

Notes to Financial Statements

For the year ended 31 March 2001

1. GENERAL INFORMATION

The Company is incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited. During the year ended 31 March 2001, the Group was principally involved in property investment, property development, operation of web sites and related services. During the year, the Group diversified into the manufacture and marketing of telecommunication and consumer electronic products. Other than the foregoing, there were no significant changes in the nature of the Group's business during the year.

2. BASIS OF PREPARATION

During the year ended 31 March 2001, the Group attained a net profit attributable to shareholders of HK\$15,677,000 which was primarily attributable to a gain of HK\$154,830,000 realized from the disposal of a 49% equity interest in Listar Properties Limited, a then wholly-owned subsidiary of the Company. The Group's operations of property investment, property development, manufacture and marketing of telecommunication and consumer electronic products, and web sites and related services were, however, loss-making.

As at 31 March 2001, the Group had net current liabilities of HK\$298,533,000. Notwithstanding this, the financial statements have been prepared on the assumption that the Group will continue to operate as a going concern. In the opinion of the directors, the Group will have sufficient working capital to continue its operations in the coming year, after taking into consideration the following:

- (a) The Group is currently negotiating with its principal bankers and convertible notes holders to extend and re-schedule the repayment terms of certain bank loans and borrowings which either have been over due for payment at the balance sheet date or would be due for repayments in the coming year.
- (b) The Group is currently seeking potential buyers for certain of its non-core investments and other properties. As part of the Group's strategic plans, the Group intends to divest these investments and properties and thereby to obtain additional cash resources for the repayment of its overdue indebtedness and/or to provide additional working capital for other business pursuits. As at the date of approval of these financial statements, the Group has been approached by a number of potential investors indicating their interests in acquiring certain of the Group's assets.
- (c) Subsequent to the balance sheet date, the unsecured creditors of Team Concepts Manufacturing Limited ("TCM"), an indirect subsidiary of the Company, have approved a Scheme of Arrangement under which South Sea Holding Company Limited ("South Sea"), the holding company of TCM and a subsidiary of the Company, will issue new shares and convertible debentures to settle the indebtedness of approximately HK\$119 million owed by TCM to these creditors as at 31 March 2001. As at the date of approval of these financial statements, the Scheme of Arrangement is pending the official approval by the High Court of Hong Kong (*Note 38(d)*).
- (d) The principal banker of South Sea has, in principle, agreed to extend the banking facilities of HK\$121 million granted to TCM. The extension of banking facilities is conditional upon the official approval of the Scheme of Arrangement as stated in (c) above.

2. BASIS OF PREPARATION (Continued)

- (e) Under an agreement entered into on 21 June 2001 between the Company and Marco Resources Limited ("Marco"), a company beneficially owned as to 60% by Mr. Yu Pun Hoi (a director and substantial shareholder of the Company) and as to 40% by Citic Guoan Group Company Limited (a substantial shareholder of the Company), the Company would be able to raise at least HK\$800 million by the issue of convertible loan notes. Up to the date of approval of these financial statements, the Company has raised a total of HK\$700 million, out of which HK\$500 million were paid to Marco for procuring certain transactions for the Company and the remaining HK\$200 million were used to redeem the non-interest bearing convertible notes as stated in Note 25(b) (Note 38(e)).
- (f) Under the same agreement as stated in (e) above, the Company, by paying HK\$500 million to Marco, has acquired an additional 78.8% equity interest in Beijing Shihua International Financial Information Limited ("Beijing Shihua"). The directors believe that the operations of Beijing Shihua will be able to generate strong profit and positive cash flows for the Group.

The directors believe that the aforementioned financing plans and operational measures will be successful and that the principal bankers and creditors will continue to support the Group. Having regard to the cash flow projections of the Group, which are based on the key assumptions that these measures will be successful, the directors are of the opinion that, in light of the measures taken to date, together with the expected results of other measures in progress, the Group will have sufficient cash resources to satisfy its future working capital and other financing requirements. Accordingly, the financial statements have been prepared on a going concern basis.

Should the Group be unable to generate positive cash flows, the Group might not be able to continue in business as a going concern. Accordingly, adjustments would have to be made to restate the values of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

The financial statements on page 21 to 77 are prepared in accordance with and comply with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants. The financial statements are prepared under the historical cost convention as modified by the valuation of certain property, plant and equipment.

3. PRINCIPAL ACCOUNTING POLICIES

(a) Basis of consolidation

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

The results of subsidiaries acquired or disposed of during the year are consolidated from or to the effective dates of their acquisition or disposal, respectively.

The financial statements also include the Group's share of post-acquisition results and reserves of its associates and jointly controlled entities.

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

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(b) Goodwill/capital reserve

Goodwill arising on consolidation of subsidiaries and premium arising on acquisition of jointly controlled entities and associates represents the excess of purchase consideration paid over the fair values ascribed to the net underlying assets acquired and are either eliminated against reserves in the year of acquisition, or amortized by equal instalments through the income statement over their estimated useful lives to the Group as deemed appropriate by the directors. The unamortized portion of premium arising on acquisition is included as part of the Group's interests in jointly controlled entities and associates.

Capital reserve arising on consolidation represents the excess of the fair values ascribed to the net underlying assets of the acquired subsidiaries, jointly controlled entities or associates at the date of acquisition over the purchase consideration.

Upon the disposal of an interest in a subsidiary, jointly controlled entity or an associate, the attributable capital reserve, or the amount of purchased goodwill or premium, which had previously been eliminated against reserves and had not previously been charged to the income statement, is credited or charged to the income statement to determine the gain or loss on sale of the investments.

(c) Subsidiaries

Subsidiaries are those enterprises in which the Company directly or indirectly controls more than half of the voting power, or holds more than half of the issued share capital, or controls the composition of the board of directors.

Investments in subsidiaries are carried at cost less provision for permanent diminution in value where necessary.

(d) Associates

An associate is a company, other than a subsidiary, in which the Group has a long term equity interest and over which the Group is in a position to exercise significant influence on its financial and operating policy decisions.

The results of associates are accounted for by the Group using the equity method of accounting. The Group's investments in associates are stated at its share of their net assets. The Company's investments in associates are stated at cost less provision for permanent diminution in value where necessary.

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 asset transferred.

(e) Joint ventures

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

The Group's interests in jointly controlled entities are initially recorded at cost and adjusted thereafter for the post-acquisition change in the Group's share of the net assets of the jointly controlled entities. The Group's share of post-acquisition results of jointly controlled entities is included in the consolidated income statement.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)**(f) Property, plant and equipment***(i) Depreciation and amortization*

Depreciation is provided to write off the cost or valuation of property, plant and equipment over their estimated useful lives, using the straight line method, at the following rates per annum:

Leasehold land	Over the lease terms
Buildings	2% to 5% or over the lease terms, whichever is shorter
Leasehold improvements	15% to 33 $\frac{1}{3}$ %
Furniture, fixtures and equipment	10% to 33 $\frac{1}{3}$ %
Motor vehicles and pleasure yacht	10% to 33 $\frac{1}{3}$ %

Assets held under finance leases are depreciated over their estimated useful lives or where shorter the term of the lease using the same method as owned assets in the same category.

(ii) Measurement bases

Property, plant and equipment other than investment properties are stated at cost or valuation less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to the working condition and location for its intended use. Subsequent expenditure relating to property, plant and equipment is added to the carrying amount of the assets if it can be demonstrated that such expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the assets.

Surplus arising on revaluation of property, plant and equipment other than investment properties is credited to asset revaluation reserve. A decrease in net carrying amount arising on revaluation is charged to the income statement to the extent that this exceeds the surplus, if any, held in asset revaluation reserve relating to the previous revaluation of the same item of assets. A revaluation increase is recognised as income to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense.

When assets are sold or retired, any gain or loss resulting from their disposal, being the difference between the net disposal proceeds and the carrying amount of the assets, is included in the income statement. Any revaluation surplus relating to the assets under disposal is transferred to retained profits.

Notes to Financial Statements

For the year ended 31 March 2001

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(g) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential.

Investment properties held on leases with unexpired periods longer than 20 years are not depreciated and stated at their open market values on the basis of annual professional valuation performed at the end of each financial year. The valuations are incorporated in the annual financial statements. Increases in valuation are credited to the investment property revaluation reserve; decreases are first offset against increases on earlier valuations on a portfolio basis and thereafter are charged to operating profit. A revaluation increase is recognised as income to the extent that it reverses revaluation decrease previously recognised as an expense.

Investment properties held on leases with unexpired periods of 20 years or less are depreciated over the remaining periods of the leases.

Upon disposal, the revaluation surpluses relating to the investment properties disposed of are released from the investment property revaluation reserve and charged to the income statement.

(h) Hotel properties

Hotel properties are interests in land and buildings and their integral fixed plant, furniture and fixtures and operating equipment which are collectively used in the operations of the hotel. Hotel properties are stated at their estimated open market value at the balance sheet date.

No depreciation is provided on hotel properties or on their integral fixed plant, furniture and fixtures and operating equipment. It is the Group's practice to maintain these assets in a continual state of sound repair and to make improvements thereto from time to time and accordingly, the directors consider that the residual value is so high that depreciation is insignificant. Expenditure on repairs and improvements of furniture and fixtures and renovation works is dealt with in the income statement through a planned maintenance provision account.

Hotel properties are valued annually by external professional valuers. The valuations are on an open market value basis related to individual properties. The valuations are incorporated in the annual financial statements. Increases in valuation are credited to the asset revaluation reserve; decreases are first offset against increases on earlier valuations on a portfolio basis and thereafter are charged to operating profit. A revaluation increase is recognised as income to the extent that it reverses revaluation decrease previously recognised as an expense.

(i) Land held for development

Land held for development is stated at cost less provisions for permanent diminution in value.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(j) Investments

Investment securities are securities which are intended to be held on a continuing basis for an identified long-term purpose. Investment securities are stated in the balance sheet at cost less provisions for diminution in value. Provisions are made when the fair value of such securities has declined below the carrying amounts, unless there is evidence that the decline is temporary. The amount of the reduction is recognised as an expense in the income statement.

All other securities, whether held for trading or otherwise, are stated in the balance sheet at fair value. Changes in fair value are recognised in the income statement as they arise.

Dividend income from investments in securities is accounted for to the extent of amounts received and receivable up to and as at the balance sheet date.

(k) Interests in property development projects

Interests in property development projects are included under long term investments and stated at cost, which comprises development costs contributed towards the projects and other incidental costs, less foreseeable losses, if any. The results of the projects are recognised in the financial statements to the extent of distributions received.

(l) Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Cost includes all development expenditure, applicable borrowing costs and other direct costs attributable to such properties. Net realisable value is estimated by the directors based on prevailing market prices, on an individual property basis, less any further costs expected to be incurred in selling.

(m) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials computed using the weighted average method and, where applicable, direct labour and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value is calculated as the actual or estimated selling price less all further costs of production and the estimated costs necessary to make the sale.

(n) Leases

(i) Finance leases

Leases are classified as finance leases whenever the terms of the leases transfer substantially all the risks and rewards of ownership of the assets to the Group. Assets leased under finance leases are capitalised at their fair value at the date of acquisition. The corresponding leasing commitments are shown as obligations to the lessor. The finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement in proportion to the capital balances outstanding.

Notes to Financial Statements

For the year ended 31 March 2001

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(n) Leases (Continued)

(ii) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Annual rentals applicable to such operating leases are charged or credited to the income statement on a straight line basis over the lease terms.

(o) Foreign currencies

Transactions in foreign currencies are translated into Hong Kong dollars at the rates of exchange ruling at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Hong Kong dollars at the rates of exchange ruling at that date. Gains and losses arising on exchange are dealt with in the income statement.

The financial statements of subsidiaries, associates and jointly controlled entities expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Gains and losses arising on exchange are dealt with as movements in currency translation reserve.

(p) Deferred tax/future tax benefits

Deferred tax is provided, using the liability method, on all significant timing differences, other than those which are not expected to crystallise in the foreseeable future.

Future tax benefit is not carried forward as an asset unless the benefit can be regarded as being virtually certain of realisation.

(q) Retirement benefits scheme

The Group's contributions to the defined contribution retirement schemes are expensed as incurred and are reduced by contributions forfeited by those employees who leave the schemes prior to vesting fully in the contributions. The assets of the schemes are held separately from those of the Group in an independently administered fund.

(r) Research and development costs

Research and product development costs are expensed as incurred, except for development costs where the technical feasibility of the product under development has been demonstrated, costs are identifiable and a market exists for the product such that it is probable that it will be profitable. Such development costs are recognised as an asset and amortized on a straight-line basis over a period of not more than three years to reflect the pattern in which the related economic benefits are recognised.

(s) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand and amounts repayable on demand with banks, financial institutions and short-term highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired, less advances from banks and financial institutions repayable within three months from the date of the advance.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(t) Recognition of revenue

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

- the sale of properties held for sale, when legally binding unconditional sales contracts are signed and exchanged;
- the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- the rendering of services, when the service are provided;
- interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and
- rental income, on a straight-line basis over the lease terms.

(u) 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.

Notes to Financial Statements

For the year ended 31 March 2001

4. TURNOVER AND PROFIT/(LOSS) FROM OPERATIONS

An analysis of the Group's turnover and profit/(loss) from operations by principal activities is as follows:

	Group		Group	
	Turnover		Profit/(Loss) from operations	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Continuing operations:				
Operation of web sites and related services	65,678	2,147	(26,776)	(16,819)
Property sales	36,322	145,629	(2,556)	(67,504)
Property investment	3,512	12,544	(5,963)	(46,934)
Provision of electronic manufacturing services	212,039	–	(68,255)	–
Sales of consumer electronic products	96,975	–	(59,180)	–
Sales of securities	29,632	–	3,384	–
Sales of telecommunication products	40,312	–	(18,199)	–
	484,470	160,320	(177,545)	(131,257)
Other revenue			35,938	8,321
Gain on partial disposal of subsidiaries			164,630	–
	484,470	160,320	23,023	(122,936)
Discontinued operations:				
Hotel operations	–	125,355	–	259,374
	484,470	285,675	23,023	136,438

An analysis of the Group's turnover by principal markets is as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
Europe	91,803	–
Hong Kong	68,425	158,173
The People's Republic of China ("PRC") (other than Hong Kong)	65,677	2,147
The Philippines	–	125,355
United States of America and Canada	31,720	–
Others	226,845	–
	484,470	285,675

5. OTHER REVENUE

	Group	
	2001 HK\$'000	2000 HK\$'000
Write back of provision for diminution in value of land held for development for sale	490	490
Interest income	34,592	6,853
Sundry income	856	978
	35,938	8,321

6(a). PROFIT/(LOSS) FROM OPERATIONS

	Group	
	2001 HK\$'000	2000 HK\$'000
Profit/(Loss) from operations is arrived at after charging:		
Auditors' remuneration		
– current year	3,097	3,600
– prior year underprovision	–	23
	3,097	3,623
Depreciation:		
Owned property, plant and equipment	19,775	4,010
Leased property, plant and equipment	275	119
	20,050	4,129
Amortisation of premium on acquisition of a jointly controlled entity	–	667
Operating lease rentals on land and buildings	9,886	4,135
Staff costs (excluding directors' remuneration)*	70,742	38,655
Redundancy costs	3,454	–
Pension contributions:		
Gross pension cost	1,900	1,715
Less: forfeited contributions	(602)	(139)
Net pension cost	1,298	1,576

Notes to Financial Statements

For the year ended 31 March 2001

6(a). PROFIT/(LOSS) FROM OPERATIONS (Continued)

	Group 2001 HK\$'000	2000 HK\$'000
Cost of inventories sold – properties held for sale	38,878	169,493
Cost of provision of hotel services	–	80,974
Cost of provision of web sites and related services	9,630	2,490
Cost of inventories sold – telecommunication products	45,326	–
Cost of inventories sold – consumer electronic products	124,437	–
Cost of provision of electronic manufacturing services	210,942	–
Cost of sales of securities	25,049	–
Provision for diminution in value of properties held for sale	–	9,213
Deficit on revaluation of investment properties	6,000	7,000
Write down of interests in and an amount due from a jointly controlled entity	–	4,667
Write down of interests in a property development project to net realisable value	–	9,200
Provision for bad and doubtful debts	33,105	562
Loss on disposal of investment properties	–	22,987
Loss on disposal of a jointly controlled entity	–	24,066
Provision for inventories	24,497	–
Amortisation of goodwill	5,122	–
Amortisation of product development costs	6,787	–

* A portion of staff costs in the amount of HK\$23,142,000 was included under the Group's cost of provision of hotel services in last year.

6(b). FINANCE COSTS

	Group 2001 HK\$'000	2000 HK\$'000
Continuing operations		
Interest on		
Bank loans and overdrafts		
– wholly repayable within five years	19,529	27,195
– not wholly repayable within five years	11,027	10,301
Other loans and convertible notes		
– wholly repayable within five years	15,546	24,500
Finance leases	240	42
	46,342	62,038
Discontinued operations		
Interest on bank loans and overdrafts		
– wholly repayable within five years	–	17,451
	46,342	79,489

7. TAXATION

The tax (credit)/charge comprises:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Company and subsidiaries:		
Overseas current tax		
– (Over)/Under-provision in prior years	(808)	16
– Provision for the year	225	5,703
Deferred tax (<i>Note 26</i>)	(295)	–
	(878)	5,719

No Hong Kong profits tax has been provided in the financial statements as the Group did not derive any assessable profit for the year. Overseas tax is provided in accordance with the legislation and tax rates prevailing in the respective overseas countries.

The amount of unprovided deferred tax (charge)/credit for the year is as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Tax effect of timing differences attributable to:		
Accelerated depreciation allowances	(11)	(91)
Tax losses	10,115	(19,159)
	10,104	(19,250)

8. DISCONTINUED OPERATIONS

	Group	
	2001	2000
	HK\$'000	HK\$'000
Operating profit generated from discontinued operations in respect of hotel operations	–	259,374

Hotel operations

During the year ended 31 March 2000, the Group discontinued its business of hotel operations, the principal market of which was located in the Philippines. The discontinuance was accomplished by the disposal of the Group's entire investments in the issued share capital of two subsidiaries which were the holding companies of the hotel operations. The effective date of discontinuance for accounting purposes was 29 February 2000. The resulting gain on disposal of subsidiaries in the amount of HK\$228,678,000 has been included in arriving at the operating profit from discontinued operations for that year.

Notes to Financial Statements

For the year ended 31 March 2001

9. PROFIT FOR THE YEAR ATTRIBUTABLE TO SHAREHOLDERS

The profit for the year attributable to shareholders dealt with in the financial statements of the Company is HK\$590,673,000 (2000 : loss of HK\$25,863,000).

10. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the year of HK\$15,677,000 (2000: HK\$47,987,000) and the weighted average of 3,915,589,370 (2000: 3,100,181,091) ordinary shares in issue during the year.

As the exercise prices of the options outstanding during the year are higher than the average market price of the Company's share during the year, the diluted earnings per share for the year ended 31 March 2001 is not presented because the impact of the exercise of the options is anti-dilutive.

11. PROPERTY, PLANT AND EQUIPMENT

Group

	Hotel properties HK\$'000	Investment properties HK\$'000	Land and buildings HK\$'000	Properties under development HK\$'000	Leasehold improvements, furniture, fixtures and equipment HK\$'000	Motor vehicles and pleasure yacht HK\$'000	Total HK\$'000
Cost or valuation							
At 1 April 2000	-	110,000	-	-	15,111	2,663	127,774
Additions	-	-	-	-	27,042	243	27,285
Acquisition of subsidiaries	83,448	-	100,158	222,645	175,318	6,034	587,603
Reallocation from properties held for sale	-	-	960	-	-	-	960
Deficit on revaluation	-	(6,000)	-	-	-	-	(6,000)
Disposals	-	-	(1,047)	-	(4,331)	(2,598)	(7,976)
Exchange adjustment	-	-	-	-	(573)	-	(573)
At 31 March 2001	83,448	104,000	100,071	222,645	212,567	6,342	729,073
Accumulated depreciation							
At 1 April 2000	-	-	-	-	5,352	2,095	7,447
Charge for the year	-	-	1,172	-	18,603	275	20,050
Acquisition of subsidiaries	-	-	15,558	-	123,835	5,114	144,507
Disposals	-	-	(207)	-	(3,265)	(1,921)	(5,393)
Exchange adjustment	-	-	-	-	(296)	-	(296)
At 31 March 2001	-	-	16,523	-	144,229	5,563	166,315
Net book value							
At 31 March 2001	83,448	104,000	83,548	222,645	68,338	779	562,758
At 31 March 2000	-	110,000	-	-	9,759	568	120,327
At cost or at valuation							
At cost	-	-	62,562	-	212,567	6,342	281,471
At valuation	83,448	104,000	37,509	222,645	-	-	447,602
At 31 March 2001	83,448	104,000	100,071	222,645	212,567	6,342	729,073

11. PROPERTY, PLANT AND EQUIPMENT (Continued)

Company

	Leasehold improvements, furniture and fixtures <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost			
At 1 April 2000	1,265	674	1,939
Additions	368	–	368
Disposals	(4)	–	(4)
At 31 March 2001	1,629	674	2,303
Accumulated depreciation			
At 1 April 2000	757	435	1,192
Charge for the year	348	104	452
Disposals	(4)	–	(4)
At 31 March 2001	1,101	539	1,640
Net book value			
At 31 March 2001	528	135	663
At 31 March 2000	508	239	747

- (a) Hotel properties and properties under development at 31 March 2001 are situated outside Hong Kong and held under long term leases. They were valued by DTZ Debenham Tie Leung Limited, independent professional qualified valuer, at 31 March 2001 on an open market value basis.

Particulars of the hotel properties and properties under development are set out below:

Location	Uses
Golden Era Hotel ("Hotel") and the proposed extension ("Proposed Extension"), No. 1 Dong San Huan South Road, Chao Yang District, Beijing, the PRC	The Hotel is operated as local class hotel and the Proposed Extension is under development

The hotel properties and the properties under development were originally owned by a PRC party and subsequently transferred to Beijing Golden Era Hotel Limited, a wholly-owned subsidiary of the Company (Note 12). However, the legal titles of these properties have not yet been changed to the subsidiary as at the year end date.

At 31 March 2001, all of the Group's hotel properties and properties under development were pledged to secure the banking facilities granted to the Group.

Notes to Financial Statements

For the year ended 31 March 2001

11. PROPERTY, PLANT AND EQUIPMENT (Continued)

- (b) The Group's investment properties are all situated in Hong Kong and are held under long term leases.

The Group's investment properties were valued as at 31 March 2001 by Vigers Hong Kong Limited, independent professional qualified valuers, on an open market, existing use basis at HK\$104,000,000. The deficit of HK\$6,000,000 arising from the revaluation of investment properties, representing the shortfall of the revalued amounts below the carrying values of these properties, has been charged to the income statement.

At 31 March 2001, all of the Group's investment properties were pledged to secure general banking facilities granted to the Group.

- (c) During the year, leasehold land and buildings of HK\$960,000 were reallocated at carrying value from properties held for sale as the directors have changed the intended use of the property.

The Group's land and buildings were valued by Vigers Hong Kong Limited, independent professional qualified valuers, on an open market value basis on 19 March 1993.

The net book value of land and buildings is analysed as follows:

	2001 HK\$'000	2000 HK\$'000
Medium term leasehold		
Hong Kong	33,034	—
Outside Hong Kong	50,514	—
	<hr/> 83,548 <hr/>	<hr/> — <hr/>

- (d) The net book value of the property, plant and equipment of the Group held under finance leases amounted to HK\$1,700,000 (2000: HK\$309,000).

12. INTERESTS IN SUBSIDIARIES

	2001 HK\$'000	Company 2000 HK\$'000
Unlisted shares, at cost	321,782	398,222
Amounts due from subsidiaries	2,809,620	1,987,761
Less: Provisions	(777,500)	(777,500)
	<u>2,353,902</u>	<u>1,608,483</u>

Included in the amounts due from subsidiaries are amounts of HK\$145,000,000 (2000: HK\$145,000,000) and HK\$266,831,000 (2000: HK\$247,903,000) which bear interest at 5% and 7% per annum respectively. Except for the above, the balances with subsidiaries are unsecured, interest free and the Company has undertaken not to demand repayment within one year from 31 March 2001.

Certain loan advances to a subsidiary were pledged to secure the Group's credit facilities (Note 34).

The following table lists the particulars of the subsidiaries of the Company which, in the opinion of the directors, principally affected the results of the year 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	Country/Place of incorporation/ registration and operations	Issued and paid-up capital/ registered capital	Percentage held by the Company		Principal activities
			directly	indirectly	
Huckerbye Limited	British Virgin Islands/Hong Kong	US\$1	100	-	Property investment
Key On Limited	Hong Kong	HK\$200	100	-	Property investment
Linfield Properties Limited	British Virgin Islands	US\$10,000	55	30	Investment holding
Rich Country Enterprises Limited	Hong Kong	HK\$2	100	-	Property development
South Sea Development (Canada) Limited	Canada	CAD\$100	100	-	Investment holding
Techgood Development Limited	Hong Kong	HK\$2	100	-	Provision of office management services

Notes to Financial Statements

For the year ended 31 March 2001

12. INTERESTS IN SUBSIDIARIES (Continued)

Name	Country/Place of incorporation/ registration and operations	Issued and paid-up capital/ registered capital	Percentage held by the Company		Principal activities
			directly	indirectly	
Union Max Development Limited	Hong Kong	HK\$2	100	–	Investment holding
Win Pacific Development Limited	Hong Kong	HK\$2	100	–	Investment holding
Sino-i.com (Shanghai) Ltd	Hong Kong	HK\$2	100	–	Property investment
Airmount Limited	Hong Kong	HK\$200	–	100	Property investment
Crown Hint Limited	Hong Kong	HK\$2	–	100	Investment holding
Evallon Investment Limited	Hong Kong	HK\$1,000,000	–	100	Investment holding
Ever Genius Development Limited	Hong Kong	HK\$2	–	85	Investment in property development projects
General Wise Development Limited	Hong Kong	HK\$2	–	85	Investment in property development projects
Grand Sea Development Limited	Hong Kong	HK\$2	–	100	Investment holding
Listar Properties Limited	British Virgin Islands	US\$20,000,000	1 (2000: 50)	50 (2000: 50)	Investment holding
Honest Link Development Limited ("Honest Link")	Hong Kong	HK\$2	–	51 (2000: 100)	Investment holding

12. INTERESTS IN SUBSIDIARIES (Continued)

Name	Country/Place of incorporation/ registration and operations	Issued and paid-up capital/ registered capital	Percentage held by the Company		Principal activities
			directly	indirectly	
Guangzhou Dong Jin Xin Cheng Properties Co., Ltd ("Dong Jin")*	PRC	RMB34,642,586	–	51 (2000: 100)	Property development
Jet Sharp Development Limited	Hong Kong	HK\$2	–	85	Investment holding
Oriental Rise Limited	Hong Kong	HK\$2	–	100	Property investment
Oriental Team Development Limited	Hong Kong	HK\$2	–	100	Property investment
Richmond Towers Investments Limited	Canada	CAD\$3,000	–	100	Property development
Union Key Limited	Hong Kong	HK\$2	–	100	Investment holding
Topwide Corporation	British Virgin Islands	US\$1	100	–	Investment holding
Swift Gain International Inc.	British Virgin Islands	US\$1	100	–	Investment holding
Mark Chain Limited	Hong Kong	HK\$2	–	100	Investment holding
Admiral International Group Limited	British Virgin Islands	US\$1	100	–	Investment holding
Beijing Chinese Dadi Distance Education Company Limited	PRC	RMB10,154,174	–	55.92 (2000: 80)	Operation of an educational portal and provision of online distance learning education services

Notes to Financial Statements

For the year ended 31 March 2001

12. INTERESTS IN SUBSIDIARIES (Continued)

Name	Country/Place of incorporation/ registration and operations	Issued and paid-up capital/ registered capital	Percentage held by the Company		Principal activities
			directly	indirectly	
Hampstead International Group Limited	British Virgin Islands	US\$1	–	100	Investment holding
China Enterprise ASP Limited	Hong Kong	HK\$9,000,000	–	80 (2000: 60)	Investment holding
深圳華企網實業發展有限公司	PRC	RMB40,611,900	–	76 (2000: 57)	Operation of web sites and provision of web page design services
Shenzhen Guonan Industrial Development Co., Ltd ("Shenzhen Guonan")**	PRC	RMB3,000,000	–	100	Investment holding
China Education Online Limited	Hong Kong	HK\$2	–	69.90 (2000: 100)	Education portal
Dadi Entertainment Limited	Hong Kong	HK\$2	–	100	Music broadcasting on the Internet
Dadi Media Limited	Hong Kong	HK\$2	100	–	Investment holding
Dadi Music (China) Company Limited	Hong Kong	HK\$2	–	100	Music broadcasting on the Internet
Music Y Y Limited	Hong Kong	HK\$200	–	100	Music portal
Powerful Resources Limited	British Virgin Island	US\$1	–	100	Investment holding
The Net Paper Limited	Hong Kong	HK\$2	–	100	Internet newspaper
Hancheers International Enterprise Limited ("Hancheers")	Hong Kong	HK\$10,000	–	100 (2000: Nil)	Investment holding

12. INTERESTS IN SUBSIDIARIES (Continued)

Name	Country/Place of incorporation/ registration and operations	Issued and paid-up capital/ registered capital	Percentage held by the Company		Principal activities
			directly	indirectly	
Beijing Golden Era Hotel Limited ("Golden Era Hotel")***	PRC	US\$12,000,000	–	100 (2000: Nil)	Hotel operation and investment holding
Victorious Limited	British Virgin Island	US\$1	100	–	Investment holding
South Sea Holding Company Limited ("South Sea") (formerly known as Learning Concepts Holdings Limited)	Bermuda	HK\$663,051,900	–	69.90 (2000: Nil)	Investment holding
Rich King Inc	British Virgin Islands	US\$50,000	– (2000: 100)	69.90	Investment holding
Team Concepts (Hong Kong) Limited	Hong Kong	HK\$11,000,000	–	69.90 (2000: Nil)	Investment holding and provision of management services
Team Concepts International Limited	Hong Kong	HK\$1,000,000	–	69.90 (2000: Nil)	Design and marketing of telecommunication products
Team Concepts Electronics Limited	Hong Kong	HK\$500,000	–	69.90 (2000: Nil)	Design and marketing of electronic educational products
Team Concepts Technologies Limited	Hong Kong	HK\$20	–	69.90 (2000: Nil)	Design and marketing of consumer electronic products
Team Concepts Manufacturing Limited	Hong Kong	HK\$500,000	–	69.90 (2000: Nil)	Manufacture of telecommunication and consumer electronic products

Notes to Financial Statements

For the year ended 31 March 2001

12. INTERESTS IN SUBSIDIARIES (Continued)

Name	Country/Place of incorporation/ registration and operations	Issued and paid-up capital/ registered capital	Percentage held by the Company		Principal activities
			directly	indirectly	
Dong Guan Team Concepts Electronics Limited****	PRC	HK\$40,000,000	–	55.92 (2000: Nil)	Manufacture of telecommunication and consumer electronic products
Team Concepts North America, Limited	The United States of America	US\$10	–	69.90 (2000: Nil)	Provision of marketing services
Team Concepts New Ventures, Limited	The United States of America	US\$10	–	69.90 (2000: Nil)	Provision of marketing services
Team Concepts (UK) Limited	The United Kingdom	£100	–	69.90 (2000: Nil)	Provision of marketing services
Team Concepts Europe S.A.R.L.	France	FFR250,000	–	69.90 (2000: Nil)	Provision of marketing services

* Dong Jin was a co-operative joint venture established under a joint venture agreement between Honest Link and a PRC party. Dong Jin is engaged in the undertaking of a property project which involves the development of a land site measuring approximately 1,000 acres by area. Pursuant to the joint venture agreement, in respect of the profits derived from the first 150 acres of land comprised in the first phase of the property development project, the co-joint venture partner would be entitled to a fixed profit of the RMB13,090,000 and thereafter all residual profit in excess of RMB13,090,000 would be attributable to Honest Link. For the profits arising on the remaining phases of the project, Honest Link and the co-joint venture partner were entitled to share in profits at a ratio of 70% and 30% respectively.

Pursuant to a supplementary agreement entered into between Honest Link and the co-joint venture partner on 24 November 1993 which superseded the above arrangement, the co-joint venture partner has waived all of its 30% interest including profit-sharing and controlling interests in Dong Jin from the date of incorporation of Dong Jin in return for a pre-emptive return of RMB87,271,030. Pursuant to a supplementary agreement dated 28 December 2000, the co-joint venture partner agreed to waive the pre-emptive return of RMB87,271,030. Since then Honest Link has attained 100% share in profits and controlling interests in Dong Jin. Accordingly, Dong Jin was accounted for as a subsidiary of the Group in the current year's financial statements.

12. INTERESTS IN SUBSIDIARIES (Continued)

** Shenzhen Guonan is an equity joint venture established for a period of 50 years commencing 28 April 1999 and in which the Group is entitled to 80% of its results. Pursuant to two agreements entered into between the Group and the PRC co-venturer on 15 June 1999 and 31 March 2000, the PRC co-venturer has agreed to waive its entitlement to 20% of the results in Shenzhen Guonan in return for a fixed annual fee of RMB10,000 and an undertaking from the Group to pay up RMB495,000 of the required capital contribution to Shenzhen Guonan to be fulfilled by the PRC co-venturer. In addition, the Group also has effective control over the composition of the board of directors of Shenzhen Guonan. Accordingly, Shenzhen Guonan was accounted for on the basis as if it was a wholly-owned subsidiary of the Group.

*** Golden Era Hotel was an equity joint venture established under a joint venture agreement between Hancheers and a PRC party. Golden Era Hotel is engaged in the operations of hotel and restaurants in the PRC. Pursuant to the joint venture agreement, Hancheers and the PRC party were required to contribute to the registered capital of Golden Era Hotel in the ratio of 49% and 51% respectively.

According to the business license issued by the Administration of Industry and Commerce Bureau on 18 October 1999, Golden Era Hotel was authorised to operate for a period of 30 years from 18 September 1998 to 17 September 2028.

Pursuant to an agreement dated 16 January 1999, Hancheers transferred its 19% capital contribution in Golden Era Hotel for nil consideration to the PRC party, reducing its equity interest in Golden Era Hotel from 49% to 30%.

According to a supplementary agreement dated 20 November 2000, Golden Era Hotel was changed from an equity joint venture to a cooperative joint venture. Under the supplementary agreement, Hancheers was required to contribute the entire registered capital of US\$12,000,000 of Golden Era Hotel and was entitled to 70% share of the profits and losses, whilst the PRC party was entitled to the remaining 30% share of the profits and losses. In addition, the PRC party has agreed to contribute all its assets and liabilities (including the ownership of the hotel properties, its extension and other assets) to Golden Era Hotel.

Pursuant to an agreement dated 6 March 2001, the PRC party has waived all its profit sharing interest in Golden Era Hotel from the date of incorporation of Golden Era Hotel in return for a yearly payment of RMB10,000. As a result, Hancheers effectively owns 100% equity interest in Golden Era Hotel.

**** Dong Guan Team Concepts Electronics Limited is formed as a co-operative joint venture in the PRC for a term of 30 years commencing from 5 June 1992. Upon the expiry of the term of the joint venture, the land and buildings of the joint venture will be taken over by the PRC party while the remaining assets will be taken over by the Group. The Group's profit entitlement in the joint venture is 80% of the profits.

Shares of certain subsidiaries were pledged to secure convertible notes of the Company and bank loans of an associate.

Notes to Financial Statements

For the year ended 31 March 2001

13. INTERESTS IN ASSOCIATES

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Share of net assets	1,191,340	1,053,927	-	-
Amounts due from associates	72,117	76,504	19,776	18,873
Amounts due to associates	(26,587)	(25,702)	-	-
	<u>1,236,870</u>	<u>1,104,729</u>	<u>19,776</u>	<u>18,873</u>

Except for an amount of HK\$10,335,000 (2000: HK\$10,335,000) due to an associate which bears interest at the prevailing market rate, the balances with the associates are unsecured, interest-free and have no fixed terms of repayment. Because the balances with associates arose from advances to the associates for the purpose of operational financing, other than the circumstances when it is considered that the recipient of the financing has more than adequate working capital for financing its operations, the directors do not intend to demand settlement/proceed with repayment of the amounts involved within a 12-month period from the balance sheet date.

The Group's share of net profit/(loss) for the year, after tax, retained by the associates amounted to HK\$2,762,000 (2000: loss of HK\$2,679,000).

The Group's share of the post-acquisition accumulated losses of the associates at the balance sheet date amounted to HK\$6,265,000 (2000: HK\$3,503,000).

The table below lists the particulars of the associates which, in the opinion of the directors, principally affected the results of the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

Name	Country/Place of incorporation/ registration and operations	Percentage of equity attributable to the Group	Principal activities
Genius Reward Company Limited	Hong Kong	50	Debt financing
Liu Wan Development (BVI) Company Limited ("LWD")	British Virgin Islands	45 (Note)	Investment holding

Note:

LWD was incorporated in the British Virgin Islands with limited liability on 2 January 1996. The principal activity of LWD is investment holding. As at the balance sheet date, the Group had a 45% equity interest in LWD. Primary Consultants Limited ("Primary Consultants"), the holding company of LWD, and a director of LWD hold the remaining 53% and 2% of the equity interests in LWD respectively. The assets of the LWD group principally include an interest in a land site (the "Shenzhen Land Site") of approximately 313,074 square metres located in Shenzhen, the PRC, for the purpose of a property development project.

13. INTERESTS IN ASSOCIATES (Continued)

The following is a summary of the consolidated financial information in respect of the LWD group as at 31 March 2001, the assets and liabilities of which are considered material in the context of the Group's consolidated financial statements.

	2001 HK\$'000	2000 HK\$'000
Property, plant and equipment	21	833
Properties under development	3,174,187	2,365,924
Deposits and costs for subsidiaries to be acquired	-	806,623
Current assets	19,758	568,020
Current liabilities	(584,237)	(848,005)
	2,609,729	2,893,395
Minority interests	-	(458,246)
Net assets	2,609,729	2,435,149
Share of net assets taken up by the Group	1,174,378	1,053,982

As at 31 March 2001, the Group had receivables of HK\$69,166,000 due from the LWD group.

As at 31 March 2001, the current liabilities of the LWD group exceeded its current assets by HK\$564,479,000. In addition, as at 31 March 2001, the LWD group had outstanding commitments of HK\$82,300,000 in respect of the property development project. Financing measures under consideration for meeting the LWD group's net current liabilities, commitments and future working capital requirements include the debt financing using the Shenzhen Land Site as security. The Shenzhen Land Site of approximately 313,074 square metres, have been valued as at 31 March 2001 by Vigers Hong Kong Limited, independent professional qualified valuers, on an open market, residual value basis at RMB3,800 million (approximately HK\$3,518 million). The directors of the Company and the LWD group are of the opinion that the LWD group will be able to secure adequate sources of finance to meet its requirements.

The operational activities undertaken by the LWD group since its incorporation principally involve the undertaking of land reclamation work in respect of the property development project. Because the LWD group has not commenced any sales of properties, the operating results derived by this group are not material and are not separately presented.

Costs incurred by the LWD group prior to its acquisition by the Group during the year ended 31 March 1999 and in connection with the establishment of a joint venture company for the purpose of undertaking the business of marina club operations in the PRC were capitalised as deferred pre-operating costs. On 19 April 2000, The Hong Kong Society of Accountants issued Interpretation No. 9 "Accounting for pre-operating costs", which prohibits certain pre-operating expenses from being recognised as assets. As a result, these pre-operating costs have been written off against the accumulated losses and the 1999 comparative amounts have been restated as if the pre-operating expenses had never been capitalised as assets by the LWD group.

Notes to Financial Statements

For the year ended 31 March 2001

14. INTEREST IN A JOINTLY CONTROLLED ENTITY

	Group	
	2001	2000
	HK\$'000	HK\$'000
Share of net assets	-	27,931
Premium on acquisition	-	4,667
Amount due from a jointly controlled entity	5,279	194,847
Amount due to a jointly controlled entity	-	(2,203)
	5,279	225,242

The interest in a jointly controlled entity as at 31 March 2000 represented the Group's interest in Dong Jin which was accounted for as a subsidiary of the Group as at 31 March 2001 (Note 12).

At 31 March 2001, the Group held 50% equity interest in Juguetes Electronicos Avanzados S.L., a company incorporated in Spain and principally engaged in the marketing of consumer electronic products.

15. LONG TERM INVESTMENTS

	Group		Company	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Listed investment securities in the PRC, at cost	1,523	1,523	1,523	1,523
Unlisted investment securities in the PRC, at cost	39,111	4,214	-	-
Options to acquire shares	120,000	120,000	-	-
Club debenture, at cost	324	324	324	324
Interest in a property development project	72,222	72,222	-	-
	233,180	198,283	1,847	1,847
Provisions for diminution in value	(59,298)	(59,298)	-	-
	173,882	138,985	1,847	1,847
Market value of listed investments	11,467	2,506	11,467	2,506

Property development project

In previous year, the Group acquired the beneficial interests, rights and obligations in a property development project undertaken by Nanjing Hanxi Real Estate Development Co., Ltd. ("Nanjing Hanxi"), a related company. Interest in a property development project represents the capital contribution and advances made for financing the project undertakings. Included in the interest in a property development project is a loan advance of HK\$40,595,000 (2000: HK\$40,595,000) made to Nanjing Hanxi for the purpose of financing the construction cost of the project, which is unsecured, interest-free and repayable on demand.

15. LONG TERM INVESTMENTS (Continued)

Options to acquire shares

Options to acquire shares (the "Option") were held by Powerful Resources Limited ("Powerful Resources"), a wholly-owned subsidiary of the Group, and are exercisable during the period from 15 October 2000 to 15 January 2001 for the acquisition from Citic Guoan Group Company Limited ("Citic Guoan") of 96 million shares (the "Option Shares") in Citic Guoan Information Industry Company Limited ("Guoan Information"), representing 22.3% of the issued share capital of Guoan Information currently held by Citic Guoan. Guoan Information is a PRC company listed on the Shenzhen Stock Exchange and engaged in the provision of financial and securities information, the operation of cable network systems, satellite communication and mobile communication networks.

The total consideration payable upon exercise of the Option (the "Exercise Price") is RMB268.8 million (approximately HK\$251 million) subject to adjustment upwards by an amount equivalent to the excess of the net asset value of the Option Shares as reflected in the latest audited financial statements of Guoan Information prior to the date of the actual transfer over the amount of RMB268.8 million. In this respect, Mr. Yu Pun Hoi ("Mr. Yu"), a director and substantial shareholder of the Company and vendor of Powerful Resources, has undertaken amongst other things to hold himself fully liable to pay the Exercise Price in return for a consideration of HK\$870 million payable by the Group for the acquisition of Powerful Resources. The consideration of HK\$870 million is to be settled by the issue to Mr. Yu 1,450,000,000 new shares in the Company at HK\$0.6 per share, out of which 200,000,000 shares were issued during last year upon completion of the Powerful Resources acquisition and the remaining 1,250,000,000 consideration shares will be issued upon the successful exercise of the Options.

Because Guoan Information is a state-owned enterprise, the transfer of the Option Shares is subject to, amongst other things, approval of the relevant PRC Bureau and the China Securities Regulatory Commission. As at 31 March 2001, the above Option Shares have not been transferred subject to the approval of the relevant PRC Bureau and the China Securities Regulatory Commission. Pursuant to an agreement dated 15 January 2001, Citic Guoan agreed to extend the Option Share transfer period to 15 January 2002 without additional consideration.

In this connection, Mr. Yu has undertaken to recompensate the Group by paying a sum of HK\$120 million (i.e., the equivalent of the cost of option investment recognised by the Group) to the Group in the event that the Option turns out to be non-exercisable.

Notes to Financial Statements

For the year ended 31 March 2001

16. LAND HELD FOR DEVELOPMENT

	Notes	2001 HK\$'000	2000 HK\$'000
Land held in Hong Kong	(a)	72,015	71,525
Land held in the PRC	(b)	358,041	–
		<u>430,056</u>	<u>71,525</u>

(a)	Location	Interest attributable to Group in percentage	Approximate floor area on completion (square metres)	Type of Development
	Nos 6, 8, 10 and 12 Leighton Road, Causeway Bay, Hong Kong	48.99	6,692	Commercial

(b)	Location	Approximate site area (acres)	Type of development
	Guang Hua Gong Lu, Hua Du City, Guangdong Province, the PRC	920	Commercial and Residential

The land is a vacant site. The Group has obtained the Land Use Rights Certificates from the PRC Government of Hua Du City, in respect of land with a total area of 228.79 acres under 70 years lease terms. The Land Use Rights Certificates of the remaining land with a total area of 691 acres would be granted upon full settlement of land premium payable. As at 31 March 2001, the Group had land premium payable in the amount of HK\$122,513,000 included in other payables in the consolidated balance sheet.

17. INTANGIBLE ASSETS

	Product development costs HK\$'000	Goodwill on acquisition HK\$'000	Total HK\$'000
At 1 April 2000	–	–	–
Acquisition of subsidiaries	8,347	–	8,347
Additions	7,166	–	7,166
Goodwill arising on additional investment in subsidiaries	–	6,220	6,220
Goodwill arising on acquisition of subsidiaries	–	224,541	224,541
Goodwill written back on partial disposal of subsidiaries	–	(12,105)	(12,105)
Amortization	(6,787)	(5,122)	(11,909)
At 31 March 2001	8,726	213,534	222,260

18. INVENTORIES

	Group	
	2001 HK\$'000	2000 HK\$'000
Raw materials	70,131	–
Work in progress	19,333	–
Finished goods	46,398	–
Goods in transit	1,434	–
	<hr/> 137,296	–
Less: Provision for slow-moving inventories	(97,331)	–
	<hr/> 39,965 <hr/>	–

At 31 March 2001, the carrying amount of inventories that are carried at net realisable value was HK\$39,092,000 (2000: Nil).

19. TRADE AND OTHER RECEIVABLES

	Group	
	2001 HK\$'000	2000 HK\$'000
Trade receivable, analysed according to aging:		
0-90 days	21,466	–
91-180 days	14,724	–
181-270 days	6,290	–
271-360 days	5,663	–
Over 360 days	32,244	–
Less: Provisions	(33,105)	–
	<hr/> 47,282	–
Prepayments, deposits and other receivables	571,391	328,247
	<hr/> 618,673 <hr/>	<hr/> 328,247 <hr/>

For hotel operations, the normal credit period granted is 90 days. For sales of telecommunication and consumer electronic products, the sales are entered into under letters of credit. For operations of web sites and related services, the normal credit period granted ranges from 30 to 60 days.

Notes to Financial Statements

For the year ended 31 March 2001

20. AMOUNTS DUE FROM RELATED COMPANIES

Particulars of amounts due from related companies disclosed pursuant to Section 161B of the Companies Ordinance are as follows:

Group

	1 April 2000 HK\$'000	31 March 2001 HK\$'000	Maximum amount outstanding during the year HK\$'000
Nanjing Hanxi Real Estate Development Co., Ltd.	26,792	28,917	28,917
Beijing Zhitong International Marketing Development Co., Ltd.	8,323	–*	10,175
Sitechasia (Beijing) Network Software Development Co., Ltd.	880	891	891
	<u>35,995</u>	<u>29,808</u>	

* As at 31 March 2001, the Group had an amount of HK\$9,629,000 due to Beijing Zhitong International Marketing Development Co., Ltd.

Mr. Yu, a director and substantial shareholder of the Company, also holds directorship and beneficial equity interests in these companies.

The amounts due from related companies are unsecured, interest-free and have no fixed terms of repayment.

21. TRADE AND OTHER PAYABLES

	Group	
	2001 HK\$'000	2000 HK\$'000
Trade payables, analysed according to aging:		
0-90 days	19,614	–
91-180 days	23,475	–
181-270 days	31,643	–
271-360 days	19,406	–
Over 360 days	38,505	–
	<u>132,643</u>	–
Other payables and accruals	259,469	35,949
	<u>392,112</u>	<u>35,949</u>

22. AMOUNT DUE TO A DIRECTOR

The amount due to a director is unsecured, repayable on demand and is interest-bearing at 5% per annum upto October 2000 and is interest-free since then.

23. AMOUNTS DUE TO SHAREHOLDERS AND LOAN FROM MINORITY INTERESTS

The amounts due to shareholders and loan from minority interests are unsecured, interest-free, and have no fixed terms of repayment.

24. BANK AND OTHER BORROWINGS

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Bank overdrafts – secured	85,125	129	–	129
– unsecured	6,842	–	–	–
	91,967	129	–	129
Short-term bank loans				
Secured	148,653	96,798	3,917	11,777
Unsecured	81,316	–	13,900	30,764
	229,969	96,798	17,817	42,541
Long-term bank loans – secured				
Due within one year	9,411	6,789	–	–
Due more than one year but not exceeding two years	9,251	7,502	–	–
Due more than two years but not exceeding five years	32,817	27,721	–	–
Due more than five years	46,530	61,761	–	–
	98,009	103,773	–	–
Obligations under finance leases				
– Due within one year	1,071	181	–	–
– Due in the second year	72	15	–	–
	1,143	196	–	–
Other borrowings (Note 25(a))	217,881	6,019	200,281	6,019
Convertible notes payable (Note 25)	200,000	194,000	200,000	194,000
	838,969	400,915	418,098	242,689
Less: Current portion due within one year included under current liabilities	(550,299)	(303,916)	(218,098)	(242,689)
Non current portion included under long term liabilities	288,670	96,999	200,000	–

Notes to Financial Statements

For the year ended 31 March 2001

24. BANK AND OTHER BORROWINGS (Continued)

The analysis of the borrowings is as follows:

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Wholly repayable within five years:				
Bank loans	231,456	138,811	17,817	42,541
Bank overdrafts	91,967	129	-	129
Other borrowings (Note 25(a))	217,881	6,019	200,281	6,019
Convertible notes payable (Note 25)	200,000	194,000	200,000	194,000
Obligations under finance leases	1,143	196	-	-
	742,447	339,155	418,098	242,689
Not wholly repayable within five years:				
Bank loans	96,522	61,760	-	-
	838,969	400,915	418,098	242,689

As at 31 March 2001, the Group technically breached the covenants of certain bank loans totalling HK\$318,266,000 (2000: HK\$75,517,000). These bank loans have been due for repayment and are included as part of the Group's current liabilities.

25. CONVERTIBLE NOTES PAYABLE

	Notes	Group and Company	
		2001 HK\$'000	2000 HK\$'000
4%-6% convertible notes	(a)	-	194,000
Non-interest bearing convertible notes	(b)	200,000	-
		200,000	194,000

(a) 4%-6% convertible notes

These convertible notes were issued on 17 October 1997 to National Day Resources Limited, an independent third party, and were due on 16 October 2000. The notes bore interests at 4% per annum during the first year in issue, 5% in the second year and 6% in the third year. The notes are secured by a charge over the shares of a wholly-owned subsidiary (Note 12), which holds the Group's land held for development for sale with a carrying value of HK\$72 million at 31 March 2001.

25. CONVERTIBLE NOTES PAYABLE (Continued)**(a) 4%-6% convertible notes** (Continued)

Each of the convertible notes carried the right to convert in whole or in part at any time during the last month of the third year in issue the outstanding principal amounts of the notes into ordinary shares in the Company at a conversion price of HK\$0.819 per share, as adjusted in accordance with the terms of the underlying subscription agreement and as a result of the Company's entering into certain agreements involving the proposed new issue of shares to Mr. Yu or his nominee and the issue of new shares at a discount to market price to a substantial shareholder of the Company.

As at 31 March 2001, the convertible notes had been over due for repayment and the convertible notes holder had not exercised its vested right for conversion into ordinary shares of the Company in respect of these convertible notes, the Company is currently negotiating with the convertible notes holder for the extension of repayment terms of these convertible notes or, alternatively, for the contribution of non-cash assets owned by the Group as settlement therefor. As a result, the convertible notes have been classified as other borrowings under current liabilities (Note 24).

(b) Non-interest bearing convertible notes

On 19 January 2001, the Company issued HK\$200,000,000 convertible notes to Excellent Mission Developments Company Limited, an independent third party, as consideration for settlement of payable for the acquisition of Hancheers. These convertible notes will be originally due on 1 July 2004 and would not bear any interest. Each of the convertible notes carried the right at any time commencing on 9 April 2001 but before 1 July 2004 to convert the whole or part of the principal amounts of the notes into ordinary shares of the Company at a conversion price of HK\$0.50 per share. The conversion price was subject to adjustment in certain circumstances.

Subsequent to the balance sheet date, the HK\$200,000,000 convertible notes have been fully redeemed by the Company (Note 38(e)).

26. DEFERRED TAX

Movements in the deferred tax account are as follows:

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
At beginning of year	295	295	-	-
Charge for the year (Note 7)	(295)	-	-	-
Acquisition of subsidiaries	790	-	-	-
At end of year	790	295	-	-

Notes to Financial Statements

For the year ended 31 March 2001

26. DEFERRED TAX (Continued)

At 31 March 2001, the amount of deferred tax liability is as follows:

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Tax effect of timing differences attributable to accelerated depreciation allowances	790	295	-	-

As at 31 March 2001, the amount of unprovided deferred tax assets is as follows:

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Tax effect of timing differences attributable to:				
Accelerated depreciation allowances	(30)	(41)	(30)	(41)
Tax losses	(39,836)	(29,721)	(14,082)	(16,006)
	(39,866)	(29,762)	(14,112)	(16,047)

The revaluations of the Group's property, plant and equipment and investment properties do not constitute timing differences and, consequently, the amount of potential deferred tax thereon has not been quantified.

27. SHARE CAPITAL

	2001 HK\$'000	2000 HK\$'000
<i>Authorised:</i>		
6,000,000,000 ordinary shares of HK\$0.5 each	3,000,000	3,000,000
<i>Issued and fully paid:</i>		
3,914,504,877 (2000: 3,916,176,877) ordinary shares of HK\$0.50 each	1,957,252	1,958,088

27. SHARE CAPITAL (Continued)

During the year, the Company repurchased a total of 1,672,000 of its shares listed on The Stock Exchange of Hong Kong Limited. Details of the shares repurchase are as follows:

Date of repurchase	Number of shares repurchased	Repurchase price per share		Aggregate consideration HK\$'000
		Highest HK\$	Lowest HK\$	
22 November 2000	772,000	0.180	0.175	137
23 November 2000	552,000	0.185	0.183	101
24 November 2000	348,000	0.184	0.178	62
	<u>1,672,000</u>			300
		Transaction Cost		1
				<u>301</u>

The above shares were subsequently cancelled upon repurchase and accordingly the issued share capital of the Company was reduced by the nominal value of these shares.

The movements in the share capital of the Company are as follows:

	Number of ordinary shares of \$0.50 each	HK\$'000
Issued and fully paid:		
At 1 April 2000	3,916,176,877	1,958,088
Repurchase of shares	(1,672,000)	(836)
At 31 March 2001	<u>3,914,504,877</u>	<u>1,957,252</u>

Share options

The Company's share options outstanding at 31 March 2001 are as follows:

Expiry date	Exercise price HK\$	No. of shares issuable under the executive share options
1 February 2000 – 31 January 2003	0.50	21,010,000
1 November 2000 – 30 April 2003	0.50	11,500,000
		<u>32,510,000</u>

Notes to Financial Statements

For the year ended 31 March 2001

27. SHARE CAPITAL (Continued)

On 29 October 1999, the Company approved a share option scheme (the "Scheme") under which the directors may, at their discretion, grant options to directors and employees of the Company and its subsidiaries to subscribe for shares in the Company. The maximum number of shares in respect of which options may be granted may not exceed 10% of the share capital of the Company in issue from time to time. The Scheme will remain in force for the period from 29 October 1999 to 28 October 2009.

A total of 13,000,000 share options were granted during the year under the Scheme for nominal consideration, which entitle the holders to subscribe for shares in the Company during the period from 1 November 2000 to 30 April 2003. The subscription price payable upon the exercise of each option is HK\$0.50.

Amongst these share options granted, a total of 5,665,000 share options lapsed upon resignation of employees.

The exercise in full of the options would, under the capital structure of the Company as at 31 March 2001, result in the issue of 32,510,000 additional new shares of HK\$0.50 each in the Company.

28. SHARE PREMIUM

	Group and Company	
	2001	2000
	HK\$'000	HK\$'000
At 31 March	472,736	472,736

29. RESERVES

	Capital redemption reserve <i>HK\$'000</i>	General reserve <i>HK\$'000</i>	Currency translation reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
Group					
At 1 April 1999	1,422	220,250	(85,009)	(747,360)	(610,697)
Release upon disposal of subsidiaries	-	(122,434)	83,289	-	(39,145)
Release on disposal of a jointly controlled entity	-	9,609	-	-	9,609
Arising on acquisition of subsidiaries	-	(66,358)	-	-	(66,358)
Exchange differences	-	-	(4,167)	-	(4,167)
Adjustment to capital reserve on group restructuring of an associate	-	(7,001)	-	-	(7,001)
Arising on acquisition of additional interest in an associate	-	22,741	-	-	22,741
Profit for the year attributable to shareholders	-	-	-	47,987	47,987
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2000 and 1 April 2000	1,422	56,807	(5,887)	(699,373)	(647,031)
Minority interests' share of accumulated losses	-	-	-	2,535	2,535
Release on disposal of investment properties	-	753	-	-	753
Release on partial disposal of subsidiaries	-	2,952	-	-	2,952
Reserves attributable to minority shareholders	-	(545)	483	-	(62)
Exchange differences	-	-	(542)	-	(542)
Arising on acquisition of additional interest in an associate	-	71,930	-	-	71,930
Arising from repurchase of shares	836	-	-	(301)	535
Profit for the year attributable to shareholders	-	-	-	15,677	15,677
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2001	<u>2,258</u>	<u>131,897</u>	<u>(5,946)</u>	<u>(681,462)</u>	<u>(553,253)</u>

Notes to Financial Statements

For the year ended 31 March 2001

29. RESERVES (Continued)

	Capital redemption reserve <i>HK\$'000</i>	General reserve <i>HK\$'000</i>	Currency translation reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
Group					
The reserves are retained as follows:					
Company and subsidiaries	2,258	42,334	(5,946)	(675,197)	(636,551)
Associates	-	89,563	-	(6,265)	83,298
At 31 March 2001	<u>2,258</u>	<u>131,897</u>	<u>(5,946)</u>	<u>(681,462)</u>	<u>(553,253)</u>
Company and subsidiaries	1,422	(32,756)	(5,887)	(695,870)	(733,091)
Associates	-	89,563	-	(3,503)	86,060
At 31 March 2000	<u>1,422</u>	<u>56,807</u>	<u>(5,887)</u>	<u>(699,373)</u>	<u>(647,031)</u>
Company					
At 1 April 1999	1,422	79,579	-	(734,210)	(653,209)
Loss for the year	-	-	-	(25,863)	(25,863)
At 31 March 2000 and 1 April 2000	1,422	79,579	-	(760,073)	(679,072)
Arising from repurchase of shares	836	-	-	(301)	535
Profit for the year	-	-	-	590,673	590,673
At 31 March 2001	<u>2,258</u>	<u>79,579</u>	<u>-</u>	<u>(169,701)</u>	<u>(87,864)</u>

The Group's general reserve included capital reserve arising from prior year acquisitions of subsidiaries, which represents the excess of the fair value of subsidiaries acquired over the consideration paid.

30. OPERATING LEASE COMMITMENTS

Annual operating lease commitments in respect of land and buildings payable within next year analysed according to the periods in which the leases expire are as follows:

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Leases expiring within next year	4,272	1,128	1,121	1,128
Leases expiring in the second to fifth years inclusive	1,847	2,339	-	-
Leases expiring over five years	2,487	-	-	-
	<u>8,606</u>	<u>3,467</u>	<u>1,121</u>	<u>1,128</u>

31. COMMITMENTS**(a) Capital commitments**

	Group	2000
	2001 HK\$'000	HK\$'000
Contracted but not provided for	<u>652,038</u>	<u>612,197</u>

The capital commitments are mainly in respect of construction costs for certain property development projects undertaken in the PRC.

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

(b) Other commitments

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Commitments in respect of capital contribution to:				
Jointly controlled entity in the PRC	190,375	298,870	-	-
Subsidiary in the PRC	-	-	11,625	41,309
	<u>190,375</u>	<u>298,870</u>	<u>11,625</u>	<u>41,309</u>

In addition, as at 31 March 2000, a jointly controlled entity had commitments in respect of pre-emptive returns payable to a PRC party in the amount of HK\$61,079,000. There was no such commitments as at 31 March 2001.

Notes to Financial Statements

For the year ended 31 March 2001

32. DIRECTORS' REMUNERATION

Remuneration of the Company's directors disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance is as follows:

	Group	
	2001	2000
	HK\$'000	HK\$'000
Fees:		
Executive directors	-	-
Non-executive directors	-	-
Independent non-executive directors	-	-
Other emoluments paid and payable to executive directors:		
Basic salaries, housing, other allowances and benefits in kind	4,020	4,013
Pension scheme contributions	92	108
	4,112	4,121

The emoluments of the directors fell within the following bands:

Emolument bands	Number of directors	
	2001	2000
HK\$Nil - HK\$1,000,000	7	9
HK\$1,000,001 - HK\$1,500,000	1	1
HK\$2,000,001 - HK\$2,500,000	1	1
	9	11

During the year, no options had been exercised by the directors.

No directors waived any emoluments in respect of the year ended 31 March 2001 (2000: Nil).

Five highest paid individuals

The five highest paid individuals of the Group for the year included two (2000: three) executive directors, details of whose emoluments are set out above. The emoluments of the remaining three (2000: two) employees were as follows:

	2001	2000
	HK\$'000	HK\$'000
Basic salaries, housing allowances	3,599	2,115
Pension scheme contribution	151	101
	3,750	2,216

32. DIRECTORS' REMUNERATION (Continued)

The emoluments were within the following band:

Emoluments bands	Number of individuals	
	2001	2000
HK\$1,000,000 – HK\$1,500,000	<u>3</u>	<u>2</u>

33. CONTINGENT LIABILITIES

(a) Guarantees given in connection with credit facilities granted to:

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Subsidiaries	–	–	99,322	121,020
Associate (note)	7,235	7,235	7,235	7,235
Former subsidiaries	139,135	117,701	139,135	117,701
A minority shareholder of a former subsidiary	36,968	29,760	36,968	29,760
	<u>183,338</u>	<u>154,696</u>	<u>282,660</u>	<u>275,716</u>

Note: In previous years, the Company issued a guarantee on certain banking facilities granted to an associate. As at 31 March 2001, the associate has drawn down these banking facilities which gave rise to the above contingent liabilities.

(b) In July 2000, Hong Kong Network TV Limited ("Network TV"), a wholly-owned subsidiary of the Company, was granted a domestic pay television programme service licence ("Licence") to provide the domestic pay television programme services in Hong Kong. Subsequently, Network TV signed an acceptance agreement in respect of the Licence in December 2000. According to the acceptance agreement, Network TV was required to pay to the Government of Hong Kong, in addition to the annual licence fee, a sum of HK\$44 million (the "Performance Bonded Sum") within a period of 3 years from the date of Licence being granted. In March 2001, Network TV decided to withdraw from the business under the Licence before the due date for payment of the first instalment of the Performance Bonded Sum. No provision has been made in the financial statements for the licence fee and/or the Performance Bonded Sum as the directors consider that it is unlikely that Network TV would be required to pay the licence fee or the Performance Bonded Sum.

Notes to Financial Statements

For the year ended 31 March 2001

34. PLEDGE OF ASSETS

As at 31 March 2001, the Group's credit facilities were supported by the following:

- (a) first legal charges on the Group's investment properties (Note 11) and certain land and buildings located in Hong Kong, with an aggregate net book value of HK\$104,960,000 (2000: HK\$146,240,000);
- (b) first legal charges on hotel properties and properties under development in the PRC with an aggregate net book value of HK\$306,093,000 (2000: Nil);
- (c) fixed charge over land and buildings and other property, plant and equipment with an aggregate net book value of HK\$111,806,000 (2000: Nil);
- (d) certain investment in and receivables with a net balance of HK\$185,843,000 (2000: HK\$84,750,000) in a subsidiary;
- (e) undertakings on the part of the Group for the assignment of rentals from the letting of certain investment properties, and proceeds from sales of certain investment properties;
- (f) pledge of 1,660 million listed shares in a subsidiary of the Company with market value of approximately HK\$149 million;
- (g) charge over the share capital of a wholly-owned subsidiary of the Company and proceeds from sales of land held for development for sale held by that subsidiary;
- (h) floating charge over other assets of certain companies within the Group; and
- (i) fixed deposits placed with bank in the amount of US\$700,000 (approximately HK\$5,446,000) (2000: HK\$9,400,000).

35. RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

During the year, the Group had the following transactions with certain related companies:

Financial transactions

Name of related Company	Nature of transactions	2001 HK\$'000	2000 HK\$'000
CIMA Realty (Phils) Inc. *	Rentals paid under an operating lease	-	1,084
Genius Reward Company Limited #	Interest paid and payable	885	1,284
Mr. Yu Pun Hoi ("Mr. Yu") α	Interest paid and payable	283	6,300
Strawberg Limited δ	Interest paid and payable	-	4,632
Pippen Limited β	Interest paid and payable	50	205
Staverley Assets Limited χ	Interest paid and payable	60	246
CIM Company Limited #	Acquisition of long term investments	1,800	-
CIM Hotel Management Limited #	Compensation receivable for termination of hotel management contract	9,985	-

* Ms. Gwendolyn P. Feliciano, a former director of the Company resigned on 5 October 1999, also holds a directorship in this company.

Genius Reward Company Limited ("Genius Reward") is an associate in which the Group holds 50% equity interests. The remaining 50% equity interests in this company are held by CIM Company Limited ("CIM"), a substantial shareholder of the Company. In addition, Mr. Yu, Mr. Lam Bing Kwan and Ms. Gwendolyn P. Feliciano, directors/substantial shareholders of the Company, also hold directorship/beneficial shareholdings in CIM. CIM Hotel Management Limited is a wholly-owned subsidiary of CIM.

α Mr. Yu is a director and substantial shareholder of the Company.

δ Strawberg Limited is a fellow subsidiary of See Ying Limited, which is a former substantial shareholder of the Company.

Notes to Financial Statements

For the year ended 31 March 2001

35. RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS (Continued)

- β Pippen Limited is a substantial shareholder of the Company. In addition, Mr. Yu holds directorship/beneficial shareholdings in this company.
- χ Staverley Assets Limited is a substantial shareholder of the Company. Mr. Li Shilin, a director of the Company, also holds directorship in this company. In addition, Mr. Cheung Kin Yan, a former director of the Company, is a director of Citic Guoan Company Limited, the holding company of Staverley Assets Limited.

Financial support

- (a) As at 31 March 2001, the Group's banking facilities were secured by properties of certain related companies, and corporate and personal guarantees executed by certain related parties of the Company.
- (b) As at 31 March 2001, the banking facilities granted to Genius Reward, an associate of the Group, were supported by corporate guarantees executed by the Company.
- (c) As at 31 March 2001, the Group has given corporate guarantees in connection with credit facilities granted to Hollybush Corporation, a related company. The contingent liabilities arising therefrom amounted to HK\$36,968,000 and are included in Note 33 to the financial statements.

Balances with related parties

As at 31 March 2001, the Group had receivables and payables maintained with certain related parties. These balances are mainly in respect of advances to/from these parties.

Details of the terms of the Company's balances due from and to the Company's subsidiaries are set out in Note 12 to the financial statements.

36. PENDING LITIGATIONS

At 31 March 2001, a number of creditors have issued writs against Team Concepts Manufacturing Limited ("TCM"), a subsidiary of the Company, for the settlement of outstanding debts totalling HK\$15.6 million. These creditors are defined as Scheme Creditors pursuant to the Scheme of Arrangement as more detailed in Note 38(d) proposed by the directors of South Sea, the holding company of TCM, subsequent to the balance sheet date.

The Scheme of Arrangement is still pending. Having considered the approval of the Scheme of Arrangement by the Scheme Creditors and full provision has been made against the claims, the directors consider that additional provision for the claims is not necessary.

37. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit from operations to net cash outflow from operating activities

	2001 HK\$'000	2000 HK\$'000
Profit from operations	23,023	136,438
Interest income	(34,592)	(6,853)
Depreciation	20,050	4,129
Amortisation of goodwill	5,122	–
Amortisation of premium on acquisition of a jointly controlled entity	–	667
Amortisation of product development costs	6,787	–
Gain on disposal of subsidiaries	(164,630)	(229,455)
Loss on disposal of interest in a jointly controlled entity	–	24,066
Gain on disposal of property, plant and equipment	–	(62)
Loss on disposal of investment properties	–	22,987
Provision for bad and doubtful debts	33,105	562
Provision for inventories	24,497	–
Deficit on revaluation of investment properties	6,000	7,000
Provision for diminution in value of properties held for sale	–	9,213
Write-back of provision for diminution in value in respect of land held for development for sale	(490)	(490)
Write down of interest in a property development project to net realisable value	–	9,200
Write down of interest in and amount due from a jointly controlled entity	–	4,667
Decrease in properties held for sale	37,742	6,393
Increase in trade and other payables	(154,531)	(87,277)
Increase in amount due to a director	29,514	2,465
(Decrease)/Increase in amounts due to shareholders	(230)	7,718
Increase in amounts due to related companies	15,816	–
Decrease in amount due from jointly controlled entities	3,298	–
Decrease in inventories	55,481	51
Increase in trade and other receivables	(8,806)	(29,630)
Net cash outflow from operating activities	<u>(102,844)</u>	<u>(118,211)</u>

Notes to Financial Statements

For the year ended 31 March 2001

37. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Analysis of changes in financing of the Group during the year

	Share capital including share premium <i>HK\$'000</i>	Minority interests <i>HK\$'000</i>	Bank and other borrowings <i>HK\$'000</i>	Convertible notes payable <i>HK\$'000</i>	Obligations under finance leases <i>HK\$'000</i>
At 1 April 1999	1,336,527	54,628	509,856	552,477	-
New loans raised	-	-	9,461	-	-
Repayments of loans	-	-	(175,445)	-	-
Repayments of obligations under finance leases	-	-	-	-	(120)
Placement of new shares	562,000	-	-	-	-
Exercise of options to acquire shares	1,269	-	-	-	-
Payment of share issue expenses	(12,649)	-	-	-	-
Capital contribution from minority interests	-	3,094	-	-	-
Other movements not involving cash flows:					
Exercise of a convertible note	358,477	-	-	(358,477)	-
Arising on acquisition of a subsidiary	-	1,960	-	-	-
Disposal of subsidiaries	-	(59,468)	(137,400)	-	-
Minority interest's share of profit for the year	-	564	-	-	-
Inception of new finance leases	-	-	-	-	316
Acquisition of subsidiaries financed by issue of shares	185,200	-	-	-	-
Effect of foreign exchange rate changes	-	-	118	-	-
At 31 March 2000	<u>2,430,824</u>	<u>778</u>	<u>206,590</u>	<u>194,000</u>	<u>196</u>

37. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Analysis of changes in financing of the Group during the year (Continued)

	Share capital including share premium HK\$'000	Minority interests HK\$'000	Bank and other borrowings HK\$'000	Convertible notes Payable HK\$'000	Obligations Under finance leases HK\$'000
At 1 April 2000	2,430,824	778	206,590	194,000	196
New loans raised	-	-	90,701	-	-
Repayments of loans	-	-	(194,317)	-	-
Repayment of obligations under finance leases	-	-	-	-	(444)
Capital contribution from minority interests	-	39,779	-	-	-
Other movements not involving cash flows:					
Re-allocation of convertible notes payable as other borrowings	-	-	194,000	(194,000)	-
Arising on acquisition of a subsidiary	-	88,290	248,885	-	-
Issue of convertible notes for acquisition of subsidiaries	-	-	-	200,000	-
Minority interests' share of accumulated losses	-	(2,535)	-	-	-
Minority interests' share of reserve movements	-	62	-	-	-
Minority interests arising on partial disposal of subsidiaries	-	75,788	-	-	-
Minority interests' share of loss for the year	-	(35,785)	-	-	-
Repurchase of owned shares (836)	(836)	-	-	-	-
Inception of new finance leases	-	-	-	-	1,391
At 31 March 2001	2,429,988	166,377	545,859	200,000	1,143

Notes to Financial Statements

For the year ended 31 March 2001

37. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(c) Acquisition of subsidiaries

	2001 HK\$'000	2000 HK\$'000
Net assets acquired:		
Property, plant and equipment	443,096	3,880
Intangible assets	8,347	-
Land held for development	358,041	-
Option to acquire shares	-	120,000
Long term investments	-	4,213
Interest in an associate	2,711	-
Interest in a jointly controlled entity	2,037	-
Inventories	119,943	-
Cash at banks	15,197	10
Trade and other receivables	89,322	420
Trade and other payables	(361,689)	(130)
Amounts due to jointly controlled entities	(186,437)	-
Land premium payable	(149,005)	-
Amount due to the Group	-	(4,468)
Provision for tax	(208)	(123)
Deferred tax	(790)	-
Bank loans	(248,885)	-
Minority interest	(88,290)	(1,960)
	3,390	121,842
Goodwill arising on acquisition	224,541	66,358
	227,931	188,200
Satisfied by:		
Cash consideration	-	3,000
Shares in the Company issued as consideration	-	185,200
Convertible notes issued as consideration	200,000	-
Decrease in interest in a jointly controlled entity	27,931	-
	227,931	188,200

The analysis of the net inflow/(outflow) of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	2001 HK\$'000	2000 HK\$'000
Cash consideration	-	(3,000)
Cash and bank balances of acquired subsidiaries	15,197	10
	15,197	(2,990)

37. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(d) Disposal of subsidiaries

	2001 HK\$'000	2000 HK\$'000
Net assets disposed of:		
Property, plant and equipment	-	298,211
Interest in a jointly controlled entity	-	3,761
Cash at banks	-	10,489
Prepayments, deposits and other receivables	-	34,154
Amount due from the Group	-	46,920
Inventories	-	1,957
Trade and other payables	-	(66,054)
Amount due to a related company	-	(785)
Provision for tax	-	(2,573)
Bank loans	-	(137,400)
Minority interests	-	(59,468)
	-	129,212
Amount due by the Group to the disposed subsidiaries and agreed to be waived	-	(46,920)
General reserve released on disposal	-	(122,434)
Exchange reserve released on disposal	-	83,289
Gain on disposal of subsidiaries	-	229,455
	-	272,602
Satisfied by:		
Cash consideration received	-	5,802
Consideration discharged through accounts receivable and other receivables	-	266,800
	-	272,602

The subsidiaries disposed of during the year ended 31 March 2000 contributed cash inflow of HK\$26,565,000 of the Group in its operating activities, utilised HK\$18,137,000 in respect of returns on investments and servicing of finance and utilised HK\$13,642,000 in respect of investing activities.

Notes to Financial Statements

For the year ended 31 March 2001

37. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(d) Disposal of subsidiaries (Continued)

The analysis of net outflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2001 HK\$'000	2000 HK\$'000
Cash consideration received	-	5,802
Cash and bank balances of acquired subsidiaries	-	(10,489)
	<u>-</u>	<u>(4,687)</u>

(e) Major non-cash transactions

During the year, the following major non-cash transactions took place:

- (i) HK\$200,000,000 convertible notes were issued as consideration for the acquisition of a subsidiary.
- (ii) The Group disposed of a 49% equity interest in a subsidiary at a consideration of HK\$228,800,000, which had not been received by the Group at the balance sheet date and included in other receivables in the balance sheets.

38. POST BALANCE SHEET EVENTS

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

- (a) As approved by the shareholders at the extraordinary general meeting on 9 July 2001, the Company sold all of its equity interest in an associate, LWD, and certain properties in Nanjing, the PRC to a subsidiary, South Sea, at a consideration of HK\$2,417 million. At the same time, the Company acquired the entire equity interest in Rich King Inc. from South Sea at a consideration of HK\$124 million. The net consideration of HK\$2,293 million was satisfied by the issue of 22,934,300,000 new shares of HK\$0.10 each in South Sea to the Company.
- (b) The Company also granted two options to South Sea to acquire the Company's entire interests in Hancheers and Listar Properties Limited at a consideration of HK\$130 million and HK\$234.6 million respectively which will be satisfied by the issues of 1,300 million and 2,346 million shares in South Sea to the Company. The options are exercisable within 12 months from the date of completion of the transactions as mentioned in (a) above.
- (c) Pursuant to a special resolution passed on 3 May 2001 and confirmed by an order of the court made on 27 June 2001, the capital of the Company was reduced from HK\$3,000,000,000 divided into 6,000,000,000 ordinary shares of HK\$0.50 each to HK\$600,000,000 divided into 6,000,000,000 ordinary shares of HK\$0.10 each. Trading of the new ordinary shares of HK\$0.10 each commenced on 10 July 2001. The reduction is effected by cancelling paid-up capital to the extent of HK\$0.40 upon each of the 3,914,504,877 ordinary shares in issue as at 6 April 2001 and any further ordinary shares issued prior to 27 June 2001.

38. POST BALANCE SHEET EVENTS (Continued)

- (d) On 17 May 2001, the directors of South Sea announced to propose to issue new shares and convertible debentures under a Scheme of Arrangement to settle the unsecured creditors of Team Concepts Manufacturing Limited ("Scheme Creditors") as at 31 March 2001. The Scheme of Arrangement was voted in favour of by the Scheme Creditors at the Unsecured Creditors' Meeting on 10 July 2001. Up to the date of approval of these financial statements, court approval has yet to be obtained from the High Court of Hong Kong.
- (e) On 21 June 2001, the Company entered into an agreement with Macro Resources Limited ("Macro"), a company beneficially owned as to 60% by Mr. Yu Pun Hoi (a director and substantial shareholder of the Company) and as to 40% by Citic Guoan Group Company Limited "Citic Guoan" (a substantial shareholder of the Company), under which, for a cash consideration of HK\$500 million, Macro procured a subsidiary of Citic Guoan to transfer its 78.8% equity interest in Beijing Shihua International Financial Information Limited, a Sino-foreign equity joint venture incorporated in the PRC with limited liability, to transfer or arrange to transfer certain proprietary computer application and solutions for securities trading via internet being owned by a third party to the Company and to procure independent subscribers to subscribe for the convertible notes of the Company with value between HK\$800 million and HK\$1,000 million as well as to act as the underwriter. The convertible notes will bear an interest of 3% per annum and are convertible into shares in the Company at an initial conversion price of HK\$0.10 within a period of three years from the date of issue of the convertible notes. On 11 August 2001, convertible notes totalling HK\$700 million were issued to certain substantial shareholders of the Company and independent third parties.

Of the proceeds of HK\$700 million from the issue of convertible notes, HK\$500 million were paid to Marco and the remaining HK\$200 million were paid to Excellent Mission Developments Company Limited for redemption of the HK\$200 million non-interest bearing convertible notes (Note 25) which were cancelled on 21 August 2001.

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements on page 21 to 77 were approved by the board of directors on 27 August 2001.