

NOTES TO THE FINANCIAL STATEMENTS

For the fifteen months ended 30th June, 2002

1. GENERAL

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

The financial statements for the current period cover the fifteen months ended 30th June, 2002. The corresponding amounts shown for the income statement, statement of recognised gains and losses, cash flow statement and related notes cover the twelve months period from 1st April, 2000 to 31st March, 2001, and therefore may not be comparable with amounts shown for current period. The period covered by 2002 financial statements was longer than twelve months so as to bring the balance sheet date of the Group and the Company in line with that of its principal subsidiaries, One.Tel Limited and OneTel.Net Limited. Both subsidiaries were incorporated in Hong Kong and newly acquired by the Group on 28th September, 2001. No further changes to reporting dates are anticipated.

The Company is an investment holding company. The activities of its principal subsidiaries, associates and jointly controlled entities are set out in notes 39, 15 and 16 to the financial statements respectively.

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE/CHANGE IN ACCOUNTING POLICIES

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

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

Segment reporting

In the current period, the Group has changed the basis of identification of reportable segments to that required by SSAP 26 “Segment reporting”. Segment disclosures for the year ended 31st March, 2001 have been amended so that they are presented on a consistent basis.

Leases

In the current period, the Group has adopted SSAP 14 (Revised) “Leases”. Disclosures for the Group’s obligations under finance leases and operating lease arrangements as set out in notes 25 and 35, have been modified so as to comply with the requirements of SSAP 14 (Revised). Comparative figures have been restated in order to achieve a consistent presentation.

NOTES TO THE FINANCIAL STATEMENTS

For the fifteen months ended 30th June, 2002

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE/CHANGE IN ACCOUNTING POLICIES (Cont'd)

Goodwill

In the current period, the Group has adopted SSAP 30 "Business combinations" and has elected to restate goodwill previously eliminated against reserves. Accordingly, the amount of such goodwill has been remeasured in accordance with the requirements of SSAP 30. Accumulated amortisation and impairment losses in respect of goodwill between the date of acquisition of the relevant subsidiary, associate, or jointly controlled entity and the date of adoption of SSAP 30 have been recognised retrospectively. Following restatement, goodwill is presented as an asset in the balance sheet and amortised over its estimated useful life.

The financial effect of the adoption of the new/revised accounting policies described above is summarised below:

	Accumulated losses <i>HK\$'000</i>	Goodwill reserve <i>HK\$'000</i>
At 1st April, 2000		
As originally stated	(913,534)	(56,834)
Restatement as an asset of goodwill held in reserves with retrospective recognition of accumulated amortisation and past impairment losses	(19,836)	56,834
As restated	(933,370)	-
Net loss for the year		
As originally stated	(75,462)	-
Amortisation for the year	(8,637)	-
As restated	(84,099)	-
At 31st March, 2001 (restated)	(1,017,469)	-
Net loss for the period	(54,911)	-
At 30th June, 2002	(1,072,380)	-

The effects of these changes in accounting policies on the results for the current period and prior year are as follows:

	1/4/2001 to 30/6/2002 <i>HK\$'000</i>	1/4/2000 to 31/3/2001 <i>HK\$'000</i>
Amortisation of goodwill	4,835	8,637

NOTES TO THE FINANCIAL STATEMENTS

For the fifteen months ended 30th June, 2002

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of investments in securities 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 for the current period and 31st March for prior year.

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

All significant inter-company transactions and balances within the Group have been eliminated on consolidation.

Goodwill

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

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

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of unamortised goodwill is included in the determination of the profit or loss on disposal.

Negative goodwill

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

Negative goodwill is presented as a deduction from assets and is released to income based on an analysis of the circumstances from which the balance resulted.

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the fifteen months ended 30th June, 2002

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Revenue recognition

Service income is recognised when services are provided.

Proceeds from sale of investments in securities are recognised when the relevant sales contracts become unconditional.

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

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

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

Property, plant and equipment

Property, plant and equipment, other than property held for development, are stated at cost less depreciation, amortisation and accumulated impairment losses.

Property held for development is stated at cost less impairment loss. Cost comprises the cost of land, development expenditure and other attributable expenses.

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

Depreciation and amortisation is provided to write off the cost of property, plant and equipment other than property held for development, over their estimated useful lives, using the straight line method as follows:

Leasehold improvements	4% – 20% or over the lease terms, whichever is shorter
Furniture, fixtures and equipment	15% – 25%
Motor vehicles	10% – 25%

Assets held under finance leases are depreciated over their estimated useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

Investments in subsidiaries

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

NOTES TO THE FINANCIAL STATEMENTS

For the fifteen months ended 30th June, 2002

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Investments in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the period. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates less any identified impairment loss.

When the Group transacts with its associates, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associate, except where the unrealised losses provide evidence of an impairment of the asset transferred.

Investments in 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 interest 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 less any identified impairment loss. The Group's share of post-acquisition results of its jointly controlled entities is included in the consolidated income statement.

When the Group transacts with its jointly controlled entities, unrealised profits and losses are eliminated to the extent of the Group's interest in its jointly controlled entities, except where the unrealised losses provide evidence of an impairment of the asset transferred.

Investments in securities

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

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the fifteen months ended 30th June, 2002

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Impairment

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

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

Assets held under finance leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risk and rewards of the ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair value 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 original principal at the inception of the finance leases, are charged to the income statement over the period of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Foreign currencies

Transactions in currencies other than Hong Kong dollars are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are re-translated at the rates ruling on the balance sheet date. Profits and losses arising on translation are dealt with in the net profit or loss for the period.

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

Taxation

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

NOTES TO THE FINANCIAL STATEMENTS

For the fifteen months ended 30th June, 2002

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Retirement benefit scheme

The contributions payable to the Group's retirement benefit schemes and mandatory provident fund schemes are charged to the income statement.

Operating leases

Rentals payable under operating leases are charged to the income statement as expense on a straight-line basis over the relevant terms of leases.

4. TURNOVER AND SEGMENT INFORMATION

Turnover is analysed as follows:

	1/4/2001 to 30/6/2002 HK\$'000	1/4/2000 to 31/3/2001 HK\$'000
Telecommunication services income	143,289	–
Sales of other investments	46,967	52,597
Interest income	1,828	6,222
Rental income from sub-leasing of properties	1,711	4,522
	193,795	63,341

Business segments

For management purposes, the Group is organised into five operating divisions – provision of telecommunication services, securities trading and investment holding, treasury activities, sub-leasing of properties and sale of tobacco and tobacco products. These divisions are the basis on which the Group reports its primary segment information.

In December 1999, the Group discontinued to sell tobacco and tobacco products after the termination of certain business contracts. The segment profit of HK\$12,090,000 noted in the year ended 31st March, 2001 represented the write back of the amount payable to a tobacco supplier with whom the Group reached an agreement for the final settlement of the outstanding amount.

In September 2001, the Group discontinued to sub-lease properties after entering into a deed of surrender with the landlord. The segment loss of HK\$8,199,000 was mainly attributed to the cost of surrender paid to the landlord during the period.

NOTES TO THE FINANCIAL STATEMENTS

For the fifteen months ended 30th June, 2002

4. TURNOVER AND SEGMENT INFORMATION (Cont'd)

Business segments (Cont'd)

Segment information about these businesses is presented below.

Income statement for the fifteen months ended 30th June, 2002

	Continuing operations			Discontinued operations		Consolidated HK\$'000
	Provision of telecommunication services HK\$'000	Securities trading and investment holding HK\$'000	Treasury activities HK\$'000	Sub-leasing of properties HK\$'000	Sale of tobacco and tobacco products HK\$'000	
TURNOVER						
External	143,289	46,967	1,828	1,711	-	193,795
RESULT						
Segment result	20,625	(14,715)	(4,104)	(8,199)	-	(6,393)
Unallocated other operating income						1,970
Impairment loss recognised in respect of investment securities		(6,648)				(6,648)
Unrealised losses on other investments		(372)				(372)
Allowance for amounts due from/loan to jointly controlled entities		(2,179)				(2,179)
Amortisation of goodwill		(4,835)				(4,835)
Release of negative goodwill	1,898					1,898
Unallocated corporate expenses						(887)
Loss from operations						(17,446)
Finance costs	(17)					(17)
Gain on disposal of subsidiaries						2,802
Gain on disposal of jointly controlled entities						62
Share of results of associates						(58,489)
Share of results of jointly controlled entities						5,681
Loss before taxation						(67,407)
Taxation						911
Loss before minority interests						(66,496)
Minority interests						11,585
Net loss for the period						(54,911)

NOTES TO THE FINANCIAL STATEMENTS

For the fifteen months ended 30th June, 2002

4. TURNOVER AND SEGMENT INFORMATION (Cont'd)

Business segments (Cont'd)

	Continuing operations			Discontinued operations		
	Provision of telecommunication services <i>HK\$'000</i>	Securities trading and investment holding <i>HK\$'000</i>	Treasury activities <i>HK\$'000</i>	Sub-leasing of properties <i>HK\$'000</i>	Sale of tobacco and tobacco products <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
OTHER INFORMATION						
Capital expenditure	2,218	244	–	–	–	2,462
Depreciation and amortisation	3,821	5,437	–	–	–	9,258

Balance sheet at 30th June, 2002

	Continuing operations			Discontinued operations		
	Provision of telecommunication services <i>HK\$'000</i>	Securities trading and investment holding <i>HK\$'000</i>	Treasury activities <i>HK\$'000</i>	Sub-leasing of properties <i>HK\$'000</i>	Sale of tobacco and tobacco products <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
ASSETS						
Segment assets	34,457	16,768	63,072	–	–	114,297
Interests in associates						28,326
Interests in jointly controlled entities						121,693
Unallocated corporate assets						334
Consolidated total assets						264,650
LIABILITIES						
Segment liabilities	31,838	6,412	–	–	–	38,250

NOTES TO THE FINANCIAL STATEMENTS

For the fifteen months ended 30th June, 2002

4. TURNOVER AND SEGMENT INFORMATION (Cont'd)

Business segments (Cont'd)

Income statement for the year ended 31st March, 2001

	Continuing operations			Discontinued operations		Consolidated (Restated) HK\$'000
	Provision of telecommunication services HK\$'000	Securities trading and investment holding HK\$'000	Treasury activities HK\$'000	Sub-leasing of properties HK\$'000	Sale of tobacco and tobacco products HK\$'000	
TURNOVER						
External	-	52,597	6,222	4,522	-	63,341
RESULT						
Segment result	-	(27,467)	4,339	(3,431)	12,090	(14,469)
Unallocated other operating income						352
Impairment loss recognised in respect of property held for development		(1,350)				(1,350)
Impairment loss recognised in respect of investment securities		(34,080)				(34,080)
Unrealised losses on other investments		(15,613)				(15,613)
Allowance for amounts due from/loan to jointly controlled entities		(16,334)				(16,334)
Amortisation of goodwill		(8,637)				(8,637)
Impairment loss recognised in respect of goodwill		(21,100)				(21,100)
Unallocated corporate expenses						(2,401)
Loss from operations						(113,632)
Finance costs						(624)
Gain on disposal of subsidiaries						70
Share of results of associates						(87)
Share of results of jointly controlled entities						19,989
Loss before taxation						(94,284)
Taxation						10,172
Loss before minority interests						(84,112)
Minority interests						13
Net loss for the year						(84,099)

NOTES TO THE FINANCIAL STATEMENTS

For the fifteen months ended 30th June, 2002

4. TURNOVER AND SEGMENT INFORMATION (Cont'd)

Business segments (Cont'd)

	Continuing operations			Discontinued operations		
	Provision of telecommunication services <i>HK\$'000</i>	Securities trading and investment holding <i>HK\$'000</i>	Treasury activities <i>HK\$'000</i>	Sub-leasing of properties <i>HK\$'000</i>	Sale of tobacco and tobacco products <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
OTHER INFORMATION						
Capital expenditure	–	2,352	–	–	–	2,352
Depreciation and amortisation	–	9,731	–	–	–	9,731

Balance sheet at 31st March, 2001

	Continuing operations			Discontinued operations		
	Provision of telecommunication services <i>HK\$'000</i>	Securities trading and investment holding <i>HK\$'000</i>	Treasury activities <i>HK\$'000</i>	Sub-leasing of properties <i>HK\$'000</i>	Sale of tobacco and tobacco products <i>HK\$'000</i>	Consolidated (Restated) <i>HK\$'000</i>
ASSETS						
Segment assets	–	30,228	33,918	28,746	–	92,892
Interests in associates						96,002
Interests in jointly controlled entities						118,649
Unallocated corporate assets						18,587
Consolidated total assets						326,130
LIABILITIES						
Segment liabilities	–	45,697	25	1,103	–	46,825
Unallocated corporate liabilities						13,156
Consolidated total liabilities						59,981

NOTES TO THE FINANCIAL STATEMENTS

For the fifteen months ended 30th June, 2002

4. TURNOVER AND SEGMENT INFORMATION (Cont'd)

Geographical segments

The Group's operations are located in Hong Kong, Singapore and United Kingdom.

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

	Turnover by geographical market		Contribution to loss from operations	
	1/4/2001 to 30/6/2002 HK\$'000	1/4/2000 to 31/3/2001 HK\$'000	1/4/2001 to 30/6/2002 HK\$'000	1/4/2000 to 31/3/2001 HK\$'000
Hong Kong	191,401	54,464	(3,136)	(13,190)
Singapore	28	2,818	28	58
United Kingdom	2,366	6,059	(3,285)	(1,337)
	193,795	63,341	(6,393)	(14,469)
Unallocated other operating income			1,970	352
Impairment loss recognised in respect of property held for development			–	(1,350)
Impairment loss recognised in respect of investment securities			(6,648)	(34,080)
Unrealised losses on other investments			(372)	(15,613)
Allowance for amounts due from/loan to jointly controlled entities			(2,179)	(16,334)
Amortisation of goodwill			(4,835)	(8,637)
Release of negative goodwill			1,898	–
Impairment loss recognised in respect of goodwill			–	(21,100)
Unallocated corporate expenses			(887)	(2,401)
Loss from operations			(17,446)	(113,632)

Turnover from the Group's discontinued operations was derived principally from United Kingdom.

NOTES TO THE FINANCIAL STATEMENTS

For the fifteen months ended 30th June, 2002

4. TURNOVER AND SEGMENT INFORMATION (Cont'd)

Geographical segments (Cont'd)

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

	Carrying amount of segment assets		Additions to property, plant and equipment	
	30/6/2002 <i>HK\$'000</i>	31/3/2001 <i>HK\$'000</i>	1/4/2001 to 30/6/2002 <i>HK\$'000</i>	1/4/2000 to 31/3/2001 <i>HK\$'000</i>
Hong Kong	98,817	82,079	2,462	2,352
Singapore	15,814	–	–	–
United Kingdom	–	29,401	–	–
The People's Republic of China (the "PRC")	150,019	195,914	–	–
Others	–	18,736	–	–
	264,650	326,130	2,462	2,352

5. LOSS FROM OPERATIONS

Loss from operations has been arrived at after charging:

	1/4/2001 to 30/6/2002 <i>HK\$'000</i>	1/4/2000 to 31/3/2001 <i>HK\$'000</i>
Auditors' remuneration:		
Current year	957	940
Overprovision in prior year	(10)	–
	947	940
Depreciation and amortisation:		
Owned assets	6,311	895
Assets held under a finance lease	10	199
Operating lease rentals in respect of rented premises	3,262	5,695
Loss on disposal of property, plant and equipment	1,446	149
Staff costs including directors' remuneration	37,419	10,208
Allowance for bad and doubtful debts	2,547	1,817

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6. FINANCE COSTS

	1/4/2001 to 30/6/2002 HK\$'000	1/4/2000 to 31/3/2001 HK\$'000
Interest on:		
Other borrowings	11	–
Convertible note	–	602
Finance leases	6	22
	<hr/> 17	<hr/> 624

7. DIRECTORS' REMUNERATION

	1/4/2001 to 30/6/2002 HK\$'000	1/4/2000 to 31/3/2001 HK\$'000
Fees:		
Executive directors	–	–
Non-executive directors	90	51
Independent non-executive directors	375	297
	<hr/> 465	<hr/> 348
Other emoluments:		
Basic salaries and allowances		
Executive directors	6,863	4,655
Non-executive directors	–	129
	<hr/> 6,863	<hr/> 4,784
Retirement benefit scheme contributions		
Executive directors	331	124
	<hr/> 7,659	<hr/> 5,256

NOTES TO THE FINANCIAL STATEMENTS

For the fifteen months ended 30th June, 2002

7. DIRECTORS' REMUNERATION (Cont'd)

The directors' remunerations were within the following bands:

	Number of directors	
	1/4/2001 to 30/6/2002	1/4/2000 to 31/3/2001
Nil – HK\$1,000,000	4	6
HK\$1,000,001 – HK\$1,500,000	2	1
HK\$1,500,001 – HK\$2,000,000	–	1
HK\$2,000,001 – HK\$2,500,000	2	1
	8	9

8. EMPLOYEES' REMUNERATION

The five highest paid individuals of the Group included four (2001: three) executive directors of the Company, whose emoluments are included in note 7 above. The emoluments of the remaining one (2001: two) individuals are as follows:

	1/4/2001 to 30/6/2002 <i>HK\$'000</i>	1/4/2000 to 31/3/2001 <i>HK\$'000</i>
	Basic salaries and allowances	1,258
Retirement benefit scheme contribution	15	38
	1,273	1,567

	Number of individuals	
	1/4/2001 to 30/6/2002	1/4/2000 to 31/3/2001
Nil – HK\$1,000,000	–	1
HK\$1,000,001 – HK\$1,500,000	1	1
	1	2

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For the fifteen months ended 30th June, 2002

9. TAXATION

	1/4/2001 to 30/6/2002 HK\$'000	1/4/2000 to 31/3/2001 HK\$'000
The credit comprises:		
Profit for the period/year		
Other jurisdictions	(197)	(48)
Overprovision in prior years		
Hong Kong	331	10,220
Other jurisdictions	1,207	–
	1,538	10,220
Share of taxation attributable to jointly controlled entities	(430)	–
	911	10,172

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

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

Details of potential deferred taxation of the Group are set out in note 33.

10. LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss for the fifteen months from 1st April, 2001 to 30th June, 2002 of HK\$54,911,000 (for the year ended 31st March, 2001: HK\$84,099,000), and on the weighted average number of 1,383,011,170 shares (for the year ended 31st March, 2001: 1,330,375,554 shares) in issue during the period/year.

The computation of diluted loss per share does not assume the exercise of the Company's outstanding share options and convertible note as their exercise would result in a decrease in net loss per share for both periods.

The adjustment to comparative basic and diluted loss per share, arising from the change in accounting policies shown in note 2 above, is as follows:

	Basic and diluted HK cents
Reconciliation of 2001 loss per share:	
Reported figures before adjustment	(5.67)
Adjustment arising from the adoption of SSAP 30	(0.65)
Restated	(6.32)

NOTES TO THE FINANCIAL STATEMENTS

For the fifteen months ended 30th June, 2002

11. PROPERTY, PLANT AND EQUIPMENT

The Group

	Property held for development <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
COST					
At 1st April, 2001	3,650	825	3,294	1,236	9,005
Acquired on acquisition of subsidiaries	–	4,255	30,585	–	34,840
Additions	–	35	2,199	228	2,462
Disposal of a subsidiary	–	–	(659)	–	(659)
Disposals	(3,650)	(2,765)	(119)	(498)	(7,032)
At 30th June, 2002	–	2,350	35,300	966	38,616
DEPRECIATION AND AMORTISATION					
At 1st April, 2001	–	174	2,091	748	3,013
Acquired on acquisition of subsidiaries	–	3,204	10,856	–	14,060
Provided for the period	–	1,192	5,046	83	6,321
Disposal of a subsidiary	–	–	(274)	–	(274)
Eliminated on disposals	–	(2,765)	(49)	(42)	(2,856)
At 30th June, 2002	–	1,805	17,670	789	20,264
NET BOOK VALUES					
At 30th June, 2002	–	545	17,630	177	18,352
At 31st March, 2001	3,650	651	1,203	488	5,992

The Group's property held for development as at 31st March, 2001 was situated in Hong Kong and held under medium term lease.

The net book value of furniture, fixtures and equipment at 30th June, 2002 include an amount of HK\$42,900 in respect of asset held under a finance lease. There were no assets held under finance leases as at 31st March, 2001.

NOTES TO THE FINANCIAL STATEMENTS

For the fifteen months ended 30th June, 2002

11. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

The Company

	Leasehold improvements <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
COST				
At 1st April, 2001	826	2,611	1,236	4,673
Additions	1	16	228	245
Disposals	–	(71)	(498)	(569)
At 30th June, 2002	827	2,556	966	4,349
DEPRECIATION AND AMORTISATION				
At 1st April, 2001	175	1,880	748	2,803
Provided for the period	206	305	83	594
Eliminated on disposals	–	(21)	(42)	(63)
At 30th June, 2002	381	2,164	789	3,334
NET BOOK VALUES				
At 30th June, 2002	446	392	177	1,015
At 31st March, 2001	651	731	488	1,870

NOTES TO THE FINANCIAL STATEMENTS

For the fifteen months ended 30th June, 2002

12. GOODWILL

The Group

	<i>HK\$'000</i>
GROSS AMOUNT	
At 1st April, 2001 (restated)	60,449
AMORTISATION AND IMPAIRMENT	
At 1st April, 2001 (restated)	49,574
Amortised for the period	4,835
Released upon disposals	6,040
At 30th June, 2002	60,449
CARRYING AMOUNT	
At 30th June, 2002	–
At 31st March, 2001 (restated)	10,875

Goodwill is amortised using the straight-line method over its estimated useful life of 3 to 5 years.

13. NEGATIVE GOODWILL

The Group

	<i>HK\$'000</i>
GROSS AMOUNT	
At 1st April, 2001	–
Acquisition of subsidiaries	12,650
At 30th June, 2002	12,650
RELEASED TO INCOME	
At 1st April, 2001	–
Released during the period	1,898
At 30th June, 2002	1,898
CARRYING AMOUNT	
At 30th June, 2002	10,752
At 31st March, 2001	–

The negative goodwill arose on the Group's acquisition of 80% interest in both One.Tel Limited and OneTel.Net Limited on 28th September, 2001. At the date of acquisition, HK\$12,650,000 of the negative goodwill was identified. The negative goodwill is released to income on a straight-line basis of 5 years, being the estimated weighted average useful lives of non-monetary assets acquired.

NOTES TO THE FINANCIAL STATEMENTS

For the fifteen months ended 30th June, 2002

14. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	30/6/2002 HK\$'000	31/3/2001 HK\$'000
Unlisted shares, at cost	98,558	98,572
Amounts due from subsidiaries	1,507,814	1,601,323
Impairment loss recognised	1,606,372 (1,318,197)	1,699,895 (1,521,541)
	288,175	178,354

The amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayment. The Company has agreed not to demand repayment in the next twelve months from the balance sheet date and accordingly, the amounts are shown as non-current.

The investment costs of and amounts due from certain subsidiaries have been impaired as these subsidiaries were loss-making or inactive as at 30th June, 2002.

Particulars of the Company's principal subsidiaries as at 30th June, 2002 are set out in note 39.

15. INTERESTS IN ASSOCIATES

	THE GROUP	
	30/6/2002 HK\$'000	31/3/2001 HK\$'000
Share of net assets	28,326	96,002

Particulars of the Group's principal associate as at 30th June, 2002 are as follows:

Name of company	Form of business structure	Place of establishment and operation	Proportion of nominal value of registered capital held by the Group (%)	Principal activities
北京帥府大廈發展有限公司 Beijing Shuaifu Development Co., Ltd. ("Beijing Shuaifu")	Corporate	The PRC	20	Property development

The above table lists the associate of the Group as at 30th June, 2002 which, in the opinion of the directors, principally affected the results for the period or formed a substantial portion of the assets of the Group. To give details of the other associates would, in the opinion of the directors, result in particulars of excessive length.

The net assets of Beijing Shuaifu is mainly represented by the holding of a development right in respect of a parcel of land located at the junction of Shuai Fu Yuan Hu Tong and Xiao Wei Hu Tong (the "Land") in the Dongcheng District of Beijing, the PRC. The Land is located in a traditional shopping and commercial area of the Dongcheng District known as Wangfujing, in between the Dingdan commercial area and Wangfujing Boulevard.

The open market value of the development right on the basis of vacant possession in respect of the Land was revalued by LCH (Asia Pacific) Surveyors Limited, an independent firm of professional valuers, at HK\$141,632,000 and HK\$409,414,000 as at 30th June, 2002 and 31st March, 2001 respectively.

NOTES TO THE FINANCIAL STATEMENTS

For the fifteen months ended 30th June, 2002

16. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	THE GROUP	
	30/6/2002 <i>HK\$'000</i>	31/3/2001 <i>HK\$'000</i>
Share of net assets	121,693	115,349
Loan to a jointly controlled entity	–	3,300
	121,693	118,649

Particulars of the Group's principal jointly controlled entities as at 30th June, 2002 are as follows:

Name of company	Form of business structure	Place of establishment and operation	Proportion of nominal value of registered capital held by the Group (%)	Principal activities
吉聯（吉林）石油化學 有限公司 Jilian (Jilin) Petrochemicals Limited ("Jilian (Jilin)")	Corporate	The PRC	35	Manufacture and sale of petrochemical products
山東國際經濟開發公司 Shandong International Economic Development Corporation ("SIEDC")	Corporate	The PRC	60	Investment holding

The above table lists the jointly controlled entities of the Group as at 30th June, 2002 which, in the opinion of the directors, principally affected the results for the period or formed a substantial portion of the assets of the Group. To give details of the other jointly controlled entities would, in the opinion of the directors, result in particulars of excessive length.

The results of Jilian (Jilin) shared by the Group for the year ended 31st March, 2001 were made up to 31st December, 2000.

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

NOTES TO THE FINANCIAL STATEMENTS

For the fifteen months ended 30th June, 2002

16. INTERESTS IN JOINTLY CONTROLLED ENTITIES (Cont'd)

The following details have been extracted from the unaudited financial statements of the Group's significant jointly controlled entities.

Results for the period/year

	Jilian (Jilin)		SIEDC	
	1/1/2001 to 30/6/2002 HK\$'000	1/1/2000 to 31/12/2000 HK\$'000	1/4/2001 to 30/6/2002 HK\$'000	1/4/2000 to 31/3/2001 HK\$'000
Turnover	1,695,897	761,044	622	29,984
Profit (loss) before taxation	31,555	56,703	(3,858)	8,680
Profit (loss) before taxation attributable to the Group	11,045	19,846	(2,315)	5,208

Financial position

	Jilian (Jilin)		SIEDC	
	30/6/2002 HK\$'000	31/12/2000 HK\$'000	30/6/2002 HK\$'000	31/3/2001 HK\$'000
Non-current assets	760,861	854,010	1,871	6,737
Current assets	338,013	302,060	16,814	16,157
Current liabilities	(692,011)	(756,999)	(313)	(620)
Non-current liabilities	(90,666)	(113,550)	–	–
Net assets	316,197	285,521	18,372	22,274
Net assets attributable to the Group	110,670	99,933	11,023	13,365

NOTES TO THE FINANCIAL STATEMENTS

For the fifteen months ended 30th June, 2002

17. INVESTMENTS IN SECURITIES

	Other investments		Investment securities		Total	
	30/6/2002 HK\$'000	31/3/2001 HK\$'000	30/6/2002 HK\$'000	31/3/2001 HK\$'000	30/6/2002 HK\$'000	31/3/2001 HK\$'000
THE GROUP						
Listed equity securities	2,390	14,022	–	–	2,390	14,022
Listed debt securities	8,487	–	–	–	8,487	–
Unlisted equity securities in overseas	–	–	9,369	9,369	9,369	9,369
Impairment loss recognised	–	–	(6,648)	–	(6,648)	–
	10,877	14,022	2,721	9,369	13,598	23,391
Market value of listed securities	10,877	14,022	–	–	10,877	14,022
Carrying amount analysed for reporting purposes						
Non-current	–	–	2,721	9,369	2,721	9,369
Current	10,877	14,022	–	–	10,877	14,022
	10,877	14,022	2,721	9,369	13,598	23,391
THE COMPANY						
Listed equity securities	2,390	11,222	–	–	2,390	11,222
Listed debt securities	8,487	–	–	–	8,487	–
Unlisted equity securities in overseas	–	–	7,808	7,808	7,808	7,808
Impairment loss recognised	–	–	(5,862)	–	(5,862)	–
	10,877	11,222	1,946	7,808	12,823	19,030
Market value of listed securities	10,877	11,222	–	–	10,877	11,222
Carrying amount analysed for reporting purposes						
Non-current	–	–	1,946	7,808	1,946	7,808
Current	10,877	11,222	–	–	10,877	11,222
	10,877	11,222	1,946	7,808	12,823	19,030

The impairment loss recognised as at 30th June, 2002 is determined by the directors with reference to the consideration paid by the new investors to subscribe for the shares offered by the investee companies.

NOTES TO THE FINANCIAL STATEMENTS

For the fifteen months ended 30th June, 2002

18. PLEDGED BANK DEPOSITS

As at 31st March, 2001, deposits in the amount of GBP 2,500,000 (equivalent to HK\$27,633,000) were pledged to a financial institution for executing a rent guarantee in favour of the landlord in respect of the rental agreements for a building in London, the United Kingdom entered into between a subsidiary of the Group and the landlord. After entering into a deed of surrender with the landlord in September 2001, the rent guarantee was released and the deposits were refunded to the Group during the period.

As at 30th June, 2002, deposits in the amount of HK\$4,312,000 were placed in designated bank accounts in accordance with the trading terms of certain service providers of a subsidiary of the Group for leasing local fixed telecommunication networks in Hong Kong. As the deposits will be matured within one year, the amounts are classified under current assets.

19. TRADE RECEIVABLES

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

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

	30/6/2002 HK\$'000	31/3/2001 HK\$'000
0 – 30 days	23,740	–

20. AMOUNT(S) DUE FROM/TO ASSOCIATE(S)

The amount(s) is(are) unsecured, interest free and has(have) no fixed terms of repayment.

21. AMOUNT(S) DUE FROM/TO JOINTLY CONTROLLED ENTITY(IES)

The amount(s) is(are) unsecured, interest free and has(have) no fixed terms of repayment.

22. TRADE PAYABLES

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

	30/6/2002 HK\$'000	31/3/2001 HK\$'000
0 – 30 days	24,673	–
31 – 60 days	88	–
61 – 90 days	4	–
91 – 120 days	319	–
	25,084	–

NOTES TO THE FINANCIAL STATEMENTS

For the fifteen months ended 30th June, 2002

23. AMOUNTS DUE TO SUBSIDIARIES

The amounts are unsecured, interest free and have no fixed terms of repayment. The subsidiaries have agreed not to demand repayment in the next twelve months from the balance sheet date and accordingly, the amounts are shown as non-current.

24. LOANS FROM MINORITY SHAREHOLDERS

The loans from minority shareholders were unsecured, interest free and have no fixed terms of repayment.

25. OBLIGATIONS UNDER A FINANCE LEASE

	THE GROUP			
	Minimum lease payments		Present value of minimum lease payments	
	30/6/2002 <i>HK\$'000</i>	31/3/2001 <i>HK\$'000</i>	30/6/2002 <i>HK\$'000</i>	31/3/2001 <i>HK\$'000</i>
Amount payable under a finance lease				
Within one year	18	–	12	–
More than one year, but not exceeding two years	18	–	14	–
More than two years, but not exceeding five years	22	–	20	–
	58	–	46	–
Less: future finance charges	(12)	–	–	–
Present value of lease obligation	46	–	46	–
Less: Amount due for settlement within 12 months (shown under current liabilities)			(12)	–
Amount due for settlement after 12 months			34	–

NOTES TO THE FINANCIAL STATEMENTS

For the fifteen months ended 30th June, 2002

25. OBLIGATIONS UNDER A FINANCE LEASE (Cont'd)

It is the Group's policy to lease certain of its office equipment under finance lease. The lease term is 5 years. For the period ended 30th June, 2002, the effective borrowing rate was 15%. Interest rate is fixed at the contract date. The lease is on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

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

26. LOAN FROM ASSOCIATE

The loan from associate was unsecured, interest free and has no fixed terms of repayment.

27. SHARE CAPITAL

Shares

	Number of shares		Share capital	
	30/6/2002 '000	31/3/2001 '000	30/6/2002 HK\$'000	31/3/2001 HK\$'000
Ordinary shares of HK\$0.02 each				
Authorised:				
At beginning of the period/year and at end of the period/year	100,000,000	100,000,000	2,000,000	2,000,000
		<i>Notes</i>		
Issued and fully paid:				
At beginning of the period/year	1,383,011	206,002	27,660	4,120
Bonus issue of shares (a)	–	824,009	–	16,480
Issue of shares for cash (b)	–	203,000	–	4,060
Conversion of convertible note (c)	–	150,000	–	3,000
At end of the period/year	1,383,011	1,383,011	27,660	27,660

NOTES TO THE FINANCIAL STATEMENTS

For the fifteen months ended 30th June, 2002

27. SHARE CAPITAL (Cont'd)

Notes:

- (a) Pursuant to an ordinary resolution passed at an extraordinary general meeting of the Company held on 26th April, 2000, an aggregate of 824,008,936 shares of HK\$0.02 each were issued as fully paid by capitalising a sum of HK\$16,480,179 from the amount standing to the credit of the share premium account of the Company on the basis of four new shares for every one share held by the shareholders whose names appear on the register of members of the Company on that day. The new shares from the bonus issue rank *pari passu* in all respects with the issued shares of the Company.
- (b) On 5th May, 2000, 203,000,000 ordinary shares of HK\$0.02 each in the Company were issued at a price of HK\$0.33 per share (the closing market price of the shares of the Company on 5th May, 2000 amounted to HK\$0.35 per share) to Natural Flair Limited, a substantial shareholder of the Company. Natural Flair Limited is a company incorporated in the British Virgin Islands and is a wholly-owned subsidiary of China Online (Bermuda) Limited, a company incorporated in Bermuda whose shares are listed on The Stock Exchange of Hong Kong Limited. The new shares rank *pari passu* in all respects with the issued shares of the Company. The proceeds net of related expenses received by the Company from the placement of the new shares amounted to approximately HK\$66,600,000 and was intended to be used as working capital for the Group's information technology related business. The excess of the consideration received over the nominal value of the shares issued, in the amount of HK\$62,930,000, was credited to the share premium account.
- (c) On 26th May, 2000, 150,000,000 ordinary shares of HK\$0.02 each in the Company were issued at a price of HK\$0.32 per share, amounting to HK\$48,000,000 in total, pursuant to the conversion terms, rights and conditions of the convertible note of the Company issued in December 1999. The new shares rank *pari passu* in all respects with the issued shares of the Company. The excess of HK\$48,000,000 over the nominal value of the shares issued, in the amount of HK\$45,000,000, was credited to the share premium account.

Changes in the issued share capital of the Company subsequent to 30th June, 2002 are set out in note 37(a).

Options

At 30th June, 2002, the following options to subscribe for shares were outstanding under the Company's share option scheme:

Exercise price per share	Number of options	Exercise period
HK\$5.65	8,750,000	08/08/1997 to 07/08/2002
HK\$0.422	21,500,000	24/03/2000 to 04/01/2003
HK\$0.189	33,000,000	04/10/2000 to 04/01/2003

No share option was granted to or exercised during the period. However, 45,500,000 share options were lapsed or cancelled upon three months period after the date of termination of employment contracts with certain option holders.

NOTES TO THE FINANCIAL STATEMENTS

For the fifteen months ended 30th June, 2002

28. SHARE PREMIUM AND RESERVES

	Share premium HK\$'000	Special capital reserve (Note a) HK\$'000	Exchange reserve HK\$'000	Capital reserve (Note b) HK\$'000	Capital redemption reserve HK\$'000	Goodwill reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
THE GROUP								
At 1st April, 2000								
As originally stated	321,111	828,646	8,818	2,107	3,865	(56,834)	(913,534)	194,179
Prior year adjustment (see note 2)	-	-	-	-	-	56,834	(19,836)	36,998
As restated	321,111	828,646	8,818	2,107	3,865	-	(933,370)	231,177
Bonus issue of shares	(16,480)	-	-	-	-	-	-	(16,480)
New issue of shares	107,930	-	-	-	-	-	-	107,930
Share issue expenses	(390)	-	-	-	-	-	-	(390)
Exchange differences arising on translation of overseas operations	-	-	(465)	-	-	-	-	(465)
Net loss for the year	-	-	-	-	-	-	(84,099)	(84,099)
At 31st March, 2001	412,171	828,646	8,353	2,107	3,865	-	(1,017,469)	237,673
Exchange differences arising on translation of overseas operations	-	-	3,256	-	-	-	-	3,256
Released upon disposal of subsidiaries	-	-	(1,672)	-	-	-	-	(1,672)
Released upon disposal of jointly controlled entities	-	-	5	-	-	-	-	5
Net loss for the period	-	-	-	-	-	-	(54,911)	(54,911)
At 30th June, 2002	412,171	828,646	9,942	2,107	3,865	-	(1,072,380)	184,351
Attributable to:								
The Company and its subsidiaries	412,171	828,646	9,942	-	3,865	-	(864,637)	389,987
Associates	-	-	-	-	-	-	(140,497)	(140,497)
Jointly controlled entities	-	-	-	2,107	-	-	(67,246)	(65,139)
	412,171	828,646	9,942	2,107	3,865	-	(1,072,380)	184,351

NOTES TO THE FINANCIAL STATEMENTS

For the fifteen months ended 30th June, 2002

28. SHARE PREMIUM AND RESERVES (Cont'd)

	Share premium <i>HK\$'000</i>	Special capital reserve <i>(Note a)</i> <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE COMPANY					
At 1st April, 2000	321,111	828,646	3,865	(969,993)	183,629
Bonus issue of shares	(16,480)	–	–	–	(16,480)
New issue of shares	107,930	–	–	–	107,930
Share issue expenses	(390)	–	–	–	(390)
Net loss for the year	–	–	–	(188,950)	(188,950)
At 31st March, 2001	412,171	828,646	3,865	(1,158,943)	85,739
Net profit for the period	–	–	–	95,753	95,753
At 30th June, 2002	412,171	828,646	3,865	(1,063,190)	181,492

Notes:

- (a) A summary of the terms of the undertaking given by the Company (the "Undertaking") in connection with the capital reduction during the year ended 31st March, 2000 (the "Capital Reduction") in respect of the application of the special capital reserve is set out below:
- (i) The reserve shall not be treated as realised profits; and
- (ii) The reserve shall be treated as an undistributable reserve for as long as there shall remain any outstanding debts or claims which were in existence on the date of the cancellation of the shares of the Company pursuant to the Capital Reduction, provided that the amount of the reserve may be reduced by the amount of any future increase in the share capital and the share premium account. Any part of the reserve so reduced is released from the terms of the Undertaking and the Company may apply that part so released as a distributable reserve.
- (b) Capital reserves of the Group represents part of the profit of subsidiaries in the PRC transferred to non-distributable legal reserves pursuant to the legal requirement in the PRC.

In the opinion of the directors, the Company did not have any distributable reserve as at 30th June, 2002 and 31st March, 2001.

NOTES TO THE FINANCIAL STATEMENTS

For the fifteen months ended 30th June, 2002

29. RECONCILIATION OF LOSS BEFORE TAXATION TO NET CASH INFLOW (OUTFLOW) FROM OPERATING ACTIVITIES

	1/4/2001 to 30/6/2002 <i>HK\$'000</i>	1/4/2000 to 31/3/2001 (Restated) <i>HK\$'000</i>
Loss before taxation	(67,407)	(94,284)
Impairment loss recognised in respect of property held for development	–	1,350
Impairment loss recognised in respect of investments securities	6,648	34,080
Unrealised losses on other investments	372	15,613
Allowance for amounts due from/loan to jointly controlled entities	2,179	16,334
Amortisation of goodwill	4,835	8,637
Release of negative goodwill	(1,898)	–
Impairment loss recognised in respect of goodwill	–	21,100
Gain on disposal of subsidiaries	(2,802)	(70)
Gain on disposal of jointly controlled entities	(62)	–
Share of results of associates	58,489	87
Share of results of jointly controlled entities	(5,681)	(19,989)
Interest expenses	17	624
Depreciation and amortisation	6,321	1,094
Loss on disposal of property, plant and equipment	1,446	149
Increase in trade receivables	(5,014)	–
Decrease (increase) in other receivables, deposits and prepayments	1,456	(52)
Decrease (increase) in amounts due from associates	60	(8)
Decrease (increase) in amounts due from jointly controlled entities	419	(9,587)
Decrease (increase) in investments in securities	2,773	(31,374)
Increase in trade payables	6,597	–
Decrease in other payables and accrued charges	(10,022)	(15,511)
(Decrease) increase in amounts due to associates	(40)	2,757
Increase in amount due to jointly controlled entity	472	–
Exchange difference	2,858	–
Net cash inflow (outflow) from operating activities	2,016	(69,050)

NOTES TO THE FINANCIAL STATEMENTS

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30. ACQUISITION OF SUBSIDIARIES

During the period, the Group acquired 80% of the issued share capital of One.Tel Limited and OneTel.Net Limited respectively. This acquisition has been accounted for by the acquisition method of accounting. The amount of negative goodwill arising as a result of the acquisition was HK\$12,650,000.

	1/4/2001 to 30/6/2002 HK\$'000	1/4/2000 to 31/3/2001 HK\$'000
Net assets acquired:		
Property, plant and equipment	20,780	–
Trade receivables	18,726	–
Other receivables, deposits and prepayments	3,446	–
Pledged bank deposits	312	–
Bank balances and cash	6,205	–
Trade payables	(18,487)	–
Other payables and accrued charges	(2,443)	–
Obligations under a finance lease	(55)	–
Minority interests	(4,000)	–
Net assets acquired	24,484	–
Negative goodwill arising on acquisition	(12,650)	–
	11,834	–
Satisfied by:		
Cash consideration	11,834	–
Net cash outflow arising on acquisition:		
Cash consideration	(11,834)	–
Bank balances and cash acquired	6,205	–
	(5,629)	–

The subsidiaries acquired during the period contributed HK\$30,928,000 to the Group's net operating cash flows, paid HK\$2,902,000 in respect of the net returns on investments and servicing of finance, paid HK\$4,853,000 for investing activities and repaid HK\$21,000,000 in respect of financing activities.

The subsidiaries acquired during the period contributed HK\$119,010,000 to the Group's turnover and HK\$33,110,000 to the Group's profit from operations.

NOTES TO THE FINANCIAL STATEMENTS

For the fifteen months ended 30th June, 2002

31. DISPOSAL OF SUBSIDIARIES

	1/4/2001 to 30/6/2002 HK\$'000	1/4/2000 to 31/3/2001 HK\$'000
Net assets disposed of:		
Property, plant and equipment	385	1,700
Other receivables, deposit and prepayment	5,391	–
Interests in associates	9,440	–
Interests in jointly controlled entities	1,498	–
Bank balances and cash	8	–
Other payables and accrued charges	(2,210)	(602)
Amount due to associate	(33)	–
Taxation	(1,169)	–
Loan from associate	(12,597)	–
Net assets disposed of	713	1,098
Attributable unamortised goodwill	4,233	–
Exchange fluctuation reserve released	(1,672)	–
Gain on disposal of subsidiaries	2,802	70
Total consideration	6,076	1,168
Satisfied by:		
Cash consideration	3,476	1,168
Other receivables, deposit and prepayment	2,600	–
	6,076	1,168
Net cash inflow arising on disposal:		
Cash consideration	3,476	1,168
Bank balances and cash disposed of	(8)	–
	3,468	1,168

The subsidiaries disposed of during the period had no significant impact on the results and cash flows of the Group for the period.

NOTES TO THE FINANCIAL STATEMENTS

For the fifteen months ended 30th June, 2002

32. ANALYSIS OF CHANGES IN FINANCING DURING THE PERIOD

	Share capital (including share premium) <i>HK\$'000</i>	Convertible note <i>HK\$'000</i>	Obligations under a finance lease <i>HK\$'000</i>	Minority interests <i>HK\$'000</i>
At 1st April, 2000	325,231	48,000	112	829
Issue of shares for cash consideration	66,990	–	–	–
Share issue expenses	(390)	–	–	–
Conversion of convertible note	48,000	(48,000)	–	–
Repayment of finance lease obligations	–	–	(112)	–
Share of loss for the year	–	–	–	(13)
	439,831	–	–	816
At 31st March, 2001				
Acquisition of subsidiaries	–	–	55	4,000
Dividend paid to minority shareholders	–	–	–	(625)
Advances to minority shareholders	–	–	–	(253)
Repayment of finance lease obligations	–	–	(9)	–
Non-cash transaction				
Capitalisation of loans	–	–	–	22,036
Share of loss for the period	–	–	–	(11,585)
At 30th June 2002	439,831	–	46	14,389

NOTES TO THE FINANCIAL STATEMENTS

For the fifteen months ended 30th June, 2002

33. POTENTIAL DEFERRED TAXATION

At the balance sheet date, the major components of the potential deferred tax asset (liability) are as follows:

	THE GROUP		THE COMPANY	
	30/6/2002 HK\$'000	31/3/2001 HK\$'000	30/6/2002 HK\$'000	31/3/2001 HK\$'000
Tax effect of timing differences because of:				
Tax losses	40,597	33,043	19,767	17,152
(Excess) shortfall of tax allowances over depreciation	(2,151)	(12)	3	(12)
	38,446	33,031	19,770	17,140

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

	THE GROUP		THE COMPANY	
	1/4/2001 to 30/6/2002 HK\$'000	1/4/2000 to 31/3/2001 HK\$'000	1/4/2001 to 30/6/2002 HK\$'000	1/4/2000 to 31/3/2001 HK\$'000
Tax effect of timing differences because of:				
Tax loss arising	7,554	3,111	2,615	2,820
(Excess) shortfall of tax allowances over depreciation	(2,139)	87	15	87
	5,415	3,198	2,630	2,907

The deferred tax asset has not been recognised in the financial statements in respect of tax losses available to offset future profits as it is not certain that the tax losses will be utilised in the foreseeable future.

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For the fifteen months ended 30th June, 2002

34. RETIREMENT BENEFITS SCHEMES

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

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

Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect of MPF scheme is to make the required contributions under the scheme. Where there are employees who leave the MPF Scheme prior to vesting fully in the voluntary contributions, the amount of the forfeited contributions would be used to reduce future contributions payable by the Group.

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

During the period, the retirement benefit schemes contribution, net of forfeited contributions utilised of approximately HK\$180,000 (2001: HK\$379,000), amounted to approximately HK\$1,084,000 (2001: HK\$357,000).

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

NOTES TO THE FINANCIAL STATEMENTS

For the fifteen months ended 30th June, 2002

35. OPERATING LEASE COMMITMENTS

As lessee

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

	THE GROUP		THE COMPANY	
	30/6/2002 HK\$'000	31/3/2001 HK\$'000	30/6/2002 HK\$'000	31/3/2001 HK\$'000
Within one year	3,289	3,046	1,370	1,370
In the second to fifth year inclusive	2,102	1,993	–	1,713
	5,391	5,039	1,370	3,083

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

As lessor

Property rental income earned during the period was HK\$2,123,000 (2001: HK\$4,522,000). Certain of the rented premises have been sub-leased and have committed tenants for the next two years.

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

	THE GROUP		THE COMPANY	
	30/6/2002 HK\$'000	31/3/2001 HK\$'000	30/6/2002 HK\$'000	31/3/2001 HK\$'000
Within one year	449	2,207	449	–
In the second to fifth year inclusive	37	6,161	37	–
After five years	–	3,441	–	–
	486	11,809	486	–

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For the fifteen months ended 30th June, 2002

36. CAPITAL COMMITMENTS

- (a) As at 30th June, 2002, the Group had capital commitments in respect of the acquisition of property, plant and equipment of HK\$1,064,000 (2001: nil) contracted for but not provided in the financial statements.
- (b) As at 31st March, 2001 pursuant to a joint venture agreement entered into between the Group and a joint venture partner dated on 9th September, 2000, the Group may be required to provide a shareholder's loan to a jointly controlled entity up to maximum amount of HK\$7,134,000 as and when necessary. Following the disposal of the jointly controlled entity in September 2001, the requirement in respect of the provision of shareholder's loan was released.

37. POST BALANCE SHEET EVENTS

- (a) On 29th August, 2002, the Company completed a subscription of 270,000,000 new shares of the Company (the "Subscription Shares") by an independent investor, Tat Cheong Limited, at a price of HK\$0.053 per share. The Subscription Shares represent approximately 19.5% of the existing issued share capital of the Company and approximately 16.3% of the issued share capital as enlarged by the issue of the Subscription Shares.

The net proceeds from the subscription are amounting to approximately HK\$14,150,000, out of which approximately HK\$10,000,000 will be used to finance the expansion of the business of provision of telecommunication services. The remaining proceeds will be used as the Group's general working capital.

- (b) On 30th August, 2002, a wholly-owned subsidiary of the Group entered into a conditional agreement with Jilin Chemical Industrial Company Limited (the "Jilin Chemical") (the "Agreement") pursuant to which Jilin Chemical agreed to acquire and the Group agreed to dispose of the Group's 35% interest in Jilian (Jilin), a jointly-controlled entity of the Group, for an aggregate cash consideration of RMB135,000,000 (approximately HK\$126,200,000) by two installments.

Pursuant to the Agreement, the first installment of RMB81,000,000 (approximately HK\$75,700,000) will be payable within the first fifteen business days after approvals of the agreement have been obtained from the relevant government authority in the PRC. The balance of RMB54,000,000 (approximately HK\$50,500,000) will be payable within the first five business days after the Jilian (Jilin) has completed the registration of changes in shareholding with the relevant government authority in the PRC, but in any event should be within the first sixty-five business days after approvals of the Agreement have been obtained from the relevant government authority in the PRC.

The above transaction was not yet completed up to the date of approval these financial statements. Upon the completion of the transaction, the directors estimated that the Group will recognise a loss on disposal of Jilian (Jilin) of approximately HK\$13,100,000 after deduction of related expenses payable to a third party.

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For the fifteen months ended 30th June, 2002

38. RELATED PARTY TRANSACTION

On 9th October, 2001, a subsidiary of the Group entered into an agreement with a joint venture partner of Powernet Company Limited ("Powernet"), a jointly controlled entity of the Group, for the disposal of the Group's 49% interest in Powernet at a consideration of HK\$999,000.

39. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 30th June, 2002 are as follows:

Name of company	Place of incorporation/ establishment/ and operation	Issued and paid up ordinary share capital	Proportion of nominal value of issued/registered capital held by the Company		Principal activities
			Directly (%)	Indirectly (%)	
Allied Petrochemicals Inc.	British Virgin Islands	US\$1	100	–	Investment holding
AII (Shindec SPV) Limited	British Virgin Islands	US\$1	100	–	Investment holding
Aust-Well Investments Limited	Hong Kong	HK\$10,000	100	–	Money lending
Exhibition Group Limited	British Virgin Islands	US\$1	–	100	Investment holding
Millennium Technology Limited	Samoa	US\$1	100	–	Investment holding
Oakway Investment Limited	Hong Kong	HK\$2	100	–	Investment holding
One.Tel Limited	Hong Kong	HK\$10,000	–	80	Provision of telecommunication service
One.Tel Asia Pacific Limited	British Virgin Islands	US\$10,000	–	80	Investment holding
One.Tel Holdings Limited	British Virgin Islands	HK\$20,000,000	–	80	Investment holding
OneTel.Net Limited	Hong Kong	HK\$10,000	–	80	Provision of telecommunication service

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39. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Cont'd)

Name of company	Place of incorporation/ establishment and operation	Issued and paid up ordinary share capital	Proportion of nominal value of issued/registered capital held by the Company		Principal activities
			Directly (%)	Indirectly (%)	
Sky Leader Limited	Hong Kong	HK\$2	–	80	Provision of telecommunication service
Suregain Properties Limited	British Virgin Islands	US\$100	–	77	Investment holding
Winning Rhythm Investments Limited	British Virgin Islands	HK\$50,674,000	100	–	Securities trading

The above table lists the subsidiaries of the Company as at 30th June, 2002 which, in the opinion of the directors, principally affected the results for the period or formed a substantial portion of the assets of the Group. To give details of the other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

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

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

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