

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th June, 2002

1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The principal activity of the Company is investment holding and the principal activities of its principal subsidiaries are set out in note 18.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

(i) Going concern

The Group incurred a consolidated net loss attributable to shareholders of HK\$450,201,000 for the year ended 30th June, 2002. At the balance sheet date, the Group had consolidated net current liabilities of HK\$4,590,000 including short-term borrowings of HK\$91,973,000.

In view of liquidity problems faced by the Group and its uncertain ongoing prospects due to the prevailing recession of the economy, the Directors have adopted the following measures with a view to improving the Group's overall financial position, immediate liquidity and cash flows in order to sustain the Group as a going concern:

- the Directors are in active negotiations with potential financiers to arrange new facilities to meet the immediate repayments of amounts demanded by its creditors;
- the Directors are considering to increase the capital base of the Group through various fund-raising exercises, including, but not limited to, private placements of the Company's new shares to potential investors; and
- the Directors have taken action to reduce the costs by re-engineering and to study any possibility on corporate reorganisation and restructuring.

In the opinion of the Directors, in light of the measures taken to date, together with the expected results of other measures in progress, the Group will have sufficient cash resources to satisfy its future working capital and other financing requirements. Accordingly, the Directors are satisfied that it is appropriate to prepare the financial statements on a going concern basis.

The financial statements have not incorporated any adjustments for the possible failure of the Group to implement the aforesaid measures. Should the Group be unable to continue as a going concern, adjustments would have to be made to restate the value of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities respectively. The effects of these adjustments have not been reflected in the financial statements.

(ii) Accounting treatment and disclosure – the PRC subsidiaries

The Company has equity interests in two subsidiaries in the PRC. The unaudited financial information of the PRC subsidiaries was included in the financial statements of the Group. Certain books and records of these subsidiaries were either not properly updated or could not be located. In addition, the audited financial statements of these subsidiaries prepared under Hong Kong generally accepted accounting principles are not available. In view of this situation, the Directors are uncertain whether the results and state of affairs of the PRC subsidiaries are properly stated in the financial statements of the Group for the year ended 30th June, 2002.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (cont'd)**(iii) Completeness of books and records during the year and subsequent to the balance sheet date**

The financial statements have been prepared based on the books and records maintained by the Company and its subsidiaries. However, due to the significant staff and management turnover within the Group during the year and subsequent to the balance sheet date, certain underlying books and records of the Group were either not properly updated or could not be located. As a result, the following amounts included in the financial statements recorded by (a) the Group and (b) the Company and all the related disclosures in the financial statements may not be satisfactorily substantiated or otherwise supported.

(a) The Group

Included in consolidated income statement

- Turnover of HK\$6,889,000*
- Direct costs of HK\$1,254,000*
- Other revenue of HK\$2,962,000*
- Finance costs of HK\$8,810,000*
- Taxation with nil amount*
- Minority interest of HK\$783,000*
- Loss attributable to shareholders (excluding revaluation deficit, provision, impairment loss and amortisation of goodwill aggregating HK\$418,180,000) of HK\$32,021,000*

Included in consolidated balance sheet

- Fixed assets of HK\$2,963,000*
- Inventories of HK\$4,527,000*
- Trade and other receivables of HK\$9,083,000*
- Trade payable, other payables, tax payable and accruals of HK\$44,116,000*
- Minority interest of HK\$886,000*

* including financial information of the PRC subsidiaries

(b) The Company

- Loss for the current year (excluding impairment loss on interests in subsidiaries of HK\$549,055,000) of HK\$16,341,000

(iv) Accounting treatment and disclosure – interests in three associates

Included in the consolidated income statement for the year ended 30th June, 2002 are impairment loss recognised aggregating HK\$157,741,000 and provision for amounts due from associates in the sum of HK\$15,911,000 made against the Group's interests in three associates, which were acquired by the Group during the years ended 30th June, 2001 and 2002. Due to the unavailability of the audited financial information, the Directors are unable to satisfy themselves that the equity method has been properly adopted and disclosure has been made in respect of the Group's interests therein in accordance with the provisions and disclosure requirements as set out in SSAP 10 "Accounting for investments in associates" issued by the HKSA.

(v) The extent of required disclosures

As explained in paragraphs (ii) and (iii), as certain accounting records were either not properly updated or could not be located, the Directors are uncertain as to the accuracy and completeness of disclosures required by the Companies Ordinance, SSAPs and the Listing Rules.

For the year ended 30th June, 2002

3. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”)

The following new and revised SSAPs are effective for the first time for the current year’s financial statements:

SSAP 9 (Revised)	“Events after the balance sheet date”
SSAP 14 (Revised)	“Leases”
SSAP 18 (Revised)	“Revenue”
SSAP 26	“Segment reporting”
SSAP 28	“Provisions, contingent liabilities and contingent assets”
SSAP 29	“Intangible assets”
SSAP 30	“Business combinations”
SSAP 31	“Impairment of assets”
SSAP 32	“Consolidated financial statements and accounting for investments in subsidiaries”

In the current year, the Group has adopted, for the first time, a number of new SSAPs issued by the HKSA. Adoption of these new SSAPs has led to a number of new accounting policies. The new accounting policies are set out in note 4. These new accounting policies have not affected the amounts reported for the current or prior years. However, these new SSAPs have introduced additional disclosure requirements which have been adopted in these financial statements.

Where necessary, comparative figures have been reclassified to conform with the current year’s presentation.

4. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with all applicable SSAPs, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Companies Ordinance. They have been prepared under the historical cost convention, except for the remeasurement of investment properties and certain fixed assets as further explained below.

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 30th June each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

(b) Goodwill

Positive goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group’s share of the fair value of the identifiable assets and liabilities acquired.

For acquisition before 1st July, 2001, positive goodwill is written off on acquisition.

For acquisition on or after 1st July, 2001, positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life.

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(b) Goodwill (cont'd)

In respect of controlled subsidiaries, positive goodwill is stated in the consolidated balance sheet at cost less any accumulated amortisation and any impairment losses.

In respect of acquisitions of associates and jointly controlled entities, positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life. The cost of positive goodwill less any accumulated amortisation and any impairment losses is included in the carrying amount of the interests in associates or jointly controlled entities.

On disposal of investments in subsidiaries, associates or jointly controlled entities, the attributable amount of goodwill previously eliminated directly against or credited to reserves or capitalised but not yet amortised or written off is included in the determination of the profit or loss on disposal of the subsidiary, associate or jointly controlled entity.

(c) Subsidiaries

A subsidiary 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.

An investment in a controlled subsidiary is consolidated into the consolidated financial statements, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Group, in which case, it is stated in the consolidated balance sheet at fair value with changes in fair value recognised in the consolidated income statement as they arise.

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

(d) Associates

An associate is defined as an entity, other than a subsidiary, in which the Group has a long-term interest and over which it has the ability to exercise significant influence but not control, over its management, including participation in financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post-acquisition change in the Group's share of the associate's net assets, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor or venturer. The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the consolidated income statement.

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**(e) Other investments**

Other investments are stated in the balance sheet at fair value. Changes in fair value are recognised in the consolidated income statement as they arise.

(f) Joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and over which none of the participating parties has unilateral control.

(g) Jointly controlled entities

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

An investment in a jointly controlled entity is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post-acquisition change in the Group's share of the jointly controlled entity's net assets, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor or venturer, in which case it is stated at fair value with changes in fair value recognised in the consolidated income statement as they arise. The consolidated income statement reflects the Group's share of the post-acquisition results of jointly controlled entities for the year.

Unrealised profits and losses resulting from transactions between the Group and jointly controlled entities are eliminated to the extent of the Group's interest in the jointly controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the consolidated income statement.

(h) Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If 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 amount 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. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent 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.

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(i) **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and includes all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is based on estimated selling price less any estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(j) **Revenue recognition**

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (i) rental income, on the straight-line basis over the lease terms;
- (ii) sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and
- (iii) interest income, on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable.

(k) **Investment properties**

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market values based on independent professional valuations at the balance sheet date. Any surplus or deficit arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance on the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property is transferred to the income statement.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**(l) Fixed assets**

Fixed assets are stated at cost less depreciation and impairment losses. 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 assets have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement 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.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Where the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are discounted to their present values.

Depreciation is calculated on a straight-line basis to write off the cost of fixed assets over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land and building	Over the remaining term of the lease
Leasehold improvements	10% to 33 $\frac{1}{3}$ % or over the terms of the relevant leases, if shorter
Furniture, fixtures and equipment	9% to 18%
Motor vehicles	9% to 18%
Computer equipment	9% to 18%

Assets held under finance leases are depreciated over their estimated useful lives on the same basis as assets owned by the Group or, where shorter, the term of the relevant lease.

(m) Properties under development

Properties under development are stated at cost, including borrowing costs capitalised, less any impairment losses identified.

(n) Properties held for sale/properties under development held for sale

Properties held for sale and properties under development held for sale are stated at the lower of cost and net realisable value. Cost includes all development expenditure and other direct costs attributable to such properties. Net realisable value is estimated by the Directors based on prevailing market prices, on an individual property basis, less any further costs expected to be incurred on disposal.

(o) Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing.

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**(o) Leases (cont'd)**

Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of the assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in the balance sheet according to their nature and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

(p) Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the income statement.

On consolidation, the financial statements of foreign enterprises are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

(q) Deferred taxation

Provision is made for deferred taxation, using the liability method, on all significant timing differences to the extent that it is probable that the liability will crystallise in the foreseeable future. Deferred tax debit is not recognised unless its realisation is assured beyond reasonable doubt.

(r) Retirement benefit scheme contributions

Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in the income statement as incurred.

(s) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**(t) Related parties**

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. Related parties may be individuals or corporate entities.

(u) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

The Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.

Segment assets consist primarily of fixed assets, investment properties, inventories, receivables and operating cash, and mainly exclude interests in associates and tax recoverable. Segment liabilities are those operating liabilities that result from the operating activities of a segment and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis. Capital expenditure comprises additions to fixed assets, including additions resulting from acquisitions of subsidiaries. Unallocated costs represent mainly corporate and inactive subsidiaries' expenses.

In respect of geographical segment reporting, turnover and results are based on the country in which the customers are located. Total assets and capital expenditure are based on where the assets are located.

(v) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(w) Post balance sheet events

Post balance sheet events that provide additional information about the Group's position at the balance sheet date or those that indicate the going concern assumption is not appropriate (adjusting events) are reflected in the financial statements. Post balance sheet events that are not adjusting events are disclosed in the notes when material.

(x) Cash equivalents

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 which are repayable within three months from the date of the advances.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 30th June, 2002

5. TURNOVER AND SEGMENT INFORMATION

The basis of preparation is set out in note 2.

The Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format. Business segment information is chosen as the primary reporting format because this is more relevant to the Group for making operating and financial decisions.

Primary reporting segment – Business segments

The Group comprises the following main business segments:

- Investment holding
- Property investment – leasing of commercial premises
- Manufacturing and trading – production and sales of equipment and accessories for broadband cable television

	2002				Group HK\$'000
	Investment holding HK\$'000	Property investment HK\$'000	Manufacturing and trading HK\$'000	Inter- segment elimination HK\$'000	
Turnover	–	5,370	1,519	–	6,889
Inter-segment revenue	10,500	–	–	(10,500)	–
	10,500	5,370	1,519	(10,500)	6,889
Segment result	(15,483)	(49,568)	(1,687)	–	(66,738)
Inter-segment transaction	(10,500)	10,500	–	–	–
	(25,983)	(39,068)	(1,687)	–	(66,738)
Unallocated operating income and expenses					(3,844)
Contribution from operations					(70,582)
Interest income					72
Finance costs					(8,810)
Provision for amounts due from associates					(15,911)
Impairment loss recognised in respect of deposit paid for acquisition of an associate					–
Impairment loss recognised in respect of goodwill arising on acquisition of a subsidiary					(29,923)
Impairment loss recognised in respect of goodwill arising on acquisition of associates					(157,741)
Amortisation of goodwill					(21,254)
Share of results of associates					–
Provision for amount due from other investment					(4,715)
Impairment loss recognised in respect of other investment					(142,120)
Gain on disposal of an associate					–
Gain on disposal of a subsidiary					–
Loss before taxation					(450,984)
Taxation					–
Loss after taxation					(450,984)
Minority interest					783
Loss attributable to shareholders					(450,201)

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 30th June, 2002

5. TURNOVER AND SEGMENT INFORMATION (cont'd)

Primary reporting segment – Business segments (cont'd)

	2001				Group HK\$'000
	Investment holding HK\$'000	Property investment HK\$'000	Manufacturing and trading HK\$'000	Inter- segment elimination HK\$'000	
Turnover	–	8,213	–	–	8,213
Inter-segment revenue	14,477	–	–	(14,477)	–
	14,477	8,213	–	(14,477)	8,213
Segment result	12,555	(41,313)	–	–	(28,758)
Inter-segment transaction	(14,477)	14,477	–	–	–
	(1,922)	(26,836)	–	–	(28,758)
Unallocated operating income and expenses					(25,625)
Contribution from operations					(54,383)
Interest income					554
Finance costs					(11,087)
Provision for amounts due from associates					–
Impairment loss recognised in respect of deposit paid for acquisition of an associate					(9,000)
Impairment loss recognised in respect of goodwill arising on acquisition of a subsidiary					–
Impairment loss recognised in respect of goodwill arising on acquisition of associates					(6,700)
Amortisation of goodwill					(1,175)
Share of results of associates					(146)
Provision for amount due from other investment					–
Impairment loss recognised in respect of other investment					–
Gain on disposal of an associate					562
Gain on disposal of a subsidiary					17
Loss before taxation					(81,358)
Taxation					–
Loss after taxation					(81,358)
Minority interest					–
Loss attributable to shareholders					(81,358)

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 30th June, 2002

5. TURNOVER AND SEGMENT INFORMATION (cont'd)

Primary reporting segment – Business segments (cont'd)

	2002				Group HK\$'000
	Investment holding HK\$'000	Property investment HK\$'000	Manufacturing and trading HK\$'000	Others HK\$'000	
Segment assets	2,886	206,904	12,006	–	221,796
Interests in associates					–
Unallocated assets					176
Total assets					221,972
Segment liabilities	22,282	39,618	8,025	–	69,925
Unallocated liabilities					2,785
Bank loans and other loans					89,003
Obligations under finance leases					1,077
Tax liabilities					133
Total liabilities					162,923
Other information					
Capital expenditure	476	–	3,371	522	4,369
Depreciation and amortisation for the year	21,254	–	674	56	21,984
Diminution in value of					
– properties held for sale	–	33,200	–	–	33,200
– properties under development held for sale	–	10	–	–	10
Deficit on revaluation of investment properties	–	12,500	–	–	12,500
Impairment loss on leasehold land and building	–	–	806	–	806
Impairment loss recognised in respect of goodwill arising on acquisition of a subsidiary	29,923	–	–	–	29,923
Impairment loss recognised in respect of goodwill arising on acquisition of associates	157,741	–	–	–	157,741
Impairment loss recognised in respect of deposit paid for acquisition of an associate	–	–	–	–	–
Impairment loss recognised in respect of other investment	142,120	–	–	–	142,120
Provision for bad and doubtful debts	–	–	–	–	–

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 30th June, 2002

5. TURNOVER AND SEGMENT INFORMATION (cont'd)

Primary reporting segment – Business segments (cont'd)

	2001				Group HK\$'000
	Investment holding HK\$'000	Property investment HK\$'000	Manufacturing and trading HK\$'000	Others HK\$'000	
Segment assets	93,001	250,669	–	–	343,670
Interests in associates					136,942
Unallocated assets					2,457
Total assets					483,069
Segment liabilities	13,565	18,439	–	–	32,004
Unallocated liabilities					3,597
Bank loans and other loans					87,449
Obligations under finance leases					1,375
Tax liabilities					–
Total liabilities					124,425
Other information					
Capital expenditure	–	–	–	127	127
Depreciation and amortisation for the year	1,231	27	–	467	1,725
Diminution in value of					
– properties held for sale	–	–	–	–	–
– properties under development held for sale	–	–	–	–	–
Deficit on revaluation of investment properties	–	11,400	–	–	11,400
Impairment loss on leasehold land and building	–	–	–	–	–
Impairment loss recognised in respect of goodwill arising on acquisition of a subsidiary	–	–	–	–	–
Impairment loss recognised in respect of goodwill arising on acquisition of associates	6,700	–	–	–	6,700
Impairment loss recognised in respect of deposit paid for acquisition of an associate	9,000	–	–	–	9,000
Impairment loss recognised in respect of other investment	–	–	–	–	–
Provision for bad and doubtful debts	–	4,383	–	–	4,383

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 30th June, 2002

5. TURNOVER AND SEGMENT INFORMATION (cont'd)

Secondary reporting segment – Geographical segments

The Group's operations are located in Hong Kong and the PRC. The Group's investment holding and property investment businesses are carried out in Hong Kong and the PRC while the manufacturing and trading business is carried out in the PRC. In respect of geographical segment reporting, turnover and results are allocated based on the country in which the customers are located. Total assets and capital expenditure are allocated based on where the assets are located.

	2002		
	Hong Kong HK\$'000	PRC HK\$'000	Group HK\$'000
Segment revenue	3,954	2,935	6,889
Segment assets	64,249	157,723	221,972
Capital expenditure	4,293	77	4,370

	2001		
	Hong Kong HK\$'000	PRC HK\$'000	Group HK\$'000
Segment revenue	3,830	4,383	8,213
Segment assets	125,886	357,183	483,069
Capital expenditure	1,217	–	1,217

6. OTHER REVENUE

The basis of preparation is set out in note 2.

	2002 HK\$'000	2001 HK\$'000
Written back of accruals and other payables for administrative and operating expenses	1,239	–
Write-off of rental deposit received	1,448	50
Interest income	72	554
Refund of deposits and other charges	107	17
Others	96	177
	2,962	798

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 30th June, 2002

7. LOSS FROM OPERATIONS

The basis of preparation is set out in note 2.

	2002 HK\$'000	2001 HK\$'000
Loss from operations has been arrived at after charging:		
Staff costs, including directors' remuneration:		
– Basic salaries and allowances	9,255	11,948
– Retirement benefits scheme contributions	228	180
	9,483	12,128
Auditors' remuneration		
– current year	897	900
– (overprovision)/underprovision in prior years	(116)	150
Amortisation of goodwill	21,254	1,175
Cost of inventories	1,056	–
Depreciation of fixed assets		
– Assets owned by the Group	149	148
– Assets held under finance leases	581	402
Deficit on revaluation of investment properties (Note 13)	12,500	11,400
Impairment loss on leasehold land and buildings (Note 14)	806	–
Exchange loss	376	–
Fixed assets written off	1,357	–
Diminution in value of properties under development held for sale (Note 23)	10	–
Diminution in value of properties held for sale (Note 24)	33,200	–
Loss on disposal of fixed assets	39	73
Loss on disposal of properties held for sale	–	356
Operating lease rentals in respect of land and buildings	2,058	2,407
and after crediting:		
Interest income	72	554
Rental income from investment properties and properties held for sale under operating leases, net of outgoings of approximately HK\$198,000 (2001: HK\$1,770,000)	5,171	6,443

For the year ended 30th June, 2002

8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

The basis of preparation is set out in note 2.

(i) Directors' emoluments

	2002 HK\$'000	2001 HK\$'000
Directors' fees:		
Executive Directors	100	70
Independent Non-executive Directors	90	90
Other emoluments of Executive Directors:		
Basic salaries and allowances	1,331	1,423
Retirement benefits scheme contributions	–	7
	1,521	1,590

The emoluments of the Directors were within the following bands:

	2002 Number of Directors	2001 Number of Directors
HK\$Nil to HK\$1,000,000	9	8
HK\$1,000,001 to HK\$1,500,000	1	1

(ii) Employees' emoluments

The five highest paid individuals in the Group, one (2001: one) was a Director of the Company whose remuneration are set out in (i) above. The emoluments of the remaining four individuals were as follows:

	2002 HK\$'000	2001 HK\$'000
Basic salaries and allowances	2,376	2,714
Retirement benefits scheme contributions	36	21
	2,412	2,735

The emoluments of each of the employees were under HK\$1,000,000 for both years.

During both years ended 30th June, 2001 and 2002, no emoluments were paid by the Group to the respective five highest paid individuals, including Directors, as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, during both years ended 30th June, 2001 and 2002, no Directors have waived any emoluments.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 30th June, 2002

9. FINANCE COSTS

The basis of preparation is set out in note 2.

	2002 HK\$'000	2001 HK\$'000
Interest on:		
– bank borrowings wholly repayable within five years	5,114	3,432
– other borrowings wholly repayable within five years	3,378	4,439
– bank borrowings not wholly repayable within five years	–	3,054
– obligations under finance leases	135	162
Loan arrangement fee	183	–
	8,810	11,087

10. TAXATION

The basis of preparation is set out in note 2.

In the opinion of the Directors, no provision for Hong Kong Profits Tax is necessary in the financial statements as the companies comprising the Group did not have any assessable profits for the year (2001: Nil).

11. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The basis of preparation is set out in note 2.

Of the Group's loss attributable to shareholders for the year, a loss of HK\$565,396,000 (2001: HK\$81,358,000) has been dealt with in the financial statements of the Company.

12. LOSS PER SHARE

The basis of preparation is set out in note 2.

The calculation of the basic loss per share is based on the loss attributable to shareholders of approximately HK\$450,201,000 (2001: HK\$81,358,000) and on the weighted average number of 2,115,247,945 (2001: 1,226,458,904) shares in issue throughout the year.

The weighted average number of shares for the purpose of basic loss per share has been adjusted for the effect of the share options exercised as set out in note 33.

No diluted loss per share has been presented because the exercise of the Company's outstanding share options would have an anti-dilutive effect on loss per share for the years ended 30th June, 2002 and 2001.

For the year ended 30th June, 2002

13. INVESTMENT PROPERTIES

	The Group <i>HK\$'000</i>
Valuation	
At 1st July, 2001	73,400
Deficit on revaluation	(12,500)
At 30th June, 2002	60,900

The investment properties are held under medium-term leases and located in Hong Kong.

At 30th June, 2002, the investment properties of the Group were revalued by FPD Savills, an independent firm of professional valuers, on an open market existing use basis. The deficit arising on revaluation of these properties has been charged to the consolidated income statement.

The Group leases out investment properties under operating leases, details of which are set out in note 43.

The investment properties with carrying value of HK\$60,900,000 (2001: HK\$73,400,000) were pledged for the borrowings granted to the Group. Details of which are stated in note 41 to the financial statements.

As set out in note 46 to the financial statements, due to the Company's default in repayment of a term loan facility and an overdraft facility, an originating summons (the "Summons") was filed to the High Court of Hong Kong (the "Court") by Dao Heng Bank Limited (as the Mortgagee) against First Union Limited ("First Union") (as the Mortgagor), a wholly-owned subsidiary of the Company, and the Company (as the Borrower) to recover possession of the pledged investment properties on 10th April, 2003. It was ordered by the Court that the hearing of the Summons to be adjourned to 11th August, 2003.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 30th June, 2002

14. FIXED ASSETS

The basis of preparation is set out in note 2. Details of fixed assets are as follows:

	Medium-term leasehold land and buildings in the PRC <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Computer equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
The Group						
Cost or valuation						
At 1st July, 2001	–	119	570	2,142	368	3,199
Additions						
– through acquisition of a subsidiary	1,875	223	645	213	250	3,206
– others	–	458	506	–	199	1,163
Disposals	–	–	(50)	–	(8)	(58)
Write-off	–	(511)	(757)	–	(543)	(1,811)
At 30th June, 2002	1,875	289	914	2,355	266	5,699
Accumulated depreciation and impairment loss						
At 1st July, 2001	–	119	224	594	129	1,066
Through acquisition of a subsidiary	150	83	205	104	65	607
Provided for the year	39	10	64	590	27	730
Written back on disposals	–	–	(16)	–	(3)	(19)
Written back on write-off	–	(119)	(207)	–	(128)	(454)
Impairment loss (<i>Note 7</i>)	806	–	–	–	–	806
At 30th June, 2002	995	93	270	1,288	90	2,736
Net book value						
At 30th June, 2002	880	196	644	1,067	176	2,963
At 30th June, 2001	–	–	346	1,548	239	2,133
The Company						
Cost						
At 1st July, 2001	–	119	358	–	130	607
Write-off	–	(119)	(358)	–	(130)	(607)
At 30th June, 2002	–	–	–	–	–	–
Accumulated depreciation						
At 1st July, 2001	–	119	184	–	71	374
Written back on write-off	–	(119)	(184)	–	(71)	(374)
At 30th June, 2002	–	–	–	–	–	–
Net book value						
At 30th June, 2002	–	–	–	–	–	–
At 30th June, 2001	–	–	174	–	59	233

For the year ended 30th June, 2002

14. FIXED ASSETS (cont'd)

At 30th June, 2002, the net book value of fixed assets of the Group includes an amount of approximately HK\$1,051,000 (2001: HK\$1,594,000) in respect of assets held under finance leases.

The Group's land and buildings as at 30th June, 2002 were written down to HK\$880,000, being the open market value of the property based on a valuation report prepared by FPDSavills.

Other fixed assets are stated at cost.

The leasehold land and buildings with carrying value of HK\$880,000 (2001: Nil) were pledged for the borrowings granted to the Group as set out in note 41 to the financial statements.

Subsequent to the balance sheet date, the motor vehicles of the Group held under finance leases were disposed of. At the balance sheet date, the vehicles were stated at their net realisable value of HK\$494,000 and corresponding obligations under finance leases were shown under current liabilities.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 30th June, 2002

15. GOODWILL

	The Group <i>HK\$'000</i>
Subsidiary	
Cost	
Addition through acquisition of a subsidiary and balance as at 30th June, 2002	30,560
Amortisation and impairment loss	
Amortisation provided for the year	637
Impairment loss recognised	29,923
At 30th June, 2002	30,560
Carrying value	
At 30th June, 2002	–
At 30th June, 2001	–
Associates	
Cost	
At 1st July, 2001	145,100
Goodwill arising on the acquisition of associates during the year	52,137
Share of pre-acquisition results of associates not recognised	(2,420)
At 30th June, 2002	194,817
Accumulated amortisation and impairment loss	
At 1st July, 2001	7,417
Impairment loss in respect of deposit paid for acquisition of an associate in prior year	9,000
Share of post-acquisition results of associates recognised in prior year	42
Impairment loss recognised during the year	157,741
Amortisation provided for the year	20,617
At 30th June, 2002	194,817
Carrying value	
At 30th June, 2002	–
At 30th June, 2001	137,683

Goodwill arising on acquisition of associates was included in cost of investment in prior year.

For the year ended 30th June, 2002

16. DEPOSIT PAID FOR THE PURCHASE OF INVESTMENT PROPERTIES

A deposit totalling HK\$28,716,000 was paid in prior years for the acquisition of certain investment properties situated in the PRC (the "Deposit").

An impairment loss was recognised in prior years' income statements in respect of the Deposit as 中房集團華東置業股份有限公司 China Real Estate Development Group Huadong Properties Company Limited ("CRED Huadong"), the vendor and also the jointly-controlled entity of the Group as set out in note 20 to the financial statements, had pledged the relevant properties for credit facilities granted to CRED Huadong. Up to the date of approval of these financial statements, the Group has not yet been able to obtain legal title to these properties notwithstanding the full payment of the consideration. An indemnity was granted by CIL Holdings Limited ("CILH"), a former ultimate holding company, against all claims, losses, costs and expenses incurred in connection with various matters relating to these properties including, but not limited to, the legal impediment relating to the obtaining and transferring of the legal title of the properties. However, the Directors were not certain, up to the date of this report, whether the indemnity would be honored. The recoverable amount of the Deposit is therefore estimated to be nil, and an impairment loss of HK\$28,716,000 was recognised in prior years' income statements.

On 1st November, 2001, an agreement (the "Agreement") was entered into among World Joy Limited ("World Joy") and Huadong Share Investments Limited ("Huadong Share"), both being wholly-owned subsidiaries of the Company, and an independent third party (the "Purchaser") for the disposal of the Group's 20.28% equity interest in CRED Huadong and an assignment of the right for the Deposit for an aggregate consideration of RMB8,000,000. The transaction was expected to be completed on or before 31st January, 2002.

On 10th January, 2002, World Joy and Huadong Share entered into a supplementary extension agreement with the Purchaser whereby all parties agreed to extend the long stop date for the satisfaction of the conditions set out in the Agreement (the "Conditions") from 31st January, 2002 to 28th February, 2002 in accordance with the extension provision under the Agreement.

In view of the fact that the Conditions remained unfulfilled as at 15th January, 2003, World Joy and Huadong Share issued to the Purchaser a notice on 15th January, 2003 declaring the termination of the Agreement dated 1st November, 2001 and the supplementary extension agreement dated 10th January, 2002 as stated in the paragraphs above.

17. PROPERTIES UNDER DEVELOPMENT

	The Group	
	2002 HK\$'000	2001 HK\$'000
At carrying value:		
Balance at beginning of the year	83,910	83,910
Transferred to properties under development held for sale (Note 23)	(83,910)	-
Balance at end of the year	-	83,910

The Group's properties under development are held under medium-term leases and are situated in the PRC.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 30th June, 2002

18. INTERESTS IN SUBSIDIARIES

	The Company	
	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	175	1
Amounts due from subsidiaries	779,693	650,689
	779,868	650,690
Less: Impairment loss recognised	(779,868)	(230,815)
	–	419,875

The amounts due from subsidiaries are unsecured, interest-free and have no fixed repayment terms. In the opinion of the Directors, the amounts will not be repayable within twelve months from the balance sheet date and are therefore shown as non-current assets.

None of the subsidiaries had any loan capital outstanding at the end of the year or at any time during the year.

On 31st January, 2002, the Group completed the acquisition of 55% equity interest in 珠海再創通信技術有限公司 Zhu Hai Zaichuang Technology Company Limited, a sino-foreign equity joint venture enterprise, with a total consideration of HK\$32,600,000, of which HK\$5,200,000 being satisfied by cash and HK\$27,400,000 being satisfied by the issue of 20,000,000 shares of the Company at HK\$1.37, representing the closing price of the Company's shares as quoted on the Stock Exchange on 18th April, 2001 when the deposit was paid according to the agreement. As a result, the Group's loss for the year and net assets as at the year end have been decreased by approximately HK\$1,741,000.

Particulars of the principal subsidiaries of the Company at 30th June, 2002 are as follows:

Name of subsidiary	Place of incorporation/ operations	Issued share capital and registered capital	Proportion of issued share capital held by the Company		Principal activities
			Direct	Indirect	
eCyber International Limited*	British Virgin Islands ("BVI")/PRC	1 ordinary share of US\$1 each	100%	–	Investment holding
First Union Limited	Hong Kong	2 ordinary shares of HK\$1 each	100%	–	Property investment
Noble City (Asia) Limited	Hong Kong	2 ordinary shares of HK\$1 each	100%	–	Investment holding
Welchem Development Limited	Hong Kong/ PRC	2 ordinary shares of HK\$1 each	–	100%	Property investment

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 30th June, 2002

18. INTERESTS IN SUBSIDIARIES (cont'd)

Name of subsidiary	Place of incorporation/ operations	Issued share capital and registered capital	Proportion of issued share capital held by the Company		Principal activities
			Direct	Indirect	
World Giant Limited*	Hong Kong/ PRC	2 ordinary shares of HK\$1 each	–	100%	Property investment
World Joy Limited	Hong Kong/ PRC	2 ordinary shares of HK\$1 each	–	100%	Property investment
Grandright Technology Limited*	BVI/PRC	1 ordinary share of US\$1 each	100%	–	Investment holding
Cybervation Group Limited*	BVI/PRC	1 ordinary share of US\$1 each	100%	–	Investment holding
Teleinvest Holdings Limited*	BVI/Hong Kong	1 ordinary share of US\$1 each	100%	–	Investment holding
Energy Century Limited*	BVI/PRC	1 ordinary share of US\$1 each	100%	–	Investment holding
珠海再創通信技術 有限公司*#	PRC	Registered capital of RMB4,000,000	–	55%	Production and sales of equipment and accessories for broadband cable television
Huadong Share Investments Limited	Hong Kong	2 ordinary shares of HK\$1 each	–	100%	Investment holding
Konmate Investments Limited	Hong Kong	2 ordinary shares of HK\$1 each	100%	–	Investment holding
Konwide Development Limited	Hong Kong	2 ordinary shares of HK\$1 each	100%	–	Investment holding

* Not audited by Fan, Mitchell & Co.

Sino-Foreign Equity Joint Venture Enterprise

The above table includes only the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results of the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in excessive length.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 30th June, 2002

19. INTERESTS IN ASSOCIATES

The basis of preparation is set out in note 2.

	The Group	
	2002 HK\$'000	2001 HK\$'000
Cost of investment	194,817	144,400
Add: Amounts due from associates	15,911	–
Share of results of associates	–	(42)
Less: Goodwill amortisation	(21,334)	(716)
Impairment loss on goodwill	(173,483)	(6,700)
Provision for amounts due from associates	(15,911)	–
	–	136,942

Details of the Group's associates at 30th June, 2002 are as follows:

Name of associate	Place of incorporation/ operations	Proportion of nominal value of issued capital attributable to the Group	Principal activities
CRED.net Limited (中國房地產網有限公司) ("CRED.net")	BVI/PRC	20%	Provision of consultancy and design services and technical support for a website
Etrade Century Limited ("Etrade")	BVI/PRC	50%	Provision of consultancy and design services and technical support for a website
Sky Citi-Link ATNT (Holdings) Limited ("Sky Citi-Link")	BVI/ Hong Kong	20%	Provision of international telecommunication services

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 30th June, 2002

19. INTERESTS IN ASSOCIATES (cont'd)

The following details have been extracted from the financial statements of the Group's associates.

	CRED.net		Etrade		Sky Citi-Link	
	2002 HK\$'000 (Unaudited)	2001 HK'000	2002 HK\$'000 (Unaudited)	2001 HK\$'000	2002 HK\$'000 (Unaudited)	2001 HK\$'000
Results for the year						
Turnover	-	10	-	-	1,272	-
Loss from ordinary activities before taxation	(1,260)	(3,710)	(110)	(5)	(4,066)	-
Loss from ordinary activities before taxation attributable to the Group	(252)	(42)	(39)	-	(813)	-
Financial position						
Non-current assets	240	248	-	-	69,682	-
Current assets	13,115	11,189	42	2	5,556	-
Current liabilities	(18,325)	(2,111)	(150)	-	(80,597)	-
Non-current liabilities	-	(13,035)	-	-	(7,225)	-
Net (liabilities)/assets	(4,970)	(3,709)	(108)	2	(12,584)	-
Net (liabilities)/assets attributable to the Group	(994)	(742)	(54)	1	(2,517)	-

- (a) The Group's share of loss of the associate exceeds the carrying amount of the investment which is reported at nil value and therefore, the Group has not included its share of loss of the associate, which is in accordance with paragraph 20 of SSAP 10. The Group has no commitment to provide financial support to the associates. Up to the balance sheet date, the Group's share of net liabilities of HK\$3,565,000 and share of post-acquisition loss of HK\$1,146,000 of the associates are not included in the consolidated financial statements.
- (b) Pursuant to the sale and purchase agreement, the loan assignment agreement and the second loan assignment agreement dated 14th June, 2001, 5th July, 2001 and 20th December, 2001 respectively, Teleinvest Holdings Limited ("Teleinvest"), a wholly-owned subsidiary of the Company, acquired from an independent third party 20% equity interest in Sky Citi-Link together with the rights in a shareholders' loan of HK\$14,584,000 at an aggregate consideration of HK\$50,000,000. The consideration was satisfied by the allotment and issuance of the Company's 200,000,000 shares of HK\$0.20 each on 29th June, 2001 at a price of HK\$0.25 per share which was the closing price of the Company's shares as quoted on the Stock Exchange on 29th June, 2001.

For the year ended 30th June, 2002

19. INTERESTS IN ASSOCIATES (cont'd)

- (c) Pursuant to an option agreement made on 30th June, 2001 with an independent third party who granted a right to eCyber International Limited ("eCyber International"), a wholly-owned subsidiary of the Company, to acquire an additional 20% equity interest in Etrade at a consideration of HK\$20,000,000, eCyber International exercised the options on 31st December, 2001 to acquire 15% equity interest in Etrade at a consideration of HK\$15,000,000. The consideration was satisfied by the deposit paid of the same amount for an acquisition of an investment recorded in prior year's financial statements. As at balance sheet date, the Group had an aggregate 50% equity interest in Etrade.
- (d) In view of the uncertainty regarding the profitability of the future operation of the associates, a full provision for amounts due from associates was made and an impairment loss on goodwill after amortisation was recognised in the current year's consolidated financial statements.

20. INTEREST IN A JOINTLY CONTROLLED ENTITY

The basis of preparation is set out in note 2.

	The Group	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Share of net assets	Note	11,706
Less: Impairment loss recognised	Note	(11,706)
	Note	–

Note: No information is available.

Particulars of the jointly controlled entity at 30th June, 2002 are as follows:

Name	Place of registration/ operations	Paid-up registered capital	Proportion of registered capital attributable to the Group	Principal activity
CRED Huadong	PRC	RMB58,400,000	20.28%	Property development

As set out in note 16 to the financial statements, the Group has entered into an agreement during the year with an independent third party for the disposal of the Group's 20.28% equity interest in CRED Huadong. In view of the fact that the conditions set out in the agreement remained unfulfilled on 15th January, 2003, the Group sent a notice to the purchaser to declare termination of the transaction.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 30th June, 2002

21. OTHER INVESTMENT

	The Group	
	2002 HK\$'000	2001 HK\$'000
Unlisted equity securities (Note a)	142,120	–
Deposit received on behalf of the Group (Note b)	4,715	–
Less: Impairment loss	(142,120)	–
Provision	(4,715)	–
	–	–

Note (a)

- (i) Other investment represents the Group's share of the unlisted shares in International Telecommunication & Telegraph Limited ("IT & T").
- (ii) On 27th September, 2001, an agreement was entered into by Energy Century Limited ("Energy Century"), a wholly-owned subsidiary of the Company, to acquire 65% equity interest in IT & T from certain independent third parties. The consideration of approximately HK\$142 million was satisfied by the issue of 680 million shares of HK\$0.209 each, representing the closing price of the Company's shares as quoted on the Stock Exchange on 27th February, 2002, the date of allotment of the consideration shares.
- IT & T is incorporated in BVI and is an investment holding company. IT & T owns a 80% equity interest in 中鐵光通信息技術發展有限公司 China Railway Optical Fiber Information & Development Co., Ltd. ("CROFIT"), a PRC sino-foreign co-operative joint venture company which is mainly engaged in the development of IC card pay phone projects in the PRC.
- (iii) According to the approval issued by 中關村科技園區海淀園管理委員會 dated 11th December, 2001, IT & T had to inject capital amounting to US\$500,000 and US\$29,000,000 into CROFIT on dates not later than 31st December, 2001 and 5th September, 2003 respectively. However, as Energy Century intended to hold the investment in IT & T temporarily and not to make further capital contribution to the investment, the securities are held exclusively with a view to its subsequent disposal in the near future. As a result, it is classified as other investment under SSAP32 paragraph 23.
- (iv) The capital contribution amounting to US\$29,000,000 as stated in (iii) above represents a capital commitment contracted for, but not provided at the balance sheet date as set out in note 42.

Note (b)

The amount represents deposit received by CROFIT on behalf of the Group in respect of disposal of properties under development held for sale of the Group.

22. INVENTORIES

The basis of preparation is set out in note 2. Details of inventories are as follows:

	The Group	
	2002 HK\$'000	2001 HK\$'000
Raw materials	1,544	–
Work-in-progress	585	–
Finished goods	2,398	–
	4,527	–

All the inventories were stated at cost.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 30th June, 2002

23. PROPERTIES UNDER DEVELOPMENT HELD FOR SALE

The basis of preparation is set out in note 2.

	The Group	
	2002	2001
	HK\$'000	HK\$'000
At carrying value		
Transfer from properties under development (<i>Note 17</i>)	83,910	–
Less: Diminution in value	(10)	–
Balance at end of the year	83,900	–

On 21st October, 1997, a sale and purchase agreement was entered into between Welchem Development Limited (“Welchem”), a wholly-owned subsidiary of the Company, and CRED Huadong, a jointly controlled entity of the Group, by which Welchem agreed to purchase from CRED Huadong certain properties under development at approximately HK\$113.8 million. The purchase consideration was fully settled by Welchem. According to the agreement, the legal title of the properties will be transferred from CRED Huadong to the Group upon completion of the construction work.

On 31st October, 2001, an agreement was entered into between Welchem and an independent third party for the disposal of the properties under development for a consideration of RMB88,000,000 (equivalent to approximately HK\$85,000,000). Subject to the fulfillment of certain conditions as stated in the supplemental agreement dated 30th November, 2001, the transaction was expected to be completed on or before 7th February, 2002. Subsequently, on 11th January, 2002, an extension agreement was entered into between Welchem and the independent third party to further extend the long stop date for the satisfaction of the conditions of the transaction to 28th February, 2002.

The properties under development held for sale was completed in late June 2003. They are held under medium-term leases and are situated in the PRC. At 30th June, 2002, the properties under development held for sale of the Group were revalued by FPD Savills on an open market existing use basis. The diminution in value of these properties has been charged to the consolidated income statement.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 30th June, 2002

24. PROPERTIES HELD FOR SALE

	The Group	
	2002 HK\$'000	2001 HK\$'000
At carrying value:		
Balance at beginning of the year	93,000	2,900
Transfer from investment properties	–	93,000
Less: Disposals	–	(2,900)
Less: Diminution in value recognised	(33,200)	–
Balance at end of the year	59,800	93,000

The properties are held in the PRC under medium-term leases.

The properties held for sale with carrying value of HK\$59,800,000 (2001: HK\$93,000,000) were pledged to secure credit facilities granted to the Group as stated in note 41 to the financial statements.

Subsequent to the balance sheet date, the Group disposed of the subsidiary which owned the properties held for sale, as stated in note 46 to the financial statements.

25. TRADE AND OTHER RECEIVABLES

The basis of preparation is set out in note 2. Details of trade and other receivables are as follows:

	The Group		The Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Trade and other receivables	9,083	6,581	582	458

Included in trade and other receivables are trade receivables (net of specific provisions for bad and doubtful debts) with the following aging analysis:

	The Group		The Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
0 - 60 days	1,152	–	–	–
61 - 90 days	126	–	–	–
Over 90 days	2,378	–	–	–
	3,656	–	–	–
Other receivables	5,427	6,581	582	458
	9,083	6,581	582	458

All of the trade and other receivables are expected to be recovered within one year.

For rental income, payment in advance is normally required. For sale of goods, invoices are normally payable within 30 days of issuance, except that terms for certain customers with long-term relationships may be extended to 90 days or more. The management monitors the credit risks regularly and reminders are issued to customers for overdue balances.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 30th June, 2002

26. AMOUNT DUE FROM FORMER ULTIMATE HOLDING COMPANY

Details of the amount due from former ultimate holding company are as follows:

Name of former ultimate holding company	The Group and the Company		
	Balance at 30/6/2002 HK\$'000	Balance at 30/6/2001 HK\$'000	Maximum outstanding balance during the year HK\$'000
CILH (Note)	9,165	9,165	9,165
Less: Provision	(9,165)	(9,165)	
	-	-	

Note: The balance represented advances to CILH during the year ended 30th June, 2000 for settlement of operating expenses and other amounts due from CILH and its subsidiaries to their creditors. The advances were unsecured, interest-free and repayable on demand. In the opinion of the Directors, due to the fact that the amount has not yet been recovered up to the date of the report, a full provision had been made during the year ended 30th June, 2000 and was so remained at the balance sheet date accordingly.

27. AMOUNTS DUE FROM ASSOCIATES

Details of the amounts due from associates are as follows:

	The Group		The Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Non-interest bearing (Note 1)	1,254	1,616	-	1,616
Interest bearing (Note 2)	14,657	-	-	-
	15,911	1,616	-	1,616
Less: Provision	(15,911)	-	-	-
	-	1,616	-	1,616

Note:

- The amount due is unsecured and has no fixed terms of repayment.
- Included in interest bearing amount was interest income of HK\$74,000 arising from a loan assigned to the Group upon acquisition of an associate. The amount due is unsecured and repayable on demand.

For the year ended 30th June, 2002

28. DEPOSIT RECEIVED ON DISPOSAL OF PROPERTIES UNDER DEVELOPMENT HELD FOR SALE

The basis of preparation is set out in note 2.

	The Group	
	2002	2001
	HK\$'000	HK\$'000
Deposit received	25,757	–

As disclosed in note 23, on 31st October, 2001, an agreement was entered into between Welchem and an independent third party (the “purchaser”) for the disposal of the Group’s properties under development held for sale for a consideration of RMB88,000,000 (equivalent to HK\$85,000,000).

Partial deposit of RMB27,350,000 (equivalent to approximately HK\$25,757,000) was received from the purchaser during the period from January to April 2002 for the disposal of the properties. According to the supplemental agreement dated 11th January, 2002 for the sale of the properties signed between the purchaser and Welchem, an amount of the first deposit of RMB33,000,000 should be received by Welchem by 31st January, 2002, while the balance of the purchase consideration was expected to be received on the assignment of the properties to the purchaser. However, as certain conditions of the agreement have not been fulfilled, no further consideration has been received from the purchaser in respect of the balance of the first deposit of RMB5,650,000 and the remaining balance of the purchase consideration of RMB55,000,000.

The Group is in negotiation with the purchaser for further arrangement of the transaction.

29. TRADE PAYABLE, OTHER PAYABLES, TAX PAYABLE AND ACCRUALS

The basis of preparation is set out in note 2. Details of trade payable, other payables, tax payable and accruals are as follows:

	The Group		The Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade payable, other payables, tax payable and accruals	44,116	32,643	17,869	10,596

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 30th June, 2002

29. TRADE PAYABLE, OTHER PAYABLES, TAX PAYABLE AND ACCRUALS (cont'd)

Included in trade payable, other payables, tax payable and accruals are trade payables with the following aging analysis:

	The Group		The Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
0 – 60 days	635	–	–	–
61 – 90 days	146	–	–	–
Over 90 days	606	–	–	–
	1,387	–	–	–
Other payables and accruals	42,596	32,643	17,869	10,596
Tax payable (Note)	133	–	–	–
	44,116	32,643	17,869	10,596

Note: Tax payable in the consolidated balance sheet represents provision for the PRC tax.

All of the trade payable, other payables, tax payable and accruals are expected to be settled within one year.

30. OBLIGATIONS UNDER FINANCE LEASES

At 30th June, 2002, the Group had obligations under finance leases repayable as follows:

	2002			2001		
	Present value of the minimum lease payments HK\$'000	Interest expense relating to future periods HK\$'000	Total minimum lease payments HK\$'000	Present value of the minimum lease payments HK\$'000	Interest expense relating to future periods HK\$'000	Total minimum lease payments HK\$'000
Within 1 year	853	119	972	404	128	532
After 1 year but within 2 years	178	14	192	436	79	515
After 2 years but within 5 years	46	7	53	535	32	567
	224	21	245	971	111	1,082
	1,077	140	1,217	1,375	239	1,614

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 30th June, 2002

30. OBLIGATIONS UNDER FINANCE LEASES (cont'd)

It is the Group's policy to lease certain of its motor vehicles and equipment under finance leases. The average lease term is two to five years. All leases are on a fixed repayment basis and no arrangement has been entered into for contingent rental payments. All lease obligations are denominated in Hong Kong dollars.

Subsequent to the balance sheet date, two motor vehicles of the Group held under finance leases were disposed of. At the balance sheet date, the vehicles were stated at their net realisable values of HK\$494,000 and corresponding obligations under finance leases were shown under current liabilities.

31. BANK AND OTHER BORROWINGS

	The Group		The Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Bank and other borrowings comprise:				
Bank loans	59,251	51,937	36,500	28,613
Other loans	29,752	35,512	900	22,500
Bank overdrafts	2,970	2,958	2,970	2,958
	91,973	90,407	40,370	54,071
Represented by:				
Secured	72,474	87,648	39,470	54,071
Unsecured	19,499	2,759	900	–
	91,973	90,407	40,370	54,071
The bank and other borrowings are repayable as follows:				
Bank borrowings:–				
Within one year or on demand	62,221	34,598	39,470	31,571
More than one year, but not exceeding two years	–	5,501	–	–
More than two years, but not exceeding five years	–	10,121	–	–
More than five years	–	7,435	–	–
	62,221	57,655	39,470	31,571
Other borrowings:–				
Within one year or on demand	29,752	32,752	900	22,500
Total bank and other borrowings	91,973	90,407	40,370	54,071
Less: Amount repayable within one year or on demand and shown under current liabilities	(91,973)	(67,350)	(40,370)	(54,071)
Amount due after one year	–	23,057	–	–

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 30th June, 2002

31. BANK AND OTHER BORROWINGS (cont'd)

Other borrowing of HK\$10,253,000 was secured by the Group's properties held for sale with carrying value of HK\$59,800,000 (2001: HK\$93,000,000). All the bank borrowings were secured by the Group's properties held for sale, investment properties with carrying value of HK\$60,900,000 (2001: HK\$73,400,000) and leasehold land and buildings with carrying value of HK\$880,000 (2001: Nil).

In view of the Group's failure to keep up with the repayment schedules of the bank borrowings, all the outstanding balances of the interest-bearing bank borrowings are classified as current liabilities in the consolidated balance sheet, which are repayable within one year or on demand, and short-term bank loans with maturity within three months in the consolidated cash flow statement.

32. SHARE CAPITAL

	Number of ordinary shares	Amount HK\$'000
<i>Authorised:</i>		
At 1st July, 2000 (Shares of HK\$1 each)	400,000,000	400,000
Addition due to subdivision of shares into 5 ordinary shares of HK\$0.20 each	1,600,000,000	–
Increase in authorised share capital	1,000,000,000	200,000
At 1st July, 2001 (Shares of HK\$0.20 each)	3,000,000,000	600,000
Increase in authorised share capital (<i>Note i</i>)	1,000,000,000	200,000
At 30th June, 2002 (Shares of HK\$0.20 each)	4,000,000,000	800,000
<i>Issued and fully paid:</i>		
At 1st July, 2000 (Shares of HK\$1 each)	210,100,000	210,100
Issue of shares on private placements	33,000,000	33,000
Issue of shares for acquisition of a subsidiary	20,000,000	20,000
Issue of shares for acquisition of an associate	70,000,000	70,000
Addition due to subdivision of shares into 5 ordinary shares of HK\$0.20 each	1,332,400,000	–
Issue of shares for acquisition of an associate	200,000,000	40,000
At 1st July, 2001 (Shares of HK\$0.20 each)	1,865,500,000	373,100
Share option exercised (<i>Note ii</i>)	38,000,000	7,600
Issue of shares for acquisition of other investment (<i>Note iii</i>)	680,000,000	136,000
At 30th June, 2002 (Shares of HK\$0.20 each)	2,583,500,000	516,700

Note

- (i) By an ordinary resolution passed on 22nd December, 2001, the authorised share capital of the Company was increased from 3,000,000,000 shares of HK\$0.20 each to 4,000,000,000 shares of HK\$0.20 each by the creation of an additional 1,000,000,000 shares of HK\$0.20 each.
- (ii) Options exercised on 28th November, 2001, 31st December, 2001 and 9th January, 2002 resulted in a total of 38,000,000 shares (2001: Nil) being issued at HK\$0.20 each (2001: Nil), yielding the proceeds which represent the ordinary share capital at par of HK\$7,600,000 (2001: Nil). The total fair value of shares issued at exercise dates is HK\$7,936,000.
- (iii) On 27th February, 2002, 680,000,000 new shares of HK\$0.20 each of the Company were issued to independent third parties at a price of HK\$0.209 per share as the consideration for the acquisition of an investment project. Details of the transaction are set out in note 21.

For the year ended 30th June, 2002

33. SHARE OPTIONS

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

Details of the movements of the options during the year and the outstanding options at 30th June, 2002 are as follows:

Month of grant	Exercisable period	Exercise price HK\$	Number of share options				
			Outstanding at 1st July, 2001	Granted during the year	Exercised during the year	Surrendered by option holders during the year	Outstanding at 30th June, 2002
June 2001	26th June, 2001 to 29th June, 2011	0.200	105,450,000	–	(18,000,000)	(1,150,000)	86,300,000
July 2001	3rd July, 2001 to 10th July, 2011	0.200	–	61,100,000	(20,000,000)	(4,875,000)	36,225,000
May 2002	24th May, 2002 to 23rd May, 2012	0.202	–	76,505,000	–	–	76,505,000

During the year ended 30th June, 2002, 137,605,000 options were granted to employees and directors of the Group and the total consideration received by the Company for the share options granted was HK\$200.

Subsequent to the balance sheet date, an aggregate of 15,520,000 share options were granted to an employee of the Group at an exercise price of HK\$0.20 per share. The aggregate consideration received by the Company for the share options granted was HK\$10.

On 25th July, 2002, subsequent to the balance sheet date, the share options scheme adopted by the Company on 19th July, 1999 was terminated and replaced by the new share options scheme (the "New Scheme") pursuant to an ordinary resolution passed at an extraordinary general meeting of the Company held on the same day. In accordance with the New Scheme, the Board of Directors of the Company may grant options to any employees, directors, shareholders, suppliers, customers of the Group and any other person or company who has contributed or may contribute to the development and growth of the Group to subscribe for shares in the Company at any price which is at least the highest of (i) the closing price of the shares of the Company on the date of the grant of the options; (ii) the average closing price of the shares of the Company on the Stock Exchange for the five trading days immediately preceding the date of the grant of the options; and (iii) the nominal value of the shares of the Company. The maximum number of shares in respect of which options may be granted under the New Scheme shall not exceed 10% of the shares in issue as at the adoption date of the New Scheme or the date of approval by the shareholders in general meeting where the limit is refreshed. The total number of shares issued and to be issued upon exercise of the options granted to each eligible person under the New Scheme in any twelve months period must not exceed 1% of the shares in issue at the date of such grant unless approved by the shareholders in general meeting.

There has been no option granted since the adoption of the New Scheme.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 30th June, 2002

34. RESERVES

The basis of preparation is set out in note 2. Details of the reserves of the Group and the Company are as follows:

	Share premium HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
The Group			
At 1st July, 2000	38,833	(30,235)	8,598
Premium arising on issue of shares	59,400	–	59,400
Expenses incurred in connection with issue of shares	(1,096)	–	(1,096)
Loss for the year	–	(81,358)	(81,358)
At 1st July, 2001	97,137	(111,593)	(14,456)
Premium arising on issue of shares	6,120	–	6,120
Loss for the year	–	(450,201)	(450,201)
At 30th June, 2002	103,257	(561,794)	(458,537)
Attributable to:			
The Company and subsidiaries	103,257	(561,794)	(458,537)
Associates	–	–	–
	103,257	(561,794)	(458,537)
The Company			
At 1st July, 2000	38,833	(30,235)	8,598
Premium arising on issue of shares	59,400	–	59,400
Expenses incurred in connection with issue of shares	(1,096)	–	(1,096)
Loss for the year	–	(81,358)	(81,358)
At 1st July, 2001	97,137	(111,593)	(14,456)
Premium arising on issue of shares	6,120	–	6,120
Loss for the year	–	(565,396)	(565,396)
At 30th June, 2002	103,257	(676,989)	(573,732)

The Company had no distributable reserves at the balance sheet date.

For the year ended 30th June, 2002

35. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

The basis of preparation is set out in note 2.

(a) Reconciliation of loss before taxation to net cash inflow/(outflow) from operating activities

	2002 HK\$'000	2001 HK\$'000
Loss before taxation	(450,984)	(81,358)
Amortisation on goodwill	21,254	1,175
Provision for amount due from other investment	4,715	–
Depreciation of fixed assets	730	550
Fixed assets written off	1,357	–
Loss on disposal of fixed assets	39	73
Foreign exchange loss	376	–
Forfeiture of deposit paid for acquisition of investments	–	100
Gain on disposal of a subsidiary	–	(17)
Gain on disposal of an associate	–	(562)
Provision for amounts due from associates	15,911	–
Impairment loss recognised in respect of:		
– deposit paid for acquisition of an associate	–	9,000
– goodwill arising on acquisition of associates	157,741	6,700
– goodwill arising on acquisition of a subsidiary	29,923	–
– other investment	142,120	–
Diminution in value of properties held for sale	33,200	–
Diminution in value of properties under development held for sale	10	–
Interest expenses	8,810	11,087
Interest income	(72)	(554)
Provision for bad and doubtful debts	–	4,383
Impairment loss on leasehold land and building	806	–
Deficit on revaluation of investment properties	12,500	11,400
Share of results of associates	–	146
Increase in inventories	(4,527)	–
Increase in properties under development held for sale	(83,910)	–
Decrease in properties under development	83,910	–
Decrease in properties held for sale	–	2,900
Increase in amount due from other investment	(4,715)	–
Increase in trade and other receivables	(2,502)	(3,882)
Increase in deposit received on disposal of properties under development held for sale	25,757	–
Increase in trade payable, other payables, tax payable and accruals	11,473	3,920
Decrease/(increase) in amount due from an associate	288	(1,616)
Net cash inflow/(outflow) from operating activities	4,210	(36,555)

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 30th June, 2002

35. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (cont'd)

(b) Analysis of the balances of cash and cash equivalents

	2002 HK\$'000	2001 HK\$'000
Bank balances and cash	799	1,157
Bank overdrafts, secured	(2,970)	(2,958)
Bank loans with maturity within 3 months	(59,251)	(28,613)
	<u>(61,422)</u>	<u>(30,414)</u>

(c) Disposal of a subsidiary

	2002 HK\$'000	2001 HK\$'000
Net assets disposed of:		
Other receivables	–	128
Bank balances and cash	–	1,576
Other payables	–	(551)
	–	1,153
Gain on disposal of a subsidiary	–	17
Consideration	–	1,170
Satisfied by:		
Cash consideration	–	1,170
Analysis of net outflow of cash and cash equivalent in respect of the disposal of a subsidiary:		
Bank balances and cash disposed of	–	(1,576)
Cash consideration	–	1,170
	–	(406)

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 30th June, 2002

35. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (cont'd)

(d) Purchase of a subsidiary

	2002 HK\$'000	2001 HK\$'000
Net assets acquired:		
Fixed assets	2,599	–
Bank balances and cash	229	–
Accounts and other receivables	4,911	–
Inventories	4,525	–
Accounts payable and accruals	(6,627)	–
Short term loans	(1,880)	–
Tax payable	(48)	–
Minority interest	(1,669)	–
	2,040	–
<i>Add:</i> Goodwill	30,560	–
Consideration	32,600	–
Satisfied by:		
Cash	4,270	–
Issue of shares of the Company	27,400	–
Deposit paid in prior year	930	–
	32,600	–
Analysis of net outflow of cash and cash equivalents in respect of the purchase of a subsidiary:		
Cash consideration	4,270	–
Bank balances and cash acquired	(229)	–
Net outflow of cash and cash equivalents in respect of the purchase of a subsidiary	4,041	–

The subsidiary acquired during the year contributed HK\$2,652,000 to the Group's net operating cash flow, paid HK\$59,000 in respect of net returns on investments and servicing of finance, paid HK\$1,795,000 in respect of investing activities and received HK\$1,880,000 for financing activities.

The subsidiary acquired during the year contributed HK\$1,519,000 to the Group's turnover and HK\$1,682,000 to the Group's loss from operations.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 30th June, 2002

36. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital and premium <i>HK\$'000</i>	Obligations under finance leases <i>HK\$'000</i>	Bank and other borrowings <i>HK\$'000</i>
At 1st July, 2000	248,933	951	69,957
Proceeds from issue of shares	45,600	–	–
Expenses incurred in connection with issue of shares	(1,096)	–	–
Issue of share for acquisition of a subsidiary and associates	176,800	–	–
Borrowings raised	–	–	3,769
Inception of finance leases	–	804	–
Repayments	–	(380)	(14,890)
At 1st July, 2001	470,237	1,375	58,836
Shares issued under share options scheme	7,600	–	–
Issue of share for acquisition of other investment	142,120	–	–
Borrowings raised	–	–	57,149
Inception of finance leases	–	84	–
Repayments	–	(382)	(26,982)
Bank loans with maturity within 3 months	–	–	(59,251)
At 30th June, 2002	619,957	1,077	29,752

Bank and other borrowings amounting HK\$29,752,000 did not include bank loans of HK\$59,251,000 and bank overdrafts of HK\$2,970,000 aggregating HK\$62,221,000 since they are classified as short-term loans which are repayable on demand as stated in note 31.

37. MAJOR NON-CASH TRANSACTIONS

The basis of preparation is set out in note 2. Details of major non-cash transactions are as follows:

During the year, the Group entered into finance leases in respect of a new asset acquired with a total capital value at the inception of the finance leases of approximately HK\$84,000 (2001: HK\$804,000).

Other major non-cash transactions in relation to the issue of the Company's shares are set out in notes 18, 19 and 21.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 30th June, 2002

38. UNRECOGNISED DEFERRED TAXATION

The basis of preparation is set out in note 2. Details of unrecognised deferred taxation are as follows.

The unrecognised deferred tax asset at the balance sheet date represents:

	The Group		The Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Tax effect of timing differences attributable to:				
Accelerated/(Decelerated) depreciation allowances	1,574	–	(5)	–
Accumulated tax loss	(9,484)	(3,237)	(4,402)	(1,028)
	(7,910)	(3,237)	(4,407)	(1,028)

The deferred tax asset has not been recognised in the financial statements, as the realisation of this asset in the foreseeable future is uncertain.

Deferred tax has not been provided for the deficit on revaluation of investment properties as any profits arising on the disposal of these properties would not be subject to taxation. Accordingly, the revaluation does not constitute a timing difference for tax purposes.

39. CONTINGENT LIABILITIES

The basis of preparation is set out in note 2. At the balance sheet date, the Group and the Company had contingent liabilities as follows:–

	The Group		The Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Guarantees given to banks and a financial institution in respect of facilities granted to				
– a former subsidiary	–	61,950	–	61,950
– subsidiaries	–	–	72,000	65,000
– a related company (Note)	4,610	4,610	4,610	4,610
	4,610	66,560	76,610	131,560

Note:

A leasing facility amounting to approximately HK\$4,610,000 (2001: HK\$4,610,000) granted by a leasing company to a related company, is secured by a corporate guarantee provided by the Company. In 2001, a counter-indemnity from that related company of the same amount was obtained by the Company. At 30th June, 2002, the outstanding balance of the facility amounted to approximately HK\$2,950,000 (2001: HK\$3,300,000).

Dr. Meng Xiaosu, a director of the Company who resigned subsequent to balance sheet date, is also a director of the related company.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

For the year ended 30th June, 2002

40. LITIGATION

The basis of preparation is set out in note 2. During the year ended 30th June, 2002, the Group was not involved in any litigation.

41. PLEDGE OF ASSETS

The basis of preparation is set out in note 2. Details of pledge of assets are as follows:

At 30th June, 2002, the Group's investment properties, properties held for sale and leasehold land and buildings with aggregate carrying values of HK\$60,900,000 (2001: HK\$73,400,000), HK\$59,800,000 (2001: HK\$93,000,000) and HK\$880,000 (2001: Nil) respectively were pledged to certain financial institutions as security for credit facilities granted by these entities to the Group. As at 30th June, 2002, the facilities utilised by the Group amounted to HK\$72,474,000 (2001: HK\$87,648,000).

Subsequent to the balance sheet date, due to the Company's default in repayment of a term loan facility and overdraft facility, Dao Heng Bank Limited (as the mortgagee) filed the Summons to the Court against the Group as set out in note 46.

42. CAPITAL COMMITMENTS

The basis of preparation is set out in note 2. The Group and the Company had capital commitments not provided for as follows:-

	The Group		The Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Capital expenditure contracted for but not provided in respect of the:				
– incorporation of a PRC subsidiary	995	–	995	–
– acquisition of a subsidiary	–	2,070	–	–
– capital injection	226,200	–	–	–
– acquisition of fixed assets	1,230	–	–	–
	228,425	2,070	995	–

For the year ended 30th June, 2002

43. OPERATING LEASES

The basis of preparation is set out in note 2. Details of operating leases are as follows:

(a) Operating lease commitments

The Group leases properties under operating leases. The leases typically run for one to two years. None of the leases include contingent rentals. The Group's total minimum lease payments for its office, warehouse and quarters under non-cancellable operating leases are payable as follows:

	The Group	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	862	404
After one year but within five years	71	17
	933	421

The Company had no operating lease commitments at the balance sheet date.

(b) Operating lease arrangements

The Group leases out properties under operating leases. One of the leases runs for two years, with an option to renew after that date at which time all terms are renegotiated. The other lease runs for ten years. Subsequent to the balance sheet date, the Group disposed of its entire issued share capital of a wholly-owned subsidiary which owned the investment properties for the ten-year lease. Hence, the Group's future minimum lease payments receivable for this lease is calculated based on rental up to the date of disposal. None of the leases includes contingent rentals. The Group's total future minimum lease payments receivable from its investment properties under non-cancellable operating leases are as follows:

	The Group	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	5,317	3,133
After one year but within five years	2,188	–
	7,505	3,133

The Company had no operating lease arrangements at the balance sheet date.

44. RETIREMENT BENEFIT SCHEME

Prior to 1st December, 2000, the Group did not operate any retirement benefit scheme.

With effect from 1st December, 2000, the Group has joined a mandatory provident fund scheme ("MPF Scheme") for all employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rate specified in the rules. The only obligation of the Group with respect to MPF Scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in the future years.

The retirement benefits cost of the MPF Scheme charged to the income statement represents contributions payable to the funds by the Group at rates specified in the rules of the MPF Scheme.

45. CONNECTED TRANSACTIONS AND RELATED PARTY DISCLOSURES

The basis of preparation is set out in note 2. Details of connected transactions and related party disclosures are as follows:

- (a) There were no transactions with related parties during the year.
- (b) Balances with related parties

Details of the balances with former ultimate holding company and an associate are set out in notes 26 and 27 respectively.

- (c) Other related party disclosures
 - (i) Details of the securities given by the Group in respect of credit and leasing facilities granted by certain financial institutions to related parties are set out in note 39.
 - (ii) The credit facilities utilized by the Group of approximately HK\$10,253,000 are secured by, among others, a corporate guarantee provided by CILH and personal guarantees from two retired directors.

46. POST BALANCE SHEET EVENTS

The basis of preparation is set out in note 2. Details of post balance sheet events are as follows:

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

- a) On 7th August, 2002, the Company entered into a loan agreement with Wealthy China Software Limited for a loan of HK\$5,000,000. The borrowing period is 30 days and the interest thereon is HK\$150,000. The borrowing is secured by the third charge on the investment properties held by First Union.

For the year ended 30th June, 2002

46. POST BALANCE SHEET EVENTS (cont'd)

- b) On 8th August, 2002, notices of termination were served to all contracting parties regarding two agreements dated 1st May, 2002 for the sale and purchase of 80% equity interest in Sky Citi-Link which was entered into between the Company and (i) Happy Win Resources Limited, Asia Tele-Net and Technology Corporation Limited and Teleinvest (the "ATNT Agreement") and (ii) Teleinvest and Wah Tak Fung Holdings Limited (the "WTF Agreement") respectively. Under the terms of both Agreements, if any of the conditions in the Agreements have not been satisfied on or before the long stop date of 7th August, 2002, the parties may, by notice to the others, terminate the Agreements. Since the conditions of the Agreements were not satisfied by the long stop date, the notices of termination in effect terminated the ATNT Agreement and WTF Agreement.
- c) On 10th August, 2002, the Company entered into a loan agreement with Active Base Limited, an independent third party, for a loan of aggregate principal amount of HK\$3,000,000. The borrowing was interest bearing at 2% per month, repayable on demand and secured by various types of assets, rights and revenues of the Group. The borrowing was fully repaid subsequently.
- d) On 12th August, 2002, an agreement was entered into among the Company, Prospect Technology Limited ("Prospect Technology"), a wholly-owned subsidiary of the Company, and Max Cyber Development Inc. ("Max Cyber"), a wholly-owned subsidiary of Can Do Holdings Limited, pursuant to which, inter alia, Max Cyber agreed to sell, the Company agreed to procure the purchase of and Prospect Technology agreed to purchase 24,500 shares of US\$1.00 each in Masterful Resources Limited ("Master Resources"), representing 49% of the issued share capital of Masterful Resources, for a consideration of HK\$56,800,000, which is to be satisfied by the issue and allotment of 284,000,000 shares of the Company.

Masterful Resources is incorporated in BVI and is engaged in the development of Shipping-Info.com, a business-to-business web portal which aims to serve the shippers, forwarders, agents and carriers through the provision of network based services, via the internet, to the participants in the shipping and logistics in Hong Kong, Shanghai and Tianjin of the PRC.

The acquisition constitutes a discloseable and share transaction for the Company according to the Listing Rules.

- e) On 12th September, 2002, a winding-up petition (the "Petition") was served on the Company by ICEA Financial Services Limited ("ICEA"). The Company has negotiated and finally reached a settlement agreement with ICEA on 12th November, 2002 for repayment of the outstanding amount of approximately HK\$6,300,000. The withdrawal of the Petition was approved at the hearing of the Petition held on 13th November, 2002 at the Court. The outstanding amount was fully repaid subsequently.
- f) On 4th November, 2002, an agreement was entered into between World Giant Limited ("World Giant"), a wholly-owned subsidiary of the Company, and Modern Pacific Holdings Limited ("Modern Pacific") whereby World Giant agreed to sell and Modern Pacific agreed to purchase a property in the PRC at a cash consideration of HK\$59,800,000.

The disposal constitutes a discloseable transaction for the Company according to the Listing Rules.

- g) On 16th December, 2002, the Company entered into a loan agreement with Modern Pacific for an unsecured loan up to HK\$2,000,000. The borrowing period was 6 months and interest rate was fixed at 10% per annum. The borrowing was fully repaid subsequently.

For the year ended 30th June, 2002

46. POST BALANCE SHEET EVENTS (cont'd)

- h) On 20th December, 2002, a form of claim was filed against Noble City (Asia) Limited ("Noble City"), a wholly-owned subsidiary of the Company, by a resigned Director through the Labour Tribunal (LBTC12052/2002) demanding salaries in dispute in the sum of HK\$516,000. On 15th January, 2003, the Labour Tribunal ordered Noble City to settle the claim in full by 1st May, 2003.
- i) Pursuant to a Deed of Irrevocable Waiver of Intra-Group Loans dated 30th December, 2002, the Company irrevocably and unconditionally waived all rights to recover an amount due from World Giant of HK\$105,149,000 and both parties should have henceforth no right of any further claim against each other in respect of the waiver of intra-group loans.
- j) On 15th January, 2003, World Giant issued a promissory note in favour of Modern Pacific whereby World Giant borrowed from Modern Pacific a short-term loan of HK\$1,700,000, bearing an interest at 5.125% per annum. The loan was fully repaid subsequently.
- k) As set out in notes 16 and 20 to the financial statements, World Joy and Huadong Share issued a notice on 15th January, 2003 declaring the termination of the agreement dated 1st November, 2001 and the supplementary extension agreement dated 10th January, 2002 entered into with an independent third party for the disposal of the Group's 20.28% interest in CRED Huadong and an assignment of right for the Group's deposit paid for the purchase of the investment properties.
- l) On 27th February, 2003, World Giant and Modern Pacific entered into an agreement to terminate the sale and purchase agreement stated in paragraph (f) above. A sum of HK\$5,200,000 paid by Modern Pacific to World Giant as partial consideration pursuant to the agreement in paragraph (f) was converted into a part of the consideration payable by Champower Investment Limited and Great Merit Investment Limited (collectively the "Purchaser") under the disposal agreement referred to in paragraph (m) below.
- m) On 27th February, 2003, a disposal agreement was entered into among Noble City and Konwide Development Limited (collectively the "Vendor"), both being wholly-owned subsidiaries of the Company, the Company, and the Purchaser whereby the Vendor agreed to sell, the Purchaser agreed to purchase, and the Company and the Vendor jointly and severally agreed to warrant the sale of the entire issued share capital of World Giant and the total amount of loans or advances outstanding and owing from World Giant to the Vendor as at the completion date of the disposal agreement at a cash consideration of HK\$57,000,000. The disposal was completed on 29th March, 2003.
- Under the Listing Rules, the disposal constitutes a discloseable transaction for the Company.
- n) The Vendor has advanced by way of interest-free loans to World Giant in the total amount of HK\$52,923,000 (the "Loan") as at 29th March, 2003. On 29th March, 2003, a Deed of Assignment was made between the Vendor as the assignor and the Purchaser as the assignee whereby the Vendor assigned to the Purchaser the Loan and all the rights, title and interests thereof in consideration of HK\$52,923,000.

For the year ended 30th June, 2002

46. POST BALANCE SHEET EVENTS (cont'd)

- o) On 29th March, 2003, a Deed of Indemnity (the "Deed") was made between the Company and the Vendor, collectively as the warrantors, World Giant and the Purchaser whereby the Vendor and the Company covenant to indemnify the Purchaser and World Giant and hold the Purchaser and World Giant harmless against and from liabilities on the terms and subject to the conditions contained in the Deed.
- p) On 29th March, 2003, World Giant entered into an agreement of assignment with the Vendor whereby World Giant agreed to assign all its property rights title benefit and interest of and the rental receivable of RMB3,960,000 (equivalent to HK\$3,722,000) to the Vendor for a consideration of HK\$1.
- q) Due to the Company's default in repayment of a term loan facility and an overdraft facility, the Summons was filed to the Court by Dao Heng Bank Limited (as the Mortgagee) against First Union (as the Mortgagor) and the Company (as the Borrower) to recover possession of the pledged investment properties on 10th April, 2003. It was ordered by the Court that the hearing of the Summons to be adjourned to 11th August, 2003.
- r) On 23rd May, 2003, a form of claim was filed against Noble City by a resigned employee through the Labour Tribunal (LBTC4131/2003) demanding salaries in dispute in the sum of HK\$202,000. On 26th May, 2003, a deed of settlement was entered into between Noble City and the resigned employee.

47. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation.