

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”).

As a result of the Company’s poor financial position, 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 Upon successful completion of the restructuring, the winding-up petition was withdrawn and the Provisional Liquidators were released and discharged.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 again on the same date.

On 2 August 2001, the Company entered into the Restructuring Agreements with a new investor, Sourcebase, and with the trustee for the convertible bondholders of the Company. The proposals under the Restructuring Agreements were for debt restructuring involving creditors’ schemes of arrangements, subscription of new shares and warrants, whitewash waiver and creeper authorisation and the details are set out in the circular dated 22 October 2001. After the Restructuring Agreements were approved by the independent shareholders at a special general meeting held by the Company on 13 November 2001 and subsequently completed on 10 December 2001, the winding-up petition was withdrawn and the Provisional Liquidators were released and discharged on 10 December 2001.

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

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first time, the following Statements of Standard Accounting Practice (“SSAP(s)”) issued by the Hong Kong Society of Accountants:

SSAP 5 (Revised)	Earnings per share
SSAP 20	Related Party Disclosures
SSAP 22	Inventories

The adoption of SSAP 5 (Revised) has resulted in some modifications to the basis of calculation of earnings per share amounts and to the disclosures presented for earnings per share.

SSAP 20 requires the disclosure of details of transactions and balances with specified related parties.

The adoption of SSAP 22 has resulted in some changes in terminology and presentation, but does not have any effect on the results for the current or prior accounting periods.

3. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements for the year ended 30 June 1999 have been prepared on the following basis:

- (a) As a result of severe working capital difficulties, the operations of the Group were significantly curtailed during the year. As mentioned in note 1, the Company entered into the Restructuring Agreements with Sourcebase and the trustee for the convertible bondholders of the Company on 2 August 2001.

Upon the completion of the Restructuring Agreements on 10 December 2001,

- (i) Sourcebase subscribed 5,500,000,000 new ordinary shares of the Company for a consideration of HK\$55,000,000;
- (ii) Sourcebase subscribed for the 3-year unlisted and transferable warrants of the Company, for a total cash consideration of HK\$1, which will entitle the holder thereof to subscribe for in aggregate up to HK\$165,000,000 for new ordinary shares of the Company at a price of HK\$0.01 each;
- (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 was discharged in full by way of a cash payment of HK\$72,500,000 on a pro-rata basis; and

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

- (iv) Sourcebase agreed to provide and procure the provision of working capital facilities to the Company such that the Group have sufficient working capital for its operations for the next 12 months from 10 December 2001.

As such, the Directors have prepared the financial statements on a going concern basis.

- (b) The Directors 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\$1,232,400,000 in respect of which the Directors were unable to locate supporting delivery documentation. Accordingly, the Directors have been unable to satisfy themselves as to whether these sales are fairly stated in the financial statements.

- (ii) Loss for the year has been arrived at after charging/crediting the following amounts in respect of which the Directors were unable to locate third party supporting documentation:

- cost of sales of approximately HK\$1,177,000,000;
- other revenue of approximately HK\$7,000,000;
- administrative expenses of approximately HK\$48,600,000;
- finance costs of approximately HK\$29,100,000; and
- minority interests of approximately HK\$5,400,000.

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

- (c) The Directors were unable to obtain sufficient information to satisfy themselves as to whether:

- debts receivable of approximately HK\$330,400,000 recorded in the books of account are recoverable; and
- the Group has title to fixed assets recorded in the books of account of approximately HK\$43,200,000.

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

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

- (d) In the absence of any fixed assets register of the Group as at 30 June 1999, the Directors were unable to satisfy themselves as to the existence of fixed assets of approximately HK\$31,700,000 at 30 June 1999. Accordingly, they were unable to satisfy themselves as to whether fixed assets were fairly stated in the financial statements.
- (e) The Directors were unable to obtain sufficient evidence in respect of bank balances, investment properties and prepayments, deposits and other receivables of approximately HK\$36,300,000, HK\$34,700,000 and HK\$12,000,000, respectively, at 30 June 1999 so as to satisfy themselves as to whether these amounts were fairly stated in the financial statements.
- (f) The Group did not carry out physical count of inventories at 30 June 1999 and accordingly, the Directors were unable to satisfy themselves as to the existence of inventories of approximately HK\$39,200,000 at 30 June 1999. Accordingly, they were unable to satisfy themselves as to whether inventories were fairly stated in the financial statements.
- (g) The Directors were unable to satisfy themselves as to the completeness of accounts payables and accrued charges, obligation under finance leases, taxation and borrowings of approximately HK\$74,800,000, HK\$600,000, HK\$10,400,000 and approximately HK\$267,400,000, respectively, as at 30 June 1999. Accordingly, they were unable to satisfy themselves as to whether these amounts were fairly stated in the financial statements.
- (h) 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 Directors are unable to represent that all transactions entered into by the Company and its subsidiaries are reflected in the books and records and in the financial statements.
- (i) The Directors have found that accounting records have been mislaid and accordingly the following disclosures have not been made in the financial statements:
 - (i) Details of related party disclosures as required by 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”;

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

- (iv) Details of directors' and employees' emoluments, pension schemes and analysis of borrowings as required by Appendix 16 to the Listing Rules; and
- (v) Details of analysis of finance costs, share option scheme, pledge of assets, contingencies and commitments as required by the Companies Ordinance.

4. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies which have been adopted in preparing these financial statements and which conform with accounting principles generally accepted in Hong Kong are set out below.

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.

Turnover

Turnover represents the amounts received and receivable for good sold, less returns, to outside customers during the year.

Revenue recognition

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets

Fixed assets 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 profit and loss account 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 sales proceeds and the carrying amount of the asset and is recognised in the profit and loss account.

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 fixed assets 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 profit and loss account.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties (continued)

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property disposed of is credited to the profit and loss account.

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

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.

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 different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or 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.

NOTES TO THE FINANCIAL STATEMENTS For the year ended 30 June 1999

5. OPERATING (LOSS) PROFIT BEFORE EXCEPTIONAL ITEMS

	1999	1998
	<i>HK\$'000</i>	<i>HK\$'000</i>
Operating (loss) profit before exceptional items has been arrived at after charging (crediting):		
Auditors' remuneration	720	580
Depreciation	506	3,347
Directors' remuneration		
– fees	–	160
– other emoluments	–	4,665
Operating lease rentals in respect of land and buildings	–	912
Loss on disposal of fixed assets	–	66
Interest expenses	29,111	20,472
Interest income	(7,828)	(5,633)
	<u><u> </u></u>	<u><u> </u></u>

6. EXCEPTIONAL ITEMS

	1999	1998
	<i>HK\$'000</i>	<i>HK\$'000</i>
Provision for bad and doubtful debts	(330,390)	–
Amounts written off in respect of fixed assets	(43,232)	–
Deficit on revaluation of leasehold land and buildings	–	(11,179)
Gain on disposal of subsidiaries	–	1,829
	<u><u> </u></u>	<u><u> </u></u>
	(373,622)	(9,350)

7. TAXATION

	1999	1998
	<i>HK\$'000</i>	<i>HK\$'000</i>
The charge comprises:		
Profit tax for the year		
Hong Kong	–	3,478
Overseas	–	2,848
Underprovision in prior years	572	–
Deferred tax (credit) charge	(252)	165
	320	6,491
	320	6,491

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

For the year ended 30 June 1998, Hong Kong Profits Tax had been provided at the rate of 16% on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere had been calculated at the rates of taxation prevailing in the countries in which the Group operated, based on the legislation, interpretations and practices in respect thereof.

8. (LOSS) PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Of the Group's loss for the year of approximately HK\$385,944,000 (1998: profit of HK\$18,054,000), a loss of approximately HK\$225,983,000 (1998: profit of HK\$795,000) has been dealt with in the financial statements of the Company.

9. BASIC (LOSS) EARNINGS PER SHARE

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

	1999	1998
	<i>HK\$'000</i>	<i>HK\$'000</i>
(Loss) profit for the year for the purposes of basic		
(loss) earnings per share	<u>(385,944)</u>	<u>18,054</u>
	Number of	Number of
	Shares	Shares
	<i>'000</i>	<i>'000</i>
Weighted average number of ordinary shares for the		
purposes of basic (loss) earnings per share	<u>784,090</u>	<u>774,984</u>

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

The weighted average number of ordinary shares for the purpose of basic (loss) earnings per share has been adjusted for the share consolidation on 27 October 2000. Details of the share consolidation are set out in note 22 (2)(c).

10. FIXED ASSETS

	Plant and machinery	Leasehold land and building	Leasehold improvements	Furniture, fixtures, office equipment and motor vehicles	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
THE GROUP					
COST OR					
VALUATION					
At 1 July 1998	31,086	40,800	4,541	2,833	79,260
Additions	–	–	66	42	108
Write off	(31,086)	(10,449)	(2,509)	(429)	(44,473)
At 30 June 1999	<u>–</u>	<u>30,351</u>	<u>2,098</u>	<u>2,446</u>	<u>34,895</u>
DEPRECIATION					
At 1 July 1998	886	–	1,651	1,435	3,972
Charge for the year	–	–	267	239	506
Eliminated on write off	(886)	–	(325)	(30)	(1,241)
At 30 June 1999	<u>–</u>	<u>–</u>	<u>1,593</u>	<u>1,644</u>	<u>3,237</u>
NET BOOK VALUES					
At 30 June 1999	<u>–</u>	<u>30,351</u>	<u>505</u>	<u>802</u>	<u>31,658</u>
At 30 June 1998	<u>30,200</u>	<u>40,800</u>	<u>2,890</u>	<u>1,398</u>	<u>75,288</u>

For the year ended 30 June 1998, the leasehold land and buildings were all situated in Hong Kong and were revalued on an open market, existing use basis by C.Y. Leung & Company Limited, an independent firm of professional valuers, at HK\$40,800,000.

Had the Group's leasehold land and buildings been stated at cost less accumulated depreciation, its carrying amount as at 30 June 1998 would be restated at approximately HK\$49,449,000.

10. FIXED ASSETS (continued)

An analysis of the valuation of the leasehold land and buildings of the Group at 30 June 1998 was as follows:

	1998 <i>HK\$'000</i>
Held under long term leases	20,000
Held under medium term leases	20,800
At 30 June 1998	40,800

The net book value of assets held under finance leases included in the total amount of fixed asset at 30 June 1998 amounted to HK\$737,000.

As at 30 June 1998, the leasehold land and buildings with net book value of HK\$39,200,000 were pledged to secure general banking facilities granted to the Group.

No detailed analysis on the above information are presented for the year ended 30 June 1999 as a result of the incomplete books and records maintained by the Group.

11. INVESTMENT PROPERTIES

	THE GROUP	
	1999 <i>HK\$'000</i>	1998 <i>HK\$'000</i>
At 1 July	34,700	39,700
Deficit on revaluation	–	(5,000)
At 30 June	34,700	34,700

The investment properties were revalued at their open market value as at 30 June 1998 by C.Y. Leung & Company Limited, an independent firm of professional valuers, on an open market existing use basis. This valuation gave rise to a revaluation decrease of HK\$5,000,000 which has been charged to the investment property revaluation reserve.

At 30 June 1998, investment properties of the Group amounting to HK\$7,700,000 were pledged to secure general banking facilities granted to the Group.

11. INVESTMENT PROPERTIES (continued)

The carrying amount of investment properties of the Group at the balance sheet date is as follows:

	1999	1998
	<i>HK\$'000</i>	<i>HK\$'000</i>
Situating in Hong Kong and the relevant lease terms are summarised as follows:		
Held under long term	2,700	2,700
Held under medium lease	5,000	5,000
Situating outside Hong Kong and held under medium leases	27,000	27,000
	34,700	34,700
	34,700	34,700

No detailed analysis on the above information are presented for the year ended 30 June 1999 as a result of the incomplete books and records maintained by the Group.

12. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	1999	1998
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted investments, at cost	67,085	67,085
Due from subsidiaries	150,982	75,818
Less: Provision for diminution in value	(218,067)	–
	–	142,903
	–	142,903

12. INTERESTS IN SUBSIDIARIES (continued)

Details of the Company's principal subsidiaries as at 30 June 1999 are as follows:

Name	Place of incorporation	Nominal value of issued share capital	Proportion of nominal value of issued share capital held by the Company %	Principal activities
Always Triumph Limited	Hong Kong	HK\$2 Ordinary	100	Property holding
Join Ocean Limited	British Virgin Islands	US\$1,000 Ordinary	100	Provision of marketing services
Linfa Industrial Company Limited	Hong Kong	HK\$2 Ordinary	100	Distribution of photographic products
New Pretty Limited	Hong Kong	HK\$1,000,000 Ordinary	100	Property holding
Powermax Investments Limited	British Virgin Islands	US\$1,000 Ordinary	100	Investment holding
Queen Sing Trading Limited	Hong Kong	US\$10,000 Ordinary	100	Property holding
Supreme Million Limited	Hong Kong	HK\$2 Ordinary	100	Property holding
Wah Lee Advanced Technology Company Limited	Hong Kong	HK\$3,500,000 Ordinary	68	Manufacturing and trading of audio-visual disks
Wah Lee Multi-media Company Limited	British Virgin Islands	US\$1 Ordinary	68	Trading of audio-visual disks

12. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation	Nominal value of issued share capital	Proportion of nominal value of issued share capital held by the Company %	Principal activities
Wah Lee Resources Company Limited	Hong Kong	HK\$10,000,000 Ordinary	100	Distribution of air-conditioning systems, audio-visual and photographic products
Wah Lee Trading Company Limited	British Virgin Islands	US\$1 Ordinary	100	Distribution of air-conditioning systems, audio-visual, photographic and other consumer products

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affects the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, 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.

NOTES TO THE FINANCIAL STATEMENTS For the year ended 30 June 1999
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13. CURRENT ASSETS

	THE GROUP		THE COMPANY	
	1999	1998	1999	1998
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
CURRENT ASSETS				
Inventories (note 14)	39,155	97,732	–	–
Accounts receivable	–	75,077	–	–
Prepayments, deposits and other receivables	11,955	9,316	2,015	53
Dividend receivable	–	–	–	2,000
Bank balances	36,333	134,025	17,725	30,000
	<u>87,443</u>	<u>316,150</u>	<u>19,740</u>	<u>32,053</u>

14. INVENTORIES

	THE GROUP	
	1999	1998
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	–	889
Finished goods	39,155	96,843
	<u>39,155</u>	<u>97,732</u>

15. CURRENT LIABILITIES

	THE GROUP		THE COMPANY	
	1999	1998	1999	1998
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Other payables and accrued charges	74,751	4,666	71,062	220
Taxation	10,413	13,367	140	140
Borrowings (note 16)	267,357	185,206	–	75
Current portion of finance lease payable (note 19)	565	188	–	–
	<u>353,086</u>	<u>203,427</u>	<u>71,202</u>	<u>435</u>

16. BORROWINGS

	THE GROUP	
	1999	1998
	<i>HK\$'000</i>	<i>HK\$'000</i>
Borrowings comprise the following:		
Bank loans and overdrafts	267,357	35,630
Bills payable and trust receipt loans	–	179,358
	<u>267,357</u>	<u>214,988</u>
Amount due within one year shown under current liabilities (note 15)	<u>(267,357)</u>	<u>(185,206)</u>
Amount due after one year	–	<u>29,782</u>

No detailed analysis on borrowings are presented for the year ended 30 June 1999 as a result of the incomplete books and records maintained by the Group.

	THE COMPANY	
	1999	1998
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank loans and overdrafts	–	75

17. SHARE CAPITAL

	Authorised <i>HK\$'000</i>	Issued and fully paid <i>HK\$'000</i>
Ordinary shares of HK\$0.10 each		
Balance at 1 July 1998 and at 30 June 1999	200,000	156,818

Warrants

The warrant instrument dated 29 April 1999 entitled each warrant holder 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 joint and several 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.

18. RESERVES

	Share premium <i>HK\$'000</i>	Other properties revaluation reserve <i>HK\$'000</i>	Investment property revaluation reserve <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP						
At 1 July 1998	90	2,949	13,281	–	13,521	29,841
Loss for the year	–	–	–	–	(385,944)	(385,944)
	<u>90</u>	<u>2,949</u>	<u>13,281</u>	<u>–</u>	<u>(372,423)</u>	<u>(356,103)</u>
At 30 June 1999	<u>90</u>	<u>2,949</u>	<u>13,281</u>	<u>–</u>	<u>(372,423)</u>	<u>(356,103)</u>
THE COMPANY						
At 1 July 1998	90	–	–	16,048	1,565	17,703
Loss for the year	–	–	–	–	(225,983)	(225,983)
	<u>90</u>	<u>–</u>	<u>–</u>	<u>16,048</u>	<u>(224,418)</u>	<u>(208,280)</u>
At 30 June 1999	<u>90</u>	<u>–</u>	<u>–</u>	<u>16,048</u>	<u>(224,418)</u>	<u>(208,280)</u>

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 therefor.

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 Directors, the Company has no reserves available for distribution to its shareholders at the balance sheet date.

19. OBLIGATIONS UNDER FINANCE LEASES

The maturity of obligations under finance leases is as follows:

	1999	1998
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	565	188
In the second to fifth years, inclusive	–	565
	<hr style="width: 100%;"/>	<hr style="width: 100%;"/>
	565	753
Amount due within one year shown under current liabilities (note 15)	(565)	(188)
	<hr style="width: 100%;"/>	<hr style="width: 100%;"/>
	–	565
	<hr style="width: 100%;"/>	<hr style="width: 100%;"/>

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

	1999	1998
	<i>HK\$'000</i>	<i>HK\$'000</i>
(Loss) profit before taxation	(391,077)	24,638
Interest income	(7,828)	(5,633)
Interest expenses	29,111	20,397
Interest element on finance lease rental payments	–	75
Write off of fixed assets	43,232	–
Deficit on revaluation of leasehold land and buildings	–	11,179
Gain on disposal of subsidiaries	–	(1,829)
Depreciation	506	3,347
Loss on disposal of fixed assets	–	66
Provision for bad and doubtful debts	330,390	–
(Increase) decrease in accounts receivable	(119,259)	37,693
Increase in prepayments, deposits and other receivables	(2,639)	(45)
Decrease in inventories	58,577	51,738
Increase (decrease) in accounts payable and accrued charges	70,085	(2,458)
Decrease in bills payables and trust receipt loan of original maturity over three months	–	(103,838)
	<hr style="width: 100%;"/>	<hr style="width: 100%;"/>
Net cash inflow from operating activities	11,098	35,330
	<hr style="width: 100%;"/>	<hr style="width: 100%;"/>

21. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Borrowings	Obligations under finance leases	Share capital and share premium account (including contributed surplus)	Minority interests
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 July 1998	214,988	753	156,908	5,453
Loss attributed to minority shareholders	–	–	–	(5,453)
Net cash inflow (outflow) from financing	52,369	(188)	–	–
At 30 June 1999	<u>267,357</u>	<u>565</u>	<u>156,908</u>	<u>–</u>

22. POST BALANCE SHEET EVENTS

- (1) 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 Wuling Holdings Limited (“Liuzhou”), series A and series B convertible bonds (“Convertible Bonds”) with an aggregate principal amount of HK\$205,000,000 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 secured by a first charge over all the assets of the Company.

The interest bearing series A convertible bonds at 6% per annum of HK\$150,000,000 will mature on 27 October 2003 and the non-interest bearing series B convertible bonds of HK\$55,000,000 matured on 29 January 2000. As explained in note 3(a)(iii), under the Restructuring Agreements, these amounts has been discharged in full on a pro-rata basis.

22. POST BALANCE SHEET EVENTS (continued)

- (2) 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 the 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 approximately 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 account 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.

(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”).

22. POST BALANCE SHEET EVENTS (continued)

(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.

(e) Issue of shares

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\$5,000,000 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.

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

- (3) 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.

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 in which approximately HK\$6,000,000 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\$13,000,000 was transferred to or for the benefit of Liuzhou. This amount has been provided for in full for the year ended 30 June 2001.

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

22. POST BALANCE SHEET EVENTS (continued)

- (4) As further disclosed in note 3(a), on 2 August 2001, the Company entered into the Restructuring Agreements with Sourcebase and the trustee for the convertible bondholders of the Company. The Restructuring Agreements were completed on 10 December 2001.
- (5) Upon the completion of the Restructuring Agreements on 10 December 2001, the creditors' indebtedness of the Company, including convertible bonds and amounts due to all other creditors of the Company as at 16 February 2001 was discharged in full by way of a cash payment of HK\$72,500,000 on a pro-rata basis, which resulted in a profit of approximately HK\$138,897,000.
- (6) After 31 December 2001, Sourcebase exercised its rights in the warrants granted by the Company to subscribe for 11,500,000,000 ordinary shares in the Company.