

30. COMMITMENTS (continued)

	GROUP	
	2001 HK\$'000	2000 HK\$'000
Commitment for underwriting fee payable for the exclusive right to pre-sell/sell a property development project in the PRC by a subsidiary	<u>—</u>	<u>380,000</u>
Annual commitments payable in the following year under non-cancellable operating leases for land and buildings expiring:		
Within one year	—	2,496
In the second to fifth years, inclusive	2,025	561
Over five years	<u>—</u>	<u>26,330</u>
	<u>2,025</u>	<u>29,387</u>

Save as disclosed above and in note 2 in respect of the Share Repurchases, the Group and the Company did not have further significant commitments as at the balance sheet date.

31. CONTINGENT LIABILITIES

	GROUP		COMPANY	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Guarantees for loan facilities granted to an independent business associate	—	12,000	—	—
Guarantees for banking facilities granted to subsidiaries	—	—	—	137,405
Guarantees for mortgage loans made to purchasers of properties	—	152,030	—	5,585
Guarantee for underwriting fee for the exclusive right to the pre-sell/sell a property development project in the PRC payable by a subsidiary	—	—	—	266,000
Guarantee for refund to purchasers of properties in the PRC by a subsidiary	<u>—</u>	<u>—</u>	<u>—</u>	<u>3,681</u>
	<u>—</u>	<u>164,030</u>	<u>—</u>	<u>412,671</u>

31. CONTINGENT LIABILITIES (continued)

- (a) In a prior year, the Company received a writ of summons from a contractor (the “Plaintiff”), for a sum of HK\$124 million claiming for alleged substandard mechanical and electrical installation work completed by the Plaintiff and the supply of project management services under two head contracts in connection with a property development project in Guangzhou, the PRC. The subject head contracts were entered into between the Plaintiff and Guangzhou Dong-Jun Real Estate Interest Company Limited (“GZ Dong Jun”, a then indirect wholly-owned subsidiary of the Company) but the Plaintiff claimed directly against the Company in reliance on two guarantee letters allegedly given by the Company in favour of the Plaintiff.

The Hong Kong High Court ordered that all proceedings be stayed and the case was passed to Fushan, the PRC, for arbitration as this case was under its jurisdiction. The case was finalised on 30th November, 1999 and the Fushan Arbitration Committee decided that GZ Dong Jun should pay the Plaintiff HK\$12 million together with interest from 30th December, 1999 until payment at the interest rate of 0.04% per day to settle the outstanding construction costs (the “Decision”).

On 31st July, 2000, GZ Dong Jun was disposed of as part of the disposal of the Disposal Group. Pursuant to a deed of indemnity dated 31st July, 2000, Mr. Peng has indemnified the Company for all damages, losses and liabilities arising therefrom.

During the year, GZ Dong Jun appealed to Guangdong Fushan City Intermediate People’s Court (the “Fushan Intermediate Court”) in respect of the Decision, which was rejected by the Fushan Intermediate Court.

On 10th January, 2001, GZ Dong Jun appealed the decision of the Fushan Intermediate Court to Guangdong Province Higher People’s Court (the “GD Higher Court”).

Subsequent to the balance sheet date, on 3rd April, 2001, GZ Dong Jun also filed a separate application to Guangzhou City Intermediate People’s Court (the “GZ Intermediate Court”) to request termination of the execution of the Decision.

Up to the date of the approval of these financial statements, no decisions have been arrived by both GD Higher Court and GZ Intermediate Court.

On 22nd March, 2001, the Plaintiff issued a summons to uplift the stay of proceedings imposed by the Hong Kong High Court. The hearing was scheduled on 27th July, 2001. The Plaintiff and the Company have agreed to adjourn the hearing for the Plaintiff’s summons to a date to be fixed in order to wait for the decision of the GZ Intermediate Court.

Based on advice of the Group’s legal adviser, the Directors are of the opinion that no provision for contingent liabilities is required as the Company has a reasonable chance in defending the Plaintiff’s claim and the contingent liabilities arising therefrom, if any, are indemnified by Mr. Peng in any event.

31. CONTINGENT LIABILITIES (continued)

- (b) During the year, the Group entered into a sale and purchase agreement with an independent third party (the “Purchaser”) for the disposal of the Group’s 100% interest in a subsidiary (the “Property Disposal”) for a total cash consideration of HK\$25 million (subjected to adjustment). Due to a series of legal actions (including injunction actions) taken against the Group, the Property Disposal could not be completed as scheduled and in March 2001, the Purchaser applied to the Hong Kong High Court for the specific performance of the Property Disposal.

Subsequent to the balance sheet date, on 11th May, 2001, to avoid further litigation and possible delays to the Group’s intended disposal of such 100% interest in a subsidiary to an independent third party, the Group entered into a deed of agreement with the Purchaser in relation to the Property Disposal. Pursuant to the deed, the Group agreed to pay HK\$15 million to the Purchaser as compensation for losses incurred in connection with the Property Disposal. The amount was paid in May 2001 and a full provision of HK\$15 million has been made for the year ended 31st March, 2001.

- (c) In February 2001, China United Holdings Limited (“China United”, one of the Company’s substantial shareholders as at 31st March, 2001) filed a writ against the Company, certain subsidiaries of the Company (the “Subsidiaries”), the Purchaser, and, certain existing and ex-Directors of the Company, in connection with the Property Disposal and placements of 3,421,200,000 shares of the Company to third parties during the year. It was alleged that the share placement was in breach of the Directors’ fiduciary duties to the Company and the Property Disposal was unlawful. Subsequent to the balance sheet date, on 28th June, 2001, the legal adviser of China United informed the Group that China United is prepared to discontinue the legal action against the Subsidiaries.

The Directors are of the opinion, based on advice from the Group’s legal adviser, China United’s claim is a derivative action and the Company is only a necessary party to the claim, and no provision for contingent liabilities is required in respect of this action.

- (d) In August 2000, the Group entered into a sale and purchase agreement (the “S&P Agreement”) with two wholly-owned subsidiaries of China United (collectively the “Vendors”) for the acquisition of the entire issued share capital and shareholder’s loan of East Champion Limited (“East Champion”) for a total cash consideration of HK\$99 million (the “Acquisition”). An initial purchase deposit of HK\$33 million (the “Deposit”) was paid to the Vendors during the year.

East Champion is a property holding company, which owns the basement of China United Centre in Hong Kong. The completion of the Acquisition did not take place because in the opinion of the Directors, the Vendors failed to satisfy certain conditions precedent on or before 5th February, 2001. The Group filed a writ against the Vendors on 6th February, 2001, claiming against Vendors for the breach of the S&P Agreement and demanding the refund of the Deposit. According to the reply from the lawyer of the Vendors, it was averred that the Vendors are entitled to the forfeiture of the Deposit and sue for damages or the Vendors could demand for specific performance by the Group.

Based on advice of the Group’s legal adviser, the Group is prepared to settle this matter with the Vendors. As at the date of the approval of these financial statements, no agreement has been entered into between the Group and the Vendors. The Directors are of the opinion, based on advice from the Group’s legal adviser, that a provision of HK\$36.5 million has been made for the year ended 31st March, 2001.

- (e) Pursuant to the shareholders’ agreements of certain other investments, the Group has agreed to provide corporate guarantees to secure certain investees’ borrowing facilities as and when required. As at 31st March, 2001 and the date of the approval of these financial statements, no borrowings have been drawn by the respective investees.

32. RELATED PARTY TRANSACTIONS

In addition to the balances detailed in notes 21, 24 and 25 to the financial statements, particulars of the Group's material related party transactions during the year as follows:

- (i) On 18th January, 2000, the Company entered into a conditional sale and purchase agreement (the "Disposal Agreement") with Mr. Peng for the disposal of the Disposal Group to Mr. Peng for a cash consideration of HK\$9.8 million and non-cash consideration of HK\$5.4 million, which was conditional upon inter alia the transfer of titles of certain properties in the PRC (which was valued at HK\$5.4 million) to the Company or its nominee(s) at RMB1.

Details of the Disposal Agreement, as further amended by a supplemental agreement and a second supplemental agreement dated 29th March, 2000 and 5th July, 2000, respectively, are set out in a circular of the Company dated 26th February, 2000 and in announcements of the Company dated 18th January, 2000, 31st March, 2000 and 5th July, 2000. Pursuant to a completion memorandum entered into between the Company and Mr. Peng dated 31st July, 2000 and as set out in an announcement of the Company dated 31st July, 2000, the completion of the Disposal occurred on 31st July, 2000. The financial effects of this transaction are set out in note 28(c) to the financial statements.

- (ii) The share exchanges with vLink and the loans granted by the Financial Creditor as set out in note 2 to the financial statements.
- (iii) During the year, Mr. Wong granted a short-term loan of HK\$10,000,000 to the Group. The loan was unsecured, bore interest at Hong Kong dollar prime rate plus 2.5% per annum and was repaid during the year. The related interest expense amounted to HK\$121,000 for the current year (2000: Nil).
- (iv) During the year, 4,319,986,000 new ordinary shares of HK\$0.01 each were allotted and issued to two vendors at HK\$0.0175 per share for the acquisition of a 22% equity interest in PiLink (note 26(d)). Two vendors are beneficially owned as to 100% and 49% by Mr. Wong. The purchase consideration was determined with reference to a valuation report prepared by an independent professional valuer. Immediately after the completion of the above transaction, Mr. Wong continued to maintain an effective interest of approximately 25.49% in PiLink. Further details of the transaction are set out in the shareholders' circular of the Company dated 19th October, 2000.
- (v) Interest income from an associate of the Group of HK\$19,625,000 (2000: HK\$13,822,000) in respect of certain loans to the associate. Details of the loans to the associate at the balance sheet date are included in note 15 to the financial statements.