

Notes to the Financial Statements

For the year ended 30th June, 2003

1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). However, the trading of the Company's shares on the Stock Exchange has been suspended since 30th June, 2003. Subsequent to the balance sheet date, the Company has been placed in the third stage of delisting procedures pursuant to Practice Note 17 of the Rules Governing the Listing of Securities on the Stock Exchange.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 40.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

In preparing the financial statements, the Company's directors (the "Directors") have given careful consideration to the going concern status of the Group in the light of the net current liabilities of approximately HK\$42,207,000 as at 30th June, 2003.

Since the balance sheet date, the Directors have taken the following steps to improve the financial position of the Group.

- (a) In November and December 2003, the Group obtained new borrowings from independent third parties in the aggregate amount of approximately HK\$10 million. In May 2004, the Group obtained a new long term bank loan of HK\$29.6 million.
- (b) As explained in note 25, the Group was in default in respect of a secured term loan facility and an overdraft facility in the aggregate sum of approximately HK\$36 million. The new funds obtained in (a) above have been utilised to settle in full these borrowings and the relevant property mortgage has been released.
- (c) The Directors have also been in negotiations with other parties providing finance to the Group with a view to restructuring the relevant repayment schedules. Subsequent to the balance sheet date, certain parties have agreed in writing that loans to the Group with an aggregate balance of approximately HK\$5 million shall not be repayable until March 2005, and loans of approximately HK\$21 million shall not be repayable until March 2006.
- (d) As explained further in note 18, the Directors are continuing to negotiate with the vendor of the properties held for sale for the transfer of title to the Group.

Notes to the Financial Statements

For the year ended 30th June, 2003

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (cont'd)

- (e) As explained further in note 18, during the year ended 30th June, 2002, the Group entered into an agreement with an independent third party for the disposal of the properties mentioned in (d) above for a consideration of approximately HK\$83,000,000 against which a deposit of approximately HK\$25,757,000 is held by the Group. The agreement is conditional upon the completion of the due diligence exercise which includes the obtaining of legal title of the properties by the Group. In August, 2004, a letter of intent was signed with the prospective purchaser to extend the completion date to 31st March, 2005.
- (f) The Directors are continuing to negotiate with the prospective purchaser mentioned in (e) above to complete the disposal of the properties held for sale mentioned in (d) above.
- (g) A provisional agreement has been entered into between the Company and an independent third party under which that party has agreed to subscribe for a convertible note in the principal amount of HK\$30 million to be issued by the Company. The convertible note gives the holder thereof the right to convert the principal amount into approximately 75% of the issued share capital of the Company following a proposed capital reduction exercise of the Company. On 26th August, 2004, the potential investor paid a refundable deposit of HK\$2.5 million to the Company in connection with the above proposed subscription. Another HK\$2.5 million deposit will be paid upon signing of the formal agreement. The above agreement is conditional upon, among other things, the relevant approvals being obtained from the High Court of Hong Kong, the relevant Hong Kong regulatory authorities and the Company's shareholders.

Provided that the transactions referred in the paragraphs (d), (f) and (g) above are successfully completed, the Directors are satisfied that the Group will have sufficient working capital 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.

Notes to the Financial Statements

For the year ended 30th June, 2003

3. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted the following new and revised Statement of Standard Accounting Practice under Hong Kong Financial Reporting Standards (“SSAP”(s)), issued by the Hong Kong Institute of Certified Public Accountants. The adoption of these SSAPs has resulted in a change in the format of presentation of the cash flow statement and an inclusion of 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 overseas subsidiaries at the closing rate for the period, 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 significant effect on the results for the current or prior accounting periods.

Cash flow statements

In the current period, the Group has adopted SSAP 15 (Revised) “Cash Flow Statements”. Under SSAP 15 (Revised), cash flows are classified under three headings – operating, investing and financing, rather than the previous five headings. Interest received and paid which were previously presented under a separate heading, are classified as operating and financing cash flows, respectively. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities. In addition, the amounts presented for cash and cash equivalents have been amended to exclude short-term loans that are financing in nature. Cash flows of overseas subsidiaries have been re-translated at the rates prevailing at the dates of the cash flows rather than the rate of exchange ruling on the balance sheet date. The re-definition of cash and cash equivalents have resulted in a restatement of the comparative amounts shown in the cash flow statement.

Employee benefits

In the current period, the Group has 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 SSAP 34 has not had any significant impact on the financial statements.

Notes to the Financial Statements

For the year ended 30th June, 2003

4. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of investment properties and other investment, and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

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

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

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, associate or jointly controlled entity at the date of acquisition.

Goodwill arising on acquisitions after 1st July, 2001 is capitalised and amortised on a straight line basis over its useful economic life. Goodwill arising on the acquisition of an associate or a jointly controlled entity is included within the carrying amount of the associate or jointly controlled entity. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost, as reduced by impairment losses identified.

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 goodwill on acquisition in so far as it has not already been written off or amortised, less any identified impairment loss.

Notes to the Financial Statements

For the year ended 30th June, 2003

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Joint ventures

Jointly controlled entities

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

The Group's interests in jointly controlled entities are included in the consolidated balance sheet at the Group's share of the net assets of the jointly controlled entities plus the premium paid on acquisition in so far as it has not already been written off or amortised. The Group's share of post-acquisition results of jointly controlled entities is included in the consolidated income statement.

Investment in securities

Investment 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 loss 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.

Impairment

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

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

Notes to the Financial Statements

For the year ended 30th June, 2003

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Revenue recognition

Rental income, including rentals invoiced in advance from properties let under operating leases, is recognised on a straight line basis over the term of the relevant lease.

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

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

Investment properties

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

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

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

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

Property, plant and equipment

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

Depreciation and amortisation is provided to write off the cost of property, plant and equipment over their estimated useful lives, using the straight line method, at the following rates per annum:

Leasehold land and buildings	5%
Leasehold improvements	10% or over the terms of the relevant leases, if shorter
Furniture, fixtures and equipment	9% to 20%
Motor vehicles	9% to 20%
Computer equipment	9% to 20%

Notes to the Financial Statements

For the year ended 30th June, 2003

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Property, plant and equipment (cont'd)

Assets held under finance leases are depreciated over their expected useful lives on the same basis as assets owned by the Group.

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

Properties held for sale

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out basis. Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

Leased assets

Leases are classified as finance leases when the terms of the leases transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are recognised as assets of the Group at their fair values at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as obligations under finance leases. 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 period of the respective leases so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

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.

Notes to the Financial Statements

For the year ended 30th June, 2003

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Foreign currencies

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

On consolidation, the assets and liabilities of subsidiaries which are denominated in foreign currencies and which operate outside Hong Kong are translated into Hong Kong dollars at the approximate rates ruling on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and are recognised as income or as expenses in the period in which the operations are disposed of.

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 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

Payments to the retirement benefit scheme contributions are charged as expenses as they fall due.

5. SEGMENT INFORMATION

Business segments

The Group is currently operating into two business segments, property investment and manufacturing and trading of equipment and accessories for broadband and cable television.

Turnover of the Group represents net amounts received and receivable for goods sold by the Group to outside customers, less returns and allowances and property rental income during the year.

Notes to the Financial Statements

For the year ended 30th June, 2003

5. SEGMENT INFORMATION (cont'd)

Segment information about these businesses is presented below:

2003

CONSOLIDATED INCOME STATEMENT

	Property investment <i>HK\$'000</i>	2003 Manufacturing and trading <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Turnover	5,316	7,901	13,217
Segment result	(11,670)	(6,656)	(18,326)
Unallocated corporate income			143
Unallocated corporate expenses			(14,570)
Loss from operations			(32,753)
Finance costs			(10,784)
Share of results of associates			(5,112)
Gain on disposal of a subsidiary			4,727
Reversal of allowance for amounts due from associates			1,045
Loss before minority interest			(42,877)
Minority interest			886
Loss attributable to shareholders			(41,991)

Notes to the Financial Statements

For the year ended 30th June, 2003

5. SEGMENT INFORMATION (cont'd)

CONSOLIDATED BALANCE SHEET

	Property investment <i>HK\$'000</i>	2003 Manufacturing and trading <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>	
ASSETS				
Segment assets	133,855	4,310	138,165	
Unallocated corporate assets			1,526	
Consolidated total assets			<u>139,691</u>	
LIABILITIES				
Segment liabilities	25,910	9,195	35,105	
Unallocated corporate liabilities			83,302	
Consolidated total liabilities			<u>118,407</u>	
	Property investment <i>HK\$'000</i>	Manufacturing and trading <i>HK\$'000</i>	Others <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
OTHER INFORMATION				
Capital expenditure	–	284	17	301
Depreciation and amortisation	–	824	411	1,235
Amortisation of goodwill of associates (included in share of result of associates)	–	–	830	830
Allowance for bad and doubtful debts	–	3,047	85	3,132
Allowance for properties held for sale	12,400	–	–	12,400

Notes to the Financial Statements

For the year ended 30th June, 2003

5. SEGMENT INFORMATION (cont'd)

2002

CONSOLIDATED INCOME STATEMENT

	Property investment <i>HK\$'000</i>	2002 Manufacturing and trading <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Turnover	5,370	1,519	6,889
Segment result	(39,068)	(1,687)	(40,755)
Unallocated corporate income			1,064
Unallocated corporate expenses			(30,819)
Amortisation of goodwill			(21,254)
Allowance for amount due from an investee company			(4,715)
Impairment loss recognised in respect of goodwill arising on acquisition of a subsidiary			(29,923)
Loss from operations			(126,402)
Finance costs			(8,810)
Share of results of associates			(157,741)
Allowance for amounts due from associates			(15,911)
Unrealised holding loss on other investment			(142,120)
Loss before minority interest			(450,984)
Minority interest			783
Loss attributable to shareholders			(450,201)

Notes to the Financial Statements

For the year ended 30th June, 2003

5. SEGMENT INFORMATION (cont'd)

2002

CONSOLIDATED BALANCE SHEET

	Property investment HK\$'000	2002 Manufacturing and trading HK\$'000	Consolidated HK\$'000
ASSETS			
Segment assets	206,904	12,006	218,910
Unallocated corporate assets			3,062
Consolidated total assets			221,972
LIABILITIES			
Segment liabilities	39,618	8,025	47,643
Unallocated corporate liabilities			115,280
Consolidated total liabilities			162,923

	Property investment HK\$'000	Manufacturing and trading HK\$'000	Others HK\$'000	Consolidated HK\$'000
OTHER INFORMATION				
Capital expenditure	476	3,371	522	4,369
Depreciation and amortisation	–	674	56	730
Amortisation of goodwill	–	–	21,254	21,254
Allowance for properties held for sale	33,200	–	–	33,200
Allowance for property interest held for sale	10	–	–	10
Revaluation decrease of investment properties	12,500	–	–	12,500
Impairment loss recognised in respect of leasehold land and buildings	–	806	–	806
Impairment loss recognised in respect of goodwill arising on acquisition of a subsidiary	–	–	29,923	29,923
Impairment loss recognised in respect of goodwill arising on acquisition of associates (included in share of results of associates)	–	–	157,741	157,741
Unrealised holding loss on other investment	–	–	142,120	142,120

Notes to the Financial Statements

For the year ended 30th June, 2003

5. SEGMENT INFORMATION (cont'd)

Geographical segments

The Group's property investment business is carried out in Hong Kong and elsewhere in the People's Republic of China (the "PRC") while the manufacturing and trading business is carried out in the PRC. In respect of geographical segment reporting, turnover are allocated based on the country in which the customers are located. Total assets and capital expenditure are allocated based on where the assets are located.

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

	Turnover by geographical market	
	2003 HK\$'000	2002 HK\$'000
PRC, excluding Hong Kong	10,208	2,935
Hong Kong	3,009	3,954
	13,217	6,889

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

	Carrying amount of segment assets		Capital expenditure	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
PRC, excluding Hong Kong	75,810	157,723	284	3,371
Hong Kong	63,881	64,249	17	998
	139,691	221,972	301	4,369

Notes to the Financial Statements

For the year ended 30th June, 2003

6. LOSS FROM OPERATIONS

	2003 HK\$'000	2002 HK\$'000
Loss from operations has been arrived at after charging:		
Staff costs, including directors' remuneration:		
– Basic salaries and allowances	5,430	9,255
– Retirement benefits scheme contributions	183	228
	5,613	9,483
Auditors' remuneration		
– Current year	920	400
– Under(over) provision in prior years	270	381
Cost of inventories recognised as an expense	4,083	1,056
Depreciation and amortisation of property, plant and equipment	1,235	730
Loss on disposal of property, plant and equipment	–	1,396
Operating lease rentals in respect of land and buildings	1,369	2,058
and after crediting:		
Interest income	–	72
Rental income from investment properties and properties held for sale under operating leases, net of outgoings of approximately HK\$2,418,000 (2002: HK\$198,000)	2,898	5,172
Gain on disposal of property, plant and equipment	22	–

Notes to the Financial Statements

For the year ended 30th June, 2003

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(i) Directors' emoluments

	2003 HK\$'000	2002 HK\$'000
Directors' fees:		
Executive directors	345	100
Independent non-executive directors	40	90
Other emoluments of executive directors:		
Salaries and other allowances	189	1,331
Contributions to retirement benefits schemes	6	–
	580	1,521

The emoluments of the directors were within the following bands:

	2003 Number of directors	2002 Number of directors
Not exceeding HK\$1,000,000	13	9
HK\$1,000,001 to HK\$1,500,000	–	1
	13	10

(ii) Employees' emoluments

Of the five highest paid individuals in the Group, one of them (2002: one) was a director of the Company whose remunerations are set out in (i) above. The emoluments of the four (2002: four) individuals were as follows:

	2003 HK\$'000	2002 HK\$'000
Salaries and other allowances	2,010	2,376
Contributions to retirement benefits schemes	23	36
	2,033	2,412

The remunerations of each of the employees were not exceeding HK\$1,000,000 in both years.

Notes to the Financial Statements

For the year ended 30th June, 2003

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (cont'd)**(ii) Employees' emoluments (cont'd)**

During the years ended 30th June, 2003 and 2002, no emoluments were paid by the Group to the respective five highest paid individuals, including directors, as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, during the years ended 30th June, 2003 and 2002, no director had waived any emoluments.

8. FINANCE COSTS

	2003	2002
	HK\$'000	HK\$'000
Interest on:		
– bank borrowings wholly repayable within five years	5,012	5,114
– other borrowings wholly repayable within five years	5,632	3,378
– obligations under finance leases	80	135
Loan arrangement fees	60	183
	10,784	8,810

9. TAXATION

No provision for Hong Kong Profits Tax has been made in the financial statements as the companies comprising the Group did not have any assessable profit for the year.

Details of potential deferred taxation not provided for the year are set out in note 32.

10. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss attributable to shareholders of approximately HK\$41,991,000 (2002: HK\$450,201,000) and on the weighted average number of 2,816,146,575 (2002: 2,115,247,945) shares in issue throughout the year.

No diluted loss per share has been presented because the exercise prices of the Company's outstanding share options are higher than the average market price of the Company's shares during both years.

Notes to the Financial Statements

For the year ended 30th June, 2003

11. INVESTMENT PROPERTIES

	THE GROUP
	<i>HK\$'000</i>
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VALUATION	
At 1st July, 2002	60,900
Revaluation increase	1,100
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At 30th June, 2003	62,000
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The investment properties are held by the Group under medium-term lease in Hong Kong for rental income under operating leases.

At 30th June, 2003, the investment properties of the Group were revalued by AA Property Services Limited, an independent firm of professional valuers, on an open market value basis. The revaluation increase of these properties has been credited to the consolidated income statement.

The Group's investment properties have been pledged to a bank and certain third parties to secure credit facilities granted to the Group.

Notes to the Financial Statements

For the year ended 30th June, 2003

12. PROPERTY, PLANT AND EQUIPMENT

	Medium term leasehold land and buildings in the PRC HK\$'000	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Computer equipment HK\$'000	Total HK\$'000
THE GROUP						
COST						
At 1st July, 2002	1,875	289	914	2,355	266	5,699
Additions	-	249	33	-	19	301
Disposals	-	-	(77)	(1,320)	(2)	(1,399)
At 30th June, 2003	1,875	538	870	1,035	283	4,601
DEPRECIATION, AMORTISATION AND ACCUMULATED IMPAIRMENT LOSS						
At 1st July, 2002	995	93	270	1,288	90	2,736
Provided for the year	279	196	243	435	82	1,235
Eliminated on disposals	-	-	(7)	(900)	-	(907)
At 30th June, 2003	1,274	289	506	823	172	3,064
NET BOOK VALUES						
At 30th June, 2003	601	249	364	212	111	1,537
At 30th June, 2002	880	196	644	1,067	176	2,963

At 30th June, 2003, the net book value of motor vehicles and equipment of the Group includes an amount of approximately HK\$234,000 (2002: HK\$1,051,000) in respect of assets held under finance leases.

Notes to the Financial Statements

For the year ended 30th June, 2003

13. DEPOSIT PAID FOR THE PURCHASE OF INVESTMENT PROPERTIES

The amount represents deposit paid for the purchase of certain investment properties situated in the PRC.

An impairment loss was recognised in prior year in respect of the deposit paid for the purchase of investment properties as the relevant vendor, 中房集團華東置業股份有限公司 China Real Estate Development Group Huadong Properties Company Limited (“CRED Huadong”), a jointly-controlled entity of the Group, had pledged the relevant properties for certain credit facilities granted to CRED Huadong. Up to the date of these financial statements, the Group has not yet been able to obtain legal title to these properties notwithstanding the full payment of the consideration. An indemnity was granted by CIL Holdings Limited (“CILH”), a former ultimate holding company, against all claims, losses, costs and expenses incurred in connection with various matters relating to these properties including, but not limited to, the legal impediment relating to the obtaining and transferring of the legal title of these properties. However, the directors were not certain, up to the date of this report, whether the indemnity will be honoured. The recoverable amount of the deposit is therefore estimated to be negligible.

14. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	175	175
Amounts due from subsidiaries	825,085	779,693
	825,260	779,868
Less: Impairment loss recognised	(774,458)	(779,868)
	50,802	–

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

At the balance sheet date, the directors of the Company have reviewed the operating condition of the subsidiaries and have taken into account the value of the underlying assets and liabilities of the subsidiaries, a reversal of the impairment loss recognised in previous year have been made in current year.

Notes to the Financial Statements

For the year ended 30th June, 2003

14. INTERESTS IN SUBSIDIARIES (cont'd)

None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

Details of the principal subsidiaries of the Company at 30th June, 2003 are set out in note 40.

15. INTERESTS IN ASSOCIATES

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Share of net assets	-	-
Goodwill	-	-
	-	-

Included in cost of investment is goodwill arising on acquisition of associates:

	HK\$'000
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COST	
Balance at 1st July, 2002	194,817
Goodwill arising on the acquisition of an associate during the year	4,978
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Balance at 30th June, 2003	199,795
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ACCUMULATED AMORTISATION AND IMPAIRMENT LOSS	
Balance at 1st July, 2002	194,817
Provided for the year	830
Impairment loss recognised	4,148
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Balance at 30th June, 2003	199,795
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CARRYING VALUE	
At 30th June, 2003	-
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At 30th June, 2002	-
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Notes to the Financial Statements

For the year ended 30th June, 2003

15. INTERESTS IN ASSOCIATES (cont'd)

On 12th August, 2002, an agreement was entered into by the Company, Prospect Technology Limited ("Prospect Technology"), a wholly-owned subsidiary of the Company, and Max Cyber Development Inc. ("Max Cyber"), a wholly-owned subsidiary of Goldbond Group Holdings Limited (formerly known as Can Do Holdings Limited), pursuant to which Max Cyber agreed to sell 24,500 shares of US\$1.00 each in Masterful Resources Limited ("Masterful Resources"), representing 49% of the issued share capital of Masterful Resources to Prospect Technology for a consideration of HK\$56,800,000, which was determined with reference to an independent valuation on Masterful Resources by an independent professional valuer in August 2002. The consideration was satisfied by the issue and allotment of 284,000,000 shares of the Company. There was no share quotation existed on 5th September, 2002 and the fair value of the shares issued by the Company is estimated by reference to the latest closing price of HK\$0.018 per the Company's shares as quoted on the Stock Exchange prior to the suspension in trading of the Company's shares on the Stock Exchange. The transaction was completed in September 2002.

Masterful Resources is incorporated in the British Virgin Islands (the "BVI") and was engaged in the development of Shipping-Info.com, a business-to-business web portal which aims to serve the shippers, forwarders, agents and carriers through the provision of network based services, via the internet, to the participants in the shipping and logistics in Hong Kong, Shanghai and Tianjin of the PRC. At the balance sheet date, Masterful Resources had become inactive.

At the balance sheet date, the Directors have reviewed the business of Masterful Resources. In view of the uncertainty regarding the profitability of the future operation of Masterful Resources, the directors determined that the recoverable amount from the business of Masterful Resources has declined below the carrying value of the goodwill. Accordingly, the carrying value of the goodwill has been reduced by approximately HK\$4,148,000 (2002: Nil) to reflect this impairment.

Subsequent to the balance sheet date, Masterful Resources was disposed of to a third party for a nominal consideration.

Notes to the Financial Statements

For the year ended 30th June, 2003

15. INTERESTS IN ASSOCIATES (cont'd)

Details of the Group's associates at 30th June, 2003 are as follows:

Name of associate	Place of incorporation/ operation	Proportion of nominal value of issued capital attributable to the Group	Principal activities
CRED.net Limited 中國房地產網有限公司	BVI/the PRC	20%	Inactive
Etrade Century Limited	BVI/the PRC	50%	Inactive
Sky Citi-Link ATNT (Holdings) Limited	BVI/Hong Kong	18%	Inactive
Masterful Resources	BVI/Hong Kong	49%	Inactive

The following details have been extracted from the unaudited management account of the Group's principal associate:

	Masterful Resources 2003 HK\$'000 <i>(unaudited)</i>
Results for the year	
Turnover	–
Loss from ordinary activities before taxation	314
Loss from ordinary activities before taxation attributable to the Group	134
Financial position	
Net liabilities	(38)
Net liabilities attributable to the Group	–

Notes to the Financial Statements

For the year ended 30th June, 2003

15. INTERESTS IN ASSOCIATES (cont'd)

The Group has no commitment to provide financial support to the associates and therefore the Group's share of post-acquisition loss of associates that exceeded the carrying amount of the investment has not included as share of loss of associates in the consolidated income statement.

16. INTERESTS IN A JOINTLY CONTROLLED ENTITY

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Share of net assets	13,606	11,706
Less: Impairment loss recognised	(13,606)	(11,706)
	-	-

Particulars of the jointly controlled entity as at 30th June, 2003 are as follows:

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

17. INVENTORIES

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Raw materials	498	1,544
Work in progress	17	585
Finished goods	272	2,398
	787	4,527

Inventories are stated at cost.

Notes to the Financial Statements

For the year ended 30th June, 2003

18. PROPERTIES HELD FOR SALE

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Properties held for sale, at net realisable value	71,500	83,900

On 21st October, 1997, a sale and purchase agreement was entered between Welchem Development Limited ("Welchem"), a wholly-owned subsidiary of the Company and CRED Huadong under which Welchem agreed to purchase certain properties under development (the "Properties") situated in the PRC at approximately HK\$113.8 million. The purchase consideration was fully settled by Welchem prior to its acquisition by the Group. According to the agreement, the legal title to the properties will be transferred from CRED Huadong to the Group upon completion of the construction work. However, following certain disputes with CRED Huadong, the legal title to the Properties has not been transferred to the Group up to the balance sheet date.

Subsequent to the balance sheet date, the Group entered into negotiations with CRED Huadong with a view to expediting the transfer of legal title of the Properties to the Group. Following such negotiations, the Group obtained a confirmation from CRED Huadong that the Group was entitled to take two and a half floors instead of the three floors of the relevant building as stated in the original agreement.

After seeking opinion from a PRC law firm, the Directors are of the view that the Group's right to these properties are legally enforceable and the Directors believe that the Group is entitled to the whole three floors and will further negotiate with the vendor in this respect. The Directors are also currently considering to take legal actions to enforce the Group's rights. Although the outcome of this matter cannot be determined with reasonable certainty at this time, the Directors remain confident that the Group will be able to obtain legal title to the Properties.

On 31st October, 2001, an agreement was entered into between Welchem and an independent third party (the "Purchaser") for the disposal of the Properties for a consideration of RMB88,000,000 (equivalent to approximately HK\$83,000,000). Subject to the fulfilment of certain conditions as stated in the supplemental agreement dated 30th November, 2001, including the completion of due diligence exercise, the transaction was expected to be completed on or before 7th February, 2002. On 11th January, 2002, an extension agreement was entered into between Welchem and the Purchaser to further extend the long stop date for the satisfaction of the conditions of the transaction to 28th February, 2002. A deposit of RMB27,350,000 (equivalent to approximately HK\$25,757,000) was received from the Purchaser during the year ended 30th June, 2002 for the disposal of the Properties. Up to the balance sheet date, the transaction had not yet been completed. Subsequent to the balance sheet date, Welchem and the Purchaser signed a letter of intent to further extend the completion date to 31st March, 2005.

Notes to the Financial Statements

For the year ended 30th June, 2003

19. PROPERTIES HELD FOR SALE

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Properties held for sale, at net realisable value	–	59,800

At 30th June, 2002, the properties are held under medium-term leases and are situated in the PRC.

20. OTHER INVESTMENT

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Unlisted equity shares	142,120	142,120
Less: Unrealised holding loss	(142,120)	(142,120)
	–	–

Other investment represents the cost of 65% equity interests in an unlisted company, International Telecommunication & Telegraph Limited ("IT & T"). IT & T is incorporated in the BVI and is an investment holding company. IT & T owns 80% equity interest in 中鐵光通信息技術發展有限公司 ("CROFIT"), a PRC sino-foreign co-operative joint venture company which is mainly engaged in the development of IC card pay phone projects in the PRC. Although the Group has a 65% equity interest in IT & T, the financial statements of IT & T have not been incorporated in these financial statements because IT & T was acquired in September 2001 exclusively with a view to be sold in the near future. Accordingly, the investment has been accounted for as other investment.

According to the approval document issued by 中關村科技園區海淀園管理委員會 dated 11th December, 2001, IT & T had to inject capital amounting to US\$500,000 and US\$29,000,000 into CROFIT on dates not later than 31st December, 2001 and 5th September, 2003, respectively. However, the Group intended to dispose of the investment and not to make further capital contribution to the investment. Subsequent to the balance sheet date, the Group disposed of its 65% equity interests in IT & T at a nominal value to a third party.

21. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 30 days to 90 days to its trade customers. The credit period granted depends on a number of factors including trade policies, collection of history and location of customers. For rental income, payment in advance is normally required.

Notes to the Financial Statements

For the year ended 30th June, 2003

21. TRADE AND OTHER RECEIVABLES (cont'd)

Included in trade and other receivables are trade receivables of HK\$1,953,000 (2002: HK\$3,656,000) and an aged analysis is as follows:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
0 - 60 days	590	1,152
61 - 90 days	42	126
Over 90 days	4,368	2,951
	5,000	4,229
Less: Allowance for bad and doubtful debts	(3,047)	(573)
	1,953	3,656

22. AMOUNTS DUE FROM ASSOCIATES**THE GROUP**

The amounts represented advances to associates during the year ended 30th June, 2002. The advances were unsecured and have no fixed terms of repayment. Other than an amount of approximately HK\$1,254,000 which is interest free, the amounts are interest bearing. As the amount has not yet been recovered up to the date of the financial statements for the year ended 30th June 2002, an allowance for the whole amount of advances had been made during that year. The interest income had not been accounted for due to the unpredictability of the collectibility of the said income.

Subsequent to the balance sheet date, an amount of approximately HK\$1,045,000 had been received and a reversal of allowance for amount due from an associate had been credited to the consolidated income statement during the current year.

23. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$1,325,000 (2002: HK\$1,387,000) and an aged the aging analysis is as follows:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
0 - 60 days	241	635
61 - 90 days	118	146
Over 90 days	966	606
	1,325	1,387

Included in other payables is an amount of HK\$6,513,000 (2002: HK\$11,359,000) secured by the Group's investment properties.

Notes to the Financial Statements

For the year ended 30th June, 2003

24. OBLIGATIONS UNDER FINANCE LEASES

	THE GROUP			
	Minimum lease payments		Present value of minimum lease payments	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
The maturity of obligations under finance leases is as follows:				
Within one year	218	972	203	853
In the second to fifth year inclusive	53	192	46	178
After five years	-	53	-	46
	271	1,217		
Less: Future finance charges	(22)	(140)		
Present value of lease obligations	249	1,077	249	1,077
Less: Amount due for settlement within one year and shown under current liabilities			(203)	(853)
Amount due after one year			46	224

It is the Group's policy to lease certain of its motor vehicles and equipment under finance leases. The average lease term is 2-3 years. All leases are on a fixed repayment basis and no arrangement has been entered into for contingent rental payments. All lease obligations are denominated in Hong Kong dollars.

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

Notes to the Financial Statements

For the year ended 30th June, 2003

25. BANK AND OTHER BORROWINGS

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Bank and other borrowings due within one year or on demand comprise:				
Bank loans	36,034	59,251	35,000	36,500
Other loans	31,494	29,752	8,121	900
Bank overdrafts	2,101	2,970	2,101	2,970
	69,629	91,973	45,222	40,370
Represented by:				
Secured	63,634	72,474	42,100	39,470
Unsecured	5,995	19,499	3,122	900
	69,629	91,973	45,222	40,370

The above borrowings bear interest at prevailing market rates.

During the year, due to the Group's default in repayment of a term loan facility and an overdraft facility, an originating summons (the "Summons") was filed to the High Court of Hong Kong by the relevant bank (as the Mortgagee) against First Union Limited (as the Mortgagor), a wholly-owned subsidiary of the Company, and the Company (as the Borrower) to recover possession of the pledged investment properties on 10th April, 2003. In August, 2003, the Court ordered that the Mortgagee to recover against the Borrower the outstanding sum together with interest under a Mortgage dated 11th March, 1998. All the relevant outstanding borrowings have been classified as current liabilities. The Borrower made partial settlement in December 2003 and the Mortgagee made a written notice to withhold enforcing the court order subject to certain conditions on the repayment schedules. The mortgagee requested the Borrower to fully settle the outstanding sum together with interest and other relevant costs incurred by the Mortgagee on or before 16th February, 2004. The outstanding sum together with accrued interest was finally settled in full in May 2004 at which time the relevant property mortgage was released.

Notes to the Financial Statements

For the year ended 30th June, 2003

26. SHARE CAPITAL

	Number of ordinary shares	Amount HK\$'000
Ordinary shares of HK\$0.2 each		
Authorised:		
At 1st July, 2001	3,000,000,000	600,000
Increase in authorised share capital	1,000,000,000	200,000
At 30th June, 2002 and 2003	4,000,000,000	800,000
Issued and fully paid:		
At 1st July, 2001	1,865,500,000	373,100
Issue of shares on exercise of share options	38,000,000	7,600
Issue of shares for acquisition of other investment	680,000,000	136,000
At 30th June, 2002	2,583,500,000	516,700
Issue of shares for acquisition of an associate	284,000,000	56,800
At 30th June, 2003	2,867,500,000	573,500

During the year ended 30th June, 2003, the following changes in the share capital of the Company took place:

On 5th September, 2002, 284,000,000 new shares of HK\$0.2 each in the Company were issued to an independent third party at par, representing a premium of 1,011% to the closing price of HK\$0.018 per the Company's shares as quoted on the Stock Exchange on 31st July, 2002, the latest date prior to the suspension in trading of the Company's shares on the Stock Exchange, as the consideration for the acquisition of a 49% equity interest in Masterful Resources. Details of the acquisition are set out in note 15.

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

Notes to the Financial Statements

For the year ended 30th June, 2003

27. SHARE OPTION SCHEME

Share option scheme adopted in 1999

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

Share option scheme adopted in 2002

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

No option has been granted since the adoption of the 2002 Scheme.

Notes to the Financial Statements

For the year ended 30th June, 2003

27. SHARE OPTION SCHEME (cont'd)

The following table discloses details of the Company's share options held by the Participants under the 1999 Scheme and movements in such holdings during the year.

Under the 1999 Scheme

Exercise price	Month of grant	Number of options							Outstanding as at 30th June, 2003
		Outstanding as at 1st July, 2001	Granted during the year ended 30th June, 2002	Exercised during the year ended 30th June, 2002	Surrendered by option holders during the year ended 30th June, 2002	Outstanding as at 30th June, 2002	Surrendered by option holders during the year ended 30th June, 2003	Granted during the year ended 30th June, 2003	
HK\$									
0.200	June 2001	105,450,000	-	(18,000,000)	(1,150,000)	86,300,000	-	(86,150,000)	150,000
0.200	July 2001	-	61,100,000	(20,000,000)	(4,875,000)	36,225,000	-	(36,125,000)	100,000
0.202	May 2002	-	76,505,000	-	-	76,505,000	-	(50,670,000)	25,835,000
0.200	July 2002	-	-	-	-	-	15,520,000	(15,520,000)	-
		105,450,000	137,605,000	(38,000,000)	(6,025,000)	199,030,000	15,520,000	(188,465,000)	26,085,000

Subsequent to the balance sheet date, 150,000 options lapsed due to the resignation of an employee.

Details of the share options held by Directors under the 1999 Scheme included in the above table are as follows:

Exercise price	Month of grant	Number of options							Outstanding as at 30th June, 2003
		Outstanding as at 1st July, 2001	Granted during the year ended 30th June, 2002	Exercised during the year ended 30th June, 2002	Surrendered by option holders during the year ended 30th June, 2002	Outstanding as at 30th June, 2002	Surrendered by option holders during the year ended 30th June, 2003	Granted during the year ended 30th June, 2003	
HK\$									
0.200	June 2001	24,650,000	-	(16,000,000)	-	8,650,000	(8,650,000)	-	-
0.200	July 2001	-	2,500,000	-	(1,500,000)	1,000,000	(1,000,000)	-	-
0.202	May 2002	-	50,670,000	-	-	50,670,000	(24,835,000)	-	25,835,000
		24,650,000	53,170,000	(16,000,000)	(1,500,000)	60,320,000	(34,485,000)	-	25,835,000

Notes to the Financial Statements

For the year ended 30th June, 2003

27. SHARE OPTION SCHEME (cont'd)

Details of the specific categories of options under the 1999 Scheme are as follows:

Exercise price <i>HK\$</i>	Month of grant	Exercise period
0.200	June 2001	27.06.2001 to 26.06.2011
0.200	June 2001	29.06.2001 to 28.06.2011
0.200	July 2001	11.07.2001 to 10.07.2011
0.202	May 2002	24.05.2002 to 23.05.2012

There was no exercise of share options during the current year. The aggregate consideration received by the Company for share options granted during the year was HK\$100.

28. RESERVES

	Share premium <i>HK\$'000</i>	Other reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE COMPANY				
At 1st July, 2001	97,137	–	(111,593)	(14,456)
Premium arising on issue of shares	6,120	–	–	6,120
Loss for the year	–	–	(565,396)	(565,396)
At 30th June, 2002	103,257	–	(676,989)	(573,732)
Issue of shares for acquisition of an associate	–	(51,688)	–	(51,688)
Profit for the year	–	–	46,641	46,641
At 30th June, 2003	103,257	(51,688)	(630,348)	(578,779)

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

Notes to the Financial Statements

For the year ended 30th June, 2003

29. DISPOSAL OF A SUBSIDIARY

	2003 HK\$'000	2002 HK\$'000
Net liabilities disposed of:		
Properties held for sale	59,800	–
Other receivables	4,231	–
Other payables	(11,758)	–
Loan payable	(52,923)	–
Net liabilities	(650)	–
Gain on disposal of a subsidiary	4,727	–
Consideration	4,077	–
Satisfied by:		
Consideration	57,000	–
Repayment of loan payable	(52,923)	–
	4,077	–
Cash consideration received and the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	4,077	–

The subsidiary disposed of during the year did not have significant contribution to the Group's cash flows or operating results.

Notes to the Financial Statements

For the year ended 30th June, 2003

30. ACQUISITION OF A SUBSIDIARY

	2003 HK\$'000	2002 HK\$'000
Net assets acquired:		
Property, plant and equipment	-	2,599
Inventories	-	4,525
Trade and other receivables	-	4,911
Bank balances and cash	-	229
Trade and other payables	-	(6,627)
Bank borrowing	-	(1,880)
Taxation	-	(48)
Minority interest	-	(1,669)
Net assets	-	2,040
Goodwill arising on acquisition	-	30,560
Consideration	-	32,600
Satisfied by:		
Cash	-	4,270
Issue of shares of the Company	-	27,400
Deposit paid in prior year	-	930
	-	32,600
Analysis of net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary:		
Cash consideration paid	-	(4,270)
Bank balances and cash acquired	-	229
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	-	(4,041)

The subsidiary acquired in 2002 contributed HK\$2,593,000 to the Group's net operating cash flow, paid HK\$1,795,000 in respect of investing activities and received HK\$1,880,000 for financing activities for that year.

The subsidiary acquired in 2002 contributed HK\$1,519,000 to the Group's turnover and HK\$1,682,000 to the Group's loss from operations for that year.

Notes to the Financial Statements

For the year ended 30th June, 2003

31. MAJOR NON-CASH TRANSACTIONS

During the year ended 30th June, 2002, the Group entered into finance leases in respect of new assets acquired with a total capital value at the inception of the finance leases of approximately HK\$84,000 (2003: Nil).

Other major non-cash transactions in relation to the issue of the Company's shares are set out in note 26.

32. DEFERRED TAXATION

At the balance sheet date, the unprovided deferred taxation assets (liabilities) represent:

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Tax effect of timing differences attributable to:				
Taxation loss arising	13,988	8,538	1,847	1,468
Difference between tax allowances and depreciation	996	(1,574)	-	5
	14,984	6,964	1,847	1,473

The deferred tax asset has not been recognised in the financial statements due to the unpredictability of future profit stream.

Notes to the Financial Statements

For the year ended 30th June, 2003

33. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Guarantees given to banks and a financial institution in respect of facilities granted to				
– subsidiaries	–	–	30,000	72,000
– a related company (note)	4,610	4,610	4,610	4,610
	4,610	4,610	34,610	76,610

Note: A leasing facility amounting to approximately HK\$4,610,000 (2002: HK\$4,610,000) granted by a leasing company to a former related company is secured by a corporate guarantee provided by the Company. A counter-indemnity from that former related company of the same amount was obtained by the Company. Dr. Meng Xiaosu, a former director of the Company, was also a director of that former related company.

In addition, pursuant to an agreement entered into by the Company, two of its subsidiaries and two third parties in February 2003, the Group had disposed of a subsidiary, World Giant Limited (“World Giant”), a company engaged in property investment in the PRC. In this connection, the Company has undertaken to indemnify World Giant for, among others, any increase in the liabilities of World Giant as a result of any claim for taxation arising from any transactions effected on or before the completion date of the above disposal. In October 2004, World Giant received a payment request from the PRC tax authority in respect of PRC property taxes relating to the property held by World Giant in the aggregate amount of approximately HK\$8,000,000, including the late payment surcharge levied by the tax authorities, of which approximately HK\$6,100,000 was in respect of transactions on or before the completion date. The existing management of World Giant has indicated to the Directors that the amount in respect of transactions on or before the completion date should be paid by the Company. However, the Directors are of the opinion that as such amount has been fully accrued in the accounts of the World Giant at the time of disposal, the Company has no obligation to pay the above taxes. Accordingly the Directors are currently discussing with the existing management of World Giant on this matter and consider that the outcome of this discussion will not have a material adverse effect on the financial position of the Company or the Group.

Notes to the Financial Statements

For the year ended 30th June, 2003

34. LITIGATION

Other than as disclosed in note 11, the Group had the following material claims during the year:

- (a) On 12th September, 2002, a winding-up petition (the "Petition") was served on the Company by ICEA Financial Services Limited ("ICEA"). The Company has negotiated and finally reached a settlement agreement with ICEA on 12th November, 2002 for repayment of outstanding amount of approximately HK\$6.3 million. The withdrawal of the Petition was approved at the hearing of the Petition held on 13th November, 2002 at the Court. The outstanding amount was fully repaid during the year.
- (b) On 20th December, 2002 and 23rd May, 2003, forms of claim were filed against Noble City (Asia) Limited ("Noble City"), a wholly-owned subsidiary of the Company, by a resigned director and an employee through the Labour Tribunal demanding salaries in dispute in the aggregate amount of HK\$718,000. The Labour Tribunal ordered Noble City to settle the claim in full. The amounts were not yet paid up to 30th June, 2003 and were included in trade and other payables at the balance sheet date.
- (c) In August 2004, a Writ of Summons was served on the Company by an independent company for repayment of outstanding consultancy fees in the amount of approximately HK\$2.2 million together with interest thereon. As that company has never been formally appointed as a consultant of the Company, the Directors are of the opinion that the Company has no obligations to pay the above amount to that Company. Nevertheless during the relevant period, an independent third party controlling the above company had provided certain consultancy services to the Company. The Directors are therefore in negotiation with the above independent third party with a view to resolving this matter. Because of the uncertainty of the outcome of this matter, the amount involved has been accrued and included in trade and other payables at the balance sheet date.
- (d) In September 2004, a Writ of Summons was served on the Company by a individual third party demanding immediate repayment of borrowings approximately HK\$1.6 million together with the interest thereon. As the Company has never borrowed money from that individual third party, the Directors are of the opinion that the Company has no obligations to pay the demanded amount. However, a company controlled by that individual third party had provided a loan to the Company in May 2003 and therefore, the Directors are negotiating with the independent third party on this matter. The loan advanced by the above mentioned company has been fully accrued in these financial statements.

The Directors consider that the outcome of the negotiations referred to in (c) and (d) above will not have a material adverse effect on the financial position of the Group.

Notes to the Financial Statements

For the year ended 30th June, 2003

35. PLEDGE OF ASSETS

At the balance sheet date, certain assets of the Group with the following carrying values were pledged to banks and certain other third parties in order to secure credit facilities granted to the Group:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Investment properties	62,000	60,900
Properties held for sale	–	59,800
Leasehold land and buildings	601	880
	62,601	121,580

36. CAPITAL COMMITMENTS

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of:				
– acquisition of a subsidiary	–	995	–	995
– capital injection on other investment (note)	226,200	226,200	–	–
– acquisition of property, plant and equipment	–	1,230	–	–
	226,200	228,425	–	995

Note: As explained in note 20, the Group had disposed of the relevant other investment and therefore the Group has no obligation to honour these capital injection.

Notes to the Financial Statements

For the year ended 30th June, 2003

37. OPERATING LEASES**(a) Operating lease commitments**

At the balance sheet date, the Group was committed to make minimum lease payments under non-cancellable operating leases for land and buildings which fall due as follows:

	THE GROUP	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Within one year	658	862
More than one year but within five years	303	71
	961	933

Operating lease payments represent rental payable by the Group for certain of its office properties and staff quarter. Rentals are fixed and no arrangement has been entered into for contingent rental payments.

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

(b) Operating lease arrangements

Property rental income earned during the year was HK\$5,316,000 (2002: HK\$5,370,000). The properties are expected to generate an average rental yield of 5.3% on an ongoing basis.

At the balance sheet date, the Group had minimum lease receipts, which represented rentals receivable by the Group for their investment properties under non-cancellable operating leases which fall due as follows:

	THE GROUP	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Within one year	2,462	5,317
More than one year but within five years	–	2,188
	2,462	7,505

The investment properties held have committed tenants for the next nine months of the balance sheet date.

The Company had no operating lease arrangement as landlord at the balance sheet date.

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For the year ended 30th June, 2003

38. RETIREMENT BENEFIT SCHEME

The Group operates a Mandatory Provident Fund Scheme ("MPF Scheme") for all qualifying employees in Hong Kong under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes at the lower of HK\$1,000 or 5% of relevant payroll costs, for each of the employees every month, to the MPF Scheme, which contribution is matched by employees.

The employees of the Group's subsidiary in the PRC are members of a state-managed retirement benefit scheme operated by the local government. The subsidiary is required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The total costs charged to income statement of approximately HK\$183,000 (2002: HK\$228,000) represents contributions payable to the above schemes by the Group in respect of the current accounting period.

39. RELATED PARTY DISCLOSURES

(a) Balances with related parties

Details of the balances with associates are set out in note 22.

(b) Other related party disclosures

- (i) Details of a corporate guarantee given (i) by the Group in respect of leasing facilities granted by a leasing company to a former related company are set out in note 33.
- (ii) The credit facilities utilised by the Group of approximately HK\$10,253,000 as at 30th June, 2002 were secured by, among others, a corporate guarantee provided by CILH and personal guarantees from two former directors. During the year, the related borrowings were fully settled by the Group.
- (iii) Details of share options granted to certain directors of the Company are set out in note 27.

Notes to the Financial Statements

For the year ended 30th June, 2003

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES

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

Name of subsidiary	Place of incorporation or establishment/ operations	Nominal value of issued/registered paid up share capital	Proportion of nominal value of issued/contributed capital held by the Company		Principal activities
			Direct	Indirect	
First Union Limited 壹聯有限公司	Hong Kong	HK\$2	100%	–	Property investment
Noble City (Asia) Limited 港匯(亞洲)有限公司	Hong Kong	HK\$2	100%	–	Investment holding
Welchem Development Limited 華緯發展有限公司	Hong Kong/ PRC	HK\$2	–	100%	Property investment
World Joy Limited 華緻有限公司	Hong Kong/ PRC	HK\$2	–	100%	Property investment
珠海再創通信技術有限公司 (Note)	PRC	RMB4,000,000	–	55%	Production and sales of equipment and accessories for broadband cable television
Konwide Development Limited 廣偉發展有限公司	Hong Kong	HK\$2	100%	–	Inactive

Note: The Company is registered in the form of sino-foreign joint venture.

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

41. POST BALANCE SHEET EVENTS

Details of other significant events occurred subsequent to the balance sheet date are disclosed in notes 1, 2, 11, 15, 18, 20, 22 and 34.