

NOTES TO FINANCIAL STATEMENTS

For the year ended 30th June, 2004

15. INTEREST IN A JOINTLY CONTROLLED ENTITY

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Share of net assets	<u>8,928</u>	<u>11,105</u>

Particulars of the Group's jointly controlled entity as at 30th June, 2004 are as follows:

Name of company	Form of business structure	Place of establishment and operation	Proportion of nominal value of registered capital held by the Group %	Principal activities
山東國際經濟開發公司 Shandong International Economic Development Corporation ("SIEDC")	Joint venture	The PRC	60	Investment holding

The Group holds 60% of the registered capital of SIEDC and controls voting power of 5 out of 9 in general meeting. However, under a shareholder's agreement, SIEDC is jointly controlled by the Group and the other significant shareholders. Therefore, SIEDC is classified as a jointly controlled entity of the Group.

The following details have been extracted from the unaudited financial statements of the Group's jointly controlled entity:

Results for the year ended 30th June

	2004 HK\$'000	2003 HK\$'000
Turnover	<u>—</u>	<u>—</u>
(Loss) profit before taxation	<u>(3,605)</u>	<u>136</u>
(Loss) profit before taxation attributable to the Group	<u>(2,163)</u>	<u>82</u>

NOTES TO FINANCIAL STATEMENTS

For the year ended 30th June, 2004

15. INTEREST IN A JOINTLY CONTROLLED ENTITY (Continued)

Financial position as at 30th June

	2004 HK\$'000	2003 HK\$'000
Non-current assets	1,484	1,487
Current assets	13,648	17,322
Current liabilities	(252)	(301)
Net assets	<u>14,880</u>	<u>18,508</u>
Net assets attributable to the Group	<u>8,928</u>	<u>11,105</u>

16. INVESTMENTS IN SECURITIES

	Other investments		Investment securities		Total	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
THE GROUP						
Listed equity securities	11,268	1,734	–	–	11,268	1,734
Unlisted mutual funds	–	66,463	–	–	–	66,463
Unlisted overseas equity securities	–	–	146,796	147,227	146,796	147,227
Impairment loss recognised	–	–	(5,862)	(7,423)	(5,862)	(7,423)
	<u>11,268</u>	<u>68,197</u>	<u>140,934</u>	<u>139,804</u>	<u>152,202</u>	<u>208,001</u>
Market value of listed securities	<u>11,268</u>	<u>1,734</u>	<u>–</u>	<u>–</u>	<u>11,268</u>	<u>1,734</u>
Carrying amount analysed for reporting purposes:						
Non-current	–	–	140,934	139,804	140,934	139,804
Current	11,268	68,197	–	–	11,268	68,197
	<u>11,268</u>	<u>68,197</u>	<u>140,934</u>	<u>139,804</u>	<u>152,202</u>	<u>208,001</u>
THE COMPANY						
Listed equity securities	11,268	1,734	–	–	11,268	1,734
Unlisted mutual funds	–	66,463	–	–	–	66,463
Unlisted overseas equity securities	–	–	145,666	145,666	145,666	145,666
Impairment loss recognised	–	–	(5,862)	(5,862)	(5,862)	(5,862)
	<u>11,268</u>	<u>68,197</u>	<u>139,804</u>	<u>139,804</u>	<u>151,072</u>	<u>208,001</u>
Market value of listed securities	<u>11,268</u>	<u>1,734</u>	<u>–</u>	<u>–</u>	<u>11,268</u>	<u>1,734</u>
Carrying amount analysed for reporting purposes:						
Non-current	–	–	139,804	139,804	139,804	139,804
Current	11,268	68,197	–	–	11,268	68,197
	<u>11,268</u>	<u>68,197</u>	<u>139,804</u>	<u>139,804</u>	<u>151,072</u>	<u>208,001</u>

NOTES TO FINANCIAL STATEMENTS

For the year ended 30th June, 2004

16. INVESTMENTS IN SECURITIES (Continued)

The impairment loss in respect of the investment securities recognised as at 30th June, 2004 is determined by the directors by reference to the consideration paid by the new investors to subscribe for the shares offered by the investee companies.

Investment securities include the Company's investment in 35% interest in the issued shares of CMEP Limited ("CMEP") at cost of HK\$137,858,000 (2003: HK\$137,858,000). CMEP is a company incorporated in the British Virgin Islands and is principally engaged in holding of a contractual right to receive fees from the business of trading of television commercial airtime in the PRC.

Pursuant to the Agreement in relation to the sale and purchase of 35% of the issued share capital in CMEP Limited (the "Sale and Purchase Agreement") dated 2nd January, 2003 entered into between China Media International Group Limited ("CMI") and the Company, the Company acquired 35% interest in CMEP at a consideration of HK\$105,000,000 from CMI. The consideration was satisfied by cash of HK\$82,000,000 and by the allotment and issue of 200,000,000 new ordinary shares in the Company of HK\$0.02 each. The new ordinary shares were issued by reference to the closing market price of the shares of the Company at 10th February, 2003, the date of the allotment of shares, of HK\$0.275 per share.

In accordance with the Sale and Purchase Agreement, CMI undertakes to the Company that CMI should procure that the net profit after tax of CMEP for the period from 27th May, 2002 (the date of incorporation of CMEP) to 30th June, 2003, as shown in the audited financial statements of CMEP for such period, should not be less than HK\$100,000,000, and that for each of the year ended 30th June, 2004 and 30th June, 2005 should not be less than HK\$150,000,000. If the amount of the net profit after tax fall short of the undertaking amount, CMI should pay to or cause CMEP to pay, out of CMI's entitlement in CMEP's net profit for that period, to the Company the amounts of downward adjustment to the consideration. Furthermore, CMI undertakes to procure at least 80% of the accounts receivables at 30th November, 2002 could be recovered in full within 9 months from the date of the Sale and Purchase Agreement. In other case, CMI undertakes to pay to the Company an amount equal to 35% of the corresponding amount of profit after tax on the difference between the actual amount recovered and 100% of the accounts receivables at 30th November, 2002.

In addition, pursuant to the shareholders agreement dated 10th February, 2003 entered into between CMI and the Company (the "Shareholders Agreement"), the board of directors of CMEP should comprise not less than two and not more three directors, in which the Company should be entitled to appoint one director and CMI should be entitled to appoint up to two directors. However, after continuous negotiations between the Company and CMI, the Company could not appoint any representative to the board of CMEP. Since the Company does not have the ability to exercise significant influence over CMEP, the investment in CMEP is classified as investments in securities.

NOTES TO FINANCIAL STATEMENTS

For the year ended 30th June, 2004

16. INVESTMENTS IN SECURITIES (Continued)

As CMEP is undergoing a business portfolios restructuring and the restructuring exercise is still in progress, the audited financial statements of CMEP for the period from 27th May, 2002 (date of incorporation of CMEP) to 30th June, 2003 were not yet available up to the date of approval of these financial statements. As the directors of the Company were unable to obtain the audited financial statements of CMEP for the period from 27th May, 2002 (date of incorporation of CMEP) to 30th June, 2003 or other reliable financial information of CMEP, the directors are unable to assess whether an impairment loss in respect of the investment in CMEP should be recognised in the financial statements.

As such, the Company issued a writ of summons in the Court of First Instance in Hong Kong against CMI on 18th February, 2004 to claim for, among others, damages for breach of the Sale and Purchase Agreement and Shareholders Agreement. The writ served on 19th February, 2004 and the litigation is currently in progress. Details of the pending litigation are set out in note 34.

17. INVENTORIES

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Conversion parts	9,619	–
Gas station equipment	5,683	–
Natural gas	2,112	–
	<u>17,414</u>	<u>–</u>

All the above inventories are stated at cost.

18. TRADE RECEIVABLES

The Group allowed an average credit period of 90 to 120 days to its trade customers.

The following is an aged analysis of trade receivables at the reporting date:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
0 – 90 days	2,343	–
91 – 120 days	1,267	–
Over 120 days	5,883	–
	<u>9,493</u>	<u>–</u>

NOTES TO FINANCIAL STATEMENTS

For the year ended 30th June, 2004

19. LOANS TO SHAREHOLDERS OF ASSOCIATES

THE GROUP AND THE COMPANY

The loans are unsecured, bearing interest at 4% per annum and are repayable within one year.

20. TRADE PAYABLES

The following is an aged analysis of trade payables at the reporting date:

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
0 – 90 days	7,444	–
91 – 120 days	184	–
Over 120 days	265	–
	<u>7,893</u>	<u>–</u>

21. BORROWINGS

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Bank loans (<i>note a</i>)		
Secured	9,420	–
Unsecured	7,536	–
	<u>16,956</u>	<u>–</u>
Other loans (<i>note b</i>)	92,179	–
	<u>109,135</u>	<u>–</u>

The maturity of borrowings is as follows:

Within one year	71,635	–
In the second year	37,500	–
	<u>109,135</u>	<u>–</u>
Less: Amounts due within one year shown under current liabilities	(71,635)	–
Amount due after one year	<u>37,500</u>	<u>–</u>

NOTES TO FINANCIAL STATEMENTS

For the year ended 30th June, 2004

21. BORROWINGS (Continued)

Notes:

- (a) During the year, the Group obtained bank loans upon the acquisition of certain subsidiaries. The loans bear interest at market rates and will be repayable within one year. Bank loan amounting to HK\$9,420,000 is secured by a gas station and the shares of certain subsidiaries of the Company.
- (b) The amounts represented promissory notes issued upon the Group's acquisition of the 51% interest in Global King Investments Limited and its subsidiaries, 30% interest in Tone Communication Limited and its subsidiaries and 49% interest in Solution Technology Limited and its subsidiary in March 2004. The promissory notes amounting to HK\$54,679,000 are unsecured, interest free and repayable within one year. The remaining promissory note amounting to HK\$37,500,000 is unsecured, interest free and repayable in 2006.

22. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
THE GROUP				
Amount payable under finance leases				
Within one year	632	98	527	80
In the second year	632	98	551	84
In the third to fifth years inclusive	<u>1,644</u>	<u>229</u>	<u>1,549</u>	<u>215</u>
	2,908	425	2,627	379
Less: future finance charges	<u>(281)</u>	<u>(46)</u>	<u>-</u>	<u>-</u>
Present value of lease obligations	<u><u>2,627</u></u>	<u><u>379</u></u>	<u><u>2,627</u></u>	<u><u>379</u></u>
Less: Amount due within one year shown under current liabilities			<u>(527)</u>	<u>(80)</u>
Amount due after one year			<u><u>2,100</u></u>	<u><u>299</u></u>
THE COMPANY				
Amount payable under finance leases				
Within one year	534	-	443	-
In the second year	534	-	462	-
In the third to fifth years inclusive	<u>1,513</u>	<u>-</u>	<u>1,423</u>	<u>-</u>
	2,581	-	2,328	-
Less: future finance charges	<u>(253)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Present value of lease obligations	<u><u>2,328</u></u>	<u><u>-</u></u>	<u><u>2,328</u></u>	<u><u>-</u></u>
Less: Amount due within one year shown under current liabilities			<u>(443)</u>	<u>-</u>
Amount due after one year			<u><u>1,885</u></u>	<u><u>-</u></u>

NOTES TO FINANCIAL STATEMENTS

For the year ended 30th June, 2004

22. OBLIGATIONS UNDER FINANCE LEASES (Continued)

It is the Group's policy to lease certain of its motor vehicles under finance leases. The lease terms are 5 years. For the year ended 30th June, 2004, the effective borrowing rates were 5%. Interest rates are fixed at the contract date. The leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

23. LOAN FROM AN ASSOCIATE

THE GROUP

The loan from an associate is unsecured, interest free and will be due on 31st December, 2005. Accordingly, the loan is classified as non-current.

24. SHARE CAPITAL

Shares

	Notes	Number of shares		Share capital	
		2004 '000	2003 '000	2004 HK\$'000	2003 HK\$'000
Ordinary shares of HK\$0.02 each					
Authorised:					
At beginning of the year					
and at end of the year		<u>100,000,000</u>	<u>100,000,000</u>	<u>2,000,000</u>	<u>2,000,000</u>
Issued and fully paid:					
At beginning of the year		1,853,011	1,383,011	37,060	27,660
Issue of rights shares	(a)	926,506	–	18,530	–
Issue of shares by placement	(b)	370,000	270,000	7,400	5,400
Issued as consideration for the acquisition of investments in securities		–	200,000	–	4,000
At end of the year		<u>3,149,517</u>	<u>1,853,011</u>	<u>62,990</u>	<u>37,060</u>

During the year, the following changes in the issued share capital of the Company took place:

- On 12th January, 2004, the Company proposed to raise fund of approximately HK\$17,400,000 through the rights issue of 926,505,585 rights shares of HK\$0.02 per rights share ("Rights Issue") on the basis of one rights share for every two shares held on 2nd February, 2004. Details of the Rights Issue are set out in the Company's circular dated 2nd February, 2004. The Rights Issue became unconditional on 23rd February, 2004 and 926,505,585 rights shares of HK\$0.02 were issued and allotted on 24th February, 2004.
- On 3rd March, 2004, the Company has entered into the Placing Agreement with Kingston Securities Limited (the "Placing Agent") in which the Company has conditionally agreed to place, through the Placing Agent, on a fully underwritten basis, 370,000,000 shares (the "Placing") to not fewer than six independent investors at a price of HK\$0.095 per share. The net proceeds after related expenses were approximately HK\$34,000,000. The Placing was completed on 24th March, 2004.

NOTES TO FINANCIAL STATEMENTS

For the year ended 30th June, 2004

24. SHARE CAPITAL (Continued)

Options

The Company's share option scheme (the "Scheme"), was adopted pursuant to a resolution passed on 5th January, 1993 for the purpose of providing incentives to directors and eligible employees and, unless otherwise cancelled or amended, expired on 4th January, 2003. Under the Scheme, the Board of Directors of the Company might grant options to eligible employees (including executive directors) of the Company and any of its subsidiaries, to subscribe for shares in the Company.

The total number of shares in respect of which options might be granted under the Scheme was not permitted to exceed 10% of the shares of the Company in issue from time to time. The maximum number of shares in respect of which options might be granted to any individual was not permitted to exceed 25% of the maximum number of shares in respect of which options might be granted under the Scheme.

Prior to 1st September, 2001, the exercise price of the share options under the Scheme is determined by the directors of the Company at a price not less than 80% of the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of offer of the options or the nominal value of the shares, whichever was the higher. With effect from 1st September, 2001, the exercise price was determined by the directors of the Company, and would not be less than the higher of the closing price of the Company's shares on the date of grant, and the average closing price of the shares for the five business days immediately preceding the date of grant.

As the Scheme no longer complied with the amended rules in the Listing Rules governing share schemes, no further option could be granted under the Scheme from 1st September, 2001 unless the grant complied with the amended Chapter 17 of the Listing Rules. Nevertheless, options previously granted under the existing Scheme would continue to be exercisable in accordance with the Scheme.

The following table shows the Company's share options granted under the share option scheme:

Date granted	Exercisable period	Exercise price per share HK\$	Consideration paid for the option granted HK\$	Number of shares option
16.06.1997	08.08.1997 to 07.08.2002	5.650	1.00	8,750,000
24.02.2000	24.03.2000 to 04.01.2003	0.422	1.00	21,500,000
04.09.2000	04.10.2000 to 04.01.2003	0.189	1.00	21,000,000
04.09.2000	07.10.2000 to 04.01.2003	0.189	1.00	8,000,000
04.09.2000	04.10.2000 to 03.10.2002	0.189	1.00	2,000,000

No share option was granted or exercised during the year ended 30th June 2003. At 4th January, 2003, all the options granted lapsed and the Scheme expired.

NOTES TO FINANCIAL STATEMENTS

For the year ended 30th June, 2004

25. SHARE PREMIUM AND RESERVES

Details of the movements in the share premium and reserves of the Group are set out in the Consolidated Statement of Changes in Equity on page 15 which corresponding details of the Company are as follows:

	Share premium HK\$'000	Special capital reserve HK\$'000 <i>(Note)</i>	Capital redemption reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1st July, 2002	412,171	828,646	3,865	(1,063,190)	181,492
Share issued at premium	8,910	–	–	–	8,910
Issue of shares for the acquisition of investments in securities	51,000	–	–	–	51,000
Share issue expenses	(95)	–	–	–	(95)
Net loss for the year	–	–	–	(27,920)	(27,920)
At 30th June, 2003	471,986	828,646	3,865	(1,091,110)	213,387
Share issued at premium	27,750	–	–	–	27,750
Share issue expenses	(2,240)	–	–	–	(2,240)
Net loss for the year	–	–	–	(3,895)	(3,895)
At 30th June, 2004	497,496	828,646	3,865	(1,095,005)	235,002

Note: A summary of the terms of the undertaking given by the Company (the “Undertaking”) in connection with the capital reduction during the year ended 31st March 2000 (the “Capital Reduction”) in respect of the application of the special capital reserve is set out below:

- (i) The reserve shall not be treated as realised profits; and
- (ii) The reserve shall be treated as an undistributable reserve as long as there shall remain any outstanding debts or claims which were in existence on the date of the cancellation of the shares of the Company pursuant to the Capital Reduction, provided that the amount of the reserve may be reduced by the amount of any future increase in the share capital and the share premium account. Any part of the reserve so reduced is released from the terms of the Undertaking and the Company may apply that part so released as a distributable reserve.

In the opinion of the directors, the Company did not have any distributable reserve as at 30th June, 2004 and 30th June, 2003.

NOTES TO FINANCIAL STATEMENTS

For the year ended 30th June, 2004

26. ACQUISITION OF SUBSIDIARIES

During the year, the Group acquired 51% of the issued share capital of Global King Investments Limited ("Global King"). The acquisition of Global King and its subsidiaries had been accounted for by the acquisition method of accounting. The amount of goodwill arising as a result of the acquisition was HK\$99,652,000.

	2004 HK\$'000	2003 HK\$'000
Net assets acquired:		
Property, plant and equipment	23,253	–
Interests in associates	40,818	–
Investments in securities	1,130	–
Inventories	7,454	–
Trade receivables	16,802	–
Other receivables, deposits and prepayments	48,890	–
Bank balances and cash	6,457	–
Trade payables	(7,784)	–
Other payables and accrued charges	(21,088)	–
Amount due to an associate	(2,334)	–
Taxation	(468)	–
Borrowings	(48,042)	–
Loan from an associate	(14,130)	–
Minority interests	(24,515)	–
	<u>26,443</u>	–
Net assets acquired	26,443	–
Goodwill arising on acquisition	99,652	–
	<u>126,095</u>	–
Satisfied by:		
Cash consideration paid	81,095	–
Promissory note	45,000	–
	<u>126,095</u>	–
Net cash outflow arising on acquisition:		
Cash consideration	81,095	–
Bank balances and cash acquired	(6,457)	–
	<u>74,638</u>	–

The subsidiaries acquired during the year generated HK\$27,629,000 from the operating activities, and used HK\$392,000 and HK\$31,086,000 in respect of investing activities and financing activities respectively.

The subsidiaries acquired during the year contributed HK\$18,205,000 to the Group's turnover and HK\$1,887,000 to the Group's results from operations.

NOTES TO FINANCIAL STATEMENTS

For the year ended 30th June, 2004

27. DISPOSAL OF SUBSIDIARIES

	2004 HK\$'000	2003 HK\$'000
Net assets disposed of:		
Property, plant and equipment	–	15,991
Trade receivables	–	21,724
Other receivables, deposit and prepayment	–	8,471
Investments in securities	–	11,665
Pledged bank deposits	–	4,828
Bank balances and cash	–	9,756
Trade payables	–	(27,053)
Other payables and accrued charges	–	(20,064)
Amount due to a jointly controlled entity	–	(622)
Taxation	–	(1,099)
Deferred taxation	–	(708)
Obligations under a finance lease	–	(907)
Minority interests	–	(6,553)
	<u>–</u>	<u>–</u>
Net assets disposed of	–	15,429
Attributable unreleased negative goodwill	–	(9,065)
Exchange reserve released	(253)	248
Gain on disposal of subsidiaries	553	8,388
	<u>553</u>	<u>8,388</u>
Total consideration	<u>300</u>	<u>15,000</u>
Satisfied by:		
Cash consideration	<u>300</u>	<u>15,000</u>
Net cash inflow arising on disposal:		
Cash consideration	300	15,000
Bank balances and cash disposed of	–	(9,756)
	<u>300</u>	<u>5,244</u>

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

The subsidiaries disposed of during the prior year generated HK\$1,196,000 from the operating activities and used HK\$3,198,000 and HK\$18,494,000 in the investing activities and financing activities, respectively in prior year.

The subsidiaries disposed of during the prior year contributed HK\$150,191,000 to the Group's turnover and HK\$10,511,000 to the Group's loss from operations in prior year.

NOTES TO FINANCIAL STATEMENTS

For the year ended 30th June, 2004

28. MAJOR NON-CASH TRANSACTIONS

During the year, the Group entered into the following major non-cash transactions:

- (a) The Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of HK\$2,400,000 (2003: HK\$1,410,000).
- (b) The Group acquired certain subsidiaries and associates with part of the considerations of HK\$92,179,000 by way of issuing promission notes and included in the balance of the borrowings. In addition, part of the remaining consideration of HK\$4,245,000 was not yet settled on the balance sheet date and included in the balance of other payables and accrued charges.

29. DEFERRED TAXATION

The following are the major deferred tax liability recognised and movement thereon during the current and prior reporting periods:

THE GROUP

	Accelerated tax depreciation
	HK\$'000
At 1st July, 2002	–
Charged to income statement for the year (note 9)	708
Released upon disposal of subsidiaries	(708)
	<hr/>
At 30th June, 2004 and 2003	<hr/> <hr/> –

At the balance sheet date, the Group has unutilised tax losses of HK\$209,401,000 (2003: HK\$203,481,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the unutilised tax losses due to the unpredictability of future profit streams.

NOTES TO FINANCIAL STATEMENTS

For the year ended 30th June, 2004

30. RETIREMENT BENEFIT SCHEME

Prior to 1st December, 2000, the Group operated a defined contribution retirement benefit scheme ("Defined Contribution Scheme") for its qualifying employees in Hong Kong. The assets of the scheme 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 Scheme prior to vesting fully in the contributions, the amounts of the forfeited contributions would be used to reduce future contributions payable by the Group.

With effect from 1st December, 2000, the Group has joined a Mandatory Provident Fund Scheme ("MPF Scheme") for all employees in Hong Kong joined the Group thereafter. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of independent trustees.

Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect of 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 under the MPF Scheme.

The PRC employees of the subsidiaries in the PRC are members of the pension scheme operated by the PRC total government. The subsidiaries are required to contribute a certain percentage of the relevant payroll of these employees to the pension scheme to fund the benefits. The only obligation for the Group with respect of the pension scheme is the required contributions under the pension scheme.

The retirement benefit scheme contribution arising from the Defined Contribution Scheme and the MPF Scheme charged to the consolidated income statement represent contributions payable to the funds by the Group at the rates specified in the rules of the schemes.

During the year, the retirement benefits scheme contribution, net of forfeited contributions utilised of approximately HK\$Nil (2003: HK\$58,000), amounted to approximately HK\$278,000 (2003: HK\$1,399,000).

At the balance sheet date, the Group had no significant forfeited contributions available to reduce the contributions payable by the Group in the future years.

NOTES TO FINANCIAL STATEMENTS

For the year ended 30th June, 2004

31. OPERATING LEASE ARRANGEMENTS

As lessee

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

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Within one year	1,199	442	865	–
In the second to fifth year inclusive	1,618	–	1,081	–
	<u>2,817</u>	<u>442</u>	<u>1,946</u>	<u>–</u>

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

As lessor

Property rental income earned during the year was HK\$247,000 (2003: HK\$1,387,000). Certain of the rented premises have been sub-leased and have committed tenants for the next two years.

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

	THE GROUP AND THE COMPANY	
	2004 HK\$'000	2003 HK\$'000
Within one year	200	37
In the second to fifth year inclusive	283	–
	<u>483</u>	<u>37</u>

32. CAPITAL COMMITMENTS

At the balance sheet date, the Group had capital commitments in respect of the acquisition of property, plant and equipment of HK\$50,000 (2003: nil) contracted for but not provided in the financial statements.

NOTES TO FINANCIAL STATEMENTS

For the year ended 30th June, 2004

33. PLEDGE OF ASSETS

At the balance sheet date, the Group has pledged land and building with net book value of HK\$7,968,000 (2003: nil) and equity interests in certain subsidiaries as collateral for loan facilities of HK\$9,420,000 granted to the Group by a bank. At the balance sheet date, HK\$9,420,000 was utilised by the Group.

34. PENDING LITIGATION

In respect of the Company's acquisition of 35% issued share capital of CMEP (details are set out in note 16), the Company issued a writ of summons in the Court of First Instance in Hong Kong against CMI on 18th February 2004 to claim for, among others, damages for breach of the Sale and Purchase Agreement and Shareholders Agreement including (i) the amount equivalent to 35% of the difference between the net profit of CMEP for the period from 27th May, 2002 (date of incorporation of CMEP) to 30th June, 2003 and HK\$100 million and (ii) the amount equivalent to 35% of the corresponding amount of profit after tax on the difference between the actual amount of accounts receivables (as shown in the management accounts of CMEP for the period from the date of its incorporation to 30th November, 2002) recovered within 9 months after the date of the Sale and Purchase Agreement and 100% of the said amount of accounts receivables.

The writ served on CMI on 19th February, 2004 and a settlement was made between CMI and the Company in May 2004 and a consent order dated 6th May, 2004 was granted by the Court of First Instance wherein (i) CMI was obliged to deliver to the Company signed copies of the auditors' report of CMEP for the year 2003 together with a certificate of the amount of adjustment which is required to be made to the purchase consideration of the 35% of the issued share capital in CMEP for the year 2003 on or before 20th June, 2004; (ii) CMI should provide all necessary information, including but not limited to all necessary management accounts and/or consolidated accounts and/or other accounts and/or records, to ascertain the amount of the unrecovered profits on the accounts receivables of CMEP which the Company is entitled to receive under the Sale and Purchase Agreement; and (iii) CMI should pay the Company all sums due from CMI and the Company pursuant to the Sale and Purchase Agreement within 30 days of the date of delivery of the auditors report and information as referred to above.

However, CMI has failed and/or refused to comply with any of the terms of the said order and therefore an application for judgment against CMI was made by the Company on 9th July, 2004. In reply, CMI attempted to challenge the validity of the consent order on the alleged ground that it was being misled by the Company to enter into the settlement and informally asked the court to set aside the consent order. The hearing of the matter is now being adjourned to a date to be fixed when the court will hear submissions from both parties to determine whether judgment should be entered against CMI or the consent order should be set aside.

No date has yet been fixed for the aforesaid hearing since the solicitors for CMI have ceased to act for CMI by virtue of an order dated 13th September, 2004. With the ceasing to act of CMI's solicitors, CMI has now no legal representative on record and the Company's solicitors consider that there may be a higher chance of success in application of judgment.

NOTES TO FINANCIAL STATEMENTS

For the year ended 30th June, 2004

34. PENDING LITIGATION (Continued)

In the opinion of the directors, the litigation is still in progress and it is unable to reasonably determine the final outcome of the litigation. Accordingly, the directors were unable to assess whether an impairment loss in respect of the investment in CMEP should be recognised in the financial statements and no adjustment has been made to the financial statements on this respect.

35. POST BALANCE SHEET EVENTS

Subsequent to 30th June, 2004, the following significant subsequent events took place:

- (a) The Group has disposal of the entire interest in a subsidiary to a third party at a consideration of HK\$6,500,000 with an estimate gain of HK\$1,900,000.
- (b) On 25th August, 2004, the Company has entered into two Placing Agreements with Asian Basin Limited and Helmsman Limited (the "Placees") in which the Company has conditionally agreed to issue a total of (i) 200,000,000 shares (the "Placing Shares") to the Placees at a price of HK\$0.095 per share; (ii) 200,000,000 2005-Warrants at an issue price of HK\$0.003 per unit carrying subscription rights entitling the holders thereof to subscribe in cash for a share at an initial subscription price of HK\$0.096 (subject to adjustment) at any time during the twelve months period commencing from the date of issue of the 2005-Warrants; and (iii) 200,000,000 2006-Warrants at an issue price of HK\$0.005 per unit carrying subscription rights entitling the holders thereof to subscribe in cash for a share at an initial subscription price of HK\$0.098 (subject to adjustment) at any time during the twenty-four months period commencing from the date of issue of the 2006-Warrants. The net proceeds from issues of Placing Shares and Warrants after related expenses was approximately HK\$20,600,000. The Placing was completed on 20th September, 2004.

36. RELATED PARTY TRANSACTIONS

During the year, the Group has entered into the following transactions with related parties:

- (a) The Group has entered into an agreement with a bank in respect of loan facilities granted to the Group amounting to HK\$26,411,000. The bank loan is guaranteed by an associate of the Group.
- (b) The Group purchased goods from associates amounting to HK\$4,233,000. The directors consider that the purchases were made according to prices and conditions similar to those offered by non-related suppliers of the Group.

NOTES TO FINANCIAL STATEMENTS

For the year ended 30th June, 2004

37. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 30th June, 2004 are as follows:

Name of company	Place of incorporation/ establishment and operation	Issued and paid up ordinary share capital	Proportion of nominal value of issued/registered capital held by the Company		Principal activities
			Directly %	Indirectly %	
All (Shindec SPV) Limited	British Virgin Islands	US\$1	100	–	Investment holding
Aust-Well Investments Limited	Hong Kong	HK\$10,000	100	–	Money lending
Millennium Technology Limited	Samoa	US\$1	100	–	Investment holding
Oakway Investment Limited	Hong Kong	HK\$2	100	–	Investment holding
Global King Investments Limited	British Virgin Islands	US\$20,000	–	51	Investment holding
北京中油潔能科技有限責任公司	The PRC [#]	RMB40,000,000	–	51	Trading of conversion parts and gas station equipment and operation of gas station
吉林中油潔能環保有限責任公司	The PRC [#]	RMB8,000,000	–	26	Trading of conversion parts and gas station equipment and operation of gas station
青島中油環保科技有限公司	The PRC [#]	RMB10,000,000	–	48.5	Trading of conversion parts and gas station equipment and operation of gas station

NOTES TO FINANCIAL STATEMENTS

For the year ended 30th June, 2004

37. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name of company	Place of incorporation/ establishment and operation	Issued and paid up ordinary share capital	Proportion of nominal value of issued/registered capital held by the Company		Principal activities
			Directly	Indirectly	
			%	%	
新疆中油潔能環保科技發展有限責任公司	The PRC [#]	RMB500,000	–	30.6	Trading of conversion parts and gas station equipment

[#] Equity joint venture established in the PRC.

The above table lists the subsidiaries of the Company as at 30th June, 2004 which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the assets of the Group. To give details of the other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

The Group holds a 60% interest in the registered capital of 山西雁聯運輸有限公司 Shanxi Yanlian Transportation Limited (“Shanxi Yanlian”), a corporation established in the PRC which is principally engaged in coal haulage. The Group exercised control in the management of Shanxi Yanlian up to 30th November, 1998 when the minority shareholder decided to dissolve the corporation. Accordingly, the results of Shanxi Yanlian were taken in by the Group up to 30th November, 1998. The assets and liabilities of Shanxi Yanlian were classified to an interest in a subsidiary not consolidated since then.

Since the financial information of Shanxi Yanlian was not available to the Group, in the opinion of the directors, the remaining interests in the amount of HK\$6,327,000 are irrecoverable and impairment loss was recognised in previous years accordingly.

None of the subsidiaries has issued any debt securities at the end of the year.