

1. GENERAL

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

The shares of Seapower Resources International Limited ("SRI"), the principal associate of the Company as at 31st March, 2001, are also listed on the Stock Exchange. SRI together with its subsidiaries is hereinafter referred to as the "SRI Group".

The Company is an investment holding company. The Group is principally engaged in investment holding, property holding and hire of motor vehicles.

The Group's subsidiaries which were engaged in printing, reprographic and public related services and related income and sales of periodicals and books were disposed of during the year ended 31st March, 2000. Accordingly, the activity of printing, reprographic and public related services and related income and sales of periodicals and books was classified as discontinued operations for the year ended 31st March, 2000. Details of which are set out in note 9.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

In preparing the financial statements, the Directors have given careful consideration to the future liquidity of the Group in the light of the Group's net liabilities of approximately HK\$286 million.

- (a) As explained in note 39(a), in December 1998 the Company entered into an agreement (the "Agreement") with China Merchants Bank ("CMB") and with certain third parties (the "Third Parties"). Under the terms of the Agreement, a loan from CMB amounting to approximately HK\$176 million was to be assumed by the Group in consideration for the acquisition of an investment property and a property development project from parties associated with the Third Parties. The Directors have objected to the validity of the Agreement and the Group has withheld payments of principal and interest in the sum of approximately HK\$410 million up to March 31, 2001 (including the principal and interest of a loan under a separate loan agreement). In response, CMB filed a writ of summons against the Group, claiming immediate repayment of all amounts due from the Group including interest and costs as stated in the Agreement and a separate loan agreement. The Directors believe that there are good reasons to challenge the validity of the Agreement. The Company did not admit the claims brought by CMB and filed a counterclaim against CMB and the Third Parties. CMB and the Third Parties subsequently filed replies objecting to the counterclaim. In addition, as explained in note 21, CMB has been granted an injunction restricting, among other things, the Group from dealing with the balance of approximately HK\$6 million arising from disposal of a property after deducting the mortgage outstanding and related expenses. However, in a separate hearing, it was determined by the High Court of the Hong Kong Special Administrative Region (the "High Court") that the Group has an arguable defense for the case and gave unconditional leave to the Group to defend overriding a request from CMB for summary judgment. The Company is seeking legal advice on further appropriate course of action. However, although the Company intends to contest the case strongly and to pursue its counterclaim vigorously, the outcome of this matter cannot be determined with reasonable certainty at this time. Accordingly, no restatements have been made in the financial statements.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (continued)

(a) (continued)

Also, as explained in note 39(b), a writ of summons was issued by Peregrine Brokerage Limited ("Peregrine") against a subsidiary of the Company, demanding immediate repayment of the sum of approximately HK\$109 million and interest thereon, being the amount due and payable under margin facilities granted to the subsidiary without any corporate guarantee from the Group. The Company is currently discussing with its legal advisers as to the appropriate course of action to be taken.

(b) All the Group's principal borrowings, including those with CMB and Peregrine referred to and subject to in (a) above, have become due (or allegedly due) for repayment. Against this background, the Directors are in the process of exploring with the Group's bankers and other lenders (together the "Financial Institutions") ways to restructure the Group's borrowings. As mentioned in note 41(c), it is the intention of the Group to dispose certain assets (the "Disposals") and apply the proceeds from the Disposals to reduce the amounts due to secured lenders, to acquire certain assets and to provide general working capital for the Group.

Provided that the Financial Institutions, including CMB and Peregrine, continue to support the Group until such time as agreement can be reached for the restructuring of the Group's borrowings, and provided that there are no significant cash outflows arising from the proceedings in the litigation with CMB, the Directors consider that after taking into account the anticipated proceeds from the Disposals, the Group will have sufficient financial resources to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the financial statements are prepared on a going concern basis.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of investment properties, land and buildings and certain investment 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 31st March each year.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill and capital reserve

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 eliminated against reserves immediately on acquisition. 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 an associate at the date of acquisition, is dealt with in the same manner as that described above for goodwill or capital reserve.

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

During the year ended 31st March, 2000, the Group disposed of Paramount Publishing Group Limited ("Paramount") (now known as Next Media Limited) and the Group had been unable to obtain certain financial information relating to the cash flows and details financial disclosures of Paramount for that year. The Group had prepared the comparative figures to the financial statements by using the unaudited information of Paramount. The Directors considered that, having regard to the practical difficulties involved, such basis of preparation did not have a material impact on the overall presentation of the comparative figures of the financial statements of the Group.

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 impairment loss recognised.

Investments 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 of the investee.

The consolidated income statement includes the Group's share of post-acquisition results of the associates for the year and the consolidated balance sheet includes the Group's share of net assets of the associates.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates (continued)

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

Revenue recognition

Rental income under operating leases is recognised on a straight line basis over the terms of the respective leases.

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

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

Income from the provision of printing and reprographic services and public relations services was recognised when services were rendered.

Advertising income was brought into account on the publication date.

Sales of goods, including periodicals and books, were recognised when goods were delivered and title had passed.

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market values based on independent professional valuations at each balance sheet date. No depreciation or amortisation is provided for investment properties with an unexpired term, including the renewable period, of more than twenty years.

Any surplus or deficit arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance of this reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance of the investment property revaluation reserve is charged to the consolidated income statement. Where a deficit has previously been charged to the consolidated income statement and a revaluation surplus subsequently arises, this surplus is credited to the deficit to the extent of the deficit previously charged.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)**Investment properties** (continued)

On the subsequent disposal of investment properties, the balance on the investment property revaluation reserve attributable to the disposed properties is transferred to the consolidated income statement.

Property, plant and equipment

Property, plant and equipment are stated at cost or valuation less depreciation and amortisation. 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 asset has been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the consolidated 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 capitalised as an additional cost of the asset.

The gain or loss arising from 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 recognised in the consolidated 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.

Land and buildings are stated in the balance sheet at their revalued amount, being the fair value on the basis of their existing use at the date of revaluation less any subsequent accumulated depreciation and amortisation. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any surplus arising on revaluation of property, plant and equipment is credited to the asset revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case this surplus is credited to the consolidated income statement to the extent of the deficit previously charged. A decrease in the net carrying amount arising on revaluation of such assets is charged to the consolidated income statement to the extent that it exceeds the surplus, if any, on the asset revaluation reserve relating to previous revaluation of that particular asset. On the subsequent disposal of such asset, the attributable revaluation surplus not yet transferred to deficit in prior years is transferred to deficit.

Notes to the Financial Statements (continued)

For the year ended 31st March, 2001

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Depreciation and amortisation are provided to write off the cost or valuation of assets over their estimated useful lives, using the straight line method, at the following rates per annum:

Industrial property:	
Leasehold land	Over the terms of the relevant leases
Buildings	2% to 2.5%
Other land and buildings:	
Leasehold land	Over the terms of the relevant leases
Buildings	Over the shorter of the terms of the relevant leases or 50 years
Furniture, machinery and equipment	4% to 25%
Motor vehicles	20% to 25%

Freehold land is not amortised.

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

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

Properties held for sales

Properties held for sales are stated at the lower of cost and net realisable value. Cost comprises land cost, construction cost and other direct costs that have been incurred in bringing these properties to their present location and conditions. Net realisable value is determined by reference to estimated selling price based on prevailing market conditions, less all related costs of marketing and selling.

Investments in securities

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)**Investments in securities** (continued)

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

Assets held under finance leases and hire purchase contracts

Assets are classified as being held under finance leases whenever the terms of the leases transfer substantially all the risks and rewards of ownership to the Group. Assets held under finance leases and hire purchase contracts are capitalised at their fair value at the date of acquisition. The corresponding liability to the lessor and hirer, net of interest charges, is included in the consolidated balance sheet as obligations under finance leases and hire purchase contracts. 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 consolidated income statement over the periods of the respective leases or contracts so as to produce a constant periodic rate of charge on the remaining balances of the obligations for each accounting period.

All other leases are classified as operating leases and the rentals payable are charged to the consolidated income statement on a straight line basis over the terms of the respective leases.

Taxation

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

Retirement benefit scheme

The amount of the contributions payable in respect of the current year to the Group's defined contribution retirement benefit scheme is charged to the consolidated income statement.

Certain of the Group's employees have been enrolled in a Mandatory Provident Fund ("MPF") scheme. The contributions payable in respect of the current year to the fund are charged as an expense as they fall due.

Foreign currencies

Transactions in currencies other than Hong Kong dollars are translated into Hong Kong dollars at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in currencies other than Hong Kong dollars 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 consolidated income statement.

Notes to the Financial Statements (continued)

For the year ended 31st March, 2001

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

In preparing consolidated financial statements, the financial statements of overseas operations are translated into Hong Kong dollars at the rates ruling on the balance sheet date. All exchange differences arising on translation are dealt with in reserves.

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 from the date of the advances.

4. SEGMENTAL INFORMATION

The Group's turnover and contribution to results from operations for the year ended 31st March, 2001, analysed by principal activity and geographical location are as follows:

	Turnover		Contribution to results from operations	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
By principal activity:				
Continuing operations:				
Hire of motor vehicles	5,580	6,625	1,977	1,800
Investment holding	–	138	–	120
	<u>5,580</u>	<u>6,763</u>	<u>1,977</u>	<u>1,920</u>
Discontinued operations:				
Printing, reprographic and public related services and related income and sales of periodicals and books	–	44,735	–	9,264
	<u>5,580</u>	<u>51,498</u>	<u>1,977</u>	<u>11,184</u>
Unallocated corporate items:				
Other revenue			9,617	70,429
Selling and administrative expenses			(17,349)	(40,795)
Other operating expenses			(92,839)	(221,318)
Loss from operations			<u>(98,594)</u>	<u>(180,500)</u>

4. SEGMENTAL INFORMATION (continued)

	Turnover		Contribution to results from operations	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
By geographical location:				
Continuing operations:				
Hong Kong	5,580	6,763	1,977	1,920
Discontinued operations:				
Hong Kong	-	21,225	-	4,396
North America	-	13,962	-	2,891
Australia	-	6,064	-	1,256
Europe	-	3,484	-	721
	-	44,735	-	9,264
	5,580	51,498	1,977	11,184

Note: Details of the discontinued operations are set out in note 9.

5. OTHER REVENUE

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Other revenue includes the following items:		
Surplus arising on revaluation of investment properties	1,492	7,900
Interest income from SRI	263	83
Other interest income	249	492
Net realised and unrealised holding gain on other investments	-	47,913
Surplus arising on revaluation of industrial property	-	1,426
Surplus arising on revaluation of other land and buildings	-	391
	1,977	11,184

Notes to the Financial Statements (continued)

For the year ended 31st March, 2001

6. OTHER OPERATING EXPENSES

	2001 HK\$'000	2000 HK\$'000
Other operating expenses comprise:		
Net realised and unrealised holding loss on other investments	90,855	–
Provision for bad and doubtful debts	1,435	582
Provision for properties held for sales	530	–
Deficit arising on revaluation of land and buildings	19	–
Provision for impairment in value of property, plant and equipment	–	7,683
Provision for long-term deposits	–	213,053
	<hr/> 92,839 <hr/>	<hr/> 221,318 <hr/>

7. LOSS FROM OPERATIONS

	2001 HK\$'000	2000 HK\$'000
Loss from operations has been arrived at after charging:		
Directors' emoluments	1,792	5,504
Retirement benefit scheme contributions, net of forfeited contributions of approximately HK\$142,000 (2000: HK\$218,000) and MPF contributions	(3)	183
Other staff costs	6,031	27,461
Total staff costs	7,820	33,148
Auditors' remuneration:		
Current year	700	650
Overprovision in prior years	(100)	(612)
Depreciation and amortisation:		
Owned assets	2,831	5,461
Assets held under finance leases and hire purchase contracts	511	1,126
Loss on disposals of an investment property	–	373
Loss on disposals of property, plant and equipment	–	8,827
Rental payment for premises under operating leases	290	415
and after crediting:		
Gain on disposal of investment properties	962	–
Gain on disposal of property, plant and equipment	478	–
Management fees receivable from:		
SRI Group	2,336	4,652
Others	–	164
Rental income received and receivable under operating leases in respect of:		
Premises from outsiders, net of outgoings of approximately HK\$337,000 (2000: HK\$348,000)	823	1,355
Motor vehicles from outsiders	5,508	6,625
Motor vehicles from SRI Group	72	–
Premises from SRI Group	1,787	2,400
Other assets from SRI Group	354	885

Notes to the Financial Statements (continued)

For the year ended 31st March, 2001

8. FINANCE COSTS

	2001	2000
	HK\$'000	HK\$'000
Interest payable on:		
Bank and other borrowings wholly repayable within five years	68,952	79,304
Amount due to SRI Group	396	3,076
Obligations under finance leases and hire purchase contracts	82	612
Convertible notes payable to SRI Group	–	2,536
Convertible notes payable to an outsider	–	891
	69,430	86,419

9. DISCONTINUED OPERATIONS

During the year ended 31st March, 2000, the Group disposed of Next Media Limited ("Next Media") which engaged in printing, reprographic and public relations services and related income and sales of periodicals and books. The effective date of discontinuance for accounting purpose was in October 1999.

A profit of approximately HK\$324,787,000 arose on the deemed disposal of Next Media, in which HK\$32,343,000 arose as the shareholding decreased to less than 50% and a further HK\$292,444,000 arose when the shareholding decreased to less than 20%, recognised during the year ended 31st March, 2000.

The results of the operations of Next Media, which have been included in the consolidated income statement for the year ended 31st March 2000, were as follows:

	<i>HK\$'000</i>
Turnover	44,735
Operating costs	(49,423)
Finance costs	(13,081)
Share of results of associates	(7,995)
Loss before taxation	(25,764)
Taxation	–
Loss after taxation	(25,764)
Minority interests	520
	<u>(26,284)</u>

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Particulars of the emoluments of the Directors and the five highest paid employees are as follows:

(a) Directors' emoluments

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Fees:		
Executive Directors	48	45
Non-executive Director	12	–
Independent Non-executive Directors	17	24
	<u>77</u>	<u>69</u>
Other emoluments:		
Salaries and other benefits		
Executive Directors	560	5,435
Non-executive Director	1,155	–
	<u>1,715</u>	<u>5,435</u>
	<u>1,792</u>	<u>5,504</u>

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The emoluments of the Directors are within the following bands:

	Number of Directors	
	2001	2000
Nil to HK\$1,000,000	7	7
HK\$1,000,001 to HK\$1,500,000	1	–
HK\$5,000,001 to HK\$5,500,000	–	1
	<u>8</u>	<u>8</u>

Notes to the Financial Statements (continued)

For the year ended 31st March, 2001

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

(b) Employees' emoluments

The five highest paid individuals of the Group include two Directors (2000: one Director), details of whose emoluments are set out above. The emoluments of the remaining three (2000: four) individuals are as follows:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Salaries and other benefits	882	4,001
Retirement benefit scheme and MPF Scheme contributions	54	95
	936	4,096

The emoluments of the employees are within the following bands:

	Number of employees	
	2001	2000
Nil to HK\$1,000,000	3	3
HK\$2,000,001 to HK\$2,500,000	–	1

During the years ended 31st March, 2001 and 2000, no emoluments were paid by the Group to the five highest paid individuals, including Directors, as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, during the years ended 31st March, 2001 and 2000, no Directors waived any emoluments.

11. TAXATION (CREDIT) CHARGE

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
The (credit) charge comprises:		
Hong Kong Profits Tax		
Current year	58	–
Underprovision in prior years	1	9
Taxation attributable to the Company and its subsidiaries	59	9
Share of taxation on results of associates	(148)	41
	(89)	50

11. TAXATION (CREDIT) CHARGE (continued)

Hong Kong Profits Tax is calculated at the rate of 16% on the estimated assessable profits derived from Hong Kong for the year ended 31st March, 2001.

No provision for Hong Kong Profits Tax has been made in the financial statements as the Company and its subsidiaries did not have any assessable profit for the year ended 31st March, 2000.

Details of unprovided deferred taxation are set out in note 35.

12. NET LOSS FOR THE YEAR

Of the Group's net loss for the year of approximately HK\$261,301,000 (2000: HK\$99,959,000), a loss of approximately HK\$447,743,000 (2000: HK\$243,502,000) has been dealt with in the financial statements of the Company.

13. LOSS PER SHARE

The calculation of the basic and diluted loss per share is based on the following data:

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Net loss for the year	261,301	99,959
Adjustment to the share of result and deemed disposal of associates based on dilution of the Group's interest in an associate	—	7,581
Loss for the purpose of diluted loss per share	<u>261,301</u>	<u>107,540</u>
Number of ordinary shares for the purposes of loss per share	<u>508,339,764</u>	<u>508,339,764</u>

The computation of diluted loss per share for the year ended 31st March, 2001 does not assume the conversion of the Company's outstanding share options and the effect of the share options in SRI as they would be anti-dilutive in the current year.

The computation of diluted loss per share for the year ended 31st March, 2000 did not assume the conversion of the Company's outstanding share options, the effect of the exercise of the conversion rights attached to the convertible notes issued by Next Media and the exercise of the share options in Next Media up to the date of disposal as they would be anti-dilutive in that year.

Notes to the Financial Statements (continued)

For the year ended 31st March, 2001

14. INVESTMENT PROPERTIES

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
At beginning of the year	215,550	211,700
Disposals	(32,450)	(4,050)
Reclassified to properties held for sales	(8,760)	–
Surplus on revaluation	12,770	7,900
At end of the year	<u>187,110</u>	<u>215,550</u>

In February 2001, a Group's banker took possession of certain charged investment properties which were put into market for sale and accordingly, these properties have been reclassified as "properties held for sales" under current assets as at 31st March, 2001 (note 20).

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The carrying value of the Group's investment properties at the balance sheet date comprises:

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Held in Hong Kong under medium-term lease	21,810	65,550
Held outside Hong Kong under:		
Long lease	157,000	141,500
Medium-term lease	8,300	8,500
	<u>187,110</u>	<u>215,550</u>

The investment properties of the Group, which are rented out or to be rented out under operating leases, were revalued as at 23rd March, 2001 by Chesterton Petty Limited, independent property valuers, on an open market existing use basis amounting to HK\$187,110,000. In the opinion of Directors, the fair value of these assets as at 31st March, 2001 would not be significantly different from as at 23rd March, 2001. The surplus arising on revaluation of these assets amounted to HK\$12,770,000, of which HK\$11,278,000 and HK\$1,492,000 have been credited to investment property revaluation reserve and consolidated income statement, respectively.

The investment properties of the Group amounting to approximately HK\$21,810,000 (2000: HK\$65,550,000) were pledged to secure banking facilities granted to the Group. In addition, the shares of a subsidiary, which held investment properties amounting to approximately HK\$157,000,000 (2000: HK\$141,500,000) were pledged to secure banking facilities granted to the Group.

14. INVESTMENT PROPERTIES (continued)

At 31st March, 2001, the Group was in the process of obtaining Certificate for Housing Ownership in respect of the Group's investment properties amounting to approximately HK\$165,300,000 (2000: HK\$150,000,000).

15. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Furniture, machinery and equipment	Motor vehicles	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
THE GROUP				
COST OR VALUATION				
At 1st April, 2000	26,427	36,158	16,552	79,137
Additions	–	9	744	753
Disposal of subsidiaries	–	–	(3,311)	(3,311)
Other disposals	–	–	(4,237)	(4,237)
Deficit on revaluation	(12,127)	–	–	(12,127)
	<u>14,300</u>	<u>36,167</u>	<u>9,748</u>	<u>60,215</u>
At 31st March, 2001	14,300	36,167	9,748	60,215
Comprising:				
At cost	–	36,167	9,748	45,915
At valuation – 2001	14,300	–	–	14,300
	<u>14,300</u>	<u>36,167</u>	<u>9,748</u>	<u>60,215</u>
DEPRECIATION AND AMORTISATION				
At 1st April, 2000	1,990	35,462	12,743	50,195
Provided for the year	702	685	1,955	3,342
Disposal of subsidiaries	–	–	(3,311)	(3,311)
Eliminated on other disposals	–	–	(3,819)	(3,819)
Write back on revaluation	(2,692)	–	–	(2,692)
	<u>–</u>	<u>36,147</u>	<u>7,568</u>	<u>43,715</u>
At 31st March, 2001	–	36,147	7,568	43,715
NET BOOK VALUES				
At 31st March, 2001	<u>14,300</u>	<u>20</u>	<u>2,180</u>	<u>16,500</u>
At 31st March, 2000	<u>24,437</u>	<u>696</u>	<u>3,809</u>	<u>28,942</u>

Notes to the Financial Statements (continued)

For the year ended 31st March, 2001

15. PROPERTY, PLANT AND EQUIPMENT (continued)

The Group's land and buildings are situated in Hong Kong and held on medium-term lease.

The Group's land and buildings were revalued at 23rd March, 2001 by Chesterton Petty Limited, independent property valuers, on an open market existing use basis at the amount of HK\$14,300,000. In the opinion of Directors, the fair value of these assets as at 31st March, 2001 would not be significantly different from as at 23rd March, 2001. The deficit arising on revaluation of these assets amounted to approximately HK\$9,435,000, of which HK\$9,416,000 and HK\$19,000 have been debited to asset revaluation reserve and consolidated income statement, respectively.

At 31st March, 2001, had the Group's land and buildings been carried at cost less accumulated depreciation and amortisation, the carrying value would have been approximately HK\$4,507,000 (2000: HK\$4,638,000).

At 31st March, 2001, the net book value of the property, plant and equipment of the Group includes an amount of approximately HK\$453,000 (2000: HK\$2,235,000) in respect of assets held under finance leases and hire purchase contracts.

At 31st March, 2001, certain of the Group's motor vehicles with an aggregate net book value of approximately HK\$2,180,000 (2000: HK\$3,738,000) are held for rental purposes under operating leases.

At 31st March, 2001, certain of the property, plant and equipment of the Group amounting to approximately HK\$14,408,000 (2000: HK\$24,792,000) were pledged to secure credit facilities granted to the Group.

16. LONG-TERM DEPOSITS

	THE GROUP AND THE COMPANY	
	2001	2000
	HK\$'000	HK\$'000
Deposits for acquisition of:		
– an investment property	15,495	15,495
– an investment project	38,728	38,728
– a property development project	158,830	158,830
	213,053	213,053
Less: Provision	(213,053)	(213,053)
	–	–

16. LONG-TERM DEPOSITS (continued)

The deposits represent the full amount of consideration paid for the acquisition of an investment property and a property development project under the Agreement entered into with CMB and the Third Parties in December 1998 and for an investment project under a separate agreement also in December 1998. The investment property, the property development project and the investment project are all situated in the PRC. However, the Directors have objected to the validity of the Agreement in respect of the investment property and the property development project. The Company is seeking legal advice on further appropriate course of action. However, although the Company intends to contest the case strongly and to pursue its counterclaim vigorously, the outcome of this matter cannot be determined with reasonable certainty at this time.

As provided in the agreement in respect of the investment project, the Group may agree with the third party on the manner of the Group's investment in the project or on a repayment schedule of the amount paid. However, the Group was unable to reach any agreement with the third party up to the date of this report.

Against these background, the Directors have considered it prudent to make full provision in respect of the deposits in the financial statements for the year ended 31st March, 2000.

17. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2001	2000
	HK\$'000	HK\$'000
Unlisted shares, at cost	482,322	481,749
Amounts due from subsidiaries	592,827	602,522
	1,075,149	1,084,271
Less: Provision	(1,032,581)	(640,000)
	42,568	444,271

Particulars of the Company's principal subsidiaries as at 31st March, 2001 are set out in note 42.

The amounts due from 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 are therefore shown as non-current.

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

Notes to the Financial Statements (continued)

For the year ended 31st March, 2001

18. INVESTMENTS IN ASSOCIATES

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Share of net assets	126,918	312,116
Associates include:		
Listed shares in Hong Kong		
– Share of net assets	126,918	311,134
– Market value at 31st March	69,565	309,083

The Directors of the Company are of the opinion that the interest in associates is worth at least its carrying value and no provision is required.

Extracts from the consolidated operating results and financial position of the Group's significant associate, SRI, for the years ended 31st March, 2001 and 2000, which are based on its audited financial statements (note), are as follows:

Results for the years ended 31st March, 2001 and 2000:

	2001	2000
	HK\$'000	HK\$'000
Turnover:		
Continuing operations	193,974	222,532
Discontinued operations	7,136	77,727
	201,110	300,259
Loss from operations	(105,888)	(12,735)
Finance costs	(121,902)	(124,879)
Provision for diminution in value of associates and jointly controlled entities	–	(77,404)
(Loss) gain on disposal of subsidiaries	(10,847)	59,043
Share of results of associates	362	(3,328)
Share of results of jointly controlled entities	–	(1,366)
Loss before taxation	(238,275)	(160,669)
Loss after taxation and minority interests	(239,054)	(161,474)
Loss before taxation attributable to the Group	(87,138)	(85,204)

18. INVESTMENTS IN ASSOCIATES (continued)

Financial position as at 31st March, 2001 and 2000:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Non-current assets	1,624,429	2,049,364
Current assets	76,187	160,483
Current liabilities	(1,343,340)	(755,482)
Minority interests	(4,303)	(3,117)
Non-current liabilities	(414)	(610,338)
Net assets	<u>352,559</u>	<u>840,910</u>
Net assets attributable to the Group	<u>126,918</u>	<u>311,134</u>

Particulars of SRI are set out in note 42.

Note: The auditors' report of SRI, in which the Group has a 36% interest, is qualified in respect of limitations in scope relating to a loss on disposal of a subsidiary of approximately HK\$3 million and related provision on the outstanding receivable arising from the disposal of approximately HK\$27 million and in respect of the revaluation of properties held for development of approximately HK\$54 million.

19. OTHER INVESTMENTS

	THE GROUP	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Listed shares		
Hong Kong	1,199	109,896
Overseas	467	1,600
Unlisted overseas shares	2	2
	<u>1,668</u>	<u>111,498</u>
Market value of listed securities at 31st March	<u>1,666</u>	<u>111,496</u>
Carrying amount analysed for reporting purposes as:		
Non-current	469	1,602
Current	1,199	109,896
	<u>1,668</u>	<u>111,498</u>

As at 31st March, 2001, there was no listed shares under "other investments" pledged to securities house whereas as at 31st March, 2000 the amount of approximately HK\$97,169,000 listed shares were pledged to a securities house.

Notes to the Financial Statements (continued)

For the year ended 31st March, 2001

20. PROPERTIES HELD FOR SALES

As explained in note 14, the Group has reclassified certain investment properties to properties held for sales during the year. These properties were disposed of subsequent to the balance sheet date.

The properties were situated in Hong Kong and held under medium-term lease as at 31st March, 2001.

21. SHORT-TERM RECEIVABLE

The Group

As explained in note 39 (a), CMB has been granted an injunction restricting the Group from dealing with the remaining sales proceeds balance of approximately HK\$6,483,000 arising from disposal of a property after deducting the mortgage outstanding and related expenses without the approval of the High Court of the Hong Kong Special Administrative Region (the "High Court"). As at 31st March, 2001, the amount was put under the custody of the High Court.

22. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 30 days to its trade customers. Included in trade and other receivables are trade receivable (net of provision for bad and doubtful debts) with the following ageing analysis:

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Trade receivables		
0 – 30 days	309	304
31 – 60 days	172	166
More than 60 days	153	236
	<hr/>	<hr/>
	634	706
Other receivables	1,579	2,838
	<hr/>	<hr/>
	2,213	3,544

23. AMOUNT DUE FROM (TO) SRI GROUP

Particulars of the amount due from (to) SRI Group are as follows:

Nature of the balances	THE GROUP			THE COMPANY			
	Balance at 31.3.2001 HK\$'000	Balance at 1.4.2000 HK\$'000	Maximum	Balance at 31.3.2001 HK\$'000	Balance at 1.4.2000 HK\$'000	Maximum	
			debit balance outstanding during the year HK\$'000			debit balance outstanding during the year HK\$'000	
Amount due from SRI Group, net of provision:							
Interest free	Unsecured	-	3,834	3,362	-	-	-
Less: Provision		-	(472)				
		-	3,362				
Amount due to SRI Group:							
Interest bearing (note)	Secured	1,655	1,655	-	-		
	Unsecured	4,465	2,147	4,465	-		
Interest free	Unsecured	932	9,451	383	-		
		7,052	13,253	4,848	-		

Note: The amount represents secured loans granted by Seapower Finance Limited, a subsidiary of SRI and a licensed money lender whose principal activity is money lending. The loans bear interest at the prevailing market rate and are secured by collateral of certain of the Group's investment in an associate and motor vehicles with an aggregate carrying value amounting to approximately HK\$12,468,000 (2000: HK\$65,899,000).

The amount due from (to) SRI Group has no fixed terms of repayment.

Notes to the Financial Statements (continued)

For the year ended 31st March, 2001

24. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payable with ageing analysis as follows:

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Trade payables		
0 – 30 days	27	234
31 – 60 days	25	13
More than 60 days	2	3
	<hr/>	<hr/>
Other payables	54	250
	63,224	22,070
	<hr/>	<hr/>
	63,278	22,320
	<hr/> <hr/>	<hr/> <hr/>

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25. AMOUNTS DUE TO SUBSIDIARIES

THE COMPANY

The amounts are unsecured, interest free (2000: interest at 2% above Hong Kong prime rate per annum) and have no fixed terms of repayment.

26. OBLIGATIONS UNDER FINANCE LEASES AND HIRE PURCHASE CONTRACTS

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Obligations under finance leases and hire purchase contracts are repayable as follows:		
Within one year	226	1,108
More than one year, but not exceeding two years	–	238
	<hr/>	<hr/>
	226	1,346
Less: Amount due within one year and shown under current liabilities	(226)	(1,108)
	<hr/>	<hr/>
Amount due after one year	–	238
	<hr/> <hr/>	<hr/> <hr/>

27. BANK AND OTHER BORROWINGS

	THE GROUP		THE COMPANY	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Bank and other borrowings comprise:				
Bank loans	354,260	361,315	354,260	354,260
Bank overdrafts	79,499	104,461	39,097	40,781
Other borrowings	129,495	128,378	–	–
	<u>563,254</u>	<u>594,154</u>	<u>393,357</u>	<u>395,041</u>
Analysed as:				
Secured	286,474	316,631	116,577	117,518
Unsecured	276,780	277,523	276,780	277,523
	<u>563,254</u>	<u>594,154</u>	<u>393,357</u>	<u>395,041</u>

All bank and other borrowings are repayable within one year.

At the balance sheet date, certain of the assets and other investments of the Group and of the Company were pledged to secure credit facilities granted to the Group and the Company.

28. SHARE CAPITAL

	Number of shares	Value <i>HK\$'000</i>
Shares of HK\$0.10 each		
Authorised:		
At 1st April, 1999	600,000,000	60,000
Increase on 30th September, 1999	<u>200,000,000</u>	<u>20,000</u>
At 31st March, 2000 and 31st March, 2001	<u>800,000,000</u>	<u>80,000</u>
Issued and fully paid:		
At 1st April, 1999, 31st March, 2000 and 31st March, 2001	<u>508,339,764</u>	<u>50,834</u>

On 30th September, 1999, a resolution was passed to increase the authorised share capital of the Company from HK\$60,000,000 to HK\$80,000,000 by the creation of 200,000,000 shares of HK\$0.10 each.

29. SHARE OPTION SCHEME

Pursuant to the Company's share option scheme adopted on 30th September, 1999 (the "Scheme"), the Board of Directors of the Company may, at their discretion, grant options to any eligible employees of the Company or any of its subsidiaries (including Executive Directors and other officers of the Company or its subsidiaries) to subscribe for shares in the Company in accordance with the terms of the Scheme.

The exercise price of the options shall be determined by the Directors of the Company, being not less than 80% of the average closing prices of the shares of the Company for the five trading days immediately preceding the date of offer of the option, or the nominal value of the shares, whichever is higher. The maximum number of shares in respect of which options may be granted under the Scheme shall not exceed 10% of the issued share capital of the Company from time to time.

The share options granted by the Company to the Directors and eligible employees of the Company or any of its subsidiaries to subscribe for shares in the Company are as follows:

	Number	Value <i>HK\$'000</i>
Granted during the year ended 31st March, 2000 and balance in issue at 31st March, 2000 and 31st March, 2001	<u>50,580,000</u>	<u>11,633</u>

The options were granted on 22nd November, 1999 at a consideration of HK\$1 for each grantee and can be exercised at any time during the period of four and a half years, commencing six months after their respective dates of acceptance at an exercise price of HK\$0.23 per share, subject to adjustment.

No options were exercised by any share option holder since the dates of the grant of respective share options.

30. RESERVES

	Share premium	Capital redemption reserve	Special reserve	Capital reserve	Investment property revaluation reserve	Asset revaluation reserve	Translation reserve	Deficit	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP									
At 1st April, 1999	414,978	115	168,788	12,125	45,700	472,976	(7,716)	(881,992)	224,974
Exchange differences arising from translation of overseas operations	-	-	-	-	-	-	147	-	147
Share of post-acquisition reserve movements of associates	-	-	-	1,925	-	(103,075)	6,933	-	(94,217)
Realised on disposal of associates	-	-	-	6,731	-	(25,682)	1,200	-	(17,751)
Realised on disposal of discontinued operations	-	-	-	903	-	(40)	43	-	906
Goodwill realised upon provision for permanent diminution made by SRI	-	-	-	27,735	-	-	-	-	27,735
Reserves realised upon full provision by SRI in respect of former subsidiaries disposed of by the Group to SRI in prior year	-	-	-	41	-	(29,729)	667	-	(29,021)
Surplus arising on revaluation	-	-	-	-	-	299	-	-	299
Net loss for the year	-	-	-	-	-	-	-	(99,959)	(99,959)
At 31st March, 2000	414,978	115	168,788	49,460	45,700	314,749	1,274	(981,951)	13,113
Share of post-acquisition reserve realised on disposal of a property by SRI	-	-	-	-	-	(623)	-	623	-
Share of post-acquisition reserve movements of associates	-	-	-	(1)	-	(85,820)	(4,062)	-	(89,883)
Realised on disposal of associates	-	-	-	568	-	(683)	98	-	(17)
Realised on disposal of subsidiaries	-	-	-	(258)	-	-	-	-	(258)
Realised on disposal of investment properties (note)	-	-	-	-	(45,700)	-	-	45,700	-
Surplus (deficit) arising on revaluation	-	-	-	-	11,278	(9,416)	-	-	1,862
Net loss for the year (note 12)	-	-	-	-	-	-	-	(261,301)	(261,301)
At 31st March, 2001	<u>414,978</u>	<u>115</u>	<u>168,788</u>	<u>49,769</u>	<u>11,278</u>	<u>218,207</u>	<u>(2,690)</u>	<u>(1,196,929)</u>	<u>(336,484)</u>
Attributable to:									
The Company and its subsidiaries	414,978	115	168,788	18,105	11,278	13,432	4,236	(691,522)	(60,590)
Associates	-	-	-	31,664	-	204,775	(6,926)	(505,407)	(275,894)
	<u>414,978</u>	<u>115</u>	<u>168,788</u>	<u>49,769</u>	<u>11,278</u>	<u>218,207</u>	<u>(2,690)</u>	<u>(1,196,929)</u>	<u>(336,484)</u>

Note: The amount represents the revaluation reserve reclassified from asset revaluation reserve upon the reclassification of other land and buildings to investment properties in prior year. The property was disposed and its revaluation reserve amounting to HK\$45,700,000 was transferred directly to deficit in current year.

Notes to the Financial Statements (continued)

For the year ended 31st March, 2001

30. RESERVES (continued)

	Capital			Deficit	Total
	Share premium	redemption reserve	Contributed surplus		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE COMPANY					
At 1st April, 1999	414,978	115	419,212	(611,567)	222,738
Net loss for the year	—	—	—	(243,502)	(243,502)
At 31st March, 2000	414,978	115	419,212	(855,069)	(20,764)
Net loss for the year (note 12)	—	—	—	(447,743)	(447,743)
At 31st March, 2001	<u>414,978</u>	<u>115</u>	<u>419,212</u>	<u>(1,302,812)</u>	<u>(468,507)</u>

The contributed surplus of the Company represents the difference between the consolidated shareholders' funds of subsidiaries when they were acquired by the Company and the nominal amount of Company's share capital issued for the acquisition.

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

- (a) the company is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

There were no reserves available for distribution to the shareholders of the Company as at 31st March, 2001 and 2000.

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

	2001	2000
	HK\$'000	HK\$'000
Loss before taxation	(261,390)	(100,763)
Interest income	(512)	(575)
Interest expenses	69,348	85,807
Interest on obligations under finance leases and hire purchase contracts	82	612
Depreciation and amortisation	3,342	6,587
Share of results of associates	88,122	93,207
Surplus arising on revaluation of investment properties	(1,492)	(7,900)
(Gain) loss on disposal of investment properties	(962)	373
(Gain) loss on disposal of property, plant and equipment	(478)	8,827
Gain on disposal of subsidiaries	(258)	–
Loss (gain) on disposal of associates	5,502	(227,020)
Net realised and unrealised holding loss (gain) on other investments	90,855	(47,913)
Provision for properties held for sales	530	–
Provision for bad and doubtful debts	1,435	582
Deficit (surplus) arising on revaluation of other land and buildings	19	(391)
Provision for long-term deposits	–	213,053
Provision for impairment in value of property, plant and equipment	–	7,683
Gain on disposal of discontinued operations	–	(32,343)
Surplus arising on revaluation of industrial property	–	(1,426)
Increase in short-term receivable	(6,483)	–
Increase in inventories	–	(4,832)
Increase in trade and other receivables	(139)	(8,301)
Decrease in amount due from SRI Group	3,397	7,193
Decrease in other investments	–	17
Increase in trade and other payables	48	57,450
Increase in amount due to a debt factoring company	–	1,257
Decrease in amount due to SRI Group	(6,060)	(42,486)
Net cash (outflow) inflow from operating activities	(15,094)	8,698

Notes to the Financial Statements (continued)

For the year ended 31st March, 2001

32. DISPOSAL OF SUBSIDIARIES/DISCONTINUED OPERATIONS

	2001	2000
	HK\$'000	HK\$'000
Net assets (liabilities) disposed of:		
Property, plant and equipment	–	365,760
Investments in associates	–	(5,078)
Inventories	–	14,985
Trade and other receivables	35	39,288
Amounts due from group companies	270	–
Amount due from an associate	–	8,071
Taxation recoverable	1	71
Bank balances and cash	10	4,499
Trade and other payables	(11)	(102,594)
Amounts due to group companies	–	(20,558)
Amounts due to associates	–	(2,792)
Amount due to a debt factory company	–	(7,518)
Obligations under finance leases and hire purchase contracts	–	(5,756)
Bank and other borrowings	–	(183,758)
Bank overdrafts	–	(13,987)
Deferred taxation	–	(1,114)
Convertible Notes	–	(140,000)
Minority interests	–	(2,654)
	305	(53,135)
(Capital reserve) goodwill realised	(258)	903
Gain on disposal of subsidiaries/discontinued operations	258	32,343
Waiver of amounts due from discontinued operations disposed of	–	11,301
Translation reserve realised	–	43
Asset revaluation reserve realised	–	(40)
	305	(8,585)
Satisfied by:		
Increase in amount due from SRI Group	305	–
Investments in associates	–	(8,585)
	305	(8,585)

32. DISPOSAL OF SUBSIDIARIES/DISCONTINUED OPERATIONS (continued)

Analysis of the net (outflow) inflow of cash and cash equivalents in respect of the disposal of subsidiaries/discontinued operations:

	2001 HK\$'000	2000 <i>HK\$'000</i>
Bank balances and cash disposed of	(10)	(4,499)
Bank overdrafts disposed of	–	13,987
	(10)	9,488

The subsidiaries disposed of during the year ended 31st March, 2001 did not make a significant contribution to the net cash flow or results of the Group for the year.

There is no sufficient information in respect of the contribution by the discontinued operations to the net cash flows or results of the Group for the year ended 31st March, 2000.

33. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Amounts due to associates HK\$'000	Bank and other borrowings HK\$'000	Obligations under fin- ance leases and hire purchase contracts HK\$'000	Minority interests HK\$'000
At 1st April, 1999	2,619	579,760	11,157	3,934
Exchange adjustments	–	6	–	–
New borrowings raised	2,394	53,124	–	6
Bank loans interest converted into loan principal	–	20,910	–	–
Transferred to cash and cash equivalents	–	(20,910)	–	–
Repayments during the year	–	(56,651)	(4,055)	–
Minority interests' share of results for the year	–	–	–	(854)
Disposal of discontinued operations	(2,792)	(183,758)	(5,756)	(2,654)
At 31st March, 2000	2,221	392,481	1,346	432
Bank loans interest converted into loan principal	–	13,558	–	–
Transferred to cash and cash equivalents	–	(13,558)	–	–
Repayments during the year	(5)	(17,771)	(1,120)	–
At 31st March, 2001	2,216	374,710	226	432

Notes to the Financial Statements (continued)

For the year ended 31st March, 2001

34. MATERIAL NON-CASH TRANSACTIONS

During the year, accrued interest of approximately HK\$13,558,000 (2000: HK\$20,910,000) payable on bank loans was capitalised as part of the loan principal as agreed with the relevant banks.

35. DEFERRED TAXATION

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
At beginning of the year	–	1,114
Disposal of subsidiaries	–	(1,114)
	<hr/>	<hr/>
At end of the year	<u>–</u>	<u>–</u>

The potential net deferred tax asset has not been recognised in the financial statements as the realisation of the benefit of this asset in the foreseeable future is uncertain.

The major components of the net deferred tax (charge) credit of the Group not recognised for the year are as follows:

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Tax effect of timing differences arising from:		
Tax loss (utilised) arising	(4,343)	4,199
Excess of depreciation over tax allowances	359	398
Disposal of subsidiaries	(5)	(42,377)
	<hr/>	<hr/>
	<u>(3,989)</u>	<u>(37,780)</u>

At the balance sheet date, the major components of the net potential deferred tax (assets) liabilities of the Group not recognised in the financial statements are as follows:

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Tax effect of timing differences attributable to:		
Unutilised tax losses	(13,704)	(18,047)
Excess of tax allowances over depreciation	322	676
	<hr/>	<hr/>
	<u>(13,382)</u>	<u>(17,371)</u>

35. DEFERRED TAXATION (continued)

No provision for deferred taxation has been made in the financial statements in respect of the surplus or deficit arising on the revaluation of properties of the Group and unrealised holding gain or loss on other investments as, in the opinion of the Directors, any profit or loss arising on the disposal of these assets is capital in nature and would not be subject to taxation. Accordingly, the revaluation surplus or deficit in respect of these properties and unrealised holding gain or loss on other investments do not constitute a timing difference for tax purposes. In addition, no provision for deferred taxation has been made in respect of the surplus or deficit arising on the revaluation of properties outside Hong Kong as the amount involved is not significant.

The Company did not have any significant unprovided deferred taxation in respect of timing differences arising during the year or as at the balance sheet date.

36. RETIREMENT BENEFIT SCHEME

- (a) The Company together with certain subsidiaries operates a defined contribution retirement benefit scheme for all qualifying employees. The assets of the scheme are held separately under a provident fund managed by an independent trustee. Pursuant to the rules of the scheme, the employer is required to make contributions to the scheme calculated at the range of 5% to 10% of the employees' basic salaries on a monthly basis. The employees are entitled to 100% of the employer's contributions and the accrued interest after ten complete years of service, or at an increasing scale of between 30% to 90% after completion of three to nine years of service.

Where there are employees who leave the scheme prior to vesting fully in the contributions in accordance with the terms of the scheme, the contributions payable by the Group are reduced by the amount of forfeited employer's contributions.

As at the balance sheet date, there were no significant forfeited contributions, which arose when employees left the retirement benefit scheme before they were fully vested in the contributions and which were available to reduce the contributions payable by the Group in future years.

- (b) With effect from 1st December, 2000, the Group has also joined MPF for all employees in Hong Kong. The MPF is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF, the employer and its employees are each required to make contributions to the scheme at rate specified in the rules. The only obligation of the Group with respect of MPF is to make the required contributions under the scheme.

Notes to the Financial Statements (continued)

For the year ended 31st March, 2001

36. RETIREMENT BENEFIT SCHEME (continued)

(b) (continued)

The MPF is available to all employees aged 18 to 64 and with at least 60 days of service under the employment of the Group in Hong Kong. Contributions are made by the Group at 5% based on the staff's relevant income. The maximum relevant income for contribution purpose is HK\$20,000 per month. Staff members are entitled to 100% of the Group's contributions together with accrued returns irrespective of their length of service with the Group, but the benefits are required by law to be preserved until the retirement age of 65.

Staff who joins the Group after the operation of the MPF automatically joins this scheme. The Group also makes contributions for all qualified staff covered by the retirement benefit scheme to both the MPF and the retirement benefit scheme. The aggregate contributions for these staff are limited to the benefits that would be enjoyed by them under the retirement benefit scheme.

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37. OPERATING LEASE COMMITMENTS

As at 31st March, 2000, the Group had an annual commitment payable amounting to approximately HK\$125,000 in respect of rented premises under a non-cancellable operating lease which expired within one year. The Group and the Company did not have any significant operating lease commitments as at 31st March, 2001.

38. CONTINGENT LIABILITIES

	THE GROUP				THE COMPANY			
	2001		2000		2001		2000	
	Facilities granted	Amount utilised	Facilities granted	Amount utilised	Facilities granted	Amount utilised	Facilities granted	Amount utilised
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Guarantees given to financial institutions in respect of credit facilities granted to:								
Subsidiaries	-	-	-	-	114,314	60,081	140,024	88,158
Associates	38,660	38,660	38,740	38,740	38,660	38,660	38,740	38,740
	38,660	38,660	38,740	38,740	152,974	98,741	178,764	126,898

39. LITIGATION

- (a) In December 1998, the Company entered into the Agreement with CMB and with the Third Parties. Under the terms of the Agreement, a loan from CMB amounting to approximately HK\$176 million was to be assumed by the Group in consideration for the acquisition of an investment property and a property development project from parties associated with the Third Parties. The Directors have the validity of the Agreement and the Group has withheld payments of principal and interest in the sum of approximately HK\$410 million up to 31st March, 2001 (including the principal and interest of a loan under a separate loan agreement). In response, CMB filed a writ of summons against the Group, claiming immediate repayment of all amounts due from the Group including interest and costs as stated in the Agreement and a separate loan agreement. The Directors believe that there are good reasons to challenge the validity of the Agreement. The Company did not admit the claims brought by CMB and filed a counterclaim against CMB and the Third Parties. CMB and the Third Parties subsequently filed replies objecting to the counterclaim. CMB had also taken out summons for summary judgement. The Group has made a submission to the court in relation to the application for summary judgement.

On 5th January, 2001, CMB has been granted an injunction restricting, among other things:

- (1) The Group from dealing with the remaining sale proceeds balance amounting to approximately HK\$6 million arising from the disposal of a property after deducting the mortgage outstanding and related expenses without the approval of the High Court of the Hong Kong Special Administrative Region (the "High Court"); and
- (2) a subsidiary of the Company, Seapower Consortium Company Limited, from disposing or dealing with or diminishing the value of its assets up to the value of US\$10 million.

As at 31st March, 2001, the amount of approximately HK\$6 million was put under the custody of the High Court.

On 15th June, 2001, the High Court handed down a ruling on CMB's summons for summary judgment that the Group had an arguable defense for the case. CMB's summons for summary judgment was therefore dismissed and the Group was given unconditional leave to defend.

The Company is seeking legal advice on further appropriate course of action to be taken.

39. LITIGATION (continued)

- (b) In March 2001, a writ of summons was issued by Peregrine against a subsidiary of the Company, demanding immediate repayment of the sum of approximately HK\$109 million and interest thereon, being the amount due and payable under the facilities granted pursuant to a margin agreement dated 4th September, 1997 entered into between Peregrine and the subsidiary without any corporate guarantee from the Group.

The Group is currently discussing with its legal advisers regarding as to the appropriate course of action to be taken.

- (c) In July 2000, the Group commenced a lawsuit at High People's Court, Hubei Province, the PRC against Huangshi Kangsai Group Co., Ltd. ("Huangshi Kangsai") claiming for an amount of HK\$23 million pursuant to an undertaking given by Huangshi Kangsai. On 6th September, 2000, the High People's Court, Hubei Province, the PRC granted an order in favour of the Group to freeze the assets of Huangshi Kangsai for such value as equivalent to approximately HK\$30 million.

In the opinion of the Directors, the final outcome of this litigation cannot be determined with reasonable certainty at this time and accordingly, no amount has been accounted for in the financial statements.

- (d) In July 2000, the Group commenced proceedings against New Era Group (H.K.) Limited ("New Era") and Cross Union Development Limited ("Cross Union") at Middle People's Court, Shenzhen, the PRC claiming for the amount of US\$800,000 (equivalent to approximately HK\$6.2 million) and interests of US\$100,000 (equivalent to approximately HK\$780,000) thereon, being deposit paid by the Group for the acquisition of the entire issued share capital of an associate of New Era in respect of an agreement dated 3rd April, 1995, as supplemented by a supplemental agreement dated 19th May, 1995.

In the opinion of the Directors, the outcome of this litigation cannot be determined with reasonable certainty at this time and accordingly, no amount has been accounted for in the financial statements.

In addition, as at 31st March, 2001, the Company and certain of its subsidiaries are parties to various legal claims and counterclaims in their ordinary course of business. In the opinion of the Directors, ultimate resolution of these claims, counterclaims and the threatened litigations would not have a material adverse impact on the financial position of the Group and the Company.

40. RELATED PARTY TRANSACTIONS

(a) The Group had the following transactions with the related parties:

	<i>Notes</i>	THE GROUP		THE COMPANY	
		2001 HK\$'000	2000 <i>HK\$'000</i>	2001 HK\$'000	2000 <i>HK\$'000</i>
Interest expenses on Convertible Notes payable to SRI Group	(i)	–	2,536	–	–
Interest expenses other than those on the Convertible Notes payable to SRI Group	(i)	396	3,076	227	–
Interest income from SRI Group	(ii)	263	83	–	–
Management fee income from SRI Group	(iii)	2,336	4,652	–	–
Secretarial fee income from SRI Group	(iii)	–	183	–	–
Rental income from SRI Group	(iv)	2,213	3,285	–	–
Sales of property, plant and equipment to SRI Group	(v)	145	–	–	–
Sales of subsidiaries to SRI Group	(v)	305	–	–	–

Notes:

- (i) Interest expenses were charged in accordance with the terms of the Convertible Notes or with reference to market interest rates, as appropriate.
- (ii) Interest income was based on the prevailing market interest rates.
- (iii) Management fee and secretarial fee were based on time spent and cost incurred.
- (iv) Rental income was determined based on market rates and floor area.
- (v) Sales of property, plant and equipment and subsidiaries were carried out at terms determined and agreed by both parties.

40. RELATED PARTY TRANSACTIONS (continued)

- (b) The Group's banking facilities as at 31st March, 2001 were guaranteed by a Director of the Company to the extent of HK\$55,000,000 (2000: HK\$60,000,000).

Details of balances with related parties are set out in the consolidated balance sheet on pages 25 and 26 and its accompanying notes.

Details of contingent liabilities in respect of guarantees given to related parties at the balance sheet date are set out in note 38.

41. POST BALANCE SHEET EVENTS

The following events took place subsequent to 31st March, 2001:

- (a) In April 2001, one of the banks providing credit facilities to the Group (the "Banker") appointed receivers over certain properties of the Group.

In addition, the Banker took possession of certain charged investment properties and leasehold land and building amounting to approximately HK\$21,810,000 and HK\$12,700,000, respectively.

Details of which are set out in the Company's circular to the shareholders of the Company dated 18th April, 2001.

Up to the date of this report, the possessed properties with an aggregate carrying value of HK\$17,180,000 were disposed of at a total consideration of HK\$16,480,000. The net proceeds were applied to repay towards the outstanding balances due to the Banker.

- (b) A lender exercised its right to dispose of 130,330,000 SRI shares which were pledged to secure the general credit facilities granted to the Group. The net proceeds were applied to repay towards the outstanding balances due to this lender.

Details of which are set out in the Company's announcement dated 19th June, 2001.

- (c) Pursuant to an ordinary resolution of the Company at a special general meeting held on 9th May, 2001, the Directors of the Company were authorised to dispose certain assets (the "Disposals") and apply the proceeds for the Disposals to reduce the amounts due to secured lenders, to acquire certain assets and to provide general working capital for the Group.

Details of which are set out in the Company's circular to the shareholders of the Company dated 18th April, 2001.

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATE

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

Name of subsidiary	Place of incorporation/operation	Issued and fully paid ordinary share	Percentage of issued share capital held by the		Principal activities
			Company*/subsidiaries %	Attributable to the Group %	
China Rich Investments Limited	British Virgin Islands/PRC	US\$100 shares	100	100	Property holding
Felcasa International Limited	British Virgin Islands	US\$1 share	100	100	Investment holding
Fordit Limited	Hong Kong	HK\$100 shares	100	100	Investment holding
Pan's Motors Limited	Hong Kong	HK\$50,000 shares	100	100	Property holding
Seapower Consortium Company Limited	Hong Kong	HK\$1,000 shares	100	100	Investment holding
Seapower International (B.V.I.) Limited	British Virgin Islands	HK\$1,000 shares	100*	100	Investment holding
Seapower International Investments Limited	British Virgin Islands/PRC	US\$1 share	100	100	Property holding
Seapower Trading Company Limited	Hong Kong	HK\$5,000,000 shares	100	100	Property holding
Sparkcom Limited	Hong Kong	HK\$2 shares	100	100	Investment holding
Sun Shine Express Limited	Hong Kong	HK\$400,000 shares	100	100	Vehicles trading

Notes to the Financial Statements (continued)

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42. PARTICULARS OF PRINCIPAL SUBSIDIARIES AND ASSOCIATE (continued)

Name of subsidiary	Place of incorporation/operation	Issued and fully paid ordinary share	Percentage of issued share capital		Principal activities
			held by the Company*/subsidiaries %	Attributable to the Group %	
Tak Sum Development Limited	Hong Kong	HK\$20 shares	100	100	Property holding
Treasure Victory Properties Limited	Hong Kong	HK\$2 shares	100	100	Property holding
Trinity Rent A Car Limited	Hong Kong	HK\$13,000,000 shares	100	100	Car rental
Wing Cheong Loong Company Limited	Hong Kong	HK\$2 shares	100	100	Money lending

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Particulars of the Group's principal associate as at 31st March, 2001 are as follows:

Name of associate	Place of incorporation/operation	Issued and fully paid ordinary share	Percentage of issued share capital		Principal activities
			held by the Group %	Attributable to the Group %	
Seapower Resources International Limited	Cayman Islands/ Hong Kong	HK\$77,352,141 shares		36	Investment holding

The principal associate is held indirectly by the Company.

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