

Notes to the Financial Statements

For the year ended 31st July, 2002

1. GENERAL

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

The Company acts as a property and investment holding company. The activities of its principal subsidiaries are set out in note 15.

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group adopted, for the first time, a number of new and revised Statements of Standard Accounting Practice ("SSAP(s)") issued by the Hong Kong Society of Accountants. Adoption of these SSAPs has led to a number of changes in the Group's accounting policies. The revised accounting policies are set out in note 3. In addition, the new and revised SSAPs have introduced additional and revised disclosure requirements which have been adopted in these financial statements. Comparative amounts and disclosure for the prior year have been restated in order to achieve a consistent presentation.

The adoption of these new and revised SSAPs has resulted in the following changes to the Group's accounting policies that have affected the amounts reported for the current or prior years.

Segment reporting

The Group has changed the basis of identification or reportable segments to that required by SSAP 26 "Segment reporting". Segment disclosures for the year ended 31st July, 2001 have been amended so that they are presented on a consistent basis.

Goodwill

In the current year, the Group adopted SSAP 30 "Business combinations" and has elected not to restate goodwill (negative goodwill) previously eliminated against (credited to) reserves. Accordingly, goodwill arising on acquisitions prior to 1st August, 2001 held in reserves will be charged to the income statement at the time of disposal of the relevant subsidiary and associate, or at such time as the goodwill is determined to be impaired. Negative goodwill arising on acquisition prior to 1st August, 2001 will be credited to income at the time of disposal of the relevant subsidiary and associate.

Goodwill arising on acquisition on or after 1st August, 2001 is capitalised and amortised over its estimated useful life. Negative goodwill arising on acquisitions on or after 1st August, 2001 is presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.





Notes to the Financial Statements

For the year ended 31st July, 2002

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries (except for those detailed in note 16) made up to 31st July each year.

The results of subsidiaries and associates 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 between group enterprises are eliminated on consolidation.

Goodwill

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

Goodwill arising on acquisitions prior to 1st August, 2001 remained in reserves continues to be held in reserves, and will be charged to the income statement at the time of disposal of the relevant subsidiary or associate or, where appropriate, capitalised and amortised on a straight-line basis over its useful economic life or, at such time as the goodwill is determined to be impaired.

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

Negative goodwill

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

Negative goodwill arising on acquisitions prior to 1st August, 2001 remained in reserves continues to be held in reserves and will be credited to income at the time of disposal of the relevant subsidiary or associate.

Negative goodwill arising on acquisitions after 1st August, 2001 is presented as deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

Notes to the Financial Statements

For the year ended 31st July, 2002

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Negative goodwill (continued)

To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identified non-monetary assets, it is recognised in income immediately.

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

Investment properties

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

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

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

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

Property, plant and equipment

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

Depreciation 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 improvements	Over the term of the relevant lease
Furniture, fixtures and equipment	20%
Motor vehicles	20%

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



Notes to the Financial Statements

For the year ended 31st July, 2002

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in first-out method.

Investments in subsidiaries

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

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 less any negative goodwill on acquisition in so far as it has not already been released to income, less any identified impairment loss.

In the Company's balance sheet, interests in associates are stated at cost, as reduced by any identified impairment loss.

Investments in securities

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

All securities other than held-to-maturity debt securities are measured at subsequent reporting dates at fair value.

Where securities are held for trading purposes, unrealised gains and losses are included in profit or loss for the period. For other securities, unrealised gains and losses are dealt with in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in net profit or loss for the year.

Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Cost includes professional fees and other direct costs attributable to such properties until they reach a marketable condition. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Notes to the Financial Statements

For the year ended 31st July, 2002

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

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

Sales of trading securities are recognised when the related bought and sold notes are executed.

Commissions and service charges are recognised when services are provided.

When properties are developed for sale, income is recognised on the execution of a binding sales agreement or when the relevant occupation permit is issued by the building authority, whichever is the later. Payments received from purchasers prior to this stage are recorded as deposits received in advance under current liabilities.

Rental income from properties under operating leases is recognised on a straight-line basis over the term of the relevant lease.

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

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

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. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Taxation

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





Notes to the Financial Statements

For the year ended 31st July, 2002

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies

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

On consolidation, the financial statements of subsidiaries and associates which are denominated in currencies other than Hong Kong dollars, are translated at the rates ruling on the balance sheet date. All exchange differences arising on consolidation are dealt with in reserves.

Retirement benefit scheme contributions

The retirement benefit scheme contributions charged in the income statement represent the contributions payable in respect of the current year to the Group's defined contribution scheme and the Mandatory Provident Fund Scheme ("MPF Scheme").

4. TURNOVER, BUSINESS AND GEOGRAPHICAL SEGMENTS

Turnover and business segments

For management purposes, the Group is currently organised into five operating divisions – property rental, financial investment, property sale, tourism and sale of silk products and other investment. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Property rental	–	leasing of properties
Financial investment	–	trading of listed securities
Property sale	–	sale of properties held for sale
Tourism and sale of silk products	–	provision of tourist services and sale of silk products
Other investment	–	investment in other securities

In prior years, the Group was also involved in the provision of property maintenance, management and agency services.

Notes to the Financial Statements

For the year ended 31st July, 2002

4. TURNOVER, BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

Turnover and business segments (continued)

Segment information about these businesses is presented below:

For the year ended 31st July, 2002

	Property rental HK\$	Financial investment HK\$	Property sale HK\$	Tourism and sale of silk products HK\$	Other investment HK\$	Others HK\$	Consolidated HK\$
REVENUE							
External sales	1,339,346	36,240,272	–	–	–	–	37,579,618
SEGMENT RESULT	(6,013,286)	754,836	(29,773,144)	(448,392)	(21,173,910)	(2,785)	(56,656,681)
Unallocated corporate income						2,083,469	
Unallocated corporate expenses						(43,861,274)	
Loss from operations						(98,434,486)	
Finance costs						(381,389)	
Share of results of associates						15,264	
Gain on disposal of subsidiaries						36,952	
Loss before taxation						(98,763,659)	
Taxation						(52,009)	
Loss before minority interests						(98,815,668)	
Minority interests						–	
Net loss for the year						(98,815,668)	

Notes to the Financial Statements

For the year ended 31st July, 2002

4. TURNOVER, BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

Turnover and business segments (continued)

BALANCE SHEET

	Property rental HK\$	Financial investment HK\$	Property sale HK\$	Tourism and sale of silk products HK\$	Other investment HK\$	Others HK\$	Consolidated HK\$
At 31st July, 2002							
ASSETS							
Segment assets	33,693,519	–	47,307,207	11,170,511	4,004,954	7,934,196	104,110,387
Interests in associates							224,027
Unallocated corporate assets							<u>35,590,106</u>
Consolidated total assets							<u>139,924,520</u>
LIABILITIES							
Segment liabilities	757,308	–	105,700	1,462,116	–	945,679	3,270,803
Unallocated corporate liabilities							<u>34,060,903</u>
Consolidated total liabilities							<u>37,331,706</u>

Notes to the Financial Statements

For the year ended 31st July, 2002

4. TURNOVER, BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

Turnover and business segments (continued)

OTHER INFORMATION

	Property rental HK\$	Financial investment HK\$	Property sale HK\$	Tourism and sale of silk products HK\$	Other investment HK\$	Others HK\$	Unallocated HK\$	Consolidated HK\$
For the year ended 31st July, 2002								
Capital additions	-	-	-	-	-	-	700,000	700,000
Depreciation	2,243	-	-	-	-	-	11,667	13,910
Allowance for properties held for sale	-	-	29,626,306	-	-	-	-	29,626,306
Deficit on revaluation of investment properties	7,610,000	-	-	-	-	-	-	7,610,000
Impairment losses recognised in income statement	-	-	33,138	448,392	21,173,910	2,785	35,691,047	57,349,272
Amortisation of goodwill arising on acquisition of subsidiaries	-	-	-	-	-	-	4,089,483	4,089,483

Notes to the Financial Statements

For the year ended 31st July, 2002

4. TURNOVER, BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

Turnover and business segments (continued)

For the year ended 31st July, 2001

	Property rental HK\$	Financial investment HK\$	Property sale HK\$	Property maintenance, and agency management services HK\$	Other investment HK\$	Others HK\$	Consolidated HK\$
REVENUE							
External sales							
- Continuing operations	9,384,017	7,589,379	-	-	-	-	16,973,396
- Discontinued operations	-	-	-	16,526,221	-	-	16,526,221
	<u>9,384,017</u>	<u>7,589,379</u>	<u>-</u>	<u>16,526,221</u>	<u>-</u>	<u>-</u>	<u>33,499,617</u>
SEGMENT RESULT							
- Continuing operations	(5,242,090)	843,761	(4,772,899)	-	(11,267,918)	-	(20,439,146)
- Discontinued operations	-	-	-	1,580,601	-	-	1,580,601
	<u>(5,242,090)</u>	<u>843,761</u>	<u>(4,772,899)</u>	<u>1,580,601</u>	<u>(11,267,918)</u>	<u>-</u>	<u>(18,858,545)</u>
Unallocated corporate income							21,508
Unallocated corporate expenses							<u>(13,952,924)</u>
Loss from operations							(32,789,961)
Finance costs							(4,936,795)
Share of results of associates							924,596
Amortisation of goodwill arising on acquisition of an associate							(22,901,645)
Impairment loss on goodwill arising on acquisition of an associate							(141,990,201)
Gain on disposal of subsidiaries							43,499,171
Gain on disposal of associates							<u>1,176,049</u>
Loss before taxation							(157,018,786)
Taxation							<u>(215,569)</u>
Loss before minority interests							(157,234,355)
Minority interests							<u>(46,490)</u>
Net loss for the year							<u>(157,187,865)</u>

Notes to the Financial Statements

For the year ended 31st July, 2002

4. TURNOVER, BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

Turnover and business segments (continued)

BALANCE SHEET

	Property rental HK\$	Financial investment HK\$	Property sale HK\$	Property maintenance, management and agency services HK\$	Other investment HK\$	Others HK\$	Consolidated HK\$
At 31st July, 2001							
ASSETS							
Segment assets	41,268,578	273,506	33,267,967	–	120,155,799	–	194,965,850
Interests in associates							129,081
Unallocated corporate assets							<u>133,080</u>
Consolidated total assets							<u>195,228,011</u>
LIABILITIES							
Segment liabilities	1,593,134	–	–	–	–	–	1,593,134
Unallocated corporate liabilities							<u>15,761,715</u>
Consolidated total liabilities							<u>17,354,849</u>

Notes to the Financial Statements

For the year ended 31st July, 2002

4. TURNOVER, BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

Turnover and business segments (continued)

OTHER INFORMATION

	Property rental HK\$	Financial investment HK\$	Property sale HK\$	Property maintenance, management and agency services HK\$	Other investment HK\$	Others HK\$	Unallocated HK\$	Consolidated HK\$
For the year ended 31st July, 2001								
Capital additions	456,266	-	-	205,310	-	-	-	661,576
Depreciation	393,643	-	-	234,199	-	-	38,684	666,526
Allowance for properties held for sale	-	-	4,555,600	-	-	-	-	4,555,600
Deficit on revaluation of investment properties	10,650,000	-	-	-	-	-	-	10,650,000
Impairment losses recognised in income statement	-	-	-	-	3,360,269	-	141,990,201	145,350,470
Amortisation of goodwill arising on acquisition of an associate	-	-	-	-	-	-	22,901,645	22,901,645

Geographical segments

The Group's current operations are mainly located in Hong Kong, the People's Republic of China, other than Hong Kong (the "PRC"), Japan and Malaysia. The Group's property rental businesses are carried out in the PRC and Hong Kong. Financial investment is located in Hong Kong and property sale division is located in Hong Kong, Japan and the PRC. Tourism and sale of silk products are carried out in Hong Kong. Other investment is located in Hong Kong and Malaysia.

In prior years, the Group's property maintenance, management and agency services businesses were carried out in Hong Kong.

Notes to the Financial Statements

For the year ended 31st July, 2002

4. TURNOVER, BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

Geographical segments (continued)

Segment information about these geographic markets is presented below:

	Turnover by geographical market		Loss from operations	
	2002	2001	2002	2001
	HK\$	HK\$	HK\$	HK\$
Hong Kong	37,566,503	33,499,617	(5,853,357)	(14,265,998)
The PRC	13,115	–	(45,208)	(26,551)
Japan	–	–	(29,740,006)	(4,565,996)
Malaysia	–	–	(21,018,110)	–
	<u>37,579,618</u>	<u>33,499,617</u>	<u>(56,656,681)</u>	<u>(18,858,545)</u>
Unallocated corporate income			2,083,469	21,508
Unallocated corporate expenses			<u>(43,861,274)</u>	<u>(13,952,924)</u>
Loss from operations			<u>(98,434,486)</u>	<u>(32,789,961)</u>

Revenue from the Group's discontinued operations of HK\$16,526,221 for the year ended 31st July, 2001 was derived principally from Hong Kong.

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment and goodwill, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment and goodwill	
	2002	2001	2002	2001
	HK\$	HK\$	HK\$	HK\$
Hong Kong	77,841,610	162,166,251	51,401,102	165,553,422
The PRC	23,264,076	–	–	–
Japan	24,401,000	33,061,760	–	–
Malaysia	14,417,834	–	–	–
	<u>139,924,520</u>	<u>195,228,011</u>	<u>51,401,102</u>	<u>165,553,422</u>

Notes to the Financial Statements

For the year ended 31st July, 2002

5. LOSS FROM OPERATIONS

	2002 HK\$	2001 HK\$
Loss from operations has been arrived at after charging (crediting):		
Directors' remuneration (note 8)	1,283,581	1,172,508
Other staff costs	85,779	14,126,456
Severance payments	–	640,192
Total staff costs	1,369,360	15,939,156
Auditors' remuneration:		
Current year	275,000	350,000
Underprovision in prior years	88,580	133,790
Depreciation on:		
Owned assets	13,910	657,426
Assets held under finance leases	–	9,100
Bank and other interest income	(2,600)	–
Amortisation of negative goodwill arising on acquisition of an associate (included in other operating income)	(93,491)	–
Dividend income from listed trading securities	(173,780)	(530,465)
Interest income on promissory note receivables	(747,987)	–
Unrealised holding loss on trading securities	–	85,737

6. FINANCE COSTS

	2002 HK\$	2001 HK\$
Interest on:		
Borrowings wholly repayable within five years:		
Bank borrowings	349,516	4,934,927
Promissory notes	31,873	–
Obligations under finance leases	–	1,868
	381,389	4,936,795

Notes to the Financial Statements

For the year ended 31st July, 2002

7. GAIN ON DISPOSAL OF SUBSIDIARIES WHICH HAD BEEN ENGAGED IN DISCONTINUED OPERATIONS

During the year ended 31st July, 2001, the Group disposed of its entire interest in Yoshiya Property Management Limited ("Yoshiya Property"), Lee Hong Engineering Company Limited ("Lee Hong") and Richamp Engineering Limited ("Richamp") to an independent third party as partial consideration for the acquisition of a 40% interest in Worldwide IP Communications Limited ("WWIP"), a company engaged in the business of internet communication services, pursuant to the sale and purchase agreement. Yoshiya Property acted as an investment holding company and was also engaged in the business of property management and provision of agency services. Lee Hong and Richamp were engaged in the provision of property maintenance services. Accordingly, the Group's business in these operations was discontinued and the effective date of discontinuance for accounting purposes was 26th February, 2001.

There was no gain or loss arising from the disposal of Yoshiya Property, Lee Hong and Richamp as the consideration of disposal was the same as the aggregate carrying value of those companies' net assets. No tax charge or credit arose from the transaction.

Details of the results of the property maintenance, management and agency services operations for the period from 1st August, 2000 to 26th February, 2001, which have been included in the consolidated financial statements, are set out in note 4.

8. DIRECTORS' EMOLUMENTS

	2002 HK\$	2001 HK\$
Fees:		
Executive directors	55,000	27,480
Non-executive and independent non-executive directors	300,831	40,000
	<u>355,831</u>	<u>67,480</u>
Other emoluments (executive directors):		
Salaries and other benefits	890,000	843,085
Retirement benefit scheme contributions	10,750	76,915
Other emoluments (non-executive directors):		
Salaries and other benefits	27,000	183,228
Retirement benefit scheme contributions	—	1,800
	<u>927,750</u>	<u>1,105,028</u>
	<u>1,283,581</u>	<u>1,172,508</u>

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

Notes to the Financial Statements

For the year ended 31st July, 2002

9. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, all (2001: three) were directors of the Company whose emoluments are included in note 8 above. The emoluments of the remaining two employees for the year ended 31st July, 2001 were as follows:

	2002 HK\$	2001 HK\$
Salaries and other benefits	–	935,268
Retirement benefit scheme contributions	–	89,366
	<u>–</u>	<u>1,024,634</u>

The emoluments of each of these employees were below HK\$1,000,000.

10. TAXATION

	2002 HK\$	2001 HK\$
The charge comprises:		
The PRC Income Tax	1,246	–
Share of taxation on results of associates	<u>50,763</u>	<u>215,569</u>
	<u>52,009</u>	<u>215,569</u>

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group has no assessable profit for the year.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdiction.

Details of the deferred tax asset not recognised are set out in note 31.

11. LOSS PER SHARE

The calculation of basic loss per share is based on net loss for the year of HK\$98,815,668 (2001: HK\$157,187,865) and 482,399,556 (2001: weighted average number of 466,760,118) shares in issue during the year.

No diluted earnings per share has been presented because the exercise price of the Company's options was higher than the average market price for shares for both years.

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For the year ended 31st July, 2002

12. INVESTMENT PROPERTIES

	THE GROUP		THE COMPANY	
	2002	2001	2002	2001
	HK\$	HK\$	HK\$	HK\$
VALUATION				
At 1st August, 2001	40,590,000	99,740,000	1,650,000	32,550,000
Disposal	–	(37,000,000)	–	(30,800,000)
Upon disposal of subsidiaries	–	(11,500,000)	–	–
Deficit arising on revaluation	(7,610,000)	(10,650,000)	(200,000)	(100,000)
At 31st July, 2002	32,980,000	40,590,000	1,450,000	1,650,000
Comprising:				
Investment properties held in Hong Kong under:				
long leases	1,400,000	1,660,000	–	–
medium-term leases	31,580,000	38,930,000	1,450,000	1,650,000
	32,980,000	40,590,000	1,450,000	1,650,000

The investment properties of the Group and the Company are held for rental purposes under operating leases and were revalued at 31st July, 2002 on an open market value basis by an independent firm of professional valuers, chartered surveyors.

The deficit arising from revaluation of the Group's and the Company's investment properties at 31st July, 2002 amounted to HK\$7,610,000 (2001: HK\$10,650,000) and HK\$200,000 (2001: HK\$100,000), respectively, have been charged to the income statement.



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13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK\$	Furniture, fixtures and equipment HK\$	Motor vehicles HK\$	Total HK\$
THE GROUP				
COST				
At 1st August, 2001	–	–	750,500	750,500
Additions	–	–	700,000	700,000
Disposals	–	–	(750,500)	(750,500)
Upon acquisition of subsidiaries	3,117,440	940,389	–	4,057,829
At 31st July, 2002	3,117,440	940,389	700,000	4,757,829
DEPRECIATION				
At 1st August, 2001	–	–	750,500	750,500
Provided for the year	–	2,243	11,667	13,910
Eliminated on disposals	–	–	(750,500)	(750,500)
Upon acquisition of subsidiaries	2,403,486	705,499	–	3,108,985
At 31st July, 2002	2,403,486	707,742	11,667	3,122,895
NET BOOK VALUES				
At 31st July, 2002	713,954	232,647	688,333	1,634,934
At 31st July, 2001	–	–	–	–
THE COMPANY				
COST				
At 1st August, 2001	–	–	750,500	750,500
Disposals	–	–	(750,500)	(750,500)
At 31st July, 2002	–	–	–	–
DEPRECIATION				
At 1st August, 2001	–	–	750,500	750,500
Eliminated on disposals	–	–	(750,500)	(750,500)
At 31st July, 2002	–	–	–	–
NET BOOK VALUES				
At 31st July, 2002	–	–	–	–
At 31st July, 2001	–	–	–	–

Notes to the Financial Statements

For the year ended 31st July, 2002

14. GOODWILL

	THE GROUP HK\$
COST	
At 1st August, 2001	164,891,846
Additions	50,701,102
Eliminated on disposals	(164,891,846)
At 31st July, 2002	50,701,102
AMORTISATION AND IMPAIRMENT	
At 1st August, 2001	164,891,846
Provided for the year	4,089,483
Eliminated on disposals	(164,891,846)
Impairment loss recognised	36,175,362
At 31st July, 2002	40,264,845
NET BOOK VALUES	
At 31st July, 2002	10,436,257
At 31st July, 2001	—

The amortisation period adopted for goodwill ranges from 3 to 20 years. The directors have reviewed the carrying value of the goodwill and determined that its recoverable amount had declined below the carrying value. Accordingly, an impairment loss of HK\$36,175,362 was recognised in the consolidated income statement of the Group during the year. The recoverable amount was determined by the directors by reference to the business operated by certain subsidiaries and their future economic benefits expected to be generated.

15. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2002	2001
	HK\$	HK\$
Unlisted investments, at cost	31,538,761	31,538,811
Amounts due from subsidiaries	178,362,763	269,045,441
	209,901,524	300,584,252
Impairment loss recognised	(165,420,175)	(257,105,425)
	44,481,349	43,478,827

Notes to the Financial Statements

For the year ended 31st July, 2002

15. INTERESTS IN SUBSIDIARIES (CONTINUED)

Details of the Company's principal subsidiaries at 31st July, 2002 are as follows:

Name of subsidiary	Place of incorporation/ operation	Issued and paid up share capital	Proportion of nominal value of issued capital held by the Company		Principal activities
			Directly %	Indirectly %	
Adrian Realty Limited	Hong Kong	HK\$1,000,000	100	–	Property investment
Chadbury International Limited	British Virgin Islands/Japan	US\$1	–	100	Property investment
Evergood Management Limited	Hong Kong	HK\$2	100	–	Property right holding and investment holding
Finacorp Resources (M) Sdn. Bhd.	Malaysia	RM2	–	100	Provision of interior design services
Great Prospect Travel Limited	Hong Kong	HK\$800,000	–	70	Tourism
Hegel Trading Limited	Hong Kong	HK\$2	100	–	Property investment
Kan Hock Investment and Developments Limited	Hong Kong	HK\$2	–	100	Property investment
Marcello Asia Limited	Hong Kong	HK\$14,500,000	–	70	Sale of silk products

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

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Notes to the Financial Statements

For the year ended 31st July, 2002

16. SUBSIDIARIES NOT CONSOLIDATED

THE GROUP

2001

HK\$

Group's share of the net assets in subsidiaries not consolidated up to the date of de-consolidation	23,696,400
Attributable goodwill	15,541,253
	<hr/>
	39,237,653
Amount advanced to a subsidiary	3,487,061
	<hr/>
	42,724,714
Impairment loss recognised	(42,724,714)
	<hr/>
	—
	<hr/>

Details of the Group's subsidiaries not consolidated at 31st July, 2001 are as follows:

Name of subsidiary	Place of incorporation and operation	Issued and paid up share capital	Proportion of nominal value of issued capital held by the Company		Principal activities
			Directly %	Indirectly %	
Rayman Trading Company Limited ("Rayman")	Hong Kong	HK\$224,500	41	10	Activities suspended
Abacus Telecom Limited	Hong Kong	HK\$10,000	—	51	Activities suspended

On 7th August, 1996, the directors of Rayman made a statutory declaration that Rayman together with its subsidiary, Abacus Telecom Limited ("Rayman Group") could not, by reason of its liabilities, continue its business and it was necessary that Rayman Group be wound up. On 4th September, 1996, liquidators were appointed to handle the winding up. Impairment loss was recognised in 1996 in respect of the Group's entire interest in Rayman Group. Rayman Group was dissolved during the year.

Notes to the Financial Statements

For the year ended 31st July, 2002

17. INTERESTS IN ASSOCIATES

	2002 HK\$	2001 HK\$
THE GROUP		
Share of net assets of associates	1,252,431	129,081
Negative goodwill arising on acquisition of an associate (Note)	(1,028,404)	—
	224,027	129,081
Amounts due from associates	—	63,750
Less: Impairment loss recognised	—	(63,750)
	224,027	129,081
THE COMPANY		
Unlisted shares, at cost	—	3,300
Amounts due from associates	—	63,750
Less: Impairment loss recognised	—	(67,050)
	—	—
<i>Note:</i>		
		THE GROUP
		Negative goodwill
		HK\$
GROSS AMOUNT		
Arising on acquisition of an associate and at 31st July, 2002		1,121,895
AMORTISATION		
Released for the year and at 31st July, 2002		93,491
CARRYING AMOUNT		
At 31st July, 2002		1,028,404

The negative goodwill is released to other operating income on a straight-line basis over a period of 3 to 20 years.

Notes to the Financial Statements

For the year ended 31st July, 2002

17. INTERESTS IN ASSOCIATES (CONTINUED)

Details of the principal associate of the Group at 31st July, 2002 are as follows:

Name of associate	Place of incorporation/ operation	Proportion of nominal value of issued capital held indirectly by the Company	Principal activities
Vistanet (M) Sdn. Bhd.	Malaysia	20%	Construction

During the year ended 31st July, 2002, the Group disposed of its entire 40% interest in WWIP, Everstar Technologies Limited and Gold Channel Limited and 20% interest in Minuteex Limited upon the disposal of a wholly-owned subsidiary, Yoshiya Enterprises Limited, at a consideration of HK\$2.

The above table lists the associate of the Group which, in the opinion of the directors, principally affected the results or net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

18. OTHER SECURITIES

	THE GROUP		THE COMPANY	
	2002	2001	2002	2001
	HK\$	HK\$	HK\$	HK\$
Unlisted equity securities				
At cost	25,978,864	1,220,040	954,800	1,219,040
Unrealised holding loss	(21,973,910)	(926,270)	(954,800)	(926,270)
At fair value	4,004,954	293,770	–	292,770

19. PROMISSORY NOTE RECEIVABLES

	THE GROUP AND THE COMPANY	
	2002	2001
	HK\$	HK\$
Principal	22,000,000	–

The promissory note receivables are unsecured, interest bearing at 5% per annum and receivable on 27th February, 2005 as set out in note 20.

Notes to the Financial Statements

For the year ended 31st July, 2002

20. AMOUNT DUE FROM AN INVESTEE COMPANY

	THE GROUP AND THE COMPANY	
	2002	2001
	HK\$	HK\$
Amount due from an investee company	–	123,222,298
Impairment loss recognised	–	(3,360,269)
	<u>–</u>	<u>119,862,029</u>

On 6th December, 2000, the Company entered into a conditional sale and purchase agreement (the “Agreement”) (as supplemented by supplemental agreements dated 12th December, 2000 and 27th March, 2001 and extension letters dated 19th January, 2001 and 28th September, 2001) with E-Cash Ventures Limited (“E-Cash”), a company incorporated in the British Virgin Islands and wholly owned by Far East Consortium International Limited (“FECI”), which had beneficial interest in the Company previously, to dispose of its entire 15.33% interest in Mutual Luck Investment Limited (“Mutual Luck”), an investee company, together with the amount due from Mutual Luck of HK\$123,222,298 for a cash consideration of HK\$120,000,000 (the “Consideration”). As a result of the foregoing, an impairment loss of HK\$3,360,269 was recognised in the income statement for the year ended 31st July, 2001 to state the amount due from Mutual Luck at its estimated recoverable amount. The completion documents were exchanged on 30th November, 2001.

At 31st July, 2001, the amount due from Mutual Luck was unsecured, non-interest bearing and had no fixed repayment terms.

Pursuant to the Agreement, E-Cash should pay the Consideration to the Company by cash of HK\$12,000,000 upon completion of the Agreement, of HK\$48,000,000 upon expiry of 3 months from the date of completion of the Agreement and of HK\$60,000,000 upon expiry of 6 months from the date of completion of the Agreement. As security for the performance of E-Cash’s payment obligations after completion of the Agreement, E-Cash entered into a share pledge and a loan assignment in favour of the Company and FECI entered into a corporate guarantee in favour of the Company.

During the year, HK\$12,000,000 was paid by E-Cash. On 28th February, 2002, FECI, E-Cash and the Company entered into a deed of release (the “Deed”). Pursuant to the Deed, FECI agreed to issue unsecured transferable loan notes amounting to HK\$108,000,000 (“Transferable Promissory Loan Notes”) in lieu of the payment of the balance of the Consideration payable and the Company released E-Cash from its payment obligations in respect of the said sum of HK\$108,000,000 under the Agreement, the share pledge, the loan assignment and FECI from the corporate guarantee. The Transferable Promissory Loan Notes were issued on 28th February, 2002 and are unsecured and interest bearing at 5% per annum. The Transferable Promissory Loan Notes of HK\$48,000,000 and HK\$60,000,000 are due on 27th February, 2005 and 30th May, 2005, respectively.

At 31st July, 2002, the outstanding Transferable Promissory Loan Notes amounted to HK\$22,000,000 as set out in note 19.

Notes to the Financial Statements

For the year ended 31st July, 2002

21. PROPERTIES UNDER DEVELOPMENT FOR SALE

	THE GROUP	
	2002	2001
	HK\$	HK\$
COST LESS IMPAIRMENT		
Balance brought forward	–	53,534,105
Additions	–	106,279
Upon disposal of a subsidiary	–	(53,640,384)
	<hr/>	<hr/>
Balance carried forward	–	–
	<hr/>	<hr/>

22. PROPERTIES HELD FOR SALE

	THE GROUP		THE COMPANY	
	2002	2001	2002	2001
	HK\$	HK\$	HK\$	HK\$
Properties in Hong Kong	206,207	206,207	206,207	206,207
Properties in Japan	24,401,000	33,061,760	–	–
Properties in the PRC	22,700,000	–	–	–
	<hr/>	<hr/>	<hr/>	<hr/>
	47,307,207	33,267,967	206,207	206,207
	<hr/>	<hr/>	<hr/>	<hr/>

Included above are properties in Japan and in the PRC of HK\$47,101,000 (2001: HK\$33,061,760) carried at net realisable value.

23. TRADE AND OTHER RECEIVABLES

At 31st July, 2002, the balance of trade and other receivables included trade receivables of HK\$973,597 (2001: HK\$441,756). An aged analysis of trade receivables is as follows:

	THE GROUP	
	2002	2001
	HK\$	HK\$
0 to 60 days	636,422	207,274
61 to 90 days	100,154	104,637
91 days or above	237,021	129,845
	<hr/>	<hr/>
	973,597	441,756
	<hr/>	<hr/>

The Group allows an average credit period of 30 days to its trade customers.

Notes to the Financial Statements

For the year ended 31st July, 2002

24. LOAN RECEIVABLE

The loan is unsecured, interest bearing at Hong Kong prime rate and repayable within twelve months from the balance sheet date.

25. TRADE AND OTHER PAYABLES

At 31st July, 2002, the balance of trade and other payables included trade payables of HK\$1,165,061 (2001: Nil). An aged analysis of trade payables is as follows:

	THE GROUP	
	2002	2001
	HK\$	HK\$
0 to 60 days	758,282	—
91 days or above	406,779	—
	<u>1,165,061</u>	<u>—</u>

26. PROMISSORY NOTE PAYABLES

	THE GROUP	
	2002	2001
	HK\$	HK\$
Principal	<u>30,272,000</u>	<u>—</u>

The promissory note payables are unsecured. An amount of HK\$22,700,000 bears interest at Hong Kong best lending rate and is repayable on 21st July, 2003 and the remaining of HK\$7,572,000 bears interest at 5% per annum and is repayable on 30th July, 2003.

27. SECURED BANK LOAN

The secured bank loan is repayable as follows:

	THE GROUP AND THE COMPANY	
	2002	2001
	HK\$	HK\$
Within one year or upon demand	556,616	—
More than one year but not exceeding two years	591,398	—
More than two years but not exceeding five years	<u>1,413,134</u>	<u>—</u>
	2,561,148	—
Less: Amount due within one year shown as current liabilities	<u>(556,616)</u>	<u>—</u>
Amount due after one year	<u>2,004,532</u>	<u>—</u>

Notes to the Financial Statements

For the year ended 31st July, 2002

28. SHARE CAPITAL

	Number of ordinary shares	Amount HK\$
Ordinary shares of HK\$0.40 each		
Authorised:		
At 1st August, 2000	750,000,000	300,000,000
Increase in authorised share capital	1,500,000,000	600,000,000
	<u>2,250,000,000</u>	<u>900,000,000</u>
At 31st July, 2001 and 31st July, 2002		
Issued and fully paid:		
At 1st August, 2000	401,999,630	160,799,852
Issue of shares on private placement	80,399,926	32,159,969
	<u>482,399,556</u>	<u>192,959,821</u>
At 31st July, 2001 and 31st July, 2002		

29. SHARE OPTION SCHEME

Details of the movements during the year and the balances of unexercised options at 31st July, 2002 under the share option scheme are as follows:

Exercisable period	Exercise price per share, subject to adjustment HK\$	Number of share options		
		At 1st August, 2001	Lapsed during the year (note)	At 31st July, 2002
8th April, 1997 to 6th March, 2007	0.5712	3,000,000	(3,000,000)	—

Note: These options were lapsed upon resignation of the grantee.



Notes to the Financial Statements

For the year ended 31st July, 2002

30. RESERVES

	Share premium HK\$	Capital reserve HK\$	Special capital reserve (note) HK\$	Investment property revaluation reserve HK\$	Investment revaluation reserve HK\$	Property revaluation reserve HK\$	Currency translation reserve HK\$	Capital redemption reserve HK\$	Deficit HK\$	Total HK\$
THE GROUP										
Balance at 1st August, 2000	251,388,544	152,571	9,278,080	–	(11,370,425)	4,152,106	(14,537,628)	268,000	(97,587,823)	141,743,425
Eliminated on disposal of subsidiaries	–	4,105	–	–	3,649,500	(4,152,106)	(1,265,278)	–	–	(1,763,779)
Realised on disposal of other securities	–	–	–	–	7,720,925	–	–	–	–	7,720,925
Exchange difference arising on consolidation	–	–	–	–	–	–	(5,162,640)	–	–	(5,162,640)
Expenses incurred in connection with issue of shares	(436,725)	–	–	–	–	–	–	–	–	(436,725)
Transfer for the year (note)	–	–	(9,278,080)	–	–	–	–	–	9,278,080	–
Net loss for the year	–	–	–	–	–	–	–	–	(157,187,865)	(157,187,865)
Balance at 31st July, 2001	250,951,819	156,676	–	–	–	–	(20,965,546)	268,000	(245,497,608)	(15,086,659)
Unrealised holding loss arising on revaluation of other securities	–	–	–	–	(21,173,910)	–	–	–	–	(21,173,910)
Impairment loss recognised	–	–	–	–	21,173,910	–	–	–	–	21,173,910
Exchange difference arising on consolidation	–	–	–	–	–	–	1,223,040	–	–	1,223,040
Reversal of exchange differences on properties held for sale	–	–	–	–	–	–	19,742,506	–	–	19,742,506
Net loss for the year	–	–	–	–	–	–	–	–	(98,815,668)	(98,815,668)
Balance at 31st July, 2002	250,951,819	156,676	–	–	–	–	–	268,000	(344,313,276)	(92,936,781)

Notes to the Financial Statements

For the year ended 31st July, 2002

30. RESERVES (CONTINUED)

	Share premium HK\$	Capital reserve HK\$	Special capital reserve (note) HK\$	Investment property revaluation reserve HK\$	Investment revaluation reserve HK\$	Property revaluation reserve HK\$	Currency translation reserve HK\$	Capital redemption reserve HK\$	Deficit HK\$	Total HK\$
Included in the above are the following Group's share of post-acquisition reserves of the associates:										
Balance at 1st August, 2000	-	-	-	-	-	-	-	-	3,414,451	3,414,451
Net profit for the year	-	-	-	-	-	-	-	-	709,027	709,027
Eliminated on disposal of associates	-	-	-	-	-	-	-	-	(4,656,915)	(4,656,915)
Balance at 31st July, 2001	-	-	-	-	-	-	-	-	(533,437)	(533,437)
Net loss for the year	-	-	-	-	-	-	-	-	(35,499)	(35,499)
Eliminated on disposal of associates	-	-	-	-	-	-	-	-	699,468	699,468
Balance at 31st July, 2002	-	-	-	-	-	-	-	-	130,532	130,532
THE COMPANY										
Balance at 1st August, 2000	251,388,544	2,127,479	9,278,080	25,437,576	(7,720,925)	-	-	268,000	(147,529,005)	133,249,749
Realised on disposal of investment properties	-	-	-	(25,437,576)	-	-	-	-	-	(25,437,576)
Realised on disposal of other securities	-	-	-	-	7,720,925	-	-	-	-	7,720,925
Expenses incurred in connection with issue of shares	(436,725)	-	-	-	-	-	-	-	-	(436,725)
Transfer for the year (note)	-	-	(9,278,080)	-	-	-	-	-	9,278,080	-
Net loss for the year	-	-	-	-	-	-	-	-	(130,253,789)	(130,253,789)
Balance at 31st July, 2001	250,951,819	2,127,479	-	-	-	-	-	268,000	(268,504,714)	(15,157,416)
Net loss for the year	-	-	-	-	-	-	-	-	(77,798,889)	(77,798,889)
Balance at 31st July, 2002	250,951,819	2,127,479	-	-	-	-	-	268,000	(346,303,603)	(92,956,305)

At 31st July, 2002, the Company had no reserve available for distribution to the shareholders.

Notes to the Financial Statements

For the year ended 31st July, 2002

30. RESERVES (CONTINUED)

Note:

On 13th January, 1997, as a condition for the reduction of the authorised share capital of the Company from HK\$300,000,000 to HK\$120,000,000, the Company by its Counsel had given an undertaking to the Supreme Court as set out in the Order on Summons for Directors. The undertaking goes:

- (a) as long as there shall remain any debt or liability of or claim against the Company outstanding as at 20th January, 1997, being the date when the reduction of capital becomes effective (the "Effective Date"), the Company shall credit to a special capital reserve (the "Special Capital Reserve") any amount taken into account in the accounting records of the Company for the year ended 31st July, 1996 by way of provision or unrealised losses in respect of the advance of HK\$14,193,972 to and assumption as a guarantor of liability of HK\$105,368,592 incurred by Rayman which is recovered after the Effective Date and the amount in the Special Capital Reserve shall not be treated as realised profit and shall be treated as an undistributable reserve of the Company. However, the amount standing to the credit of the Special Capital Reserve shall not exceed either HK\$115,856,518 or the amount due at any time to the creditors of the Company as at the Effective Date, whichever is the lesser, and may be reduced by any increase in the issued share capital or in the share premium account of the Company resulting from an issue of shares for cash or other new consideration or upon a capitalisation of distributable reserves; and
- (b) a summary of such undertaking will be disclosed in the Company's audited financial statements until it shall no longer be applicable.

The special capital reserve of the Group and the Company at 1st August, 2000 represented the release of Rayman's bank loans assumed by the Company. The entire balance of the reserve was applied to set off deficit upon the issue of new ordinary shares in the Company amounting to HK\$32,159,969 for cash at par for the year ended 31st July, 2001.

31. DEFERRED TAXATION

Deferred tax asset in respect of tax losses available to set off future profits has not been recognised in the financial statements as it is not certain that the asset will crystallise in the foreseeable future.

At 31st July, 2002, the unrecognised deferred tax assets of the Group and the Company in respect of unutilised tax losses are approximately HK\$5,265,000 (2001: HK\$5,243,000) and HK\$1,148,000 (2001: HK\$1,380,000), respectively.

The amount of unrecognised deferred tax credit (charge) for the year is as follows:

	THE GROUP		THE COMPANY	
	2002	2001	2002	2001
	HK\$	HK\$	HK\$	HK\$
Tax effect of timing differences because of:				
Difference of tax allowances and depreciation	–	65,000	–	(1,000)
Tax losses incurred (utilised)	22,000	(440,000)	(232,000)	452,000
	22,000	(375,000)	(232,000)	451,000

Notes to the Financial Statements

For the year ended 31st July, 2002

31. DEFERRED TAXATION (CONTINUED)

Deferred taxation has not been provided on the revaluation surplus arising from the revaluation of certain land and buildings in Hong Kong as profits arising from the disposal of these assets would not be subject to taxation. Accordingly, the revaluation does not constitute a timing difference for tax purposes.

32. RECONCILIATION OF LOSS BEFORE TAXATION TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2002 HK\$	2001 HK\$
Loss before taxation	(98,763,659)	(157,018,786)
Gain on disposal of associates	–	(1,176,049)
Gain on disposal of subsidiaries	(36,952)	(43,499,171)
Impairment loss on goodwill arising on acquisition of an associate	–	141,990,201
Impairment loss on goodwill arising on acquisition of subsidiaries	36,175,362	–
Amortisation of goodwill arising on acquisition of an associate	–	22,901,645
Amortisation of goodwill arising on acquisition of subsidiaries	4,089,483	–
Amortisation of negative goodwill arising on acquisition of an associate	(93,491)	–
Share of results of associates	(15,264)	(924,596)
Interest expenses	381,389	4,936,795
Interest income	(750,587)	–
Dividend income from listed trading securities	(173,780)	(530,465)
Depreciation	13,910	666,526
Loss on disposal of other securities	–	7,907,649
Loss on disposal of property, plant and equipment	–	3,491,636
Impairment loss on amount due from an investee company	–	3,360,269
Impairment loss on other securities	21,173,910	–
Allowance for properties held for sale	29,626,306	4,555,600
Unrealised holding loss on trading securities	–	85,737
Deficit on revaluation of investment properties	7,610,000	10,650,000
Increase in properties under development for sale	–	(106,279)
Decrease (increase) in trade and other receivables	118,014	(15,567,886)
Decrease in trading securities	240,138	34,505
(Decrease) increase in trade and other payables	(3,840,283)	6,210,188
Decrease in balance of consideration payable on acquisition of an associate	(12,000,000)	–
Net cash outflow from operating activities	(16,245,504)	(12,032,481)

Notes to the Financial Statements

For the year ended 31st July, 2002

33. ACQUISITION OF SUBSIDIARIES

	2002 HK\$	2001 HK\$
Net assets acquired:		
Properties held for sale	5,500,000	—
Property, plant and equipment	948,844	—
Other securities	25,023,065	—
Interest in an associate	4	—
Inventories	6,546,633	—
Trade and other receivables	3,388,427	—
Bank balances and cash	546,014	—
Trade and other payables	(2,673,497)	—
Taxation payable	(317,700)	—
Minority interests	(2,569,774)	—
	<hr/>	<hr/>
Net assets	36,392,016	—
Goodwill arising on acquisition	50,701,102	—
	<hr/>	<hr/>
	87,093,118	—
Satisfied by:		
Cash consideration paid	21,118	—
Promissory note receivables offset (note 36(a))	74,000,000	—
Promissory note payables (note 36(a))	13,072,000	—
	<hr/>	<hr/>
Total consideration	87,093,118	—
Analysis of net inflow of cash and cash equivalents in connection with the purchase of subsidiaries:		
Cash consideration paid (note 36(a))	(21,118)	—
Bank balances and cash acquired	546,014	—
	<hr/>	<hr/>
Net inflow of cash and cash equivalents	524,896	—

The subsidiaries acquired during the year did not contribute significantly to the Group's cash flows or operating results.

Notes to the Financial Statements

For the year ended 31st July, 2002

34. DISPOSAL OF SUBSIDIARIES

	2002 HK\$	2001 HK\$
Net (liabilities) assets disposal of:		
Investment properties	–	11,500,000
Property, plant and equipment	–	6,931,096
Deposits and other costs for the acquisition of properties	–	9,982,470
Interests in associates	(36,950)	5,102,256
Other securities	–	3,695,640
Properties under development for sale	–	53,640,384
Properties held for sale	–	30,349,787
Trade and other receivables	–	19,909,276
Balance of consideration receivable on disposal of subsidiaries	–	6,843,066
Taxation recoverable	–	76,500
Trading securities	–	32,940
Bank balances and cash	–	6,964,281
Trade and other payables	–	(15,249,363)
Taxation payable	–	(84,000)
Obligations under finance leases	–	(2,262)
Bank borrowings – matured within three months from date of advance	–	(14,488,952)
Bank borrowings – matured after three months from date of advance	–	(37,433,767)
Currency translation reserve	–	(1,265,278)
Minority interests	–	(14,198,058)
Investment revaluation reserve realised	–	3,649,500
Capital reserve realised	–	4,105
Property revaluation reserve realised	–	(4,152,106)
	(36,950)	71,807,515
Gain on disposal of subsidiaries	36,952	43,499,171
	2	115,306,686
Satisfied by:		
Balance of consideration payable for acquisition of an associate set off	–	105,506,896
Cash consideration received	2	9,799,790
	2	115,306,686

Notes to the Financial Statements

For the year ended 31st July, 2002

34. DISPOSAL OF SUBSIDIARIES (CONTINUED)

Analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries:

	2002 HK\$	2001 HK\$
Cash consideration received	2	9,799,790
Bank balances and cash disposed of	–	(6,964,281)
Bank borrowings disposed of		
– matured within three months		
from date of advance	–	14,488,952
Net inflow of cash and cash equivalents	2	17,324,461

The subsidiaries disposed of for the year ended 31st July, 2002 did not contribute significantly to the Group's cash flows or operating results.

The subsidiaries disposed of for the year ended 31st July, 2001 contributed a net cash outflow of approximately HK\$8,609,000 to the Group's net operating cash outflow, paid approximately HK\$738,000 in respect of net returns on investments and servicing of finance, received refund of tax of approximately HK\$56,000, contributed approximately HK\$15,741,000 in respect of investing activities and utilised HK\$1,959,000 in respect of financing activities. They also contributed approximately HK\$23,235,000 to the Group's turnover and a profit of approximately HK\$6,088,000 to the Group's loss from operations.

35. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital and share premium HK\$	Bank loans HK\$	Mortgage loans HK\$	Amounts due to associates HK\$	Obligations under finance leases HK\$
Balance at 1st August, 2000	412,188,396	47,303,184	6,815,716	650,000	17,438
Issue of shares on private placement	32,159,969	–	–	–	–
Expenses paid in connection with the issue of shares	(436,725)	–	–	–	–
Eliminated on disposal of subsidiaries	–	(37,433,767)	–	–	(2,262)
Eliminated on disposal of associates	–	–	–	(700,000)	–
Advance	–	–	–	50,000	–
Repayment	–	(9,869,417)	(6,815,716)	–	(15,176)
Balance at 31st July, 2001	443,911,640	–	–	–	–
Bank loan raised	–	3,000,000	–	–	–
Repayment	–	(438,852)	–	–	–
Balance at 31st July, 2002	443,911,640	2,561,148	–	–	–

Notes to the Financial Statements

For the year ended 31st July, 2002

36. MAJOR NON-CASH TRANSACTIONS

During the year ended 31st July, 2002, the Group has the following major non-cash transactions:

- (a) the Group acquired interests in subsidiaries for a total consideration of HK\$87,093,118, of which HK\$21,118 was settled by cash, HK\$74,000,000 was satisfied by the transfer of portion of the Promissory Note Receivables and the remaining portion was satisfied by the issue of promissory note payable of HK\$13,072,000.
- (b) The Group issued promissory note payable of HK\$17,200,000 to acquire properties held for sale.
- (c) The Group disposed of its entire 15.33% interest in Mutual Luck at a consideration of HK\$120,000,000. The consideration was settled by cash of HK\$12,000,000 and promissory note receivables of HK\$108,000,000 as set out in note 20.

During the year ended 31st July, 2001, the Group acquired an interest in an associate for a consideration of HK\$165,554,364, out of which HK\$13,000,000 was settled by cash, HK\$140,554,364 was satisfied by the transfer of the Group's entire interests in certain subsidiaries, associates, other securities, deposits paid for assessment of potential investments and a jointly controlled loan portfolio for HK\$105,506,896, HK\$2,567,453, HK\$200,000, HK\$6,000,000 and HK\$26,280,015, respectively, and the balance of HK\$12,000,000 remained unpaid as at 31st July, 2001.

37. PLEDGE OF ASSETS

At 31st July, 2002, certain investment properties of the Group and the Company amounting to approximately HK\$32,650,000 (2001: Nil) and HK\$1,450,000 (2001: Nil), respectively, had been pledged to banks to secure credit facilities to the extent of HK\$26,000,000 (2001: Nil) and HK\$4,000,000 (2001: Nil) granted to the Group and the Company respectively of which approximately HK\$2,561,000 (2001: Nil) was utilised by the Group and the Company.

38. RETIREMENT BENEFIT SCHEME

Prior to 1st December, 2000, the Group operated defined contribution retirement benefit schemes ("Defined Contribution Schemes") for its qualifying employees in Hong Kong. The assets of the schemes were held separately from those of the Group in funds under the control of independent trustees. Where there are employees who leave the Defined Contribution Schemes prior to vesting fully in the contributions, the amount of the forfeited contributions would be used to reduce future contributions payable by the Group. The Defined Contribution Schemes were terminated on 1st December, 2000.



Notes to the Financial Statements

For the year ended 31st July, 2002

38. RETIREMENT BENEFIT SCHEME (CONTINUED)

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

The retirement benefit scheme contributions arising from the Defined Contribution Schemes and the MPF Scheme charged to the income statement represent contributions payable to the funds by the Group at rates specified in the rules of the schemes. For the year ended 31st July, 2002, contributions of the Group under the Defined Contribution Schemes and the MPF Scheme before deduction by forfeited contributions of the Defined Contribution Schemes amounted to HK\$13,698 (2001: HK\$1,116,157). There were no forfeited contributions of the Defined Contribution Schemes for the current year (2001: HK\$259,122).

At the balance sheet date, the Group had forfeited contributions of HK\$69,840, which arise upon employees leaving the Defined Contribution Schemes.

39. OPERATING LEASE ARRANGEMENTS

The Group as lessee

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

	THE GROUP	
	2002	2001
	HK\$	HK\$
Within one year	235,000	—
In the second to fifth year inclusive	1,031,000	—
	<u>1,266,000</u>	<u>—</u>

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated and rentals are fixed for an average term of 2.5 years.

At 31st July, 2002, the Company had no commitments under non-cancellable operating leases (2001: Nil).

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For the year ended 31st July, 2002

39. OPERATING LEASE ARRANGEMENTS (CONTINUED)

The Group as lessor

Property rental income earned by the Group during the year was HK\$1,339,346 (2001: HK\$9,384,017) before deduction by outgoings of HK\$520,166 (2001: HK\$640,763). Certain of the Group's properties are held for rental purposes and are expected to generate rental yields of 7% (2001: 7%), on an ongoing basis. The properties of the Group held for rental purposes have committed tenants for an average term of 2 years (2001: 2 years).

At the balance sheet date, the Group and the Company had contracted with tenants for the following future minimum lease payments:

	THE GROUP		THE COMPANY	
	2002 HK\$	2001 HK\$	2002 HK\$	2001 HK\$
Within one year	2,094,000	710,000	120,000	120,000
In the second to fifth year inclusive	2,125,000	454,000	97,000	217,000
	4,219,000	1,164,000	217,000	337,000

40. CONTINGENT LIABILITIES

At 31st July, 2002, the Company has outstanding guarantees issued in favour of a bank in respect of banking facilities made available to a subsidiary amounting to HK\$22,000,000 (2001: Nil).

In addition, the Company has given guarantees to promissory note holders to secure the payment of outstanding principal and interest of promissory note payables of HK\$30,272,000 issued by its subsidiaries.



Notes to the Financial Statements

For the year ended 31st July, 2002

41. POST BALANCE SHEET EVENTS

On 10th October, 2002, an order of petition (the “Order”) was granted by the High Court of Hong Kong Special Administrative Region (the “High Court”). Pursuant to the Order, the reduction of the share capital and the cancellation of the share premium account of the Company as resolved and effected by a special resolution passed at an extraordinary general meeting of the Company held on 2nd September, 2002 be and the same was confirmed in accordance with the provisions of Section 59 of the Companies Ordinance.

The High Court approved the minute set forth in the Schedule 2 of the Order (the “Minute”). Pursuant to the Minute, the capital of the Company was by virtue of special resolutions of the Company with the sanction of the Order reduced from HK\$900,000,000 divided into 2,250,000,000 ordinary shares of HK\$0.40 each (of which 482,399,556 shares had been issued and were fully paid up or credited as fully paid) to HK\$22,500,000 divided into 2,250,000,000 ordinary shares of HK\$0.01 each. The Company further by ordinary resolution provided that forthwith upon such reduction of capital taking effect, the authorized share capital of the Company would be increased from HK\$22,500,000 to HK\$122,500,000 by the creation of additional 10,000,000,000 shares of HK\$0.01 each. Accordingly, on the registration of the Minute, the authorised share capital of the Company was HK\$122,500,000 divided into 12,250,000,000 shares of HK\$0.01 each, of which 482,399,556 shares had been issued and were fully paid up or credited as fully paid and the remaining shares are unissued. The sum of HK\$250,951,819 standing to the credit of the share premium account of the Company was reduced and cancelled against the accumulated losses of the Company.

In addition, the Company gave the undertaking set forth in the Schedule 1 of the Order (the “Undertaking”). Pursuant to the Undertaking, the Company undertook that out of the capital by which the Company sought to be reduced, a sum of HK\$170,582,931 would be credited to a capital reduction reserve in the books of account of the Company to be designated as capital reduction reserve account (the “Capital Reduction Reserve Account”) which would not be treated as realised profits and should be treated as a reserve of the Company, which should not be distributable until or unless the creditors of the Company as at the date of the sanction of the reduction of capital (the “Creditors”) were fully settled, provided for by the Company or the remaining Creditors and each of them did consent by which time the Capital Reduction Reserve Account would be cancelled and provided that prior to the cancellation of the Capital Reduction Reserve Account, the Company might apply it in paying up unissued shares of the Company to be issued to members as fully paid bonus shares and the audited accounts of the Company would contain a note recording this undertaking.

42. RELATED PARTY DISCLOSURES

The Group did not enter into significant transactions with related parties during the year.

Details of the balances with the related parties are set out in the balance sheets and notes 17 and 20.