

NOTES TO THE CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 31 DECEMBER 1999

1. BASIS OF PREPARATION

The consolidated income statement for the six months ended 31 December 1999 has been prepared in accordance with the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and 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 1999 and for the six months then ended. Any adjustments to the opening balances of the Group as at 1 July 1999 would affect the results of the Group for the six months ended 31 December 1999.
- (b) The Directors have found that accounting records have been mislaid and accordingly have encountered the limitations referred to below in preparing the consolidated income statement:
 - (i) Turnover includes recorded sales of approximately HK\$131,100,000 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 consolidated income statement.

(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\$115,700,000;
- other revenue of approximately HK\$1,200,000;
- administrative expenses of approximately HK\$13,000,000;
- finance costs of approximately HK\$14,200,000; and
- minority interests of approximately HK\$200,000.

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 consolidated income statement.

(c) Included in recorded assets of the Group as at 31 December 1999 were fixed assets of approximately HK\$31,700,000. In the absence of any fixed assets register of the Group as at 31 December 1999, the Directors were unable to satisfy themselves as to the existence of fixed assets at 31 December 1999. Accordingly, they were unable to satisfy themselves as to whether material modifications were required to be made to fixed assets as stated in the books and records.

(d) The Directors were unable to obtain sufficient evidence in respect of bank balances, investment properties and prepayments, deposits and other receivables of approximately HK\$8,300,000, HK\$34,700,000 and HK\$8,500,000, respectively, at 31 December 1999 recorded in the books and records of the Group so as to satisfy themselves as to whether material modifications were required to be made to these amounts as stated in the books and records.

(e) The Group did not carry out physical count of inventories at 31 December 1999 and, accordingly, the Directors were unable to satisfy themselves as to the existence of inventories of approximately HK\$4,600,000 at 31 December 1999 recorded in the books and records of the Group. Accordingly, they were unable to satisfy themselves as to whether material modification was required to be made to inventories as stated in the books and records.

- (f) The Directors were unable to satisfy themselves as to the completeness of accounts payable and accrued charges, taxation and borrowings of approximately HK\$50,900,000, HK\$9,800,000 and HK\$272,800,000, respectively, at 31 December 1999 recorded in the books and records of the Group. Accordingly, they were unable to satisfy themselves as to whether material modifications were required to be made to these amounts as stated in the books and records.

- (g) The consolidated income statement has 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 consolidated income statement.

2. PRINCIPAL ACCOUNTING POLICIES

The accounting policies adopted for the preparation of the consolidated income statement are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 30 June 1999.

3. 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.

4. BASIC (LOSS) EARNINGS PER SHARE

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

	Six months ended	
	31 December	
	1999	1998
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net (loss) profit for the period for the purpose of basic (loss) earnings per share	<u>(10,704)</u>	<u>16,842</u>
	Number of shares	Number of shares
	<i>'000</i>	<i>'000</i>
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	<u>784,090</u>	<u>1,568,182</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 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 consolidated on 27 October 2000.