

## NOTES TO FINANCIAL STATEMENTS

31 March 2001

### 1. Corporate Information

As at 31 March 2001, the Group was involved in strategic investment holding. During the year, the Group ceased its business of the trading and manufacturing of telecommunication products following the disposal of certain subsidiaries. Details of the discontinued operations are set out in note 4 to the financial statements.

### 2. Summary of Significant Accounting Policies

#### Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the remeasurement of investments in securities, as further explained below.

#### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 March 2001. The results of the subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

#### Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors.

Interests in subsidiaries are stated at cost unless, in the opinion of the directors, there have been permanent diminutions in values, when they are written down to values determined by the directors.

#### Associates

An associate is a company, not being a subsidiary or a joint venture, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any provisions for diminutions in values, other than those considered to be temporary in nature, deemed necessary by the directors.

The results of associates are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in associates are stated at cost less any provisions for diminutions in values, other than those considered to be temporary in nature, deemed necessary by the directors.

### **Goodwill**

Goodwill arising on consolidation of subsidiaries or associates represents the excess purchase consideration paid for subsidiaries or associates over the fair values ascribed to the net underlying assets acquired and is either eliminated against reserves in the year of acquisition, or amortised on the straight-line basis over a period of five years.

Upon disposal of subsidiaries or associates, the relevant portion of attributable goodwill previously eliminated against reserves is written back and included in the calculation of the gain or loss on disposal.

### **Negative goodwill**

Negative goodwill represents the excess, as at the date of acquisition, of the Group's interests in the fair values of the identifiable assets and liabilities acquired over the cost of the acquisition.

Negative goodwill is included in the balance sheet under "non-current assets" and is recognised as income in the profit and loss account on a systematic basis over the remaining useful lives of the identifiable depreciable/amortisable assets acquired.

Upon disposal of subsidiaries or associates, the relevant portion of attributable negative goodwill on acquisition not yet recognised in the profit and loss account is included in the calculation of the gain or loss on disposal.

### **Fixed assets and depreciation**

Fixed assets are stated at cost less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life after taking into account its estimated residual value. The principal annual rates used for this purpose are as follows:

Short term leasehold land and buildings	Over the lease terms
Long term leasehold land	Over the lease terms
Long term leasehold buildings	2%
Plant and machinery	10% - 20%
Furniture, equipment and motor vehicles	15% - 25%
Leasehold improvements	20% or over the lease terms, whichever is shorter

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

### **Land held for development**

Land held for development is stated at cost less provisions for impairments in values, other than those considered to be temporary in nature, considered necessary by the directors.

### **Investments in securities**

Investments in securities are non-trading investments in listed and unlisted equity securities which are stated at their fair values on an individual basis. Investments are recognised on a trade-date basis.

The gains or losses arising from changes in the fair values of a security are dealt with as movements in the asset revaluation reserve, until the security is sold, collected, or otherwise disposed of, or until the security is determined to be impaired, when the cumulative gain or loss derived from the security recognised in the asset revaluation reserve, together with the amount of any further impairment, is charged to the profit and loss account for the period in which the impairment arises. Where the circumstances and events which led to an impairment cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged and any appreciation in fair value is credited to the profit and loss account to the extent of the amount previously charged.

### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads, and/or, where appropriate, subcontracting charges. Net realisable value is based on estimated selling prices less any costs to be incurred to completion and disposal.

### **Revenue recognition**

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and
- underwriting commission income, when the obligation under the underwriting agreement has expired.

**Deferred tax**

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

**Leased assets**

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

**Retirement benefits scheme**

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the “Scheme”) under the Mandatory Provident Fund Schemes Ordinance, for all of those employees who are eligible to participate in the Scheme. The Scheme became effective on 1 December 2000. Contributions are made based a percentage of the employees’ basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund. The Group’s employer contributions vest fully with the employees when contributed into the Scheme except for the Group’s voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the Scheme.

**Foreign currencies**

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries and associates are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

**Related parties**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

**Cash equivalents**

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

**3. Turnover and Revenue**

Turnover represents interest income and the net invoiced value of goods sold, after allowance for returns and trade discounts, but excludes intra-group transactions.

	<b>Group</b>	
	<b>2001</b>	<b>2000</b>
	HK\$'000	HK\$'000
Continuing operations - investment holding arising in Hong Kong	<b>3,574</b>	2,436
Discontinued operations - trading and manufacturing of telecommunication products arising in the People's Republic of China (the "PRC"):		
Hong Kong	<b>2,568</b>	14,238
Elsewhere	<b>1,461</b>	2,450
	<b>4,029</b>	16,688
Turnover	<b>7,603</b>	19,124
Gain on disposal of investments in securities	<b>1,031</b>	–
Underwriting commission income (note 33)	<b>1,526</b>	–
Others	–	529
Other revenue	<b>2,557</b>	529
<b>Total revenue</b>	<b>10,160</b>	19,653

#### **4. Discontinued Operations**

During the year, the Group discontinued its business of the trading and manufacturing of telecommunication products following the disposal of Fleming Holdings Limited ("Fleming") and its subsidiaries (the "Fleming Group"). The Fleming Group was consolidated by the Group until the date of its disposal, at which time the assets and liabilities of the Fleming Group were transferred to the gain on disposal of the discontinued operations, which was as follows:

	<b>Group</b>	
	<b>2001</b>	<b>2000</b>
	HK\$'000	HK\$'000
Payment in relation to the disposal of the Fleming Group *	<b>(16,000)</b>	–
Less: Net liabilities of the Fleming Group	<b>88,649</b>	–
Waived amounts due from the Fleming Group **	<b>(28,916)</b>	–
Goodwill previously written off against goodwill reserve	<b>(8,407)</b>	–
Exchange fluctuation reserve realised upon disposal	<b>(343)</b>	–
<b>Gain on disposal of subsidiaries</b>	<b>34,983</b>	–

Note: Pursuant to a sale and purchase agreement dated 27 October 2000 (the “Agreement”), the Group disposed of all of its equity interest in (equivalent to 51% of the issued ordinary shares of) Fleming to Alliston Developments Limited (“Alliston”), a then minority shareholder of Fleming, for a nominal consideration of HK\$1 in cash. The Agreement was completed on 6 November 2000 and included the following terms:

- \* The Group paid HK\$16,000,000 to a bank (the “Bank”) to settle part of a loan together with the accrued interest thereon of HK\$35,167,000 in aggregate advanced to Contrad Limited (“Contrad”), a subsidiary of Fleming, by the Bank and to release the Group’s corporate guarantee and a director’s personal guarantee previously granted in favour of the Bank.
- \*\* The Group entered into a deed of waiver with Contrad and agreed to waive all its rights to seek repayment of the debts of HK\$28,916,000 in aggregate due from Contrad. The deed of waiver was also completed on 6 November 2000.

Under Chapter 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, Alliston was regarded as a connected person of the Company and the Agreement constituted a connected transaction for the Company. Further details of the Agreement are set out in an announcement of the Company dated 30 October 2000.

The effective date of discontinuance of the Group’s business of the trading and manufacturing of telecommunication products for accounting purposes was 6 November 2000. The operating loss before tax arising from the discontinued operations was HK\$11,877,000, which included cost of inventories sold of HK\$3,508,000 and finance costs of HK\$1,479,000.

Due to the disposal of the Fleming Group, the turnover and the loss from operating activities in respect of the Group’s business of the trading and manufacturing of telecommunication products for the year, together with the corresponding amounts for the prior period, are classified and disclosed under discontinued operations in accordance with the Hong Kong Statement of Standard Accounting Practice No. 2.102.



During the year ended 31 March 1999, Alliston pledged its deposits of approximately HK\$27,123,000 in favour of the Bank to secure banking facilities granted to Contrad (the “Pledged Deposits”). On 29 January 1999, the Pledged Deposits were utilised and off-set by the Bank against an overdraft balance of which repayment by Contrad was overdue. On 14 July 1999, Alliston demanded the winding-up of Contrad unless the Group repaid the Pledged Deposits. Following the disposal of Fleming to Alliston and after seeking legal advice in respect of the aforesaid matter, the directors considered that all potential liabilities against the Group in respect of the Pledged Deposits or the Fleming Group have been fully discharged.

## 5. Loss from Operating Activities

The Group’s loss from operating activities is arrived at after charging:

	<b>2001</b>	<b>2000</b>
	HK\$’000	HK\$’000
Cost of inventories sold	<b>3,508</b>	18,692
Depreciation	<b>800</b>	7,259
Write off of goodwill	–	3,604
Operating lease rentals in respect of land and buildings	<b>592</b>	1,032
Auditors’ remuneration	<b>720</b>	750
Loss on disposal/write off of fixed assets	<b>969</b>	2,833
Provisions for inventories	<b>142</b>	255
Staff costs (excluding directors’ remuneration, note 7):		
Pension contributions	<b>68</b>	22
Less: Forfeited contributions	–	(488)
Net pension/(forfeited) contributions	<b>68</b>	(466)
Wages and salaries	<b>2,218</b>	5,540
	<b>2,286</b>	5,074
and after crediting:		
Exchange gains, net	<b>392</b>	–

An analysis of the Group's loss from operating activities by principal activity and geographical segment in respect of the Group's operations, which is disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, is as follows:

	<b>2001</b>	<b>2000</b>
	HK\$'000	HK\$'000
Continuing operations — investment holding in Hong Kong	<b>26,373</b>	27,584
Discontinued operations — trading and manufacturing of telecommunication products in the People's Republic of China (the "PRC"):		
Hong Kong	<b>10,066</b>	23,144
Elsewhere	<b>332</b>	11,055
	<b>10,398</b>	34,199
	<b>36,771</b>	61,783

## 6. Finance Costs

	<b>Group</b>	
	<b>2001</b>	<b>2000</b>
	HK\$'000	HK\$'000
Interests on:		
Bank overdrafts, trust receipt loans and other loan wholly repayable within five years	<b>31,574</b>	11,698
Amounts due to former minority shareholders	—	1,295
Amounts due to related companies	<b>378</b>	378
Finance leases	—	148
Total finance costs	<b>31,952</b>	13,519

## 7. Directors' Remuneration and Five Highest Paid Employees

### Directors' remuneration

	Group	
	2001 HK\$'000	2000 HK\$'000
Fees:		
Executive directors	–	–
Non-executive directors	<b>100</b>	–
Independent non-executive directors	<b>200</b>	250
	<b>300</b>	250
Other emoluments:		
Salaries, allowances and benefits in kind		
Executive directors	<b>3,237</b>	5,101
Non-executive directors	<b>70</b>	217
Independent non-executive directors	–	–
	<b>3,307</b>	5,318
	<b>3,607</b>	5,568

Staff costs disclosed in note 5 do not include directors' remuneration.

The remuneration of the directors during the year fell within the following bands:

	2001 Number of directors	2000 Number of directors
Nil - HK\$1,000,000	7	17
HK\$1,500,001 - HK\$2,000,000	1	–
HK\$3,000,001 - HK\$3,500,000	–	1
	<b>8</b>	18

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2000: Nil).

The directors' remuneration for the year ended 31 March 2000 did not include an amount of approximately HK\$933,000 claimed by Mr. Yeung Kang Lam ("Mr. Yeung"), who resigned as a director of the Company during that year, for alleged services rendered by Mr. Yeung to the Group. The directors of the Company consider that since no board meeting was ever called to approve the alleged employment of Mr. Yeung and the alleged remuneration relating thereto, the Company disputes the validity of the alleged employment and has filed a defence and counterclaim against Mr. Yeung in respect of all costs, losses and damages which might be incurred. Further details of the litigation are set out in note 32(c) to the financial statements.

#### **Five highest paid employees**

The five highest paid employees during the year included three (2000: four) directors, details of whose remuneration are set out above. The details of the remuneration of the remaining two (2000: one) non-director highest paid employee(s), are analysed as follows:

	<b>2001</b>	<b>2000</b>
	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	<b>918</b>	404

The remuneration of the remaining two (2000: one) non-director highest paid employee(s), fell within the band of Nil - HK\$1,000,000.

#### **8. Tax**

No provision for Hong Kong profits tax has been made (2000: Nil) as the Group did not generate any assessable profits arising in Hong Kong during the year.

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof. Tax recoverable represents the tax paid in excess of the estimated tax liability for the year.

	<b>2001</b>	<b>2000</b>
	HK\$'000	HK\$'000
Group:		
Elsewhere — current	<b>26</b>	43
Hong Kong — overprovision in prior years	–	(955)
	<b>26</b>	(912)
Share of tax attributable to associates	<b>(787)</b>	44
Tax credit for the year	<b>(761)</b>	(868)

The principal components of the Group's deferred tax liabilities/(assets) provided for and not provided for/(recognised) at the balance sheet are as follows:

	<b>Provided</b>		<b>Not provided</b>	
	<b>2001</b>	<b>2000</b>	<b>2001</b>	<b>2000</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Accelerated depreciation allowances	–	–	–	393
Tax losses carried forward	–	–	<b>(5,938)</b>	(40,474)
	–	–	<b>(5,938)</b>	(40,081)

#### **9. Net Loss from Ordinary Activities Attributable to Shareholders**

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is HK\$522,803,000 (2000: HK\$24,386,000).

#### **10. Earnings/(Loss) Per Share**

The calculation of basic loss per share is based on the net loss attributable to shareholders for the year of HK\$564,070,000 (2000: profit of HK\$37,546,000), and the weighted average of 5,806,770,004 (2000: 2,234,509,980) ordinary shares in issue during the year.

The diluted loss per share for the year ended 31 March 2001 has not been presented as the exercise prices of the outstanding share options and warrants of the Company were greater than the market price of the Company's shares prevailing during a substantial period of the year ended 31 March 2001, and in respect of the remaining period of the year, when the exercise of the outstanding share options would have been advantageous, the effect of potential ordinary shares would be anti-dilutive.

The calculation of diluted earnings per share for the year ended 31 March 2000 was based on the net profit attributable to shareholders for the year of HK\$37,546,000. The weighted average number of ordinary shares used in the calculation of diluted earnings per share was 2,272,663,135, which included 2,234,509,980 ordinary shares in issue during that year, as used in the basic earnings per share calculation; the weighted average of 20,879,952 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all warrants outstanding during that year; and the weighted average of 17,273,203 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during that year.

The basic and diluted earnings per share for the year ended 31 March 2000 were adjusted to reflect the rights issue and open offer of new shares of the Company during that year.

## 11. Fixed Assets Group

	Leasehold land and buildings HK\$'000	Plant and machinery HK\$'000	Furniture, equipment and motor vehicles HK\$'000	Leasehold improvements HK\$'000	Total HK\$'000
Cost:					
At beginning of year	22,308	13,534	9,254	224	45,320
Disposals/write off	–	–	(3,413)	(2)	(3,415)
Arising on disposal of subsidiaries	(22,308)	(13,534)	(5,734)	(222)	(41,798)
At 31 March 2001	–	–	107	–	107
Accumulated depreciation:					
At beginning of year	4,943	13,153	7,554	222	25,872
Provided during the year	542	53	204	1	800
Disposals/write off	–	–	(2,368)	(1)	(2,369)
Arising on disposal of subsidiaries	(5,485)	(13,206)	(5,357)	(222)	(24,270)
At 31 March 2001	–	–	33	–	33
Net book value:					
At 31 March 2001	–	–	74	–	74
At 31 March 2000	17,365	381	1,700	2	19,448

The Group's leasehold land and buildings included above were held under the following lease terms:

	<b>2001</b>	<b>2000</b>
	HK\$'000	HK\$'000
<b>Leasehold land and buildings situated outside</b>		
Hong Kong and held under:		
Long term leases	–	1,071
Short term leases	–	21,237
	–	<b>22,308</b>

#### **Company**

	<b>Furniture and equipment</b>	<b>Leasehold improvements</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000
<b>Cost:</b>			
At beginning of year	87	2	89
Write off	–	(2)	(2)
At 31 March 2001	87	–	87
<b>Accumulated depreciation:</b>			
At beginning of year	7	–	7
Provided during the year	18	–	18
At 31 March 2001	25	–	25
<b>Net book value:</b>			
At 31 March 2001	62	–	62
At 31 March 2000	80	2	82

#### **12. Land Held for Development**

	<b>Group</b>	
	<b>2001</b>	<b>2000</b>
	HK\$'000	HK\$'000
Cost	<b>91,000</b>	91,000
Less: Provisions for impairment in values	<b>(11,000)</b>	–
At 31 March	<b>80,000</b>	91,000

The details of the Group's land held for development are as follows:

Location	Use	Area	Tenure	Attributable interest of the Group
A development site situated in Hua Qiao Cun, Ban Qiao Town, Taicang City, Jiangsu Province, the People's Republic of China (the "PRC")	Currently vacant. For the development of a scientific park with the main theme of high technology. For use as a base for industries utilising high technology.	392,763 square metres	Medium term lease	100%

Subsequent to balance sheet date, a detailed plan for the development of the site was submitted to the relevant PRC authorities. Construction work will commence once approvals from the relevant PRC authorities are granted.

The Group's land held for development was valued by DTZ Debenham Tie Leung Limited, a firm of independent professional property valuers, on the open market existing state basis, at an aggregate value of HK\$80,000,000 as at 31 March 2001. In the opinion of the directors of the Company, the valuation deficit represents a diminution in value of the land held for development, which is considered to be other than temporary in nature, and a provision of HK\$11,000,000 has therefore been charged to the profit and loss account for the year.

### 13. Interests in Subsidiaries

	Company	
	2001	2000
	HK\$'000	HK\$'000
Unlisted shares, at cost	<b>13,838</b>	93,356
Due from subsidiaries	<b>1,284,944</b>	1,172,705
	<b>1,298,782</b>	1,266,061
Less: Provisions for permanent diminutions in values	<b>(646,205)</b>	(249,336)
	<b>652,577</b>	1,016,725

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.



Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration	Nominal value of issued ordinary share/ paid-up capital	Effective percentage of equity attributable		Principal activities
			to the Company		
			Direct	Indirect	
Cyber Range Limited	British Virgin Islands	US\$1	100%	–	Investment holding
Fleming Holdings Limited*	British Virgin Islands	US\$16,473,306	51%	–	Investment holding
Harbour Fair Overseas Limited	British Virgin Islands	US\$1	100%	–	Investment holding
Millennium Riders Limited	British Virgin Islands	US\$1	100%	–	Investment holding
Vigor Online Offshore Limited	British Virgin Islands	US\$1	100%	–	Investment holding
Chain Crown Limited	Hong Kong	HK\$2	–	100%	Investment holding
China Sci-Tech Secretaries Limited (formerly known as China Sci-Tech Electronics Company Limited)	Hong Kong	HK\$10,000	100%	–	Provision of secretarial services
Conrad Limited*	Hong Kong	HK\$6,000,000	–	51%	Trading of telecommunication products
Dragon Hunter Investment Limited	Hong Kong	HK\$2	100%	–	Investment holding
General Brave Limited	Hong Kong	HK\$2	–	100%	Investment holding
Harbour Jade Limited	Hong Kong	HK\$2	100%	–	Investment holding
Leven Limited	Hong Kong	HK\$2	–	100%	Investment holding

Name	Place of incorporation/ registration	Nominal value of issued ordinary share/ paid-up capital	Effective percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Wah Ban Limited	Hong Kong	HK\$2	–	100%	Investment holding
Beijing Contrad Communications Equipments Co., Limited*	People's Republic of China	US\$3,000,000	–	45.9%	Trading and manufacturing of telecommunication products
Suzhou Leven Real Estate Co., Ltd.	People's Republic of China	US\$3,250,000	–	100%	Investment holding
Suzhou Chain Crown Real Estate Co., Ltd.	People's Republic of China	US\$3,500,000	–	100%	Investment holding
Suzhou General Brave Real Estate Co., Ltd.	People's Republic of China	US\$1,573,798	–	100%	Investment holding
Suzhou Wah Ban Real Estate Co., Ltd.	People's Republic of China	US\$1,843,859	–	100%	Investment holding

\* Disposed of during the year

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for 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 particulars of excessive length.

Except for the subsidiaries incorporated in the British Virgin Islands which operate principally in Hong Kong, all subsidiaries operate principally in their respective places of incorporation/registration.

#### 14. Interests in Associates

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Unlisted shares, at cost	–	–	–	–
Share of net assets	<b>551,147</b>	1,417,504	–	–
	<b>551,147</b>	1,417,504	–	–

Certain of the associates were not equity accounted for in the prior years, as the impact, in the opinion of the directors, was not material.

At 31 March 2001, the share of net assets and market value of the Group's investments in associates are as follows:

	2001	2000
	HK\$'000	HK\$'000
Share of net assets	<b>551,147</b>	1,417,504
Market value, listed investment in Hong Kong	<b>242,116</b>	914,321

Particulars of the principal associates are as follows:

Name	Business structure	Place of incorporation and operations	Effective percentage of equity attributable to the Group		Principal activities
			2001	2000	
China Online (Bermuda) Limited ("China Online")	Corporate	Bermuda/ Hong Kong	<b>34.31%</b>	33.96%	Investment holding
Bonnie International Development Limited *	Corporate	Hong Kong	–	50%	Dormant

\* Disposed of during the year

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

None of the Group's associates, including China Online, are audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

Extracts of the operating results and financial position of China Online, a company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), which are based on the published audited financial statements prepared in accordance with generally accepted accounting principles in Hong Kong are as follows:

	<b>2000</b>	<b>1999</b>
	HK\$'000	HK\$'000
<b>Operating results for the year ended 31 December</b>		
Turnover	<b>2,442,429</b>	610,823
Profit before tax	<b>1,333,777</b>	257,344
Tax	<b>2,161</b>	(2,579)
Profit before minority interests	<b>1,335,938</b>	254,765
Minority interests	<b>(3,120)</b>	5,616
Net profit from ordinary activities		
attributable to shareholders	<b>1,332,818</b>	260,381
Dividend	<b>46,432</b>	181,854
<b>Financial position as at 31 December</b>		
Non-current assets	<b>463,652</b>	3,678,537
Current assets	<b>2,058,850</b>	705,559
Total assets	<b>2,522,502</b>	4,384,096
Current liabilities	<b>489,038</b>	165,118
Minority interests	<b>3,695</b>	575
	<b>492,733</b>	165,693
Net assets	<b>2,029,769</b>	4,218,403

As at 31 March 2001, the Group also held 1,527,440,547 warrants of China Online with a carrying value amounting to HK\$15,274,000, which are classified as an investment in securities (note 15). Each warrant entitles the holder to subscribe in cash at a price of HK\$0.30 each, subject to adjustment, for one ordinary share in China Online, at any time up to 6 June 2003. The exercise of all the outstanding warrants of China Online would increase the Group's equity interest in China Online to 42.3%. Subsequent to the balance sheet date, 361,708,000 warrants of China Online were realised in the open market for aggregate proceed of HK\$3,660,000. No significant gain or loss was recorded. The remaining warrants have not been exercised up to the date of approval of these financial statements.

The shares and warrants of China Online held by the Group are pledged to independent third parties to secure the other loans advanced to the Group and the Company (note 26).

#### 15. Investments in Securities

	<b>Group</b>	
	<b>2001</b>	<b>2000</b>
	HK\$'000	HK\$'000
<hr/>		
Non-trading investments in securities		
Listed in Hong Kong	77,867	–
Listed outside Hong Kong	21,777	21,777
Unlisted outside Hong Kong	–	14,222
	<b>99,644</b>	35,999
Provisions for impairment in values	<b>(81,770)</b>	–
At fair value, 31 March	<b>17,874</b>	35,999
<hr/>		
Carrying amount analysed for reporting purposes as		
Non-current	–	35,999
Current	<b>17,874</b>	–
	<b>17,874</b>	35,999
<hr/>		

The market values of the Group's listed investments at the balance sheet date and at the date of approval of these financial statements were approximately HK\$17,874,000 (2000: HK\$39,078,000) and HK\$17,442,000 (2000: HK\$8,210,000), respectively.

**16. Goodwill**

	<b>Group</b>	
	<b>2001</b>	<b>2000</b>
	HK\$'000	HK\$'000
At beginning of year	–	3,604
Write off during the year	–	(3,604)
At 31 March	–	–

**17. Negative Goodwill**

	<b>Group</b>	
	<b>2001</b>	<b>2000</b>
	HK\$'000	HK\$'000
At beginning of year	<b>31,741</b>	–
On acquisition of interests in associates	<b>6,669</b>	41,341
Negative goodwill recognised in the profit and loss account	<b>(36,030)</b>	(9,600)
At 31 March	<b>2,380</b>	31,741

**18. Inventories**

	<b>Group</b>	
	<b>2001</b>	<b>2000</b>
	HK\$'000	HK\$'000
Raw materials	–	4
Finished goods	–	1,441
	–	1,445

As at 31 March 2000, inventories of HK\$966,000 were carried at net realisable value.

**19. Accounts Receivable**

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

The following is an ageing analysis of the Group's accounts receivable:

	<b>2001</b>	<b>2000</b>
	HK\$'000	HK\$'000
Current to 90 days	–	295
91 - 180 days	–	661
181 - 360 days	–	21
	–	977

**20. Due from an Associate**

The balance due from an associate was unsecured, interest-free and was fully repaid during the year.

**21. Cash and Cash Equivalents**

	<b>Group</b>		<b>Company</b>	
	<b>2001</b>	<b>2000</b>	<b>2001</b>	<b>2000</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash and bank balances	<b>157</b>	353	<b>145</b>	87
Time deposits	<b>13,628</b>	92,813	<b>13,628</b>	92,813
	<b>13,785</b>	93,166	<b>13,773</b>	92,900

**22. Accounts and Bills Payable**

The following is an ageing analysis of the Group's accounts and bills payable:

	<b>2001</b>	<b>2000</b>
	HK\$'000	HK\$'000
Current to 90 days	–	2,087
91 - 180 days	–	229
181 - 360 days	–	1,401
Over 360 days	–	3,728
	–	7,445

**23. Due to Directors**

The amount due to directors is unsecured, interest-free and has no fixed terms of repayment.

**24. Due to Former Minority Shareholders**

The amounts due to former minority shareholders were unsecured and interest-free.

**25. Due to Related Companies**

As at 31 March 2001, the balance due to a related company is unsecured and bears interests at 12% per annum. The related company has undertaken not to demand any repayment before 31 March 2002.

As at 31 March 2000, a balance due to a related company, amounting to HK\$4,492,000, was unsecured, bore interest at 12% per annum and was repayable on demand. The remaining balance of HK\$27,123,000 due to another related company was unsecured, interest-free and was disposed of with Fleming (note 4).

**26. Interest-Bearing Borrowings**

	<b>Group</b>		<b>Company</b>	
	<b>2001</b>	<b>2000</b>	<b>2001</b>	<b>2000</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
Secured bank overdrafts				
repayable on demand	–	67	–	–
Secured other loan repayable				
on demand (note (a))	<b>810</b>	23,196	–	–
Secured trust receipt loans repayable				
within one year	–	30,280	–	–
Unsecured other loan repayable				
within one year	<b>20,000</b>	–	<b>20,000</b>	–
Secured other loan repayable in the				
second year (note (b))	<b>175,857</b>	120,000	<b>175,857</b>	120,000
	<b>196,667</b>	173,543	<b>195,857</b>	120,000
Portion classified as current liabilities	<b>(20,810)</b>	(53,543)	<b>(20,000)</b>	–
Long term portion	<b>175,857</b>	120,000	<b>175,857</b>	120,000



Notes:

- (a) This secured other loan was advanced from an independent third party which is secured by the pledge of 185,740,000 (or 2% of) issued ordinary shares of China Online held by the Group (note 14). The secured other loan is repayable on demand and bears interest at 11% per annum.
- (b) This secured other loan was advanced from another independent third party and bears interest at Hong Kong dollar prime lending rate plus 3% per annum and is repayable on or before 18 April 2002.

The loan is secured by:

- (i) the pledge of 3,000,000,000 (or 32.31% of) issued ordinary shares of China Online and all the warrants of China Online held by the Group (note 14); and
- (ii) corporate guarantees executed jointly and severally by certain subsidiaries of the Company.

Subsequent to the balance sheet date, the pledge of warrants of China Online was released.

## 27. Share Capital

	<b>2001</b>	<b>2000</b>
	HK\$'000	HK\$'000
Authorised:		
10,000,000,000 ordinary shares of HK\$0.10 each	<b>1,000,000</b>	1,000,000
Issued and fully paid:		
5,806,770,004 ordinary shares of HK\$0.10 each	<b>580,677</b>	580,677

Subsequent to the balance sheet date, pursuant to the resolutions passed at an extraordinary general meeting of the Company held on 11 July 2001, the authorised share capital of the Company would be reduced from HK\$1,000,000,000 divided into 10,000,000,000 ordinary shares of HK\$0.10 each, to HK\$100,000,000 divided into 10,000,000,000 ordinary shares of HK\$0.01 each, subject to the conditions of the proposed reduction of share capital of the Company (as detailed hereunder) (the "Capital Reduction") being fulfilled, and then increased to HK\$200,000,000 by the creation of 10,000,000,000 new ordinary shares of HK\$0.01 each.

In addition, pursuant to a special resolution passed at an extraordinary general meeting of the Company held on 11 July 2001, the issued and fully paid up share capital of the Company would also be reduced from approximately HK\$580,677,000 divided into 5,806,770,004 ordinary shares of HK\$0.10 each, to approximately HK\$58,067,700 divided into 5,806,770,004 ordinary shares of HK\$0.01 each, subject to the conditions of the Capital Reduction being fulfilled.

Particulars of the Capital Reduction were set out in the Company's circular dated 18 June 2001. Up to the date of approval of these financial statements, the Capital Reduction is still subject to the approval of the Grand Court of the Cayman Islands and the listing committee of the Stock Exchange.

### **Share options**

Pursuant to a share option scheme (the "Scheme") of the Company approved by shareholders and adopted on 12 January 1994, the directors of the Company may grant options to eligible employees of the Company, including executive directors, to subscribe for shares in the Company.

The maximum number of shares in respect of which options may be granted under the Scheme may not exceed, in nominal amount, 10% of the issued share capital of the Company from time to time which has been duly allotted and issued.

During the year ended 31 March 2000, the Company granted a total of 52,200,000 share options of the Company for a consideration of HK\$10 per grantee. Each share option entitles the holders thereof to subscribe in cash at a price of HK\$0.10 each, subject to adjustment, for one ordinary share of the Company at any time during a period of three years with effect from the date of acceptance of the grant of the share options or upon the date of resignation of the grantee, to the extent not already exercised, within the period of one month following the date of such resignation.

At 31 March 2001, the Company had 13,050,000 share options outstanding. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 13,050,000 new ordinary shares of HK\$0.10 each.

A summary of the movements in share options granted under the Scheme during the year is as follows:

<b>Name of director</b>	<b>Number of share options outstanding at 1 April 2000 and 31 March 2001</b>	<b>Exercise price</b>	<b>Exercise period</b>
Mr. Chiu Tao	<u>13,050,000</u>	HK\$0.10	23 April 2000 to 22 April 2003

### **Warrants**

- (a) Pursuant to an ordinary resolution passed at an extraordinary general meeting of the Company held on 11 November 1999, as part of a rights issue, 465,624,000 warrants were issued, at no additional cost, to the first registered holders of the fully paid rights shares in the proportion of two warrants for every five rights shares taken up. Each warrant entitles the holder thereof to subscribe in cash for one share of HK\$0.10 each in the share capital of the Company at an initial subscription price of HK\$0.22 per share, subject to adjustment, at any time during the period commencing from the date of issue of the warrants until 7 December 2000, both dates inclusive. On 23 December 1999, the Company announced the adjustment to the subscription price of the issued warrants from HK\$0.22 per share to HK\$0.20 per share. All of the 465,624,000 warrants lapsed on 7 December 2000.
- (b) Pursuant to an ordinary resolution passed at an extraordinary general meeting of the Company held on 6 December 1999, as part of a placement and an open offer for new ordinary shares of the Company, 500,000,000 warrants were issued, at no additional cost, to the first registered holders of the fully paid offer shares and placing shares in the proportion of one warrant for every five offer shares or placing shares held. Each warrant entitles the holder thereof to subscribe in cash for one share of HK\$0.10 each in the share capital of the Company at an initial subscription price of HK\$0.25 per share, subject to adjustment, at any time during the period commencing from the date of issue of the warrants until 29 December 2001, both dates inclusive.

On 21 January 2000, the Company announced the adjustment to the subscription price of the issued warrants from HK\$0.25 per share to HK\$0.24 per share.

During the year ended 31 March 2000, four of these warrants were exercised at HK\$0.24 per share.

At 31 March 2001, the Company had 499,999,996 warrants outstanding. The exercise in full of such warrants would, under the present capital structure of the Company, result in the issue of 499,999,996 additional shares of the Company of HK\$0.10 each, and cash proceeds, before issuance expenses, of approximately HK\$120,000,000.

#### **Repurchase of shares/warrants**

Pursuant to the Company's share and warrant repurchase scheme approved by the shareholders at an annual general meeting held on 28 September 2000, the directors may repurchase the Company's shares and/or warrants at any time from 28 September 2000 up to the earlier of the conclusion of the next annual general meeting or the date on which the authority to repurchase shares or warrants is revoked or varied by an ordinary resolution. The maximum number of shares and warrants which may be repurchased pursuant to the repurchase scheme is limited to 10% of the issued shares and outstanding warrants at 28 September 2000, respectively. During the year no shares or warrants were repurchased.

## 28. Reserves/(Deficits)

### Group

	Share premium account HK\$'000 (Note a)	Capital reserve HK\$'000 (Note b)	Warrant reserve HK\$'000	Asset		Goodwill reserve HK\$'000	Accumulated deficits HK\$'000 (Note b)	Total HK\$'000
				revaluation reserve/ (deficit) HK\$'000	Exchange fluctuation reserve HK\$'000			
At 1 April 1999	232,180	7,700	–	–	(343)	(8,407)	(281,456)	(50,326)
Issue of shares	523,778	–	–	–	–	–	–	523,778
Share issue expenses	(17,400)	–	–	–	–	–	–	(17,400)
Share of asset revaluation surplus of associates	–	–	–	340,435	–	–	–	340,435
Net profit for the year	–	–	–	–	–	–	37,546	37,546
At 31 March and 1 April 2000	738,558	7,700	–	340,435	(343)	(8,407)	(243,910)	834,033
Arising on consolidation of associates	–	–	31,010	(390,198)	66	–	(10,728)	(369,850)
Arising on disposal of subsidiaries	–	–	–	–	343	8,407	–	8,750
Net loss for the year	–	–	–	–	–	–	(564,070)	(564,070)
At 31 March 2001	<b>738,558</b>	<b>7,700</b>	<b>31,010</b>	<b>(49,763)</b>	<b>66</b>	<b>–</b>	<b>(818,708)</b>	<b>(91,137)</b>
Reserves retained by:								
Company and subsidiaries	738,558	7,700	–	–	–	–	(424,595)	321,663
Associates	–	–	31,010	(49,763)	66	–	(394,113)	(412,800)
At 31 March 2001	<b>738,558</b>	<b>7,700</b>	<b>31,010</b>	<b>(49,763)</b>	<b>66</b>	<b>–</b>	<b>(818,708)</b>	<b>(91,137)</b>
Company and subsidiaries	738,558	7,700	–	–	(343)	(8,407)	(355,846)	381,662
Associates	–	–	–	340,435	–	–	111,936	452,371
At 31 March 2000	<b>738,558</b>	<b>7,700</b>	<b>–</b>	<b>340,435</b>	<b>(343)</b>	<b>(8,407)</b>	<b>(243,910)</b>	<b>834,033</b>

**Company**

	<b>Share premium account</b>	<b>Capital reserve</b>	<b>Accumulated deficits</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Note a)	(Note b)		
At 1 April 1999	232,180	35,125	(317,631)	(50,326)
Issue of shares	523,778	–	–	523,778
Share issue expenses	(17,400)	–	–	(17,400)
Net loss for the year	–	–	(24,386)	(24,386)
At 31 March and 1 April 2000	738,558	35,125	(342,017)	431,666
Net loss for the year	–	–	(522,803)	(522,803)
At 31 March 2001	<b>738,558</b>	<b>35,125</b>	<b>(864,820)</b>	<b>(91,137)</b>

## Notes:

- (a) Subsequent to the balance sheet date, pursuant to a special resolution passed at an extraordinary general meeting of Company held on 11 July 2001, the amount standing to the credit of the Company's share premium account of HK\$738,558,000 has been written off against the accumulated losses of the Company as at 31 March 2001 to the extent of HK\$738,558,000 on 11 July 2001. Particulars of the proposal were set out in the Company's circular dated 18 June 2001.
- (b) The capital reserve of the Group represents the difference between the nominal value of the shares of the subsidiaries acquired, over the nominal value of the share capital of the Company issued in exchange therefor, in connection with the Group reorganisation completed in January 1994 (the "Reorganisation").

The capital reserve of the Company represents the excess of the fair value of the then combined net assets of the subsidiaries acquired, over the nominal value of the share capital of the Company issued in exchange therefor, pursuant to the Reorganisation.

## 29. Notes to the Consolidated Cash Flow Statement

### (a) Reconciliation of loss from operating activities to net cash outflow from operating activities

	<b>Group</b>	
	<b>2001</b>	<b>2000</b>
	HK\$'000	HK\$'000
Loss from operating activities	<b>(36,771)</b>	(61,783)
Interest income	<b>(3,574)</b>	(2,436)
Depreciation	<b>800</b>	7,259
Write off of goodwill	–	3,604
Negative goodwill recognised	<b>(36,030)</b>	(9,600)
Provisions for impairment in value on investments in securities	<b>81,770</b>	–
Provisions for impairment in value on land held for development	<b>11,000</b>	–
Provisions against an amount due from a former minority shareholder	<b>1,402</b>	–
Provisions against other receivables	<b>5,140</b>	–
Gain on disposal of subsidiaries	<b>(34,983)</b>	(63)
Loss on disposal/write off of fixed assets	<b>969</b>	2,833
Gain on disposal of investments in securities	<b>(1,031)</b>	–
Decrease in accounts receivable	<b>851</b>	24,914
Decrease in loan receivable	–	11,253
Decrease/(increase) in prepayments, deposits and other receivables	<b>1,567</b>	(26,599)
Decrease/(increase) in amount due from an associate	<b>1,500</b>	(1,500)
Decrease in inventories	<b>1,445</b>	5,669
Increase in accounts and bills payable	<b>306</b>	159
Increase/(decrease) in accrued liabilities and other payables	<b>(4,010)</b>	5,148
<b>Net cash outflow from operating activities</b>	<b>(9,649)</b>	<b>(41,142)</b>

**(b) Analysis of changes in financing of the Group during the year**

	Share capital and share premium HK\$'000	Advance from a shareholder HK\$'000	Advances from related companies HK\$'000	Trust receipt loans HK\$'000	Other loans HK\$'000	Finance lease payables HK\$'000	Advances from minority shareholders HK\$'000
At 1 April 1999	284,380	1,187	31,141	28,112	–	1,293	9,341
Net cash inflow/ (outflow) from financing activities	1,034,855	(1,187)	96	2,168	143,196	(1,293)	–
Accrued interest expenses	–	–	378	–	–	–	1,295
At 31 March and 1 April 2000	1,319,235	–	31,615	30,280	143,196	–	10,636
Net cash inflow/ (outflow) from financing activities	–	–	659	(1,080)	53,471	–	–
Accrued interest expenses	–	–	378	–	–	–	–
Disposal of subsidiaries (Note 29(d))	–	–	(27,782)	(29,200)	–	–	(1,925)
Settled by transfer of investments in securities (Note 29(e)(ii))	–	–	–	–	–	–	(8,711)
At 31 March 2001	<b>1,319,235</b>	–	<b>4,870</b>	–	<b>196,667</b>	–	–



(c) **Acquisition of subsidiaries**

	<b>Group</b>	
	<b>2001</b>	<b>2000</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Net assets acquired:		
Fixed assets	–	20
Cash and bank balances	–	4
Land held for development	–	91,000
Prepayments and other receivables	–	608
Accrued liabilities and other payables	–	(2,132)
	–	89,500
Satisfied by:		
Cash consideration paid	–	89,500

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	<b>Group</b>	
	<b>2001</b>	<b>2000</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Cash consideration paid	–	89,500
Cash and bank balances of the acquired subsidiaries	–	(4)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	–	89,496

The subsidiaries acquired during the year ended 31 March 2000 made no significant contribution to the Group in respect of the cash flows, turnover or contribution to the consolidated profit after tax for that year.

**(d) Disposal of subsidiaries**

	<b>Group</b>	
	<b>2001</b>	<b>2000</b>
	HK\$'000	HK\$'000
<hr/>		
Net liabilities disposed of:		
Fixed assets	<b>17,528</b>	–
Cash and bank balances	<b>127</b>	27
Accounts receivable	<b>126</b>	–
Prepayments and other receivables	<b>1,483</b>	4
Due to other companies of the Group	<b>(28,916)</b>	–
Due to former minority shareholders	<b>(1,925)</b>	–
Bank overdrafts	<b>(78)</b>	–
Due to a related company	<b>(27,782)</b>	–
Interest-bearing borrowings	<b>(29,200)</b>	–
Accounts and bills payable	<b>(7,751)</b>	–
Accrued liabilities and other payables	<b>(12,261)</b>	(94)
	<b>(88,649)</b>	(63)
<hr/>		
Goodwill previously charged to the goodwill reserve	<b>8,407</b>	–
Exchange fluctuation reserve realised	<b>343</b>	–
Gain on disposal of subsidiaries	<b>34,983</b>	63
	<b>(44,916)</b>	–
<hr/>		
Satisfied by (Note 4):		
Cash payment	<b>(16,000)</b>	–
Waived amounts due from the disposed subsidiaries	<b>(28,916)</b>	–
	<b>(44,916)</b>	–
<hr/>		

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

	<b>Group</b>	
	<b>2001</b>	<b>2000</b>
	HK\$'000	HK\$'000
Cash consideration paid	<b>(16,000)</b>	–
Cash and bank balances disposed of	<b>(127)</b>	(27)
Bank overdrafts disposed of	<b>78</b>	–
Net outflow of cash and cash equivalents		
in respect of disposal of subsidiaries	<b>(16,049)</b>	(27)

For the year ended 31 March 2001, the subsidiaries disposed of contributed HK\$271,000 and HK\$476,000 to the Group's net cash inflow from operating activities and net cash outflow from financing activities, respectively, but had no significant impact in respect of the Group's investing activities, returns on investments and servicing of finance and tax. The subsidiaries disposed of during the year also contributed HK\$4,029,000 and HK\$10,398,000 to the Group's turnover and consolidated loss from operating activities, respectively.

The subsidiaries disposed of during the year ended 31 March 2000 made no significant contribution to the Group in respect of the cash flows, turnover or contribution to the consolidated profit after tax for that year.

**(e) Major non-cash transactions**

- (i) The provisions for bad and doubtful debts of HK\$2,010,000 (2000: HK\$36,251,000) did not result in any cash flow.
- (ii) The amount due to Beijing Hua Xun Communication Development Group Corporation ("Hua Xun"), a former minority shareholder of a disposed subsidiary, together with the default interest, of approximately HK\$5,440,000 in aggregate was fully settled by the transfer to Hua Xun of a 4% equity interest in Golden Cellular previously owned by the Group, resulting in a gain of approximately HK\$699,000.

The remaining 8% equity interest in Golden Cellular previously held by the Group was disposed of to an independent third party (the “Acquirer”) for a consideration of approximately HK\$9,813,000, resulting in a gain of HK\$332,000. In accordance with the instructions of the Group, the Acquirer paid HK\$3,271,000 directly to Beijing Fengtai District Huaxiang Industrial Group Corporation (“Fengtai”), a former minority shareholder of a subsidiary of the Company disposed of during the year, to settle part of the Group’s amount due to Fengtai. In addition, the Acquirer paid HK\$1,402,000 to Hua Xun who received the consideration on behalf of the Group. The amounts receivable from Hua Xun and the Acquirer of HK\$1,402,000 and HK\$5,140,000, respectively, were fully provided of.

### 30. Contingent Liabilities

	<b>Company</b>	
	<b>2001</b>	<b>2000</b>
	HK\$’000	HK\$’000
Guarantee of banking facilities granted to a subsidiary	–	25,500

### 31. Commitments

As at the balance sheet date, the Group had the following commitments:

	<b>2001</b>	<b>2000</b>
	HK\$’000	HK\$’000
(a) Payment for non-cancellable operating leases committed to be made during the next year by the Group in respect of land and buildings expiring:		
In the second to fifth years, inclusive	–	204
After five years	–	140
	–	344
(b) Capital commitments in respect of investments in subsidiaries contracted but not provided for	<b>12,732</b>	12,732

The Company had no significant commitments at 31 March 2001 (2000: Nil).

### 32. Pending Litigation

- (a) During the year ended 31 March 1999, the Company issued a cheque post-dated of 15 October 1998 for HK\$23,636,122 (the “Cheque”) for an associate of the Company to a third party (the “Third Party”). On 28 December 1998, the Third Party presented the Cheque but it was countermanded by the Company. On 30 January 1999, a writ of summons was issued by the Third Party against the Company, claiming for a sum of HK\$23,636,122 and accrued interest thereon. The Company filed a defence on 8 March 1999. The Company successfully resisted the Third Party’s application for summary judgement against the Company and the Court granted the Company conditional leave to defend itself on 22 July 1999. The Company complied with the order of the Court and paid a sum of HK\$26,139,446 (included in the balance of long term deposit as at 31 March 2001) into the Court on 5 August 1999. The case is fixed for trial in January 2002.

The directors of the Company based on the legal opinion obtained from the Company’s counsel, considered that the Company has a sensible defence against the claim. Accordingly, the directors of the Company consider that provision for the claim is not necessary.

- (b) On 1 September 1999, a former officer of the Company entered into a supply contract with an independent third party (the “Supplier”) for the supply of 20,000 cable modems for a total consideration of US\$6,000,000 (approximately HK\$46,560,000), purportedly on behalf of the Company. On 8 September 1999, the Company announced that the supply contract was entered into without being properly authorised by the Company and, therefore, disputed the validity of the contract. On the same day, the Company issued a legal letter to the Supplier confirming that the Company would not recognise the supply contract and it should not be binding on the Company. Nevertheless, if proven to be valid, according to the terms of the contract, the Group would be liable to compensate the Supplier for a sum of US\$3.6 million (approximately HK\$28 million) as it failed to take delivery of the cable modems.

Having considered the advice of the Company’s legal counsel, the directors of the Company believe that the Group has a favourable defence against the claim. Accordingly, the directors of the Company consider that provision for the claim is not necessary.

- (c) On 6 December 1999, Mr. Yeung Kang Lam (“Mr. Yeung”), who had been appointed and subsequently resigned as a director of the Company during the year ended 31 March 2000, filed a High Court proceeding against the Company for a sum of HK\$932,958 and damages, interests and costs arising from the termination of an alleged employment letter which was signed between Mr. Yeung and Mr. Chiu Tao (“Mr. Chiu”). The directors of the Company consider that since no board meeting was ever called to approve the alleged employment letter of Mr. Yeung and the alleged remuneration relating hereto, the Company disputes the validity of the alleged employment letter. On 23 February 2000, the Company filed its defence against the claim. Having considered their legal counsel’s advice, the directors of the Company believe that the Company has a favourable defence to the allegation. Accordingly, the directors of the Company consider that provision for the claim alleged by Mr. Yeung is not necessary.

### 33. Related Party Transactions

In addition to those disclosed above in note 4 to the financial statements, the Group had the following transactions with related parties during the year:

	Notes	2001 HK\$'000	2000 HK\$'000
Interest expense payable to a related company	(a)	378	378
Underwriting commission received			
from an associate	(b)	1,526	–
Reimbursement of expenses from an associate	(c)	6,000	–

Notes:

- (a) During the year ended 31 March 2000, China International Aviation Professional Company Limited, a subsidiary of the Company, obtained additional loans of approximately HK\$96,000 from Wonson Investments Limited (“Wonson”), a company beneficially owned by a director of the Company, Mr. Chiu. As at 31 March 2001, the amount due to Wonson amounted to HK\$4,870,000. The balance due to Wonson is unsecured and bears interest at 12% per annum. Wonson has undertaken not to demand any repayment until 1 April 2002.

- (b) On 2 June 2000, the Group acquired 637,148,000 warrants (equivalent to 34.32% of the total outstanding warrants) of China Online at a price of HK\$0.05 per warrant on the basis of one warrant for every five existing shares held. Furthermore, the Group acquired 890,292,547 additional warrants of China Online on the same date pursuant to an underwriting agreement dated 24 March 2000, which was amended by a supplementary agreement dated 18 April 2000. The total underwriting commission received from China Online was approximately HK\$1,526,000. The underwriting commission was based on 2.5% of the total issue price of the warrants underwritten by the Company.
- (c) During the year, the Company received a reimbursement of expenses of HK\$6,000,000 from China Online. The reimbursement includes salaries of two directors of China Online who are also the directors of the Company, other staff costs and daily operating expenses. The reimbursement is charged based on the actual cost incurred by the Company.
- (d) On 12 April 2000, the Group transferred a 4% equity interest in Golden Cellular Communications, Limited to Hua Xun to settle the amount due to Hua Xun of approximately HK\$5,440,000. The gain arising from the disposal of this investment was approximately HK\$699,000. Further details of the transaction are set out in note 29(e)(ii).
- (e) On 17 September 1999, the Company obtained a secured revolving loan facility of HK\$80 million from an independent financial institution for general working capital purposes. The facility was secured by a floating charge over all of the Company's assets and by a guarantee from Mr. Chiu. A loan of HK\$30 million was drawn down under the loan facility and was subsequently repaid by the Company during the year ended 31 March 2000. The floating charge was released upon full repayment of the loan during the year ended 31 March 2000.
- (f) During the year ended 31 March 2000, Mr. Chiu guaranteed a loan of HK\$15 million advanced to the Group. The loan was fully settled during the year ended 31 March 2000 and the related guarantee was released.
- (g) During the year ended 31 March 2000, a company beneficially owned by Mr. Chiu, Mr. Yeung Yip and Mr. Kwan Kam Hung, Jimmy provided an office space to the Group for its administration operations. A rental expenses of HK\$230,000 was charged on the bases determined between the parties concerned.

In the opinion of the directors of the Company, all the above transactions arose in the ordinary course of the Group's business.

#### **34. Post Balance Sheet Events**

A reduction of share premium account proposal (the “Proposal I”) and a capital reduction proposal (the “Proposal II”) involving, inter alia, the reduction of the nominal value of the Company’s ordinary shares from HK\$0.10 each to HK\$0.01 each have been announced by the Company on 28 May 2001 and the details of which are summarised as follows:

##### Proposal I:

- (a) An amount standing to the credit of the share premium account of the Company of HK\$738,558,000 is proposed to be written off against the accumulated losses of the Company as at 31 March 2001 to the extent of HK\$738,558,000.

##### Proposal II:

- (b) The authorised share capital of the Company is proposed to be reduced from HK\$1,000,000,000 divided into 10,000,000,000 ordinary shares of HK\$0.10 each, to HK\$100,000,000 divided into 10,000,000,000 ordinary shares of HK\$0.01 each, and then increased to HK\$200,000,000 by the creation of 10,000,000,000 new ordinary shares of HK\$0.01 each.
- (c) The issued and fully paid up share capital of the Company is proposed to be reduced from approximately HK\$580,677,000 divided into 5,806,770,004 ordinary shares of HK\$0.10 each to approximately HK\$58,067,700 divided into 5,806,770,004 ordinary shares of HK\$0.01 each.

Particulars of the Proposal I and Proposal II were set out in the Company’s circular dated 18 June 2001. Both Proposals were approved by the shareholders at an extraordinary general meeting held on 11 July 2001. The Proposal I has taken effect on 11 July 2001. Up to the date of approval of these financial statements, the Proposal II is still subject to the approval of the Grand Court of the Cayman Islands and the listing committee of the Stock Exchange.

#### **35. Approval of the Financial Statements**

The financial statements were approved by the board of directors on 17 July 2001.