

## 1. CORPORATE INFORMATION

The Company was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in Note 11.

## 2. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with all Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. A summary of the significant accounting policies followed by the Group in the preparation of the financial statements is set out below:-

### (a) Basis of Preparation

The measurement basis used in the preparation of the financial statements is historical cost as modified by the marking-to-market of certain investments in securities as explained in Note 2(j) below.

### (b) Basis of Consolidation

The consolidated financial statements incorporate the audited financial statements of the Company and all of its subsidiaries for the year ended 31 March 2001, together with the Group's share of their results for the year.

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

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

### (c) Goodwill/Capital Reserve on Consolidation

Goodwill represents the excess of purchase consideration over the fair values ascribed to the separable net assets of subsidiaries and associates acquired. The Group eliminates goodwill arising from different acquisitions on consolidation either by immediate elimination to reserves or by amortisation through the consolidated income statement. Where amortisation is adopted, goodwill is recognised as an asset and amortised by equal annual instalments over its estimated useful economic life up to a maximum of twenty years. The excess of the Group's share of the fair value of the separable net assets of subsidiaries and associates acquired over the cost is credited to capital reserve.

Upon the actual disposal of an interest in a subsidiary or associate, the relevant portion of attributable goodwill or capital reserve previously eliminated against or taken to reserves is realised and taken into account in arriving at the gain or loss on disposal of the investment.

## 2. ACCOUNTING POLICIES *(Continued)*

### (d) Subsidiaries

A subsidiary is a company in which more than 50% of its issued share capital is held for long-term investment purpose by the Company. Investment in subsidiaries is stated at cost. Provision is made to the extent that the directors consider significant diminution in value, which is other than temporary, has taken place.

### (e) Associates

An associate is a company in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

Unless the interest in the associate is acquired and held exclusively with a view to subsequent disposal in the near future, an investment in an associate is accounted for in the consolidated accounts under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's net assets. The consolidated income statement reflects the Group's share of the post-acquisition results of operations of the associates for the period.

### (f) Turnover

Turnover represents sales of products at invoiced value less discounts and returns and services rendered by the Group to outside customers, after eliminating intercompany sales.

### (g) Recognition of Revenue

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

- i. Revenue from the sale of products is recognised on the transfer of ownership, which generally coincides with the time of shipment or the time when the goods are delivered to customers and title has passed.
- ii. Rental income is recognised proportionally over the lease period.
- iii. Revenue associated with the rendering of sub-contracting services are recognised so as to reflect the stage of work performed at the balance sheet date. When the outcome of the service contract cannot be estimated reliably, revenue is recognised only to the extent of costs incurred that are expected to be recoverable.
- iv. Interest income is recognised on a time-apportioned basis on the principal outstanding and at the rates applicable.
- v. Dividend income is recognised when the shareholders' right to receive payment is established.

## 2. ACCOUNTING POLICIES *(Continued)*

### (g) Recognition of Revenue *(Continued)*

- vi. Guarantee fee income is recognised on a straight-line basis over the guarantee period.
- vii. Sundry income is recognised when earned.

### (h) Tangible Fixed Assets and Depreciation

Tangible fixed assets are stated at cost less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Subsequent expenditure relating to a tangible fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the enterprise. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

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 discounted to their present values.

Depreciation is provided on the reducing balance method so as to write down the cost of tangible fixed assets to their estimated realisable value over their anticipated useful lives at the following annual rates:-

Land	: Over the term of the lease
Buildings	: 5%
Plant, machinery, equipment and moulds	: 10% to 20%
Furniture and fixtures	: 10%
Motor vehicles	: 10%
Leasehold improvements	: 20%

The gain or loss on disposal of a tangible fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

### (i) Leased Assets

Assets held under finance leases and hire-purchase contracts have been capitalised. The interest element of the rental payments is charged to the income statement over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding. Depreciation is provided in accordance with the Group's depreciation policy (Note 2(h)). All other leases are accounted for as operating leases and the rental payments are charged to the income statement on a straight-line basis over the periods of the leases.

## 2. ACCOUNTING POLICIES *(Continued)*

### (j) Investments in Securities

#### *Held-to-maturity Debt Securities:*

Dated debt securities that the Group has the ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated in the balance sheet at cost plus any discount amortised to date. The discount is amortised over the period to maturity and included as interest income in the income statement. Provision is made when there is a diminution in value.

#### *Investment Securities:*

Investment held on a continuing basis for an identified long-term purpose are classified as investment securities. Investment securities are stated in the balance sheet at cost less any provisions for diminution in value.

#### *Other Investments:*

Other investments are securities that are neither held-to-maturity debt securities nor investment securities and are stated at fair value. Any holding gains or losses are recognised in the income statement for the year.

Profits or losses on sale of investments in securities are determined as the difference between the estimated sales proceeds and the carrying value of the investments and are accounted for in the income statement as they arise.

### (k) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the standard costing method. Standard costs are established by reference to actual costs incurred during each period. Net realisable value represents the estimated selling price less direct selling costs.

### (l) Properties held for resale

Properties held for resale are classified as current assets and are stated at the lower of cost and net realisable value. Net realisable value is determined by reference to sales proceeds received after the period-end date less selling expenses or by management estimates based on prevailing market conditions.

Cost of properties includes acquisition costs, development expenditure, borrowing costs and other direct costs attributable to such properties.

## 2. ACCOUNTING POLICIES *(Continued)*

### (m) Current Assets and Liabilities

Current assets are expected to be realised within twelve months of the balance sheet date or in the normal course of the Group's operating cycle. Current liabilities are expected to be settled within twelve months of the balance sheet date or in the normal course of the Group's operating cycle.

### (n) Foreign Currencies

Transactions in foreign currencies during the period are translated into Hong Kong dollars at rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities in foreign currencies are translated into Hong Kong dollars at rates of exchange ruling at the balance sheet date. All gains and losses on translation of foreign currencies are dealt with in the income statement.

On consolidation, the financial statements of overseas subsidiaries which are denominated in currencies other than Hong Kong dollars are translated at the rates ruling at the balance sheet date. Exchange differences arising on consolidation, if any, are dealt with in reserves.

### (o) Deferred Taxation

Deferred taxation is provided on material timing differences, using the liability method, to the extent that there is a reasonable probability that a liability will arise in the foreseeable future.

### (p) 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.

### (q) Related Party Transactions

A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

### (r) 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.

**3. LOSS FROM OPERATIONS**

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
<b>(a) Turnover and Revenue:</b>		
Turnover and revenue comprise the following:		
<b>Turnover</b>		
Sale of electronic products and components	297	2,891
Sale of computers and related products	12,548	-
Sub-contracting income	973	2,744
	<u>13,818</u>	<u>5,635</u>
<b>Other Revenue</b>		
Dividend income from listed investments	1,025	-
Gross rental income from plant and equipment	266	368
Guarantee fee income	-	3,600
Interest income	2,062	1,724
Sundry income	532	4,672
	<u>3,885</u>	<u>10,364</u>
Total Revenue	<u><u>17,703</u></u>	<u><u>15,999</u></u>
<b>(b) Other Income:</b>		
Gain on disposal of subsidiaries	-	301
Gain on disposal of properties held for resale	2,606	-
Write back of sundry creditors	969	-
Write back of overprovision of factory rent and management fees	1,323	-
	<u>4,898</u>	<u>301</u>
<b>(c) Loss from operations is stated after charging:</b>		
Total staff costs	9,196	6,957
Depreciation of owned tangible fixed assets	7,459	2,383
Depreciation of tangible fixed assets under hire-purchase contracts	-	5,388
Operating lease charges in respect of land and buildings	799	1,575
Auditors' remuneration	449	510
Loss on disposal of tangible fixed assets	742	177
Cost of inventories expensed	<u>11,830</u>	<u>1,641</u>

### 3. LOSS FROM OPERATIONS *(Continued)*

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
<b>(d) Finance costs</b>		
Interest element of hire-purchase contracts	224	1,728
Interest on other loans	<u>193</u>	<u>980</u>
	<u><u>417</u></u>	<u><u>2,708</u></u>

### 4. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:-

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Fees	80	80
Salaries and other emoluments	3,506	3,533
Mandatory provident fund contributions	<u>22</u>	<u>-</u>
	<u><u>3,608</u></u>	<u><u>3,613</u></u>

Included in directors' remuneration were fees of HK\$80,000 (2000 - HK\$80,000) paid to the independent non-executive directors during the year.

In addition to the above emoluments, certain directors were granted share options under the Company's share option scheme. The details of these benefits in kind are disclosed under the section entitled "Directors' Interests in Shares" in the directors' report. In the absence of a ready market for the share options granted on the shares of the Company, the directors are unable to arrive at an accurate assessment of the value of the share options granted to the respective directors.

The remuneration of the directors is within the following bands:

	Number of Directors	
	2001	2000
HK\$Nil - HK\$1,000,000	14	16
HK\$1,000,001 - HK\$1,500,000	<u>-</u>	<u>1</u>
	<u><u>14</u></u>	<u><u>17</u></u>

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

## 5. INDIVIDUALS WITH HIGHEST EMOLUMENTS

The aggregate emoluments for the year ended 31 March 2001 of the five highest paid individuals (including directors of the Company and other employees of the Group) employed by the Group are set out below:

	<b>2001</b> <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Salaries and other emoluments	2,750	3,032
Mandatory provident fund contributions	<u>20</u>	<u>-</u>
	<u><u>2,770</u></u>	<u><u>3,032</u></u>

The emoluments of the five highest paid individuals were within the following bands:

	<b>Number of Employees</b>	
	2001	2000
HK\$Nil - HK\$1,000,000	5	4
HK\$1,000,001 - HK\$1,500,000	<u>-</u>	<u>1</u>
	<u><u>5</u></u>	<u><u>5</u></u>

No emoluments were paid by the Group to the respective five highest paid individuals, including directors, as an inducement to join or upon joining the Group or as compensation for loss of office.

## 6. TAXATION

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 profits for the year (2000 - Nil). No provision for tax is required for the associate as no assessable profits were earned by the associate during the year.

No provision for deferred taxation has been made as the Group and the Company have no material potential liabilities arising from timing differences. A deferred tax asset has not been recognised in the financial statements in respect of tax losses available to offset future profits as it is not certain that the tax losses will be utilised in the foreseeable future.

## 7. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders includes a loss of HK\$22,716,000 (2000 - a loss of HK\$17,739,000) which has been dealt with in the accounts of the Company.



## 8. LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss for the year of approximately HK\$82,506,000 (2000 - HK\$49,283,000) and on the weighted average of 6,287,651,350 (2000 - 1,642,011,038) shares in issue during the year. The weighted average number of shares outstanding for 2000 has been retrospectively adjusted for the effects of the rights issues during the year ended 31 March 2001.

No diluted loss per share is presented for the years ended 31 March 2001 and 2000 as the exercise of share options and warrants and the conversion of bonds convertible into shares of the Company are anti-dilutive.

## 9. INTANGIBLE ASSETS

	<b>Group</b>	
	<b>2001</b>	<b>2000</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Goodwill</b>		
<b>At cost:</b>		
Additions during the year and at 31 March	<u>47,682</u>	<u>-</u>
<b>Amortisation:</b>		
Amortisation for the year and at 31 March	<u>4,350</u>	<u>-</u>
<b>Net book value:</b>		
At 31 March	<u><u>43,332</u></u>	<u><u>-</u></u>

**10. TANGIBLE FIXED ASSETS**

	Land and buildings <i>HK\$'000</i>	Plant, machinery, equipment and moulds <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Group:</b>						
<b>At cost:</b>						
At 1 April 2000	9,342	118,705	13,159	1,275	1,376	143,857
Additions	-	19,554	1,700	1,200	1,901	24,355
Disposals	-	(2,308)	(563)	-	-	(2,871)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>At 31 March 2001</b>	<b>9,342</b>	<b>135,951</b>	<b>14,296</b>	<b>2,475</b>	<b>3,277</b>	<b>165,341</b>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Depreciation:</b>						
At 1 April 2000	-	78,290	12,165	342	-	90,797
Charge for the year	234	6,788	225	130	82	7,459
On disposals written back	-	(1,558)	(266)	-	-	(1,824)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>At 31 March 2001</b>	<b>234</b>	<b>83,520</b>	<b>12,124</b>	<b>472</b>	<b>82</b>	<b>96,432</b>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Net book value:</b>						
<b>At 31 March 2001</b>	<b>9,108</b>	<b>52,431</b>	<b>2,172</b>	<b>2,003</b>	<b>3,195</b>	<b>68,909</b>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>At 31 March 2000</b>	<b>9,342</b>	<b>40,415</b>	<b>994</b>	<b>933</b>	<b>1,376</b>	<b>53,060</b>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

The net book value of tangible fixed assets of the Group includes an amount of approximately HK\$8,000 (2000 - HK\$21,169,000) in respect of assets held under hire-purchase contracts.

## 10. TANGIBLE FIXED ASSETS *(Continued)*

The cost of the Group's land and buildings as at the balance sheet date comprises:-

	<b>2001</b>	2000
	<b>HK\$'000</b>	<b>HK\$'000</b>
Held in the People's Republic of China under long lease	899	899
Held in the People's Republic of China under medium-term lease	<u>8,443</u>	<u>8,443</u>
	<u><b>9,342</b></u>	<u><b>9,342</b></u>
		<b>Plant, machinery, equipment and moulds</b>
		<i>HK\$'000</i>
<b>Company:</b>		
<b>At cost:</b>		
At 1 April 2000 and at 31 March 2001		<u>27,374</u>
<b>Depreciation:</b>		
At 1 April 2000		6,205
Charge for the year		<u>4,242</u>
At 31 March 2001		<u><b>10,447</b></u>
<b>Net book value:</b>		
At 31 March 2001		<u><b>16,927</b></u>
At 31 March 2000		<u><b>21,169</b></u>

The net book value of tangible fixed assets of the Company includes an amount of approximately HK\$Nil (2000 - HK\$21,169,000) in respect of assets held under hire-purchase contracts.

## 11. INTERESTS IN SUBSIDIARIES

	Company	
	2001 HK\$'000	2000 HK\$'000
Unlisted shares at cost, net of provision	<u>26,477</u>	<u>26,477</u>

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

The following list contains only the particulars of subsidiaries which principally affected the results or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Name of Company	Place of Incorporation/ Registration <i>Note (a)</i>	Issued share capital/ Registered capital <i>Note (c)</i>	Principal activities	Percentage of equity held by the Company	
				Directly	Indirectly
Recor International Limited	British Virgin Islands	HK\$360,000	Investment holding	100%	-
RCR Electronics (Holdings) Limited	Hong Kong	Ordinary HK\$10 Deferred HK\$36,000,000 <i>Note (b)</i>	Investment holding	-	100%
Recor Enterprises China Limited	Hong Kong	HK\$3,800,000	Design, development and sale of consumer electronic products	-	100%
Recor (RCR) Limited	British Virgin Islands	US\$5,000	Provision of sub-contracting services	-	100%
Merway Limited	Hong Kong	HK\$2	Provision of sub-contracting services	-	100%
Jun Ye International Limited	British Virgin Islands	US\$1	Investment holding	-	100%
Lobelia International Limited	British Virgin Islands	US\$1	Investment holding	-	100%
Great Importance Limited	British Virgin Islands	US\$1	Investment holding	-	100%

## 11. INTERESTS IN SUBSIDIARIES *(Continued)*

Name of Company	Place of Incorporation/ Registration <i>Note (a)</i>	Issued share capital/ Registered capital <i>Note (c)</i>	Principal activities	Percentage of equity held by the Company	
				Directly	Indirectly
Glory Sunny Limited	Hong Kong	HK\$2	Investment holding	-	100%
Quality First Developments Limited	British Virgin Islands	US\$1	Investment holding	-	100%
Profit Promise Enterprises Limited	British Virgin Islands	US\$1	Investment holding	-	100%
Ecopro Hi-Tech Product Company Limited	The People's Republic of China <i>Note (d)</i>	HK\$23,800,000	Manufacture of HI-CL products	-	100%
Golden Best International Ltd. <i>Note (e)</i>	British Virgin Islands	US\$1	Investment holding	-	100%
Ecopro Hi-Tech Ltd. <i>Note (e)</i>	British Virgin Islands	US\$1	Acting as a distributor of licensed computer software	-	100%
Lobelia Holdings (Canada) Limited <i>Note (e)</i>	Canada	CAD1	Investment holding	-	100%
Advance Hitech (Canada) Corporation <i>Note (e)</i>	Canada	CAD200	Investment holding	-	100%
Asian Eagle Co., Ltd. <i>Note (e)</i>	British Virgin Islands	US\$1	Investment holding	-	100%
PC-Web (H.K.) Limited <i>Note (e)</i>	Hong Kong	HK\$10,000	Trading of computers and related accessories	-	100%
PC-Web Technology Limited <i>Note (e)</i>	Hong Kong	HK\$100,000	Trading of computers and related accessories and provision of system development and maintenance services	-	70%

## 11. INTERESTS IN SUBSIDIARIES *(Continued)*

*Note (a):* All of the above subsidiaries operate in their respective places of incorporation, except for Recor (RCR) Limited and Ecopro Hi-Tech Ltd. which were incorporated in the British Virgin Islands but operate in the People's Republic of China and Hong Kong respectively.

*Note (b):* The deferred shares carry no rights to dividends (other than a fixed non-cumulative dividend at the rate of one per cent per annum for any financial year during which the net profit of RCR Electronics (Holdings) Limited available for dividends exceeds HK\$100,000,000,000,000,000), no rights to attend or vote at general meetings 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 RCR Electronics (Holdings) Limited has received by way of a distribution in such a winding-up a sum of HK\$100,000,000,000,000,000 in respect of each ordinary share).

*Note (c):* None of the subsidiaries had any loan capital in issue at any time during the years ended 31 March 2001 and 2000.

*Note (d):* Ecopro Hi-Tech Product Company Limited was established on 15 March 2000 as a wholly foreign owned enterprise in the People's Republic of China with an operational term of 30 years.

*Note (e):* These subsidiaries were acquired/incorporated during the year.

## 12. INTEREST IN AN ASSOCIATE

	Group	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Share of net assets	<u>          -</u>	<u>          -</u>

The Group's share of the associate's loss exceeds the carrying value of its investment in associate and accordingly, the Group's interest in the associate at 31 March 2001 is reported at nil value.

Particulars of the associate as at 31 March 2001 are as follows:-

Name	Place of incorporation and operation	Issued share capital	Principal activities	Percentage of equity held by the Company	
				Directly	Indirectly
Info-Mission Technology Inc. Limited	Hong Kong	HK\$239,560	Production, publication and distribution of computer games	-	31.3%

The shareholding in the associate comprises equity shares held through a wholly-owned subsidiary of the Company.

The amount due by the associate represents fund advances and expenses paid on behalf of the associate and is unsecured, interest-free and has no fixed terms of repayment.

## 13. INVENTORIES

	<b>Group</b>	
	<b>2001</b>	<b>2000</b>
	<b><i>HK\$'000</i></b>	<b><i>HK\$'000</i></b>
Raw materials	<b>252</b>	-
Finished goods	<b>1,095</b>	349
	<u><b>1,347</b></u>	<u>349</u>

At 31 March 2001, the carrying amount of inventories that were carried at net realisable value amounted to HK\$266,000 (2000 - HK\$349,000).

## 14. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Trade debtors ( <i>Note i</i> )	1,822	416	-	-
Other debtors, deposits and prepayments	1,516	24,667	505	23,596
Other loans ( <i>Note ii</i> )	7,975	-	-	-
Deposits paid for acquisition of investments ( <i>Note iii</i> )	20,000	-	-	-
Deposit paid for acquisition of tangible fixed assets	6,472	12,980	-	-
	<u>37,785</u>	<u>38,063</u>	<u>505</u>	<u>23,596</u>

*Notes:*

- (i) The ageing analysis of the Group's trade debtors as at 31 March 2001 is as follows:-

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
0-60 days	882	253
61-90 days	14	5
>90 days	926	158
	<u>1,822</u>	<u>416</u>

Credit is offered to customers following financial assessment and an established payment record. Credit limits are set for all customers and these are exceeded only with the approval of senior company officers. Senior staff of the Company monitor trade receivables and follow up collections periodically. General credit terms are payment by the end of the month following the month in which sales took place.

- (ii) Other loans include:-

- (a) A loan of HK\$3,000,000 advanced from a wholly-owned subsidiary of the Company to an independent third party which is unsecured, interest-free and repayable within one year of the balance sheet date, to assist financing the development of certain computer games and related products. Pursuant to a cooperative agreement entered into between the subsidiary and the borrower, should the development of the computer games and related products prove to be successful, the advance may be converted into part of the consideration for the acquisition of the proprietary technology and related intellectual property rights associated with the computer games and related products.
- (b) A loan of HK\$4,975,207 advanced from a wholly-owned subsidiary of the Company to an independent third party which is a supplier of the subsidiary. The advance is secured, carries interest at Hong Kong prime rate per annum and repayable on demand and by way of deducting future purchases by the subsidiary from this supplier.



## 14. TRADE AND OTHER RECEIVABLES (Continued)

(iii) Deposits paid for acquisition of investments include the following:-

- (a) On 6 October 2000, a wholly-owned subsidiary of the Company entered into a conditional sale and purchase agreement for the acquisition of a 100% equity interest in a company which engages in trading of mobile phones and related accessories, for a consideration of HK\$15,000,000. As at 31 March 2001, the Group had paid HK\$15,000,000 representing the entire consideration for the acquisition. The acquisition had not been completed as at 31 March 2001 due to the non-fulfillment of certain conditions as stipulated in the agreement, and the balance had been shown as deposit paid for acquisition of investment accordingly.
- (b) Pursuant to a share transfer agreement entered into by a wholly-owned subsidiary of the Company and an independent third party in May 2000, the Group was committed to acquire a 39.4% equity interest in a company, which engages in property development in the People's Republic of China, at a consideration of HK\$25,000,000. At 31 March 2001, HK\$5,000,000 has been paid by the Group. The transaction had not been completed at 31 March 2001 as the conditions precedent as stipulated in the share transfer agreement had not been fulfilled. Consequently, the Group and the independent third party entered into a further agreement, pursuant to which interest was charged on the deposit paid until the completion of the transaction, which is conditional upon the satisfaction of certain conditions precedent in the share transfer agreement. In the event that the parties could not complete the transaction, the deposit paid would be refundable to the Group on demand.

## 15. OTHER INVESTMENTS

	Group	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Equity securities listed in Hong Kong		
- at market value	<u>24,551</u>	<u>10,253</u>

## 16. TRADE AND OTHER PAYABLES

	Group		Company	
	2001	2000	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade creditors ( <i>Note i</i> )	1,818	103	-	-
Other creditors	22,986	44,223	19,033	26,253
Accrued expenses	6,161	13,011	1,366	7,367
Sales deposits received	227	352	-	-
	<u>31,192</u>	<u>57,689</u>	<u>20,399</u>	<u>33,620</u>

## 16. TRADE AND OTHER PAYABLES *(Continued)*

Note:

(i) The ageing analysis of the Group's trade creditors as at 31 March 2001 is as follows:-

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
0-60 days	1,692	-
61-90 days	23	-
>90 days	103	103
	<u>1,818</u>	<u>103</u>

## 17. UNSECURED LOAN

The loan is unsecured, interest-bearing at 10% p.a. and repayable on 31 March 2002. Accordingly, the amount has been reclassified to current liabilities in the current year.

## 18. SHARE CAPITAL

Authorised:

Ordinary shares:	No. of shares <i>('000)</i>	Par value per share <i>(HK\$)</i>	Total value <i>(HK\$'000)</i>
As at 1 April 1999	<u>1,000,000</u>	<u>0.10</u>	<u>100,000</u>
Subdivision of 1 existing share of HK\$0.10 each into 10 shares of HK\$0.01 each	10,000,000	0.01	100,000
Increase in authorised share capital	<u>20,000,000</u>	<u>0.01</u>	<u>200,000</u>
<b>As at 31 March 2000 and at 31 March 2001</b>	<u><u>30,000,000</u></u>	<u><u>0.01</u></u>	<u><u>300,000</u></u>

## 18. SHARE CAPITAL *(Continued)*

### Issued and fully paid:

Ordinary shares:	No. of shares ( <i>'000</i> )	Par value per share ( <i>HK\$</i> )	Total value ( <i>HK\$'000</i> )
As at 1 April 1999	<u>870,214</u>	<u>0.10</u>	<u>87,022</u>
Reduction of nominal value of existing shares of HK\$0.10 each to HK\$0.01 each by cancellation of HK\$0.09 each	870,214	0.01	8,702
New issues of shares	<u>3,664,172</u>	<u>0.01</u>	<u>36,642</u>
As at 31 March 2000	4,534,386	0.01	45,344
New issue of shares	1,813,771	0.01	18,137
Repurchase of shares	<u>(84,220)</u>	<u>0.01</u>	<u>(842)</u>
<b>As at 31 March 2001</b>	<b><u><u>6,263,937</u></u></b>	<b><u><u>0.01</u></u></b>	<b><u><u>62,639</u></u></b>

### Changes in Share Capital

During the year ended 31 March 2000, the following changes in the share capital of the Company took place:-

- (a) Pursuant to a special resolution passed by shareholders at a special general meeting held on 5 August 1999, the nominal value of all the issued shares was reduced from HK\$0.1 each to HK\$0.01 each ("adjusted shares") by cancelling HK\$0.09 paid up on each issued share by way of a reduction of share capital in accordance with section 46 of the Companies Act 1981 of Bermuda (as amended). Every unissued share was subdivided so that each unissued share of HK\$0.1 each becomes 10 unissued shares of HK\$0.01 each. The authorised share capital of the Company was increased from HK\$21,680,740 divided into 2,168,074,000 shares of HK\$0.01 each to HK\$100,000,000 by the creation of an additional 7,831,926,000 new shares. Such new shares rank *pari passu* in all respects with the then adjusted shares in issue.
- (b) In October 1999, the Company issued and allotted 174,000,000 ordinary shares of HK\$0.01 each to independent private investors at a subscription price of HK\$0.05 each for cash. The net proceeds of approximately HK\$8,500,000 were used as general working capital of the Group. The market price per share as on 7 October 1999, being the date on which the terms of the placing were finalised, was HK\$0.068.

## 18. SHARE CAPITAL *(Continued)*

### Changes in Share Capital *(Continued)*

- (c) In November 1999, the Company issued and allotted 208,000,000 ordinary shares of HK\$0.01 each to independent private investors at a subscription price of HK\$0.05 each for cash. The net proceeds of approximately HK\$10,000,000 were used to finance the acquisition of tangible fixed assets. The market price per share on 2 November 1999, being the date on which the terms of the placing were finalised, was HK\$0.053.
- (d) In November 1999, the Company completed a rights issue of 417,685,600 ordinary shares of HK\$0.01 each (“the November 1999 Rights Issue”), on the basis of two rights shares for every five existing shares of the Company at a subscription price of HK\$0.02 per rights share, thereby giving rise to net proceeds of approximately HK\$7,000,000.
- (e) In January 2000, the entire November 1999 Convertible Bonds (as defined in Note 20 to the financial statements) with an aggregate principal amount of HK\$10,000,000 were converted at the initial conversion price of HK\$0.05 per conversion share, resulting in the issue of 200,000,000 ordinary shares of HK\$0.01 each.
- (f) In January 2000, the Company issued and allotted 100,000,000 ordinary shares of HK\$0.01 each to a Mr Tsoi Kei Lung at a subscription price of HK\$0.08 each to repay part of the short term loan owed by the Company to Mr Tsoi Kei Lung and interest accrued thereon to the extent of HK\$8,000,000. The market price per share on 19 November 1999, being the date on which the terms of the placing were finalised, was HK\$0.084.
- (g) In January 2000, the Company completed a rights issue of 1,669,899,600 ordinary shares of HK\$0.01 each (“the January 2000 Rights Issue”), on the basis of one rights share for every existing share of the Company at a subscription price of HK\$0.04 per rights share, thereby giving rise to net proceeds of approximately HK\$63,500,000.
- (h) In February 2000, the Company issued and allotted 660,000,000 ordinary shares of HK\$0.01 each to independent private investors at a subscription price of HK\$0.08 each for cash. The net proceeds of approximately HK\$51,500,000 were used to finance the development of a number of investment projects identified by the Group. The market price per share on 8 February 2000, being the date on which the terms of the placing were finalised, was HK\$0.106.
- (i) By the ordinary resolution passed by the shareholders on 17 March 2000, the authorised capital of the Company was increased from HK\$100,000,000 to HK\$300,000,000 by the creation of 20,000,000,000 ordinary shares of HK\$0.01 each.
- (j) In March 2000, 234,586,826 ordinary shares of HK\$0.01 each were issued at HK\$0.05 per share as a result of the exercise of 234,586,826 warrants of the Company by certain warrant-holders, thereby giving rise to net proceeds of approximately HK\$12,000,000.

## 18. SHARE CAPITAL *(Continued)*

### Changes in Share Capital *(Continued)*

During the year ended 31 March 2001, the following changes in the share capital of the Company took place:-

- (k) On 1 March 2000, the Company announced a rights issue of 1,813,754,410 ordinary shares of HK\$0.01 each (“the March 2000 Rights Issue”), on the basis of two rights shares for every five existing share of the Company at a subscription price of HK\$0.05 per rights share. The March 2000 Rights Issue became unconditional on 7 April 2000 and net proceeds of approximately HK\$87,500,000 were received by the Company in April 2000.
- (l) In April 2000, 16,640 ordinary shares of HK\$0.01 each were issued at HK\$0.050 per share as a result of the exercise of 16,640 warrants of the Company by certain warrant-holders, thereby giving rise to net proceeds of approximately HK\$832. At 31 March 2001, the Company had approximately 541,695,467 outstanding warrants, upon full exercise of which would result in the issue of 541,695,467 additional ordinary shares by the Company.
- (m) In April 2000, the Company repurchased certain of its own shares on The Stock Exchange of Hong Kong Limited for the purpose of enhancing its earnings per share. All of these shares had been cancelled upon repurchase. Details of the repurchase are as follows :-

Month/Year	Number of Shares Repurchased	Price Per Share Paid		Aggregate Price Paid HK\$
		Highest HK\$	Lowest HK\$	
April 2000	84,220,000	0.050	0.045	4,160,980

All new ordinary shares issued during the year rank pari passu in all respects with the then existing shares in issue. Details relating to the use and application of proceeds arising from the issues of new shares are disclosed in the section entitled “Use of Proceeds” in the directors’ report.

### Share options

Under the terms of the Company’s share option scheme approved by the shareholders on 21 September 1993, the board of directors may, at its discretion, invite employees, including full-time directors of the Company and its subsidiaries upon a payment of HK\$10 to take up options to subscribe for shares of the Company during a three-year period commencing on the expiry of six calendar months after the date upon which the relevant option is deemed to be granted and accepted. The exercise price (subject to adjustments as provided therein) is to be determined by the directors at their absolute discretion provided that in no event shall such price be less than the higher of the nominal value of the shares and 80% of the average of the closing prices of the Company’s shares on The Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the date of grant of the option.

**18. SHARE CAPITAL** *(Continued)***Share options** *(Continued)*

The maximum number of shares in respect of which options may be granted under the share option scheme when aggregated with any securities subject to any other scheme may not exceed 10% of the shares which have been duly allotted and issued and that the maximum number of shares in respect of which 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 share option scheme. The share option scheme will remain in force for a period of 10 years from the date of adoption of the scheme.

The particulars of the share options outstanding as at 31 March 2001 are set out below:

1st lot <i>(Note 1)</i>	Number of share options			Outstanding as at 31 March 2001
	2nd lot <i>(Note 2)</i>	Cancelled <i>(Note 3)</i>		
166,970,00	459,342,000	486,432,000		139,880,000

*Notes:*

1. These share options were granted on 24 November 1999, and are exercisable at a price of HK\$0.056 per share during the period from 1 June 2000 to 24 November 2002.
2. These share options were granted on 9 June 2000, and are exercisable at a price of HK\$0.029 per share during the period from 1 January 2001 to 9 June 2003.
3. The share options lapsed during the year.

**Warrants**

On 22 November 1999, the Company announced a bonus issue of two bonus warrants for every five rights shares subscribed for in the January 2000 Rights Issue. A total of 667,959,840 units of warrants enabling the holders to subscribe approximately HK\$33,397,992 were therefore issued. Each warrant entitles the holder thereof to subscribe for one share of the Company at an initial subscription price of HK\$0.05 per share, subject to adjustments, at any time from the date of issue thereof to 31 December 2001 (both dates inclusive).

In March 2000, warrants carrying subscription rights of HK\$11,729,341 were exercised and during the year ended 31 March 2001, warrants carrying subscription rights of HK\$832 were exercised. As disclosed in a prospectus dated 20 March 2000, the March 2000 Rights Issue would cause an adjustment to the subscription price of the warrants from HK\$0.050 to HK\$0.040 per share and the adjustment would be effective from 7 April 2000, subject to the March 2000 Rights Issue becoming unconditional. Upon the March 2000 Rights Issue became unconditional on 7 April 2000, the subscription price of the warrants was adjusted from HK\$0.050 to HK\$0.040 with effect from 7 April 2000 accordingly.

At 31 March 2001, the Company had approximately 541,695,467 outstanding warrants entitling the warrant-holders to subscribe in cash at any time on or before 31 December 2001 for fully paid ordinary shares of HK\$0.01 each in the Company at the initial subscription price of HK\$0.050 and at the adjusted subscription price of HK\$0.040 with effect from 7 April 2000. The exercise in full of such warrants would result in the issue of 541,695,467 additional ordinary shares by the Company.

# Notes on Accounts

31 March 2001

## 19. RESERVES

	Share premium account <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Group:</b>					
At 1 April 2000	196,815	861	110,578	(211,396)	96,858
Net loss for the year	-	-	-	(82,506)	(82,506)
Issue of shares					
at a premium	72,550	-	-	-	72,550
Repurchase of shares	(3,320)	-	-	-	(3,320)
<b>At 31 March 2001</b>	<b><u>266,045</u></b>	<b><u>861</u></b>	<b><u>110,578</u></b>	<b><u>(293,902)</u></b>	<b><u>83,582</u></b>
<b>Company:</b>					
At 1 April 2000	196,815	861	241,054	(310,655)	128,075
Net loss for the year	-	-	-	(22,716)	(22,716)
Issue of shares					
at a premium	72,550	-	-	-	72,550
Repurchase of shares	(3,320)	-	-	-	(3,320)
<b>At 31 March 2001</b>	<b><u>266,045</u></b>	<b><u>861</u></b>	<b><u>241,054</u></b>	<b><u>(333,371)</u></b>	<b><u>174,589</u></b>
<b>Group:</b>					
At 1 April 1999	69,698	861	32,259	(162,113)	(59,295)
Net loss for the year	-	-	-	(49,283)	(49,283)
Issue of shares					
at a premium	140,139	-	-	-	140,139
Expenditure on issue of shares	(13,022)	-	-	-	(13,022)
Credit arising from reduction of paid-up share capital	-	-	78,319	-	78,319
<b>At 31 March 2000</b>	<b><u>196,815</u></b>	<b><u>861</u></b>	<b><u>110,578</u></b>	<b><u>(211,396)</u></b>	<b><u>96,858</u></b>

**19. RESERVES** *(Continued)*

	<b>Share premium account HK\$'000</b>	<b>Capital redemption reserve HK\$'000</b>	<b>Contributed surplus HK\$'000</b>	<b>Accumulated losses HK\$'000</b>	<b>Total HK\$'000</b>
<b>Company:</b>					
At 1 April 1999	69,698	861	162,735	(292,916)	(59,622)
Net loss for the year	-	-	-	(17,739)	(17,739)
Issue of shares at a premium	140,139	-	-	-	140,139
Expenditure on issue of shares	(13,022)	-	-	-	(13,022)
Credit arising from reduction of paid-up share capital	-	-	78,319	-	78,319
	<u>196,815</u>	<u>861</u>	<u>241,054</u>	<u>(310,655)</u>	<u>128,075</u>
At 31 March 2000	<u>196,815</u>	<u>861</u>	<u>241,054</u>	<u>(310,655)</u>	<u>128,075</u>

**Contributed Surplus**

The contributed surplus of the Group represents the difference between the nominal amount of the share capital of the subsidiaries at the date on which they were acquired by the Group and the nominal amount of the share capital issued by the Company as consideration for the acquisition under the reorganisation.

The contributed surplus of the Company represents the difference between the consolidated shareholders' funds of the subsidiaries at the date on which they were acquired by the Company, and the nominal amount of the Company's shares issued for the acquisition at the time of the corporate reorganisation prior to the listing of the Company's shares in 1993.

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

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

As at 31 March 2001, the Company had no reserves available for distribution.



## 20. CONVERTIBLE BONDS

### November 1999 Convertible Bonds

In December 1999, the Company issued convertible bonds with an aggregate principal amount of HK\$10,000,000 at an initial conversion price of HK\$0.05 per conversion share payable in cash upon subscription (“the November 1999 Convertible Bonds”).

The November 1999 Convertible Bonds bear interest at a rate of 3% per annum on the principal amount outstanding from time to time, and the interest on the outstanding principal amount from time to time is repayable semi-annually in arrears by the Company.

Upon maturity on 31 December 2001, the Company will repay to the bondholders the outstanding principal amount together with interest accrued thereon up to and including the date of actual repayment on 31 December 2001.

The outstanding principal of the November 1999 Convertible Bonds may be converted into ordinary shares of the Company in integral multiples of HK\$100,000 at any time after the date of the issue thereof to full repayment, at an initial conversion price of HK\$0.05 per conversion share (subject to adjustments).

In January 2000, the entire November 1999 Convertible Bonds with an aggregate principal amount of HK\$10,000,000 were converted at the initial conversion price of HK\$0.05 per conversion share, resulting in the issue of 200,000,000 ordinary shares of HK\$0.01 each by the Company.

### March 2000 Convertible Bonds

In March 2000, the Company issued convertible bonds with an aggregate principal amount of HK\$60,000,000 at an initial conversion price of HK\$0.10 per conversion share payable in cash upon subscription (“the March 2000 Convertible Bonds”).

The March 2000 Convertible Bonds bear interest at a rate of 3% per annum on the principal amount outstanding from time to time, and the interest on the outstanding principal amount from time to time is repayable semi-annually in arrears by the Company commencing from 30 September 2000.

Upon maturity on 31 December 2001, the Company will repay to the bondholders the outstanding principal amount together with interest accrued thereon up to and including the date of actual repayment on 31 December 2001.

The outstanding principal of the March 2000 Convertible Bonds may be converted into ordinary shares of the Company in integral multiples of HK\$100,000 at any time after the date of the issue thereof up to full repayment at the discretion of the bondholders, at an initial conversion price of HK\$0.10 per conversion share (subject to adjustments). The full conversion of the March 2000 Convertible Bonds into shares of the Company would result in the issue of 600,000,000 ordinary shares by the Company.

In April 2000, due to the then cash surplus in the Group, the entire March 2000 Convertible Bonds with an aggregate principal amount of HK\$60,000,000 were redeemed from the subscribers at the respective amounts for which the respective subscribers subscribed.

**21. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT****(a) Reconciliation of loss from operations to net cash outflow from operating activities**

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Loss from operations	(78,217)	(46,575)
Interest income	(2,062)	(1,724)
Provision against carrying value of properties held for resale	–	4,813
Gain on disposal of subsidiaries	–	(301)
Amortisation of goodwill	4,350	–
Depreciation	7,459	7,771
Provision for doubtful debts	–	23,344
Loss on disposal of tangible fixed assets	742	177
Changes in working capital:		
Properties held for resale	19,284	–
Trade debtors, sundry deposits and prepayments, and other debtors	15,212	(39,756)
Amount due by an associate	(2,865)	–
Inventories	(998)	1,587
Other investments	(14,298)	(10,253)
Amounts due to directors	762	(3,493)
Trade and other payables	(26,497)	26,807
	<u>(77,128)</u>	<u>(37,603)</u>

**(b) Acquisition of subsidiaries**

The considerations for acquisition of the subsidiaries were satisfied by cash paid.

Subsidiaries acquired during the year contributed approximately HK\$1,098,000 to the Group's loss from operations, approximately HK\$1,360,000 to the Group's net operating cashflows, received approximately HK\$6,000 in respect of returns on investments and servicing of finance and utilised approximately HK\$202,000 for investing activities.

**(c) Disposal of subsidiaries**

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Net assets disposed of	–	–
Gain on disposal of subsidiaries	–	301
	<u>–</u>	<u>301</u>
<i>Satisfied by:</i>		
Cash consideration received	–	301
	<u>–</u>	<u>301</u>

The cash flows contributed or utilised by subsidiaries disposed of during the year ended 31 March 2000 were not material to the Group as a whole.

## 21. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

### (d) Analysis of changes in financing during the year

	Share capital and premium <i>HK\$'000</i>	Convertible bonds <i>HK\$'000</i>	Unsecured loan <i>HK\$'000</i>	Obligations under hire- purchase contracts <i>HK\$'000</i>	Minority interests <i>HK\$'000</i>
Balance at 1 April 2000	353,598	60,000	1,980	5,850	-
Loss for the year attributable to minority shareholders	-	-	-	-	(19)
Net cashflows from financing	<u>86,525</u>	<u>(60,000)</u>	<u>-</u>	<u>(5,843)</u>	<u>30</u>
<b>Balance at 31 March 2001</b>	<b><u>440,123</u></b>	<b><u>-</u></b>	<b><u>1,980</u></b>	<b><u>7</u></b>	<b><u>11</u></b>

  

	Share capital and premium <i>HK\$'000</i>	Convertible bonds <i>HK\$'000</i>	Short-term loan <i>HK\$'000</i>	Obligations under hire- purchase contracts <i>HK\$'000</i>	Unsecured loan <i>HK\$'000</i>
Balance at 1 April 1999	189,840	-	6,645	16,164	-
Allotment monies offset against short-term loans	8,000	-	(8,000)	-	-
Net cashflows from financing	<u>155,758</u>	<u>60,000</u>	<u>1,355</u>	<u>(10,314)</u>	<u>1,980</u>
Balance at 31 March 2000	<b><u>353,598</u></b>	<b><u>60,000</u></b>	<b><u>-</u></b>	<b><u>5,850</u></b>	<b><u>1,980</u></b>

In January 2000, the Company issued and allotted 100,000,000 ordinary shares of HK\$0.01 each to an unsecured lender at a subscription price of HK\$0.08 each to repay part of the short-term loan owed by the Company to the unsecured lender and interest accrued thereon to the extent of HK\$8,000,000.

## 22. RELATED PARTY TRANSACTIONS

During the year, the Group had entered into the following material related party transactions which, in the opinion of the directors, were carried out on normal commercial terms and in the ordinary course of the Group's business:-

Name of related parties	Related party relationship	Nature of transactions	2001	2000
			HK\$'000	HK\$'000
Head Full Limited	Company in which an ex-director has beneficial interest	Consultancy fee - paid	75	1,300
		Balance as at 31 March payable by the Group and included in accrued expenses ( <i>Note i</i> )	-	500
Ivan Tang & Company	Firm in which a director is a partner	Legal and professional fees - paid ( <i>Note ii</i> )	632	-
		Balance as at 31 March payable by the Group as shown on the balance sheet ( <i>Note i</i> )	762	-

*Notes:*

- (i) The amounts payable to the above related parties are unsecured, interest-free and have no fixed terms of repayment.
- (ii) The amount was paid prior to the date on which Mr Tang Yiu Wing became an executive director of the Company. The fees were for the provision of legal advice to the Group and calculated on a time cost reimbursement basis.

## 23. CONTINGENT LIABILITIES

As at 31 March 2001, there were contingent liabilities in respect of the following:-

- (i) During the year under review, Merway Limited, a wholly-owned subsidiary of the Company, brought legal actions against a customer claiming a sum of HK\$1,050,000 in relation to sub-contracting charges due to Merway Limited by the customer pursuant to a sub-contracting agreement between the Company and the customer. The customer filed a defence in response to the claim, and filed a counterclaim against the Company for alleged breach of contract. As a result, claims for damages and loss of profits in aggregate of HK\$20,000,000 together with interests and costs have been brought against the Company. The Company has sought appropriate legal advice and is going to vigorously pursue its original claim against the customer and defend the counterclaim brought by the customer. As at the date of this report, the proceedings are still ongoing. After taking into consideration the advice of the Group's legal counsel, the directors consider the outcome of the proceedings will not have material adverse financial effect in the Group.
- (ii) The Company is also a defendant in a law suit brought by a supplier during the year ended 31 March 1998 claiming approximately HK\$1,962,000 together with interest and costs relating to a guarantee in respect of a credit facility granted to RCR Electronics Manufacturing Limited, a former subsidiary of the Company. The Company filed a defence in March 1999 in response to the claim and since then, the supplier has taken no further action against the Company. Since the outcome of the litigation could not be determined with reasonable certainty at this stage, no provision has been made in the financial statements.

## 24. CAPITAL COMMITMENTS

At 31 March 2001, the Group had the following commitments which were not provided for in the accounts:-

	<b>Group</b>	
	<b>2001</b>	<b>2000</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<i>Authorised and contracted for:-</i>		
Acquisition of tangible fixed assets	–	3,750
Acquisition of investment	<b>20,000</b>	–
Additional capital contribution in subsidiaries	–	339,445
	<u>20,000</u>	<u>343,195</u>

At 31 March 2001, the Company had no capital commitments.

## 25. OPERATING LEASE COMMITMENTS

At 31 March 2001, the Group had commitments in respect of operating leases of land and buildings to make payments in the next year as follows:-

	<b>Group</b>	
	<b>2001</b>	2000
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Operating leases which expire:		
- Within one year	<b>308</b>	-
- In two to five years	<b>408</b>	451
	<b><u>716</u></b>	<u>451</u>

At 31 March 2001, the Company did not have any commitments under operating leases.

## 26. RETIREMENT BENEFITS SCHEME

Certain subsidiaries of the Group in Hong Kong participate in a pension scheme, which was registered under the Mandatory Provident Fund Schemes Ordinance (the "MPF Ordinance"), for all the employees in Hong Kong. The scheme is a defined contribution scheme effective from December 2000 and is funded by contributions from employer and employees according to the provisions of the MPF Ordinance. During the year under review, the total amount contributed by the Group to the scheme and charged to the consolidated income statement amounted to approximately HK\$58,000 and no contributions were forfeited.

## 27. AUTHORISATION FOR ISSUE OF ACCOUNTS

The accounts were approved and authorised for issue by the Board of Directors on 23 July 2001.