

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 31 December 2001

1. BASIS OF PRESENTATION

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of investment properties.

The condensed financial statements have been prepared in accordance with the requirements of The Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), including compliance with Statement of Standard Accounting Practice ("SSAP") 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants (the "HKSA").

The accounting policies used in the preparation of these condensed financial statements are consistent with those used in the Group's most recent published audited annual financial statements for the year ended 30 June 2001 except that the Group has changed certain of its accounting policies following its adoption of the following SSAPs issued by the HKSA which are effective for accounting periods commencing on or after 1 January 2001:

SSAP 9 (revised):	Events after the balance sheet date
SSAP 26:	Segment reporting
SSAP 28:	Provisions, contingent liabilities and contingent assets
SSAP 29:	Intangible assets
SSAP 30:	Business combinations
SSAP 31:	Impairment of assets
SSAP 32:	Consolidated financial statements and accounting for investments in subsidiaries

There are no changes in accounting policies that affect the results or shareholders' funds resulting from the adoption of any of the new SSAPs mentioned above.

2. SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to results by principal activities and by geographical locations is set out below:

	Turnover		Contribution to results	
	Six months ended		Six months ended	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
By Principal Activities:				
Investment holding	—	—	(637)	—
Property holding	2,089	6,472	1,602	6,202
Information technology	—	—	(110)	—
	<u>2,089</u>	<u>6,472</u>	<u>855</u>	<u>6,202</u>
Less: Unallocated corporate expenses			<u>(12,293)</u>	<u>(16,701)</u>
Loss from operations			<u>(11,438)</u>	<u>(10,499)</u>

2. SEGMENT INFORMATION (continued)

	Turnover		Contribution to results	
	Six months ended		Six months ended	
	31 December		31 December	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
By Geographical Locations:				
The People's Republic of China				
– Hong Kong	2,089	2,089	1,702	1,999
– Mainland China	–	4,383	(847)	4,203
	<u>2,089</u>	<u>6,472</u>	<u>855</u>	<u>6,202</u>
Less: Unallocated corporate expenses			(12,293)	(16,701)
Loss from operations			<u>(11,438)</u>	<u>(10,499)</u>

3. LOSS FROM OPERATIONS

Loss from operations is stated after charging:

	Six months ended	
	31 December	
	2001	2000
	HK\$'000	HK\$'000
Depreciation	356	236
Interest on borrowings	<u>4,870</u>	<u>7,496</u>

4. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders is dealt with in the financial statements of the Company to the extent of approximately HK\$26,872,000 for the six months ended 31 December 2001 (2000: a loss of approximately HK\$17,995,000).

5. TAXATION

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong for the current and the last corresponding period.

6. INTERIM DIVIDEND

The Board of Directors does not recommend to declare any interim dividend for the six months ended 31 December 2001 (2000: Nil).

7. LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss for the period of approximately HK\$26,872,000 (2000: HK\$17,995,000) and on the weighted average of 1,865,978,261 (2000: 1,113,000,000) shares in issue during the period. The weighted average number of shares for the purpose of basic loss per share has been adjusted for the effect of the subdivision of the Company's shares as set out in Note 11(v).

No diluted loss per share has been presented because the exercise of the Company's outstanding share options would have an anti-dilutive effect on loss per share for the six months ended 31 December 2001 and 2000.

8. INVESTMENT AND OTHER PROPERTIES

The Group's investment properties and properties held for sale were revalued by FPD Savills (Hong Kong) Limited, an independent firm of professional valuers, on an open market existing use basis as at 30 June 2001 at HK\$73,400,000 and HK\$176,910,000 respectively. The directors of the Company consider that there are no indications of significant changes in the values of the Group's properties since 30 June 2001.

9. INTERESTS IN ASSOCIATES

	31 December 2001 HK\$'000	30 June 2001 HK\$'000
Cost of investment	168,942	136,984
Share of post-acquisition losses	(1,148)	(42)
Loan to an associate	14,584	—
	<u>182,378</u>	<u>136,942</u>

Included in cost of investment is goodwill arising on acquisition of associates:

	HK\$'000
Goodwill:	
At 1 July 2001	145,100
Goodwill arising on the acquisition of associates during the period	43,137
At 31 December 2001	<u>188,237</u>
Accumulated amortisation:	
At 1 July 2001	717
Provided for the period	9,458
At 31 December 2001	<u>10,175</u>
Accumulated impairment loss:	
At 1 July 2001	6,700
Impairment loss recognised during the period	—
At 31 December 2001	<u>6,700</u>
Carrying value:	
At 31 December 2001	<u>171,362</u>
At 30 June 2001	<u>137,683</u>

10. BANK AND OTHER BORROWINGS

	31 December 2001 <i>HK\$'000</i>	30 June 2001 <i>HK\$'000</i>
Bank and other borrowings comprise:		
Bank loans	58,752	51,937
Other loans	35,334	35,512
Bank overdrafts	4,345	2,958
	<u>98,431</u>	<u>90,407</u>
Represented by:		
Secured	83,849	87,648
Unsecured	14,582	2,759
	<u>98,431</u>	<u>90,407</u>
<i>The bank borrowings are repayable as follows:</i>		
Within one year or on demand	11,300	34,598
More than one year, but not exceeding two years	14,935	5,501
More than two years, but not exceeding five years	31,618	10,121
More than five years	5,244	7,435
	<u>63,097</u>	<u>57,655</u>
<i>The other borrowings are repayable as follows:</i>		
Within one year or on demand	20,752	32,752
More than one year, but not exceeding two years	14,582	—
	<u>35,334</u>	<u>32,752</u>
Total bank and other borrowings	98,431	90,407
Less: Amount repayable within one year or on demand and shown under current liabilities	<u>(32,052)</u>	<u>(67,350)</u>
	<u>66,379</u>	<u>23,057</u>

At 31 December 2001 and 30 June 2001, the Group's investment properties and properties held for sale with carrying values of HK\$73,400,000 and HK\$93,000,000 respectively were pledged to certain financial institutions as securities for credit facilities granted by these entities to the Group.

11. SHARE CAPITAL

	Number of ordinary shares (<i>'000</i>)	Amount HK\$ <i>'000</i>
Authorised:		
At 1 July 2000 (Shares of HK\$1 each)	400,000	400,000
Addition due to subdivision of shares into 5 ordinary shares of HK\$0.2 each	1,600,000	–
Increase in authorised share capital	<u>1,000,000</u>	<u>200,000</u>
At 30 June 2001 (Shares of HK\$0.2 each)	3,000,000	600,000
Increase in authorised share capital (<i>note vii</i>)	<u>1,000,000</u>	<u>200,000</u>
At 31 December 2001 (Shares of HK\$0.2 each)	<u>4,000,000</u>	<u>800,000</u>
 Issued and fully paid:		
At 1 July 2000 (Shares of HK\$1 each)	210,100	210,100
Issue of shares on private placements (<i>note i and ii</i>)	33,000	33,000
Issue of shares for acquisition of a subsidiary (<i>note iii</i>)	20,000	20,000
Issue of shares for acquisition of an associate (<i>note iv</i>)	70,000	70,000
Addition due to subdivision of shares into 5 ordinary shares of HK\$0.2 each (<i>note v</i>)	1,332,400	–
Issue of shares for acquisition of an associate (<i>note vi</i>)	<u>200,000</u>	<u>40,000</u>
At 1 July 2001 (Shares of HK\$0.2 each)	1,865,500	373,100
Issue of shares on exercise of options (<i>note viii</i>)	<u>22,000</u>	<u>4,400</u>
At 31 December 2001 (Shares of HK\$0.2 each)	<u>1,887,500</u>	<u>377,500</u>

Notes:

- i. On 22 August 2000, an arrangement was made for a private placement to certain independent institutional and private investors to subscribe for 20,000,000 new shares of HK\$1 each in the Company at a price of HK\$1.5 per shares, representing a discount of approximately 15.7% to the closing price of HK\$1.78 per share of the Company's shares as quoted on the Stock Exchange on 22 August 2000. The net proceeds from the placement of approximately HK\$29 million has been used for repayment of debts and additional working capital purposes of the Group.

11. SHARE CAPITAL (continued)

- ii. On 26 February 2001, another arrangement was made for a private placement to certain independent institutional and private investors to subscribe for 26,000,000 shares of HK\$1 each in the Company at a price of HK\$1.2 per share, representing a discount of 5.5% to the closing price of HK\$1.27 per share of the Company's shares as quoted on the Stock Exchange on 26 February 2001. The completion of such arrangement was subsequently extended to 27 March 2001.

On 27 March 2001, 13,000,000 new shares of HK\$1 each in the Company were subscribed by certain independent investors at a price of HK\$1.2 per share. The net proceeds from the placement of approximately HK\$15 million was used for general working capital of the Group. The placement of the remaining 13,000,000 shares was cancelled in May 2001.

- iii. On 18 April 2001, 20,000,000 new shares of HK\$1 each in the Company were issued to an independent third party at HK\$1.37 per share, representing the closing price of the Company's shares as quoted on the Stock Exchange on 18 April 2001, as part of the consideration for the acquisition of a 55% equity interest in 珠海再創通信技術有限公司 Zhu Hai Zaichuang Technology Company Limited ("Zhu Hai Zaichuang"). Details of the acquisition are set out in Note 16(a).
- iv. On 3 May 2001, 70,000,000 new shares of HK\$1 each in the Company were issued to a related company and an independent third party at a price of HK\$1.42 per share, representing the closing price of the Company's shares as quoted on the Stock Exchange on 3 May 2001, as the consideration for the acquisition of a 20% equity interest in CRED.net Limited, an associate of the Group.
- v. Pursuant to an ordinary resolution passed at an extraordinary general meeting of the Company held on 18 June 2001, each of the issued and unissued shares of HK\$1 each in the share capital of the Company was sub-divided into five shares of HK\$0.2 each.
- vi. On 29 June 2001, 200,000,000 new shares of HK\$0.2 each in the Company were issued to an independent third party at a price of HK\$0.25 per share, representing the closing price of the Company's shares as quoted on the Stock Exchange on 29 June 2001, as the consideration for the acquisition of a 20% equity interest in Sky Citi-Link ATNT (Holdings) Limited, an associate of the Group.
- vii. Pursuant to an ordinary resolution passed at an extraordinary general meeting of the Company held on 22 December 2001, the authorised share capital of the Company was increased to HK\$800,000,000 by the creation of 1,000,000,000 shares of HK\$0.2 each.

11. SHARE CAPITAL (continued)

- viii. During the six months ended 31 December 2001, the Company issued and allotted an aggregate of 22,000,000 ordinary shares of HK\$0.2 each in the Company for cash at HK\$0.2 per share as a result of the exercise of the Company's options. The shares issued rank *pari passu* in all respects with the then existing shares of the Company.

12. SHARE OPTION SCHEME

Pursuant to the share option scheme (the "Scheme") adopted by the Company on 19 July 1999, the Board of Directors of the Company may grant options to any directors, officers or employees of the Company or of any of its subsidiaries to subscribe for shares in the Company at any price which is not less than the nominal value of the shares nor 80% of the average closing price of the shares of the Company on the Stock Exchange for the five trading days immediately preceding the date of the grant of the options. The maximum number of shares in respect of which options may be granted under the Scheme shall not exceed 10% of the issued share capital of the Company from time to time.

Details of the movements of the options during the period and the outstanding options at 31 December 2001 are as follow:

Month of grant	Exercisable period	Exercise price per share HK\$	Outstanding at 1.7.2001	Number of share options			Outstanding at 31.12.2001
				Granted during the period	Cancelled during the period	Exercised during the period	
June 2001	26 June 2001 to 29 June 2001	0.2	105,450,000	-	(150,000)	(2,000,000)	103,300,000
July 2001	11 July 2001 to 10 July 2001	0.2	-	61,100,000	(1,125,000)	(20,000,000)	39,975,000

The aggregate consideration received by the Company for share options granted during the period amounted to HK\$170.

Subsequent to the period end, options to subscribe for 16,000,000 shares in the Company were exercised at a price of HK\$0.2 per share.

13. RESERVES

	Share Accumulated		Total HK\$'000
	Premium HK\$'000	Losses HK\$'000	
At 1 July 2001	97,137	(111,593)	(14,456)
Net loss for the period	—	(26,872)	(26,872)
	<u>97,137</u>	<u>(138,465)</u>	<u>(41,328)</u>
Attributable to:			
The Company and subsidiaries	97,137	(137,317)	(40,180)
Associates	—	(1,148)	(1,148)
	<u>97,137</u>	<u>(138,465)</u>	<u>(41,328)</u>

The application of the share premium account is governed by Section 48B of the Hong Kong Companies Ordinance.

14. CONTINGENT LIABILITIES

	31 December 2001 HK\$'000	30 June 2001 HK\$'000
Guarantees given to banks and a financial institution in respect of banking facilities granted to		
– a former subsidiary (<i>note i</i>)	—	61,950
– a related company (<i>note ii</i>)	<u>4,610</u>	<u>4,610</u>
	<u>4,610</u>	<u>66,560</u>

Notes:

- i. The credit facilities amounting to approximately HK\$61,950,000 at 30 June 2001 granted by certain banks to Jilin Motor City Park Hotel Company Limited (“Jilin”), a former subsidiary of the Company, are secured by corporate guarantees provided by the Company and by a charge over certain investment properties of the Group with an aggregate net book value of approximately HK\$73,400,000. At 30 June 2001, the outstanding borrowings of Jilin under the above credit facilities amounted to approximately HK\$21,902,000 and such borrowings were fully settled during the period under review.

14. CONTINGENT LIABILITIES (continued)

- ii. A leasing facility amounting to approximately HK\$4,610,000 (at 30 June 2001: HK\$4,610,000) granted by a leasing company to a related company, is secured by a corporate guarantee provided by the Company. A counter-indemnity from that related company of the same amount was obtained by the Company with a service income. At 31 December 2001, the unsettled rental obligations amounted to approximately HK\$3,941,000 (at 30 June 2001: HK\$3,300,000).

Dr. Meng Xiaosu, a director of the Company, is also a director of the abovementioned related company.

15. CONNECTED TRANSACTIONS AND MATERIAL RELATED PARTY DISCLOSURES

During the interim reporting period, the Group had entered into transactions with related parties which, in the opinion of the directors, were carried out on normal commercial terms and in the ordinary course of the Group's business, as shown below:

- (a) The credit facilities utilised by the Group of approximately HK\$10,252,000 are secured by, inter-alia, a corporate guarantee provided by CIL Holdings Limited ("CILH"), a former ultimate holding company and personal guarantees from two retired directors.
- (b) Details of the securities given by the Group in respect of credit and leasing facilities granted by certain financial institutions to related parties are set out in Note 14.

16. POST BALANCE SHEET EVENTS

The following significant events occurred subsequent to the balance sheet date:

- (a) During the year ended 30 June 2001, Grandright Technology Limited, a wholly-owned subsidiary of the Company entered into a sale and purchase agreement and supplemental agreements with certain independent third parties for the acquisition of a 55% equity interest in Zhu Hai Zaichuang, a limited company established in the People's Republic of China (the "PRC") which is engaged in the production and sales of equipment and accessories for broadband cable television. The acquisition was completed on 31 January 2002.
- (b) On 27 September 2001, an agreement was entered into by Energy Century Limited, a wholly-owned subsidiary of the Company, to purchase 65 shares of International Telecommunication & Telegraph Limited ("IT&T") from certain independent third parties. The acquisition represents a 65% equity interest in IT&T. The consideration of HK\$170 million was satisfied by the issue of 680 million shares of HK\$0.2 each at a price of HK\$0.25 per share in the Company. The acquisition was completed on 27 February 2002.

16. POST BALANCE SHEET EVENTS (continued)

IT&T is incorporated in British Virgin Islands and is an investment holding company which owns a 80% equity interest in a PRC sino-foreign co-operative joint venture company which is mainly engaged in the operation of pay phones in the PRC.

- (c) On 31 October 2001, an agreement was entered into between Welchem Development Limited (“Welchem”), a wholly-owned subsidiary of the Group and an independent third party for the disposal of the Group’s properties held for sale for a consideration of RMB88,000,000 (equivalent to approximately HK\$85,000,000). Welchem and the purchaser are currently in negotiation to extend the long stop date for the satisfaction of the conditions of the transaction.
- (d) On 1 November 2001, an agreement was entered into by World Joy Limited (“World Joy”) and Huadong Share Investments Limited (“Huadong Share Investments”), both being wholly-owned subsidiaries of the Group, and an independent third party for the disposal of the Group’s 20.28% equity interest in China Real Estate Development Group Huadong Properties Company Limited (中房集團華東置業股份有限公司) (“CRED Huadong”), a jointly-controlled entity of the Group and an assignment of the right for the deposit paid for the purchase of the investment properties for an aggregate consideration of RMB8,000,000 (equivalent to approximately HK\$7,800,000). World Joy, Huadong Share Investments and the purchaser are currently in negotiation to extend the long stop date for the satisfaction of the conditions of the transactions.

17. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current period presentation and annual audited financial statements for the year ended 30 June 2001.