

Annual Report **2004**



eCyberChina Holdings Limited
光訊控股集團有限公司

(Incorporated in Hong Kong with limited liability)



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Corporate Information

DIRECTORS

LU Liang

NG Yan

TAO Wei Ming

TSANG Kar Tong

CHENG Kwong Choi, Alexander*

CHENG Sheung Hing*

* *Independent Non-executive Directors*

SECRETARY

MUI Chok Wah

REGISTERED OFFICE

Units 5808, 58th Floor

The Center

No.99 Queen's Road Central

Hong Kong

SOLICITORS

Hau, Lau, Li & Yeung, Solicitors & Notaries

Sidley Austin Brown & Wood

AUDITORS

Deloitte Touche Tohmatsu

PRINCIPAL BANKERS

Jian Sing Bank Limited

Wing Lung Bank Limited

SHARE REGISTRARS

Abacus Share Registrars Limited

Ground Floor, BEA Harbour View Centre

56 Gloucester Road

Wanchai

Hong Kong

Notice of Adjourned Annual General Meeting

NOTICE IS HEREBY GIVEN THAT an annual general meeting ("this Meeting") of eCyberChina Holdings Limited (the "Company") will be held at Plaza IV, Lower Lobby, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong on 31st March, 2005 at 10:00 a.m. for the following purposes:–

To receive and consider the audited consolidated financial statements of the Company and its subsidiaries and the reports of the directors (the "Directors") and auditors of the Company for the year ended 30th June, 2004.

By Order of the Board

MUI Chok Wah

Company Secretary

Hong Kong, 7th February, 2005

Registered office:

Unit 5808, 58th Floor

The Center

No.99 Queen's Road Central

Hong Kong

Notes:

- (1) A member entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company.
- (2) In order to be valid, the proxy form completed in accordance with the instructions set out therein, together with the power of attorney or other authority, if any, under which it is signed (or a notarially certified copy of that power or authority), must be deposited at the registered office of the Company situated at Unit 5808, 58th Floor, The Center, No.99 Queen's Road Central, Central, Hong Kong not less than 48 hours before the time appointed for the Meeting or any adjournment thereof.

Executive Director's Statement

On behalf of the board of directors ("the Board"), I am pleased to present to the shareholders the annual report of eCyberChina Holdings Limited ("the Company") and its subsidiaries (collectively "the Group") for the year ended 30th June, 2004.

RESULTS

During the year under review, the Group's turnover was HK\$6.45 million, representing a decrease of 51.3% as compared to the last year of HK\$13.22 million. Loss attributable to shareholders was HK\$5.2 million (2003: HK\$42 million), improvement of 87.6% was recorded.

The Directors do not recommend the payment of any dividend for the year ended 30th June, 2004 (2003: Nil).

BUSINESS REVIEW

Post Severe Acute Respiratory Syndrome, Hong Kong economic and property markets have revived rapidly. The PRC tourists arrival have augmented substantially which helps lifting the territories prosperity. The Group's investment portfolio has benefited from the property revaluation. More information can be found under the section of Management Discussion and Analysis.

FUTURE PROSPECT

The accord entered between the PRC and Hong Kong SAR, Mainland-Hong Kong Closer Economic Partnership Arrangement Agreement eases the restriction of PRC travelers coming to Hong Kong in turn helping to prosper the commercial and property markets in Hong Kong. The interest rate hike remains as the overhang in the forthcoming year. The Group has prepared to keep the cost control in check to ease any difficulties in sight. The Board is confident that the Group will improve its performance in the future by taking an advantage of comparatively high economic growth in the PRC despite the worldwide sluggish economic.

APPRECIATION

Finally, I would like to express my sincerest thanks and appreciation to all my colleagues and staff for their loyalty and full support to the Group during the year.

On behalf of the Board

Ng Yan

Executive Director

Hong Kong, 7th February, 2005

Management Discussion and Analysis

Turnover

The turnover of the Group for the year ended 30th June, 2004 was mainly attributable to the rental income from the investment properties and operations in trading and manufacturing media equipment and peripherals in the PRC.

Business Review

Post Severe Acute Respiratory Syndrome ("SARS"), Hong Kong property market revived rapidly. The property prices rose more than 30% from the mid-2003. The Group's investment portfolio also benefited from the property revaluation of recording a gain of HK\$16 million. The Group's loss on operation in trading and manufacturing segment reported with marked improvement on allowance on bad and doubtful debts and administrative expenses. As a result, the Group suffered a loss of HK\$1.7 million for an operation in trading and manufacturing media equipment and peripherals.

With the office market revived upward, investment properties had generated stable rental incomes to the Group.

The Group's staffs and daily administration costs had been trimmed down sharply to HK\$11.5 million by a decrease of 53.9% as compared to HK\$24.9 million of the past year.

Prospect

The Mainland-Hong Kong Closer Economic Partnership Arrangement ("CEPA") took effect on 1st January, 2004. CEPA aims at attracting investments to and providing a preferential market in Hong Kong for easier access to markets either in the PRC or Hong Kong. Economy in the PRC and Hong Kong is rebounding from the outbreak of the deadly SARS and blooming. The management anticipates the Group will record further gain on property revaluation from the rising real estate market in its Hong Kong investment portfolio. The management is optimistic that the Group's rental incomes from the investment properties would be creeping up gradually.

Due to the Group enjoying harmonious relationship with PRC corporations, the management expects the Group would benefit from the lucrative investment opportunities in the PRC.

Because of the uncertainty of the interest rates, the Group had already sharpened its competitive edge. The Group will continuously adopt stringent cost control measures and strive to enhance the market penetration of the high technology products to generate plausible stable and recurring incomes to the Group.

The Group will be engaged continuous in debt restructuring and capital reduction to make the financial position of the Group more healthy through active negotiations with financial institutions or creditors for flexible repayment terms or an extension of the debt repayment.

Management Discussion and Analysis

Liquidity and financial resources

As at 30th June, 2004, the gearing ratio of the Group increased to 481% (2003: 328%). It was computed on the basis of the aggregate interests bearing loans, which comprise of bank borrowings, loans, overdraft, other borrowings and obligations under finance lease, divided by the amount of shareholders' equity.

As at 30th June, 2004, the Group had short-term loans and overdraft borrowings with banks and financial institutions approximately amounting to HK\$49 million (2003: HK\$73 million) and long-term borrowings approximately amounted to HK\$32 million (2003: nil). The loans were at interests of prevailing commercial lending rates.

All of the Group's bank balances and borrowings were denominated in Hong Kong dollars and Renminbi, risk in exchange rate fluctuation would be immaterial. Thus, the Group does not use any hedges.

Short-term loans, amounting to approximately HK\$5.5 million in aggregate, were advanced to the Group by several independent third parties subsequent to the year under review. The management believes such loans advancements would improve the Group's liquidity.

Contingent liabilities

As at 30th June, 2004, a leasing facility amounting to approximately HK\$4.61 million (2003: HK\$4.61 million) granted by a leasing company to a former related company is secured by a corporate guarantee provided by the Company. Subsequent to the balance sheet date, a claim against the Company as a guarantor was received for the outstanding principal together with the accrued interest of approximately HK\$5 million due by the former related company up to 31st December, 2004. Although a counter-indemnity from that former related company was obtained by the Company, it is not certain whether the counter-indemnity will be honoured. Accordingly, the full amount of claim has been accrued and included in trade and other payables at the balance sheet date.

In addition, pursuant to an agreement entered into by the Company, two of its subsidiaries and two independent third parties in February 2003, the Group had disposed of a subsidiary, World Giant Limited ("World Giant"), a company engaged in property investment in the PRC. In this connection, the Company has undertaken to indemnify World Giant for, among others, any increase in the liabilities of World Giant as a result of any claim for taxation arising from any transactions effected on or before the completion date of the above disposal. In October 2004, World Giant received a payment request from the PRC tax authority in respect of PRC property taxes relating to the property held by World Giant in the aggregate amount of approximately HK\$8 million, including the late payment surcharge levied by the tax authorities, of which approximately HK\$5.8 million was in respect of transactions on or before the completion date. The existing management of World Giant has indicated to the Directors that the amount in respect of transactions on or before the completion date should be paid by the Company. In January 2005, World Giant lodged a claim against the subsidiary of the Company demanding the payment of approximately HK\$5.8 million. However, such amounts are fully covered by the amount accrued in the accounts of the World Giant at the time of disposal. Accordingly, in the opinion of the directors and having obtained from the Company's lawyer, the Group or the Company has no obligation to pay the above taxes.

Management Discussion and Analysis

Properties portfolio

The Group's properties portfolio were valued at approximately HK\$78 million (2003: HK\$62 million) at 30th June, 2004 by AA Property Services Limited ("AA Property") on an open market value existing use basis.

- Property owned in Hong Kong: Revaluation surplus of approximately HK\$16 million (2003: HK\$1.1 million revaluation surplus) has been credited to the consolidated income statement due to increment in values.
- Properties held for sale in the PRC: There was no decrease or increase in revaluation. (2003: HK\$12.4 million revaluation deficits).

Charge on group assets

The Group's properties portfolio, excluding the property held for sale in the PRC, were pledged to secure facilities amounting to HK\$78.5 million in aggregate (2003: HK\$62.6 million) to certain financial institutions.

Staff and remuneration policies

The Group had about 40 staffs during the year under review. Staffs were rewarded in link of their individual performance, the Group's performance and the prevailing market salary rate. Staffs with outstanding performance will be granted share option.

Material acquisition or disposal

During the year, the Group disposed of Sky Citi-Link ATNT (Holdings) Limited, an associate of the Group prior to the disposal, for a cash consideration of HK\$100,001.

Directors' Report

The directors present the annual report and the audited financial statements of the Group for the year ended 30th June, 2004.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 37 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the five largest customers and suppliers of the Group accounted for approximately 83.8% and 80.9% of the Group's turnover and purchases.

The largest customer accounted for approximately 47.9% of the turnover of the Group. The largest supplier accounted for approximately 29.4% of the purchase of the Group.

None of the directors, their associates or any shareholders (which, to the knowledge of the directors, owns more than 5% of the Company's issued share capital) had any interest in five largest customers or suppliers respectively.

RESULTS

The results of the Group for the year ended 30th June, 2004 are set out in the consolidated income statement on page 18.

The directors do not recommend the payment of a dividend for the year.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on page 59.

INVESTMENT PROPERTIES

During the year, investment properties of the Group was revalued by an independent firm of professional property valuers on an open market value basis at HK\$78 million. The revaluation increase of the investment properties of HK\$16 million has been credited to the consolidated income statement.

Details of movements in the investment properties of the Group during the year are set out in note 11 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Movements in the property, plant and equipment of the Group during the year are set out in note 12 to the financial statements.

Directors' Report

SHARE CAPITAL

Details of the share capital of the Company are set out in note 25 to the financial statements.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive Directors

Mr. Lu Liang

Mr. Ng Yan

Mr. Tao Wei Ming

Mr. Tsang Kar Tong

(appointed on 16th September, 2003)

Mr. Ho Yuk Ming, Hugo

(appointed on 22nd March, 2004 and
resigned on 30th September, 2004)

Mr. Lo Lap Ho

(resigned on 30th June, 2004)

Independent Non-Executive Directors

Mr. Cheng Sheung Hing

(appointed on 31st December, 2003)

Mr. Cheng Kwong Choi, Alexander

(appointed on 31st December, 2003)

Mr. Mui Chok Wah

(appointed on 30th September, 2004 and
resigned on 23rd November, 2004)

Ms. Lyn Yee Chen, Jean

(appointed on 23rd November, 2004 and
retired on 30th December, 2004)

Mr. Kurt Franz Hanke

(retired on 31st December, 2003)

Ms. Lau Heung Ping

(retired on 31st December, 2003)

In accordance with Articles 94 and 102 (A) of the Company's Articles of Association, Messrs. Lu Liang, Ng Yan, Tsang Kar Tong, Tao Wei Ming, Cheng Sheung Hing and Cheng Kwong Choi, Alexander retired at the 2004 annual general meeting held on 30th December, 2004 ("AGM") and were re-elected as directors of the Company at the AGM. Ms. Lyn Yee Chen, Jean retired at the AGM and did not offer for re-election.

The terms of office of the independent non-executive directors are subject to retirement by rotation in accordance with the Company's Articles of Association.

None of the directors had any service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

Directors' Report

SHARE OPTIONS

Under the Company's share options schemes, details of which are set out in note 26 to the financial statements, a director of the Company has personal interests in share options to subscribe for the shares of the Company and details of movements during the year are as follows:

Name of director	Scheme type	Month of grant	Exercisable period	Number of share options	
				Exercise price HK\$	Outstanding at 1.7.2003 & 30.6.2004
Mr. Lu Liang	1999	May 2002	24th May, 2002 to 23rd May, 2012	0.202	25,835,000

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed under section "Share Options", at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN SHARES

Save as disclosed under section "Share Options", none of the directors, chief executives nor their associates, had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporation as at 30th June, 2004.

Directors' Report

SUBSTANTIAL SHAREHOLDERS

At 30th June, 2004, the register of substantial shareholders maintained by the Company under Part XV of the Securities and Futures Ordinance showed that the following persons had an interest of 5% or more in the Company's issued share capital:

Name of shareholder	Notes	Number of ordinary shares of the Company held		
		Direct interest	Deemed interest	Percentage of shareholding
Ventures Victory Limited		227,325,000		7.93%
East Marton Group Limited		275,928,500		9.62%
KG Investments Holdings Limited	1	275,928,500		9.62%
Absolute Rich Assets Limited ("Absolute Rich")	2	99,830,000		3.48%
Precise Time International Limited ("Precise Time")	2	61,880,000		2.16%
Success Pacific Enterprises Limited ("Success")	2	99,830,000		3.48%
Mr. Li Jian Min	2		261,540,000	9.12%
Ambang Jaya Sdn. Bhd. ("Ambang")	3	166,615,000		5.81%
Angkasa Marketing (Singapore) Pte Limited ("Angkasa")	3	75,000,000		2.62%
Amsteel Corporation Berhad ("Amsteel")	3		241,615,000	8.43%
Mr. Cheng Heng Jem	4		241,615,000	8.43%
ATNT Global Investments Co. Limited ("ATNT Global")	5	180,030,000		6.28%
Asia Tele-net and Technology Corporation Limited ("Asia Tele-net")	5		180,030,000	6.28%
Cyber Relationship Limited ("Cyber")	6	175,000,000		6.10%
China National Real Estate Development Group Company	6		175,000,000	6.10%
Kargill High Growth Fund		165,000,000		5.75%



Directors' Report

SUBSTANTIAL SHAREHOLDERS (cont'd)

Notes:

1. KG Investments Holdings Limited is deemed to be interested in the Company's shares held by Global Treasure Investments Limited, its indirect subsidiary, by means of holding indirect and direct controlling interests in KGI International Holdings Limited and KGI Limited.
2. Mr. Li Jian Min is deemed to be interested in the Company's shares in which Absolute Rich, Precise Time and Success are interested.
3. Ambang and Angkasa are wholly-owned subsidiaries of Amsteel which is deemed to be interested in those shares of the Company beneficially owned by Ambang and Angkasa respectively.
4. Mr. Cheng Heng Jem is deemed to be interested in the Company's shares in which Amsteel is interested.
5. ATNT Global is a wholly-owned subsidiary of Asia Tele-net which is deemed to be interested in those shares of the Company beneficially owned by ATNT Global.
6. Cyber is a wholly-owned subsidiary of China National Real Estate Development Group Company which is deemed to be interested in those shares of the Company beneficially owned by Cyber.

Save as disclosed above, the Company has not been notified of any other interests representing 5% or more of the issued share capital of the Company at 30th June, 2004.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

At 30th June, 2004, none of the Directors had any interests in competing business of the Group which was required to be disclosed pursuant to Rule 8.10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CONNECTED TRANSACTIONS

During the year, the minority shareholder of 珠海再創通信技術有限公司 ("珠海再創"), a non-wholly owned subsidiary of the Company, made advances of approximately HK\$376,000 to 珠海再創 for working capital purposes. At the balance sheet date, the advances which remained unsettled, including the advances made in previous years, amounted to approximately HK\$6,571,000 in aggregate. The advances are unsecured and have no fixed repayment term. A portion of the advances is interest free and the rest bears interest at approximately 6.1% per year. The maximum balance of such advances outstanding during the year was approximately HK\$6,571,000. The Group accrued interest of approximately HK\$204,000 on such advances during the year. Subsequent to the balance sheet date, the minority shareholders agreed not to demand repayment until 1st January, 2006.

In the opinion of the independent non-executive directors of the Company, the above transactions have been entered into by 珠海再創 in the usual and ordinary course of business.

Directors' Report

CORPORATE GOVERNANCE

Due to the significant staff and management turnover within the Group during and subsequent to the year under review, the Company could not publish the final results for the year ended 30th June, 2004 (the "Final Results") and the interim results for the six months ended 31st December, 2003 (the "Interim Results") within the time frame as stipulated in the Listing Rules. The failure to publish the Final Results and dispatch the annual report to shareholders within four months of the financial year end constitute breaches of the paragraph 8(1) and 11(1) of the Listing Agreement. The failure to publish the Interim Results and dispatch the interim report to shareholders within three months from 31st December, 2003 constitute breaches of the paragraph 10(1) and 11(6) of the Listing Agreement and Rules 13.48 of the Listing Rules.

The independent non-executive director, Ms. Lyn Yee Chen, Jean, has retired on 30th December, 2004 and the Group is currently seeking for an appropriate person as the independent non-executive director so as to comply with 3.10(1) and 3.10(2) of the Listing Rules.

Saved as disclosed above, the Company has complied throughout the year ended 30th June, 2004 with the "Code of Best Practice" as set out in Appendix 14 of the Listing Rules.

An audit committee is established by the Company to review and supervise the Group's financial reporting process and internal controls. The current members of the Audit Committee are the two independent non-executive directors, Mr. Cheng Sheung Hing and Mr. Cheng Kwong Choi, Alexander. The Company is currently seeking for a member for the Audit Committee so as to comply with 3.21 of the Listing Rules. The final results for the year ended 30th June, 2004 have been reviewed by the Audit Committee.

POST BALANCE SHEET EVENTS

Details of significant post balance sheet events of the Group are set out in note 38 to the financial statements.

AUDITORS

The Company's financial statements for the year ended 30th June, 2003 and 2004 were audited by Messrs. Deloitte Touche Tohmatsu, while the Company's financial statements for the year ended 30th June, 2002 were audited by Messrs. Fan, Mitchell & Co., Certified Public Accountants.

A resolution will be submitted to the forthcoming annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Ng Yan

Director

Hong Kong, 7th February, 2005

Biographical Details of Directors

EXECUTIVE DIRECTORS

LU Liang, aged 43, was appointed a Director on 11th June, 2002. Mr. Lu attained a Bachelor of Science in Computer Science from the Harbin University of Science and Technology and a Master's Degree in Management of Information System from the Harbin Institute of Technology. He had worked in China Great Wall Industry Corporation, an affiliate of China National Space Administration in the PRC. He has over 13 years of extensive experience in an information technology field in the PRC, specializing in development of information technology and telecommunication network.

NG Yan, aged 64, was appointed a Director on 20th May, 2003. Mr. Ng had been a lecturer in Shanghai Engineering College for 11 years. Since 1990, Mr. Ng has been specialized in import and export business and investments.

TAO Wei Ming, aged 49, was appointed a Director on 20th May, 2003. Mr. Tao has over 9 years of extensive experience in investments in the PRC.

TSANG Kar Tong, aged 56, rejoined to the Board on 16th September, 2003 as a Director. Mr. Tsang has over 26 years of extensive experience in manufacture and textile industry in Hong Kong, Indonesia, Malaysia and Sri Lanka, specializing in business, marketing and human resources management.

INDEPENDENT NON-EXECUTIVE DIRECTORS

CHENG Sheung Hing, aged 57 was appointed an independent non-executive Director on 31st December, 2003. Mr. Cheng was awarded a Bachelor Degree in Economic by the Beijing Economic College. He has been specialized in a field of foreign exchange in the PRC over 11 years and his authorities on economic and foreign exchange was fully recognized when he had been appointed the Head of Inspection of the PRC Foreign Exchange Management Bureau in 1994.

CHENG Kwong Choi, Alexander, aged 58 was appointed as an independent non-executive Director on 31st December, 2003. He is the Business Development Manager of New York Life Insurance Worldwide Limited. He had been appointed the Managing Director of Sky Fortune Travel and the Assistant Manager-Japan Project of Hong Kong Tourist Association.

SENIOR MANAGEMENT

Only the executive directors are considered as senior management of the Company.

Auditors' Report



Deloitte.
德勤

TO THE MEMBERS OF

eCyberChina Holdings Limited

光訊控股集團有限公司

(Incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 18 to 58 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

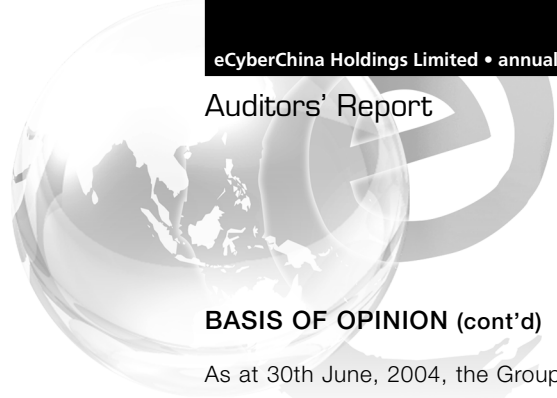
It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion solely to you, as a body, in accordance with section 141 of the Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants except that the scope of our work was limited as set out below.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and of the Group, consistently applied and adequately disclosed.

We planned our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. However, the evidence available to us was limited.



Auditors' Report

BASIS OF OPINION (cont'd)

As at 30th June, 2004, the Group held a 20.28% equity interest in a jointly controlled entity incorporated in the People's Republic of China (the "PRC"), 中房集團華東置業股份有限公司 (China Real Estate Development Group Huadong Properties Company Limited) ("CRED Huadong"), with a nil carrying amount. We were unable to obtain sufficient reliable financial information in respect of CRED Huadong to assess whether there is any material misstatement of this carrying amount. Any adjustment to the carrying amount of the interest in CRED Huadong would affect the Group's net assets as at 30th June, 2004 and its loss for the year then ended.

In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Fundamental uncertainty relating to the ownership of properties held for sale

In forming our opinion, we have considered the adequacy of disclosures made in note 18 to the financial statements which explain the uncertainty regarding the ownership of the Group's properties held for sale included in the consolidated balance sheet as at 30th June, 2004 at net realisable value of HK\$71.5 million. The Directors are continuing to negotiate with the vendor for the transfer of legal title of the properties to the Group. However, after seeking opinion from a PRC law firm, the Directors are of the view that the Group's rights to the properties are legally enforceable and they are currently considering taking legal action to enforce the Group's rights. Although the outcome of this matter cannot be determined with reasonable certainty at this time, the Directors remain confident that the Group will be able to obtain legal title to the properties. We consider that appropriate disclosures have been made. However, in view of the extent of the uncertainty relating to the Group's ownership of the properties, we disclaim our opinion in this respect.

Fundamental uncertainty relating to the going concern basis

In forming our opinion, we have considered the adequacy of the disclosures made in note 2 to the financial statements which explain that the Directors have been taking steps to improve the financial position of the Group including:

- (a) the extension of the repayment dates of borrowings of approximately HK\$33 million as agreed by the relevant creditors;
- (b) continuing negotiations with the vendor of the properties held for sale for the transfer of the title of the properties to the Group as referred to above;
- (c) the successful extension of the completion date for the disposal of the properties referred to in (b) to a prospective purchaser;
- (d) continuing negotiations with the prospective purchaser to complete the disposal of the properties referred to in (b); and
- (e) the negotiations with a potential investor for the subscription of a convertible note of HK\$30 million to be issued by the Company.

Auditors' Report

BASIS OF OPINION (cont'd)

Provided that the proposed transactions (b), (d) and (e) referred to in the preceding paragraph can be successfully completed, the Directors are satisfied that the Group will have sufficient working capital to meet in full its financial obligations as they fall due for the foreseeable future. The financial statements do not include any adjustments that would result from a failure to complete the above proposed transactions or to obtain other funding. We consider that the fundamental uncertainty has been adequately disclosed in the financial statements. However, in view of the extent of the uncertainty relating to the successful completion of these transactions, we disclaim our opinion in this respect.

DISCLAIMER OF OPINION

Because of the fundamental uncertainties relating to the ownership of properties held for sale and relating to the going concern basis and because of the limitation in the scope of work described in the basis of opinion section of this report, we are unable to form an opinion as to whether the financial statements give a true and fair view of the state of affairs of the Group and of the Company as at 30th June, 2004 and of the loss and cash flows of the Group for the year then ended and as to whether the financial statements have been properly prepared in accordance with the Companies Ordinance.

In respect alone of the limitation on our work relating to investment in a jointly controlled entity, we have not obtained all the information and explanations that we considered necessary for the purpose of our audit.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

7th February, 2005

Consolidated Income Statement

For the year ended 30th June, 2004

	NOTES	2004 HK\$'000	2003 HK\$'000
Turnover		6,445	13,217
Direct costs		(1,936)	(6,792)
Gross profit		4,509	6,425
Other operating income		1,211	146
Revaluation increase of investment properties		16,000	1,100
Allowance for bad and doubtful debts		(1,116)	(3,132)
Allowance for properties held for sale		–	(12,400)
Administrative and other operating expenses		(11,476)	(24,892)
Profit (loss) from operations	6	9,128	(32,753)
Finance costs	8	(9,341)	(10,784)
Loss arising from a guarantee granted in respect of liabilities of a former related company	30	(5,000)	–
Share of results of associates		–	(5,112)
Gain on disposal of a subsidiary		–	4,727
Reversal of allowance for amounts due from associates		–	1,045
Loss before minority interest		(5,213)	(42,877)
Minority interest		–	886
Loss attributable to shareholders		(5,213)	(41,991)
Loss per share	10		
Basic		(HK\$0.002)	(HK\$0.015)

Consolidated Balance Sheet

At 30th June, 2004

	NOTES	2004 HK\$'000	2003 HK\$'000
Non-Current Assets			
Investment properties	11	78,000	62,000
Property, plant and equipment	12	965	1,537
Deposit paid for the purchase of investment properties	13	–	–
Interests in associates	15	–	–
Interests in a jointly controlled entity	16	–	–
		78,965	63,537
Current Assets			
Inventories	17	300	787
Properties held for sale	18	71,500	71,500
Other investment	19	–	–
Trade and other receivables	20	2,336	2,678
Amounts due from associates	21	–	1,045
Bank balances and cash		440	144
		74,576	76,154
Current Liabilities			
Deposit received on disposal of properties held for sale	18	25,757	25,757
Trade and other payables	22	31,521	19,886
Obligations under finance leases – due within one year	23	32	203
Bank and other borrowings – due within one year	24	48,596	72,515
		105,906	118,361
Net Current Liabilities		(31,330)	(42,207)
		47,635	21,330

Consolidated Balance Sheet

At 30th June, 2004

	NOTES	2004 HK\$'000	2003 HK\$'000
Capital and Reserves			
Share capital	25	573,500	573,500
Reserves		(557,429)	(552,216)
		16,071	21,284
Non-Current Liabilities			
Obligations under finance leases – due after one year	23	28	46
Bank and other borrowings – due after one year	24	31,536	–
		31,564	46
		47,635	21,330

The financial statements on pages 18 to 58 were approved and authorised for issue by the Board of Directors on 7th February, 2005 and are signed on its behalf by:

Lu Liang
DIRECTOR

Ng Yan
DIRECTOR

Balance Sheet

At 30th June, 2004

	NOTES	2004 HK\$'000	2003 HK\$'000
Non-Current Assets			
Interests in subsidiaries	14	45,838	50,802
Current Assets			
Other receivables		238	54
Bank balances		24	83
		262	137
Current Liabilities			
Other payables and accrued charges		14,356	10,996
Bank and other borrowings – due within one year	24	12,423	45,222
		26,779	56,218
Net Current Liabilities		(26,517)	(56,081)
		19,321	(5,279)
Capital and Reserves			
Share capital	25	573,500	573,500
Reserves	27	(554,179)	(578,779)
		19,321	(5,279)

Lu Liang
DIRECTOR

Ng Yan
DIRECTOR

Consolidated Statements of Changes in Equity

For the year ended 30th June, 2004

	Share capital <i>HK\$'000</i> (Note 25)	Share premium <i>HK\$'000</i>	Other reserve <i>HK\$'000</i> (Note)	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st July, 2002	516,700	103,257	–	(561,794)	58,163
Issue of shares for acquisition of an associate	56,800	–	(51,688)	–	5,112
Loss attributable to shareholders	–	–	–	(41,991)	(41,991)
At 30th June, 2003	573,500	103,257	(51,688)	(603,785)	21,284
Loss attributable to shareholders	–	–	–	(5,213)	(5,213)
At 30th June, 2004	573,500	103,257	(51,688)	(608,998)	16,071

Note: Other reserve represents the difference between the par value of the shares issued for the acquisition of an associate in 2003 and the fair value of these shares at the date of issue.

Consolidated Cash Flow Statement

For the year ended 30th June, 2004

	NOTE	2004 HK\$'000	2003 HK\$'000
OPERATING ACTIVITIES			
Profit (loss) from operations		9,128	(32,753)
Adjustments for:			
Depreciation and amortisation of property, plant and equipment		577	1,235
Revaluation increase of investment properties		(16,000)	(1,100)
Loss (gain) on disposal of property, plant and equipment		8	(22)
Allowance for bad and doubtful debts		1,116	3,132
Allowance for properties held for sale		–	12,400
Operating cash flows before movements in working capital		(5,171)	(17,108)
Decrease in inventories		487	3,740
Increase in trade and other receivables		(774)	(958)
Increase (decrease) in trade and other payables		2,343	(8,191)
Cash used in operations		(3,115)	(22,517)
Interest paid on bank and other borrowings		(5,034)	(12,099)
Interest on obligations under finance leases		(15)	(80)
NET CASH USED IN OPERATING ACTIVITIES		(8,164)	(34,696)
INVESTING ACTIVITIES			
Repayment from an associate		1,045	–
Purchase of property, plant and equipment		(13)	(301)
Proceeds on disposal of a subsidiary	28	–	4,077
Proceeds on disposal of property, plant and equipment		–	514
NET CASH FROM INVESTING ACTIVITIES		1,032	4,290

Consolidated Cash Flow Statement

For the year ended 30th June, 2004

	2004 HK\$'000	2003 HK\$'000
FINANCING ACTIVITIES		
New bank and other borrowings raised	50,444	67,152
Repayment of bank and other borrowings	(40,726)	(35,704)
Repayment of obligations under finance leases	(189)	(828)
NET CASH FROM FINANCING ACTIVITIES	9,529	30,620
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,397	214
CASH AND CASH EQUIVALENTS AT 1ST JULY	(1,957)	(2,171)
CASH AND CASH EQUIVALENT AT 30TH JUNE	440	(1,957)
ANALYSIS OF THE BALANCE OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	440	144
Bank overdrafts	–	(2,101)
	440	(1,957)

Notes to the Financial Statements

For the year ended 30th June, 2004

1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). However, the trading of the Company's shares on the Stock Exchange has been suspended since 30th June, 2003. Subsequent to the balance sheet date, the Company has been placed in the third stage of delisting procedures pursuant to Practice Note 17 of the Rules Governing the Listing of Securities on the Stock Exchange. On 27th January, 2005, a proposal was submitted by the financial advisor to the Stock Exchange for the resumption of trading in the Company's shares.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 37.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

In preparing the financial statements, the Company's directors (the "Directors") have given careful consideration to the going concern status of the Group in the light of the net current liabilities of approximately HK\$31,330,000 as at 30th June, 2004.

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

- (a) The Directors have been in negotiations with the parties providing finance to the Group with a view to restructuring the relevant repayment schedules. Subsequent to the balance sheet date, certain parties have agreed in writing that loans to the Group with an aggregate balance of approximately HK\$5 million shall not be repayable until August 2006, loans of approximately HK\$21 million shall not be repayable until March 2006, and advance from a minority shareholder of a subsidiary of approximately HK\$7 million shall not be repayable until January 2006.
- (b) As explained further in note 18, the Directors are continuing to negotiate with the vendor of the properties held for sale for the transfer of title to the Group.
- (c) As explained further in note 18, during the year ended 30th June, 2002, the Group entered into an agreement with an independent third party for the disposal of the properties mentioned in (b) above for a consideration of approximately HK\$83 million against which a deposit of approximately HK\$25.8 million is held by the Group. The agreement is conditional upon the completion of the due diligence exercise which includes the obtaining of legal title of the properties by the Group. In August, 2004, a letter of intent was signed with the prospective purchaser to extend the completion date to 31st March, 2005.
- (d) The Directors are continuing to negotiate with the prospective purchaser mentioned in (c) above to complete the disposal of the properties held for sale mentioned in (b) above.

Notes to the Financial Statements

For the year ended 30th June, 2004

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

- (e) A provisional agreement has been entered into between the Company and an independent third party under which that party has agreed to subscribe for a convertible note in the principal amount of HK\$30 million to be issued by the Company. The convertible note gives the holder thereof the right to convert the principal amount into approximately 75% of the issued share capital of the Company following a proposed capital reduction exercise of the Company. On 26th August, 2004, the potential investor paid a refundable deposit of HK\$2.5 million to the Company in connection with the above proposed subscription. Another HK\$2.5 million deposit will be paid upon signing of the formal agreement. The above agreement is conditional upon, among other things, the relevant approvals being obtained from the High Court of Hong Kong, the relevant Hong Kong regulatory authorities and the Company's shareholders.
- (f) Since November 2004, the potential investor mentioned in (e) above has provided approximately HK\$2.8 million interest-free advances to the Group for working capital purposes.

Provided that the transactions referred in the paragraphs (b), (d) and (e) above are successfully completed, the Directors are satisfied that the Group will have sufficient working capital to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

3. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted, for the first time, the following Hong Kong Financial Reporting Standard (the "HKFRS") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The term of HKFRSs is inclusive of Statements of Standard Accounting Practice ("SSAP") and Interpretations approved by the HKICPA.

The principal effect of the implementation of SSAP 12 (Revised) "Income taxes" is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. The adoption of SSAP 12 (Revised) has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior year adjustment has been made.

Notes to the Financial Statements

For the year ended 30th June, 2004

4. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

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

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

Investments in subsidiaries

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

Interests in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates plus the goodwill on acquisition in so far as it has not already been written off or amortised, less any identified impairment loss.

Joint ventures

Jointly controlled entities

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

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

Investment in securities

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

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

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

Notes to the Financial Statements

For the year ended 30th June, 2004

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Investment in securities (cont'd)

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

Impairment

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

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

Revenue recognition

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

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

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

Investment properties

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

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

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

Notes to the Financial Statements

For the year ended 30th June, 2004

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Investment properties (cont'd)

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

Property, plant and equipment

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

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

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

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

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

Properties held for sale

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

Inventories

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

Notes to the Financial Statements

For the year ended 30th June, 2004

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Leased assets

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

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

Foreign currencies

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

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

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Notes to the Financial Statements

For the year ended 30th June, 2004

4. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Taxation (cont'd)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associates and jointly controlled entity, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Retirement benefit scheme

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

5. SEGMENT INFORMATION

Business segments

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

The Group has designated business segments as the Group's primary reporting format.

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

Notes to the Financial Statements

For the year ended 30th June, 2004

5. SEGMENT INFORMATION (cont'd)

Segment information about these businesses is presented below:

2004

CONSOLIDATED INCOME STATEMENT

	Property investment HK\$'000	2004 Manufacturing and trading HK\$'000	Consolidated HK\$'000
Turnover	3,089	3,356	6,445
Segment result	18,786	(1,686)	17,100
Unallocated corporate income			1,122
Unallocated corporate expenses			(9,094)
Profit from operations			9,128
Finance costs			(9,341)
Loss arising from a guarantee granted in respect of liabilities of a former related company			(5,000)
Loss attributable to shareholders			(5,213)

Notes to the Financial Statements

For the year ended 30th June, 2004

5. SEGMENT INFORMATION (cont'd)

CONSOLIDATED BALANCE SHEET

	Property investment <i>HK\$'000</i>	2004 Manufacturing and trading <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>	
ASSETS				
Segment assets	150,207	2,806	153,013	
Unallocated corporate assets			528	
Consolidated total assets			153,541	
LIABILITIES				
Segment liabilities	26,512	9,650	36,162	
Unallocated corporate liabilities			101,308	
Consolidated total liabilities			137,470	
	Property investment <i>HK\$'000</i>	Manufacturing and trading <i>HK\$'000</i>	Others <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
OTHER INFORMATION				
Allowance for bad and doubtful debts	–	1,116	–	1,116
Capital expenditure	–	3	10	13
Depreciation and amortisation	–	395	182	577

Notes to the Financial Statements

For the year ended 30th June, 2004

5. SEGMENT INFORMATION (cont'd)

2003

CONSOLIDATED INCOME STATEMENT

	Property investment HK\$'000	2003 Manufacturing and trading HK\$'000	Consolidated HK\$'000
Turnover	5,316	7,901	13,217
Segment result	(11,760)	(6,656)	(18,416)
Unallocated corporate income			143
Unallocated corporate expenses			(14,480)
Loss from operations			(32,753)
Finance costs			(10,784)
Share of results of associates			(5,112)
Gain on disposal of a subsidiary			4,727
Reversal of allowance for amounts due from associates			1,045
Loss before minority interest			(42,877)
Minority interest			886
Loss attributable to shareholders			(41,991)

Notes to the Financial Statements

For the year ended 30th June, 2004

5. SEGMENT INFORMATION (cont'd)

2003

CONSOLIDATED BALANCE SHEET

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

Notes to the Financial Statements

For the year ended 30th June, 2004

5. SEGMENT INFORMATION (cont'd)

Geographical segments

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

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

	Turnover by geographical market	
	2004 HK\$'000	2003 HK\$'000
PRC, excluding Hong Kong	3,356	10,208
Hong Kong	3,089	3,009
	6,445	13,217

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

	Carrying amount of segment assets		Capital expenditure	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
PRC, excluding Hong Kong	74,306	75,810	3	284
Hong Kong	79,235	63,881	10	17
	153,541	139,691	13	301

Notes to the Financial Statements

For the year ended 30th June, 2004

6. PROFIT (LOSS) FROM OPERATIONS

	2004 HK\$'000	2003 HK\$'000
Profit (loss) from operations has been arrived at after charging:		
Staff costs, including directors' remuneration:		
– Basic salaries and allowances	2,306	5,430
– Retirement benefits scheme contributions	59	183
	2,365	5,613
Auditors' remuneration		
– Current year	550	920
– Underprovision in prior years	–	270
Cost of inventories recognised as an expense	1,835	4,083
Depreciation and amortisation of property, plant and equipment	577	1,235
Operating lease rentals in respect of land and buildings	623	1,369
and after crediting:		
Rental income from investment properties and properties held for sale under operating leases, net of outgoings of approximately HK\$101,000 (2003: HK\$2,418,000)	2,988	2,898
Loss (gain) on disposal of property, plant and equipment	8	(22)

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(i) Directors' emoluments

	2004 HK\$'000	2003 HK\$'000
Directors' fees:		
Executive directors	230	345
Independent non-executive directors	18	40
Other emoluments of executive directors:		
Salaries and other allowances	173	189
Contributions to retirement benefits schemes	11	6
	432	580

Notes to the Financial Statements

For the year ended 30th June, 2004

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (cont'd)**(i) Directors' emoluments (cont'd)**

The emoluments of the directors were as follows:

	2004 HK\$'000	2003 HK\$'000
Mr. Tsang Kar Tong	190	195
Mr. Lu Liang	100	245
Mr. Lo Lap Ho	65	55
Mr. Ho Yuk Ming, Hugo	42	–
Mr. Cheng Kwong Choi, Alexander	18	–
Mr. Tao Wei Ming	17	–
Mr. Ng Yan	–	15
Mr. Chen Wai	–	30
Mr. Cheng Sheung Hing	–	–
Mr. Su Sen Chang	–	30
Ms. Lau Heung Ping	–	10
	432	580

(ii) Employees' emoluments

Of the five highest paid individuals in the Group, one (2003: one) of them was a director of the Company whose remunerations are set out in (i) above. The emoluments of the remaining four (2003: four) individuals were as follows:

	2004 HK\$'000	2003 HK\$'000
Salaries and other allowances	656	2,010
Contributions to retirement benefits schemes	31	23
	687	2,033

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

During the years ended 30th June, 2004 and 2003, no emoluments were paid by the Group to the respective five highest paid individuals, including directors, as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, during the years ended 30th June, 2004 and 2003, no director had waived any emoluments.

Notes to the Financial Statements

For the year ended 30th June, 2004

8. FINANCE COSTS

	2004 HK\$'000	2003 HK\$'000
Interest on:		
– bank borrowings wholly repayable within five years	1,802	5,012
– bank borrowings not wholly repayable within five years	101	–
– other borrowings wholly repayable within five years	6,761	5,632
– obligations under finance leases	15	80
Loan arrangement fees	662	60
	9,341	10,784

9. TAXATION

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

The income tax for the year can be reconciled to the loss before taxation per consolidated income statement as follows:

	2004 HK\$'000	2003 HK\$'000
Loss before taxation and minority interest	(5,213)	(42,877)
Tax at Hong Kong Profits Tax rate of 17.5%	(912)	(7,503)
Tax effect of expenses not deductible for tax purpose	2,121	8,585
Tax effect of share of results of associates	–	23
Tax effect of income not taxable for tax purpose	(1,454)	(1,568)
Tax effect of additional tax losses not recognised	1,579	1,859
Tax effect of deferred tax assets previously not recognised	(986)	(333)
Utilisation of taxes losses previously not recognised	(42)	–
Effect of different tax rate of the subsidiary operating in other jurisdiction	(306)	(1,063)
Income tax for the year	–	–

Details of potential deferred taxation not provided for the year are set out in note 29.

Notes to the Financial Statements

For the year ended 30th June, 2004

10. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss attributable to shareholders of approximately HK\$5,213,000 (2003: HK\$41,991,000) and 2,867,500,000 (2003: 2,816,146,575) shares in issue throughout the year.

No diluted loss per share has been presented because the trading of the Company's shares on the Stock Exchange has been suspended since 30th June, 2003 and there is no market price of the Company's shares during the year ended 30th June, 2004 and the directors considered there is no appropriate basis to ascertain the fair value of the Company's shares.

No diluted loss per share has been presented because the exercise prices of the Company's outstanding share options are higher than the average market price of the Company's shares during the year ended 30th June, 2003.

11. INVESTMENT PROPERTIES

	THE GROUP
	<i>HK\$'000</i>
VALUATION	
At 1st July, 2003	62,000
Revaluation increase	16,000
At 30th June, 2004	78,000

The investment properties are held by the Group under medium-term lease in Hong Kong for rental income under operating leases.

At 30th June, 2004, the investment properties of the Group were revalued by AA Property Services Limited, an independent firm of professional valuers, on an open market value basis. The revaluation increase of these properties has been credited to the consolidated income statement.

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

Notes to the Financial Statements

For the year ended 30th June, 2004

12. PROPERTY, PLANT AND EQUIPMENT

	Medium term leasehold land and buildings in the PRC HK\$'000	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Computer equipment HK\$'000	Total HK\$'000
THE GROUP						
COST						
At 1st July, 2003	1,875	538	870	1,035	283	4,601
Additions	–	–	9	–	4	13
Disposals	–	–	(26)	–	(38)	(64)
At 30th June, 2004	1,875	538	853	1,035	249	4,550
DEPRECIATION, AMORTISATION AND ACCUMULATED IMPAIRMENT LOSS						
At 1st July, 2003	1,274	289	506	823	172	3,064
Provided for the year	94	115	134	197	37	577
Eliminated on disposals	–	–	(18)	–	(38)	(56)
At 30th June, 2004	1,368	404	622	1,020	171	3,585
NET BOOK VALUES						
At 30th June, 2004	507	134	231	15	78	965
At 30th June, 2003	601	249	364	212	111	1,537

At 30th June, 2004, the net book value of motor vehicles and equipment of the Group includes an amount of approximately HK\$61,000 (2003: HK\$234,000) in respect of assets held under finance leases.

Notes to the Financial Statements

For the year ended 30th June, 2004

13. DEPOSIT PAID FOR THE PURCHASE OF INVESTMENT PROPERTIES

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

An impairment loss was recognised in prior year in respect of the deposit paid for the purchase of investment properties as the relevant vendor, 中房集團華東置業股份有限公司 China Real Estate Development Group Huadong Properties Company Limited ("CRED Huadong"), a jointly-controlled entity of the Group, had pledged the relevant properties for certain credit facilities granted to CRED Huadong. Up to the date of these financial statements, the Group has not yet been able to obtain legal title to these properties notwithstanding the full payment of the consideration. The recoverable amount of the deposit is therefore estimated to be negligible.

14. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	175	175
Amounts due from subsidiaries	478,776	825,085
	478,951	825,260
Less: Impairment loss recognised	(433,113)	(774,458)
	45,838	50,802

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

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

Notes to the Financial Statements

For the year ended 30th June, 2004

14. INTERESTS IN SUBSIDIARIES (cont'd)

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

Details of the principal subsidiaries of the Company at 30th June, 2004 are set out in note 37.

15. INTERESTS IN ASSOCIATES

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Share of net assets	–	–

Details of the Group's associate as at 30th June, 2004 are as follows:

Name	Place of incorporation/ operation	Proportion of nominal value of issued capital attributable to the Group	Principal activity
CRED.net Limited 中國房地產網有限公司	BVI/the PRC	20%	Inactive

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

16. INTERESTS IN A JOINTLY CONTROLLED ENTITY

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Share of net assets	13,767	13,606
Less: Impairment loss recognised	(13,767)	(13,606)
	–	–

Notes to the Financial Statements

For the year ended 30th June, 2004

16. INTERESTS IN A JOINTLY CONTROLLED ENTITY (cont'd)

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

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

17. INVENTORIES

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Raw materials	87	317
Work in progress	100	198
Finished goods	113	272
	300	787

18. PROPERTIES HELD FOR SALE

	THE GROUP 2004 & 2003 HK\$'000
Properties held for sale, at net realisable value	71,500

On 21st October, 1997, a sale and purchase agreement was entered between Welchem Development Limited ("Welchem"), a wholly-owned subsidiary of the Company and CRED Huadong under which Welchem agreed to purchase certain properties under development (the "Properties") situated in the PRC at approximately HK\$113.8 million. The purchase consideration was fully settled by Welchem prior to its acquisition by the Group. According to the agreement, the legal title to the properties will be transferred from CRED Huadong to the Group upon completion of the construction work. However, following certain disputes with CRED Huadong, the legal title to the Properties has not been transferred to the Group as at 30th June, 2004.

Notes to the Financial Statements

For the year ended 30th June, 2004

18. PROPERTIES HELD FOR SALE (cont'd)

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

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

On 31st October, 2001, an agreement was entered into between Welchem and an independent third party (the "Purchaser") for the disposal of the Properties for a consideration of RMB88,000,000 (equivalent to approximately HK\$83,000,000). Subject to the fulfilment of certain conditions as stated in the supplemental agreement dated 30th November, 2001, including the completion of due diligence exercise, the transaction was expected to be completed on or before 7th February, 2003. On 11th January, 2003, an extension agreement was entered into between Welchem and the Purchaser to further extend the long stop date for the satisfaction of the conditions of the transaction to 28th February, 2003. A deposit of RMB27,350,000 (equivalent to approximately HK\$25,757,000) was received from the Purchaser during the year ended 30th June, 2002 for the disposal of the Properties. Up to the balance sheet date, the transaction had not yet been completed. Subsequent to the balance sheet date, Welchem and the Purchaser signed a letter of intent to further extend the completion date to 31st March, 2005.

19. OTHER INVESTMENT

	2004 HK\$'000	2003 HK\$'000
Unlisted equity shares	–	142,120
Less: Unrealised holding loss	–	(142,120)
	–	–

Other investment represents the cost of 65% equity interests in an unlisted company, International Telecommunication & Telegraph Limited ("IT & T"). During the year, the Group disposed of its entire equity interests in IT & T at a nominal value to a third party.

Notes to the Financial Statements

For the year ended 30th June, 2004

20. TRADE AND OTHER RECEIVABLES

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

Included in trade and other receivables are trade receivables of HK\$1,341,000 (2003: HK\$1,953,000) and an aged analysis is as follows:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
0 – 60 days	288	590
61 – 90 days	85	42
Over 90 days	5,131	4,368
	5,504	5,000
Less: Allowance for bad and doubtful debts	(4,163)	(3,047)
	1,341	1,953

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

The amounts represent advances to associates, less allowance for doubtful debts at the balance sheet date. The advances are unsecured and have no fixed terms of repayment.

The amounts, net of allowance for doubtful debts, at 30th June, 2003 had been fully settled during the current year.

Notes to the Financial Statements

For the year ended 30th June, 2004

22. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of approximately HK\$917,000 (2003: HK\$1,325,000) and an aged analysis is as follows:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
0 – 60 days	71	241
61 – 90 days	47	118
Over 90 days	799	966
	917	1,325

Included in other payables is an amount of HK\$10,059,000 (2003: HK\$6,513,000) secured by the Group's investment properties.

23. OBLIGATIONS UNDER FINANCE LEASES

	THE GROUP			
	Minimum lease payments		Present value of minimum lease payments	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
The maturity of obligations under finance leases is as follows:				
Within one year	36	218	32	203
In the second to fifth year inclusive	31	53	28	46
	67	271		
Less: Future finance charges	(7)	(22)		
Present value of lease obligations	60	249	60	249
Less: Amount due for settlement within one year and shown under current liabilities			(32)	(203)
Amount due after one year			28	46

Notes to the Financial Statements

For the year ended 30th June, 2004

23. OBLIGATIONS UNDER FINANCE LEASES (cont'd)

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

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

24. BANK AND OTHER BORROWINGS

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Bank and other borrowings comprise:				
Bank loans	30,416	38,920	–	35,000
Other loans	49,716	31,494	12,423	8,121
Bank overdrafts	–	2,101	–	2,101
	80,132	72,515	12,423	45,222
Represented by:				
Secured	66,051	63,634	5,000	42,100
Unsecured	14,081	8,881	7,423	3,122
	80,132	72,515	12,423	45,222
Bank and other borrowings are repayable as follows:				
Within one year or on demand	48,596	72,515	12,423	45,222
More than one year but not exceeding two years	2,566	–	–	–
More than two years but not exceeding five years	12,938	–	–	–
More than five years	16,032	–	–	–
Total	80,132	72,515	12,423	45,222
Less: Amount repayable within one year and shown under current liabilities	(48,596)	(72,515)	(12,423)	(45,222)
Amount due after one year	31,536	–	–	–

Notes to the Financial Statements

For the year ended 30th June, 2004

24. BANK AND OTHER BORROWINGS (cont'd)

Other than an amount of approximately HK\$2,886,000 (2003: HK\$2,886,000) which is interest free, the above borrowings bear interest at prevailing market rates.

25. SHARE CAPITAL

	Number of ordinary shares	Amount HK\$'000
Ordinary shares of HK\$0.2 each		
Authorised:		
At 1st July, 2002, 30th June, 2003 and 2004	4,000,000,000	800,000
Issued and fully paid:		
At 1st July, 2002	2,583,500,000	516,700
Issue of shares for acquisition of an associate	284,000,000	56,800
At 30th June, 2003 and 2004	2,867,500,000	573,500

26. SHARE OPTION SCHEME**Share option scheme adopted in 1999**

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

Notes to the Financial Statements

For the year ended 30th June, 2004

26. SHARE OPTION SCHEME (cont'd)**Share option scheme adopted in 2002**

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

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

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

Under the 1999 Scheme

Exercise price HK\$	Month of grant	Number of options					
		Outstanding as at 1st July, 2002	Granted during the year ended 30th June, 2003	Surrendered by option holders during the year ended 30th June, 2003	Outstanding as at 30th June, 2003	Surrendered by option holders during the year ended 30th June, 2004	Outstanding as at 30th June, 2004
0.200	June 2001	86,300,000	-	(86,150,000)	150,000	(150,000)	-
0.200	July 2001	36,225,000	-	(36,125,000)	100,000	-	100,000
0.202	May 2002	76,505,000	-	(50,670,000)	25,835,000	-	25,835,000
0.200	July 2002	-	15,520,000	(15,520,000)	-	-	-
		199,030,000	15,520,000	(188,465,000)	26,085,000	(150,000)	25,935,000

Notes to the Financial Statements

For the year ended 30th June, 2004

26. SHARE OPTION SCHEME (cont'd)

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

Exercise price HK\$	Month of grant	Outstanding as at 31st July, 2002	Number of options Surrendered by option holders the year ended 30th June, 2003	Outstanding as at 30th June, 2003 and 2004
0.200	June 2001	8,650,000	(8,650,000)	–
0.200	July 2001	1,000,000	(1,000,000)	–
0.202	May 2002	50,670,000	(24,835,000)	25,835,000
		60,320,000	(34,485,000)	25,835,000

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

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

27. RESERVES

	Share premium HK\$'000	Other reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
THE COMPANY				
At 1st July, 2002	103,257	–	(676,989)	(573,732)
Issue of shares for acquisition of an associate	–	(51,688)	–	(51,688)
Net profit for the year	–	–	46,641	46,641
At 30th June, 2003	103,257	(51,688)	(630,348)	(578,779)
Net profit for the year	–	–	24,600	24,600
At 30th June, 2004	103,257	(51,688)	(605,748)	(554,179)

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

Notes to the Financial Statements

For the year ended 30th June, 2004

28. DISPOSAL OF A SUBSIDIARY

	2004 HK\$'000	2003 HK\$'000
Net liabilities disposed of:		
Properties held for sale	-	59,800
Other receivables	-	4,231
Other payables	-	(11,758)
Loan payable	-	(52,923)
Net liabilities	-	(650)
Gain on disposal of a subsidiary	-	4,727
Consideration	-	4,077
Satisfied by:		
Consideration	-	57,000
Repayment of loan payable	-	(52,923)
	-	4,077
Cash consideration received and the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	-	4,077

The subsidiary disposed of during the year ended 30th June, 2003 did not have significant contribution to the Group's cash flows or operating results.

Notes to the Financial Statements

For the year ended 30th June, 2004

29. DEFERRED TAXATION

The major deferred tax liabilities (assets) recognised and movements thereon during the current and prior years are summarised below:

	Accelerated tax depreciation <i>HK\$'000</i>	Tax losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP			
Balance at 1st July, 2002 and 30th June, 2003	–	–	–
Charge (credit) to income statement for the year	(705)	705	–
Balance at 30th June, 2004	(705)	705	–

For the purposes of balance sheet presentation, deferred tax assets and liabilities have been offset in accordance with the conditions set out in SSAP 12 (Revised).

At 30th June, 2004, the Group has unused tax losses of approximately HK\$97,219,000 (2003: HK\$84,401,000) available for offset against future profits that are subject to Hong Kong Profits Tax. Up to the date of this report, tax losses of approximately HK\$63 million have not been agreed by Inland Revenue Department. A deferred tax asset amounting to HK\$705,000 (2003: Nil) has been recognised in respect such losses of approximately HK\$4,028,000 (2003: Nil). No deferred tax asset has been recognised in respect of the remaining unused tax losses approximately HK\$93,191,000 (2003: HK\$84,401,000) due to the unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

Notes to the Financial Statements

For the year ended 30th June, 2004

30. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Guarantees given to banks and a third party in respect of facilities granted to				
– subsidiaries	–	–	60,000	30,000
– a former related company (note)	–	4,610	–	4,610
	–	4,610	60,000	34,610

Note: A leasing facility amounting to approximately HK\$4,610,000 (2003: HK\$4,610,000) granted by a leasing company to a former related company is secured by a corporate guarantee provided by the Company. Subsequent to the balance sheet date, a claim against the Company as a guarantor was received for the outstanding principal together with the accrued interest of approximately HK\$5 million due by the former related company up to 31st December, 2004. Although a counter-indemnity from that former related company was obtained by the Company, it is not certain whether the counter-indemnity will be honoured. Accordingly, the full amount of claim has been accrued and included in trade and other payables at the balance sheet date.

In addition, pursuant to an agreement entered into by the Company, two of its subsidiaries and two independent third parties in February 2003, the Group had disposed of a subsidiary, World Giant Limited ("World Giant"), a company engaged in property investment in the PRC. In this connection, the Company has undertaken to indemnify World Giant for, among others, any increase in the liabilities of World Giant as a result of any claim for taxation arising from any transactions effected on or before the completion date of the above disposal. In October 2004, World Giant received a payment request from the PRC tax authority in respect of PRC property taxes relating to the property held by World Giant in the aggregate amount of approximately HK\$8,000,000, including the late payment surcharge levied by the tax authorities, of which approximately HK\$5,800,000 was in respect of transactions on or before the completion date. The existing management of World Giant has indicated to the Directors that the amount in respect of transactions on or before the completion date should be paid by the Company. In January 2005, World Giant lodged a claim against the subsidiary of the Company demanding the payment of approximately HK\$5,800,000. However, such amounts are fully covered by the amount accrued in the accounts of World Giant at the time of disposal. Accordingly, in the opinion of the Directors and having obtained an opinion from the Company's lawyer, the Group or the Company has no obligation to pay the above taxes.

Notes to the Financial Statements

For the year ended 30th June, 2004

31. LITIGATION

Subsequent to the balance sheet date, the Group had the following material claims:

- (a) During the year ended 30th June, 2003, forms of claim were filed against Noble City (Asia) Limited ("Noble City"), a wholly-owned subsidiary of the Company, by a resigned director and an employee through the Labour Tribunal demanding salaries in dispute in the aggregate amount of HK\$718,000. The Labour Tribunal ordered Noble City to settle the claim in full. The unsettled amounts of approximately HK\$516,000 not yet paid up to 30th June, 2004 were fully accrued in trade and other payables at the balance sheet date.
- (b) In August 2004, a Writ of Summons was served on the Company by an independent company for repayment of outstanding consultancy fees in the amount of approximately HK\$2.2 million together with interest thereon. As that company has never been formally appointed as a consultant of the Company, the Directors are of the opinion that the Company has no obligations to pay the above amount to that Company. Nevertheless during the relevant period, an independent third party controlling the above company had provided certain consultancy services to the Company. The Directors are therefore in negotiation with the above independent third party with a view to resolving this matter. Because of the uncertainty of the outcome of this matter, the amount involved has been accrued and included in trade and other payables at the balance sheet date.
- (c) In September 2004, a Writ of Summons was served on the Company by an individual third party demanding immediate repayment of borrowings approximately HK\$1.6 million together with the interest thereon. As the Company has never borrowed money from that individual third party, the Directors are of the opinion that the Company has no obligations to pay the demanded amount. In January 2005, an Amended Writ of Summons was served on the Company by the lender of the Group ("the 2nd Plaintiff") and had clarified that the individual third party was acted as an agent of the 2nd Plaintiff. The Directors are negotiating with the lawyer of the Company to handle this matter. The loan advanced by the 2nd Plaintiff has been fully accrued in these financial statements.

The Directors consider the outcome of the claims referred above will not have a material adverse effect on the financial position of the Group.

Notes to the Financial Statements

For the year ended 30th June, 2004

32. PLEDGE OF ASSETS

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

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Investment properties	78,000	62,000
Leasehold land and buildings	507	601
	78,507	62,601

In addition to the above, during the year, the Group had signed the assignment of rental to the bank as a security of the borrowings of the Group.

33. CAPITAL COMMITMENTS

The Group and the Company had no capital commitment at the balance sheet date.

At 30th June, 2003, the Group was committed to a capital expenditure in respect of the capital injection on other investments contracted for but not provided in the financial statements of approximately HK\$226 million. During the year, the Group had disposed of the relevant other investments and therefore the Group has no obligation to honour these capital injection.

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

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

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Within one year	538	658	414	—
More than one year but within five years	345	303	345	—
	883	961	759	—

Notes to the Financial Statements

For the year ended 30th June, 2004

34. OPERATING LEASES (cont'd)

(a) Operating lease commitments (cont'd)

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

(b) Operating lease arrangements

At 30th June, 2003, the Group had minimum lease receipts of approximately HK\$2,462,000, which represented rentals receivable by the Group for their investment properties under non-cancellable operating leases which fall due within one year.

At 30th June, 2004, the Company and the Group had no operating lease arrangement. Subsequent to the balance sheet date, the Group has renewed the tenancy agreement with the existing tenants for a term of two years at a monthly rental of HK\$300,000.

35. RETIREMENT BENEFIT SCHEME

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

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

The total costs charged to income statement of approximately HK\$59,000 (2003: HK\$183,000) represents contributions payable to the above schemes by the Group in respect of the current accounting period.

36. RELATED PARTY DISCLOSURES

(a) Balances with related parties

Details of the balances with associates are set out in note 21.

(b) Other related party disclosures

Details of share options granted to directors of the Company are set out in note 26.

Notes to the Financial Statements

For the year ended 30th June, 2004

37. PARTICULARS OF PRINCIPAL SUBSIDIARIES

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

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

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

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

38. POST BALANCE SHEET EVENTS

Details of other significant events occurred subsequent to the balance sheet date are disclosed in notes 1, 2, 30, 31 and 34(b).

Financial Summary

RESULTS

	For the year ended 30th June,				2004
	2000	2001	2002	2003	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	16,134	8,213	6,889	13,217	6,445
Loss attributable to shareholders	110,536	81,358	450,201	41,991	5,213

ASSETS AND LIABILITIES

	At 30th June,				2004
	2000	2001	2002	2003	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Total assets	345,030	483,069	221,972	139,691	153,541
Total liabilities	(126,332)	(124,425)	(162,923)	(118,407)	(137,470)
Minority interests	–	–	(886)	–	–
Shareholders' funds	218,698	358,644	58,163	21,284	16,071

Particulars of Major Properties



Location	Lease term	Existing Use/ Future Use	Attributable interest
<i>Investment properties situated in Hong Kong</i>			
The whole of 30th Floor Wu Chung House 213 Queen's Road East Wanchai Hong Kong	Medium-term lease	Commercial	100%
<i>Leasehold land and building situated in the PRC</i>			
Block 43 Australia Villa Gangbeijiuzhai Main Advance Zhuhai City Guangdong Province the PRC	Medium-term lease	Residential	55%
<i>Properties held for sale situated in the PRC</i>			
The whole of levels 4, 9 and 20 of Charity Plaza No. 120 Puxi Road Xuhui District Shanghai, the PRC (Note)	Medium-term lease	Commercial	100%
<i>Deposits paid for investment properties situated in the PRC</i>			
20 units in Prince Mansion Panyu Road, Lane 118 Changning District Shanghai, the PRC	Long lease	Vacant/ Residential	100%

Note: The Group has not completed the formal registration procedures for becoming the legal owner of the properties.