

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 31 December 2001

1. Turnover and Segmental information

The turnover and contribution to loss from operations of the Group for the period ended 31 December 2001, analysed by principal activity and geographical area, are as follows:

	Turnover		Contribution to loss from operations)	
	For the six months ended 31 December		For the six months ended 31 December	
	2001	2000	2001	2000
	Unaudited	Unaudited	Unaudited	Unaudited
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
By principal activity:				
Trading of building and interior decoration materials	—	4,051	—	(4,157)
Trading of electrical products	21,553	29,130	(2,005)	(1,823)
Others	—	—	(1,621)	(34,309)
	<u>21,553</u>	<u>33,181</u>	<u>(3,626)</u>	<u>(40,289)</u>
By geographical area:				
The Hong Kong Special Administrative Region ("Hong Kong")	9,186	23,811	(2,483)	(39,482)
Other parts in the People's Republic of China ("the PRC")	12,367	9,002	(1,143)	(412)
Overseas	—	368	—	(395)
	<u>21,553</u>	<u>33,181</u>	<u>(3,626)</u>	<u>(40,289)</u>

2. Loss from ordinary activities before taxation

Loss from ordinary activities before taxation is arrived at:

	For the six months ended 31 December	
	2001	2000
	Unaudited	Unaudited
	HK\$'000	HK\$'000
after crediting:		
Net gain for disposal of shares of a subsidiary	<u>1,313</u>	<u>—</u>
and after charging:		
Amortisation of goodwill	(2,000)	(13,456)
Cost of sales and services provided	(21,520)	(30,880)
Staff Salaries	(5,012)	(11,198)
Depreciation	(75)	(2,024)
Finance cost	(1,331)	(15,746)
Net loss for disposal of shares of a subsidiary	<u>—</u>	<u>(7,330)</u>

3. **Taxation**

	For the six months ended 31 December	
	2001	2000
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Hong Kong taxation	—	—
Overseas taxation	—	—
	<hr/>	<hr/>
	—	—
Share of associates and jointly-controlled entities' taxation	—	—
	<hr/>	<hr/>
	—	—
Taxation charge for the period	<u>—</u>	<u>—</u>

The provision of Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16% (1999:16%) to the profits for the six months ended 31 December 2001. Taxation for overseas subsidiaries is similarly calculated using the estimated annual effective rates of taxation that would be applicable to the relevant countries.

4. **Interim dividend**

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

5. **Loss per share**

The calculation of the basic loss per share is based on the loss attributable to shareholders for the period ended 31 December 2001 of HK\$4,957,000 (2000: HK\$30,074,000) and the weighted average number of 27,494,700,246 ordinary shares (2000: 3,712,781,406 shares) in issue during the period.

No diluted loss per share for the period ended 31 December 2001 and 2000 have been shown as the effect of potential ordinary shares outstanding during these periods would be anti-dilutive.

6. **Accounts receivable**

All of the accounts receivable are stated net of provision of bad and doubtful debts and are expected to be recovered within one year. The Aging analysis is as follows:-

	31 December 2001 Unaudited HK\$'000	30 June 2001 Audited HK\$'000
0 - 90 days	913	569
91 - 180 days	730	535
Over 181 days	3,153	3,151
	<u>4,796</u>	<u>4,255</u>

7. **Accounts and bills payable**

All of the accounts payable are expected to be settle within one year. The Aging analysis is as follows:

	31 December 2001 Unaudited HK\$'000	30 June 2001 Audited HK\$'000
0 - 90 days	3,338	844
91 - 180 days	2,542	3,083
Over 181 days	3,028	3,966
	<u>8,908</u>	<u>7,893</u>
Bills Payable	17,199	11,895
	<u>26,107</u>	<u>19,788</u>

8. Share Capital

	Number of shares		Share capital	
	31 December 2001 Unaudited '000	30 June 2001 Audited '000	31 December 2001 Unaudited HK\$'000	30 June 2001 Audited HK\$'000
<i>Authorised:</i>				
Ordinary shares of HK\$0.01 each (30 June 2001 HK\$0.01 each):	60,000,000	60,000,000	600,000	600,000
<i>Issued and fully paid:</i>				
At the beginning of the period/year	26,094,701	3,002,615	260,947	300,262
Issued upon conversion of convertible bonds	—	125,000	—	12,500
Issued upon share placements	—	900,000	—	9,000
Issued upon settlement of debts	—	13,793,086	—	137,930
Issued at HK\$0.10 as consideration	—	1,374,000	—	137,400
Issued at HK\$0.01 as consideration (a)	2,100,000	6,900,000	21,000	69,000
Capital deduction	—	—	—	(405,145)
At the end of the period/year	28,194,701	26,094,701	281,947	260,947

The following changes in the share capital of the Company took place during the period ended 31 December 2001:

- (a) On 7 September 2001, the company issued 21,000,000,000 new shares of HK\$0.01 each for the consideration of acquisition of 30% interest of 廣州飛流熱器有限公司.

9. Share option scheme

On 1 July 1993, the Company approved a share option scheme under which the directors may, at their discretion, at any time during the ten years from the date of approval, invite any eligible employee of the Group to take up options to subscribe for shares of the Company. Such options will lapse on the voluntary resignation or termination of any eligible employee's employment in accordance with the termination provision of his contract of employment other than by reason of redundancy. The maximum number of shares on which options may be granted may not exceed 10% of the share capital in issue at the time of grant. The aforesaid share option scheme became effective upon the listing of the Company's shares and warrants on 21 July 1993.

At 31 December 2001, the Company had 23,500,000 share options outstanding, of which 6,300,000 and 17,200,000 options were exercisable at HK\$0.320 and HK\$0.626 per share (subject to adjustments), respectively, at any time during the period of ten years from the date of grant of the options. The exercise in full of such share options would, under the present capital structure of the Company, result in the issue of 23,500,000 additional shares.

10. Reserves

	Share premium HKD'000	Capital reserve HKD'000	Enterprise expansion funds HKD'000	Assets revaluation reserve HKD'000	Exchange fluctuation reserve HKD'000	Retained profits/ accumulated losses HKD'000	Total HKD'000
The Group							
At 30 June 2001 (audited)	293,907	6,656	—	9,649	(124)	(501,950)	(191,862)
Net profit for the period	—	—	—	—	—	(4,957)	(4,957)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 December 2001 (unaudited)	<u>293,907</u>	<u>6,656</u>	<u>—</u>	<u>9,649</u>	<u>(124)</u>	<u>(506,907)</u>	<u>(196,819)</u>

11. Pledge of assets

At 31 December 2001, the credit facilities granted to the Group by certain creditors are secured by the following properties of the Group:

- mortgages over certain land and building of the Group;
- a pledge of certain investments of the Group;
- a floating charge on all undertakings, properties, assets and rights of certain wholly owned subsidiaries of the Group; and
- corporate guarantees executed by the Company.

12. Capital commitments

Capital commitments outstanding not provided for in the interim financial statements:

	31 December 2001 Unaudited HK\$'000	30 June 2001 Audited HK\$'000
Contracted but not provided for	—	206,594
	<u>—</u>	<u>206,594</u>
	<u><u>—</u></u>	<u><u>206,594</u></u>

13. Related party transactions

The Group did not have any material related party transactions during the period.

14. Contingent liabilities

- (a) As at 31 December 2001, contingent liabilities not provided for in the financial statements were:

	31 December 2001 Unaudited HK\$'000	30 June 2001 Audited HK\$'000
Guarantee of credit facilities granted to winding up subsidiaries utilized (<i>note (i)</i>)	87,650	87,650
Guarantee of debts	13,660	13,660
Guarantee of insurance claims	1,500	1,500
Counter-indemnities against performance bonds issued	28,199	28,199
Guarantee of loans to winding up subsidiaries	26,799	26,799
	<u>157,808</u>	<u>157,808</u>
	<u><u>157,808</u></u>	<u><u>157,808</u></u>

- (i) Other property of the Group was pledged to a bank as securities for facilities to the extent of HK\$58,650,000 granted to a winding up subsidiary.
- (b) At the balance sheet date, an employee of the Group and the Company had completed the required number of years of service under the Employment Ordinance (the "Ordinance") to be eligible for long service payments upon termination of her employment. The Group and the Company is only liable to make such payments where the termination meets the required circumstance specified in the Ordinance. If the termination of the employee met the circumstances required by the Ordinance, the Group and the Company's liability at the balance sheet date would have been approximately HK\$74,000 (2000: HK\$673,000). No provision has been made for this amount in the financial statements.
- (c) There were various legal proceedings and winding up petitions taken by the bankers and creditors against the Company and its subsidiaries during the year and subsequent to the balance sheet date. The directors consider that the estimated liabilities for the Group and the Company were HK\$168 million and HK\$167 million respectively, of which HK\$83 million and HK\$82 million were provided in the Group and Company's financial statements and HK\$70 million was included in note 14(a) above. The estimation did not include those cases where no legal actions or solicitors' letters were issued as well as the legal costs and interests where not confirmed.

15. Subsequent events

On 30th January 2002, the Company, Trade Honour Limited (the “Subscriber”) and Mr. Ke Junxiang (“Mr. Ke”) had entered into the subscription Agreement with the subscriber pursuant to which the Subscriber conditionally agreed to subscribe for 3,500,000,000 Recapitalisation Shares, at a subscription price of HK\$0.01 per Recapitalisation Share for an aggregate amount of HK\$3,500,000 and the obligations under the Subscription Agreement of the Subscriber are guaranteed by Mr. Ke. The Subscription Agreement is conditional upon, inter alia, the Adjustment Proposal and the Scheme becoming effective.

On 19th March 2002, the Agreement was entered into between the Company and Shu Sin Shun (the “Vendor”) relating to the acquisition of 49% of the share capital of Micky Enterprises Limited in a consideration of HK\$25,000,000. On completion, the consideration will be satisfied by the Company by the issue of the Bond to the Vendor.

On 19th March 2002, the Option Agreement was entered into between the Company, Trade Honour Limited (“Trade Honour”) and Mr. Ke whereby the Company has conditionally agreed to grant the Option to require the Company to issue 2,000,000,000 new shares at the option price of HK\$0.01 to Trade Honour at a consideration of HK\$1.00 and Mr. Ke agreed to guarantee the obligations of Trade Honour under the Option Agreement.

16. Comparative figures

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