u>	1.4.1999 to 30.6.2000 <u>HK\$'000</u>
Net assets disposed of:		
Bank balances and cash	11	51
Creditors and accrued charges	(7,479)	(1,369)
Minority interests	–	10,642
	<u>(7,468)</u>	<u>9,324</u>
(Gain) loss on disposal of subsidiaries	(7,468)	9,324
Consideration	–	–
	<u>–</u>	<u>–</u>
Analysis of the net outflow of cash and cash equivalents in connection with the disposal of subsidiaries:		
Bank balances and cash disposed of	(11)	(51)
	<u>(11)</u>	<u>(51)</u>

The subsidiaries disposed of during the year/period did not have material contribution to the net cash flows and results of the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th June, 2001

37. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Bank Loans	Obligations under hire purchase Bank loans	Convertible contracts	Share capital and share notes premium
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1st April, 1999	16,154	469	–	414,960
Proceeds on issue of shares	–	–	–	100,000
Expenses in connection with issue of shares	–	–	–	(3,256)
Repayment of bank loans	(9,758)	–	–	–
Repayment of obligations under hire purchase contracts	–	(469)	–	–
Other movements not involving cash flows:				
Amount reclassified from trust receipt and packing loans and bank overdrafts	22,039	–	–	–
On acquisition of subsidiaries	37,479	–	–	–
Set off with consideration from disposal of property, plant and equipment	(13,507)	–	–	–
Waiver of bank loans	(37,217)	–	–	–
Amount reclassified from provision	8,544	–	–	–
Amount reclassified from a subsidiary not consolidated	2,321	–	–	–
Issue of shares	(5,540)	–	–	65,117
Share reduction	–	–	–	(287,568)
At 1st July, 2000	20,515	–	–	289,253
Proceeds on issues of shares	–	–	–	40,960
Expenses in connection with issue of shares	–	–	–	(1,447)
Proceeds on issue of convertible notes	–	–	42,600	–
Repayment of bank loans	(8,959)	–	–	–
Other movements not involving cash flows:				
Issue of shares upon conversion of convertible notes	–	–	(37,800)	37,800
Issue of shares as partial consideration for acquisition of a subsidiary	–	–	–	12,600
Issue of shares for settlement of debts	–	–	–	334
	<u>11,556</u>	<u>–</u>	<u>4,800</u>	<u>379,500</u>

38. MAJOR NON-CASH TRANSACTIONS

During the year ended 30th June, 2001, the Group has the following major non-cash transactions:

- (i) The acquisition of interest in a subsidiary was partially satisfied by the issue of 1,260,000,000 shares of HK\$0.01 each.
- (ii) Obligations to a creditor of approximately HK\$334,000 were settled by the issue of the 33,425,890 shares of HK\$0.01 each.

During the period from 1st April, 1999 to 30th June, 2000, the Group has the following major non-cash transactions:

- (i) Obligations to banks, a financial institution and creditors of approximately HK\$14,667,000 were settled by the issue of the Company's shares.
- (ii) Obligations to banks and creditors of approximately HK\$13,952,000 and HK\$125,985,000 were settled by the transfer of property, plant and equipment disposal of and waived respectively.
- (iii) The acquisition of interest in a subsidiary was satisfied by the issue of 504,505,807 shares at HK\$0.10 each.

39. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had outstanding commitments under non-cancellable operating leases in respect of land and buildings, which fall due as follows:

	THE GROUP	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Within one year	4,914	4,011
In the second to fifth year inclusive	8,143	16,044
Over five years	22	90
	13,079	20,145

The Company had no significant operating lease commitment at the balance sheet date.

40. CAPITAL COMMITMENTS

	THE GROUP		THE COMPANY	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Capital expenditure contracted for but not provided in the financial statements relating to acquisition of property, plant and equipment	108	245	–	–

41. RETIREMENT BENEFITS SCHEME

The Group participate in a pension scheme, which was registered under the Mandatory Provident Fund Schemes Ordinance (the “MPF Ordinance”), for all its employees in Hong Kong. The scheme is a defined contribution scheme effective from December 2000 and is funded by contributions from employer and employees according to the provisions of the MPF Ordinance. During the year under review, the total amount contributed by the Group to the scheme and charged to the income statement was insignificant and no contributions were forfeited.

The employees in the subsidiaries in the PRC are members of the state-sponsored pension scheme operated by the government in the PRC. The subsidiaries in the PRC are required to contribute a certain percentage of their payroll to the pension scheme to fund the benefits. The only obligation of the Group with respect to the pension scheme is to make the required contributions under the scheme.

42. PLEDGE OF ASSETS

At 30th June, 2001, the Group has pledged one of its investment properties with a carrying value of HK\$610,000 (2000: HK\$3,670,000) to secure general banking facilities granted to the Group.

43. LITIGATION

On 19th August, 1998, TY Lee & Associate commenced proceedings against CHFBL, a subsidiary of the Group, for a sum of HK\$520,000 together with interest accrued and costs. CHFBL paid HK\$208,000 and HK\$156,000 on 31st August, 1998 and 7th October, 1998 respectively. As at the report date, no acknowledgement of service and defence have been filed in respect of the claim. The amount had been fully provided in the financial statements.

44. POST BALANCE SHEET EVENTS

The following significant events have occurred subsequent to the balance sheet date:

- (a) On 4th July, 2001, the Company entered into agreements to issue convertible notes of HK\$13,800,000 and HK\$6,800,000 to Gain Master and Directgain Profits, respectively.

The convertible notes bear interest at the higher of (i) the difference between the prime lending rate of the business day immediately before any date of interest payment quoted by the Hongkong and Shanghai Banking Corporation Limited and 3%; and (ii) 2% per annum and are redeemable on the third anniversary of the date of issue of the convertible notes, unless previously converted or cancelled.

The holders of the convertible notes have the option to convert the convertible notes into ordinary shares of the Company of HK\$0.01 each at an initial conversion price of HK\$0.01 per share, subject to adjustment, at any time during the period to the third anniversary of the date of issue.

- (b) On 17th October, 2001 the Company announced a capital reorganisation as follows:
- (i) Every forty existing issued shares will be consolidated into one consolidated issued share; and
 - (ii) The nominal value of each of the issued consolidated shares of HK\$0.40 each will be reduced by HK\$0.39 to HK\$0.01; and
 - (iii) Each of the authorized and issued consolidated shares will be sub-divided into 40 shares of HK\$0.01 each.

45. RELATED PARTY TRANSACTIONS

During the current year, the Group has the following transactions with the related parties:

- (a) The Group acquired the entire interest in Starstruck at a consideration of HK\$950,000.
- (b) The Group acquired 80% interest in iTech and 100% interest in High Stone at an aggregate consideration of HK\$19,600,000.

Wong Kam Fu, Nelson, the director of the Group, held the entire interest in Starstruck, iTech and High Stone.

Details of balances with related parties as at the balance sheet date are set out in the consolidated balance sheet and in notes 22, 23 and 28 to the financial statements.

Save as disclosed above, there were no other significant transactions with related parties during the year or significant balances with them at the end of the year.