

# Notes to the Financial Statements

For the year ended 30th June, 2003

## 1. GENERAL

The Company is incorporated and registered as an exempted company in Bermuda with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited.

The Company acts as an investment holding company. The principal activities of its principal subsidiaries and associates are set out in notes 16 and 17 to the financial statements.

## 2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

In preparing the financial statements, the directors have given careful consideration to the uncertainty relating to the going concern status of the Group in the light of its net liabilities of approximately HK\$9,841,000 as at 30th June, 2003. As disclosed in note 33, after the balance sheet date, the Company issued and allotted 200,000,000 shares of HK\$0.01 to an independent third party for HK\$3,200,000 under a private share placement. 101,800,000 shares of HK\$0.01 each are issued for HK\$1,444,000 as a result of the exercise of share options. In addition, convertible notes with principal amount of HK\$11,200,000 are converted into ordinary shares after the balance sheet date. However, in the light of normal operational expenditures to be incurred by the Group in the foreseeable future, the directors are currently considering various options for the future financing of the Group. In particular, the directors are currently actively seeking equity investment from certain potential strategic investors. And the Group has recently entered into agreements with certain banks in the PRC to provide credit card security device and digital network authorisation services. Provided that the Group successfully obtain equity investment from these potential strategic investors and the credit card security device and digital network authorisation services generate budgeted cash flow, the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

## 3. ADOPTION OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first time, a number of new and revised Statements of Standard Accounting Practice (SSAPs) issued by the Hong Kong Society of Accountants, which has resulted in the adoption of the following new and revised accounting policies. The adoption of these SSAPs has resulted in a change in the format of presentation of the cash flow statement and the statement of changes in equity, but has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

### Foreign Currencies

The revisions to SSAP 11 "Foreign Currency Translation" have eliminated the choice of translating the income statements of subsidiaries operate outside Hong Kong at the closing rate for the year which was the policy previously followed by the Group. They are now required to be translated at an average rate. This change in accounting policy has not had any material effect on the results for the current or prior accounting periods.

# Notes to the Financial Statements (continued)

For the year ended 30th June, 2003

## **3. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE (continued)**

### **Discontinuing Operations**

SSAP 33 "Discontinuing Operations" is concerned with the presentation of financial information regarding discontinuing operations and replaces the requirements previously included in SSAP 2 "Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies". Under SSAP 33, financial statement amounts relating to the discontinuing operations are disclosed separately from the point at which either a binding sale agreement is entered into or a detailed plan for the discontinuance is announced. The adoption of SSAP 33 has resulted in the identification of the Group's business segment of manufacture and sales of electronic products and sales of health products as discontinuing operations in the current year, details of which are disclosed at note 9.

### **Employee Benefits**

In the current year, the Group had adopted SSAP 34 "Employee Benefits", which introduces measurement rules for employee benefits, including retirement benefit plans. Because the Group participates only in defined contribution retirement benefit schemes, the adoption of this SSAP 34 has not had any material impact on the financial statements.

## **4. SIGNIFICANT ACCOUNTING POLICIES**

The financial statements have been prepared under the historical cost convention as modified for the valuation of investment properties and investments in securities.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below:

### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to the balance sheet date.

The results of the subsidiaries and associates which are 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 inter-group transactions and balances have been eliminated on consolidation.

# Notes to the Financial Statements (continued)

For the year ended 30th June, 2003

## **4. SIGNIFICANT ACCOUNTING POLICIES** (continued)

### **Goodwill**

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or an associate at the date of acquisition.

Goodwill arising on acquisitions prior to 1st July, 2001 continues to be held in reserves, and will be charged to the income statement at the time of disposal of the relevant subsidiary, or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisitions after 1st July, 2001 is capitalised and amortised on a straight-line basis over its useful economic life and is presented separately in the balance sheet.

On disposal of investments in subsidiaries or associates, the attributable amount of unamortised goodwill/goodwill previously eliminated against reserves is included in the determination of the profit or loss on disposal.

### **Negative goodwill**

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or associate at the date of acquisition over the cost of acquisition.

Negative goodwill arising on acquisitions is presented as deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

Negative goodwill arising on the acquisition of an associate is deducted from the carrying value of that associate. Negative goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a deduction from assets.

### **Investments in subsidiaries**

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

### **Interests in associates**

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates plus the premium paid on acquisition less any identified impairment loss.

# Notes to the Financial Statements (continued)

For the year ended 30th June, 2003

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Revenue recognition

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

Service income is recognised when the services are rendered.

Sales of investments in securities are recognised when the sales contract becomes unconditional.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Rental income, including rentals invoiced in advance from properties under operating leases, is recognised on a straight line basis over the respective leases.

### 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 value 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 of 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 of the investment property revaluation reserve attributable to that property is transferred to the income statement.

No depreciation and amortisation is provided on investment properties except where the unexpired term, including the renewal period, of the relevant lease is twenty years or less.

# Notes to the Financial Statements (continued)

For the year ended 30th June, 2003

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Property, plant and equipment

Property, plant and equipment is stated at cost less depreciation and accumulated impairment losses.

Depreciation is provided to write off the costs of the property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight line method, at the following rates per annum:

Land held on long leases	Over the terms of the leases
Land held on medium term leases	2.5% or over the terms of the leases whichever is shorter
Buildings	2.5% or over the terms of the leases whichever is shorter
Leasehold improvement	10% or over the terms of the leases whichever is shorter
Furniture, fixture and equipment	10–20%
Plant and machinery	10%
Motor vehicles	20%

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

### Investments in securities

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

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment losses that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the year.

### Club debenture

Club debenture is stated at cost less any identified impairment loss.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

# Notes to the Financial Statements (continued)

For the year ended 30th June, 2003

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Impairment

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

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so 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 period. A reversal of an impairment loss is recognised as income immediately.

### Leased assets

Leases are classified as finance leases when the terms of the lease transfer all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair value at the date of acquisition. The corresponding liability to the lessor, net of interest changes, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the year of the relevant leases so as to produce a constant periodic rate of charge on the remaining balances of the obligations for each accounting year.

All other leases are classified as operating leases and the annual rentals are charged to the income statement on a straight-line basis over the relevant lease term.

### Foreign currencies

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

On consolidation, the assets and liabilities of the Group's overseas operations which are denominated in currencies other than Hong Kong dollars are translated at exchange rates ruling on the balance sheet date. Income and expenses are translated into Hong Kong dollars at the average exchange rates for the year. All exchange differences arising on consolidation are dealt with in reserves and are recognised as income or as expenses in the period in which the operation is disposed of.

# Notes to the Financial Statements (continued)

For the year ended 30th June, 2003

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Taxation

The charge for taxation is based on the results for the year after adjusting for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

### Retirement benefit scheme

The retirement benefit scheme contributions relating to the mandatory provident fund scheme charged to the income statement represent contributions payable to the schemes by the Group at rates specified in the rules of the schemes.

The amount of contributions payable to pension schemes in jurisdictions other than Hong Kong are charged to the income statement.

## 5. TURNOVER AND SEGMENTAL INFORMATION

Turnover represents the net amounts received and receivable for the followings:

	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Manufacture and sales of electronic products	<b>7,389</b>	14,847
Provision of financial information services	<b>3,211</b>	4,209
Sales of health products	<b>296</b>	243
Provision of credit card security device and digital network authorisation services	<b>246</b>	363
Manufacture and sales of food products	-	8,546
Others	<b>34</b>	13
	<b>11,176</b>	28,221

# Notes to the Financial Statements (continued)

For the year ended 30th June, 2003

## 5. TURNOVER AND SEGMENTAL INFORMATION (continued)

### Business segments

For management purposes, the Group is currently organised into four (2002: six) operating divisions as detailed above. These divisions are the basis on which the Group reports its primary information. An analysis of the Group's turnover and contributions to operating results and segmental assets and liabilities by business segments is as follows:

### For the year ended 30th June, 2003

	Continuing operations			Discontinuing operations			Consolidation HK\$'000
	Provision of financial information services HK\$'000	Provision of credit card security device and digital network authorisation services HK\$'000	Others HK\$'000	Manufacture and sales of electronic products (Note 1) HK\$'000	Sales of health products (Note 2) HK\$'000	Unallocated HK\$'000	
TURNOVER							
External sales	3,211	246	34	7,389	296	-	11,176
SEGMENT RESULT	(555)	(8,097)	(51)	(5,999)	(73)	-	(14,775)
Unallocated corporate expenses							(19,789)
Impairment loss recognised in respect of goodwill	-	-	-	(11,000)	-	-	(11,000)
Loss from operations							(45,564)
Finance costs							(650)
Loss on disposal of discontinuing operations	-	-	-	(12,714)	(1,697)	-	(14,411)
Loss attributable to investments	-	-	-	-	-	(332)	(332)
Loss after taxation							(60,957)
Minority interests							1,380
Net loss for the year							(59,577)
<b>Assets and Liabilities as at 30th June, 2003</b>							
ASSETS							
Segment assets	518	1,629	342	-	-	-	2,489
Unallocated corporate assets							44,802
Consolidated total assets							47,291
LIABILITIES							
Segment liabilities	1,422	349	-	-	-	-	1,771
Unallocated corporate liabilities							55,361
Consolidated total liabilities							57,132
Other information:							
Capital additions	33	995	82	29	-	61	1,200
Depreciation and amortisation	198	250	78	463	6	1,615	2,610
Profit (loss) on disposal of property, plant and equipment	-	-	-	355	-	(4)	351



# Notes to the Financial Statements (continued)

For the year ended 30th June, 2003

## 5. TURNOVER AND SEGMENTAL INFORMATION (continued)

### Business segments (continued)

#### For the year ended 30th June, 2002

	Continuing operations			Discontinuing operations				Unallocated	Consolidation
	Provision of financial information services	Provision of credit card security device and digital network authorisation services	Others	Manufacture and sales of electronic products (Note 1)	Sales of health products (Note 2)	Manufacture and sales of food products (Note 3)	Provision of internet consultancy services (Note 3)		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
<b>TURNOVER</b>									
External sales	4,209	363	13	14,847	243	8,546	-	28,221	
<b>SEGMENT RESULT</b>	(570)	(2,685)	(407)	(9,479)	(2,001)	(9,138)	(239)	(24,519)	
Unallocated corporate expenses								(23,368)	
Loss from operations								(47,887)	
Finance costs								(1,637)	
Gain on disposal of discontinuing operations	-	-	-	-	-	31,747	3,645	35,392	
Loss attributable to investments	-	-	-	-	-	-	-	(19,138)	
Loss before taxation								(33,270)	
Taxation credit								117	
Loss after taxation								(33,153)	
Minority interests								2,147	
Net loss for the year								(31,006)	
<b>Assets and Liabilities as at 30th June, 2002</b>									
<b>ASSETS</b>									
Segment assets	1,246	262	329	16,125	527	-	-	18,489	
Unallocated corporate assets								41,688	
Consolidated total assets								60,177	
<b>LIABILITIES</b>									
Segment liabilities	1,807	-	-	7,440	476	-	-	9,723	
Unallocated corporate liabilities								24,614	
Consolidated total liabilities								34,337	
Other information:									
Capital additions	14	310	367	450	1	-	-	4,023	5,165
Depreciation and amortisation	192	133	43	695	80	1,041	239	1,597	4,020
Loss on disposal of property, plant and equipment	-	-	-	121	-	-	-	2,204	2,325

# Notes to the Financial Statements (continued)

For the year ended 30th June, 2003

## 5. TURNOVER AND SEGMENTAL INFORMATION (continued)

### Business segments (continued)

Notes:

- (1) In March 2003, the Group disposed of its entire interest in Thinking Group Limited ("Thinking Group"). In June 2003, the Group disposed of its entire interests in Star Paging Telecom Technology (Shenzhen) Co. Ltd. ("Star Paging") and GSM Roaming Plug (H.K.) Ltd. ("GSM"). All these disposed companies were mainly engaged in the manufacture and sales of electronic products. Upon the completion of the disposal, the business segment of manufacture and sales of electronic products was regarded as discontinuing operation.
- (2) In August 2002, the Group disposed of its entire interest in Fu Yuk DNA Holistic Limited ("Fu Yuk") and other subsidiaries which was engaged in the sales of health products. Upon the completion of the disposal, the business segment of sales of health products was regarded as discontinuing operation.
- (3) In June 2002, the Group disposed of its entire interest in Chung Hwa Food & Beverages Limited, Chung Hwa Food & Beverages Holdings Limited, Harbin Dongfang (Hong Kong) Food Company Limited, Harbin HDL (New Zealand) Limited, Xiamen Dongchen Food Industry Company Limited, Full Support Technology Limited and other subsidiaries, which were mainly engaged in the manufacture and sales of food products and provision of internet consultancy services. Upon the completion of the disposal, the business segments of manufacture and sales of food products and provision internet consultancy services were regarded as discontinuing operations.

### Geographical segments

The Group's operations are located in Hong Kong, the People's Republic of China ("PRC") and other Asian countries. The business segment of manufacture and sales of electronic products and provision of credit card security device and digital network authorisation services are located in PRC. Part of manufacture and sales of electronic products segment is carried out in other Asian countries. The remaining segments are located in Hong Kong.

The following provides an analysis of the Group's turnover by geographical market, irrespective of the origin of the goods or services:

	Turnover	
	2003 HK\$'000	2002 HK\$'000
Hong Kong	<b>9,174</b>	11,841
PRC excluding Hong Kong	<b>1,394</b>	11,627
Other Asian countries	<b>608</b>	4,753
	<b>11,176</b>	28,221

## Notes to the Financial Statements (continued)

For the year ended 30th June, 2003

### 5. TURNOVER AND SEGMENTAL INFORMATION (continued)

#### Geographical segments (continued)

Revenue from the Group discontinuing operations was derived principally from PRC (2003: HK\$1,394,000, 2002: HK\$11,627,000), Hong Kong (2003: HK\$5,683,000, 2002: HK\$7,256,000) and other Asian countries (2003: HK\$608,000, 2002: HK\$4,753,000).

The following is an analysis of the carrying amount of segment assets, capital addition analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Hong Kong	<b>41,324</b>	49,356	<b>187</b>	1,930
PRC	<b>2,547</b>	10,821	<b>1,013</b>	3,235
Elsewhere	<b>3,420</b>	–	<b>–</b>	–
	<b>47,291</b>	60,177	<b>1,200</b>	5,165

### 6. IMPAIRMENT LOSS RECOGNISED IN RESPECT OF GOODWILL

In view of the net selling price of Thinking Group which was engaged in manufacture and sales of electronic products, the Group has recognised impairment loss in respect of goodwill relating to that business and the entire amount of HK\$11,000,000 has been recognised in the consolidated income statement during the year.

# Notes to the Financial Statements (continued)

For the year ended 30th June, 2003

## 7. LOSS FROM OPERATIONS

	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Loss from operations has been arrived at after charging:		
Staff costs:		
Directors' remuneration ( <i>note 10</i> )	<b>7,148</b>	11,774
Other staff costs	<b>10,689</b>	12,375
Pension scheme contributions	<b>287</b>	317
Total staff costs	<b>18,124</b>	24,466
Auditors' remuneration:		
Current year	<b>800</b>	1,085
Overprovision in prior year	<b>-</b>	(20)
	<b>800</b>	1,065
Depreciation and amortisation		
Owned assets	<b>2,562</b>	3,999
Assets held under finance leases	<b>48</b>	21
Loss on disposal of property, plant and equipment	<b>50</b>	2,325
and after crediting:		
Gain on disposal of property, plant and equipment	<b>401</b>	-
Interest income	<b>90</b>	115
Rental income from properties under operating leases, net of negligible outgoings	<b>-</b>	156

## 8. FINANCE COSTS

	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Interest on:		
Bank and other borrowings wholly repayable within five years	<b>-</b>	1,325
Convertible notes	<b>344</b>	306
Promissory note	<b>299</b>	-
Finance leases	<b>7</b>	6
	<b>650</b>	1,637

# Notes to the Financial Statements (continued)

For the year ended 30th June, 2003

## 9. (LOSS) GAIN ON DISPOSAL OF DISCONTINUING OPERATIONS

During the current year, the Group disposed of its entire interest in subsidiaries engaged in the manufacture and sales of electronic products and a loss on disposal of subsidiaries amounting to HK\$12,714,000 was recognised in the consolidated income statement.

The Group also disposed of its entire interest in a subsidiary engaged in the sale of health products and other subsidiaries during the year and net loss on disposal of HK\$1,697,000 was recognised in the consolidated income statement, accordingly.

For the year ended 30th June, 2002, the gain on disposal of subsidiaries represented the gain on disposal of the Group's entire interest in certain subsidiaries engaged in the manufacture and sales of food products of HK\$31,747,000 and a subsidiary engaged in provision of internet consultancy services of HK\$3,645,000.

### Sales of health products

In August 2002, the Group entered into an agreement to dispose of the entire interest in Fu Yuk and other subsidiaries, which carried out all of the Group's sales of health products operation. The disposal was completed on 31st August, 2002, the date on which control of Fu Yuk and other subsidiaries passed to the acquirer.

The results of the sales of health products operation for the period from 1st July, 2002 to 31st August, 2002 which have been included in the consolidated financial statements, were as follows:

	<b>1.7.2002 to 31.8.2002 HK\$'000</b>	1.7.2001 to 30.6.2002 HK\$'000
Turnover	<b>296</b>	243
Cost of sales	<b>(252)</b>	(78)
Gross profit	<b>44</b>	165
Administrative expenses	<b>(117)</b>	(2,166)
Loss for the period/year	<b>(73)</b>	(2,001)

During the year, Fu Yuk and other subsidiaries contributed HK\$102,000 to the Group's net operating cash flows.

# Notes to the Financial Statements (continued)

For the year ended 30th June, 2003

## 9. (LOSS) GAIN ON DISPOSAL OF DISCONTINUING OPERATIONS (continued)

### Sale of health products (continued)

The net assets and liabilities of Fu Yuk and other subsidiaries at the date of disposal and at 30th June, 2002 were as follows:

	<b>31.8.2002</b> <b>HK\$'000</b>	30.6.2002 HK\$'000
Bank balances and cash	<b>110</b>	8
Property, plant and equipment	<b>3,426</b>	276
Inventories	<b>60</b>	–
Debtors, deposits and prepayment	<b>3,013</b>	243
Creditors and accrued charges	<b>(3,399)</b>	(476)
	<b>3,210</b>	51

### Manufacture and sales of electronic products

In March 2003, the Group entered into an agreement to dispose of the entire interest in Thinking Group. The disposal was completed on 28th March, 2003, the date on which control of Thinking Group passed to the acquirer.

In June 2003, the Group also entered into an agreement to dispose of the entire interest in GSM and Star Paging. The disposal was completed on 2nd June, 2003, on which date control of GSM and Star Paging passed to the acquirer.

The results of the manufacture and sales of electronic products for the period from 1st July, 2002 to 2nd June, 2003, which have been included in the consolidated financial statements, were as follows:

	<b>1.7.2002</b> <b>to</b> <b>2.6.2003</b> <b>HK\$'000</b>	1.7.2001 to 30.6.2002 HK\$'000
Turnover	<b>7,389</b>	14,847
Cost of sales	<b>(5,921)</b>	(11,909)
Gross profit	<b>1,468</b>	2,938
Other operating income	<b>500</b>	310
Administrative expenses	<b>(7,967)</b>	(12,727)
Loss from operations	<b>(5,999)</b>	(9,479)
Finance costs	<b>(79)</b>	–
Loss before taxation	<b>(6,078)</b>	(9,479)
Taxation	<b>–</b>	2
Loss for the period/year	<b>(6,078)</b>	(9,477)

During the year, the manufacture and sales of electronic products operations contributed HK\$719,000 to the Group's net operating cash flows, received HK\$430,000 in respect of investing activities and paid HK\$79,000 in respect of financing activities.

# Notes to the Financial Statements (continued)

For the year ended 30th June, 2003

## 9. (LOSS) GAIN ON DISPOSAL OF DISCONTINUING OPERATIONS (continued)

### Manufacture and sales of electronic products (continued)

The net assets and liabilities of all these subsidiaries at the date of disposal and at 30th June, 2002 were as follows:

	<b>2.6.2003</b>	30.6.2002
	<b>HK\$'000</b>	HK\$'000
Bank balances and cash	<b>2,076</b>	1,006
Property, plant and equipment	<b>3,689</b>	4,228
Inventories	<b>4,652</b>	6,859
Trade and other receivables	<b>2,774</b>	4,032
Creditors and accrued charges	<b>(6,908)</b>	(5,572)
Taxation payable	<b>(20)</b>	(20)
Obligation under a finance lease	<b>(256)</b>	(256)
Minority interests	<b>(212)</b>	(1,592)
	<b>5,795</b>	8,685

## 10. DIRECTORS' REMUNERATION AND EMPLOYEES' EMOLUMENTS

### (a) Directors' remuneration

	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Directors' fees:		
Executive	-	-
Non-executive	-	-
Independent non-executive	-	-
	-	-
Other emoluments		
Executive		
Salaries and other benefits	<b>6,504</b>	7,597
Discretionary bonus	<b>540</b>	2,354
Contributions to retirement benefit scheme	<b>44</b>	23
Compensation for loss of office	-	1,800
Independent non-executive	<b>60</b>	-
	<b>7,148</b>	11,774

# Notes to the Financial Statements (continued)

For the year ended 30th June, 2003

## 10. DIRECTORS' REMUNERATION AND EMPLOYEES' EMOLUMENTS (continued)

The number of directors whose remuneration fall within the bands set out below is as follows:

	No. of directors	
	2003	2002
Nil to HK\$1,000,000	8	9
HK\$1,000,001 to HK\$1,500,000	1	–
HK\$1,500,001 to HK\$2,000,000	–	2
HK\$2,000,001 to HK\$2,500,000	–	1
HK\$5,000,001 to HK\$5,500,000	1	1
	<b>10</b>	<b>13</b>

Of the five individuals with the highest emoluments in the Group, two (2002: five) were all directors of the Company and details of their emoluments are set out above.

For the year ended 30th June, 2002, HK\$1,800,000 was paid to two directors as compensation for loss of office. Other than that, no emoluments were paid by the Group to any of the directors as an inducement to join the Group or as compensation for loss of office.

### (b) Employees' emoluments

The aggregate emoluments of the remaining three (2002: Nil) individuals who are employees of the Group is as follows:

	2003	2002
	HK\$'000	HK\$'000
Salaries and other benefits	1,452	–
Discretionary bonus	99	–
Contributions to retirement benefit scheme	36	–
	<b>1,587</b>	<b>–</b>

The emoluments of each of the remaining individuals were below HK\$1,000,000.



# Notes to the Financial Statements (continued)

For the year ended 30th June, 2003

## 11. LOSS ATTRIBUTABLE TO INVESTMENTS

	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Amortisation of premium on acquisition of an associate	<b>(1,500)</b>	–
Loss on disposal of an associate (a)	<b>1,185</b>	–
Loss on disposal of investments in securities	–	(579)
Unrealised loss on investments in securities	<b>(17)</b>	–
Provision for payments made in connection with investment projects (b)	–	(19,559)
Reversal of provision for payments made in connection with investment projects (c)	–	1,000
	<b>(332)</b>	(19,138)

- (a) The Group entered into an agreement with a third party to dispose of its entire interests in an associate, China Growth Enterprises Limited and a gain on disposal of HK\$1,185,000 was recognised.
- (b) (i) For the year ended 30th June, 2002, the Group entered into agreement ("Cooperation Agreement") with a third party (the "Partner") in which both parties agreed to invest in a company ("Joint Venture") which is mainly engaged in the research, development and marketing of Chinese character input software and Chinese language technology. The Group was required to inject an amount of US\$3,000,000 (equivalent to approximately HK\$23,400,000) in return for 25% equity interest in the Joint Venture within a specified period of time. As at 30th June, 2002, the Group had injected the amount of HK\$15,559,000 to the Joint Venture. For the year ended 30th June 2002, the Group had entered into another agreement with the Partner and agreed that no further investment had to be injected into the Joint Venture since then. Following an assessment of the business prospects of the Joint Venture and existing market conditions by the directors for the year, a full provision of HK\$15,559,000 was made in the financial statements.
- (ii) For the year ended 30th June, 2002, the Group entered into an agreement with a third party to invest in a company which is engaged in the development of the logistic network in the PRC. Following an assessment of its business prospects by the directors for the year, a full provision of HK\$4,000,000 was made in the financial statements.
- (c) In respect of the payments made in connection with investment projects in the acquisition of a 25% equity interest in a company which operates a website for provision of trade information in the PRC, the provision of HK\$1,000,000 was written back as the Group recovered this amount for the year ended 30th June, 2002.

## Notes to the Financial Statements (continued)

For the year ended 30th June, 2003

### 12. TAXATION CREDIT

The taxation credit for the year ended 30th June, 2002 represented over-provision of Hong Kong Profits Tax in previous years.

No provision for taxation has been made in the financial statements as the Group had incurred tax loss for the year.

Details of unrecognised deferred taxation are set out in note 28.

### 13. LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss for the year of HK\$59,577,000 (2002: net loss of HK\$31,006,000) and on the weighted average number of 5,154,619,706 (2002: weighted average number of 1,392,643,841) ordinary shares in issue during the year.

No diluted loss per share has been presented for the current year as the exercise of the share options and convertible notes would result in a decrease in the loss per share.

### 14. INVESTMENT PROPERTIES

	<b>THE GROUP</b>
	HK\$'000
<hr/>	
AT VALUATION	
At 1st July, 2002	1,970
Deficit arising on revaluation	(60)
	<hr/>
At 30th June, 2003	1,910
	<hr/>

The Group's investment properties held under long term leases at 2/F, 239 Queen's Road East, Wanchai and 13/F, Flat F, Golden Cassia Court, 5 Kai Yuen, Terrace, Hong Kong and were revalued at 30th June, 2003 by LCH (Asia-Pacific) Surveyors Limited, an independent firm of professional property valuers, on an open market value basis. The deficit arising on revaluation has been charged to the income statement.

The Group's investment properties were vacant during the year.

# Notes to the Financial Statements (continued)

For the year ended 30th June, 2003

## 15. PROPERTY, PLANT AND EQUIPMENT

	<b>Leasehold land and buildings</b>	<b>Leasehold improvement</b>	<b>Furniture, fixtures and equipment</b>	<b>Plant and machinery</b>	<b>Motor vehicles</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>THE GROUP</b>						
COST						
At 1st July, 2002	6,598	1,457	8,024	8,333	1,380	25,792
Additions	–	356	844	–	–	1,200
Disposals	–	(120)	(168)	(583)	(354)	(1,225)
On disposal of subsidiaries	(3,689)	–	(3,732)	(7,750)	(638)	(15,809)
At 30th June, 2003	<u>2,909</u>	<u>1,693</u>	<u>4,968</u>	<u>–</u>	<u>388</u>	<u>9,958</u>
DEPRECIATION AND AMORTISATION						
At 1st July, 2002	2,407	922	2,736	5,066	562	11,693
Provided for the year	480	421	1,529	55	125	2,610
Eliminated on disposals	–	(120)	(117)	(544)	(336)	(1,117)
Eliminated on disposal of subsidiaries	(1,013)	–	(2,856)	(4,577)	(248)	(8,694)
At 30th June, 2003	<u>1,874</u>	<u>1,223</u>	<u>1,292</u>	<u>–</u>	<u>103</u>	<u>4,492</u>
NET BOOK VALUES						
At 30th June, 2003	<u>1,035</u>	<u>470</u>	<u>3,676</u>	<u>–</u>	<u>285</u>	<u>5,466</u>
At 30th June, 2002	<u>4,191</u>	<u>535</u>	<u>5,288</u>	<u>3,267</u>	<u>818</u>	<u>14,099</u>

At 30th June, 2002, the net book value of motor vehicles of HK\$818,000 includes an amount of HK\$296,000 in respect of assets held under a finance lease. The motor vehicles were disposed of due to the disposal of a subsidiary during the current year.

# Notes to the Financial Statements (continued)

For the year ended 30th June, 2003

## 15. PROPERTY, PLANT AND EQUIPMENT (continued)

The net book value of properties of the Group shown above comprises leasehold properties held in the PRC under medium-term leases.

	<b>Furniture, fixtures and equipment</b>
	HK\$'000
<b>THE COMPANY</b>	
COST	
At 1st July, 2002	4,372
Additions	62
Disposals	(5)
At 30th June, 2003	4,429
DEPRECIATION	
At 1st July, 2002	1,108
Provided for the year	879
Eliminated on disposals	(1)
At 30th June, 2003	1,986
NET BOOK VALUES	
At 30th June, 2003	2,443
At 30th June, 2002	3,264

## 16. INTERESTS IN SUBSIDIARIES

	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Unlisted shares, at cost less provision	<b>1,560</b>	2,000
Amounts due from subsidiaries	<b>87,347</b>	148,234
Less: Allowances on amounts due from subsidiaries	<b>(87,347)</b>	(145,278)
	<b>1,560</b>	4,956
Amounts due to subsidiaries	<b>(2,622)</b>	(4,811)

The amounts due from (to) subsidiaries are unsecured, non-interest bearing and have no fixed repayment terms. In the opinion of the directors, the amounts are unlikely to be repaid within one year from the balance sheet date and are therefore classified as non-current.

# Notes to the Financial Statements (continued)

For the year ended 30th June, 2003

## 16. INTERESTS IN SUBSIDIARIES (continued)

Details of the principal subsidiaries as at 30th June, 2003 are as follows:

Name	Place of incorporation/ registration and operation	Class of shares held	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital held by the Company		Principal activities
				Directly	Indirectly	
Credit Card DNA Security System (Shenzhen) Limited	PRC	Ordinary	US\$200,000	–	100%	Provision of credit and security device, digital network authorisation
Cheung On Consultants Limited	British Virgin Islands ("BVI")	Ordinary	US\$100	–	100%	Investment holding
China Eastern Investment Limited	BVI	Ordinary	US\$1	–	100%	Investment holding
Cosmos Wealth Investment Limited	Hong Kong	Ordinary	HK\$2	–	100%	Property holding
High Stone Assets Limited ("High Stone")	BVI	Ordinary	US\$1	–	100%	Investment holding
Rich City Investments Limited	Hong Kong	Ordinary	HK\$2	100%	–	Investment holding
SENDXQ.COM Limited	Hong Kong	Ordinary	HK\$10,000	–	100%	Provision of SMS personalised astrology services
Star Cyber DNA Limited	BVI	Ordinary	US\$1	–	100%	Investment holding
Star Cyberpower Limited	BVI	Ordinary	US\$1	100%	–	Investment holding
Star Cyberpower Management Limited	Hong Kong	Ordinary	HK\$10,000	100%	–	Provision of management services
Star Cyberpower V.F. Limited	BVI	Ordinary	US\$1	100%	–	Investment holding
Special Gold Assets Limited	BVI	Ordinary	HK\$3,900,000	–	100%	Investment holding
Starstruck Group Limited ("Starstruck")	BVI	Ordinary	US\$1	–	100%	Investment holding
Star Internet Financial Information Services Limited	Hong Kong	Ordinary	HK\$200	–	100%	Provision of financial information services
Star Mobile DNA Payment Gateway Limited	Hong Kong	Ordinary	HK\$2	–	100%	Provision of credit card security device, digital network authorisation

## Notes to the Financial Statements (continued)

For the year ended 30th June, 2003

### 16. INTERESTS IN SUBSIDIARIES (continued)

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets and liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excess length.

None of the subsidiaries of the Group had any debt securities outstanding at the balance sheet date or at any time during the year.

### 17. INTERESTS IN ASSOCIATES

	<b>THE GROUP</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Share of net assets	-	-
Premium on acquisition of an associate	<b>30,000</b>	-
Less: Amortisation of premium on acquisition of an associate	<b>(1,500)</b>	-
	<b>28,500</b>	-

As at 30th June, 2003, the Group had interests in the following associates:

<b>Name of Company</b>	<b>Place of incorporation</b>	<b>Class of Share held</b>	<b>Proportion of nominal value of issued share capital held by group</b>	<b>Principal activity</b>
Ming Yuen Assets Limited ("Ming Yuen")	BVI	Ordinary	30%	Holding and licensing the intellectual property rights in respect of credit card security device and digital network authorisation system
Conolan Limited	BVI	Ordinary	20%	Investment holding

During the year, the Group acquired 30% equity interest in Ming Yuen for a consideration of HK\$30 million satisfied by the issue of a promissory note by the Group, details of which are set out in note 27.

The premium on acquisition is amortised over a period of 10 years on a straight line basis. Amortisation charged in the current year amounting to HK\$1,500,000 has been included in the consolidated income statement.

# Notes to the Financial Statements (continued)

For the year ended 30th June, 2003

## 18. INVESTMENTS IN SECURITIES—OTHER INVESTMENTS

	<b>THE GROUP</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Equity securities:		
Listed – Hong Kong – other investments	<b>54</b>	71
Unlisted – Elsewhere – investment securities	<b>3,420</b>	–
	<b>3,474</b>	71
Club debenture	<b>150</b>	150
	<b>3,624</b>	221
Classified as		
Current	<b>54</b>	71
Non-current	<b>3,570</b>	150
	<b>3,624</b>	221
Market value of listed securities	<b>54</b>	71

## 19. INVENTORIES – AT COST

	<b>THE GROUP</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Raw materials	–	2,556
Work in progress	–	319
Finished goods	–	4,135
	–	7,010

## 20. DEBTORS, DEPOSITS AND PREPAYMENTS

The Group allows an average credit period of 60 days to its trade customers. Included in debtors, deposits and prepayments are trade debtors with the following aged analysis:

	<b>THE GROUP</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
0–60 days	<b>94</b>	1,330
61–90 days	–	106
Over 90 days	<b>7</b>	424
	<b>101</b>	1,860
Other debtors, deposits and prepayments	<b>1,281</b>	28,940
	<b>1,382</b>	30,800

For the year ended 30th June, 2002, included in other debtors, deposits and prepayments is the amount of HK\$20,000,000 deposited with Kingston Securities Limited which bears interest at the prevailing market rate.

# Notes to the Financial Statements (continued)

For the year ended 30th June, 2003

## 21. CREDITORS AND ACCRUED CHARGES

Included in creditors and accrued charges are trade creditors with the following aged analysis:

	<b>THE GROUP</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
0-60 days	<b>378</b>	2,861
61-90 days	-	238
Over 90 days	<b>1,357</b>	1,938
	<b>1,735</b>	5,037
Accrued charges	<b>4,597</b>	15,224
	<b>6,332</b>	20,261

## 22. OBLIGATION UNDER A FINANCE LEASE

	<b>Minimum lease payments</b>		<b>Present value of minimum lease payments</b>	
	<b>2003</b>	2002	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
Amounts payable under a finance lease:				
Within one year	-	115	-	106
In the second to fifth years inclusive	-	164	-	150
	-	279	-	256
Less: future finance charges	-	23		
Present value of lease obligation	-	256		
Less: Amount due within one year shown under current liabilities			-	(106)
Amount due after one year			-	150

The subsidiary which held the motor vehicles under finance leases was disposed of by the Group during the year.

The lease term was 3 years and the average effective borrowing rate was 3% per annum. The lease was on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. The Group's obligation under finance lease was secured by the lessor's charge over the leased assets.



# Notes to the Financial Statements (continued)

For the year ended 30th June, 2003

## 23. SHARE CAPITAL

	Number of shares	Value HK\$'000
<b>Authorised</b>		
Ordinary shares of HK\$0.01 each at 1st July, 2001, 30th June, 2002 and 30th June, 2003	60,000,000,000	600,000
<b>Issued and fully paid</b>		
Ordinary shares of HK\$0.01 each at 1st July, 2001	19,459,627,176	194,596
Share consolidation	(19,095,011,497)	–
Adjustment of nominal value	–	(190,950)
Issue of new shares of HK\$0.01 each	4,500,000,000	45,000
Conversion of convertible notes	233,718,486	2,337
Ordinary shares of HK\$0.01 each at 1st July, 2002	5,098,334,165	50,983
Issue of new shares of HK\$0.01 each	231,934,000	2,319
Exercise of share options	79,200,000	792
Ordinary shares of HK\$0.01 each at 30th June, 2003	5,409,468,165	54,094

The movements in the ordinary share capital for the year ended 30th June, 2002 are as follows:

- (a) Pursuant to resolutions passed at a special general meeting of the Company on 19th April, 2002, 2,000,000,000 and 2,500,000,000 shares of HK\$0.01 each were issued and allotted to Sheung Hai Developments Limited and Win Channel Investments Limited, respectively at HK\$0.01 per share.
- (b) 108,718,486 shares and 125,000,000 shares of HK\$0.01 each were issued and allotted to Direct Gain Profits Limited at HK\$0.0952 and HK\$0.01 per share, respectively, as a result of the conversion of convertible notes.
- (c) Pursuant to resolutions passed at a special general meeting of the Company on 28th November, 2001, the Group's financial restructuring was carried out and completed on 28th November, 2001, which involved the restructuring of the share capital:
  - Every 40 issued shares of HK\$0.01 each in the capital of the Company was consolidated into one new share of HK\$0.4 each.
  - The par value of the issued shares was then reduced from HK\$0.4 each to HK\$0.01 each.

## Notes to the Financial Statements (continued)

For the year ended 30th June, 2003

### 23. SHARE CAPITAL (continued)

The movements in the ordinary share capital for the year ended 30th June, 2003 are as follows:

- (a) 38,000,000 shares of HK\$0.01 each were issued and allotted to W-Phone, Inc. at HK\$0.09 per share, which is the closing price of the Company's shares as quoted on the Stock Exchange on 19th July, 2002, to subscribe for 422,222 preference shares in W-Phone, Inc.
- (b) 193,934,000 shares of HK\$0.01 each were issued and allotted to an independent third party at HK\$0.016 per share, representing a discount of approximately 11.11% on the closing price of HK\$0.018 per share on 10th June, 2003 under a private share placement.

Shares mentioned in (a) and (b) were issued under the general mandate granted to the directors on 19th April, 2002 and 27th November, 2002 respectively.

- (c) 79,200,000 shares of HK\$0.01 each were issued and allotted as a result of the exercise of share options by the directors and employees of the Company.

All the shares issued during the year rank *pari passu* in all respects with the then existing shares.

### 24. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme"), was adopted pursuant to a resolution passed on 11th April 1994 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 10th March 2004. Under the Scheme, the Board of Directors of the Company may grant options to eligible employees, including executive director of the Company or any subsidiaries, to subscribe for shares in the Company.

At 30th June 2003, the number of shares in respect of which options had been granted under the Scheme was 345,175,000 (2002: 23,850,000), representing 6.4% (2002: 0.5%) of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time excluding any shares issued pursuant to the Scheme. The number of shares in respect of which options may be granted to any individual is not permitted to exceed 25% of the number of shares issued and issuable under the Scheme.

Options granted must be taken up within 28 days of the date of grant, upon payment of HK\$10 per each grant of share options. The options granted are exercisable at any time during the two years period commencing six months after the date on which the option is accepted and expiring on the last day of the two years period or 10th April, 2004, whichever is the earlier. Pursuant to a resolution passed on 27th July, 2001, the Scheme was modified. Accordingly from 27th July, 2001, the exercise period of the share options granted under the Scheme shall be determined by the Board of Directors when such options are granted, provided that such period shall not end more than 10 years from the date of grant. The exercise price is determined by the Board of Directors of the Company, and will not be less than the higher of the 80% of average closing price of the Company's shares for the five business days immediately preceding the date of grant, and the nominal value of the Company's shares.

# Notes to the Financial Statements (continued)

For the year ended 30th June, 2003

## 24. SHARE OPTION SCHEME (continued)

The following tables disclose details of the Company's share options held by employees and movements of such holdings during the year:

### 2003

Date of grant	Exercisable period	Exercise price HK\$	Number of share options				Outstanding at 30th June, 2003
			Outstanding at 1st July, 2002	Granted during the year	Exercised during the year	Cancelled/lapsed during the year	
21.2.2001	21.2.2001-5.3.2003	1.5368	6,100,000	-	-	(6,100,000)	-
30.4.2001	30.4.2001-27.5.2003	0.652	3,675,000	-	-	(3,675,000)	-
7.5.2001	7.5.2001-6.5.2003	0.672	3,200,000	-	-	(3,200,000)	-
18.11.2001	18.11.2001-17.11.2003	0.4	7,500,000	-	-	(5,000,000)	2,500,000
2.8.2001	2.8.2001-1.8.2004	0.4	3,275,000	-	-	-	3,275,000
1.9.2001	1.9.2001-31.8.2004	0.4	100,000	-	-	-	100,000
30.10.2002	30.10.2002-29.10.2004	0.0386	-	427,500,000	-	(152,000,000)	275,500,000
2.11.2002	2.11.2002-1.11.2004	0.0366	-	60,000,000	-	(30,000,000)	30,000,000
7.5.2003	7.5.2003-6.5.2005	0.0135	-	113,000,000	(79,200,000)	-	33,800,000
			23,850,000	600,500,000	(79,200,000)	(199,975,000)	345,175,000

### 2002

Date of grant	Exercisable period	Exercise price HK\$	Number of share options				Outstanding at 30th June, 2002
			Outstanding at 1st July, 2001	Granted during the year	Exercised during the year	Cancelled/lapsed during the year	
21.2.2001	21.2.2001-5.3.2003	1.5368	14,425,000	-	-	(8,325,000)	6,100,000
30.4.2001	30.4.2001-27.5.2003	0.652	4,350,000	-	-	(675,000)	3,675,000
7.5.2001	7.5.2001-6.5.2003	0.672	10,725,000	-	-	(7,525,000)	3,200,000
18.11.2001	18.11.2001-17.11.2003	0.4	10,000,000	-	-	(2,500,000)	7,500,000
2.8.2001	2.8.2001-1.8.2004	0.4	-	7,525,000	-	(4,250,000)	3,275,000
1.9.2001	1.9.2001-31.8.2004	0.4	-	600,000	-	(500,000)	100,000
			39,500,000	8,125,000	-	(23,775,000)	23,850,000

## Notes to the Financial Statements (continued)

For the year ended 30th June, 2003

### 24. SHARE OPTION SCHEME (continued)

Details of the share options held by the directors included in the above table as follows:

	Outstanding at 1st July,	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	Outstanding at 30th June,
2003	17,668,750	521,000,000	(25,000,000)	(196,650,000)	<b>317,018,750</b>
2002	32,750,000	7,768,750	–	(22,850,000)	<b>17,668,750</b>

Total consideration received during the year from employees for taking up the options granted is not material.

No charge is recognised in the income statement in respect of the value of options granted in the year (2002: Nil).

### 25. RESERVES

	Share premium HK\$'000	Contributed surplus HK\$'000	Deficit HK\$'000	Total HK\$'000
THE COMPANY				
At 1st July, 2001	184,904	93,289	(480,188)	(201,995)
Premium on issue of shares	9,263	–	–	9,263
Transfer pursuant to share consolidation	–	–	190,950	190,950
Net loss for the year	–	–	(58,842)	(58,842)
At 30th June, 2002	194,167	93,289	(348,080)	(60,624)
Premium on issue of shares	4,481	–	–	4,481
Net loss for the year	–	–	(16,210)	(16,210)
At 30th June, 2003	<b>198,648</b>	<b>93,289</b>	<b>(364,290)</b>	<b>(72,353)</b>

The contributed surplus of the Company includes (i) the difference between the consolidated shareholders' funds of the subsidiaries at the date at which they were acquired by the Company, and the nominal amount of the Company's shares issued for the acquisition at the time of the group reorganisation prior to the listing of the Company's shares in 1994 and; (ii) the surplus arising from the group reorganisation in 1998.

## Notes to the Financial Statements (continued)

For the year ended 30th June, 2003

### 25. RESERVES (continued)

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if

- (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

In the opinion of the directors, no reserves are available for distribution to shareholders at 30th June, 2003 and 30th June, 2002.

### 26. CONVERTIBLE NOTES

	<b>THE GROUP AND THE COMPANY</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Ming Sang Finance Ltd ("Ming Sang") (a)	<b>10,000</b>	–
Gain Master Assets Ltd. ("Gain Master") (b)	<b>13,800</b>	13,800
Direct Gain Profits Limited ("Direct Gain") (c)	–	11,600
Less: Conversion into 125,000,000 shares of HK\$0.01 each	–	(1,250)
Conversion into 108,718,486 shares of HK\$0.0952 each	–	(10,350)
	<b>23,800</b>	13,800

- (a) The Company issued a convertible note in the amount of HK\$10,000,000 to Ming Sang. The convertible note bears interest at 3% plus the prime lending rate on the business day immediately before any date of interest payment quoted by the Hongkong and Shanghai Banking Corporation Limited per annum and is redeemable on 20th December, 2004 unless previously converted or cancelled. The holder of the convertible note has the option to convert the convertible note into ordinary shares of the Company, subject to adjustment, at any time during the period from 20th June, 2003 to 20th December, 2004.

The entire amount of the convertible note has been converted into 150,000,000 shares and 683,332,000 shares of HK\$0.01 each at a price of HK\$0.012 on 10th October, 2003 and 15th October, 2003 respectively.

- (b) The Company issued a convertible note in the amount of HK\$13,800,000 to Gain Master. The convertible note bears interest at the higher of (i) the difference between the prime lending rate of the business day immediately before any date of interest payment quoted by the Hongkong and Shanghai Banking Corporation Limited and 3%; and (ii) 2% per annum and is redeemable on 16th July, 2004 unless previously converted or cancelled. The holder of the convertible note has the option to convert the convertible note into ordinary shares of the Company, subject to adjustment, at any time during the period from 16th July, 2001 to 16th July, 2004.

Convertible note of HK\$1,200,000 has been converted into 80,000,000 shares of HK\$0.01 each at a price of HK\$0.015 on 22nd October, 2003.

## Notes to the Financial Statements (continued)

For the year ended 30th June, 2003

### 26. CONVERTIBLE NOTES (continued)

- (c) The Company issued a convertible note in the amount of HK\$11,600,000 to Direct Gain. The convertible note bears interest at the higher of (i) the difference between the prime lending rate of the business day immediately before any date of interest payment quoted by the Hongkong and Shanghai Banking Corporation Limited and 3%; and (ii) 2% per annum and is redeemable on 16th July, 2004 unless previously converted or cancelled. The holder of the convertible note has the option to convert the convertible note into ordinary shares of the Company, subject to adjustment, at any time during the period from 16th July, 2001 to 16th July, 2004.

The entire amount of the convertible note was converted into share, during the year ended 30th June, 2003.

### 27. PROMISSORY NOTE

Promissory note bears interest at 2% per annum and is payable to an associate, Ming Yuen. The date of maturity of the promissory note is 17th September, 2004. Hence, it is classified as non-current.

### 28. DEFERRED TAXATION

At the balance sheet date, the net potential deferred tax asset, not recognised in the balance sheet, is analysed as follows:

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Tax effect of timing differences attributable to:				
Difference between tax allowances and depreciation	<b>(486)</b>	(799)	<b>(405)</b>	(481)
Tax losses unutilised	<b>55,015</b>	46,604	<b>22,263</b>	17,901
	<b>54,529</b>	45,805	<b>21,858</b>	17,420

The net potential deferred tax asset has not been recognised in the financial statements as it is not certain that the asset will be realised in the foreseeable future.

# Notes to the Financial Statements (continued)

For the year ended 30th June, 2003

## 28. DEFERRED TAXATION (continued)

The net potential deferred tax credit arising during the year, which has not been recognised in the income statement, is as follows:

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Tax effect of timing differences attributable to:				
Difference between tax allowance and depreciation	119	22	76	124
Tax losses utilised	3,891	5,162	2,454	2,194
Effect of change in tax rate	4,714	–	1,908	–
	<b>8,724</b>	5,184	<b>4,438</b>	2,318

## 29. DISPOSAL OF SUBSIDIARIES

	2003 HK\$'000	2002 HK\$'000
Net assets disposed of:		
Bank balances and cash	2,186	1,675
Property, plant and equipment	7,115	2,206
Inventories	4,712	330
Debtors, deposits and prepayment	5,787	3,255
Loan	–	(12,500)
Creditors and accrued charges	(10,307)	(18,766)
Taxation payable	(20)	–
Obligation under a finance lease	(256)	–
Minority interests	(212)	(2,140)
	<b>9,005</b>	(25,940)
Goodwill realised on disposal of subsidiaries	6,896	(9,052)
(Loss) gain on disposal	(14,411)	35,392
	<b>1,490</b>	400
Analysis of the net outflow of cash and cash equivalents in connection with the disposal of subsidiaries:		
Cash consideration received	1,490	400
Bank balances and cash disposed of	(2,186)	(1,675)
	<b>(696)</b>	(1,275)

## Notes to the Financial Statements (continued)

For the year ended 30th June, 2003

### 29. DISPOSAL OF SUBSIDIARIES (continued)

The subsidiaries disposed of during the year contributed cash inflow of HK\$821,000 to the Group's net cash from operating activities, received HK\$430,000 in respect of investing activities and paid HK\$79,000 in respect of financing activities.

The subsidiaries disposed of during the year contributed HK\$7,685,000 to the Group's turnover and HK\$6,072,000 to the Group's loss from operations.

The subsidiaries disposed of for the year ended 30th June, 2002 contributed cash outflow of HK\$2,952,000 to the Group's net cash used in operating activities and paid HK\$1,000,000 in respect of investing activities.

The subsidiaries disposed of for the year ended 30th June, 2002 contributed HK\$8,546,000 to the Group's turnover and HK\$9,354,000 to the Group's loss from operations.

### 30. MAJOR NON-CASH TRANSACTIONS

During the year ended 30th June, 2003, the Group had the following major non-cash transactions:

- (i) The acquisition of investment in unlisted equity securities in W-Phone, Inc. was satisfied by the issue of 38,000,000 shares of the Company at HK\$0.09 each.
- (ii) The acquisition of interest in an associate was settled by the issue of HK\$30,000,000 promissory note.

During the year ended 30th June, 2002, the Group had the following major non-cash transaction:

- (i) The Group entered into a finance lease arrangement in respect of assets with a total capital value at the inception of the lease of HK\$317,000.
- (ii) Convertible notes of HK\$11,600,000 were converted into 108,718,486 and 125,000,000 shares of the Company at conversion prices of HK\$0.0952 and HK\$0.01 per share, respectively.



## Notes to the Financial Statements (continued)

For the year ended 30th June, 2003

### 31. OPERATING LEASE COMMITMENTS

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Minimum lease payments paid under operating leases in respect of rented premises	<b>1,992</b>	4,584

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

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Within one year	<b>343</b>	1,029
In the second to fifth year inclusive	<b>716</b>	562
	<b>1,059</b>	1,591

Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases are negotiated for an average term of two years.

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

### 32. RETIREMENT BENEFITS SCHEME

The Group participates in a pension scheme, which was registered under the Mandatory Provident Fund Schemes Ordinance (the "MPF Ordinance"), for all its employees in Hong Kong. The scheme is a defined contribution scheme effective from December 2000 and is funded by contributions from employer and employees according to the provisions of the MPF Ordinance. During the year under review, the total amount contributed by the Group to the scheme and charged to the income statement was insignificant and no contributions were forfeited.

The employees in the subsidiaries in the PRC are members of the state-sponsored pension scheme operated by the government in the PRC. The subsidiaries in the PRC are required to contribute a certain percentage of their payroll to the pension scheme to fund the benefits. The only obligation of the Group with respect to the pension scheme is to make the required contributions under the scheme.

# Notes to the Financial Statements (continued)

For the year ended 30th June, 2003

## 33. POST BALANCE SHEET EVENTS

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

- (a) A total of 101,800,000 shares of HK\$0.01 each were issued and allotted as a result of the exercise of share options at exercise prices of HK\$0.0135 and HK\$0.0156 respectively.
- (b) A total of 103,000,000 shares options were granted to employees of the Group in accordance with the share option scheme adopted on 11th April, 1994 and modified on 27th July, 2001.
- (c) Ming Sang exercised the option to convert all the convertible notes into 150,000,000 shares and 683,332,000 shares of HK\$0.01 each at a price of HK\$0.012 on 10th October, 2003 and 15th October, 2003 respectively.
- (d) Gain Master transferred the principal amount of HK\$12,600,000 of the convertible note to a third party of the Company and Gain Master holds the remaining convertible note in the amount of HK\$1,200,000.

On 22nd October, 2003, Gain Master exercised the option to convert all the remaining convertible notes into 80,000,000 shares of HK\$0.01 each at a price of HK\$0.015.

- (e) 200,000,000 shares of HK\$0.01 each were issued and allotted to an independent third party at HK\$0.016 per share, representing a discount of approximately 5.88% on the closing price of HK\$0.017 per share on 20th October, 2003 under a private share placement. The shares were issued under the general mandate granted to the directors on 9th July, 2003.
- (f) One of the Group's investment properties held under long term leases in Hong Kong was sold to an independent third party at approximately HK\$1,200,000. A gain on disposal of approximately HK\$590,000 was resulted.

## 34. RELATED PARTY TRANSACTIONS

Details of balances with related parties as at the balance sheet date are set out in the consolidated balance sheet and in notes 16 and 17.

During the year, the Company entered into the Subscription Agreement with Ming Yuen Assets Limited ("Ming Yuen") on 26th September, 2002 whereby Ming Yuen agreed to issue and the Company agreed to subscribe a 30% equity interest in Ming Yuen for a consideration of HK\$30,000,000 payable by the issue of a promissory note by the Company. The promissory note bears interest at 2% per annum and is payable on 17th September, 2004.

Ming Yuen was 100% beneficially owned by Mr. Wong Kam Fu who is the chairman, executive director and substantial shareholder of the Company.