

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

## 1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its securities are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company. The principal activities of its principal subsidiaries and associates are set out in note 45.

## 2. SIGNIFICANT ACCOUNTING POLICIES

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

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

### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to March 31 each year.

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

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

### **Goodwill**

Goodwill represents the excess of the purchase consideration over the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a subsidiary and is written off to reserves immediately on acquisition or, where appropriate, capitalized and amortized on a straight-line basis over its useful economic life of not exceeding twenty years. Where there is a permanent diminution in the value of goodwill, the unamortized balance is written down immediately through the income statement to its recoverable value. Capital reserve, which represents the excess of the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a subsidiary over the purchase consideration, is credited to reserves.

Any premium or discount arising on the acquisition of an interest in an associate, representing the excess or shortfall respectively of the purchase consideration over the fair value ascribed to the Group's share of the separable net assets of the associate at the date of acquisition, is dealt with in the same manner as that described above for goodwill or capital reserve.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended March 31, 2001

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Goodwill** (continued)

On the disposal of investments in subsidiaries and associates, the attributable amount of unamortized goodwill, or goodwill or capital reserve previously eliminated against or credited to reserves, is included in the determination of the profit or loss on disposal.

#### **Trademark licenses**

Trademark licenses are stated at cost less amortization and provision for permanent diminution in value, if necessary. Amortization is calculated to write off the cost of the trademark licenses over their estimated useful lives, using the straight line method, up to a maximum period of twenty years.

#### **Revenue recognition**

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

Sales of other investments are recognized when the related bought and sold notes are executed.

Internet service and consultancy service income is recognized when services are provided.

Rental income, including rentals invoiced in advance from properties let under operating leases, is recognized on a straight line basis over the period of the respective leases.

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

#### **Property, plant and equipment**

Property, plant and equipment is stated at cost or valuation less depreciation or amortization. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the assets have been put into operation, such as repairs and maintenance and overhaul costs, is charged to the income statement 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 asset, the expenditure is capitalized as an additional cost of the asset.

Advantage has been taken of the transitional relief provided by paragraph 72 of Statement of Standard Accounting Practice 17 "Property, plant and equipment" from the requirement to make regular revaluations of the Group's land and buildings which had been carried at revalued amounts prior to September 30, 1995. Accordingly, no further revaluation of land and buildings will be carried out.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended March 31, 2001

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Property, plant and equipment (continued)

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

Where the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are not discounted to their present values.

Depreciation and amortization are provided to write off the cost or valuation of items of property, plant and equipment over their estimated useful lives, on a straight line basis, at the following rates per annum:

Freehold land	Nil
Leasehold land	Over the period of the leases
Buildings	2.5% – 5%
Plant and machinery	10% – 20%
Moulds	25% – 33%
Furniture, fixtures and equipment	10% – 33%
Motor vehicles	20% – 25%

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

Assets held under hire purchase contracts are depreciated over their estimated useful lives on the same basis as owned assets.

#### Investments in subsidiaries

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or where the Company controls the composition of its board of directors or equivalent governing body.

Investments in subsidiaries are included in the Company's balance sheet at cost, as reduced by any decline in the value of the subsidiary that is other than temporary.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended March 31, 2001

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Interests in associates**

An associate is an enterprise over which the Group is in a position to exercise significant influence, including participation in financial and operating policy decisions.

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

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

#### **Deferred expenditure**

Deferred expenditure represents expenses incurred to obtain shelf spaces in retail shops for specified periods and is charged to the income statement, on a straight line basis, over the shelf space periods.

#### **Investments in securities**

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

Investments other than held-to-maturity debt securities are classified as investment securities or 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 an impairment loss that is other than temporary.

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

#### **Inventories**

Inventories are stated at the lower of cost and net realizable value. Cost, which comprises all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average cost method. Net realizable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and costs to be incurred in marketing, selling and distribution.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended March 31, 2001

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Assets held under finance leases and hire purchase contracts**

A lease is classified as a finance lease when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases or hire purchase contracts are capitalized at their fair values at the date of acquisition. The corresponding liability to the lessor or hirer, net of interest charges, is included in the balance sheet as a finance lease or hire purchase obligation. Finance costs, which represent the difference between the total commitments and the outstanding principal amount at the inception of the finance leases or hire purchase contracts, are charged to the income statement over the period of the relevant leases or contracts so as to produce a constant periodic rate of charge on the remaining balances of the obligations for each accounting period.

#### **Foreign currencies**

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

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

#### **Taxation**

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

#### **Operating leases**

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

#### **Retirement benefits scheme contributions**

The pension cost charged in the income statement represents the contributions payable in respect of the current year to the Group's defined contribution retirement benefits scheme and the mandatory provident fund scheme.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended March 31, 2001

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Cash equivalents

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 of the date of the advances.

### 3. TURNOVER

Turnover represents the net amounts received and receivable for goods sold and securities traded by the Group to outside customers and is summarized as follows:

	2001 HK\$'000	2000 HK\$'000
Sales of goods	3,370,061	2,600,008
Securities trading	225,722	219,990
	<u>3,595,783</u>	<u>2,819,998</u>

### 4. OTHER (EXPENSES) REVENUE

Other (expenses) revenue included the following items:

	2001 HK\$'000	2000 HK\$'000
Unrealized holding (loss) gain on other investments	(179,490)	69,091
Interest income	51,393	58,941
Exchange gain	11,257	-
Internet service income	10,062	8,032
Consultancy service income	5,188	-
Rental income from properties under operating leases *	4,362	5,079
Gain on disposal of property, plant and equipment written off in previous years	-	18,014
	<u>-</u>	<u>18,014</u>

\* There were no significant outgoings relating to rental income during both years.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended March 31, 2001

### 5. (LOSS) PROFIT FROM OPERATIONS

	2001 HK\$'000	2000 HK\$'000
(Loss) profit from operations has been arrived at after charging:		
Staff costs:		
Directors' remuneration (Note 8)	270	390
Salaries and other benefits	127,088	99,390
Retirement benefits scheme contributions	1,250	1,287
	<u>128,608</u>	<u>101,067</u>
Amortization of deferred expenditure	6,022	24,089
Amortization of intangible assets	11,409	11,409
Auditors' remuneration	4,625	4,097
Depreciation and amortization:		
– Owned assets	14,174	9,663
– Assets held under finance leases and hire purchase contracts	2,479	2,503
Exchange loss	–	17,278
Loss on disposal of property, plant and equipment	893	683
Rentals payable under operating leases:		
– Land and buildings	24,604	23,520
– Other assets	560	363
	<u>560</u>	<u>363</u>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended March 31, 2001

### 6. FINANCE COSTS

	2001 HK\$'000	2000 HK\$'000
Interest on borrowings wholly repayable within five years:		
– Bank loans and overdrafts	26,734	21,807
– Convertible note	35,630	8,050
– Finance leases and hire purchase contracts	697	869
– Other loans	48,301	33,061
	<u>111,362</u>	<u>63,787</u>

### 7. NET GAIN ON DISPOSAL OF SUBSIDIARIES AND ASSOCIATES

	2001 HK\$'000	2000 HK\$'000
Gain on partial disposal of shareholding in a subsidiary	233,434	201,665
Gain on deemed partial disposal of shareholding in a subsidiary	6,596	–
Net gain on deemed partial disposal of shareholding in associates	6,099	–
Gain on disposal of associates	688	–
Net loss on disposal of subsidiaries	(28,206)	–
Loss on partial disposal of shareholding in associates	–	(2,100)
	<u>218,611</u>	<u>199,565</u>

### 8. DIRECTORS' REMUNERATION

	2001 HK\$'000	2000 HK\$'000
Directors' fees	–	–
Other emoluments (executive directors)		
Salaries and other benefits	270	390
	<u>270</u>	<u>390</u>

No remuneration was paid during the year to non-executive directors or independent non-executive directors.



## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended March 31, 2001

### 9. EMPLOYEES' EMOLUMENTS

None of the directors are among the five individuals with the highest emoluments in the Group. The emoluments of the five (2000: five) highest paid individuals are as follows:

	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Salaries and other benefits	<b>8,350</b>	5,939
Performance related incentive payments	<b>843</b>	1,324
Retirement benefits scheme contributions	<b>169</b>	199
	<u><b>9,362</b></u>	<u>7,462</u>

Their emoluments are within the following bands:

	<b>Number of employees</b>	
	<b>2001</b>	2000
HK\$1,000,001 to HK\$1,500,000	<b>2</b>	3
HK\$1,500,001 to HK\$2,000,000	<b>1</b>	2
HK\$2,000,001 to HK\$2,500,000	<b>1</b>	–
HK\$2,500,001 to HK\$3,000,000	<b>1</b>	–
	<u><b>5</b></u>	<u>5</u>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended March 31, 2001

### 10. TAXATION

	2001 HK\$'000	2000 HK\$'000
The charge comprises:		
Profits tax provided for the year		
Hong Kong	150	568
Overseas	<u>22,912</u>	<u>1,651</u>
	<u>23,062</u>	<u>2,219</u>
Overprovision in prior years		
Hong Kong	(47)	(65)
Overseas	<u>(144)</u>	<u>-</u>
	<u>(191)</u>	<u>(65)</u>
Share of tax on results of associates	<u>-</u>	<u>920</u>
	<u><u>22,871</u></u>	<u><u>3,074</u></u>

Hong Kong Profits Tax is calculated at 16% of the estimated assessable profit for the year.

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

No provision for Hong Kong Profits Tax or overseas taxation has been made for the year in respect of certain companies of the Group because these companies either incurred tax losses for the year or had their estimated assessable profits for the year wholly absorbed by tax losses brought forward.

Details of unprovided deferred taxation are set out in note 37.

### 11. (LOSS) PROFIT FOR THE YEAR

Included in the Group's (loss) profit for the year is a loss of approximately HK\$637,949,000 (2000: HK\$184,521,000) which has been dealt with in the financial statements of the Company.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended March 31, 2001

### 12. DIVIDENDS

	2001 HK\$'000	2000 HK\$'000
Interim paid: HK0.17 cent (2000: HK0.17 cent) per share	10,719	6,714
Final proposed: HK0.15 cent (2000: HK0.17 cent) per share	<u>9,647</u>	<u>9,886</u>
	<u>20,366</u>	<u>16,600</u>

The amount of the final dividend proposed for the year ended March 31, 2001, which has been calculated by reference to 6,431,180,290 shares (2000: 5,931,173,202 shares, adjusted for the effect of the Company's rights issue as set out in note 27(b)) in issue as at the date of this report, is subject to approval by the shareholders in the forthcoming annual general meeting.

The interim dividend per share for the year ended March 31, 2001 and the interim dividend per share, as adjusted for the subdivision of shares on January 5, 2000, for the year ended March 31, 2000 had been adjusted for the effect of the Company's rights issue in February 2001.

### 13. (LOSS) EARNINGS PER SHARE

The calculation of the basic and diluted (loss) earnings per share for the year is based on the following data:

	2001 HK\$'000	2000 HK\$'000
<b>(Loss) earnings:</b>		
(Loss) profit for the year and (loss) earnings for the purposes of basic and diluted (loss) earnings per share	<u>(252,825)</u>	<u>258,313</u>
	2001	2000
<b>Number of shares:</b>		
Weighted average number of shares for the purposes of basic (loss) earnings per share	4,414,731,882	2,820,487,568
Effect of dilutive potential shares:		
Warrants	N/A	187,034,614
Share options	<u>N/A</u>	<u>68,644,589</u>
Weighted average number of shares for the purposes of diluted (loss) earnings per share	<u>N/A</u>	<u>3,076,166,771</u>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended March 31, 2001

### 13. (LOSS) EARNINGS PER SHARE (continued)

No diluted loss per share has been presented for the year ended March 31, 2001 as the conversion of the Company's outstanding convertible note and the exercise of warrants and share options would result in a decrease in loss per share for the year.

The computation of diluted earnings per share for the year ended March 31, 2000 does not assume the conversion of the Company's outstanding convertible note since its exercise would result in an increase in earnings per share for that year.

The weighted average number of shares for the purposes of basic and diluted (loss) earnings per share for the years ended March 31, 2001 and 2000 has been adjusted for the effect of the Company's rights issue as set out in note 27(b).

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended March 31, 2001

### 14. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings HK\$'000	Plant and machinery HK\$'000	Moulds HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
<b>THE GROUP</b>						
COST OR VALUATION						
At April 1, 2000	36,490	44,189	2,941	59,740	4,677	148,037
Currency realignment	-	(30)	-	(449)	2	(477)
Additions	13,128	-	-	22,417	5,588	41,133
Disposals	-	-	-	(2,695)	(1,058)	(3,753)
<b>At March 31, 2001</b>	<b>49,618</b>	<b>44,159</b>	<b>2,941</b>	<b>79,013</b>	<b>9,209</b>	<b>184,940</b>
Comprising:						
At cost	21,411	44,159	2,941	79,013	9,209	156,733
At valuation - 1994	28,207	-	-	-	-	28,207
	49,618	44,159	2,941	79,013	9,209	184,940
DEPRECIATION AND AMORTIZATION						
At April 1, 2000	5,084	28,054	2,795	28,927	535	65,395
Currency realignment	-	(30)	-	(399)	2	(427)
Provided for the year	1,051	3,607	61	10,166	1,768	16,653
Eliminated on disposals	-	-	-	(1,884)	(344)	(2,228)
<b>At March 31, 2001</b>	<b>6,135</b>	<b>31,631</b>	<b>2,856</b>	<b>36,810</b>	<b>1,961</b>	<b>79,393</b>
NET BOOK VALUES						
<b>At March 31, 2001</b>	<b>43,483</b>	<b>12,528</b>	<b>85</b>	<b>42,203</b>	<b>7,248</b>	<b>105,547</b>
At March 31, 2000	31,406	16,135	146	30,813	4,142	82,642

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended March 31, 2001

### 14. PROPERTY, PLANT AND EQUIPMENT (continued)

The Group's land and buildings comprise:

	2001 HK\$'000	2000 HK\$'000
Outside Hong Kong:		
Under medium-term leases in the People's Republic of China (the "PRC")	27,833	28,761
Freehold in Taiwan	13,085	–
Under a medium-term lease in Macau	2,565	2,645
	<u>43,483</u>	<u>31,406</u>

The valuation of land and buildings in 1994 was made by Messrs. American Appraisal Hong Kong Limited, Chartered Surveyors, on an open market value basis.

Had the revalued land and buildings been carried at cost less accumulated depreciation and amortization, their carrying amount would have been stated at approximately HK\$23,272,000 (2000: HK\$23,977,000).

Included in the net book value of property, plant and equipment are assets held under finance leases and hire purchase contracts amounting to approximately HK\$6,952,000 (2000: HK\$9,016,000).

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended March 31, 2001

### 15. INTANGIBLE ASSETS

	<b>Goodwill</b>	<b>Trademark licenses</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000
	(note a)	(note b)	
<b>THE GROUP</b>			
COST			
At April 1, 2000 and <b>March 31, 2001</b>	<b>153,093</b>	<b>91,318</b>	<b>244,411</b>
AMORTIZATION			
At April 1, 2000	59,575	6,468	66,043
Provided for the year	6,843	4,566	11,409
<b>At March 31, 2001</b>	<b>66,418</b>	<b>11,034</b>	<b>77,452</b>
NET BOOK VALUES			
<b>At March 31, 2001</b>	<b>86,675</b>	<b>80,284</b>	<b>166,959</b>
At March 31, 2000	93,518	84,850	178,368

*Notes:*

- a. The amount represents the goodwill on the acquisition of the businesses of Memtek Products Division of Tandy Corporation and Memorex Computer Supplies in 1993.
- b. The amount represents the acquisition of the "Memorex" trademark licenses from Memorex Telex N.V. in 1999.

In the opinion of the directors, no provision for permanent diminution in the carrying value of goodwill or trademark licenses is considered necessary.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended March 31, 2001

### 16. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2001 HK\$'000	2000 HK\$'000
Unlisted shares	118,373	118,373
Amounts due from subsidiaries	4,282,809	3,686,814
	<b>4,401,182</b>	3,805,187
Provision for impairment	(1,735,149)	(1,224,617)
	<b>2,666,033</b>	2,580,570
Amounts due to subsidiaries	25,622	69,072

The carrying value of the unlisted shares is based on the values of the underlying separable net assets of the subsidiaries when Hanny Magnetics (B.V.I.) Limited ("Hanny BVI") together with its subsidiaries were acquired by the Company.

The balances with subsidiaries are unsecured, interest free and have no fixed terms of repayment. In the opinion of the directors, the amounts will not be repayable within twelve months from the balance sheet date and, accordingly, the amounts are classified as non-current.

Details of the Company's principal subsidiaries at March 31, 2001 are set out in note 45.



## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended March 31, 2001

### 17. INTERESTS IN ASSOCIATES

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Share of net assets (liabilities) of associates which are:		
– listed in Hong Kong	18,696	–
– listed overseas	62,491	–
– unlisted	(5,197)	12,332
	<u>75,990</u>	<u>12,332</u>
Loans to associates	87,195	–
Amounts due from associates	29,749	167,933
	<u>192,934</u>	<u>180,265</u>
Market value of listed shares	<u>422,185</u>	<u>–</u>

Loans to associates are unsecured. Other than an amount of HK\$24,000,000, of which HK\$20,400,000 is repayable in May 2003, which bears interest at prevailing market rates, the remaining amounts are interest free and have no fixed terms of repayment. The amounts due from associates are unsecured, interest free and have no fixed terms of repayment. In the opinion of the directors, the amounts will not be repayable within twelve months from the balance sheet date and, accordingly, the amounts are classified as non-current.

At March 31, 2000, other than an amount of approximately HK\$115,662,000 which was secured by listed securities and bore interest at prevailing market rates, the remaining amounts were unsecured and interest free.

Details of the Group's principal associates at March 31, 2001 are set out in note 45.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended March 31, 2001

### 18. INVESTMENTS IN SECURITIES

	Investment securities		Other investments		Total	
	2001	2000	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>THE GROUP</b>						
Listed securities						
Hong Kong (note a)	691,855	–	213,499	46,667	905,354	46,667
Overseas (note b)	–	–	462,598	519,751	462,598	519,751
Unlisted securities						
Hong Kong	–	–	2,500	1,500	2,500	1,500
Overseas (note c)	538,321	746,521	101,289	27,319	639,610	773,840
	<u>1,230,176</u>	<u>746,521</u>	<u>779,886</u>	<u>595,237</u>	<u>2,010,062</u>	<u>1,341,758</u>
Market value of listed securities	<u>86,875</u>	<u>–</u>	<u>676,097</u>	<u>566,418</u>	<u>762,972</u>	<u>566,418</u>
Carrying amount analysed for reporting purposes as:						
Non-current	1,230,176	746,521	606	19,997	1,230,782	766,518
Current	–	–	779,280	575,240	779,280	575,240
	<u>1,230,176</u>	<u>746,521</u>	<u>779,886</u>	<u>595,237</u>	<u>2,010,062</u>	<u>1,341,758</u>
<b>THE COMPANY</b>						
Listed securities overseas	–	–	22,089	97,188	22,089	97,188
Market value of listed securities	–	–	22,089	97,188	22,089	97,188

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended March 31, 2001

### 18. INVESTMENTS IN SECURITIES (continued)

Notes:

- a. The listed investment securities represents a 17.45% interest in China Strategic Holdings Limited (formerly China Internet Global Alliance Limited) ("CSHL") which is incorporated in Hong Kong and its shares are listed on the Stock Exchange. CSHL and its subsidiaries are principally engaged in the areas of manufacturing, property development and investment, infrastructure, construction and related business, e-commerce and high-technology related business.

Included in listed other investments is a 11.44% interest in EVI Education Asia Limited ("EVI") amounted to approximately HK\$82,368,000. The Group has undertaken that during the first six months following the listing of EVI on the Growth Enterprise Market of the Stock Exchange on March 15, 2001, the Group will not dispose of its interest in the shares of EVI.

- b. The amount includes approximately HK\$160,149,000 (2000: HK\$32,079,000) in respect of securities subject to swap transaction arrangements as described in note 24.

- c. Included in unlisted overseas investment securities is a 16% interest in Indigo Investment Co., Ltd., Solitaire Investment Co., Ltd., Vituoso Investment Co., Ltd. and Ultima Investment Co., Ltd. which are established in Taiwan (the "UPM Group"). The UPM Group is mainly engaged in the cable broadcasting business in Taiwan.

In the opinion of the directors, the investments in unlisted investment securities are worth at least their carrying values.

### 19. DEFERRED EXPENDITURE

	THE GROUP
	HK\$'000
COST	
At April 1, 2000 and <b>March 31, 2001</b>	<b>72,267</b>
AMORTIZATION	
At April 1, 2000	66,245
Provided for the year	6,022
<b>At March 31, 2001</b>	<b>72,267</b>
NET BOOK VALUE	
<b>At March 31, 2001</b>	<b>-</b>
At March 31, 2000	6,022

Deferred expenditure represents the expenses incurred to obtain shelf spaces in certain overseas major retail shops for a period of thirty-six months. The amount is amortized and charged to the income statement over the three year shelf space period.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended March 31, 2001

### 20. OTHER RECEIVABLES – DUE AFTER ONE YEAR

The amounts represent proceeds receivables in respect of the partial disposal of shareholding in a subsidiary during the year. Pursuant to sales and purchase agreements entered into between the Group and the buyers, the considerations are settled by monthly instalments. The part of the receivables which is not repayable within one year is classified as non-current.

### 21. INVENTORIES

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Raw materials	12,329	20,246
Work in progress	2,437	3,898
Finished goods	242,872	371,955
	<u>257,638</u>	<u>396,099</u>

Included above are finished goods of approximately HK\$16,708,000 (2000: HK\$81,416,000) which are carried at net realizable value.

### 22. TRADE AND OTHER RECEIVABLES

Included within trade and other receivables is a trade debtors balance of HK\$496,751,000 (2000: HK\$302,580,000). The Group allows an average credit period of 30 to 60 days to its trade customers.

The following is an aged analysis of trade debtors at March 31, 2001:

	2001	2000
	HK\$'000	HK\$'000
Not yet due	407,505	234,585
Overdue within one month	73,697	37,555
Overdue between one to two months	9,656	9,517
Overdue more than two months	5,893	20,923
	<u>496,751</u>	<u>302,580</u>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended March 31, 2001

### 23. TRADE AND OTHER PAYABLES

Included within trade and other payables is a trade creditors balance of HK\$406,017,000 (2000: HK\$230,928,000).

The following is an aged analysis of trade creditors at March 31, 2001:

	2001 HK\$'000	2000 HK\$'000
Not yet due	307,653	121,653
Overdue within one month	25,997	65,601
Overdue between one to two months	12,593	25,700
Overdue more than two months	59,774	17,974
	<u>406,017</u>	<u>230,928</u>

### 24. BORROWINGS

	THE GROUP		THE COMPANY	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Borrowings comprise:				
Bank loans	334,457	306,737	70,307	66,222
Other loans	625,847	284,341	262,361	197,059
	<u>960,304</u>	<u>591,078</u>	<u>332,668</u>	<u>263,281</u>
Analysed as:				
Secured	638,877	361,935	188,383	154,404
Unsecured	321,427	229,143	144,285	108,877
	<u>960,304</u>	<u>591,078</u>	<u>332,668</u>	<u>263,281</u>
The above amounts are repayable as follows:				
Within one year or on demand	844,211	502,896	225,581	175,099
Between one and two years	215	-	-	-
Between two and five years	115,878	88,182	107,087	88,182
	<u>960,304</u>	<u>591,078</u>	<u>332,668</u>	<u>263,281</u>
Amount due within one year and shown under current liabilities	<u>(844,211)</u>	<u>(502,896)</u>	<u>(225,581)</u>	<u>(175,099)</u>
Amount due after one year	<u>116,093</u>	<u>88,182</u>	<u>107,087</u>	<u>88,182</u>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended March 31, 2001

### 24. BORROWINGS (continued)

Other loans of the Group and of the Company amounting to approximately HK\$107,087,000 (2000: HK\$88,182,000) were granted by financial institutions under swap transaction agreements.

At March 31, 2001, certain investments in listed securities with a carrying value of approximately HK\$160,149,000 (2000: HK\$32,079,000 together with investments in listed securities held by certain associates), were sold subject to a commitment to repurchase by the Group from the financial institutions. The terms of the agreements are such that the risks and rewards of ownership are retained by the Group and, accordingly, they have been accounted for as financing arrangements rather than as a disposal of the underlying shares.

Pursuant to the agreements, the facility amount of the other loans will fluctuate in line with the fluctuations in the market prices of the shares during the period of the agreements.

### 25. CONVERTIBLE NOTE

A convertible note of HK\$555,900,000 was issued on January 11, 2000. The convertible note is unsecured, bears interest at prime rate and is repayable on the second anniversary of the issue date. The noteholder has the rights to convert all or part of the principal amount of the convertible note outstanding into shares in the Company of HK\$0.10 each at an initial conversion price of HK\$5.00 per share, subject to adjustments, within two years of the issue of the convertible note. In January 2000, the conversion price of the convertible note has been adjusted from HK\$5.00 to HK\$1.25 as a result of the subdivision of the Company's shares.

In January 2000, nominal value in aggregate of the convertible note of HK\$170,000,000 was converted into shares in the Company at a conversion price of HK\$1.25 per share, resulting in the issue of 136,000,000 shares of HK\$0.025 each in the Company.

As a result of the Company's rights issue as explained in note 27(b), the conversion price of the convertible note has been adjusted from HK\$1.25 to HK\$1.09 with effect from February 12, 2001 in accordance with the provision of the deed constituting the convertible note.

At March 31, 2001, exercise in full of the outstanding conversion rights of the convertible note of HK\$385,900,000 by the noteholder will, under the share structure of the Company at that date, result in the issue of 354,036,697 new shares of HK\$0.025 each in the Company.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended March 31, 2001

### 26. OBLIGATIONS UNDER FINANCE LEASES AND HIRE PURCHASE CONTRACTS

	<b>THE GROUP</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
The maturity of obligations under finance leases and hire purchase contracts is as follows:		
Within one year	<b>3,187</b>	2,537
Between one and two years	<b>2,888</b>	3,061
Between two and five years	<b>256</b>	3,155
	<b>6,331</b>	8,753
Amount due within one year and shown under current liabilities	<b>(3,187)</b>	(2,537)
Amount due after one year	<b>3,144</b>	6,216

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended March 31, 2001

### 27. SHARE CAPITAL

	Number of shares	Value HK\$'000
Authorized:		
At April 1, 1999 (HK\$0.10 each)	6,500,000,000	650,000
Subdivision of shares of 1 into 4	19,500,000,000	–
	<u>26,000,000,000</u>	<u>650,000</u>
<b>At March 31, 2000 and 2001 (HK\$0.025 each)</b>	<b><u>26,000,000,000</u></b>	<b><u>650,000</u></b>
Issued and fully paid:		
At April 1, 1999 (HK\$0.10 each)	588,564,418	58,856
Exercise of warrants	82,906,463	8,291
Subdivision of shares of 1 into 4	2,014,412,643	–
Issue of shares upon subscriptions	1,058,000,000	26,450
Exercise of warrants	69,019,944	1,725
Exercise of conversion rights of convertible note	136,000,000	3,400
Shares repurchased and cancelled	(79,762,000)	(1,994)
	<u>3,869,141,468</u>	<u>96,728</u>
At March 31, 2000 (HK\$0.025 each)	3,869,141,468	96,728
Issue of shares	333,333,333	8,333
Rights issue of shares	2,143,726,763	53,593
Exercise of share options	106,200,000	2,655
Exercise of warrants	4,726	1
Shares repurchased and cancelled	(21,226,000)	(530)
	<u>6,431,180,290</u>	<u>160,780</u>
<b>At March 31, 2001 (HK\$0.025 each)</b>	<b><u>6,431,180,290</u></b>	<b><u>160,780</u></b>

- (a) On December 1, 2000, the Company issued 333,333,333 new shares of HK\$0.025 each at a price of HK\$0.48 per share as consideration for the acquisition of a 25% equity interest in Gentwin Investment Ltd., which represents an indirect interest of 20% in Asia V-Sat Co. Ltd., from an independent third party. The new shares were issued under the general mandate granted to the directors of the Company at the special general meeting held on March 8, 2000. Details of acquisition are set out in the announcement of the Company dated September 18, 2000.



## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended March 31, 2001

### 27. SHARE CAPITAL (continued)

- (b) Pursuant to a resolution passed at a board of directors' meeting of the Company held on February 26, 2001, 2,143,726,763 new shares of HK\$0.025 each were issued by way of rights issue ("Rights Issue") at an issue price of HK\$0.16 per share to the then existing shareholders, in the proportion of one rights share for every two shares then held. The net proceeds of the Rights Issue of approximately HK\$334 million were used to repay borrowings of the Group and used as general working capital of the Group.
- (c) During the year, 106,200,000 share options were exercised at a subscription price of HK\$0.36 per share, resulting in the issue of 106,200,000 shares of HK\$0.025 each in the Company.
- (d) During the year, 4,726 shares in the Company of HK\$0.025 each were issued upon the exercise of 4,726 warrants at a price of HK\$0.42 per share.
- (e) During the year, the Company repurchased its own shares through the Stock Exchange as follows:

Month of repurchase	Number of shares of HK\$0.025 each	Price		Aggregate consideration paid including expenses HK\$'000
		Highest HK\$	Lowest HK\$	
April 2000	14,434,000	1.00	0.50	11,538
May 2000	1,792,000	0.49	0.48	879
June 2000	5,000,000	0.60	0.57	2,953
	<u>21,226,000</u>			<u>15,370</u>

The above shares were cancelled upon repurchase and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. The premium payable on repurchase was charged against the share premium account.

All the shares issued during the year rank pari passu with the then existing shares in all respects.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended March 31, 2001

### 28. WARRANTS

Pursuant to an ordinary resolution passed at a special general meeting of the Company held on September 26, 2000, a bonus issue of warrants on the basis of one warrant for every five shares of HK\$0.025 each held by shareholders on the register of members of the Company as at September 26, 2000 was approved. A total of 790,823,093 units of warrants with an aggregate subscription amount of HK\$332,145,699 were issued on October 4, 2000. Each of the warrants confers rights to the registered holder to subscribe for one new share of the Company in cash at an initial subscription price of HK\$0.42 per share, subject to adjustment, at any time from the date of issue to April 3, 2002 (both days inclusive).

In February 2001, an adjustment was made to the subscription price of the warrants from HK\$0.42 per share to HK\$0.36 per share in accordance with the terms of the warrants following the Company's rights issue in February 2001 as set out in note 27(b).

At March 31, 2001, the Company had outstanding warrants conferring rights to subscribe for up to HK\$332,143,714 in cash for shares. Exercise in full of these outstanding warrants would, under the share capital structure of the Company as of March 31, 2001, result in the issue of 922,621,428 new shares of HK\$0.025 each in the Company.

Details of the exercise of the Company's warrants during the year are set out in note 27.

### 29. SHARE OPTION SCHEME

Pursuant to the employees' share option scheme adopted on November 28, 1991 and subsequently amended on September 30, 1994, the board of directors of the Company may grant share options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company at a price equal to the higher of the nominal value of the shares and 85% of the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the share options. The maximum number of shares in respect of which share options may be granted under the share option scheme shall not exceed 10% of the issued share capital of the Company from time to time.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended March 31, 2001

### 29. SHARE OPTION SCHEME (continued)

Details of the movements of the share options during the year and the outstanding share options at March 31, 2001 are as follows:

Exercisable period	Exercise price per share prior to the Rights Issue HK\$	Exercise price per share adjusted for the effect of the Rights Issue HK\$	Number of share options				
			Outstanding at 4.1.2000	Exercised during the year	Granted during the year	Adjustment due to the Rights Issue during the year	Outstanding at 3.31.2001
2.21.1994 to 11.27.2001	3.630	2.420	4,151,520	-	-	2,075,760	<b>6,227,280</b>
5.22.1996 to 5.30.2000	0.360	-	106,200,000	(106,200,000)	-	-	-
1.27.2000 to 11.27.2001	1.064	0.709	146,000,000	-	-	73,000,000	<b>219,000,000</b>
8.14.2000 to 11.27.2001	0.402	0.268	-	-	85,000,000	42,500,000	<b>127,500,000</b>

Consideration received by the Company for share options granted during the year was negligible.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended March 31, 2001

### 30. RESERVES

	Share premium HK\$'000	Capital reserve HK\$'000	Contributed surplus HK\$'000	Currency translation reserve HK\$'000	Capital redemption reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
<b>THE GROUP</b>							
At April 1, 1999	39,226	(24,574)	766,064	(5,824)	592	146,691	922,175
Currency realignment	-	-	-	559	-	-	559
Premium arising from issue of shares	1,602,340	-	-	-	-	-	1,602,340
Expenses in connection with the issue of shares	(36,591)	-	-	-	-	-	(36,591)
Repurchase of shares	(83,053)	-	-	-	-	-	(83,053)
Goodwill arising on acquisition of subsidiaries	-	(443,071)	-	-	-	-	(443,071)
Goodwill arising on acquisition of associates	-	(9,360)	-	-	-	-	(9,360)
Goodwill arising on acquisition of additional interests in a subsidiary	-	(556)	-	-	-	-	(556)
Realized on partial disposal of shareholding in a subsidiary	-	8,012	-	-	-	-	8,012
Share of post-acquisition reserve of associates	-	429	-	-	-	-	429
Realized on disposal of an associate	-	-	-	1,153	-	-	1,153
Transfer	-	-	(339,000)	-	-	339,000	-
Profit for the year	-	-	-	-	-	258,313	258,313
Dividends	-	-	-	-	-	(16,600)	(16,600)
	<u>1,521,922</u>	<u>(469,120)</u>	<u>427,064</u>	<u>(4,112)</u>	<u>592</u>	<u>727,404</u>	<u>2,203,750</u>
At March 31, 2000	1,521,922	(469,120)	427,064	(4,112)	592	727,404	2,203,750
Currency realignment	-	-	-	(8,628)	-	-	(8,628)
Premium arising from issue of shares	476,649	-	-	-	-	-	476,649
Expenses in connection with the issue of shares	(8,378)	-	-	-	-	-	(8,378)
Repurchase of shares	(14,840)	-	-	-	-	-	(14,840)
Goodwill arising on acquisition of associates	-	(466,863)	-	-	-	-	(466,863)
Goodwill arising on acquisition of additional interests in a subsidiary	-	(705)	-	-	-	-	(705)
Realized on partial disposal of shareholding in a subsidiary	-	13,008	-	-	-	-	13,008
Realized on deemed disposal of shareholding in a subsidiary	-	14,121	-	-	-	-	14,121
Realized on deemed disposal of shareholding in associates	-	61,759	-	-	-	-	61,759
Realized on disposal of associates	-	4,493	-	-	-	-	4,493
Share of post-acquisition reserves of an associate	-	(2,293)	-	(16)	-	-	(2,309)
Transfer	-	-	(497,000)	-	-	497,000	-
Loss for the year	-	-	-	-	-	(252,825)	(252,825)
Dividends	-	-	-	-	-	(20,366)	(20,366)
	<u>1,975,353</u>	<u>(845,600)</u>	<u>(69,936)</u>	<u>(12,756)</u>	<u>592</u>	<u>951,213</u>	<u>1,998,866</u>
<b>At March 31, 2001</b>	<b>1,975,353</b>	<b>(845,600)</b>	<b>(69,936)</b>	<b>(12,756)</b>	<b>592</b>	<b>951,213</b>	<b>1,998,866</b>
Attributable to:							
The Company and subsidiaries	1,975,353	(843,736)	(69,936)	(12,740)	592	1,042,286	2,091,819
Associates	-	(1,864)	-	(16)	-	(91,073)	(92,953)
	<u>1,975,353</u>	<u>(845,600)</u>	<u>(69,936)</u>	<u>(12,756)</u>	<u>592</u>	<u>951,213</u>	<u>1,998,866</u>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended March 31, 2001

### 30. RESERVES (continued)

	Share premium	Capital reserve	Contributed surplus	Currency translation reserve	Capital redemption reserve	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>THE COMPANY</b>							
At April 1, 1999	39,226	-	836,437	-	592	45,920	922,175
Premium arising from issue of shares	1,602,340	-	-	-	-	-	1,602,340
Expenses in connection with the issue of shares	(36,591)	-	-	-	-	-	(36,591)
Repurchase of shares	(83,053)	-	-	-	-	-	(83,053)
Transfer	-	-	(339,000)	-	-	339,000	-
Loss for the year (note 11)	-	-	-	-	-	(184,521)	(184,521)
Dividends	-	-	-	-	-	(16,600)	(16,600)
	<u>1,521,922</u>	<u>-</u>	<u>497,437</u>	<u>-</u>	<u>592</u>	<u>183,799</u>	<u>2,203,750</u>
At March 31, 2000	1,521,922	-	497,437	-	592	183,799	2,203,750
Premium arising from issue of shares	476,649	-	-	-	-	-	476,649
Expenses in connection with the issue of shares	(8,378)	-	-	-	-	-	(8,378)
Repurchase of shares	(14,840)	-	-	-	-	-	(14,840)
Transfer	-	-	(497,000)	-	-	497,000	-
Loss for the year (note 11)	-	-	-	-	-	(637,949)	(637,949)
Dividends	-	-	-	-	-	(20,366)	(20,366)
	<u>1,975,353</u>	<u>-</u>	<u>437</u>	<u>-</u>	<u>592</u>	<u>22,484</u>	<u>1,998,866</u>
<b>At March 31, 2001</b>	<b>1,975,353</b>	<b>-</b>	<b>437</b>	<b>-</b>	<b>592</b>	<b>22,484</b>	<b>1,998,866</b>

The contributed surplus of the Company represents:

- (i) the difference between the consolidated shareholders' funds of Hanny BVI at the date on which its shares were acquired by the Company, and the nominal amount of the Company's shares issued as consideration for the acquisition;
- (ii) the credit arising from the transfer of the share premium account of the Company as at February 20, 1998 to the contributed surplus account of the Company;

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended March 31, 2001

### 30. RESERVES (continued)

- (iii) the credit arising from the reduction of the nominal value of the shares of the Company from HK\$0.40 each to HK\$0.05 each by the cancellation of HK\$0.35 paid up on each issued share of HK\$0.40 in the Company; and
- (iv) as reduced by an amount of HK\$339,000,000 and HK\$497,000,000 transferred to the deficit account to eliminate the deficit of the Company as at January 31, 2000 and January 31, 2001 respectively.

The contributed surplus of the Group comprises the credit arising from the transfer of the share premium account of the Group as at February 20, 1998 to the contributed surplus account of the Group; the credit arising from the reduction of the nominal value of the shares of the Company from HK\$0.40 each to HK\$0.05 each by the cancellation of HK\$0.35 paid up on each issued share; and as reduced by an amount of HK\$339,000,000 and HK\$497,000,000 transferred to the deficit account to eliminate the deficit of the Company as at January 31, 2000 and January 31, 2001 respectively.

Under the Companies Act of 1981 of Bermuda (as amended), the contributed surplus of the Company is available for distribution to shareholders. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if:

1. it is, or would after the payment be, unable to pay its liabilities as they become due; or
2. the realizable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

In the opinion of the directors, the Company's reserves available for distribution to shareholders were as follows:

	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Contributed surplus	<b>437</b>	497,437
Retained profits	<b>22,484</b>	183,799
	<b>22,921</b>	681,236

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended March 31, 2001

### 31. AMOUNTS DUE TO MINORITY SHAREHOLDERS

The amounts are unsecured, interest free and have no fixed terms of repayment. In the opinion of the directors, the amounts will not be repayable within twelve months from the balance sheet date and, accordingly, the amounts are classified as non-current.

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

	2001 HK\$'000	2000 HK\$'000
(Loss) profit before taxation	<b>(237,589)</b>	269,748
Share of results of associates	<b>30,072</b>	34,386
Interest expense and finance charges	<b>111,362</b>	63,787
Interest income	<b>(51,393)</b>	(58,941)
Gain on partial disposal of shareholding in a subsidiary	<b>(233,434)</b>	(201,665)
Gain on deemed partial disposal of shareholding in a subsidiary	<b>(6,596)</b>	–
Net gain on deemed partial disposal of shareholding in associates	<b>(6,099)</b>	–
Gain on disposal of associates	<b>(688)</b>	–
Net loss on disposal of subsidiaries	<b>28,206</b>	–
Loss on partial disposal of shareholding in associates	–	2,100
Loss on disposal of property, plant and equipment	<b>893</b>	683
Amortization of deferred expenditure	<b>6,022</b>	24,089
Amortization of intangible assets	<b>11,409</b>	11,409
Depreciation and amortization of property, plant and equipment	<b>16,653</b>	12,166
Unrealized holding loss (gain) on other investments	<b>179,490</b>	(69,091)
Impairment loss on investment securities	<b>208,720</b>	–
Provision for slow moving and obsolete inventories	<b>(21,853)</b>	–
Decrease (increase) in inventories	<b>154,433</b>	(88,852)
(Increase) decrease in trade and other receivables	<b>(72,692)</b>	69,210
Increase in other investments	<b>(273,920)</b>	(311,402)
Decrease (increase) in margin loans receivable	<b>61,711</b>	(142,577)
Decrease (increase) in bills receivable	<b>4,606</b>	(2,308)
Increase in trade and other payables	<b>243,499</b>	32,682
(Decrease) increase in margin loans payable	<b>(54,022)</b>	67,458
Increase (decrease) in bills payable	<b>25,859</b>	(39,028)
	<b>124,649</b>	(326,146)
Net cash inflow (outflow) from operating activities	<b>124,649</b>	(326,146)

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended March 31, 2001

### 33. DISPOSAL OF SUBSIDIARIES

	2001 HK\$'000	2000 HK\$'000
NET ASSETS DISPOSED OF		
Investments in securities	15,460	195,944
Interest in an associate	5,031	–
Inventories	403	–
Trade and other receivables	63,905	–
Short term loans receivable	8,093	–
Trade and other payables	(136)	–
Taxation	(3,900)	–
	<u>88,856</u>	<u>195,944</u>
Net loss on disposal of subsidiaries	<u>(28,206)</u>	<u>–</u>
	<u><u>60,650</u></u>	<u><u>195,944</u></u>
SATISFIED BY		
Cash consideration received	60,000	195,944
Consideration receivable	650	–
	<u>60,650</u>	<u>195,944</u>
	<u><u>60,650</u></u>	<u><u>195,944</u></u>

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

	2001 HK\$'000	2000 HK\$'000
Cash consideration received	<u>60,000</u>	<u>195,944</u>

The subsidiaries disposed of during the year did not contribute significantly to the results of the Group. The cash flow contributed or utilized by the subsidiaries disposed of during the year was not significant.



## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended March 31, 2001

### 34. ACQUISITION OF SUBSIDIARIES

	2001 HK\$'000	2000 HK\$'000
NET ASSETS ACQUIRED		
Property, plant and equipment	-	2,391
Interests in associates	-	32,779
Investments in securities	-	80,820
Trade and other receivables	-	5,212
Bank balances and cash	-	887
Trade and other payables	-	(3,647)
Amounts due to minority shareholders	-	(5,613)
	<u>-</u>	<u>112,829</u>
Goodwill arising on acquisition of subsidiaries	-	443,071
	<u>-</u>	<u>555,900</u>
SATISFIED BY		
Convertible note	-	555,900
	<u>-</u>	<u>555,900</u>

Analysis of inflow of cash and cash equivalents in respect of the acquisition of subsidiaries:

	2001 HK\$'000	2000 HK\$'000
Bank balances and cash acquired	-	887
	<u>-</u>	<u>887</u>

The subsidiaries acquired during the year ended March 31, 2000 did not contribute significantly to the result of the Group. The cash flow contributed or utilized by the subsidiaries acquired during the year ended March 31, 2000 was not significant.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended March 31, 2001

### 35. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital and premium HK\$'000	Bank loans with maturity date of more than three months HK\$'000	Other loans with maturity date of more than three months HK\$'000	Obligations under finance leases and hire purchase contracts HK\$'000	Amounts due to minority shareholders HK\$'000	Minority interests HK\$'000
Balance at April 1, 1999	98,082	153,054	329,333	11,221	-	41,744
Proceeds from issue of shares upon subscriptions and exercise of warrants	1,472,206	-	-	-	-	-
Exercise of conversion rights of convertible note	170,000	-	-	-	-	-
Expenses in connection with the issue of shares	(36,591)	-	-	-	-	-
Repurchase of shares	(85,047)	-	-	-	-	-
New loans raised	-	193,047	715,717	-	-	-
Inception of finance leases and hire purchase contracts	-	-	-	237	-	-
Acquisition of additional shareholding in a subsidiary from a minority shareholder	-	-	-	-	-	(638)
Partial disposal of shareholding in a subsidiary to minority shareholders	-	-	-	-	-	45,412
Profit for the year attributable to minority shareholders	-	-	-	-	-	8,361
Acquisition of subsidiaries	-	-	-	-	5,613	-
Amounts advanced by minority shareholders	-	-	-	-	520	-
Currency realignment	-	-	-	-	-	(6)
Repayments during the year	-	(39,364)	(760,709)	(2,705)	-	-
<b>Balance at March 31 2000</b>	<b>1,618,650</b>	<b>306,737</b>	<b>284,341</b>	<b>8,753</b>	<b>6,133</b>	<b>94,873</b>
Proceeds from issue of shares	381,231	-	-	-	-	-
Issue of shares for acquisition of interest in an associate	160,000	-	-	-	-	-
Expenses in connection with the issue of shares	(8,378)	-	-	-	-	-
Repurchase of shares	(15,370)	-	-	-	-	-
New loans raised	-	29,250	483,946	-	-	-
New loans raised for acquisition of investment in securities	-	-	321,760	-	-	-
Inception of finance leases and hire purchase contracts	-	-	-	484	-	-
Capital contributed by minority shareholders	-	-	-	-	-	43,913
Partial disposal of shareholding in a subsidiary to minority shareholders	-	-	-	-	-	69,751
Deemed partial disposal of shareholding in a subsidiary	-	-	-	-	-	(20,717)
Loss for the year attributable to minority shareholders	-	-	-	-	-	(7,635)
Currency realignment	-	1,076	-	-	-	2,438
Repayments during the year	-	(163,747)	(467,710)	(2,906)	(3,462)	-
<b>Balance at March 31, 2001</b>	<b>2,136,133</b>	<b>173,316</b>	<b>622,337</b>	<b>6,331</b>	<b>2,671</b>	<b>182,623</b>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended March 31, 2001

### 36. MAJOR NON-CASH TRANSACTIONS

- (i) During the year, the Group acquired interest in an associate for a consideration of HK\$160,000,000 which was satisfied by the issue of new shares as set out in note 27(a).
- (ii) During the year, the Group acquired other investments of approximately HK\$121,827,000 and HK\$90,928,000 from associates and an independent third party, respectively which were settled by the amounts due from them.
- (iii) During the year ended March 31, 2000, the Group acquired interests in subsidiaries for a consideration of HK\$555,900,000 which was satisfied by the issuance of a convertible note.
- (iv) During the year ended March 31, 2000, nominal value in aggregate of the convertible note of HK\$170,000,000 was converted into shares in the Company at a conversion price of HK\$1.25 per share, resulting in the issue of 136,000,000 shares of HK\$0.025 each in the Company.

### 37. DEFERRED TAXATION

At the balance sheet date, the major components of the potential deferred tax asset (liability) not recognized (provided) are as follows:

	THE GROUP		THE COMPANY	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Tax effect of timing differences attributable to:				
Tax losses	<b>75,178</b>	74,493	<b>8,123</b>	7,140
Excess of depreciation allowances claimed for tax purposes over depreciation charged in the financial statements	<b>(11,164)</b>	(14,393)	—	—
	<b>64,014</b>	60,100	<b>8,123</b>	7,140

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended March 31, 2001

### 37. DEFERRED TAXATION (continued)

The amount of the Group's potential deferred tax credit for the year attributable to trading activities is as follows:

	2001 HK\$'000	2000 HK\$'000
Tax effect of timing differences attributable to:		
Shortfall of depreciation allowances claimed for tax purposes over depreciation charged in the financial statements	3,229	3,489
Tax loss arising	685	2,984
	<u>3,914</u>	<u>6,473</u>

The net potential deferred tax asset attributable to trading activities has not been recognized in the financial statements as it is not certain that the net deferred tax benefit will crystallize in the foreseeable future.

### 38. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Amounts utilized in respect of guarantees given to banks and other financial institutions for facilities granted to:				
subsidiaries	–	–	148,276	102,981
an investee company	12,527	13,869	12,527	13,869
Amounts utilized in respect of guarantees given to banks and other financial institutions for leasing and hire purchase obligations of:				
a subsidiary	–	–	5,870	8,605
an investee company	3,216	6,484	3,216	6,484
	<u>15,743</u>	<u>20,353</u>	<u>169,889</u>	<u>131,939</u>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended March 31, 2001

### 39. CAPITAL COMMITMENTS

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements	<b>776</b>	–

The Company had no significant capital commitments at the balance sheet date.

### 40. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had certain commitments under non-cancellable operating leases. The portion of such commitments which is payable within the next year is as follows:

	2001		2000	
	Land and buildings	Others	Land and buildings	Others
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Operating leases which expire:				
Within one year	<b>2,637</b>	<b>238</b>	3,853	88
In the second to fifth year inclusive	<b>8,996</b>	<b>2,545</b>	10,578	1,827
Over five years	<b>6,591</b>	<b>4</b>	3,382	–
	<b>18,224</b>	<b>2,787</b>	17,813	1,915

The Company had no operating lease commitments at the balance sheet date.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended March 31, 2001

### 41. RETIREMENT BENEFITS SCHEMES

The Group operates a number of defined contribution pension schemes for the employees of certain of its subsidiaries in Hong Kong up to November 30, 2000. Starting from December 1, 2000, the Group is required to participate in the mandatory provident fund scheme implemented by the Hong Kong Government.

The Group's employees who are employed by subsidiaries in the PRC are members of the state-managed pension scheme operated by the PRC government. These subsidiaries are required to contribute a certain percentage of their payroll to the pension scheme to fund the benefits. The only obligation of the Group with respect to this scheme is to make the required contributions under the scheme.

There was no significant forfeited contributions during the year or available balance to offset future contribution at the balance sheet date.

### 42. PLEDGE OF ASSETS

At the balance sheet date, the following assets were pledged by the Group and the Company to secure banking and other financing facilities:

	THE GROUP		THE COMPANY	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Investments in securities	946,733	121,595	–	–
Trade and other receivables	287,993	123,402	841	835
Land and buildings	22,592	10,823	–	–
Inventories	18,000	34,075	–	–
	<u>1,275,318</u>	<u>289,895</u>	<u>841</u>	<u>835</u>

In addition, certain of investments in listed securities of the Group were subject to swap transaction arrangements as described in note 24.

At March 31, 2001, certain of the margin clients' securities with an aggregate market value of approximately HK\$372,254,000 (2000: HK\$262,424,000) were pledged to a bank to secure general banking facilities for a subsidiary.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended March 31, 2001

### 43. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

During the year, the Group had significant transactions with the following related parties, together with balances with them as at the balance sheet date, details of which are as follows:

	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Substantial shareholder and its associates:		
Interest paid and payable by the Group (note a)	<b>55,849</b>	20,356
Loans advanced to the Group during the year (note a)	<b>282,877</b>	602,869
Balances due by the Group at end of the year (note a)	<b>164,385</b>	119,946
Convertible note at end of the year (note b)	<b>385,900</b>	385,900
Acquisition of subsidiaries (note b)	–	555,900
Disposal of a subsidiary (note c)	–	195,944
Interest received by the Group (note c)	–	26,557
Associates:		
Purchase of finished goods (note d)	<b>70,868</b>	25,642
Interest received and receivable by the Group (note a)	<b>2,905</b>	–
Acquisition of investments in securities (note e)	<b>131,582</b>	–
Disposal of investments in securities (note e)	<b>17,499</b>	–
Consulting service fee income (note d)	<b>2,649</b>	–
Loans advanced by the Group during the year (note a)	<b>87,195</b>	–
Trade payable due by the Group at end of the year	<b>128,015</b>	–

Details of balances with associates at the balance sheet date are set out in note 17.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended March 31, 2001

### 43. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (continued)

*Notes:*

- a. The loans advanced to/by and the balances due by/to the Group are unsecured, bear interest at prevailing market rates and repayable in accordance with the respective loan agreements.
- b. On November 9, 1999, the Group entered into an agreement with ITC Corporation Limited ("ITC"), a substantial shareholder of the Company, for the acquisition of the entire interest in Genius Ideas Limited at the consideration of HK\$555,900,000 which was satisfied by the issuance of a convertible note. In January 2000, nominal value in aggregate of the convertible note of HK\$170,000,000 was converted into shares in the Company at a conversion price of HK\$1.25 per share, resulting in the issue of 136,000,000 shares of HK\$0.025 each in the Company.
- c. The transactions were carried out in respect of the exercise of the put options granted by ITC in relation to 60 million shares of HK\$0.10 each in the capital of Hansom Eastern (Holdings) Limited (formerly Tung Fong Hung (Holdings) Limited), details of which are set out in the announcement of the Company dated August 18, 1999.
- d. The transactions were carried out at cost plus a percentage profit mark-up.
- e. The transactions were carried out at market price.

Save as disclosed above, there were no other significant transactions with related parties during the year or significant balances with them at the balance sheet date.



## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended March 31, 2001

### 44. SEGMENT INFORMATION

The Group's turnover and contribution to operating (loss) profit for the year analysed by principal activity and geographical market are as follows:

	Turnover		Contribution to (loss) profit from operations	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
By principal activity:				
Sale of goods	<b>3,370,061</b>	2,600,008	<b>93,412</b>	38,382
Securities trading	<b>225,722</b>	219,990	<b>(185,601)</b>	49,080
	<b><u>3,595,783</u></b>	<b><u>2,819,998</u></b>	<b><u>(92,189)</u></b>	<b><u>87,462</u></b>
Net finance costs			<b>(59,969)</b>	(4,846)
Net corporate (expenses) income			<b>(65,250)</b>	21,953
Impairment loss on investment securities			<b>(208,720)</b>	–
Net gain on disposal of subsidiaries and associates			<b>218,611</b>	199,565
Share of results of associates			<b>(30,072)</b>	(34,386)
			<b><u>(237,589)</u></b>	<b><u>269,748</u></b>
By geographical market:				
North America				
– United States	<b>2,639,655</b>	1,813,155	<b>66,026</b>	88,038
– Canada	<b>293,450</b>	312,746	<b>(13,795)</b>	14,467
South America	<b>12,657</b>	11,754	<b>73</b>	519
Europe				
– United Kingdom	<b>78,298</b>	86,589	<b>(14,830)</b>	(3,064)
– Rest of Europe	<b>236,950</b>	245,628	<b>(33,432)</b>	(7,776)
Africa	<b>26,937</b>	32,289	<b>(726)</b>	(1,143)
Pacific Basin and the PRC	<b>307,836</b>	317,837	<b>(95,505)</b>	(3,579)
	<b><u>3,595,783</u></b>	<b><u>2,819,998</u></b>	<b><u>(92,189)</u></b>	<b><u>87,462</u></b>
Net finance costs			<b>(59,969)</b>	(4,846)
Net corporate (expenses) income			<b>(65,250)</b>	21,953
Impairment loss on investment securities			<b>(208,720)</b>	–
Net gain on disposal of subsidiaries and associates			<b>218,611</b>	199,565
Share of results of associates			<b>(30,072)</b>	(34,386)
			<b><u>(237,589)</u></b>	<b><u>269,748</u></b>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended March 31, 2001

### 45. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES

Details of the Company's principal subsidiaries at March 31, 2001 are as follows:

Name of subsidiary	Place of incorporation or registration/ operation	Issued and fully paid share capital or contributed capital	Proportion of equity interest held by the Company %	Principal activities
CU Resources Limited	Hong Kong	HK\$10,000,000	100	Share margin financing
Cyber Business Network (Singapore) Pte Ltd	Singapore	S\$4,444,445	54	Development of Chinese and bilingual websites and e-business consulting
Genius Ideas Limited	The British Virgin Islands ("B.V.I.")	US\$1	100	Investment holding
Gold Colt Enterprises Limited	B.V.I.	US\$1	100	Investment holding
Hanny International Inc.	The Cayman Islands	US\$1,000	100	Holding of trademarks and licences
Hanny Magnetics (B.V.I.) Limited	B.V.I.	HK\$40,000,000 ordinary shares HK\$8,000,000 preference shares	100 –	Investment holding
Hanny Magnetics Limited	Hong Kong	HK\$200 ordinary shares HK\$6,000,000 5% non-voting deferred shares (note)	100 –	Investment holding and trading in and marketing of computer media products and related peripherals and accessories
Hanny Magnetics (Zhuhai) Limited	PRC	HK\$686,072,148	100	Manufacturing of magnetic media products
Hanny Zhuhai Limited	Hong Kong	HK\$2	100	Trading in and distribution of computer media products and audio and video products

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended March 31, 2001

### 45. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

Name of subsidiary	Place of incorporation or registration/ operation	Issued and fully paid share capital or contributed capital	Proportion of equity interest held by the Company %	Principal activities
Memorex Products Europe Limited	United Kingdom	GBP2	57.18	Trading in and distribution of computer media products and audio and video products
Memtek Canada Limited	Canada	C\$2	57.18	Trading in and distribution of computer media products and audio and video products
Memtek Far East Limited	Hong Kong	HK\$2	57.18	General trading and distribution of computer and electronic related products
Memtek International Inc.	B.V.I./ United States of America ("U.S.A.")	US\$1,000,000	57.18	Investment holding
Memorex Products, Inc. (formerly Memtek Products, Inc.)	U.S.A.	US\$79,001,000	57.18	Trading in and distribution of computer media products and audio and video products
Well Orient Limited	Hong Kong	HK\$2	100	Investment holding

*Note:* The holders of the 5% non-voting deferred shares are not entitled to receive notice of or to attend or vote at any general meeting of the company. The non-voting deferred shares practically carry no rights to dividends or to participate in any distribution on winding up.

The Company directly holds the interest in Hanny Magnetics (B.V.I.) Limited, all other interests above are indirectly held by the Company.

None of the subsidiaries had any loan capital subsisting at the end of the year or at any time during the year.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended March 31, 2001

### 45. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

Details of the Group's principal associates which were all held indirectly by the Company at March 31, 2001 are as follows:

Name of associate	Place of incorporation/ operation	Proportion of equity interest attributable to the Group %	Principal activities
Asia V-Sat Co. Ltd.	B.V.I.	40	Development and provision of satellite broadband network services in the PRC
CU Futures Limited	Hong Kong	40	Dealing and broking in futures contract
CU Securities Limited	Hong Kong	40	Dealing and broking in securities
Ding Ing Technology Co., Limited (formerly Ding Ing Enterprise Co., Limited)	Taiwan	26.17	Marketing of electronic products including CDR, CD-RW, CompactFlash™ memory cards, CD drives, CD writers and other peripherals
STAREASTnet.com Corporation	The Cayman Islands	22.01	Development and operations of a global Chinese web-site offering entertainment and lifestyle information

The above tables list the subsidiaries and associates of the Group which, in the opinion of the directors, principally affected the results of the Group for the year or formed a substantial portion of the net assets of the Group at the end of the year. To give details of other subsidiaries and associates would, in the opinion of the directors, result in particulars of excessive length.