

Notes to the Financial Statements

30 September 2003

1. ORGANISATION AND PRINCIPAL ACTIVITIES

Macau Success Limited (formerly known as China Development Corporation Limited) (the “Company”) was incorporated under the laws of Hong Kong on 29 September 1987 with limited liabilities. The Company’s shares are listed on the Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company is an investment holding company. The principal activities of subsidiaries are set out in note 15 to the financial statements.

2. PRINCIPAL ACCOUNTING POLICIES

a) BASIS OF PREPARATION

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

In the current year, the Group has adopted, for the first time, the following revised SSAPs which are effective for accounting periods commencing on or after 1 January 2002:

SSAP 11 (revised)	:	Foreign currency translation
SSAP 34 (revised)	:	Employee benefits

These SSAPs prescribe new accounting measurement and disclosure practice. The major effects on the Group’s accounting policies and on the amounts disclosed in these financial statements of adopting these SSAPs are summarised as follows:

SSAP 11 (revised) prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of the revision of this SSAP on the consolidated financial statements is that the income statement of subsidiaries operating in overseas are now translated to Hong Kong dollars at the weighted average exchange rate for the year whereas previously they were translated at the exchange rate at the balance sheet date. The adoption of this SSAP has had no material effect on the results of the current year. Further details of this change are included in the accounting policy for “Translation of Foreign Currencies” in note 2(o) to the financial statements.

SSAP 34 (revised) prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has had no material effect on the financial statements. Additional disclosures are now required in respect of the Group’s share option scheme, as detailed in note 27 to the financial statements. These share option scheme disclosures are similar to the Listing Rules on the Stock Exchange disclosures previously included in the Report of the Directors, which are now required to be included in the notes to the financial statements as a consequence of the adoption of the SSAP 34 (revised).



2. PRINCIPAL ACCOUNTING POLICIES

b) BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 30 September.

The results of the subsidiary 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-company transactions and balances within the Group are eliminated on consolidation.

The gain or loss on disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill or negative goodwill which was not previously charged or recognised in the consolidated income statement.

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

c) SUBSIDIARIES

A subsidiary is a company in which the Group or the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors. Subsidiaries are considered to be controlled if the Group or the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

An investment in a 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.

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent there is no evidence of impairment.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses, 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 Company, in which case, it is stated at fair value with changes in fair value recognised in the income statement as they arise.



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2. PRINCIPAL ACCOUNTING POLICIES (Continued)

d) 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 basis:

- (i) revenue from construction contracts is recognised using the percentage of completion method when the contracts have progressed to a stage where a profitable outcome can be prudently foreseen and is measured by reference to the costs incurred to the balance sheet date as compared to the estimated total costs to completion. Anticipated losses on contracts are fully provided when identified.
- (ii) on the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided the Company maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.
- (iii) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

e) TRADE RECEIVABLE

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

f) GOODWILL

Goodwill arising from the acquisition of subsidiaries represents the excess of the cost of the acquisition over the Group's share of fair values of the identifiable assets and liabilities acquired as the date of acquisition. Negative goodwill arising on the acquisition of subsidiaries represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

Goodwill arising from acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful of 10 years. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated income statement when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated income statement on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.



2. PRINCIPAL ACCOUNTING POLICIES (Continued)**f) GOODWILL (Continued)**

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill/negative goodwill which remains unamortised/has not been recognised in the consolidated income statement and relevant consolidated reserves, as appropriate. Any attributable goodwill/negative goodwill previously eliminated against/credited to the consolidated capital reserve at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

g) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost less accumulated depreciation and impairment loss. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance, is normally charged to the 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. Overhauling expenses to extend the useful lives of old assets are, therefore, capitalised and depreciated over the period of the extended useful lives.

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

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

Leasehold land and buildings	Over lease terms
Leasehold improvements	Over lease terms
Motor vehicles	30% – 33 ¹ / ₃ %
Plant and machinery	20%
Furniture, fittings and office equipment	20% – 33 ¹ / ₃ %

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



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2. PRINCIPAL ACCOUNTING POLICIES (Continued)

h) ASSETS UNDER LEASES

(i) Finance leases

At the inception of a finance lease, the fair value of the asset is recorded together with the obligation, excluding the interest element, to pay future rentals or, if lower, at the present value of the minimum lease payment.

Payments to the lessor are treated as consisting of capital and interest elements. Finance charges are debited to the income statement over the periods of the leases so as to produce an approximately constant periodic rate of charge on the remaining balances of the obligation for each accounting period.

Assets held under finance leases are depreciated over the shorter of the lease terms and their estimated useful lives on the same basis as owned assets. Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(i) to the financial statements.

(ii) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals payable under such operating leases are charged to the income statement on the straight-line basis over the periods of the respective leases.

i) IMPAIRMENT OF ASSETS

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).



2. PRINCIPAL ACCOUNTING POLICIES (Continued)

i) IMPAIRMENT OF ASSETS (Continued)

(ii) Reversal of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

j) SHORT-TERM INVESTMENTS

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

k) RELATED PARTIES

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

l) INVENTORIES

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

m) CASH EQUIVALENTS

Cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which were generally within three months of maturity when acquired. Cash equivalents also include bank overdrafts and advances from banks repayable within three months from the date of the advance.



Notes to the Financial Statements

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2. PRINCIPAL ACCOUNTING POLICIES (Continued)

n) DEFERRED TAXATION

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

o) TRANSLATION OF FOREIGN CURRENCIES

Transactions in foreign currencies during the year are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the income statement.

On consolidation, the financial statements of subsidiaries, operating in overseas are translated into Hong Kong dollars using the net investment method. The income statement of overseas subsidiaries are translated to Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated to Hong Kong dollars at the exchange rates at the balance sheet date. The resulting translation differences are included in the exchange equalisation reserve.

Prior to the adoption of the revised SSAP 11 during the year, as explained in note 2(a) to the financial statements, the income statement and cash flow statements of subsidiaries operating overseas were translated to Hong Kong dollars at the exchange rates at the balances sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements.

p) EMPLOYEE BENEFITS

(i) Retirement benefit scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the Scheme. Contributions are made based on a percentage of the employee's basic salaries and are charged to the income statement as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in independently administered funds. The Group's employer contributions vest fully with the employees when contributed to the Scheme in accordance with the rules of the Scheme.



2. PRINCIPAL ACCOUNTING POLICIES (Continued)

p) EMPLOYEE BENEFITS(Continued)

(ii) Share option schemes

The Company operates share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under these share option schemes is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the income statement or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in share premium account. Options which are cancelled prior to their exercise dates, or which lapse, are deleted from their registers of outstanding options.

q) CONSTRUCTION CONTRACTS

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

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

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

r) PROVISIONS AND CONTINGENT LIABILITIES

Provisions are recognised for liabilities of uncertain timing or amount when the Company or the 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.



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2. PRINCIPAL ACCOUNTING POLICIES (Continued)

s) 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.

In accordance with the group's internal financial reporting, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.

Segment revenue, expenses, results assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between Group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.



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3. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

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

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

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3. SEGMENT INFORMATION (Continued)

a) Business segments

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

GROUP

	For the year ended 30 September 2003							Consolidated HK\$'000
	Continuing operations				Discontinued operations			
	Construction services HK\$'000	Retail business HK\$'000	Internet business HK\$'000	Investment holding HK\$'000	Construction, equipment rental and services income HK\$'000	Trading income HK\$'000	Investment holding HK\$'000	
Segment revenue:								
Turnover	60,481	56,357	-	-	-	-	116,838	
Other revenue	-	88	-	142	-	-	230	
Total revenue	<u>60,481</u>	<u>56,445</u>	<u>-</u>	<u>142</u>	<u>-</u>	<u>-</u>	<u>117,068</u>	
Segment result	<u>582</u>	<u>(21)</u>	<u>-</u>	<u>39,888</u>	<u>-</u>	<u>-</u>	<u>40,449</u>	
Interest income							<u>77</u>	
Profit from operations							<u>40,526</u>	
Finance costs							<u>(4,642)</u>	
Profit before taxation							<u>35,884</u>	
Taxation							<u>(296)</u>	
Profit after taxation							<u>35,588</u>	
Minority interests							<u>44</u>	
Net profit from ordinary activities attributable to shareholders							<u>35,632</u>	
Segment assets	27,800	5,789	-	50,293	-	-	83,882	
Segment liabilities	<u>25,378</u>	<u>3,026</u>	<u>-</u>	<u>25,105</u>	<u>-</u>	<u>-</u>	<u>53,509</u>	
Other segment information:								
Depreciation	317	994	-	98	-	-	1,409	
Amortisation of goodwill	414	237	-	-	-	-	651	
Capital expenditure	<u>748</u>	<u>220</u>	<u>-</u>	<u>1,802</u>	<u>-</u>	<u>-</u>	<u>2,770</u>	



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3. SEGMENT INFORMATION (Continued)

a) Business segments (Continued)

GROUP

	For the year ended 30 September 2002							
	Continuing operations				Discontinued operations			
	Construction services HK\$'000	Retail business HK\$'000	Internet business HK\$'000	Investment holding HK\$'000	Construction, equipment rental and services income HK\$'000	Trading income HK\$'000	Investment holding HK\$'000	Consolidated HK\$'000
Segment revenue:								
Turnover	11,215	21,566	–	3,211	253,446	12,629	196	302,263
Other revenue	204	2	–	2,298	2,831	–	–	5,335
Total revenue	<u>11,419</u>	<u>21,568</u>	<u>–</u>	<u>5,509</u>	<u>256,277</u>	<u>12,629</u>	<u>196</u>	<u>307,598</u>
Segment result	<u>38</u>	<u>(536)</u>	<u>(307)</u>	<u>(72,358)</u>	<u>(29,832)</u>	<u>(3,319)</u>	<u>4,068</u>	<u>(102,246)</u>
Interest income								408
Loss from operations								(101,838)
Finance costs								(12,592)
Share of loss of associated company								(1,285)
Loss before taxation								(115,715)
Taxation								133
Loss after taxation								(115,582)
Minority interests								175
Net loss from ordinary activities attributable to shareholders								<u>(115,407)</u>
Segment assets	23,401	9,533	–	39,734	–	–	–	72,668
Segment liabilities	<u>21,522</u>	<u>6,062</u>	<u>3,171</u>	<u>135,856</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>166,611</u>
Other segment information:								
Depreciation	55	289	–	283	21,553	–	–	22,180
Amortisation of goodwill	415	343	–	–	–	–	–	758
Provision for permanent diminution in value of investments	–	–	38,000	15,000	–	–	–	53,000
Capital expenditure	723	453	–	367	2,465	–	–	4,008
Loss on revaluation of listed securities	–	–	–	4,889	–	–	–	4,889
Provision for foreseeable losses on contracts in progress	–	–	–	–	15,796	–	–	15,796
Provision for stock obsolescence	–	–	–	–	3,029	–	–	3,029
Provision for doubtful recovery of amount due from an associate	–	–	–	–	7,588	–	–	7,588



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3. SEGMENT INFORMATION (Continued)

b) Geographical segments

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

	For the year ended 30 September 2003						
	Continuing operations	Discontinued operations				Other countries	Consolidated
	Hong Kong HK\$'000	Singapore HK\$'000	Malaysia HK\$'000	Mynamar HK\$'000	HK\$'000		
Segment revenue:							
Turnover	116,838	–	–	–	–	116,838	
Segment results	40,449	–	–	–	–	40,449	
Segment assets	83,882	–	–	–	–	83,882	
Capital expenditure	2,770	–	–	–	–	2,770	
	For the year ended 30 September 2002						
	Continuing operations	Discontinued operations				Other countries	Consolidated
	Hong Kong HK\$'000	Singapore HK\$'000	Malaysia HK\$'000	Mynamar HK\$'000	HK\$'000		
Segment revenue:							
Turnover	35,992	233,559	31,805	785	122	302,263	
Segment results	(73,572)	(28,379)	686	(1,005)	24	(102,246)	
Segment assets	72,668	–	–	–	–	72,668	
Capital expenditure	1,543	2,233	134	19	79	4,008	



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4. TURNOVER AND OTHER REVENUE

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

	Continuing operations		Discontinued operations		Consolidated	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Turnover						
Construction, equipment rental and services income	60,481	11,215	–	253,446	60,481	264,661
Trading income	–	–	–	12,629	–	12,629
Retail business	56,357	21,566	–	–	56,357	21,566
Investment holding	–	3,211	–	196	–	3,407
	<u>116,838</u>	<u>35,992</u>	<u>–</u>	<u>266,271</u>	<u>116,838</u>	<u>302,263</u>
Other revenue						
Interest income	77	–	–	408	77	408
Write back of provision for bad debts	56	–	–	–	56	–
Gain on exchange difference	–	–	–	226	–	226
Others	174	2,504	–	2,605	174	5,109
	<u>307</u>	<u>2,504</u>	<u>–</u>	<u>3,239</u>	<u>307</u>	<u>5,743</u>
Total revenue	<u>117,145</u>	<u>38,496</u>	<u>–</u>	<u>269,510</u>	<u>117,145</u>	<u>308,006</u>



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5. WAIVER OF OTHER LOANS

On 25 July 2003, the Company entered into a deed of settlement with the lenders of other loans whereas the lenders agreed to accept settlement of the outstanding loans of approximately HK\$56,180,000 by payment of HK\$20,000,000 by the Company. As a result, the Group recorded a gain on waiver of loans of approximately HK\$36,180,000.

6. GAIN ON DISPOSAL OF DISCONTINUED OPERATIONS

For the year ended 30 September 2002, the Group disposed of its entire interest in a subsidiary, namely Sum Cheong Corporation Pte Limited (“Sum Cheong”) which was engaged in the construction business in Singapore to the management of Sum Cheong for a cash consideration of S\$1 (equivalent to HK\$4.5). The disposal of the above interests has resulted in a gain on disposal of subsidiaries of approximately HK\$44.6 million.

The consolidated income statement included the unaudited results of the discontinued operations up to 30 September 2002 which are summarised below:

	HK\$'000
Turnover	266,271
Cost of sales	<u>(259,043)</u>
Gross profit	7,228
Other revenue and gains	4,902
Administrative expenses	(30,270)
Other operating expenses	(33,698)
Staff costs	<u>(21,387)</u>
Operating loss from discontinued operations	<u><u>(73,225)</u></u>



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7. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS

a) Directors' remuneration

Directors' remuneration, disclosed pursuant to the Listing Rules of the Stock Exchange and Section 161 of the Companies Ordinance, is as follows:

	2003 HK\$'000	2002 HK\$'000
Fees	–	–
Other emoluments:		
Salaries, allowances and benefits in kind	609	1,673
Retirement benefit scheme contributions	11	24
	<u>620</u>	<u>1,697</u>

Fees disclosed above include HK\$75,000 (2002: HK\$Nil) paid to independent non-executive directors. There were no other emoluments paid to independent non-executive and non-executive directors. None of the directors has waived the right to receive their emoluments for both years.

The remuneration of the directors falls within the following bands:

	Number of directors	
HK\$	2003	2002
0 – 1,000,000	12	3
1,000,001 – 1,500,000	–	1
	<u>12</u>	<u>4</u>



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7. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS (Continued)

b) Five highest paid individuals

The five highest paid individuals during the year include one director who resigned on 25 July 2003 (2002: four), details of whose remuneration are set out in note 7(a) to the financial statements.

The details of the remuneration of the five highest paid individuals (including the resigned director) for the year ended 30 September 2003 and the one highest paid individual for the year ended 30 September 2002 are disclosed as follows:

	2003 HK\$'000	2002 HK\$'000
Salaries, allowances and benefits in kind	2,230	262
Retirement benefit scheme contributions	60	–
	<u>2,290</u>	<u>262</u>

The remuneration falls within the following bands:

	Number of individuals	
HK\$	2003	2002
0 – 1,000,000	<u>5</u>	<u>1</u>



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8. PROFIT/(LOSS) FROM OPERATIONS

Profit/(loss) from operations is arrived at after charging/(crediting) the following:

	Continuing operations		Discontinued operations		Consolidated	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Amortisation of goodwill	757	758	–	–	757	758
Auditors' remuneration	428	138	–	414	428	552
Depreciation:						
Owned assets	1,332	602	–	21,554	1,332	22,156
Assets held under finance lease	77	24	–	–	77	24
Operating lease rentals:						
Land and buildings	704	1,407	–	2,543	704	3,950
Plant and machinery	971	–	–	–	971	–
Provision for trade receivables	–	–	–	3,141	–	3,141
Provision for foreseeable losses						
on contracts in progress	–	–	–	15,796	–	15,796
Provision for stock obsolescence	–	–	–	3,029	–	3,029
Provision for dry-docking expenses	–	–	–	3,711	–	3,711
Provision for permanent diminution in value of investments	–	53,000	–	–	–	53,000
Provision for impairment loss on other investments	–	–	–	61	–	61
Exchange loss	–	621	–	–	–	621
Loss (gain) on disposal of fixed assets, net	9	304	–	(1,293)	9	(989)
Provision for amount due from an associate	–	–	–	7,588	–	7,588
Loss on revaluation of listed securities	–	4,889	–	–	–	4,889
Staff cost (including contributions to Mandatory Provident Fund of HK\$633,000 (2002: HK\$63,000))	17,592	3,287	–	21,387	17,592	24,674



Notes to the Financial Statements

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9. FINANCE COSTS

	Group	
	2003 HK\$'000	2002 HK\$'000
Interest expenses on:		
Other borrowings wholly repayable within five years	4,590	3,366
Finance leases	10	465
Trade payables	–	8,552
Bank loans and overdraft wholly repayable within five years	42	209
	<u>4,642</u>	<u>12,592</u>

10. TAXATION

The amount of taxation charged to the income statement represents:

	Group	
	2003 HK\$'000	2002 HK\$'000
Hong Kong Profits Tax		
– Charge for the year	(291)	–
– Underprovision in prior year	(5)	–
	<u>(296)</u>	–
Overseas taxation		
– Underprovision in prior years	–	(430)
– Share of tax of overseas associated companies	–	(359)
Deferred taxation		
– Write-back of deferred overseas tax	–	922
	<u>(296)</u>	<u>133</u>

Hong Kong Profits tax has been provided for at the rate of 17.5% (2002: 16%) on the estimated assessable profits for the year. Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the Group operates.

Taxation in the balance sheet represents provision for taxation of the current and prior years less the amount of tax paid.



Notes to the Financial Statements

30 September 2003

11. NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit/(loss) from ordinary activities attributable to shareholders for the year ended 30 September 2003 dealt with in the financial statements of the Company was approximately HK\$28,560,000 (2002: Loss of approximately HK\$217,494,000).

12. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the net profit of approximately HK\$35,632,000 (2002: Net loss of approximately HK\$115,407,000) attributable to shareholders for the year and on the weighted average of 394,033,000 (2002: 149,064,233) ordinary shares in issue during the year. The weighted average number of shares for the year ended 30 September 2002 has been adjusted for the effect of the consolidation of the Company's shares.

There was no dilution effect on the basic earnings/(loss) per share for the year ended 30 September 2003 and 30 September 2002 respectively as there were no dilutive instruments outstanding during both years.

13. PROPERTY, PLANT AND EQUIPMENT



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	Leasehold land and buildings HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Furniture, fittings and office equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Group						
Cost						
At 1 October 2002	2,327	1,561	867	2,455	324	7,534
Additions	–	1,828	340	262	340	2,770
Disposal of subsidiaries	–	(1,398)	–	(906)	–	(2,304)
Disposal	–	–	–	(16)	–	(16)
At 30 September 2003	2,327	1,991	1,207	1,795	664	7,984
Accumulated depreciation						
At 1 October 2002	9	474	265	595	119	1,462
Charge for the year	51	336	192	697	133	1,409
Disposal of subsidiaries	–	(712)	–	(513)	–	(1,225)
Disposal	–	–	–	(8)	–	(8)
At 30 September 2003	60	98	457	771	252	1,638
Net book value						
At 30 September 2003	2,267	1,893	750	1,024	412	6,346
At 30 September 2002	2,318	1,087	602	1,860	205	6,072

Notes to the Financial Statements

30 September 2003

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Leasehold improvements HK\$'000	Furniture and fittings HK\$'000	Office equipment HK\$'000	Total HK\$'000
Company				
Cost				
At 1 October 2002	–	–	16	16
Additions	1,578	111	112	1,801
Disposals	–	–	(16)	(16)
At 30 September 2003	<u>1,578</u>	<u>111</u>	<u>112</u>	<u>1,801</u>
Accumulated depreciation				
At 1 October 2002	–	–	5	5
Charge for the year	88	4	6	98
Write back on disposals	–	–	(8)	(8)
At 30 September 2003	<u>88</u>	<u>4</u>	<u>3</u>	<u>95</u>
Net book value				
At 30 September 2003	<u>1,490</u>	<u>107</u>	<u>109</u>	<u>1,706</u>
At 30 September 2002	<u>–</u>	<u>–</u>	<u>11</u>	<u>11</u>

At 30 September 2003, motor vehicles with net book value of approximately HK\$107,000 (2002: approximately HK\$205,000) were held under finance leases.

The Group's leasehold land and buildings are situated in Hong Kong and held under medium-term lease. At 30 September 2003, the leasehold land and buildings were pledged to secure a bank loan granted to a subsidiary.



Notes to the Financial Statements

30 September 2003

14. GOODWILL

	HK\$'000
Cost	
At 1 October 2002	7,577
Disposal of a subsidiary	(536)
	<u>7,041</u>
At 30 September 2003	<u>7,041</u>
Accumulated amortisation	
At 1 October 2002	758
Charge for the year	757
Disposal of a subsidiary	(107)
	<u>1,408</u>
At 30 September 2003	<u>1,408</u>
Net book value	
At 30 September 2003	<u>5,633</u>
At 30 September 2002	<u>6,819</u>

As at 30 September 2002, the unamortised goodwill of HK\$6,819,000 was included in note 28 to the financial statements as capital reserve. In the current year, the goodwill has been reclassified as intangible assets in accordance with the accounting policy as stated in note 2(f) to the financial statements. As a result, the comparative figure has been restated accordingly.

15. INTEREST IN SUBSIDIARIES

	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	160,372	160,371
Less: Provision for impairment loss	(119,509)	(119,508)
	<u>40,863</u>	<u>40,863</u>
Amounts due from subsidiaries	229,671	245,479
Less: Provision for doubtful debts	(229,666)	(245,479)
	<u>5</u>	<u>-</u>
Amount due to a subsidiary	<u>(40,863)</u>	<u>(40,863)</u>
	<u>5</u>	<u>-</u>



Notes to the Financial Statements

30 September 2003

15. INTEREST IN SUBSIDIARIES (Continued)

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

Particulars of the principal subsidiaries as at 30 September 2003 are as follows:

Name of company	Attributable interest		Place of incorporation/ registration and operations	Nominal value of issued share capital	Principal activities
	to the Company %	to the Group %			
Orient Prize Holdings Inc.	100	–	British Virgin Islands /Hong Kong	US\$100	Investment holding
Total Power Trading Limited	100	–	British Virgin Islands /Hong Kong	US\$1	Investment holding
* Fine Lord Construction Company Limited	–	100	Hong Kong	HK\$13	Provision of engineering works
* Marcello (Tax Free) International Department Store Corporation Limited	–	60	Hong Kong	HK\$2,000,000	Trading as a department store

* Not audited by Charles Chan, Ip & Fung CPA Ltd.



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16. INVENTORIES

	Group	
	2003 HK\$'000	2002 HK\$'000
Merchandised goods, at cost	<u>3,797</u>	<u>4,925</u>

There is no inventory stated at net realisable value.

Notes to the Financial Statements

30 September 2003

17. AMOUNT DUE FROM/(TO) CUSTOMERS FOR CONTRACT WORK

	Group	
	2003 HK\$'000	2002 HK\$'000
Contract costs incurred plus attributable profits	33,349	111,643
Less: Progress billings	<u>(40,983)</u>	<u>(114,342)</u>
	<u>(7,634)</u>	<u>(2,699)</u>
Representing:		
Amount due from customers for contract work	3	3,093
Amount due to customers for contract work	<u>(7,637)</u>	<u>(5,792)</u>
	<u>(7,634)</u>	<u>(2,699)</u>

At 30 September 2003, retention receivable for contract work in progress amounting to approximately HK\$5,332,000 (2002: approximately HK\$5,315,000) has been included in trade receivables.



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18. TRADE RECEIVABLES

The Group normally allows a credit period of 60 days. An analysis of trade receivables is as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Current to 30 days	8,464	3,842
31 to 60 days	3,936	3,425
61 to 90 days	1,748	352
Over 90 days	—	398
Retention receivable	<u>5,332</u>	<u>5,315</u>
	<u>19,480</u>	<u>13,332</u>

19. SHORT-TERM INVESTMENTS

	Group	
	2003 HK\$'000	2002 HK\$'000
Listed securities, at market value – Hong Kong	<u>—</u>	<u>230</u>

Notes to the Financial Statements

30 September 2003

20. TRADE PAYABLES

An aged analysis of trade payables is as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Current to 30 days	6,514	9,261
31 – 60 days	1,517	8,903
61 – 90 days	–	3
Over 90 days	5,526	1,788
Retention payable	2,752	1,653
	<u>16,309</u>	<u>21,608</u>

21. DUE TO A FORMER DIRECTOR

The amount due to a former director was unsecured, interest-free and had no fixed terms of repayment. During the year, the amount due to the former director had been assigned to a third party and reclassified as other payable.

22. FINANCE LEASE PAYABLE

	Group			
	2003		2002	
	Minimum lease payments HK\$'000	Present value of minimum lease payments HK\$'000	Minimum lease payments HK\$'000	Present value of minimum lease payments HK\$'000
Amount payable				
Within one year	35	32	51	48
After one year but within two years	–	–	106	96
	<u>35</u>	<u>32</u>	<u>157</u>	<u>144</u>
Future finance charges on finance leases	(3)	–	(13)	–
	<u>32</u>	<u>32</u>	<u>144</u>	<u>144</u>
Present value of finance lease obligations	<u>32</u>	<u>32</u>	<u>144</u>	<u>144</u>



Notes to the Financial Statements

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23. INTEREST-BEARING BANK LOAN

	Group	
	2003 HK\$'000	2002 HK\$'000
Secured bank loan repayable		
Within one year or on demand	99	95
In the second year	103	99
In the third to fifth years, inclusive	333	320
After fifth year	465	581
	<u>1,000</u>	<u>1,095</u>
Portion classified as current liabilities	<u>(99)</u>	<u>(95)</u>
Non-current portion	<u>901</u>	<u>1,000</u>

24. OTHER BORROWINGS



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	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Promissory notes				
Repayable with one year	10,470	–	–	–
Repayable after one year but within two years	–	10,941	–	–
Other loans				
Repayable after one year but within two years	–	106,163	–	106,163
	<u>10,470</u>	<u>117,104</u>	<u>–</u>	<u>106,163</u>
Less: Amount repayable within one year classified as current liabilities	<u>(10,470)</u>	<u>–</u>	<u>–</u>	<u>–</u>
Non-current portion	<u>–</u>	<u>117,104</u>	<u>–</u>	<u>106,163</u>

The promissory notes were unsecured, bearing interest at 5% per annum and repayable in June 2004.

Notes to the Financial Statements

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25. DEFERRED TAXATION

At the balance sheet date, the major components of the potential deferred tax assets not provided for in the financial statements are as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Accelerated depreciation allowance	(251)	(77)
Tax losses	6,875	6,001
Other timing difference	93	80
	<u>6,717</u>	<u>6,004</u>

The components of the unprovided deferred tax credit for the year are as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Accelerated depreciation allowance	(168)	(63)
Tax losses arising	841	356
Other timing difference	5	80
Effect of change in tax rate	35	–
	<u>713</u>	<u>373</u>

Deferred tax assets arising from tax losses has not been recognised as it is uncertain that such an asset will be crystallised in the foreseeable future.



Notes to the Financial Statements

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26. ISSUED CAPITAL

	Notes	2003		2002	
		Number of shares '000	Nominal value HK\$'000	Number of shares '000	Nominal value HK\$'000
Authorised:					
Ordinary shares of HK\$0.01 each (2002: HK\$0.4 each)					
At 1 October		4,000,000	1,600,000	4,000,000	1,600,000
Share consolidation		(3,600,000)	–	–	–
Increase during the year	(i)	159,600,000	–	–	–
At 30 September		<u>160,000,000</u>	<u>1,600,000</u>	<u>4,000,000</u>	<u>1,600,000</u>
Issued and fully paid:					
At 1 October		1,490,642	596,257	1,490,642	596,257
Decrease pursuant to share consolidation	(i)	(1,341,578)	–	–	–
Capital reduction	(i)	–	(594,766)	–	–
Share subscription	(ii)	1,043,200	10,432	–	–
Share placement	(ii)	298,000	2,980	–	–
At 30 September		<u>1,490,264</u>	<u>14,903</u>	<u>1,490,642</u>	<u>596,257</u>

(i) Pursuant to a special resolution passed at the extraordinary general meeting on 6 February 2003:

- every ten ordinary shares of HK\$0.40 each in the issued and unissued share capital were consolidated into one ordinary shares of HK\$4.00 each (“Consolidated Share”);
- the nominal value of the issued and unissued Consolidated Shares of HK\$4.00 each was reduced by HK\$3.99 into HK\$0.01 each (“Capital Reduction”);
- the credit of approximately HK\$594,766,000 arisen as a result of the Capital Reduction were credited to eliminate accumulated losses of the Company; and
- upon the Capital Reduction becoming effective, the authorised share capital of the Company was increased from HK\$4,000,000 to HK\$1,600,000,000 by the creation of 159,600,000,000 shares of HK\$0.01 each. The new shares rank pari passu with the then existing shares in all respect.

Details of the capital reorganisation (“Capital Reorganisation”) were set out in the circular issued by the Company to shareholders dated 13 January 2003. The Capital Reorganisation was effective on 2 June 2003.



26. ISSUED CAPITAL (Continued)

- (ii) Pursuant to a conditional subscription agreement dated 20 May 2003, Silver Rich Macau Development Limited, Spring Wise Investments Limited and Leader Assets Limited agreed to subscribe for 1,043,200,000 new shares of HK\$0.01 each in the Company at a subscription price of HK\$0.0671 (“Share Subscription”) for a total consideration, before related expenses, of approximately HK\$70 million. Pursuant to a placing agreement dated 20 May 2003, the Company placed 298,000,000 new shares of HK\$0.01 each (the “Placement”) to certain independent investors at a placing price of HK\$0.0671 per share for a total consideration, before related issuance expenses, of approximately HK\$20 million. The net proceeds from the Share Subscription and Placement are used by the Group for repayment of debts and general working capital purposes. The subscription and placing price of HK\$0.0671 per share represented a discount of approximately 41.7% to the closing price of HK\$0.115 per share prior to the suspension of trading of shares as quoted on the Stock Exchange. Further details of the Share Subscription and Placement are set out in the Company’s circular dated 2 July 2003. The Share Subscription and Placement were completed on 25 July 2003 and 31 July 2003 respectively.

27. SHARE OPTION SCHEME

SSAP 34 was adopted during the year, as explained in note 2(a) to the financial statements, the detailed disclosures relating to the Group’s share option scheme are now included in notes to the financial statements. In the prior year, these disclosures were included in the Report of the Directors, as their disclosure is also a requirement of the Listing Rules.

The Company operates a share option scheme (the “Scheme”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Eligible participants of the Scheme include the Company’s directors and other employees of the Group. The Scheme became effective on 7 March 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. Under the Scheme, the directors of the Company are authorised at their absolute discretion, to invite employee, including any director of the Company or any of its subsidiaries, to take up options to subscribe for shares in the Company.

The maximum number of shares which may be issued upon exercise of all options to be granted under the Scheme and any other share option schemes of the Company shall not in aggregate exceed 10 per cent of the total number of shares in issue as at the date of adoption of the Scheme.

The Company may seek approval of the shareholders in general meeting for refreshing the 10 per cent limit under the Scheme save that the total number of shares which may be issued upon exercise of all options to be granted under the Scheme and any other share option schemes of the Company under the limit as “refreshed” shall not exceed 10 per cent of the total number of shares in issue as at the date of approval of the limit. Options previously granted under this Scheme or any other share option schemes of the Company (including options outstanding, cancelled, lapsed or exercised in accordance with the terms of this Scheme or any other share option schemes of the Company) will not be counted for the purpose of calculating the limit as “refreshed”.

Notwithstanding aforesaid in this paragraph, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under this Scheme and any other share option schemes of the Company must not exceed 30 per cent of the total number of shares in issue from time to time.



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27. SHARE OPTION SCHEME (Continued)

The total number of shares issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12-month period shall not exceed 1 per cent of the total number of shares in issue.

The subscription price in respect of any particular option shall be such price as determined by the board in its absolute discretion at the time of the making of the offer but in any case the subscription price shall not be lower than the highest of (i) the closing price of the shares as stated in the Exchange's daily quotations sheet on the offer date, which must be a trading day; (ii) the average closing price of the shares as stated in the Stock's daily quotations sheets for the five (5) trading days immediately preceding the offer date; and (iii) the nominal value of a share.

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a considerations of HK\$1 by the grantee. The exercise period of the share options granted is determined by the board of directors, save that such period shall not be more than a period of ten years from the date of offer.

As at the balance sheet date, no share options has been granted under the Scheme since its adoption.



Notes to the Financial Statements

30 September 2003

28. RESERVES

Group

	Share premium HK\$'000	Capital reserve HK\$'000	Capital redemption reserve HK\$'000	Asset revaluation reserve HK\$'000	Investment revaluation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 October 2001	299,073	(11,933)	976	15,485	(12,192)	32,780	(876,103)	(551,914)
Transfer to income statement upon disposal of major subsidiary group of companies	-	11,933	-	(15,485)	12,192	(32,780)	-	(24,140)
Goodwill reserve arising from acquisition of subsidiaries	-	(6,819)	-	-	-	-	-	(6,819)
Net loss for the year	-	-	-	-	-	-	(115,407)	(115,407)
At 30 September 2002 and 1 October 2002								
As previously stated	299,073	(6,819)	976	-	-	-	(991,510)	(698,280)
Unamortised goodwill reclassified as intangible assets	-	6,819	-	-	-	-	-	6,819
As restated	299,073	-	976	-	-	-	(991,510)	(691,461)
Capital reduction	-	-	-	-	-	-	594,766	594,766
Subscription of new shares	59,566	-	-	-	-	-	-	59,566
Placing of new shares	17,016	-	-	-	-	-	-	17,016
Share insurance cost	(1,155)	-	-	-	-	-	-	(1,155)
Net profit for the year	-	-	-	-	-	-	35,632	35,632
At 30 September 2003	374,500	-	976	-	-	-	(361,112)	14,364



Notes to the Financial Statements

30 September 2003

28. RESERVES (Continued)

Company

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 October 2001	299,073	976	(764,460)	(464,411)
Net loss for the year	–	–	(217,494)	(217,494)
At 30 September 2002 and 1 October 2002	299,073	976	(981,954)	(681,905)
Capital reduction	–	–	594,766	594,766
Subscription of new shares	59,566	–	–	59,566
Placing of new shares	17,016	–	–	17,016
Share insurance cost	(1,155)	–	–	(1,155)
Net profit for the year	–	–	28,560	28,560
At 30 September 2003	<u>374,500</u>	<u>976</u>	<u>(358,628)</u>	<u>16,848</u>



Notes to the Financial Statements

30 September 2003

29. ACQUISITION OF SUBSIDIARIES

	2003 HK\$'000	2002 HK\$'000
Net assets acquired:		
Fixed assets	–	5,268
Stock	–	3,764
Debtors, deposits and prepayments	–	27,387
Cash and bank balances	–	5,463
Creditors and accrued charges	–	(34,403)
Bank loan – secured	–	(1,117)
Tax payable	–	(502)
	<u>–</u>	<u>5,860</u>
Minority interest	–	(1,436)
	<u>–</u>	<u>4,424</u>
Goodwill on acquisition	–	7,576
	<u>–</u>	<u>12,000</u>
Satisfied by:		
Term loans	–	1,200
Issue of promissory notes	–	10,800
	<u>–</u>	<u>12,000</u>
Cash flow on acquisition net of cash acquired:		
Cash and bank balances acquired	–	5,463
Bank loans	–	(1,117)
	<u>–</u>	<u>4,346</u>

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



Notes to the Financial Statements

30 September 2003

30. DISPOSAL OF SUBSIDIARIES

	2003 HK\$'000	2002 HK\$'000
Net (liabilities)/assets disposed of:		
Fixed assets	1,078	98,810
Long term investments	–	23,308
Short-term investments	230	–
Inventory and work in progress	214	24,067
Debtors, deposits and prepayments	154	112,315
Cash and bank balances	46	8,196
Goodwill	535	–
Creditors and accrued charges	(9,016)	(192,855)
Bank overdraft	(119)	–
Minority interests	(116)	–
Long term creditors	–	(26,326)
Taxation	–	(1,006)
Deferred tax	–	(14,501)
Hire purchase and lease creditors	–	(2,792)
	<u>(6,994)</u>	<u>29,216</u>
Capital reserve realised on disposal	–	(3,306)
Translation reserve realised on disposal	–	(33,387)
Prior year adjustment	–	(4,677)
US\$4.5 million exchangeable note issued by SCC	–	(34,633)
Cost in relation to disposal	–	2,236
	<u>(6,994)</u>	<u>(44,551)</u>
Gain on disposal of subsidiaries	<u>7,984</u>	<u>44,551</u>
	<u>990</u>	<u>–</u>
Satisfied by:		
Partial settlement of promissory note payable	990	–
Cash consideration (S\$1.00)	–	–
	<u>990</u>	<u>–</u>
Analysis of the net inflow/(outflow) of cash and cash equivalents in respect of the disposal of subsidiaries:		
Cash and bank balances disposed of with the subsidiaries	(46)	(8,196)
Bank overdraft disposed of with the subsidiaries	119	–
Net inflow/(outflow) of cash and cash equivalents in respect of the disposal of subsidiaries	<u>73</u>	<u>(8,196)</u>



Notes to the Financial Statements

30 September 2003

30. DISPOSAL OF SUBSIDIARIES (Continued)

The subsidiaries disposed of during the year contributed approximately HK\$2,058,000 (2002: approximately HK\$266,271,000) to the Group's turnover and a loss of approximately HK\$886,000 (2002: approximately HK\$83,649,000) to the Group.

31. CONTINGENT LIABILITIES

- a) The Company is the guarantor for promissory notes issued by its subsidiary. The promissory notes and interest payable as at 30 September 2003 amounted to approximately HK\$10,470,000 (2002: HK\$10,941,000).
- b) At the balance sheet date, the Group did not have any contingent liabilities.

32. COMMITMENTS

a) Capital commitments

	Group	
	2003 HK\$'000	2002 HK\$'000
Authorised but not contracted for	—	40

The Company had no capital commitments as at 30 September 2003 and 2002.

b) Operating lease commitments

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

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Within one year	1,199	985	419	30
In the second to fifth years, inclusive	1,417	1,296	762	10
	<u>2,616</u>	<u>2,281</u>	<u>1,181</u>	<u>40</u>



Notes to the Financial Statements

30 September 2003

33. LITIGATION

On 4 May 2001, Guido Giacometti, a trustee of the estate of Mr. Sukamto Sia fka Sukarman Sukamto (“Mr. Sukamto”), a former director and substantial shareholder of the Company, commenced proceedings against the Company in the U.S. Bankruptcy Court in the District of Hawaii claiming against the Company, among other things, the sum of US\$594,027 (of which US\$500,000 being partial refund of the deposit and US\$94,027 being interest accrued), together with attorneys’ fees and costs. The claim is related to a sum of US\$594,027 refunded to the Company by Mr. Sukamto in relation to an investment previously made by the Company through Mr. Sukamto after the Company had decided not to make the investment. However, Mr. Sukamto was subsequently declared bankrupt and therefore the bankruptcy trustee commenced proceedings against the Company in relation to such refund made before Mr. Sukamto’s bankruptcy. The Company received the summons and the related documents on 21 September 2001. The Company is awaiting for hearing of the case. At this stage, the outcome cannot be predicted with certainty. As the Company has made provision of HK\$5,000,000 in connection with the claim, the directors are of the opinion that there is unlikely to be any material adverse impact on the Group in the event that the final judgement is not in favour of the Company.

34. POST BALANCE SHEET EVENTS

- (i) On 3 November 2003, the Company entered into a placing agreement (the “Placing Agreement”) with an independent placing agent in relation to the placing of 97,200,000 new shares of HK\$0.01 each in the Company, on a best effort basis, at a placing price of HK\$0.4325 per share, amounting to a total consideration of approximately HK\$42 million. The Placing Agreement was completed on 17 November 2003.
- (ii) On 9 December 2003, Access Success Developments Limited (“Access Success”), a wholly-owned subsidiary of the Company together with two independent third parties, namely Summit Global International Limited and Mantovana Holdings Limited (“the Purchasers”) entered into a conditional agreement to acquire 55%, 30% and 15% interest in a cruise ship and inventories for a total consideration of approximately HK\$94.6 million of which HK\$52 million shall be paid by Access Success. On the same date, the Purchasers entered into a memorandum to lease the cruise ship and inventories to the cruise operator for a period of 36 months commencing from the date of delivery of the cruise ship by the Purchasers to the cruise operator. Details of the transactions are set out in the circular dated 24 December 2003 issued by the Company. The transactions have been completed on 12 January 2004.



35. COMPARATIVE FIGURES

As further explained in note 2(a) to the financial statements, due to the adoption of certain revised SSAPs during the current year, the presentation of certain items and balance in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

