

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

## 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.

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 Upon successful completion of the restructuring, the winding-up petition was withdrawn and the Provisional Liquidators were released and discharged.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held by the Company on 13 November 2001 and subsequently completed on 10 December 2001, the winding-up petition was withdrawn and the Provisional Liquidators were released and discharged on 10 December 2001.

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are set out in note 12.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

### 2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first time, a number of new and revised Statements of Standard Accounting Practice (“SSAPs”) issued by the Hong Kong Society of Accountants. Adoption of these SSAPs has led to a number of changes in the Group’s accounting policies.

The adoption of these revised and new SSAPs has not had any effect on the results for the current or prior periods.

### 3. 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.

#### **Investments in subsidiaries**

Investments in subsidiaries are included in the Company’s balance sheet at cost less any identified impairment loss.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Revenue recognition

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

Service and commission income is recognised when the services are rendered.

Interest income from bank and other 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 and accumulated impairment losses, if any.

Depreciation is provided to write off the cost 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 improvements	Over the shorter of the term of the leases, or 5 years
Furniture, fixtures and office equipment	15% to 20%

#### Investments in securities

Investments in securities are recognised on a trade date basis and are initially measured at cost.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost as reduced by any identified impairment loss.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **Impairment**

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, and that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

#### **Convertible bonds**

Convertible bonds are regarded as liabilities until conversion actually occurs. The finance cost recognised in the income statement in respect of the convertible bonds, including the premium payable upon the final redemption of the convertible bonds, is calculated so as to produce a constant periodic rate of charge on the remaining balance of the convertible bonds for each accounting period.

#### **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.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Foreign currencies

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions or at the contracted settlement rate. Monetary assets and liabilities denominated in such currencies are re-translated at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

On consolidation, the financial statements of overseas operations and subsidiaries which are denominated in foreign currencies are translated at the rates on the balance sheet date. All exchange differences arising on consolidation are dealt with in the translation reserve.

### 4. TURNOVER

	2002 HK\$'000	2001 HK\$'000
Sale of goods	17,536	3,575
Commission income	1,696	-
Service income	705	180
	<u>19,937</u>	<u>3,755</u>

### 5. SEGMENT INFORMATION

The Group is principally engaged in trading businesses and operates in Hong Kong. All significant identifiable assets of the Group are located in Hong Kong. Accordingly, no segmental analysis is presented.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

### 6. LOSS FROM OPERATIONS

	2002 HK\$'000	2001 HK\$'000
Loss from operations has been arrived at after charging (crediting):		
Auditors' remuneration	180	350
Depreciation	162	-
Staff costs	3,850	2,669
Operating lease rentals in respect of office premises	834	-
Interest income	(244)	(519)
	<u>          </u>	<u>          </u>

### 7. EMOLUMENTS OF DIRECTORS AND EMPLOYEES

#### (i) Directors' emoluments

	2002 HK\$'000
Fees	
Executive directors	-
Independent non-executive directors	-
Other emoluments to executive directors:	
Salaries and other benefits	2,563
Retirement benefits scheme contributions	79
	<u>          </u>
	<u>2,642</u>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

### 7. EMOLUMENTS OF DIRECTORS AND EMPLOYEES (Continued)

#### (i) Directors' emoluments (Continued)

Emoluments of the directors were within the following bands:

	2002 Number of directors
Nil to HK\$1,000,000	10
HK\$2,000,001 to HK\$2,500,000	1
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During the year, no emoluments were paid by the Group to the directors as a discretionary bonus or an inducement to join or upon joining the Group or as a compensation for loss of office.

There was no arrangement under which a director had waived or agreed to waive any remuneration during the year.

#### (ii) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, three were directors of the Company and their emoluments are set out above. The emoluments of the remaining two individuals are as follows:

	2002 HK\$'000
Salaries and other benefits	344
Retirement benefits scheme contributions	15
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	359

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

### 8. GAIN ARISING FROM WAIVER OF 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.

### 9. TAXATION CREDIT

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group had no assessable profit for the year.

The amount of taxation credit for the year ended 30 June 2001 represented overprovision for taxation in prior years.

No provision for deferred taxation has been recognised in the financial statements as the amount involved is insignificant.

### 10. EARNINGS (LOSS) PER SHARE

The calculation of the basic earnings (loss) per share is based on the net profit for the year of approximately HK\$125,032,000 (2001: loss of approximately HK\$60,529,000) and weighted average number of 13,135,804,000 (2001: 3,569,305,000) shares in issue during the year.

The computation of diluted earnings (loss) per share for the years ended 30 June 2002 and 2001 does not assume the exercise of the potential ordinary shares since their exercise would result in a reduction in loss per share from continuing ordinary operation.



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

### 11. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK\$'000	Furniture, fixtures and office equipment HK\$'000	Total HK\$'000
<b>THE GROUP</b>			
<b>COST</b>			
Additions during the year ended			
30 June 2002 and balance at 30 June 2002	539	389	928
<b>DEPRECIATION</b>			
Provided for the year ended 30 June 2002			
and balance at 30 June 2002	130	32	162
<b>NET BOOK VALUE</b>			
At 30 June 2002	409	357	766
<b>THE COMPANY</b>			
<b>COST</b>			
Additions during the year ended 30 June 2002			
and balance at 30 June 2002	539	198	737
<b>DEPRECIATION</b>			
Provided for the year ended 30 June 2002			
and balance at 30 June 2002	130	15	145
<b>NET BOOK VALUE</b>			
At 30 June 2002	409	183	592

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

### 12. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	223,095	67,085
Impairment loss recognised	(67,085)	(67,085)
	<u>156,010</u>	<u>-</u>

Details of the Company's principal subsidiaries as at 30 June 2002 are as follows:

Name	Place of incorporation/ registration	Issued share capital/ registered capital	Attributable equity interest of the Company %	Principal activities
Time Park Limited	Hong Kong	HK\$100	100	Trading
國欽國際貿易(上海) 有限公司	The People's Republic of China	US\$20,000,000	100	Trading
Ecflyer.com Limited	Hong Kong	HK\$2	100	Travelling agency services (Ticketing and provision of hotel reservation services)

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

### 12. INVESTMENTS IN SUBSIDIARIES (Continued)

國欽 is a wholly-owned foreign enterprise established in the PRC. The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected 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 loan capital outstanding during the year or at the end of the year.

### 13. INVESTMENT SECURITIES

#### The Group

The amount represents equity interests in an unlisted company incorporated in Hong Kong.

### 14. DEPOSIT

#### The Group

The deposit represents monies (the “Trust Monies”) placed with a company incorporated in the PRC (the “Assets Management Company”) and is engaged in the business of assets management. Pursuant to a trust agreement entered into between 國欽, a wholly-owned subsidiary of the Company, and the Assets Management Company on 19 June 2002, the Asset Management Company guaranteed 國欽 a return of at least 6 percent per annum from the Trust Monies placed with it during the period from 19 June 2002 to 18 July 2002.

Subsequent to the balance sheet date, the Trust Monies were received by the Company with an investment return of 6 percent per annum.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

### 15. BORROWINGS

	The Group	
	2002 HK\$'000	2001 HK\$'000
Borrowings comprise the following:		
Convertible bonds	-	202,053
Other borrowings	-	950
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	-	203,003
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	The Company	
	2002 HK\$'000	2001 HK\$'000
Other borrowings	-	950
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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 Holding 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 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 were due to mature on 27 October 2003 and the non-interest bearing series B convertible bonds of HK\$55,000,000 were due to mature on 29 January 2001. Under the Restructuring Agreements, these amounts were discharged in full on a pro-rata basis on 10 December 2001.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

### 16. SHARE CAPITAL

#### Ordinary shares

	NOTES	Authorised HK\$'000	Issued and fully paid HK\$'000
Balance at 1 July 2000, shares of HK\$0.10 each		300,000	160,906
Capital reduction, shares of HK\$0.005 each	(1a)	(285,000)	(152,861)
Cancellation of authorised share capital	(1b)	(6,955)	-
Share consolidation, shares of HK\$0.01 each	(1c)	-	-
Increase in authorised share capital	(1d)	491,955	-
Issue of shares		-	40,573
 Balance at 1 July 2001, shares of HK\$0.01 each		 500,000	 48,618
Issue of shares	(2)	-	55,000
Exercise of warrants	(3)	-	165,000
		-	165,000
 Balance at 30 June 2002, shares of HK\$0.01 each		 <u>500,000</u>	 <u>268,618</u>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

### 16. SHARE CAPITAL (Continued)

Notes:

#### (1) Restructuring proposals

Pursuant to the circular dated 29 September 2000, 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 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 shares 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 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.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

### 16. SHARE CAPITAL (Continued)

Notes:

#### (2) Issue of shares

On 10 December 2001, the Company issued 5,500,000,000 new shares of HK\$0.01 each to Sourcebase at a price of HK\$0.01 per share pursuant to the Restructuring Agreements set out in the circular dated 22 October 2001. The net proceeds of the placing were used as the settlement of the creditors' indebtedness and as working capital of the Group.

These shares ranked pari passu with all other shares in issue in all respects.

#### (3) Exercise of warrants

During the year, warrants with aggregate issue proceeds of HK\$165,000,000 were exercised by Sourcebase to subscribe for 16,500,000,000 ordinary shares in the Company at a subscription price of HK\$0.01 per share. The net proceeds were used to provide general working capital for the Group.

These shares ranked pari passu with all other shares in issue in all respects.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

### 17. RESERVES

	Share premium HK\$'000	Translation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
<b>THE GROUP</b>				
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 year	-	-	125,032	125,032
Exchange differences arising on translation of overseas operations	-	157	-	157
At 30 June 2002	<u>114,223</u>	<u>157</u>	<u>(220,777)</u>	<u>(106,397)</u>
	Share premium HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
<b>THE COMPANY</b>				
At 1 July 2000	790	16,048	(250,499)	(233,661)
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	-	-	(60,228)	(60,228)
At 1 July 2001	114,223	16,048	(157,076)	(26,805)
Loss for the year	-	-	(78,312)	(78,312)
At 30 June 2002	<u>114,223</u>	<u>16,048</u>	<u>(235,388)</u>	<u>(105,117)</u>



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

### 17. RESERVES (Continued)

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.

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.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

### 18. RECONCILIATION OF PROFIT (LOSS) BEFORE TAXATION TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2002 HK\$'000	2001 HK\$'000
Profit (loss) before taxation	125,032	(70,327)
Interest income	(244)	(519)
Interest expenses	-	1,413
Depreciation	162	-
Amounts written off in respect of property, plant and equipment	-	25,699
Allowances for bad and doubtful debts	-	28,731
Gain arising from waiver of the creditors' indebtedness	(138,897)	-
Increase in prepayments and other receivables	(4,061)	(23,472)
Decrease in inventories	-	1,315
Decrease in other payables and accrued charges	(8,966)	(40,690)
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Net cash outflow from operating activities	<u>(26,974)</u>	<u>(77,850)</u>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

### 19. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	<b>Borrowings</b>	<b>Share capital and share premium</b>
	HK\$'000	HK\$'000
At 1 July 2000	273,984	161,696
Net cash inflow from financing	24,089	-
Proceeds from issue of shares	-	75,326
Other movements not involving cash flows:		
Reduction of share capital and share premium transferred to accumulated losses	-	(153,651)
Issue of shares	(79,470)	79,470
Realisation of investment property	(15,600)	-
	203,003	162,841
At 1 July 2001	203,003	162,841
Net cash outflow from financing	(64,106)	-
Exercise of warrants	-	165,000
Proceeds from issue of shares	-	55,000
Other movement not involving cash flows:		
Waiver of the creditors' indebtedness	(138,897)	-
	-	382,841
At 30 June 2002	-	382,841

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

### 20. MAJOR NON-CASH TRANSACTIONS

- (a) During the year ended 30 June 2001, investment property of HK\$15,600,000 was assigned to the financial creditors of the Group as the partial settlement of the secured indebtedness of the Group.
- (b) During the year ended 30 June 2001, 500,000,000 new shares of HK\$0.01 each were issued and allotted at par to Liuzhou 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.
- (c) During the year ended 30 June 2001, 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 as the full settlement of the amounts due by the Company.
- (d) During the year 30 June 2001, Convertible Bonds with an aggregate principal amount of HK\$205,000,000 were issued to the financial creditors of the Group as partial settlement of the unsecured indebtedness due by the Group.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

### 21. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of office premises which fall due as follows:

	2002 HK\$'000	2001 HK\$'000
Within one year	1,100	-
In the second to fifth year inclusive	504	-
	<u>1,604</u>	<u>-</u>

Operating lease payments represent rental payable by the Group for its office premises. Leases are mainly negotiated for an average term of three years and rentals are fixed for an average of three years.

### 22. RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") and a defined contribution retirement benefits scheme (the "Benefit Scheme") for all qualifying employees. The assets of the MPF Scheme and the Benefit Scheme are held separately from those of the Group, in funds under the control of trustees. The retirement benefits cost charged to income statement represents contributions payable to the MPF Scheme and the Benefit Scheme by the Group at rates specified in the rules of the Scheme. Where there are employees joined the Benefit Scheme who leave the Benefit Scheme prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions. For the year ended 30 June 2002, no forfeit voluntary contributions of the Benefit Scheme credited to the income statement.