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 Upon successful completion of the restructuring, the winding-up petition was withdrawn and the Provisional Liquidators were released and discharged.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held by the Company on 13 November 2001 and subsequently completed on 10 December 2001, the winding-up petition was withdrawn and the Provisional Liquidators were released and discharged on 10 December 2001.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 principal 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 1 (Revised)	Presentation of financial statements
SSAP 2 (Revised)	Net profit or loss for the period, fundamental errors and changes in accounting policies

SSAP 1 (Revised) and SSAP 2 (Revised) are concerned with the presentation and disclosure of financial information. The presentation in the current year's financial statements has been modified in order to conform with the requirements of those standards. In particular, additional analyses of income and expenditure have been presented and expense item that was separately identified on the face of the income statement as exceptional item in the prior year has been reclassified within an appropriate expense classification.

In addition, the description of various components in the financial statements and the terminology used have been updated to reflect the terminology of the new standards.

None of the amendments outlined above has affected the results for the current or prior periods.

3. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements for the year ended 30 June 2000 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 a new investor, 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;

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

(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

(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) Although 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 and of the Company as at 30 June 2000 and for the year then ended. Any adjustments to the opening balances of the Group and of the Company as at 1 July 1999 would affect the net liabilities of the Group and of the Company as at 30 June 2000 and the results of the Group for the year then ended. Also the comparative figures in respect of the net liabilities of the Group and of the Company as at 30 June 1999 shown on pages 17 and 18 and the results of the Group for the year ended 30 June 2000 shown on page 16 may not be comparable with the figures for the current year.

(c) 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$134,600,000 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 before taxation 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$121,100,000;
- other revenue of approximately HK$2,900,000;
- administrative expenses of approximately HK$21,300,000; and
- finance costs of approximately HK$18,800,000.

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

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

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

- debts receivable of approximately HK$18,400,000 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$3,400,000.

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.

(e) No management accounts or other financial information of certain subsidiaries were available to the Group for any period subsequent to 1 July 1999. On this basis, the Directors have written off the aggregate recorded carrying amount of these subsidiaries as at 30 June 1999 in the sum of approximately HK$14,900,000 during the year ended 30 June 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 year.

(f) In the absence of any fixed assets register of the Group as at 30 June 2000, the Directors were unable to satisfy themselves as to the existence of properties, plant and equipment of approximately HK$25,600,000 at 30 June 2000 (1999: HK$31,700,000). Accordingly, they were unable to satisfy themselves as to whether properties, plant and equipment were fairly stated in the financial statements.

(g) The Directors were unable to obtain sufficient evidence in respect of bank balances and prepayments, deposits and other receivables of approximately HK$7,900,000 and HK$5,300,000, respectively, at 30 June 2000 so as to satisfy themselves as to whether these amounts were fairly stated in the financial statements.

(h) The Group did not carry out physical count of inventories at 30 June 2000 or as at 30 June 1999 and, accordingly, the Directors were unable to satisfy themselves as to the existence of inventories of approximately HK$1,300,000 as at 30 June 2000 and HK$39,200,000 as at 30 June 1999. Accordingly, they were unable to satisfy themselves as to whether these amounts were fairly stated in the financial statements.

(i) The Directors were unable to satisfy themselves as to the completeness of accounts payable and accrued charges, taxation and borrowings of approximately HK$49,100,000, HK$9,800,000 and HK$274,000,000, respectively, as at 30 June 2000. Accordingly, they were unable to satisfy themselves as to whether these amounts were fairly stated in the financial statements.

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

(j) 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.

(k) Because certain accounting records have been mislaid the following required 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";

(iv) Details of segment information, directors' and employees' emoluments, pension schemes and analysis of borrowings as required by the Listing Rules; and

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

4. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

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

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

4. 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, as reduced by any decline in the value of the subsidiary that is other than temporary.

Revenue recognition

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

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

Property, plant and equipment

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

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

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

Investment properties

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

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

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

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

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

5. TURNOVER

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

6. LOSS FROM OPERATIONS

	2000	1999
	HK$'000	*HK$'000*
Loss from operations has been arrived at after charging (crediting):		
Auditors' remuneration	**562**	720
Depreciation	**–**	506
Staff costs	**9,359**	13,733
Interest expenses	**18,767**	29,111
Interest income	**(603)**	(7,828)
Net exchange gain	**(56)**	(54)

7. TAXATION

	2000 *HK$'000*	1999 *HK$'000*
The charge comprises:		
Underprovision in prior years	–	572
Deferred tax credit	–	(252)
	–	320

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

8. NET LOSS FOR THE YEAR

Of the Group's net loss for the year of approximately HK$66,508,000 (1999: HK$385,944,000), a loss of approximately HK$26,081,000 (1999: HK$225,983,000) has been dealt with in the financial statements of the Company.

9. BASIC LOSS PER SHARE

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

	2000 *HK$'000*	1999 *HK$'000*
Net loss for the year for the purposes of basic loss per share	**66,508**	385,944
	Number of Shares '000	*Number of Shares '000*
Weighted average number of ordinary shares for the purposes of basic loss per share	**804,531**	784,090

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 per share has been adjusted for the share consolidation on 27 October 2000. Details of the share consolidation are set out in note 20.

10. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and building HK$'000	Leasehold improvements HK$'000	Furniture, fixtures, office equipment and motor vehicles HK$'000	Total HK$'000
THE GROUP				
COST OR VALUATION				
At 1 July 1999	30,351	2,098	2,446	34,895
Additions	–	–	286	286
Write off	(2,851)	–	(2,068)	(4,919)
Revaluation deficit	(2,949)	–	–	(2,949)
At 30 June 2000	24,551	2,098	664	27,313
DEPRECIATION				
At 1 July 1999	–	1,593	1,644	3,237
Eliminated on write off	–	–	(1,517)	(1,517)
At 30 June 2000	–	1,593	127	1,720
NET BOOK VALUES				
At 30 June 2000	24,551	505	537	25,593
At 30 June 1999	30,351	505	802	31,658

The Directors have found that accounting records have been mislaid and accordingly nil depreciation is provided during the year to write off the cost or valuation of property, plant and equipment.

11. INVESTMENT PROPERTY

	THE GROUP	
	2000	1999
	HK$'000	*HK$'000*
At 1 July	**34,700**	34,700
Deficit on revaluation	**(13,281)**	–
Disposals	**(5,819)**	–
At 30 June	**15,600**	34,700

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

At the balance sheet date, the investment property of the Group is situated in the People's Republic of China and is held under a medium-term lease.

12. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2000	1999
	HK$'000	*HK$'000*
Unlisted investments, at cost	**67,085**	67,085
Due from subsidiaries	**166,448**	150,982
Less: Provision for diminution in values	**(233,533)**	(218,067)
	–	–

12. INTERESTS IN SUBSIDIARIES (continued)

Details of the Company's principal subsidiaries as at 30 June 2000 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
			%	
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
Liufa 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

12. INTERESTS IN SUBSIDIARIES (continued)

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.

13. INVENTORIES

THE GROUP

The amount represents finished goods which is stated at cost.

14. BORROWINGS

	THE GROUP	
	2000	1999
	HK$'000	*HK$'000*
Borrowings comprise the following:		
Bank loans and overdrafts	**239,218**	267,357
Other borrowings	**34,766**	–
	273,984	267,357

	THE COMPANY	
	2000	1999
	HK$'000	*HK$'000*
Other borrowings	**34,766**	–

15. SHARE CAPITAL

	Authorised	Issued and fully paid
	HK$'000	*HK$'000*
Ordinary shares of HK$0.1 each		
Balance at 1 July 1998 and at 1 July 1999	200,000	156,818
Increase in authorised share capital	100,000	–
Exercise of warrants	–	1,348
Exercise of share options	–	2,740
Balance at 30 June 2000	300,000	160,906

Warrants

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

16. RESERVES

	Share premium	Other properties revaluation reserve	Investment property revaluation reserves	Contributed surplus	Accumulated profits (losses)	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
THE GROUP						
At 1 July 1998	90	2,949	13,281	–	13,521	29,841
Loss for the year	–	–	–	–	(385,944)	(385,944)
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 30 June 2000	790	–	–	–	(438,931)	(438,141)
THE COMPANY						
At 1 July 1998	90	–	–	16,048	1,565	17,703
Loss for the year	–	–	–	–	(225,983)	(225,983)
At 1 July 1999	90	–	–	16,048	(224,418)	(208,280)
Exercise of warrants	647	–	–	–	–	647
Exercise of share options	53	–	–	–	–	53
Loss for the year	–	–	–	–	(26,081)	(26,081)
At 30 June 2000	790	–	–	16,048	(250,499)	(233,661)

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

16. RESERVES (continued)

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.

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

	2000	1999
	HK$'000	*HK$'000*
Loss before taxation	**(66,508)**	(391,077)
Interest income	**(603)**	(7,828)
Interest expenses	**18,767**	29,111
Depreciation	**–**	506
Write off of property, plant and equipment	**3,402**	43,232
Provision for bad and doubtful debts	**18,421**	330,390
Increase in accounts receivable	**(18,421)**	(119,259)
Decrease (increase) in prepayments, deposits and other receivables	**6,696**	(2,639)
Decrease in inventories	**37,840**	58,577
(Decrease) increase in accounts payable and accrued charges	**(25,632)**	70,085
Net cash (outflow) inflow from operating activities	**(26,038)**	11,098

18. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Borrowings	Obligations under finance leases	Share capital and share premium account (including contributed surplus)	Minority interests
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 July 1998	214,988	753	156,908	5,453
Loss attributable to minority shareholders	–	–	–	(5,453)
Net cash inflow (outflow) from financing	52,369	(188)	–	–
At 1 July 1999	267,357	565	156,908	–
Net cash inflow (outflow) from financing	12,446	(565)	–	–
Realisation of investment property	(5,819)	–	–	–
Exercise of warrants	–	–	1,995	–
Exercise of share options	–	–	2,793	–
At 30 June 2000	273,984	–	161,696	–

19. MAJOR NON-CASH TRANSACTIONS

During the year, investment property of HK$5,819,000 (1999: HK$Nil) was assigned to the financial creditors of the Group as the partial settlement of the secured indebtedness of the Group owned to them.

20. 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 will be discharged in full on a pro-rata basis.

(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 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.

20. POST BALANCE SHEET EVENTS (continued)

(c) Share consolidation

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

(d) Increase in authorised share capital

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

(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.

20. POST BALANCE SHEET EVENTS (continued)

(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.

(4) 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.

(5) 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.

(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.