

## **1. CORPORATE INFORMATION**

During the year, the Group was involved in the following principal activities:

- manufacture and sale of paper cartons and packaging boxes
- manufacture and sale of hangtags, labels and shirt paper boards
- manufacture and sale of plastic bags
- commercial printing
- property holding
- provision of Internet on-line games

Pursuant to a conditional agreement entered into between Sega.com, Inc. and the Company on 6 February 2001 (the "Disposal and Share Repurchase Agreement"), the Group decided to discontinue the operation in the provision of Internet on-line games and the discontinuance of which was completed subsequent to the balance sheet date on 7 May 2001. Further details of the Disposal and Share Repurchase Agreement are set out in note 3 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 certain fixed assets and other investments as further explained below.

### **Basis of consolidation**

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

### **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:

- (a) from the sales 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;
- (b) from the rendering of services, when the relevant services are rendered; and
- (c) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)***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 diminutions in values, other than those considered to be temporary in nature, when they are written down to values determined by the directors.

**Jointly-controlled entity**

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

Joint venture arrangements which involve the establishment of a separate entity in which the Group and other parties have an interest are referred to as jointly-controlled entities.

The Group's share of the post acquisition results and reserves of the jointly-controlled entity is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interest in a jointly-controlled entity is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any provision for diminution in value, other than temporary in nature, deemed necessary by the directors.

**Goodwill**

Goodwill arising on the consolidation of subsidiaries represents the excess purchase consideration paid over the fair values ascribed to the net underlying assets acquired at the dates of acquisition and is eliminated against reserves in the year of acquisition. On the disposal of subsidiaries, the relevant portion of attributable goodwill previously eliminated against reserves is realised and accounted for in arriving at the gain or loss on disposal.

**Fixed assets and depreciation**

Fixed assets are stated at cost or valuation 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 the 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.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

**Fixed assets and depreciation** *(continued)*

Changes in the values of fixed assets are dealt with as movements in the asset revaluation reserve. If the reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. A subsequent revaluation increase is recognised as income to the extent that it reverses a revaluation deficit of the same asset previously charged to the profit and loss account.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset over its estimated useful life, on the following bases:

Medium term leasehold land and buildings	
outside Hong Kong	Over the lease terms
Medium term leasehold land in Hong Kong	Over the lease terms
Medium term leasehold buildings in Hong Kong	25 years
Plant and machinery	10 years
Furniture, fixtures and office equipment	5 years
Motor vehicles	4 years

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the sales proceeds and the carrying amount of the relevant asset. On disposal or retirement, the attributable revaluation surplus not previously dealt with in retained profits is transferred directly to retained profits.

**Investment properties**

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated except where the unexpired term of the lease is 20 years or less, in which case depreciation is provided on the carrying amount over the remaining term of the lease, and are stated at their open market values on the basis of annual professional valuations.

Changes in the values of the investment properties are dealt with as movements in the investment properties revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

Upon the disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)***Investment securities**

Investment securities are securities which are intended to be held on a continuing basis or for long term purpose, and are stated at cost less any provisions for impairments in values deemed necessary by the directors, other than those considered to be temporary in nature, on an individual basis.

When such impairments in values have occurred, the carrying amounts of the securities are reduced to their fair values, as estimated by the directors, and the amounts of the impairments are charged to the profit and loss account for the period in which they arise. When the circumstances and events which led to the impairments in values cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amounts of the impairments previously charged are credited to the profit and loss account, to the extent of the amounts previously charged.

Investments in debt securities that the Group has the ability and intention to hold to maturity are classified as held-to-maturity securities and are stated at cost less provisions for any diminutions in values, on an individual investment basis. Provisions are made when the fair values have declined below the carrying amounts unless there is evidence that the decline is temporary. Any reduction in carrying amounts is charged to the profit and loss account.

Investments other than investment securities are classified as other investments and are stated at their fair values on an individual investment basis. The gains or losses arising from changes in their respective fair values are credited or charged to the profit and loss account for the period in which they arise.

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis. The cost of work in progress and finished goods includes direct materials, direct labour and an appropriate proportion of manufacturing overheads based on normal levels of activity. Net realisable value is based on estimated selling prices less further costs expected to be incurred to completion and disposal.

**Deferred tax**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)***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 is 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 are 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.

**Foreign currencies**

Foreign currency transactions are translated 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 the consolidation of overseas subsidiaries, the financial statements 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.

**Provisions for long service payments**

Provisions has been made in the financial statements in respect of long service payments which may become payable in the future under the Employment Ordinance to employees in proportion to their periods of service with the Group up to the balance sheet date. The Group is only liable to make such payments where the termination meets the required circumstances specified in the Employment Ordinance.

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)***Pension scheme**

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Hong Kong Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees who are eligible to participate in the Hong Kong Scheme. The Hong Kong Scheme became effective on 1 December 2000. Contributions are made based on 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 Hong Kong Scheme. The assets of the Hong Kong 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 Hong Kong Scheme, except for the Group's employer 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 Hong Kong Scheme.

Before the Hong Kong Scheme became effective, the Group operated a defined contribution retirement benefits scheme for those employees who were eligible to participate in the scheme. This scheme operated in a similar way to the Hong Kong Scheme except that when an employee left the scheme prior to his/her interest in the Group's employee contributions vesting fully, the ongoing contributions payable by the Group were reduced by the relevant amount of forfeited contributions. This scheme was terminated with effect from 1 December 2000.

**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.

**Trade receivables**

Trade receivables, which generally have credit terms of 30 to 90 days, are recognised and carried at original invoiced amount. An estimate for doubtful debts is made and deducted when collection of the full amount is no longer probable. Bad debts are written off as incurred.

**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. RELATED PARTY AND CONNECTED TRANSACTIONS**

During the year, the Group entered into the following related party transactions, in addition to those disclosed elsewhere in the financial statements.

**(A) Transactions with a jointly-controlled entity**

	<i>Notes</i>	2001 HK\$'000	2000 HK\$'000
Sale of materials	(i)	–	1,516
Subcontracting fees income	(ii)	–	2,332
Guarantee fees income	(iii)	–	467

- (i) The Group sold materials for the printing of books amounting to HK\$1,516,000 for the year ended 31 March 2000. The directors consider that the prices of the materials sold were charged on terms and conditions similar to those offered to other major customers.
- (ii) The Group received subcontracting fees amounting to HK\$2,332,000 for the year ended 31 March 2000 for the provision of printing services. The directors consider that the subcontracting fees were charged on terms and conditions similar to those offered to other major customers.
- (iii) The Group received guarantee fees for the year ended 31 March 2000 on the corporate guarantees executed to certain suppliers and a bank to the extent of HK\$20,000,000 and HK\$15,000,000, respectively. The guarantee fees were calculated at a rate of 5% per annum over the amounts of paper materials actually purchased from certain suppliers and trade facilities actually utilised against the above corporate guarantees. The guarantees were released upon dissolution of the jointly-controlled entity during the year as set out in note 16 to the financial statements.

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### **3. RELATED PARTY AND CONNECTED TRANSACTIONS** *(continued)*

The following related party transactions also constitute connected transactions as defined under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"):

#### **(B) Share Swap Agreement with Sega.com, Inc.**

On 9 February 2000, the Company entered into a conditional agreement (the "Share Swap Agreement") with Sega.com, Inc. ("Sega US"), a company incorporated in Delaware, the United States of America, under which the Company proposed to acquire from Sega US a 6.8% equity interest in the issued share capital in Sega.com PC Networks, Inc. ("Sega.com PC"), a wholly-owned subsidiary of Sega US, for an aggregate consideration of approximately HK\$137,056,000. The consideration was determined based on Sega US and its affiliates' pro forma total investment cost in the Internet on-line computer games business being transferred to Sega.com PC plus a premium, which was arrived at after arm's length negotiation.

The consideration was to be satisfied by the new issue of 160,000,000 ordinary shares of HK\$0.10 each in the Company to Sega US at a price of HK\$0.8566 per share. On 8 April 2000, conditions of the Share Swap Agreement were fulfilled and 160,000,000 ordinary shares of HK\$0.10 each in the Company were issued to Sega US as set out in note 24 to the financial statements. (Further details of the transaction are set out in the circular to the shareholders of the Company dated 2 March 2000.)

#### **(C) Subscription of new shares in the Company by Sega US**

On 5 June 2000, the Company entered into a subscription agreement with Sega US under which the Company agreed to issue and Sega US agreed to subscribe for 16,000,000 new ordinary shares of HK\$0.10 each in the Company at a cash subscription price of HK\$1.36 per share as set out in note 24 to the financial statements. (Further details of the transaction are set out in the circular to the shareholders of the Company dated 16 June 2000.)



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**3. RELATED PARTY AND CONNECTED TRANSACTIONS** *(continued)***(D) Licensing Agreement with Sega US**

On 24 August 2000, Sega.com Asia Networks Limited ("Sega Asia"), a wholly-owned subsidiary of the Company, entered into an agreement ("Licensing Agreement") with Sega US under which Sega US agreed to assist Sega Asia exclusively to set up an Asian-based proprietary network in the Asia Pacific region (including but not limited to Hong Kong, People's Republic of China ("PRC"), Taiwan Republic of China, the Philippines, Singapore, Indonesia, Malaysia, Korea, Vietnam, Myanmar, Laos, Cambodia, Thailand and Papua New Guinea, but excluding Japan, with Australia and New Zealand subject to further negotiation) which can be accessed by using the Dreamcast apparatus, technology and software. Sega US will also provide Sega Asia exclusively with all the necessary licences, intellectual property rights to operate such network. In consideration of the licences and services to be provided by Sega US, Sega Asia agreed to pay an annual fee to Sega US for the first three years from the commencement of the Licensing Agreement at an amount equal to the greater of HK\$25,000 per annum or 3% of subscription fees received from the subscribers to such network. During the year ended 31 March 2001, the Group has not incurred any fee to Sega US in respect of the Licensing Agreement.

Subsequently, as set out in (E) below, Sega Asia was disposed of to Sega US and as a result, the Group ceased to have any interest in the Licensing Agreement.

**(E) Disposal and Share Repurchase Agreement with Sega US**

On 6 February 2001, the Company entered into the Disposal and Share Repurchase Agreement with Sega US, under which the Company has agreed to disposed of (i) 100% equity interest in Sega Asia to Sega US at a consideration of US\$445,000 (equivalent to approximately HK\$3,471,000); and (ii) the 6.8% equity interest in the issued share capital of Sega.com PC as set out in (B) above, at a consideration of HK\$142,794,000, to be satisfied by a cash payment of US\$480,000 (equivalent to approximately HK\$3,744,000) and the transfer by Sega US of 176,000,000 ordinary shares of HK\$0.10 each in the Company, valued at approximately HK\$139,050,000, to the Company. The consideration was determined based on the cost of investment in Sega.com PC of the Group plus all the capitalised expenses incurred by the Company in relation to the Share Swap Agreement. (Further details of the transaction are set out in the circular to the shareholders of the Company dated 3 March 2001.)

Subsequent to the balance sheet date, on 7 May 2001, the conditions to the Disposal and Share Repurchase Agreement were fulfilled. The resulting net gain on disposal of Sega.com PC and Sega Asia was approximately HK\$1,112,000 .

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**4. TURNOVER AND REVENUE**

Turnover represents the invoiced value of goods sold, net of discounts and returns, and services rendered during the year after elimination of all significant intra-group transactions.

An analysis of turnover and revenue is as follows:

	2001	2000
	HK\$'000	HK\$'000
Turnover – sales of goods and services rendered	297,281	295,313
Other revenue:		
Sale of scrap paper materials	4,974	5,406
Interest income	2,786	3,230
Gross and net rental income	962	–
Gain on disposal of fixed assets	–	1,971
Investment income from unlisted held-to-maturity securities	–	166
Dividend income from other investments	15	–
Gain on disposal of a subsidiary	87	–
Others	623	1,558
	9,447	12,331
Total revenue	306,728	307,644

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## 4. TURNOVER AND REVENUE (continued)

The Group's turnover by principal activity and by geographical area disclosed pursuant to the requirements of the Listing Rules is as follows:

	<b>Group</b>	
	2001	2000
	HK\$'000	HK\$'000
<b>(i) By principal activity:</b>		
Continuing operations		
Manufacture and sale of paper cartons and packaging boxes and commercial printing	272,962	252,457
Manufacture and sale of hangtags, labels and shirt paper boards	23,656	39,018
Manufacture and sale of plastic bags	317	3,838
	296,935	295,313
Discontinuing operation		
Provision of Internet on-line games	346	–
	297,281	295,313
<b>(ii) By geographical area:</b>		
Continuing operations		
Hong Kong	292,585	291,344
PRC	4,350	3,969
	296,935	295,313
Discontinuing operation		
Hong Kong	346	–
	297,281	295,313

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**5. PROFIT FROM OPERATING ACTIVITIES**

The Group's profit from operating activities is arrived at after charging/(crediting):

	2001 HK\$'000	2000 HK\$'000
Cost of inventories sold	196,453	206,447
Cost of services rendered	29,818	24,752
Depreciation:		
Owned fixed assets	25,172	23,789
Leased fixed assets	61	472
Operating lease rentals on land and buildings	3,838	996
Auditors' remuneration	750	750
Staff costs (excluding directors' remuneration – note 7):		
Wages and salaries	46,250	41,370
Provision for long service payments	99	1,115
Gross pension fund contributions	991	501
Less: Forfeited contributions	(268)	(286)
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Pension fund expense, net	723	215
Write-off of deferred pre-operating expenses	–	171
Provisions for obsolete and slow-moving inventories	1,796	–
Provisions for doubtful debts	1,823	891
Net unrealised loss on other investments	245	–
Revaluation deficit on leasehold land and buildings	2,319	–
Loss/(gain) on disposal of fixed assets	89	(1,971)
Gross and net rental income	(962)	–
Interest income	(2,786)	(3,230)
Investment income from unlisted held-to-maturity securities	–	(166)
Dividend income from other investments	(15)	–
Gain on disposal of a subsidiary	(87)	–
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## 5. PROFIT FROM OPERATING ACTIVITIES *(continued)*

The Group's profit from operating activities by principal activity and by geographical area disclosed pursuant to the requirements of the Listing Rules is as follows:

	<b>Group</b>	
	2001	2000
	HK\$'000	HK\$'000
<b>(i) By principal activity:</b>		
Continuing operations		
Manufacture and sale of paper cartons and packaging boxes and commercial printing	17,492	22,962
Manufacture and sale of hangtags, labels and shirt paper boards	1,961	4,344
Manufacture and sale of plastic bags	(359)	38
	19,094	27,344
Discontinuing operation		
Provision of Internet on-line games	(17,001)	–
	2,093	27,344
<b>(ii) By geographical area:</b>		
Continuing operations		
Hong Kong	12,741	11,758
PRC	6,353	15,586
	19,094	27,344
Discontinuing operation		
Hong Kong	(17,001)	–
	2,093	27,344

During the year, the Group discontinued its provision for Internet on-line games operation, the principal market of which was located in Hong Kong. The discontinuance was accomplished by the disposal of the Group's 100% equity interest in Sega Asia pursuant to the Disposal and Share Repurchase Agreement as set out in note 3 to the financial statements. The transaction was completed subsequent to the balance sheet date and the resulting gain on disposal of Sega Asia amounted to approximately HK\$2,300,000.

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**6. FINANCE COSTS**

	Group	
	2001	2000
	HK\$'000	HK\$'000
Interest on bank loans and overdrafts		
wholly repayable within five years	1,890	1,991
Interest on finance leases	22	136
	<u>1,912</u>	<u>2,127</u>

**7. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES**

Details of the aggregate directors' remuneration are as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Fees:		
Executive directors	–	–
Independent non-executive directors	240	200
Other emoluments:		
Basic salaries, housing benefits, other allowances and benefits in kind	9,484	4,803
	<u>9,724</u>	<u>5,003</u>

The number of directors whose remuneration fell within the bands set out below is as follows:

	Group	
	2001	2000
	Number of directors	Number of directors
Nil – HK\$1,000,000	7	7
HK\$1,000,001 – HK\$1,500,000	2	1
HK\$1,500,001 – HK\$2,000,000	2	–
HK\$2,000,001 – HK\$2,500,000	1	–

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**7. DIRECTORS' REMUNARATION AND FIVE HIGHEST PAID EMPLOYEES** *(continued)*

In addition to the directors' remuneration above, a total of 6,300,000 share options to subscribe for ordinary shares in the Company were granted to a director of the Company during the year. In the absence of a readily available market value for share options on the ordinary shares of the Company, the directors were unable to arrive at an accurate assessment of the value of these share options. Accordingly, no value has been included in the directors' remuneration in respect thereof. Details of the share options granted to the directors and share options remained outstanding as at 31 March 2001 are set out in the section "Directors' rights to acquire shares" in the Report of the Directors on pages 20 and 21.

There were no arrangements under which a director waived or agreed to waive any remuneration during the year.

During the year, no emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group, or as compensation for loss of office.

The five highest paid employees during the year included five directors (2000: Four), further details of whose remuneration are disclosed above. The remuneration of the remaining highest paid, non-director employee for the year ended 31 March 2000 is analysed as follows:

	<b>Group</b>
	2000
	HK\$'000
Basic salaries, housing benefits, other allowances and benefits in kind	2,051

The number of the remaining highest paid, non-director employees whose remuneration fell within the bands set out below is as follows:

	<b>Group</b>
	2000
	<b>Number of employees</b>
HK\$2,000,001 – HK\$2,500,000	1

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**8. TAX**

	<b>Group</b>	
	<b>2001</b>	<b>2000</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Hong Kong:		
Current year provision	6,588	1,013
Overprovision in prior year	(4)	(29)
Overseas:		
Current year provision	1,356	1,287
Overprovision in prior year	(747)	–
Deferred tax	(8,231)	(299)
Tax charge for the year	<u>(1,038)</u>	<u>1,972</u>

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable outside Hong Kong have been calculated at the rates of tax prevailing in the countries in which the Group operated during the year based on existing legislation, interpretation and practice in respect thereof.

A subsidiary operating in the PRC is exempted from income tax for two years from its first profit making year and is eligible for a 50% relief from income tax for the following three years under the Income Tax Law of the PRC.

Deferred tax is provided under the liability method at the rate of 16% (2000: 16%) on timing differences between taxable profits and profits reported in the financial statements.



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**8. TAX (continued)**

Movements in the deferred tax provision of the Group are as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
At beginning of year	9,940	10,239
Write back for the year	(8,231)	(299)
Disposal of a subsidiary	(973)	–
<b>At balance sheet date</b>	<b>736</b>	<b>9,940</b>

The principal components of the Group's provision for deferred tax and the net deferred tax asset not recognised in the financial statements are as follows:

	Group			
	Provided		Not provided	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Accelerated depreciation allowances	736	9,940	2,351	2,889
Tax losses carried forward	–	–	(4,495)	(6,190)
	<b>736</b>	<b>9,940</b>	<b>(2,144)</b>	<b>(3,301)</b>

No deferred tax asset was recognised at the balance sheet date (2000: Nil) because its realisation cannot be assured beyond reasonable doubt.

The revaluation of the Group's land and buildings and investment properties does not constitute timing differences and, consequently, the amount of potential deferred tax thereon has not been quantified.

There are no significant potential deferred tax liabilities for which provision has not been made.

**9. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS**

The net profit from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is HK\$1,106,000 (2000: HK\$44,111,000).

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**10. DIVIDENDS**

	2001 HK\$'000	2000 HK\$'000
Interim dividend paid		
– Nil (2000: HK1 cent) per ordinary share	–	3,200
Special dividend paid		
– Nil (2000: HK10 cents) per ordinary share	–	32,730
Final dividend proposed		
– HK1 cent (2000: Nil) per ordinary share	3,343	–
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	3,343	35,930
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**11. EARNINGS PER SHARE**

The calculation of basic earnings per share is based on the Group's net profit from ordinary activities attributable to shareholders for the year of HK\$1,428,000 (2000: HK\$23,273,000) and the weighted average of 503,708,219 (2000: 321,217,000) ordinary shares in issue during the year.

The calculation of diluted earnings per share for the year ended 31 March 2001 is based on the Group's net profit from ordinary activities attributable to shareholders for the year of HK\$1,428,000 (2000: HK\$23,273,000). The weighted average number of ordinary shares used in the calculation is 503,708,219 (2000: 321,217,000) ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average of 6,153,304 (2000: 5,271,000) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the year.

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**12. FIXED ASSETS**

Group	Leasehold		Furniture			Total
	land and buildings	Plant and machinery	and fixtures	Office equipment	Motor vehicles	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost or valuation:						
At beginning of year	99,644	173,902	19,033	3,849	5,530	301,958
Additions	4,959	3,707	4,534	5,392	807	19,399
Transfer to investment properties – note 13	(11,800)	–	–	–	–	(11,800)
Revaluation deficit	(7,603)	–	–	–	–	(7,603)
Disposals	–	(950)	(694)	(112)	(157)	(1,913)
Disposal of a subsidiary	–	(9,675)	(1,490)	(277)	(671)	(12,113)
At 31 March 2001	85,200	166,984	21,383	8,852	5,509	287,928
Analysis of cost or valuation:						
At cost	–	166,984	21,383	8,852	5,509	202,728
At valuation	85,200	–	–	–	–	85,200
	85,200	166,984	21,383	8,852	5,509	287,928
Accumulated depreciation:						
At beginning of year	–	52,768	11,071	1,854	4,439	70,132
Provided during the year	2,622	16,509	4,529	1,034	539	25,233
Written back on revaluation	(2,622)	–	–	–	–	(2,622)
Disposals	–	(890)	(694)	(3)	(157)	(1,744)
Disposal of a subsidiary	–	(3,843)	(755)	(131)	(657)	(5,386)
At 31 March 2001	–	64,544	14,151	2,754	4,164	85,613
Net book value:						
At 31 March 2001	85,200	102,440	7,232	6,098	1,345	202,315
At 31 March 2000	99,644	121,134	7,962	1,995	1,091	231,826

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**12. FIXED ASSETS** *(continued)*

Land and buildings comprised:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Medium term leasehold land and buildings in Hong Kong	18,200	38,773
Medium term leasehold land and buildings outside Hong Kong	67,000	60,871
<b>Total valuation</b>	<b>85,200</b>	<b>99,644</b>

At the balance sheet date, the Group's leasehold land and buildings in Hong Kong were carried at their valuations as at 31 January 2001 performed by DTZ Debenham Tie Leung Limited ("DTZ"), an independent firm of professional valuers, using open market, existing use basis, at HK\$18,200,000 (2000: HK\$38,773,000). The resulting revaluation deficits amounted to HK\$7,481,000 (2000: HK\$1,151,000), of which HK\$5,162,000 (2000: HK\$1,151,000) has been recognised in the assets revaluation reserve and HK\$2,319,000 (2000: Nil) has been charged to the profit and loss account.

At the balance sheet date, the Group's leasehold land and buildings outside Hong Kong were carried at their valuations as at 31 January 2001 performed by DTZ, using open market, existing use basis, at HK\$67,000,000. The resulting revaluation surplus amounted to HK\$2,500,000 (2000: Deficit of HK\$6,015,000) is recognised in the asset revaluation reserve. As at 31 March 2000, these portfolio of land and buildings were revalued on a depreciated replacement cost basis by LCH (Asia-Pacific) Surveyors Limited, an independent firm of professional valuers, at HK\$60,871,000.

Had the Group's land and buildings in Hong Kong been valued at cost less accumulated depreciation, the carrying amount, after transfer to investment properties, would have been restated at HK\$18,956,000 (2000: HK\$34,377,000).

Had the Group's land and buildings outside Hong Kong been valued at cost less accumulated depreciation, the carrying amount would have been restated at HK\$44,467,000 (2000: HK\$40,447,000).

At the balance sheet date, certain of the Group's land and buildings amounting to HK\$11,995,000 (2000: HK\$23,000,000) were pledged to secure general banking facilities granted to the Group as further detailed in note 22 to the financial statements.

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## 13. INVESTMENT PROPERTIES

	Group	
	2001	2000
	HK\$'000	HK\$'000
At valuation:		
Transfer from fixed assets – note 12	11,800	–
<hr/>		
At 31 March	11,800	–
<hr/>		

The Group's investment properties were revalued on an open market, income capitalisation basis by DTZ at HK\$11,800,000 as at 31 January 2001. As confirmed by DTZ, the valuation of the Group's investment properties as at 31 March 2001 approximated to that as at 31 January 2001.

All of the Group's investment properties were situated in Hong Kong under medium term leases. Investment properties with a valuation of HK\$5,570,000 were pledged to secure general banking facilities granted to the Group as further detailed in note 22 to the financial statements.

## 14. INTERESTS IN SUBSIDIARIES

	Company	
	2001	2000
	HK\$'000	HK\$'000
Unlisted shares, at cost	116,995	116,995
Due from subsidiaries	108,487	73,775
Due to subsidiaries	(60)	(8,239)
<hr/>		
	225,422	182,531
<hr/>		

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

The turnover and net loss attributable to shareholders contributed by the subsidiary disposed of during the year ended 31 March 2001 were HK\$4,619,000 and HK\$252,000, respectively.

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**14. INTERESTS IN SUBSIDIARIES** *(continued)*

Particulars of the principal subsidiaries are as follows:

Company	Place of incorporation/ establishment and operations	Paid-up capital/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Cheong Ming (BVI) Enterprises Limited	British Virgin Islands	Ordinary HK\$10,000	100%	–	Investment holding
CM Investment Enterprises Limited (Formerly Sega.com Asia Investment Limited)	British Virgin Islands	Ordinary US\$1	100%	–	Investment holding
Sega.com Asia Networks Limited	Hong Kong	Ordinary HK\$2	–	100%	Provision of Internet on-line games
Cheong Ming Properties Limited	Hong Kong	Ordinary HK\$2	–	100%	Property holding
Cheong Ming Press Factory Limited	Hong Kong	Ordinary HK\$1,000 *Non-voting deferred HK\$1,000,000	–	100%	Manufacture and sale of paper cartons and commercial printing
Chun Ming Printing Factory Company Limited	Hong Kong	Ordinary HK\$150,000	–	100%	Manufacture and sale of shirt paper boards, labels and tags
Cheong Ming Paper, Poly Press & Printing Factory Limited	Hong Kong	Ordinary HK\$1,000 *Non-voting deferred HK\$1,000,000	–	100%	Sub-contracting of the manufacture of paper cartons

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**14. INTERESTS IN SUBSIDIARIES** *(continued)*

Company	Place of incorporation/ establishment and operations	Paid-up capital/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Dongguan Cheong Ming Printing Co., Ltd.	PRC	HK\$65,850,000	-	100%	Sub-contracting of the manufacture of paper cartons
Capital Financial Press Limited	Hong Kong	Ordinary HK\$800,000	-	100%	Commercial printing
Capital Translation Services Limited (Formerly Cheong Ming Poly. Press Factory Company Limited)	Hong Kong	Ordinary HK\$500,000	-	100%	Provision of translation services
32 Print.com Limited	Hong Kong	Ordinary HK\$3,750,000	-	68%	Digital Printing
Harvest King Limited	Hong Kong	Ordinary HK\$2	-	100%	Trading of shirt paper boards, labels and hangtags
Lifegene Biotechnology Co. Limited	Hong Kong	Ordinary HK\$2	-	100%	Inactive

- \* The non-voting deferred shares carry no rights to dividends unless the profit available for distribution for the financial year exceeds HK\$100,000,000,000,000, no rights to attend or vote at general meetings except, at a general meeting convened for any resolution which directly affects the rights or privileges of the non-voting deferred shares, and no rights to receive any surplus in a return of capital in a winding-up (other than the amount paid-up on those shares, provided that the holders of the ordinary shares of that company have received, by way of a distribution in such winding-up, a sum of HK\$500,000,000,000,000).

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 all subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

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**15. OTHER INVESTMENTS**

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Long term:				
Unlisted equities outside				
Hong Kong, at fair value	142,794	–	142,794	–
Short term:				
Listed equity securities in Hong Kong,				
at market value	539	–	–	–
Equity-linked bonds in Hong Kong,				
at fair value	2,779	–	–	–
	3,318	–	–	–

Long term unlisted equities outside Hong Kong represents investment cost in the 6.8% equity interest in the issued share capital of Sega.com PC (the "Investment") as a result of the Share Swap Arrangement with Sega US as set out in note 3 to the financial statements. The investment was initially classified as investment securities and was stated at cost on acquisition. Pursuant to the Disposal and Share Repurchase Agreement, the Investment was reclassified as other investments and stated at fair value at the balance sheet date. Subsequent to the balance sheet date, the Investment was disposed of to Sega US and further details of which are set out in note 3 to the financial statements.

Equity-linked bonds are debt securities with the return of which is linked to the share price performance of a Hong Kong listed reference equity.

**16. INTEREST IN A JOINTLY-CONTROLLED ENTITY**

	Group	
	2001	2000
	HK\$'000	HK\$'000
Share of net assets	–	418

The amount due from a jointly-controlled entity was unsecured, interest-free and had no fixed terms of repayment.



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**16. INTEREST IN A JOINTLY-CONTROLLED ENTITY** *(continued)*

During the year, the jointly-controlled entity was dissolved by voluntary winding up under the Companies Act 1981 of the British Virgin Islands. There was no significant gain or loss arising from such dissolution.

Particulars of the jointly-controlled entity were as follows:

Name	Business structure	Place of incorporation and operations	Percentage of			Principal activity
			Ownership interest	Voting power	Profit sharing	
CM Paramount Printing Company Limited	Corporate	British Virgin Islands/ Hong Kong	50	50	50	Printing of books and other printing related business

The above interests was indirectly held by the Company.

**17. INVENTORIES**

	Group	
	2001 HK\$'000	2000 HK\$'000
Raw materials	25,878	25,104
Work in progress	2,200	2,329
Finished goods	763	871
	<b>28,841</b>	<b>28,304</b>

**18. TRADE RECEIVABLES**

The aged analysis of the Group's trade receivables is as follows:

	Group			
	2001		2000	
	Balance HK\$'000	Percentage	Balance HK\$'000	Percentage
Current to 30 days	20,946	42	23,810	42
31 to 60 days	12,584	26	11,870	21
61 to 90 days	4,531	9	11,801	21
Over 90 days	11,174	23	9,507	16
	<b>49,235</b>	<b>100</b>	<b>56,988</b>	<b>100</b>

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**19. CASH AND CASH EQUIVALENTS**

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash and bank balances	26,309	11,607	56	215
Bank deposits	44,568	72,271	–	55,199
	<b>70,877</b>	<b>83,878</b>	<b>56</b>	<b>55,414</b>

**20. TRADE PAYABLES**

The aged analysis of the Group's trade payables is as follows:

	Group			
	2001		2000	
	Balance	Percentage	Balance	Percentage
	HK\$'000		HK\$'000	
Current to 30 days	14,562	53	12,864	39
31 to 60 days	5,001	18	6,816	21
61 to 90 days	4,665	17	8,680	26
Over 90 days	3,259	12	4,672	14
	<b>27,487</b>	<b>100</b>	<b>33,032</b>	<b>100</b>

**21. INTEREST-BEARING BORROWINGS**

	Group	
	2001	2000
	HK\$'000	HK\$'000
Bank overdrafts, secured	693	–
Bank loans, secured	8,600	12,009
Bank loans, unsecured	9,011	17,111
	<b>18,304</b>	<b>29,120</b>
Portion classified as current liabilities	<b>(13,364)</b>	<b>(13,203)</b>
Non-current portion	<b>4,940</b>	<b>15,917</b>

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## 21. INTEREST-BEARING BORROWINGS *(continued)*

	<b>Group</b>	
	2001	2000
	HK\$'000	HK\$'000
Bank loans repayable:		
Within one year	12,671	13,203
In the second year	4,940	10,977
In the third to fifth years, inclusive	–	4,940
	17,611	29,120
Portion classified as current liabilities	(12,671)	(13,203)
Non-current portion	4,940	15,917

## 22. BANKING FACILITIES

At the balance sheet date, the Group's banking facilities were secured by the following:

- (a) Legal charges on certain of the Group's leasehold land and buildings (note 12);
- (b) Legal charges on certain of the Group's investment properties (note 13); and
- (c) Corporate guarantees issued by the Company (note 27).

## 23. FINANCE LEASE PAYABLES

There were commitments under non-cancellable finance leases at the balance sheet date as follows:

	<b>Group</b>	
	2001	2000
	HK\$'000	HK\$'000
Amounts payable:		
Within one year	–	650
In the second year	–	535
In the third to fifth years, inclusive	–	178
Total minimum lease payments	–	1,363
Future finance charges	–	(155)
Total net finance lease payables	–	1,208
Portion classified as current liabilities	–	(548)
Non-current portion	–	660

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**24. SHARE CAPITAL**

	Company	
	2001 HK\$'000	2000 HK\$'000
<b>Shares</b>		
Authorised:		
800,000,000 ordinary shares of HK\$0.10 each	80,000	80,000
Issued and fully paid:		
510,300,000 (2000: 327,300,000) ordinary shares of HK\$0.10 each	51,030	32,730

Details of the movements in the issued share capital of the Company during the year were as follows:

	<i>Notes</i>	HK\$'000	Number of shares
At 1 April 2000		32,730	327,300,000
New shares issued for the acquisition of Sega.com PC	(a)	16,000	160,000,000
New shares issued	(b)	1,600	16,000,000
Share options exercised	(c)	700	7,000,000
At 31 March 2001		51,030	510,300,000

*Notes:*

- (a) On 8 April 2000, 160,000,000 shares were issued at HK\$0.8566 per share to Sega US as consideration for the acquisition of 6.8% equity interest in the issued share capital of Sega.com PC as further detailed in note 3 to the financial statements.
- (b) On 5 June 2000, the Company entered into a subscription agreement with Sega US under which Sega US agreed to subscribe for 16,000,000 ordinary shares of the Company for a consideration of HK\$21,760,000, before the related issue expenses. The subscription was completed on 10 July 2000.
- (c) During the year, 7,000,000 ordinary shares were issued, pursuant to the exercise of share options, for a total consideration of approximately HK\$2,593,000.

**24. SHARE CAPITAL** *(continued)*

The excess of the proceeds over the par value of the share issued was credited to the share premium account.

The details of proposed bonus issue of new ordinary shares subsequent to the balance sheet date are set out in note 30 to the financial statements.

**Share options**

On 27 December 1996, the Company adopted a share option scheme (the "Option Scheme") under which the directors may, at their discretion, make an offer to any employee of the Company or any of its subsidiaries, including directors of the Company or any such subsidiaries, for the grant of options to subscribe for ordinary shares in the Company. The subscription price is the higher of 80% of the average of the closing share price on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for the five trading days immediately preceding the date of the offer of the option and the nominal value of the shares. The maximum number of shares in respect of which options may be granted under the Option 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. The maximum number of shares in respect of which share options may be granted to any one employee shall not exceed 25% of the maximum number of shares in respect of which options may be granted under the Option Scheme. The Option Scheme became effective upon the listing of the Company's shares on 20 January 1997.

The movements in the number of share options to subscribe for ordinary shares in the Company during the year are as follows:

	Number of share options to subscribe for ordinary shares at an exercise price per share of						Total '000
	HK\$0.28 '000	HK\$0.4384 '000	HK\$1.2832 '000	HK\$1.37 '000	HK\$1.756 '000	HK\$3.468 '000	
At beginning of year	9,000	6,000	-	-	-	9,000	24,000
Granted during the year	-	-	1,200	14,500	750	-	16,450
Exercised during the year	(3,000)	(4,000)	-	-	-	-	(7,000)
Lapsed during the year	-	-	(1,200)	(6,000)	(550)	(3,000)	(10,750)
At 31 March 2001	6,000	2,000	-	8,500	200	6,000	22,700

The share options outstanding at 31 March 2001 expire on 26 December 2006. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 22,700,000 (2000: 24,000,000) additional ordinary shares and cash proceeds to the Company are approximately HK\$35,361,000 before the related share issue expenses.

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**25. RESERVES**

	Share premium	Contributed surplus	Asset revaluation reserve	Goodwill reserve	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Group</b>						
At 1 April 1999	35,913	34,080	34,596	(1,408)	161,578	264,759
Exercise of share options	2,014	-	-	-	-	2,014
Revaluation deficit on leasehold land and buildings	-	-	(7,166)	-	-	(7,166)
Net profit for the year	-	-	-	-	23,273	23,273
Dividends for the year	-	-	-	-	(35,930)	(35,930)
At 31 March 2000 and 1 April 2000	37,927	34,080	27,430	(1,408)	148,921	246,950
Issue of new shares for the acquisition of Sega.com PC	121,056	-	-	-	-	121,056
Issue of new shares	20,160	-	-	-	-	20,160
Share issue expenses	(327)	-	-	-	-	(327)
Exercise of share options	1,893	-	-	-	-	1,893
Revaluation deficit on leasehold land and buildings	-	-	(2,662)	-	-	(2,662)
Net profit for the year	-	-	-	-	1,428	1,428
Dividends for the year	-	-	-	-	(3,343)	(3,343)
At 31 March 2001	180,709	34,080	24,768	(1,408)	147,006	385,155
<b>Company</b>						
At 1 April 1999	35,913	116,795	-	-	9,736	162,444
Exercise of share options	2,014	-	-	-	-	2,014
Net profit for the year	-	-	-	-	44,111	44,111
Dividends for the year	-	-	-	-	(35,930)	(35,930)
At 31 March 2000 and 1 April 2000	37,927	116,795	-	-	17,917	172,639
Issue of new shares for the acquisition of Sega.com PC	121,056	-	-	-	-	121,056
Issue of new shares	20,160	-	-	-	-	20,160
Share issue expenses	(327)	-	-	-	-	(327)
Exercise of share options	1,893	-	-	-	-	1,893
Net profit for the year	-	-	-	-	1,106	1,106
Dividends for the year	-	-	-	-	(3,343)	(3,343)
At 31 March 2001	180,709	116,795	-	-	15,680	313,184

## 25. RESERVES (continued)

The contributed surplus of the Group arose as a result of the Group reorganisation carried out on 24 December 1996 and represents the difference between the nominal value of the share capital of the former holding company of the Group acquired pursuant to the Group reorganisation, over the nominal value of the share capital of the Company issued in exchange therefor.

The contributed surplus of the Company arose as a result of the same Group reorganisation scheme and represents the excess 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. In accordance with The Companies Act 1981 of Bermuda (as amended), the Company may make distributions to its members out of the contributed surplus under certain circumstances.

## 26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

### (a) Reconciliation of profit from operating activities to net cash inflow from operating activities

	2001 HK\$'000	2000 HK\$'000
Profit from operating activities	2,093	27,344
Interest income	(2,786)	(3,396)
Gain on disposal of a subsidiary	(87)	–
Dividend income from other investments	(15)	–
Write-off of deferred pre-operating expenses	–	171
Depreciation	25,233	24,261
Loss/(gain) on disposal of fixed assets	89	(1,912)
Net unrealised loss on other investments	245	–
Revaluation deficit on leasehold land and buildings	2,319	–
Provisions for obsolete and slow-moving inventories	1,796	–
Provisions for doubtful debts	1,823	891
Decrease/(increase) in amount due from a jointly-controlled entity	500	(500)
Increase in long term deposits	(481)	–
Increase in inventories	(2,968)	(12,906)
Decrease/(increase) in trade receivables	2,022	(20,149)
Decrease in prepayments, deposits and other receivables	1,922	598
Decrease in bills payable	–	(3,171)
Increase/(decrease) in trade payables	(2,442)	8,657
Increase in accrued liabilities and other payables	4,043	554
Decrease in provisions for long service payments	(1,161)	(21)
<b>Net cash inflow from operating activities</b>	<b>32,145</b>	<b>20,421</b>

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**26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT** *(continued)***(b) Disposals of a subsidiary**

	Group 2001 HK\$'000
Net assets disposed of:	
Fixed assets	6,727
Inventories	635
Trade receivables	3,908
Prepayments, deposits and other receivables	103
Cash and cash equivalents	2,215
Trade payables	(3,103)
Accrued liabilities and other payables	(822)
Tax payable	(380)
Finance lease payables	(1,064)
Provisions for long service payments	(701)
Deferred tax	(973)
	6,545
Costs incurred in respect of the disposal of a subsidiary	25
Gain on disposal of a subsidiary	87
	6,657
	HK\$'000
Represented by:	
Cash consideration	5,074
Other receivables	1,583
	6,657
Analysis of the net outflow of cash and cash equivalents in respect of the disposal of a subsidiary:	
	HK\$'000
Cash consideration received	5,074
Costs incurred in respect of the disposal of a subsidiary	(25)
Cash and bank balances of the disposed subsidiary	(2,215)
	2,834



**26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)**

**(b) Disposals of a subsidiary (continued)**

The subsidiary disposed of during the year ended 31 March 2001 contributed HK\$1,057,000 to the Group's net operating cash inflow, paid HK\$10,000 in respect of net returns on investments and servicing of finance, utilised HK\$18,000 in respect of investing activities and HK\$144,000 for financing activities.

**(c) Analysis of changes in financing during the years**

	Share capital and share premium HK\$'000	Finance lease payables HK\$'000	Bank loans HK\$'000	Minority interests HK\$'000
At 1 April 1999	67,913	750	25,058	-
Net cash inflow/(outflow) from financing activities	2,744	(902)	4,062	-
Inception of a finance lease	-	1,360	-	-
At 31 March 2000 and 1 April 2000	70,657	1,208	29,120	-
Net cash inflow/(outflow) from financing activities	24,026	(144)	(11,509)	1,200
Minority interests' share of loss for the year	-	-	-	(183)
Issue of new share for the acquisition of Sega.com PC	137,056	-	-	-
Disposal of a subsidiary	-	(1,064)	-	-
At 31 March 2001	231,739	-	17,611	1,017

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

- (i) During the year, the Group acquired 6.8% equity interest in the issued share capital of Sega.com PC at a consideration of approximately HK\$137,056,000, which was satisfied by the new issue of 160,000,000 ordinary shares of HK\$0.10 each in the Company to Sega US as further detailed in note 24 to the financial statements.

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**26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT** *(continued)***(d) Major non-cash transactions** *(continued)*

- (ii) For the year ended 31 March 2000, the Group purchased certain fixed assets for an aggregate consideration of HK\$18,200,000 from an independent third party. Out of the total consideration of HK\$18,200,000, an amount of HK\$3,000,000 was satisfied by way of exchange of certain of the Group's fixed assets to the independent third party. The remaining consideration of HK\$15,200,000 was satisfied by the Group by way of a cash payment. In addition, the Group entered into a finance lease arrangement in respect of fixed assets with a total capital value at the inception of the lease of HK\$1,700,000.

**27. CONTINGENT LIABILITIES**

At the balance sheet date, the Company provided corporate guarantees to banks for the provision of general banking facilities to its subsidiaries (note 22) as set out below:

	2001 HK\$'000	2000 HK\$'000
Subsidiaries	69,900	74,019
A jointly-controlled entity	–	35,000
	<b>69,900</b>	<b>109,019</b>

Upon the dissolution of the jointly-controlled entity, the guarantees provided by the Group to certain suppliers and a bank for the daily operations of the jointly-controlled entity were released during the year.

**28. CAPITAL COMMITMENTS**

At the balance sheet date, the Group had contracted capital commitments in respect of purchases of fixed assets amounting to HK\$3,741,000 (2000: HK\$4,713,000).

The Company did not have any significant capital commitments at the balance sheet date.

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**29. OPERATING LEASE COMMITMENTS**

Lease payments committed to be made during the next year under non-cancellable operating leases at the balance sheet date were as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Leases in respect of land and buildings expiring:		
Within one year	–	115
In the second to fifth years, inclusive	4,986	4,261
	<u>4,986</u>	<u>4,376</u>

The Company did not have any significant commitments under non-cancellable operating leases at the balance sheet date.

**30. POST BALANCE SHEET EVENTS**

Subsequent to the balance sheet date, the following significant events took place:

- (i) On 7 May 2001, conditions to the Disposal and Share Repurchase Agreement as set out in note 3 to the financial statements were fulfilled and the Group's entire equity interest in Sega.com PC and Sega Asia was disposed of to Sega US.
- (ii) On 10 July 2001, the Group entered into an agreement ("Note Agreement") with a private company incorporated in Hong Kong, an independent third party, for the subscription of a convertible redeemable note (the "Note") amounted to HK\$24,000,000. The Note is secured, bears interest at a rate of 2% per annum. Interest is payable once every quarter in arrears. The outstanding principal amount of the Note may be converted into the ordinary shares in accordance with the conversion mechanism as stated in the Note Agreement prior to the maturity of the Note. If not converted, the Note will be redeemed by the Group at par as at the maturity date on 11 July 2003.

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### **30. POST BALANCE SHEET EVENTS** *(continued)*

- (iii) On 26 July 2001, the directors proposed to grant a bonus issue of new shares to be distributed to the shareholders whose names appear on the register of members of the Company on 31 August 2001 on the basis of one bonus share for every four ordinary shares of HK\$0.01 each in the issued share capital of the Company held. Based on the issued share capital of the Company as at the date of this report, 83,575,000 new ordinary shares of HK\$0.10 each will be issued as bonus shares. The bonus shares will rank pari passu in all respects with the ordinary shares of the Company in issue on the date of allotment but shall not be entitled to the proposed final dividend for the year ended 31 March 2001.

The bonus issue is conditional upon (i) the approval by the shareholders for the allotment and issue of the bonus shares; and (ii) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the bonus shares. An application will be made to the Listing Committee of the Stock Exchange in respect of such listing.

### **31. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements were approved by the board of directors on 26 July 2001.