

# NOTES TO FINANCIAL STATEMENTS

*For the year ended 30 September 2002*

## 1 CORPORATE INFORMATION

The Group comprises China Development Corporation Limited (“the Company”) and its subsidiary companies. The Company was incorporated under the laws of Hong Kong on 29 September 1987 and is listed on the Stock Exchange of Hong Kong Limited.

The principal activity of the Company is that of an investment holding company. The principal activities of subsidiary companies are set out in note 13 to the financial statements.

## 2 FUNDAMENTAL ACCOUNTING CONCEPTS

The financial statements have been prepared on a going concern basis. The Company and the Group incurred a net loss of HK\$217,494,000 and HK\$115,407,000 respectively for the year ended 30 September 2002; and as at 30 September 2002 the Company’s total liabilities exceeded its total assets by HK\$85,648,000 while the Group’s total liabilities exceeded its total assets by HK\$102,023,000. The ability of the Company and the Group to continue as a going concern will depend upon future funding being available.

## 3 PRINCIPAL ACCOUNTING POLICIES

### a) Basis of preparation

The financial statements have been prepared in accordance with generally accepted accounting principles in Hong Kong, and comply with statements of standard accounting practice (“SSAP”) issued by the Hong Kong Society of Accountants (“HKSA”), the disclosure requirements of the Hong Kong Companies Ordinance and The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. The financial statements are prepared under the historical cost convention.

In the current year, the Group has adopted for the first time a number of new and revised SSAPs issued by HKSA. Adoption of these SSAPs has led to a number of changes in the Group’s accounting policies and has affected the amounts reported for the current or prior periods. In addition, the new and revised SSAPs have introduced additional and revised disclosure requirements which have been adopted in these financial statements. Comparative amounts for the prior year have been restated in order to achieve a consistent presentation.

## **3 PRINCIPAL ACCOUNTING POLICIES *(Continued)***

### **b) Basis of consolidation**

The accounting period of the Company and its subsidiary companies in the Group ends on 30 September and the consolidated financial statements include the financial statements of the Company and its subsidiary companies, together with the Group's share of the results of its associated companies for the year ended 30 September 2002.

The results of subsidiary and associated companies acquired or disposed of during the financial year are included in or excluded from the Group financial statements from the effective dates of acquisition or disposal as applicable. All material intra-group transactions and balances are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiary companies.

### **c) Subsidiary companies**

A subsidiary company is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital or controls more than half of the voting power, or where the Company controls the composition of its board of directors or equivalent governing body.

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

### **d) Associated companies**

An associated company is an enterprise, not being a subsidiary nor a joint venture, in which the Group has a substantial long-term interest in the equity voting rights and over which the Group is in a position to exercise significant influence, including participation in financial and operating policy decisions.

The consolidated profit and loss account includes the Group's share of the post-acquisition results of associated companies. The Group's interests in associated companies are included in the consolidated balance sheet at the Group's share of net assets using the equity method of accounting less any provision for diminutions in value other than those considered to be temporary in nature deemed necessary by the directors.

When the Group transacts with its associated companies, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associated company, except where unrealised losses provide evidence of an impairment of the asset transferred.

### **e) Goodwill**

The difference between the purchase consideration and the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of subsidiary/associated companies represents goodwill or negative goodwill arising on acquisition as appropriate.

Goodwill/negative goodwill on acquisition of subsidiary/associated companies occurring on or after 1 January 2001 is included as separate assets and is amortised over its estimated useful life in accordance with the provisions of the new SSAP 30 "Business Combinations". No retrospective adjustment to the goodwill/negative goodwill written off against/ taken directly to reserves is required for acquisitions occurring on or before 1 January 2001.

# NOTES TO FINANCIAL STATEMENTS *(Continued)*

For the year ended 30 September 2002

## 3 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### f) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of the asset. Overhauling expenses to extend the useful lives of old assets are, therefore, capitalised and depreciated over the period of the extended useful lives.

Changes in the values of property, plant and equipment are dealt with as movements in the assets revaluation reserve. If the total of this reserve is insufficient to cover a deficit on an individual asset basis, the excess of the deficit is charged to the consolidated profit and loss account. Any subsequent revaluation surplus is credited to the consolidated profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the revaluation reserve realised in respect of previous valuations is transferred to retained earnings as movement in reserves.

Depreciation is provided to write off the cost or valuation of each asset over its estimated useful life on a straight-line basis at the following annual rates:

|  |                            |
|--|----------------------------|
| Buildings on freehold land               | 5%                         |
| Leasehold land and buildings             | Over the term of the lease |
| Vessels, plant and machinery             | 10% - 33 $\frac{1}{3}$ %   |
| Furniture and fittings, office equipment |                            |
| motor vehicles and computer software     | 10% - 33 $\frac{1}{3}$ %   |

No depreciation is charged on freehold land.

The gain or loss arising from the disposal or retirement of the asset is the difference between the net sales proceeds and the carrying amount of the relevant asset and is recognised in the profit and loss account.

### g) Revenue recognition

Revenue is recognized when it is probable that the economic benefits will flow to the company and when the revenue can be measured reliably, on the following basis:

- (i) revenue from construction contracts is recognised using the percentage of completion method when the contracts have progressed to a stage where a profitable outcome can be prudently foreseen and is measured by reference to the production of costs incurred for work performed to the balance sheet date as compared to the estimated total costs to completion. Anticipated losses on contracts are fully provided when identified.
- (ii) on the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided the company maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

**3 PRINCIPAL ACCOUNTING POLICIES** *(Continued)***g) Revenue recognition** *(Continued)*

- (iii) on the rendering of services, based on the stage of completion of the transaction, provided that this and the costs incurred as well as the estimated costs to completion can be measured reliably.
- (iv) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

**h) Leases****(i) Finance leases**

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group are accounted for as finance leases. Finance leases are capitalised at the inception of the leases at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in long term liabilities. The finance charges are charged to the consolidated profit and loss account over the lease periods.

Assets held under finance leases are included in fixed assets and amortized over the shorter of the lease terms and the useful lives of the assets.

**(ii) Hire purchase contracts**

Leases that transfer substantially all the rewards and risks of ownership of assets to the company, together with a right to acquire legal title of assets, are accounted for as hire purchase contracts. Assets held under hire purchase contracts and the related contracted obligations are recorded in the balance sheet at the fair value of the hire purchased assets at the inception of the contracts. The amounts by which the hire purchase payments exceed the recorded contracted obligations are treated as hire purchase charges in the profit and loss account which are amortized over each lease term to give a constant rate of charge on the remaining balance of the obligation. Assets held under hire purchase contracts are included in fixed assets and amortized over the useful lives of the assets.

**(iii) Operating leases**

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

# NOTES TO FINANCIAL STATEMENTS *(Continued)*

For the year ended 30 September 2002

## 3 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### i) Investments

#### (i) *Long term investments*

Investments in non-trading unlisted equity securities intended to be held on a long term basis are stated at their estimated fair values on an individual investment basis.

The gains or losses arising from changes in the fair values of a security are dealt with as movements in the investment revaluation reserve, until the security is sold, collected, or otherwise disposed of, or until the security is determined to be impaired, when the cumulative gain or loss derived from the security recognised in the investment revaluation reserve, together with the amount of any further impairment, is charged to the profit and loss account for the period in which the impairment arises. Where the circumstances and events which led to an impairment cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged and any appreciation in fair value is credited to the profit and loss account to the extent of the amount previously charged.

#### (ii) *Short term investments*

Short term investments are investments in equity securities held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the profit and loss account for the period in which they arise.

### j) Stocks

Stocks are valued at the lower of cost and net realizable value. Cost includes cost of purchase of materials computed using the first-in, first-out formula, and in the case of work in progress and finished goods, direct labour and an appropriate proportion of production overheads. Net realisable value is determined by reference to the sales proceeds of items sold in the ordinary course of business after the balance sheet date less the estimated costs of completion and the estimated costs necessary to make the sale.

### k) Deferred taxation

Deferred taxation is provided at the current tax rate on differences arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements to the extent that a liability or asset is expected to be payable or receivable in the foreseeable future.

### l) Translation of foreign currencies

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Hong Kong dollars, at the applicable rates of exchange ruling at that date. Foreign currency transactions during the year are recorded at the applicable rates ruling at the transaction dates. Profits and losses on exchange are dealt with in the profit and loss account.

## 3 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### l) Translation of foreign currencies *(Continued)*

On consolidation, the financial statements of overseas subsidiaries and associates are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. Long term intercompany balances due from subsidiaries are deemed to form part of the equity. The resulting translation differences are included in the exchange fluctuation reserve.

### m) Related parties

Two parties are considered to be related if one party has the ability, directly or indirectly to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

### n) Provision for dry-docking expenses

Dry-docking expenses are provided for annually based on an estimation of expenses to be incurred once in every two to five years, and are charged as operating expenses in each of the years preceding the next dry-docking date.

### o) Construction contracts

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

Revenue from construction contracts is recognised on the percentage of completion method, measured by reference to the total value of work certified to date to the estimated total contract value for each contract. Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

### p) Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amounts of the cash-generating unit to which the asset belongs.

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, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the impairment loss is treated as a revaluation decrease under that SSAP.

# NOTES TO FINANCIAL STATEMENTS *(Continued)*

For the year ended 30 September 2002

## 3 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### p) Impairment *(Continued)*

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such 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, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the reversal of the impairment loss is treated as a revaluation increase under that SSAP.

### q) Retirement benefits scheme costs

The Group operates a defined contribution retirement scheme for its employees. The assets of the defined contribution retirement schemes are held separately from the Group's assets and are administered by independent trustees.

Contributions to the defined contribution schemes are made by either the Group only or by both the Group and the related employees at rates based on certain per cent of the employees' basic salaries.

### r) Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

## 4 SEGMENTAL INFORMATION

SSAP 26 was adopted during the year. Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers:

- (a) investment in construction, equipment rental and services income;
- (b) investment in trading business;
- (c) investment in retail business;
- (d) investment in internet business; and
- (e) income derived from investment holding including listed securities trading.

# NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 30 September 2002

## 4 SEGMENTAL INFORMATION (Continued)

### (a) Business segments

The following tables present revenue, profit and loss and certain asset, liability and expenditure information for the Group's business segments.

#### Group

30 September 2002

|   | Continuing operations   |                              |                               |                                 |                                  | Discontinuing operations  |                              |                                  | Consolidated<br>HK\$000 |
|---|---|------------------------------|-------------------------------|---------------------------------|----------------------------------|---|------------------------------|----------------------------------|-------------------------|
|   | Construction,<br>equipment<br>rental and<br>services<br>income<br>HK\$000 | Trading<br>income<br>HK\$000 | Retail<br>business<br>HK\$000 | Internet<br>business<br>HK\$000 | Investment<br>holding<br>HK\$000 | Construction,<br>equipment<br>rental and<br>services<br>income<br>HK\$000 | Trading<br>income<br>HK\$000 | Investment<br>holding<br>HK\$000 |                         |
| Turnover  | 11,215  | —                            | 21,566                        | —                               | 3,211                            | 253,446   | 12,629                       | 196                              | 302,263                 |
| (Loss) Profit from operations   | 38  | —                            | (536)                         | (307)                           | (72,358)                         | (29,424)  | (3,319)                      | 4,068                            | (101,838)               |
| Finance costs   | (12)  | —                            | —                             | —                               | (3,308)                          | (9,070)   | (202)                        | —                                | (12,592)                |
| Share of loss of an associate   | —   | —                            | —                             | —                               | —                                | —   | —                            | (1,285)                          | (1,285)                 |
| Loss before tax   | —   | —                            | —                             | —                               | —                                | 133   | —                            | —                                | (115,715)               |
| Tax   | —   | —                            | —                             | —                               | —                                | —   | —                            | —                                | 133                     |
| Loss before minority interests  | —   | —                            | —                             | —                               | —                                | —   | —                            | —                                | (115,582)               |
| Minority interests  | —   | —                            | 175                           | —                               | —                                | —   | —                            | —                                | 175                     |
| Net loss from ordinary activities<br>attributable to shareholders     | —   | —                            | —                             | —                               | —                                | —   | —                            | —                                | (115,407)               |
| Segment assets  | 23,401  | —                            | 9,533                         | —                               | 32,911                           | —   | —                            | —                                | 65,845                  |
| Segment liabilities   | 21,522  | —                            | 6,062                         | 3,171                           | 135,848                          | —   | —                            | —                                | 166,603                 |
| Other segment information:  |   |                              |                               |                                 |                                  |   |                              |                                  |                         |
| Depreciation  | 55  | —                            | 289                           | —                               | 283                              | 21,553  | —                            | —                                | 22,180                  |
| Amortisation of goodwill  | 415   | —                            | 343                           | —                               | —                                | —   | —                            | —                                | 758                     |
| Provision for permanent<br>diminution in value of<br>investments      | —   | —                            | —                             | 38,000                          | 15,000                           | —   | —                            | —                                | 53,000                  |
| Capital expenditure   | 723   | —                            | 453                           | —                               | 367                              | 2,465   | —                            | —                                | 4,008                   |
| Loss on revaluation of<br>listed securities                           | —   | —                            | —                             | —                               | 4,889                            | —   | —                            | —                                | 4,889                   |
| Provision for foreseeable losses<br>on contracts in progress          | —   | —                            | —                             | —                               | —                                | 15,796  | —                            | —                                | 15,796                  |
| Provision for stock obsolescence                                      | —   | —                            | —                             | —                               | —                                | 3,029   | —                            | —                                | 3,029                   |
| Provision for doubtful recovery<br>of amount due from<br>an associate | —   | —                            | —                             | —                               | —                                | 7,588   | —                            | —                                | 7,588                   |



# NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 30 September 2002

## 4 SEGMENTAL INFORMATION (Continued)

### (a) Business segments (Continued)

#### Group

30 September 2001

|   | Continuing operations   |                              |                               |                                 |                                  | Discontinuing operations  |                              |                                  | Consolidated<br>HK\$000 |
|---|---|------------------------------|-------------------------------|---------------------------------|----------------------------------|---|------------------------------|----------------------------------|-------------------------|
|   | Construction,<br>equipment<br>rental and<br>services<br>income<br>HK\$000 | Trading<br>income<br>HK\$000 | Retail<br>business<br>HK\$000 | Internet<br>business<br>HK\$000 | Investment<br>holding<br>HK\$000 | Construction,<br>equipment<br>rental and<br>services<br>income<br>HK\$000 | Trading<br>income<br>HK\$000 | Investment<br>holding<br>HK\$000 |                         |
| Turnover  | —   | 133                          | —                             | 333                             | 5,930                            | 423,963   | 11,468                       | —                                | 441,827                 |
| (Loss) Profit from operations   | —   | —                            | —                             | (71,169)                        | (94,693)                         | (22,528)  | 2,919                        | (132,160)                        | (317,631)               |
| Finance costs   | —   | —                            | —                             | —                               | (2,843)                          | (1,407)   | —                            | (5,547)                          | (9,797)                 |
| Share of profit of an associate   | —   | —                            | —                             | —                               | —                                | —   | —                            | 1,424                            | 1,424                   |
| Loss before tax   |   |                              |                               |                                 |                                  |   |                              |                                  | (326,004)               |
| Tax   | —   | —                            | —                             | —                               | —                                | (3,548)   | —                            | —                                | (3,548)                 |
| Loss before minority interests  |   |                              |                               |                                 |                                  |   |                              |                                  | (329,552)               |
| Minority interests  | —   | —                            | —                             | 301                             | —                                | —   | —                            | —                                | 301                     |
| Net loss from ordinary activities<br>attributable to shareholders                           |   |                              |                               |                                 |                                  |   |                              |                                  | (329,251)               |
| Segment assets  | —   | —                            | —                             | 307                             | 61,292                           | 276,445   | —                            | 33,889                           | 371,933                 |
| Segment liabilities   | —   | —                            | —                             | 3,171                           | 57,099                           | 267,231   | —                            | 89                               | 327,590                 |
| Other segment information:  |   |                              |                               |                                 |                                  |   |                              |                                  |                         |
| Depreciation  | —   | —                            | —                             | 511                             | 145                              | 32,068  | —                            | —                                | 32,724                  |
| Amortisation of goodwill  | —   | —                            | —                             | 67,225                          | —                                | —   | —                            | —                                | 67,225                  |
| Provision for permanent<br>diminution in value of<br>investments                            | —   | —                            | —                             | —                               | 38,980                           | —   | —                            | —                                | 38,980                  |
| Provision for diminution in<br>value in other investments                                   | —   | —                            | —                             | —                               | 33,572                           | —   | —                            | —                                | 33,572                  |
| Provision for doubtful recovery<br>of trade debtors   | —   | —                            | —                             | —                               | 432                              | 23,191  | —                            | —                                | 23,623                  |
| Provision for doubtful debts  | —   | —                            | —                             | —                               | 16,428                           | —   | —                            | —                                | 16,428                  |
| Realisation of exchange<br>fluctuation reserve on<br>liquidation of a<br>subsidiary company | —   | —                            | —                             | —                               | 27,992                           | —   | —                            | —                                | 27,992                  |
| Capital expenditure   | —   | —                            | —                             | —                               | 339                              | 10,540  | —                            | —                                | 10,879                  |
| Provision for foreseeable losses<br>on contracts in progress                                | —   | —                            | —                             | —                               | —                                | 79,927  | —                            | —                                | 79,927                  |
| Provision for stock obsolescence  | —   | —                            | —                             | —                               | —                                | 1,104   | —                            | —                                | 1,104                   |

4 SEGMENTAL INFORMATION (Continued)

(b) Geographical segments

The following tables present revenue, profit and loss and certain asset and expenditure information for the Group's geographical segments.

30 September 2002

|                     | Continuing operations | Discontinuing operations |                     |                    |                            |           | Consolidated |
|---------------------|-----------------------|--------------------------|---------------------|--------------------|----------------------------|-----------|--------------|
|                     | Hong Kong<br>HK\$000  | Singapore<br>HK\$000     | Malaysia<br>HK\$000 | Mynamar<br>HK\$000 | Other countries<br>HK\$000 |           |              |
| Segment revenue:    |                       |                          |                     |                    |                            |           |              |
| Turnover            | 35,992                | 233,559                  | 31,805              | 785                | 122                        | 302,263   |              |
| Segment results     | (73,164)              | (28,379)                 | 686                 | (1,005)            | 24                         | (101,838) |              |
| Segment assets      | 65,849                | —                        | —                   | —                  | —                          | 65,849    |              |
| Capital expenditure | 1,543                 | 2,233                    | 134                 | 19                 | 79                         | 4,008     |              |

30 September 2001

|                     |           |          |         |         |       |           |
|---------------------|-----------|----------|---------|---------|-------|-----------|
| Segment revenue:    |           |          |         |         |       |           |
| Turnover            | 6,396     | 433,184  | —       | 2,101   | 146   | 441,827   |
| Segment results     | (243,737) | (63,000) | (3,116) | (7,807) | 29    | (317,631) |
| Segment assets      | 61,710    | 295,754  | 5,160   | 6,296   | 3,013 | 371,933   |
| Capital expenditure | 339       | 10,457   | 13      | 23      | 47    | 10,879    |

# NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 30 September 2002

## 5 TURNOVER AND OTHER REVENUE

Turnover represents an appropriate proportion of contract revenue of construction contracts; the value of services rendered; the rental income from equipment/marine vessels leasing; the net invoiced value of goods sold, after allowance for returns and trade discounts; and securities trading, during the year.

The analysis of the Group's turnover by principal activities are as follows:

|  | Continuing operations        |  | Discontinuing operations     |  | Consolidated                 |  |
|--|------------------------------|--|------------------------------|--|------------------------------|--|
|  | Year ended 30 September 2002 | Period from 1 July 2000 to 30 September 2001 | Year ended 30 September 2002 | Period from 1 July 2000 to 30 September 2001 | Year ended 30 September 2002 | Period from 1 July 2000 to 30 September 2001 |
|  | HK\$000                      | HK\$000                                      | HK\$000                      | HK\$000                                      | HK\$000                      | HK\$000                                      |
| Construction, equipment rental and services income | 11,215                       | —  | 253,446                      | 423,963                                      | 264,661                      | 423,963                                      |
| Trading income                                     | —                            | 133  | 12,629                       | 11,468                                       | 12,629                       | 11,601                                       |
| Internet business                                  | —                            | 333  | —                            | —  | —                            | 333  |
| Retail business                                    | 21,566                       | —  | —                            | —  | 21,566                       | —  |
| Investment holding                                 | 3,211                        | 5,930  | 196                          | —  | 3,407                        | 5,930  |
|  | <u>35,992</u>                | <u>6,396</u>                                 | <u>266,271</u>               | <u>435,431</u>                               | <u>302,263</u>               | <u>441,827</u>                               |
| <b>Group</b>                                       |                              |  |                              |  |                              |  |
| Interest income                                    | —                            | 1,378  | 408                          | 2,704  | 408                          | 4,082  |
| Gain on disposal of fixed assets, net              | —                            | —  | —                            | 2,268  | —                            | 2,268  |
| Gain on exchange difference                        | —                            | —  | 226                          | —  | 226                          | —  |
| Insurance claims                                   | —                            | —  | —                            | 1,271  | —                            | 1,271  |
| Sale of used equipment                             | —                            | —  | —                            | 2,521  | —                            | 2,521  |
| Others   | 2,504                        | 2,067  | 2,605                        | 1,275  | 5,109                        | 3,342  |
|  | <u>2,504</u>                 | <u>3,445</u>                                 | <u>3,239</u>                 | <u>10,039</u>                                | <u>5,743</u>                 | <u>13,484</u>                                |

# NOTES TO FINANCIAL STATEMENTS *(Continued)*

For the year ended 30 September 2002

## 6 DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS

Included in staff costs is remuneration of the directors disclosed pursuant to the Listing Rules and section 161 of the Companies Ordinance as follows:

|   | <b>Year ended<br/>30 September<br/>2002<br/>HK\$000</b> | Period from<br>1 July 2000 to<br>30 September<br>2001<br>HK\$000 |
|---|---|--|
| Fees                                      | —   | —  |
| Other emoluments:                         |   |  |
| Salaries, allowances and benefits in kind | 1,673   | 1,296  |
| Retirement scheme contributions           | 24  | 19   |
|   | <u>1,697</u>  | <u>1,315</u>   |

Fees disclosed above include HK\$0 (30 September 2001: HK\$0) paid to independent non-executive and non-executive directors. There were no other emoluments paid to independent non-executive and non-executive directors. None of the directors have waived the right to receive their emoluments.

The remuneration of the directors falls within the following bands (HK\$):

|                       | <b>Year ended<br/>30 September<br/>2002<br/>Number of<br/>directors</b> | Period from<br>1 July 2000 to<br>30 September<br>2001<br>Number of<br>directors |
|-----------------------|---|---|
| 0 - 1,000,000         | 3   | 4   |
| 1,000,001 - 1,500,000 | 1   | —   |
| 1,500,001 - 2,000,000 | —   | —   |
| 2,000,001 - 2,500,000 | —   | —   |
|                       | <u>4</u>  | <u>4</u>  |

# NOTES TO FINANCIAL STATEMENTS *(Continued)*

For the year ended 30 September 2002

## 6 DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS *(Continued)*

The five individuals whose remuneration were the highest in the Group for the year include four directors (30 September 2001: one director) whose remuneration is disclosed in the analysis presented above. The remuneration payable to the remaining one (30 September 2001: four) individuals during the year are as follows:

|   | <b>Year ended<br/>30 September<br/>2002<br/>HK\$000</b> | Period from<br>1 July 2000 to<br>30 September<br>2001<br>HK\$000 |
|---|---|--|
| Salaries, allowances and benefits in kind         | 262   | 4,897  |
| Performance related bonuses                       | —   | —  |
| Contributions to Singapore Central Provident Fund | —   | 139  |
|   | <u>262</u>  | <u>5,036</u>   |

The remuneration falls within the following bands (HK\$):

|                       | <b>Year ended<br/>30 September<br/>2002<br/>Number of<br/>individuals</b> | Period from<br>1 July 2000 to<br>30 September<br>2001<br>Number of<br>individuals |
|-----------------------|---|---|
| 0 - 1,000,000         | 1   | 1   |
| 1,000,001 - 1,500,001 | —   | 2   |
| 1,500,001 - 2,000,000 | —   | 1   |
|                       | <u>1</u>  | <u>4</u>  |

## 7 LOSS FROM OPERATIONS

Loss from operations is arrived at after charging the following:

|  | Continuing operations                   |   | Discontinuing operations                |   | Consolidated                            |   |
|--|---|---|---|---|---|---|
|  | Year ended 30 September 2002<br>HK\$000 | Period from 1 July 2000 to 30 September 2001<br>HK\$000 | Year ended 30 September 2002<br>HK\$000 | Period from 1 July 2000 to 30 September 2001<br>HK\$000 | Year ended 30 September 2002<br>HK\$000 | Period from 1 July 2000 to 30 September 2001<br>HK\$000 |
| <b>Group</b>   |   |   |   |   |   |   |
| Depreciation:  |   |   |   |   |   |   |
| Owned fixed assets   | 602                                     | 656   | 21,554                                  | 29,505  | 22,156                                  | 30,161  |
| Leased fixed assets  | 24                                      | —   | —                                       | 2,563   | 24                                      | 2,563   |
| Operating lease rentals:   |   |   |   |   |   |   |
| Land and buildings   | 1,407                                   | 1,892   | 2,543                                   | 1,954   | 3,950                                   | 3,846   |
| Plant and machinery  | —                                       | —   | —                                       | 3,213   | —                                       | 3,213   |
| Auditors' remuneration   | 138                                     | 319   | 414                                     | 317   | 552                                     | 636   |
| Provision for doubtful recovery of trade debtors                                   | —                                       | 432   | 3,141                                   | 23,191  | 3,141                                   | 23,623  |
| Provision for foreseeable losses on contracts in progress                          | —                                       | —   | 15,796                                  | 79,927  | 15,796                                  | 79,927  |
| Provision for stock obsolescence   | —                                       | —   | 3,029                                   | 1,104   | 3,029                                   | 1,104   |
| Provision for dry-docking expenses   | —                                       | —   | 3,711                                   | 2,472   | 3,711                                   | 2,472   |
| Provision for permanent diminution in value of investments                         | 53,000                                  | 38,980  | —                                       | —   | 53,000                                  | 38,980  |
| Provision for diminution in value in other investments                             | —                                       | 33,572  | 61                                      | —   | 61                                      | 33,572  |
| Provision for doubtful debts   | —                                       | 16,428  | —                                       | —   | —                                       | 16,428  |
| Goodwill amortisation  | 758                                     | —   | —                                       | —   | 758                                     | —   |
| Goodwill on acquisition of a subsidiary company fully amortised                    | —                                       | 67,225  | —                                       | —   | —                                       | 67,225  |
| Realisation of exchange fluctuation reserve on liquidation of a subsidiary company | —                                       | 27,992  | —                                       | —   | —                                       | 27,992  |
| Exchange losses (exchange gain), net   | 621                                     | 3,523   | —                                       | (3,032)   | 621                                     | 491   |
| (Gain) loss on disposal of fixed assets, net                                       | 304                                     | —   | (1,293)                                 | —   | (989)                                   | —   |
| Provision for doubtful recovery of amount due from an associate                    | —                                       | —   | 7,588                                   | —   | 7,588                                   | —   |
| Loss on revaluation of listed securities   | 4,889                                   | —   | —                                       | —   | 4,889                                   | —   |
| Gain on disposal on major subsidiary group   | —                                       | —   | (44,551)                                | —   | (44,551)                                | —   |
|  | <u>          </u>                       | <u>          </u>                                       | <u>          </u>                       | <u>          </u>                                       | <u>          </u>                       | <u>          </u>                                       |

# NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 30 September 2002

## 8 FINANCE COSTS

|                       | <b>Year ended<br/>30 September<br/>2002<br/>HK\$000</b> | Period from<br>1 July 2000 to<br>30 September<br>2001<br>HK\$000 |
|-----------------------|---|--|
| <b>Group</b>          |   |  |
| Interest expenses on: |   |  |
| Bank overdrafts       | 172   | —  |
| Term loans            | 3,366   | 3,619  |
| Finance leases        | 465   | 765  |
| Trade payables        | 8,552   | 5,413  |
| Bank loans            | 37  | —  |
|                       | <u>12,592</u>   | <u>9,797</u>   |

## 9 TAXATION

|   | <b>Year ended<br/>30 September<br/>2002<br/>HK\$000</b> | Period from<br>1 July 2000 to<br>30 September<br>2001<br>HK\$000 |
|---|---|--|
| <b>Group</b>                                  |   |  |
| Taxation charge comprises the following:      |   |  |
| Write-back of deferred overseas tax           | 922   | —  |
| Share of tax of overseas associated companies | (359)   | —  |
| Underprovision in prior years                 | (430)   | 3,548  |
|   | <u>133</u>  | <u>3,548</u>   |

No provision for Hong Kong and overseas profits tax is required as both the Company and the Group incurred a loss for the year except for the discontinuing operations, for which provision has been calculated at the rates applicable in the countries in which the disposed group of subsidiary of companies operate.

# NOTES TO FINANCIAL STATEMENTS *(Continued)*

*For the year ended 30 September 2002*

## 10 LOSS PER SHARE

The calculation of basic loss per share is based on the net loss of HK\$115,407,000 (30 September 2001: HK\$329,251,000) attributable to shareholders for the year divided by the weighted average number of 1,490,642,334 (30 September 2001: 1,039,188,365) ordinary shares in issue during the year.

## 11 DISCONTINUING OPERATIONS

Pursuant to the sale and purchase agreement dated 23 August 2002, the Group disposed of its entire interests in Sum Cheong Corporation Pte Limited ("Sum Cheong") which was engaged in the construction business in Singapore to management of Sum Cheong for a cash consideration of S\$1 (equivalent to HK\$4.5). The disposal of the above interests has resulted in a gain on disposal of subsidiaries of approximately HK\$44.6 million.

The consolidated profit and loss account included the results of the discontinuing operations up to 30 September 2002 which are summarised below:

|  | <b>Period from 1 October 2001<br/>to 30 September 2002</b> |
|--|--|
|  | <i>HK\$000</i>   |
| Turnover                                     | 266,271  |
| Cost of sales                                | (259,043)  |
| Gross profit                                 | 7,228  |
| Other revenue and gains                      | 4,902  |
| Administrative expenses                      | (30,270)   |
| Other operating expenses                     | (33,698)   |
| Staff costs                                  | (21,387)   |
| Operating loss from discontinuing operations | <u>(73,225)</u>  |



# NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 30 September 2002

## 12 PROPERTY, PLANT AND EQUIPMENT

| Group                                 | Freehold<br>land and<br>buildings<br><i>HK\$000</i> | Leasehold<br>land and<br>buildings<br><i>HK\$000</i> | Vessels,<br>plant and<br>machinery<br><i>HK\$000</i> | Others<br><i>HK\$000</i> | Total<br><i>HK\$000</i> |
|---------------------------------------|---|--|--|--------------------------|-------------------------|
| <b>Cost:</b>                          |   |  |  |                          |                         |
| At beginning of year                  | 3,167   | 13,259   | 383,453  | 19,836                   | 419,715                 |
| Due to acquisition of subsidiaries    | —   | 2,327  | 496  | 3,526                    | 6,349                   |
| Additions                             | 79  | —  | 978  | 2,951                    | 4,008                   |
| <b>Disposals:</b>                     |   |  |  |                          |                         |
| Arising from disposal of subsidiaries | (3,226)   | (13,177)   | (372,571)  | (20,334)                 | (409,308)               |
| Write-offs                            | —   | —  | (540)  | (562)                    | (1,102)                 |
| Others                                | —   | —  | (8,662)  | (961)                    | (9,623)                 |
| Foreign exchange realignment          | (20)  | (82)   | (2,287)  | (116)                    | (2,505)                 |
| At end of year                        | —   | 2,327  | 867  | 4,340                    | 7,534                   |
| <b>Accumulated depreciation:</b>      |   |  |  |                          |                         |
| At beginning of year                  | 171   | 11,894   | 272,547  | 13,325                   | 297,937                 |
| Due to acquisition of subsidiaries    | —   | —  | 233  | 885                      | 1,118                   |
| Charge for the year                   | 69  | 324  | 20,307   | 1,480                    | 22,180                  |
| Arising from disposal of subsidiaries | (231)   | (12,136)   | (284,473)  | (13,380)                 | (310,220)               |
| Write-offs                            | —   | —  | (170)  | (260)                    | (430)                   |
| Others                                | —   | —  | (6,605)  | (784)                    | (7,389)                 |
| Foreign exchange realignment          | (9)   | (73)   | (1,574)  | (78)                     | (1,734)                 |
| At end of year                        | —   | 9  | 265  | 1,188                    | 1,462                   |
| <b>Net book value:</b>                |   |  |  |                          |                         |
| <b>At 30 September 2002</b>           | <b>—</b>  | <b>2,318</b>   | <b>602</b>   | <b>3,152</b>             | <b>6,072</b>            |
| At 30 September 2001                  | 2,996   | 1,365  | 110,906  | 6,511                    | 121,778                 |

Included in other fixed assets are the net book value of assets held under finance leases and under term loan at 30 September 2002 amounted to HK\$205,280 (30 September 2001: HK\$16,442,000) and HK\$nil (30 September 2001: HK\$2,041,000) respectively.

# NOTES TO FINANCIAL STATEMENTS *(Continued)*

*For the year ended 30 September 2002*

## 12 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The Group's leasehold land and building is situated in Hong Kong. The leasehold land and building is held under medium term lease. At 30 September 2002, the leasehold land and building was pledged to secure bank loan granted to a subsidiary.

| <b>Company</b>                   | <b>Furniture and<br/>fittings</b><br><i>HK\$000</i> | <b>Office<br/>equipment</b><br><i>HK\$000</i> | <b>Motor vehicle</b><br><i>HK\$000</i> | <b>Total</b><br><i>HK\$000</i> |
|----------------------------------|---|---|--|--------------------------------|
| <b>Cost:</b>                     |   |   |  |                                |
| At beginning of year             | 36  | 138   | 38                                     | 212                            |
| Additions                        | 65  | 302   | —                                      | 367                            |
| Disposals                        | (101)   | (424)   | (38)                                   | (563)                          |
|                                  | <hr/>   | <hr/>   | <hr/>                                  | <hr/>                          |
| At end of year                   | —   | 16  | —                                      | 16                             |
|                                  | <hr/>   | <hr/>   | <hr/>                                  | <hr/>                          |
| <b>Accumulated depreciation:</b> |   |   |  |                                |
| At beginning of year             | 23  | 84  | 5                                      | 112                            |
| Charge for the year              | 18  | 122   | 13                                     | 153                            |
| Written back on disposals        | (41)  | (201)   | (18)                                   | (260)                          |
|                                  | <hr/>   | <hr/>   | <hr/>                                  | <hr/>                          |
| At end of year                   | —   | 5   | —                                      | 5                              |
|                                  | <hr/>   | <hr/>   | <hr/>                                  | <hr/>                          |
| <b>Net book value:</b>           |   |   |  |                                |
| <b>At 30 September 2002</b>      | <u>—</u>  | <u>11</u>                                     | <u>—</u>                               | <u>11</u>                      |
|                                  | <hr/> <hr/>   | <hr/> <hr/>                                   | <hr/> <hr/>                            | <hr/> <hr/>                    |
| At 30 September 2001             | 13  | 23  | 64                                     | 100                            |
|                                  | <hr/> <hr/>   | <hr/> <hr/>                                   | <hr/> <hr/>                            | <hr/> <hr/>                    |

# NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 30 September 2002

## 13 SUBSIDIARY COMPANIES

| <b>Company</b>                                    | <b>30 September<br/>2002<br/>HK\$000</b> | 30 September<br>2001<br>HK\$000 |
|---|--|---------------------------------|
| Unlisted shares, at cost                          | <b>160,371</b>                           | 455,775                         |
| Less: Provision for permanent diminution in value | <b>(119,508)</b>                         | (395,105)                       |
|   | <b>40,863</b>                            | 60,670                          |
| Amounts due from subsidiary companies             | <b>245,479</b>                           | 397,644                         |
| Less: Provisions for doubtful recovery            | <b>(245,479)</b>                         | (272,578)                       |
|   | <b>—</b>                                 | 125,066                         |
| Amounts due to subsidiary companies               | <b>(40,863)</b>                          | (44,439)                        |
|   | <b>—</b>                                 | 141,297                         |

Amounts due from(to) subsidiary companies are non-trade related, interest-free, unsecured and have no fixed terms of repayments.

Particulars of the principal subsidiary companies are as follows:

| <b>Name of company</b>        | <b>Attributable interest</b>    |                               | <b>Place of<br/>incorporation/<br/>registration<br/>and operations</b> | <b>Nominal value<br/>of issued/<br/>registered<br/>share capital</b> | <b>Principal<br/>activities</b> |
|-------------------------------|---------------------------------|-------------------------------|--|--|---------------------------------|
|                               | <b>To the<br/>Company<br/>%</b> | <b>To the<br/>Group<br/>%</b> |  |  |                                 |
| Orient Prize Holdings Limited | 100                             | —                             | British Virgin Islands/<br>Hong Kong                                   | US\$100  | Investment Holding              |
| Gain Source Ltd               | 100                             | —                             | British Virgin Islands/<br>Hong Kong                                   | US\$1  | Investment Holding              |
| Denton Capital Limited        | 100                             | —                             | British Virgin Islands/<br>Hong Kong                                   | US\$100  | Securities trading              |
| Diamond Pearl Limited         | 100                             | —                             | British Virgin Islands/<br>Hong Kong                                   | US\$1  | Investment holding              |
| Total Power Trading Limited   | 100                             | —                             | British Virgin Islands/<br>Hong Kong                                   | US\$1  | Investment holding              |

# NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 30 September 2002

## 13 SUBSIDIARY COMPANIES (Continued)

| Name of company  | Attributable interest  |                      | Place of incorporation/<br>registration<br>and operations | Nominal value<br>of issued/<br>registered<br>share capital | Principal<br>activities        |
|--|------------------------|----------------------|---|--|--------------------------------|
|  | To the<br>Company<br>% | To the<br>Group<br>% |   |  |                                |
| * Fine Lord Constructions Company Limited                                | —                      | 100                  | Hong Kong   | HK\$13   | Provision of engineering works |
| * Marcello Foods Limited   | —                      | 70                   | Hong Kong   | HK\$3,400,000  | Trading                        |
| * Marcello (Tax Free) International Department Store Corporation Limited | —                      | 60                   | Hong Kong   | HK\$2,000,000  | Trading                        |

\* Not audited by John K.H. Lo & Co. Control of 100% equity interest in Fine Lord Constructions Company Limited was exercised on 25 June 2002 while 70% and 60% equity interest in Marcello Foods Limited and Marcello (Tax Free) International Department Store Corporation Limited respectively were exercised on 27 June 2002 during the year. The operating results of all three subsidiaries acquired during the year were accounted for in the consolidated financial statements from 1 July 2002 to 30 September 2002. Cost of acquisition and details of purchase consideration paid are stated in Note 30.

## 14 ASSOCIATED COMPANIES

|   | Group                           |                                 | Company                         |                                 |
|---|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
|   | 30 September<br>2002<br>HK\$000 | 30 September<br>2001<br>HK\$000 | 30 September<br>2002<br>HK\$000 | 30 September<br>2001<br>HK\$000 |
| Unlisted shares, at cost                | —                               | —                               | —                               | 6                               |
| Share of net assets                     | —                               | 1,431                           | —                               | —                               |
|   | —                               | 1,431                           | —                               | 6                               |
| Less: provision for diminution in value | —                               | —                               | —                               | (6)                             |
|   | —                               | 1,431                           | —                               | —                               |
| Amounts due from associated companies   | —                               | 8,973                           | —                               | 20                              |
|   | —                               | 10,404                          | —                               | 20                              |

The Group's share of the post-acquisition profits of its associated companies as at 30 September 2002 is nil (30 September 2001: profit of HK\$993,000).

# NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 30 September 2002

## 15 LONG TERM INVESTMENTS

|  | Group                                  |  | Company                                |  |
|--|--|--|--|--|
|  | 30 September<br>2002<br><i>HK\$000</i> | 30 September<br>2001<br><i>HK\$000</i> | 30 September<br>2002<br><i>HK\$000</i> | 30 September<br>2001<br><i>HK\$000</i> |
| Unlisted equity investments, at fair value | —                                      | 64,124                                 | —                                      | 37,979                                 |
|  | <u>—</u>                               | <u>64,124</u>                          | <u>—</u>                               | <u>37,979</u>                          |

## 16 LONG TERM RECEIVABLES

|  | Group                                  |  | Company                                |  |
|--|--|--|--|--|
|  | 30 September<br>2002<br><i>HK\$000</i> | 30 September<br>2001<br><i>HK\$000</i> | 30 September<br>2002<br><i>HK\$000</i> | 30 September<br>2001<br><i>HK\$000</i> |
| Loan receivable  | —                                      | 40,875                                 | —                                      | —                                      |
| Less: Provision for doubtful recovery  | —                                      | (40,875)                               | —                                      | —                                      |
|  | <u>—</u>                               | <u>—</u>                               | <u>—</u>                               | <u>—</u>                               |
| Amount receivable from PTJSI   | —                                      | 58,708                                 | —                                      | —                                      |
| Less: Provision for doubtful recovery  | —                                      | (42,405)                               | —                                      | —                                      |
|  | <u>—</u>                               | <u>16,303</u>                          | <u>—</u>                               | <u>—</u>                               |
| Loan to SSTD   | —                                      | 5,397                                  | —                                      | —                                      |
|  | <u>—</u>                               | <u>21,700</u>                          | <u>—</u>                               | <u>—</u>                               |
| Less: Portion classified as current assets<br>under debtors, deposits and<br>prepayments | —                                      | (16,303)                               | —                                      | —                                      |
|  | <u>—</u>                               | <u>5,397</u>                           | <u>—</u>                               | <u>—</u>                               |
|  | <u>—</u>                               | <u>5,397</u>                           | <u>—</u>                               | <u>—</u>                               |

# NOTES TO FINANCIAL STATEMENTS *(Continued)*

For the year ended 30 September 2002

## 17 STOCKS

| Group          | 30 September        | 30 September         |
|----------------|---------------------|----------------------|
|                | 2002                | 2001                 |
|                | HK\$000             | HK\$000              |
| Materials      | —                   | 16,848               |
| Spare parts    | —                   | 2,531                |
| Equipment      | —                   | 2,484                |
| Finished goods | 4,925               | —                    |
|                | <u>4,925</u>        | <u>21,863</u>        |
|                | <u><u>4,925</u></u> | <u><u>21,863</u></u> |

## 18 CONTRACTS IN PROGRESS

| Group   | 30 September          | 30 September           |
|---|-----------------------|------------------------|
|   | 2002                  | 2001                   |
|   | HK\$000               | HK\$000                |
| Contract costs incurred plus attributable profits | 111,643               | 986,933                |
| Less: Progress billings                           | (114,342)             | (927,624)              |
|   | <u>(2,699)</u>        | <u>59,309</u>          |
| Less: Provision for foreseeable losses to date    | —                     | (77,643)               |
|   | <u>(2,699)</u>        | <u>(18,334)</u>        |
|   | <u><u>(2,699)</u></u> | <u><u>(18,334)</u></u> |
| Representing:                                     |                       |                        |
| Gross amount due from contract customers          | 3,093                 | 32,400                 |
| Gross amount due to contract customers            | (5,792)               | (50,734)               |
|   | <u>(2,699)</u>        | <u>(18,334)</u>        |
|   | <u><u>(2,699)</u></u> | <u><u>(18,334)</u></u> |

Included in contract costs is depreciation of property, plant and equipment of HK\$10,826 (30 September 2001: HK\$465,000) incurred during the year.

# NOTES TO FINANCIAL STATEMENTS *(Continued)*

For the year ended 30 September 2002

## 19 DEBTORS, DEPOSITS AND PREPAYMENTS

(a) Included in debtors, deposits and prepayments are trade debtors with their age analysis as follows:

|                    | Group                                  |  | Company                                |  |
|--------------------|--|--|--|--|
|                    | 30 September<br>2002<br><i>HK\$000</i> | 30 September<br>2001<br><i>HK\$000</i> | 30 September<br>2002<br><i>HK\$000</i> | 30 September<br>2001<br><i>HK\$000</i> |
| Current to 30 days | 8,212                                  | 1,410                                  | —                                      | —                                      |
| 31 to 60 days      | 4,370                                  | 4,713                                  | —                                      | —                                      |
| 61 to 90 days      | 352                                    | 3,447                                  | —                                      | —                                      |
| Over 90 days       | 398                                    | 58,062                                 | —                                      | —                                      |
|                    | <u>13,332</u>                          | <u>67,632</u>                          | <u>—</u>                               | <u>—</u>                               |

The Group has a general credit policy of 30 days.

- (b) Sum Cheong Corporation Pte Ltd (“Sum Cheong”) issued an exchangeable note for US\$4.5 million to the Company during the year. The principal terms of the note is interest free and the Company has the right to exchange the amount outstanding in the note into 50% equity interest in CP-Sum Cheong (China) Pte. Ltd, an associated company of Sum Cheong, if no repayment of the principal is made by Sum Cheong to the Company after the maturity date in October 2003. Provision of HK\$2,730,000 was made as at 30 September 2002 for the impairment of the value of the above note.
- (c) As at 30 September 2002, the retention receivable for contracts in progress amounting to approximately HK\$5,315,000 (30 September 2001: HK\$13,026,000) has been included in trade debtors. Retention money receivables in respect of construction are settled in accordance with the terms of respective contracts.

## 20 SHORT TERM INVESTMENTS

|  | 30 September<br>2002<br><i>HK\$000</i> | 30 September<br>2001<br><i>HK\$000</i> |
|--|--|--|
| <b>Group</b>                                   |  |  |
| Listed securities, at market value - Hong Kong | <u>230</u>                             | <u>7,150</u>                           |

# NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 30 September 2002

## 21 CASH AND BANK BALANCES

|                           | Group                           |                                 | Company                         |                                 |
|---------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
|                           | 30 September<br>2002<br>HK\$000 | 30 September<br>2001<br>HK\$000 | 30 September<br>2002<br>HK\$000 | 30 September<br>2001<br>HK\$000 |
| Cash at banks and in hand | 4,774                           | 13,883                          | 229                             | 499                             |
| Unpledged fixed deposits  | —                               | 724                             | —                               | —                               |
|                           | <u>4,774</u>                    | <u>14,607</u>                   | <u>229</u>                      | <u>499</u>                      |
| Pledged fixed deposits    | —                               | 6,631                           | —                               | —                               |
|                           | <u>4,774</u>                    | <u>21,238</u>                   | <u>229</u>                      | <u>499</u>                      |

## 22 LOANS AND OTHER OBLIGATIONS

|  | Group                           |                                 | Company                         |                                 |
|--|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
|  | 30 September<br>2002<br>HK\$000 | 30 September<br>2001<br>HK\$000 | 30 September<br>2002<br>HK\$000 | 30 September<br>2001<br>HK\$000 |
| Current portion of bank loans and<br>other borrowings, unsecured (note 24) | 95                              | 515                             | —                               | —                               |
| Current portion of finance lease<br>obligations (note 25)                  | 48                              | 4,844                           | —                               | —                               |
|  | <u>143</u>                      | <u>5,359</u>                    | <u>—</u>                        | <u>—</u>                        |

## 23 CREDITORS AND ACCRUED CHARGES

(a) Included in creditors and accrued charges are trade creditors with their ageing analysis as follows:

|                    | Group                           |                                 | Company                         |                                 |
|--------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
|                    | 30 September<br>2002<br>HK\$000 | 30 September<br>2001<br>HK\$000 | 30 September<br>2002<br>HK\$000 | 30 September<br>2001<br>HK\$000 |
| Current to 30 days | 10,914                          | 21                              | —                               | —                               |
| 31 to 60 days      | 8,903                           | 340                             | —                               | —                               |
| 61 to 90 days      | 3                               | 6,262                           | —                               | —                               |
| Over 90 days       | 1,788                           | 169,122                         | —                               | —                               |
|                    | <u>21,608</u>                   | <u>175,745</u>                  | <u>—</u>                        | <u>—</u>                        |

(b) At 30 September 2002, retention money held from subcontractors for contracts in progress amounting to HK\$nil (30 September 2001: HK\$21,010,000) has been included in trade creditors.

(c) Included in creditors and accrued charges was balance due to a director amounting to HK\$5,614,820 (2001: Nil). The balance is unsecured, interest-free and has no fixed terms of repayment.



# NOTES TO FINANCIAL STATEMENTS *(Continued)*

For the year ended 30 September 2002

## 24 BANK LOANS AND OTHER BORROWINGS

| <b>Group</b>  | <b>30 September</b> | 30 September   |
|---|---------------------|----------------|
|   | <b>2002</b>         | 2001           |
|   | <b>HK\$000</b>      | <i>HK\$000</i> |
| Bank loans and other borrowings   | <b>118,199</b>      | 515            |
| Portion repayable within 1 year; classified as current liabilities ( <i>note 22</i> ) | <b>(95)</b>         | (515)          |
|   | <hr/>               | <hr/>          |
| Long term portion   | <b>118,104</b>      | —              |
|   | <hr/> <hr/>         | <hr/> <hr/>    |
| The long term portion is repayable as follows:  |                     |                |
| After 1 year but within 2 years   | <b>117,203</b>      | —              |
| After 2 years but within 5 years  | <b>320</b>          | —              |
| After 5 years   | <b>581</b>          | —              |
|   | <hr/>               | <hr/>          |
|   | <b>118,104</b>      | —              |
|   | <hr/> <hr/>         | <hr/> <hr/>    |

## 25 FINANCE LEASE OBLIGATIONS

| <b>Group</b>                               | <b>30 September 2002</b> |                      | 30 September 2001 |                |
|--|--------------------------|----------------------|-------------------|----------------|
|  | <b>Minimum</b>           | <b>Present value</b> | Minimum           | Present value  |
|  | <b>payments</b>          | <b>of payments</b>   | payments          | of payments    |
|  | <i>HK\$000</i>           | <i>HK\$000</i>       | <i>HK\$000</i>    | <i>HK\$000</i> |
| Within one year ( <i>note 22</i> )         | <b>51</b>                | <b>48</b>            | 5,467             | 4,844          |
| After 1 year but within 2 years            | <b>106</b>               | <b>96</b>            | 2,385             | 2,109          |
| After 2 years but within 5 years           | —                        | —                    | 762               | 655            |
|  | <hr/>                    | <hr/>                | <hr/>             | <hr/>          |
|  | <b>157</b>               | <b>144</b>           | 8,614             | 7,608          |
| Future finance charges on finance leases   | <b>(13)</b>              | —                    | (1,006)           | —              |
|  | <hr/>                    | <hr/>                | <hr/>             | <hr/>          |
| Present value of finance lease obligations | <b>144</b>               | <b>144</b>           | 7,608             | 7,608          |
|  | <hr/> <hr/>              | <hr/> <hr/>          | <hr/> <hr/>       | <hr/> <hr/>    |

## 26 DEFERRED TAXATION

The principal component of deferred taxation in prior year was depreciation allowances in excess of related depreciation charges relating to Sum Cheong group. Due to the disposal of Sum Cheong group, the Group has not provided any deferred tax during the year.

## 27 ISSUED CAPITAL

|                                       | 30 September 2002                 |                             | 30 September 2001                 |                             |
|---------------------------------------|-----------------------------------|-----------------------------|-----------------------------------|-----------------------------|
|                                       | Number of<br>shares<br>(thousand) | Nominal<br>value<br>HK\$000 | Number of<br>shares<br>(thousand) | Nominal<br>value<br>HK\$000 |
| <i>Authorised:</i>                    |                                   |                             |                                   |                             |
| Ordinary shares of HK\$0.40 each      |                                   |                             |                                   |                             |
| Balance brought forward               | 4,000,000                         | 1,600,000                   | 1,000,000                         | 400,000                     |
| Increase during year/period           | —                                 | —                           | 3,000,000                         | 1,200,000                   |
|                                       | <u>4,000,000</u>                  | <u>1,600,000</u>            | <u>4,000,000</u>                  | <u>1,600,000</u>            |
| Balance carried forward               |                                   |                             |                                   |                             |
|                                       | <u>4,000,000</u>                  | <u>1,600,000</u>            | <u>4,000,000</u>                  | <u>1,600,000</u>            |
| <br><i>Issued and fully paid:</i>     |                                   |                             |                                   |                             |
| Ordinary shares of HK\$0.40 each      |                                   |                             |                                   |                             |
| Balance brought forward               | 1,490,642                         | 596,257                     | 831,261                           | 332,504                     |
| Allotment during year/period          | —                                 | —                           | 162,500                           | 65,000                      |
| Rights share issue during year/period | —                                 | —                           | 124,220                           | 49,689                      |
| Bonus share issue during year/period  | —                                 | —                           | 372,661                           | 149,064                     |
|                                       | <u>1,490,642</u>                  | <u>596,257</u>              | <u>1,490,642</u>                  | <u>596,257</u>              |
| Balance carried forward               | <u>1,490,642</u>                  | <u>596,257</u>              | <u>1,490,642</u>                  | <u>596,257</u>              |

### Share options

Under a share option scheme adopted on 7 March 2002, the directors may grant options to any employee of the Company or the Group, including executive directors, to subscribe for shares in the Company. The subscription price shall be the higher of a price being not less than 80% of the average of the closing prices of the shares on The Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the offer date and the nominal value of the shares. The maximum aggregate number of shares issued and to be issued on the exercise of options shall be shares representing 10% of the total number of shares in issue from time to time excluding any shares issued under the option scheme.

As at 30 September 2002, there were no share options outstanding.

# NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 30 September 2002

## 28 ACCUMULATED LOSSES

|  | Group                           |                                 | Company                         |                                 |
|--|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
|  | 30 September<br>2002<br>HK\$000 | 30 September<br>2001<br>HK\$000 | 30 September<br>2002<br>HK\$000 | 30 September<br>2001<br>HK\$000 |
| Balance brought forward  | (876,103)                       | (547,312)                       | (764,460)                       | (551,212)                       |
| Transfer from profit and loss account  | (115,407)                       | (329,251)                       | (217,494)                       | (213,248)                       |
| Transfer from capital reserve on disposal<br>of fixed assets previously revalued | —                               | 460                             | —                               | —                               |
| Balance carried forward  | <u>(991,510)</u>                | <u>(876,103)</u>                | <u>(981,954)</u>                | <u>(764,460)</u>                |

## 29 RESERVES

|   | Group                           |                                 | Company                         |                                 |
|---|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
|   | 30 September<br>2002<br>HK\$000 | 30 September<br>2001<br>HK\$000 | 30 September<br>2002<br>HK\$000 | 30 September<br>2001<br>HK\$000 |
| Capital redemption reserve:   |                                 |                                 |                                 |                                 |
| Balance brought forward and carried forward   | <u>976</u>                      | <u>976</u>                      | <u>976</u>                      | <u>976</u>                      |
| Share Premium:  |                                 |                                 |                                 |                                 |
| Balance brought forward   | <u>299,073</u>                  | <u>448,137</u>                  | <u>448,137</u>                  | <u>448,137</u>                  |
| Bonus share issue   | <u>—</u>                        | <u>(149,064)</u>                | <u>(149,064)</u>                | <u>(149,064)</u>                |
|   | <u>299,073</u>                  | <u>299,073</u>                  | <u>299,073</u>                  | <u>299,073</u>                  |
| Capital reserve:  |                                 |                                 |                                 |                                 |
| Balance brought forward   | <u>(11,933)</u>                 | <u>(11,933)</u>                 | <u>—</u>                        | <u>—</u>                        |
| Transfer to profit and loss accounts upon<br>disposal of major subsidiary group<br>of companies | <u>11,933</u>                   | <u>—</u>                        | <u>—</u>                        | <u>—</u>                        |
| Goodwill reserve arising from acquisition<br>of subsidiaries                                    | <u>(6,819)</u>                  | <u>—</u>                        | <u>—</u>                        | <u>—</u>                        |
| Balance carried forward   | <u>(6,819)</u>                  | <u>(11,933)</u>                 | <u>—</u>                        | <u>—</u>                        |

# NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 30 September 2002

## 29 RESERVES (Continued)

|   | Group                           |                                 | Company                         |                                 |
|---|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
|   | 30 September<br>2002<br>HK\$000 | 30 September<br>2001<br>HK\$000 | 30 September<br>2002<br>HK\$000 | 30 September<br>2001<br>HK\$000 |
| Asset revaluation reserve:  |                                 |                                 |                                 |                                 |
| Balance brought forward   | 15,485                          | 15,945                          | —                               | —                               |
| Transfer to accumulated losses on disposal<br>of fixed assets previously revalued               | —                               | (460)                           | —                               | —                               |
| Transfer to profit and loss accounts upon<br>disposal of major subsidiary group<br>of companies | (15,485)                        | —                               | —                               | —                               |
| Balance carried forward   | —                               | 15,485                          | —                               | —                               |
| Investment revaluation reserve:   |                                 |                                 |                                 |                                 |
| Balance brought forward   | (12,192)                        | (12,192)                        | —                               | —                               |
| Transfer to profit and loss accounts upon<br>disposal of major subsidiary group<br>of companies | 12,192                          | —                               | —                               | —                               |
| Balance carried forward   | —                               | (12,192)                        | —                               | —                               |
| Exchange fluctuation reserve:   |                                 |                                 |                                 |                                 |
| Balance brought forward   | 32,780                          | 5,947                           | —                               | —                               |
| Adjustment on exchange translation  | —                               | (1,159)                         | —                               | —                               |
| Transfer to profit and loss account on liquidation<br>of a subsidiary company                   | —                               | 27,992                          | —                               | —                               |
| Transfer to profit and loss accounts upon<br>disposal of major subsidiary group<br>of companies | (32,780)                        | —                               | —                               | —                               |
| Balance carried forward   | —                               | 32,780                          | —                               | —                               |
| Total   | 293,230                         | 324,189                         | 300,049                         | 300,049                         |

# NOTES TO FINANCIAL STATEMENTS *(Continued)*

For the year ended 30 September 2002

## 30 ACQUISITION/DISPOSAL OF SUBSIDIARIES

|  | 30 September<br>2002<br><i>HK\$000</i> | 30 September<br>2001<br><i>HK\$000</i> |
|--|--|--|
| (a) <b>Acquisition of subsidiary companies</b> |  |  |
| Net assets acquired:                           |  |  |
| Fixed assets                                   | 5,268                                  | 797                                    |
| Stock  | 3,764                                  |  |
| Debtors, deposits and prepayments              | 27,387                                 | 2,711                                  |
| Cash and bank balances                         | 5,463                                  | 293                                    |
| Creditors and accrued charges                  | (34,403)                               | (2,725)                                |
| Bank loan - secured                            | (1,117)                                | —                                      |
| Tax payable                                    | (502)                                  | —                                      |
|  | <u>5,860</u>                           | <u>1,076</u>                           |
| Minority interest                              | (1,436)                                | (301)                                  |
|  | <u>4,424</u>                           | <u>775</u>                             |
| Goodwill on acquisition                        | 7,576                                  | 67,225                                 |
|  | <u>12,000</u>                          | <u>68,000</u>                          |
| Satisfied by:                                  |  |  |
| Cash   | —                                      | 3,000                                  |
| Term loans                                     | 1,200                                  | —                                      |
| Issue of promissory notes                      | 10,800                                 | —                                      |
| Issue of shares at HK\$0.4 each                | —                                      | 65,000                                 |
|  | <u>12,000</u>                          | <u>68,000</u>                          |
| Cash flow on acquisition net of cash acquired: |  |  |
| Cash consideration                             | —                                      | 3,000                                  |
| Cash and bank balances acquired                | 5,463                                  | (293)                                  |
| Bank loans                                     | (1,117)                                | —                                      |
|  | <u>4,346</u>                           | <u>2,707</u>                           |

The subsidiaries acquired during the year contributed approximately HK\$32,781,000 to the Group's turnover and a loss of approximately HK\$1,234,000 to the Group's loss for the year. Net liabilities sustained in the subsidiaries acquired during the year as at 30 September 2002 was approximately HK\$6,791,000.

# NOTES TO FINANCIAL STATEMENTS (Continued)

For the year ended 30 September 2002

## 30 ACQUISITION/DISPOSAL OF SUBSIDIARIES (Continued)

|   | 30 September<br>2002<br>HK\$000 | 30 September<br>2001<br>HK\$000 |
|---|---------------------------------|---------------------------------|
| (b) <b>Disposal of subsidiary companies</b>     |                                 |                                 |
| Net assets disposed of:                         |                                 |                                 |
| Fixed assets                                    | 98,810                          | —                               |
| Long term investments                           | 23,308                          | —                               |
| Inventory and work in progress                  | 24,067                          | —                               |
| Debtors, deposits and prepayments               | 112,315                         | —                               |
| Cash and bank balances                          | 8,196                           | —                               |
| Creditors and accrued charges                   | (192,855)                       | —                               |
| Taxation  | (1,006)                         | —                               |
| Deferred tax                                    | (14,501)                        | —                               |
| Hire purchase and lease creditors               | (2,792)                         | —                               |
| Long term creditors                             | (26,326)                        | —                               |
|   | <u>29,216</u>                   | <u>—</u>                        |
| Capital reserve realised on disposal            | (3,306)                         | —                               |
| Translation reserve realised on disposal        | (33,387)                        | —                               |
| Prior year adjustment                           | (4,677)                         | —                               |
| US\$4.5 million exchangeable note issued by SCC | (34,633)                        | —                               |
| Cost in relation to disposal                    | 2,236                           | —                               |
|   | <u>(44,551)</u>                 | <u>—</u>                        |
| Gain on disposal of subsidiary company          | 44,551                          | —                               |
|   | <u>—</u>                        | <u>—</u>                        |
| Satisfied by:                                   |                                 |                                 |
| Cash consideration (S\$1.00)                    | —                               | —                               |
| Cash flow on disposal net of cash disposed of:  |                                 |                                 |
| Cash and bank balances disposed of              | 8,196                           | —                               |
|   | <u>8,196</u>                    | <u>—</u>                        |

The subsidiaries disposed of during the year contributed approximately HK\$266,271,000 to the Group's turnover and a loss of approximately HK\$83,649,000 to the Group's loss for the year.

# NOTES TO FINANCIAL STATEMENTS *(Continued)*

For the year ended 30 September 2002

## 31 CASH AND CASH EQUIVALENTS

|                           | <b>30 September</b> | 30 September  |
|---------------------------|---------------------|---------------|
|                           | <b>2002</b>         | 2001          |
|                           | <b>HK\$000</b>      | HK\$000       |
| Cash at banks and in hand | 4,774               | 13,883        |
| Unpledged fixed deposits  | —                   | 724           |
|                           | <u>4,774</u>        | <u>14,607</u> |

## 32 CONTINGENT LIABILITIES

|                                | <b>Group</b>        |                | <b>Company</b>       |                |
|--------------------------------|---------------------|----------------|----------------------|----------------|
|                                | <b>30 September</b> | 30 September   | <b>30 September</b>  | 30 September   |
|                                | <b>2002</b>         | 2001           | <b>2002</b>          | 2001           |
|                                | <b>HK\$000</b>      | HK\$000        | <b>HK\$000</b>       | HK\$000        |
| Guarantee facilities           | —                   | 81,722         | —                    | 153,567        |
| Performance bonds              | —                   | 40,613         | —                    | —              |
| Guarantee for promissory notes | —                   | —              | <b>10,941</b>        | —              |
|                                | <u>—</u>            | <u>122,335</u> | <u><b>10,941</b></u> | <u>153,567</u> |

The Company is the guarantor for promissory notes issued by its subsidiary amounting to HK\$10,941,000 including interest. One of the terms of the promissory notes is that first repayment of half of the principal plus interest accrued should be made to the Noteholder in December 2002. Extension for repayment has been granted to 26 June 2004.

# NOTES TO FINANCIAL STATEMENTS *(Continued)*

For the year ended 30 September 2002

## 33 COMMITMENTS

Commitments outstanding at 30 September 2002 not provided for in the financial statements were as follows:

|   | Group                                  |  | Company                                |  |
|---|--|--|--|--|
|   | 30 September<br>2002<br><i>HK\$000</i> | 30 September<br>2001<br><i>HK\$000</i> | 30 September<br>2002<br><i>HK\$000</i> | 30 September<br>2001<br><i>HK\$000</i> |
| Capital commitments:  |  |  |  |  |
| Contracted for  | —                                      | 23,850                                 | —                                      | —                                      |
| Authorised but not contracted for                                   | <b>40</b>                              | —                                      | —                                      | —                                      |
|   | <u>40</u>                              | <u>23,850</u>                          | <u>—</u>                               | <u>—</u>                               |
| Annual commitments under  |  |  |  |  |
| Non-cancellable operating leases:                                   |  |  |  |  |
| Land and buildings expiring:  |  |  |  |  |
| Within one year   | <b>985</b>                             | 456                                    | <b>30</b>                              | —                                      |
| In the second to fifth years, inclusive                             | <b>1,296</b>                           | 3,979                                  | <b>10</b>                              | 311                                    |
| Other equipment expiring in<br>the second to fifth years, inclusive | —                                      | 126                                    | —                                      | —                                      |
|   | <u>2,281</u>                           | <u>4,561</u>                           | <u>40</u>                              | <u>311</u>                             |

In addition to the events described above, the Group and the Company had no significant commitments at the balance sheet date.



# NOTES TO FINANCIAL STATEMENTS *(Continued)*

For the year ended 30 September 2002

## 34 POST BALANCE SHEET EVENTS

- (a) The board of directors announced on 19 December 2002 that proposals would be put forward to the shareholders for share consolidation and capital reduction (collectively as "Capital Reorganisation"). The share consolidation will be made whereby every ten shares of HK\$0.40 each in the issued and unissued share capital of the Company will be consolidated into one consolidated share of HK\$4.00 each and fractions of a consolidated share will not be issued. After the share consolidation, the nominal value of the issued and unissued consolidated shares will be reduced from HK\$4.00 to HK\$0.01 each pursuant to the capital reduction.

Circular dated 13 January 2003 containing details of the Capital Reorganisation were sent to shareholders. The Capital Reorganisation is conditional upon: 1) the passing of an ordinary resolution to approve the share consolidation at the extraordinary general meeting ("EGM") which was held on 6 February 2003 and; 2) the passing of a special resolution to approve the capital reduction at the EGM and; 3) the passing of an ordinary resolution to approve the increase of capital at the EGM and; 4) the confirmation by the court of the capital reduction and the registration by the Registrar of Companies in Hong Kong of an office copy of the Court order and the minute containing the particulars required under section 61 of the Companies Ordinance; and 5) the Listing Committee of the Stock Exchange granting (either unconditionally or subject to conditions to which the Company shall not reasonably object) listing of, and permission to deal in, the new shares.

The resolutions as stated above were passed during the EGM held on 6 February 2003.

- (b) The board of directors announced on 14 January 2003 that it was informed by Sum Cheong that Sum Cheong Corporation Pte Ltd. ("Sum Cheong") entered into a Call Option Agreement together with Favour Smart Ltd ("FSL") and C&P China Pte. Ltd. ("CP China") on 9 January 2003 whereby FSL, in consideration of the receipt of the call option fee of US\$415,000 (or equivalent to approximately HK\$3.2 million), has conditionally agreed to grant the rights to CP China to require FSL to sell to CP China all of the call option shares and assign and transfer to CP China all its rights, title, benefits and interests in respect of the loans owing to Sum Cheong by CP-Sum Cheong (China) Pte. Ltd. ("CP Sum Cheong") at exercise price of US\$3,735,000 (or equivalent to approximately HK\$29.1 million) payable in cash upon completion.

As detailed in the announcement made by the Company dated 23 August 2002 in respect of the management buy-out of 100% interest in Sum Cheong, the Exchangeable Note with a principal amount of US\$4.5 million (or equivalent to approximately HK\$35.1 million) can be exchanged by the Company for 50% equity interest in CP Sum Cheong mandatorily at any time within 12 months from the date of the issue of the Exchangeable Note.

After the shareholders' approval of the transactions contemplated under the Call Option Agreement is obtained at the EGM, FSL is entitled to be registered as the holder of the Call Option Shares. The directors intend to exchange the Exchangeable Note for 50% equity interest in CP Sum Cheong holding through FSL on the completion date immediately after FSL having been registered as the holder of the call option shares. If the call option is exercised by CP China the Company exchanges the Exchangeable Note for the call option shares, the call option shares and the loans (as stated above) will be sold and assigned to CP China by the group on the completion date at a total cash consideration (comprising the call option fee and the exercise price) of US\$4,150,000 (or equivalent to approximately HK\$32.4 million).

## **34 POST BALANCE SHEET EVENTS *(Continued)***

Circular dated 13 January 2003 had been sent to shareholders for the major terms and conditions of the Call Option Agreement. Completion is subject to 1) the approval by the shareholders at the EGM in respect of the transactions contemplated under the Call Option Agreement on or before 28 February 2003 and, 2) CP China exercises the call option within the period which is at any time commencing from the date of the Call Option Agreement and ending on the date falling one month after 28 February 2003 which may be extended for an additional two months from the expiry of the one month period at the option of CP China.

The resolution as stated above had been passed during the EGM held on 10 February 2003.

## **35 RELATED PARTY TRANSACTIONS**

Other than normal trading transactions between the Company and its subsidiary companies, there are no related party transactions during the year.

## **36 LITIGATION**

On 4 May 2001, Guido Giacometti, a trustee for the estate of Sukamto Sia fka Sukarman Sukamto, a former Director and substantial shareholder of the Company, commenced proceedings against the Company in the U.S. Bankruptcy Court in the District of Hawaii claiming against the Company, among other things, the sum of US\$590,000 together with attorneys' fees and costs. The Company received the summon and the related documents on 21 September 2001, and the Company is seeking legal advice in connection with the matter. The Company has made provision of HK\$5,000,000 in connection with the claim.

## **37 COMPARATIVE FIGURES**

Comparative figures are for the period from 1 July 2000 to 30 September 2001. Due to the adoption of new/revised SSAPs during the current year, the presentation of the profit and loss account, the balance sheet, the cash flow statement and certain supporting notes have been revised to comply with the new requirements. Accordingly, certain comparative figures have been reclassified to conform with the current year's presentation.

## **38 APPROVAL OF FINANCIAL STATEMENTS**

The financial statements were approved by the Board of Directors on 13 February 2003.