

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2001

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 Upon successful completion of the restructuring, the winding-up petition was withdrawn and the Provisional Liquidators were released and discharged.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 respectively. 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held by the Company on 13 November 2001 and subsequently completed on 10 December 2001, the winding-up petition was withdrawn and the Provisional Liquidators were released and discharged on 10 December 2001.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").

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 2001, except as described below.

In the current period, the Group has adopted, for the first time, the following new and revised SSAPs issued by the Hong Kong Society of Accountants:

Provisions

In accordance with SSAP 28 "Provisions, Contingent Liabilities and Contingent Assets", provisions are recognised when the Group has a present obligation as a result of a past event which it is probable will result in an inflow of economic benefits that can be reasonably estimated.

Impairment of assets

SSAP 31 "Impairment of Assets" is effective for periods beginning on or after 1 January 2001 and has introduced a formal framework for the recognition of impairment losses in respect of the Group's assets other than financial assets.

The adoption of the above standards has not had any effect on the results for the current periods.

4. TURNOVER

	Six months ended	
	31 December	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Sales of goods	17,520	2,912
Service income	110	–
	<u>17,630</u>	<u>2,912</u>

5. SEGMENT INFORMATION

All of the activities of the Group are based in Hong Kong and all of the Group's turnover and loss from operations are derived from Hong Kong.

6. GAIN ARISING FROM WAIVER OF THE CREDITORS' INDEBTEDNESS

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.

7. 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.

8. EARNINGS (LOSS) PER SHARE

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

	Six months ended	
	31 December	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Earnings (loss) for the purposes of basic and diluted earnings (loss) per share	<u>129,595</u>	<u>(60,456)</u>
	Number	Number
	of shares	of shares
	<i>'000</i>	<i>'000</i>
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	5,519,440	2,297,852
Effect of dilutive warrants	<u>1,972,826</u>	<u>N/A</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>7,492,266</u>	<u>N/A</u>

For the six months ended 31 December 2000, 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 purposes of basic and diluted earnings per share has been adjusted for the share consolidation on 27 October 2000. Details of the share consolidation are set out in note 9.

9. SHARE CAPITAL

(a) 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 2000, shares of HK\$0.10 each		1,609,063	160,906
Capital reduction, shares of HK\$0.005 each	(1a)	(804,532)	(152,861)
Issue of shares	(2)	4,057,300	40,573
		<hr/>	<hr/>
At 1 July 2001		4,861,831	48,618
Issue of shares		5,500,000	55,000
		<hr/>	<hr/>
At 31 December 2001		<u>10,361,831</u>	<u>103,618</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 Wuling Holdings Limited ("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.

(b) Warrants

On 10 December 2001, the Company issued 16,500,000,000 warrants ("Warrants") for a cash consideration of HK\$1 to Sourcebase pursuant to the terms of the subscription agreement dated 2 August 2001, which will entitle the holder thereof to subscribe for in aggregate up to HK\$165,000,000 ordinary shares of HK\$0.01 each in the Company at price of HK\$0.01 each.

10. RESERVES

	Share premium	Accumulated losses	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
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 year	–	(60,529)	(60,529)
At 1 July 2001	114,223	(345,809)	(231,586)
Profit for the period	–	129,595	129,595
At 31 December 2001	<u>114,223</u>	<u>(216,214)</u>	<u>(101,991)</u>

11. CAPITAL COMMITMENT

	As at 31.12.2001 <i>HK\$'000</i>	As at 30.6.2001 <i>HK\$'000</i>
Capital expenditure in respect of acquisition of property and equipment contracted for but not provided in the financial statements	<u>279</u>	<u>–</u>

12. SUBSEQUENT EVENT

Subsequent to the interim reporting date, Sourcebase exercised its rights in the Warrants to subscribe for 11,500,000,000 ordinary shares in the Company at HK\$0.01 each.