

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2000

1. GENERAL

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 Upon successful completion of the restructuring, the winding-up petition was withdrawn and the Provisional Liquidators were released and discharged.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

On 2 August 2001, the Company entered into a conditional subscription agreement and a conditional restructuring agreement ("Restructuring Agreements") with a new investor, Sourcebase Developments Limited ("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held by the Company on 13 November 2001 and subsequently completed on 10 December 2001, the winding-up petition was withdrawn and the Provisional Liquidators were released and discharged on 10 December 2001.

2. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with Statement of Standard Accounting Practice (“SSAP”) 25 “Interim Financial Reporting” and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), except that, in this first year of implementation of the SSAP 25, as permitted by the Listing Rules, no comparative amounts have been presented for the condensed cash flow statement.

The condensed financial statements have been prepared on the following basis:

- (a) Although the new directors appointed to the Board on 10 December 2001 (the “Directors”) have used their best endeavours to relocate all the financial and business records of the Group as all of the former directors of the Company, former senior management and former accounting personnel of the Group have left the Group, the Directors have been unable to locate sufficient documentary information to satisfy themselves regarding the treatment of various balances of the Group as at 31 December 2000 and for the six months then ended. Any adjustments to the opening balances of the Group as at 1 July 2000 would affect the net liabilities of the Group as at 31 December 2000 and the results of the Group for the six months then ended. Also the comparative figures to the consolidated balance sheet of the Group as at 30 June 2000 shown on page 9 may not be comparable with the figures as at 31 December 2000.

Similarly, the comparative figures to the condensed consolidated income statement for the six months ended 31 December 2000 shown on page 8 may not be comparable with the figures for the current period.

- (b) The Directors have found that accounting records have been mislaid and accordingly have encountered the limitations referred to below in preparing the condensed financial statements:
- (i) Turnover includes recorded sales of approximately HK\$2,900,000 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 material modification is required to be made to sales as stated in the condensed financial statements.
 - (ii) Net loss for the period 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\$2,800,000;
 - other revenue of approximately HK\$500,000;
 - provision for bad and doubtful debts of approximately HK\$13,000,000 in respect of amount transferred to or for the benefit of Liuzhou Wuling Holdings Limited (“Liuzhou”);
 - administrative expenses of approximately HK\$11,700,000;
 - finance costs of approximately HK\$1,400,000; and
 - provision for taxation written back of approximately HK\$9,800,000.

Accordingly, the Directors have been unable to satisfy themselves as to whether material modifications are required to be made to these amounts as stated in the condensed financial statements.

- (c) The Directors were unable to obtain sufficient information to satisfy themselves as to whether:
- debts receivable of approximately HK\$15,700,000 recorded in the books of account are recoverable; and
 - the Group has title to property, plant and equipment recorded in the books of account at approximately HK\$25,600,000.

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

- (d) No management accounts or other financial information of certain subsidiaries were available to the Group for any period subsequent to 1 July 2000. On this basis the Directors have written off the aggregate recorded carrying amount of these subsidiaries as at 30 June 2000 in the sum of approximately HK\$3,300,000 during the six months ended 31 December 2000. However, in the absence of any other information as to when the Group lost effective control over these subsidiaries, the Directors have been unable to satisfy themselves as to the appropriateness of making this write off during the period.
- (e) The Directors were unable to obtain sufficient evidence in respect of bank balances of approximately HK\$28,900,000 at 31 December 2000 so as to satisfy themselves as to whether material modification is required to be made to bank balances as stated in the condensed financial statements.
- (f) The Directors were unable to satisfy themselves as to the completeness of accounts payable and accrued charges and borrowings of approximately HK\$8,800,000 and HK\$203,000,000, respectively, as at 31 December 2000. Accordingly, they were unable to satisfy themselves as to whether material modifications are required to be made to these amounts as stated in the condensed financial statements.
- (g) The condensed financial statements have been prepared based on the available books and records maintained by the Group. However, in view of the lack of evidence available as described above, the Directors are unable to represent that all transactions entered into by the Group are reflected in the books and records and in the condensed financial statements.

3. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention. The accounting policies adopted for the preparation of the condensed financial statements are consistent with those adopted in the preparation of the Group's annual financial statements for the year ended 30 June 2000.

4. TURNOVER

Turnover represents the invoiced value of goods sold, net of trade discounts and returns.

5. SEGMENT INFORMATION

No detailed analyses on segmental information are disclosed as a result of the incomplete books and records maintained by the Group.

6. TAXATION

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

7. BASIC LOSS PER SHARE

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

	Six months ended	
	31 December	
	2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net loss for the period for the purpose		
of basic loss per share	<u>(60,456)</u>	<u>(10,704)</u>
	Number	Number
	of shares	of shares
	<i>'000</i>	<i>'000</i>
Weighted average number of ordinary shares for the		
purpose of basic loss per share	<u>2,297,852</u>	<u>784,090</u>

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

The weighted average number of ordinary shares for the purpose of basic loss per share has been adjusted for the share consolidation on 27 October 2000. Details of the share consolidation are set out in note 9.

8. BORROWINGS

Pursuant to the compromise agreement dated 12 July 2000 entered into between the Company, the subsidiaries of the Company, the financial creditors and the non-financial creditors of the Group, the Provisional Liquidators and the investor, Liuzhou, series A and series B convertible bonds (“Convertible Bonds”) with an aggregate principal amount of HK\$205,000,000 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 were 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. Under the Restructuring Agreements as mentioned in note 1, these amounts were discharged in full on 10 December 2001.

9. SHARE CAPITAL

	<i>Notes</i>	Number of shares <i>'000</i>	Share capital <i>HK\$'000</i>
Ordinary shares of HK\$0.01 each, issued and fully paid:			
Balance at 1 July 1999		1,568,183	156,818
Exercise of warrants		13,480	1,348
Exercise of share options		27,400	2,740
		<hr/>	<hr/>
Balance at 1 July 2000		1,609,063	160,906
Capital reduction, shares of HK\$0.005 each	<i>(1a)</i>	(804,532)	(152,861)
Issue of shares	<i>(2)</i>	4,057,300	40,573
		<hr/>	<hr/>
At 31 December 2000		<u>4,861,831</u>	<u>48,618</u>

Notes:

(1) Restructuring proposals

Pursuant to the circular dated 29 September 2000, the Company has entered into restructuring proposals (the "Restructuring Proposals") with Liuzhou, the Provisional Liquidators, the financial creditors and the non-financial creditors of the Group. The Restructuring Proposals are for capital restructuring, debt restructuring, cash subscription of new shares, and issue of convertible bonds and new shares, which have been approved by shareholders of the Company on 27 October 2000. Details of the Restructuring Proposals were as follows:

(a) Capital reduction

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

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

(b) *Share cancellation*

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

(c) *Share consolidation*

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

(d) *Increase in authorised share capital*

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

(2) Issue of shares

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

- (i) 2,532,600,000 new shares of HK\$0.01 each for an aggregate amount of HK\$25,326,000 in cash were issued and allotted to Liuzhou upon completion of the cash subscription pursuant to the terms of the subscription agreement dated 12 July 2000. The net proceeds of the subscription were used to repay the unsecured indebtedness of the Group;
- (ii) 500,000,000 new shares of HK\$0.01 each were issued and allotted at par to Liuzhou pursuant to the terms of the compromise agreement dated 12 July 2000 to capitalise its claims against the Company up to a maximum amount of HK\$5,000,000 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.

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

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

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

10. RESERVES

	Share premium	Other properties revaluation reserve	Investment property revaluation reserve	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 July 1999	90	2,949	13,281	(372,423)	(356,103)
Exercise of warrants	647	-	-	-	647
Exercise of share options	53	-	-	-	53
Deficit on revaluation	-	(2,949)	(13,281)	-	(16,230)
Loss for the year	-	-	-	(66,508)	(66,508)
At 1 July 2000	790	-	-	(438,931)	(438,141)
Reduction of share premium transferred to accumulated losses	(790)	-	-	790	-
Reduction of share capital transferred to accumulated losses	-	-	-	152,861	152,861
Issue of shares	114,223	-	-	-	114,223
Loss for the period	-	-	-	(60,456)	(60,456)
At 31 December 2000	<u>114,223</u>	<u>-</u>	<u>-</u>	<u>(345,736)</u>	<u>(231,513)</u>

11. SUBSEQUENT EVENTS

- (1) 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.
- (2) 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.