

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2002

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate holding company is Heng Fung Holdings Limited ("Heng Fung") (formerly known as Online Credit International Limited), another public company incorporated in Hong Kong with its shares listed on the Stock Exchange.

The Company acts as an investment holding company. Its subsidiaries are principally engaged in the retailing of fashion apparel and accessories, property investment and financial and securities investment.

Pursuant to special resolutions passed on October 16, 2001 and July 5, 2002, the name of the Company was changed from eBiz.hk.com Limited 聯網商業香港有限公司 to Hai Xia Holdings Limited 海峽集團有限公司 and subsequently China Gas Holdings Limited 中國燃氣控股有限公司.

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first time, a number of new and revised Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants. Adoption of these standards has led to a number of changes in the Group's accounting policies. The revised accounting policies are set out in note 3. In addition, the new and revised standards have introduced additional and revised disclosure requirements which have been adopted in these financial statements. Comparative amounts for the prior year have been restated in order to achieve a consistent presentation.

The adoption of these new and revised standards has resulted in the following changes to the Group's accounting policies that have affected the amounts reported for the current or prior periods.

Leases

In accordance with SSAP 14 (Revised) "Leases", some amendments were introduced to the basis of accounting for operating leases and to the disclosures specified for the Group's leasing arrangements. These changes have not had any effect on the results for the current or prior accounting periods and, accordingly, no prior period adjustment has been required. Disclosures for the Group's leasing arrangements have been modified so as to comply with the requirements of SSAP 14 (Revised). Comparative disclosures have been restated in order to achieve a consistent presentation.

Segment reporting

In the current year, the Group has changed the basis of identification of reportable segments to that required by SSAP 26 "Segment reporting". Segment disclosures for the year ended March 31, 2001 have been amended so that they are presented on a consistent basis.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2002

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for revaluation of leasehold properties, investment properties and investments in securities.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

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

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

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

Subsidiaries

A subsidiary is an enterprise over which the Company has control, either directly or indirectly. Control is the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

Investment in a subsidiary is included in the Company's balance sheet at cost less any identified impairment loss.

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

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

Sale proceeds on trading of securities are recognised on a trade date basis when a sale and purchase contract is entered into.

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

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2002

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Investment properties

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

Investment properties are stated at their open market value based on independent professional valuations at the balance sheet date. Any revaluation increase or decrease arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance of this reserve is insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve is charged to the income statement. Where a decrease has previously been charged to the income statement and a revaluation increase subsequently arises, this increase is credited to the income statement to the extent of the decrease previously charged.

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property is transferred to the income statement.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.

Properties held for development

Properties held for development are stated at the cost of acquisition to the Group together with any attributable expenses less provision for anticipated losses, where appropriate.

Property, plant and equipment

Property, plant and equipment are stated at cost or valuation less depreciation and impairment loss, if any.

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

Any revaluation increase arising on land and buildings is credited to the asset revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case this surplus is credited to the income statement to the extent of the deficit previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2002

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Property, plant and equipment – *continued*

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

Leasehold land	Over the remaining terms of the leases
Buildings	Over the shorter of the remaining terms of the leases or 50 years
Furniture and fixtures	15% – 50%
Motor vehicles	25%

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sale proceed and the carrying amount of the asset and is recognised in the income statement.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another accounting standard, in which case the impairment loss is treated as a revaluation decrease under that accounting standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another accounting standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that other accounting standard.

Investments in securities

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2002

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight line basis over relevant lease terms.

Foreign currencies

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

Taxation

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

4. TURNOVER

Turnover represents the net amounts received and receivable for goods sold, income from trading of securities, dividend income and rental income received and receivable by the Group for the year and is analysed as follows:

	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Dividend income	8	6
Income from trading of securities	3,477	220
Rental income	1,266	357
Sale of goods	76	3,586
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	4,827	4,169
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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2002

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into three operating divisions – retailing of fashion and accessories, property investment and financial and security investment. These principal operating activities are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below:

2002

	Retailing of fashion apparel and accessories <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Financial and security investment <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE				
Turnover	76	1,266	3,485	4,827
SEGMENT RESULT	(963)	(6,770)	7,097	(636)
Unallocated corporate revenue				509
Unallocated corporate expenses				(7,256)
Loss from operations				(7,383)
Taxation credit				89
Net loss for the year				(7,294)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2002

5. BUSINESS AND GEOGRAPHICAL SEGMENTS – continued

BALANCE SHEET

	Retailing of fashion apparel and accessories <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Financial and security investment <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
ASSETS				
Segment assets	65	63,247	34,582	97,894
Unallocated corporate assets				13,601
Consolidated total assets				<u>111,495</u>
LIABILITIES				
Segment liabilities	25	916	11	952
Unallocated corporate liabilities				4,092
Consolidated total liabilities				<u>5,044</u>

OTHER INFORMATION

	Retailing of fashion apparel and accessories <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Financial and security investment <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Depreciation	15	386	1	1	403
Impairment loss recognised in consolidated income statement	–	6,900	–	–	6,900

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2002

5. BUSINESS AND GEOGRAPHICAL SEGMENTS – continued

2001

	Retailing of fashion apparel and accessories <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Financial and security investment <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE				
Turnover	3,586	357	226	4,169
SEGMENT RESULT				
	302	92	(659)	(265)
Unallocated corporate revenue				878
Unallocated corporate expenses				(5,778)
Loss from operations				(5,165)
Finance costs				(7)
Net loss for the year				(5,172)
BALANCE SHEET				
	Retailing of fashion apparel and accessories <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Financial and security investment <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
ASSETS				
Segment assets	1,500	72,817	372	74,689
Unallocated corporate assets				300
Consolidated total assets				74,989
LIABILITIES				
Segment liabilities	200	827	–	1,027
Unallocated corporate liabilities				3,542
Consolidated total liabilities				4,569

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2002

5. BUSINESS AND GEOGRAPHICAL SEGMENTS – *continued*

OTHER INFORMATION

	Retailing of fashion apparel and accessories <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Financial and security investment <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Capital expenditure	36	–	–	–	36
Depreciation	68	444	–	5	517
	68	444	–	5	517

Geographical segments

All of the activities and assets of the Group are based in Hong Kong and all of the Group's turnover and operating loss are derived from Hong Kong.

6. OTHER OPERATING INCOME

Other operating income includes interest income amounting to HK\$59,000 (2001: HK\$128,000).

7. LOSS FROM OPERATIONS

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Loss from operations has been arrived at after charging (crediting):		
Auditors' remuneration	565	421
Depreciation	403	517
Dividend income from investments in securities	(8)	(5)
Loss on disposal of property, plant and equipment	22	35
Minimum lease payments for operating leases in respect of		
– rented premises	157	870
– furniture and fixtures	–	12
Staff costs including directors' emoluments and retirement benefit scheme contribution	1,115	2,009
Rental income from investment properties less outgoings of HK\$106,000 (2001: HK\$265,000)	(1,160)	(92)
	(1,160)	(92)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2002

8. FINANCE COSTS

Finance costs represented interest on bank loans, bank overdrafts and other borrowings wholly repayable within five years.

9. DIRECTORS' EMOLUMENTS

	2002 HK\$'000	2001 HK\$'000
Directors' fees		
– executive	–	–
– non-executive	90	90
– independent non-executive	90	90
	<hr/>	<hr/>
	180	180
Other emoluments	–	–
	<hr/>	<hr/>
Total emoluments	<u>180</u>	<u>180</u>

The aggregate emoluments of each director during the relevant periods were within the emoluments band ranging from nil to HK\$1,000,000.

10. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, none of them (2001: None) was a director of the Company. The emoluments of the five (2001: five) individuals were as follows:

	2002 HK\$'000	2001 HK\$'000
Salaries and other benefits	<u>833</u>	<u>885</u>

Emoluments of each of the five (2001: five) individuals were within the band ranging from Nil to HK\$1,000,000.

11. TAXATION CREDIT

No provision for Hong Kong Profits Tax has been made in the financial statements as there is no assessable profit for the Company and its subsidiaries. The tax credit represents the reversal of overprovision of tax provision made in respect of prior year.

Details of unprovided deferred taxation are set out in note 23.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2002

12. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss for the year of HK\$7,294,000 (2001: HK\$5,172,000) and on 324,461,902 (2001: 208,292,307) weighted average number of ordinary shares outstanding during the year. No diluted loss per share is presented as the exercise of the potential dilutive ordinary shares would result in reduction in loss per share in both years.

13. INVESTMENT PROPERTIES

	THE GROUP	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Valuation		
At beginning of the year	15,630	2,370
On acquisition of subsidiary	–	13,300
Deficit on revaluation	<u>(1,707)</u>	<u>(40)</u>
At end of the year	<u><u>13,923</u></u>	<u><u>15,630</u></u>

Investment properties were revalued at their open market value at March 31, 2002 by Sallmanns (Far East) Limited, a firm of independent professionally qualified valuers, on an open market existing use basis. This valuation gave rise to a deficit on revaluation of HK\$1,707,000 of which HK\$677,000 (2001: HK\$40,000) and HK\$1,030,000 (2001: Nil) have been charged to the investment property revaluation reserve and the consolidated income statement respectively.

Investment properties of the Group with a net book value of HK\$13,068,000 (2001: HK\$14,650,000) are rented out under operating leases.

The market value of investment properties shown above comprises:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Long lease in Hong Kong	11,860	13,300
Medium term lease in Hong Kong	<u>2,063</u>	<u>2,330</u>
	<u><u>13,923</u></u>	<u><u>15,630</u></u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2002

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP				
COST OR VALUATION				
At April 1, 2001	13,580	4,046	152	17,778
Disposals	–	(33)	–	(33)
Deficit on valuation	(980)	–	–	(980)
	<u>12,600</u>	<u>4,013</u>	<u>152</u>	<u>16,765</u>
At March 31, 2002	<u>12,600</u>	<u>4,013</u>	<u>152</u>	<u>16,765</u>
Comprising:				
At cost	–	4,013	152	4,165
At valuation	<u>12,600</u>	<u>–</u>	<u>–</u>	<u>12,600</u>
	<u>12,600</u>	<u>4,013</u>	<u>152</u>	<u>16,765</u>
DEPRECIATION				
At April 1, 2001	–	3,709	152	3,861
Provided for the year	272	131	–	403
Eliminated on disposals	–	(9)	–	(9)
Adjustment on revaluation	(272)	–	–	(272)
	<u>–</u>	<u>3,831</u>	<u>152</u>	<u>3,983</u>
At March 31, 2002	<u>–</u>	<u>3,831</u>	<u>152</u>	<u>3,983</u>
NET BOOK VALUES				
At March 31, 2002	<u>12,600</u>	<u>182</u>	<u>–</u>	<u>12,782</u>
At March 31, 2001	<u>13,580</u>	<u>337</u>	<u>–</u>	<u>13,917</u>

The leasehold land and buildings are situated in Hong Kong and are held under medium term leases.

The leasehold land and buildings of the Group were revalued at March 31, 2002 on an open market value basis by Sallmanns (Far East) Limited, a firm of independent professionally qualified valuers. The deficit arising on revaluation of leasehold land and buildings amounting to HK\$708,000 (2001: HK\$140,000) has been charged to the asset revaluation reserve.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2002

14. PROPERTY, PLANT AND EQUIPMENT – *continued*

If leasehold land and buildings had not been revalued, they would have been included in these financial statements on a historical cost basis at the following amounts:

	<i>HK\$'000</i>
Cost	12,500
Accumulated depreciation	<u>(2,427)</u>
Net book values	
At March 31, 2002	<u>10,073</u>
At March 31, 2001	<u>10,345</u>

15. PROPERTIES HELD FOR DEVELOPMENT

	THE GROUP	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Medium term lease in Hong Kong – at cost	43,100	43,100
Less: Impairment loss recognised	<u>(6,900)</u>	<u>–</u>
	<u>36,200</u>	<u>43,100</u>

Properties held for development were valued at their open market value at March 31, 2002 on an open market existing use basis. Impairment loss arising amounting to HK\$6,900,000 have been charged to the consolidated income statement.

16. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	51,504	51,504
Impairment loss recognised	<u>(51,504)</u>	<u>(51,504)</u>
	<u>–</u>	<u>–</u>
Amounts due from subsidiaries	188,562	185,384
Allowance for amounts due from subsidiaries	<u>(146,160)</u>	<u>(128,278)</u>
	<u>42,402</u>	<u>57,106</u>

The amounts are unsecured, interest-free and with no fixed repayment term.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2002

16. INTERESTS IN SUBSIDIARIES – continued

Particulars of the principal subsidiaries at March 31, 2002 are as follows:

Name of subsidiary	Place of incorporation/ operations	Paid up issued share capital	Proportion of nominal value of issued capital held by the Company		Principal activities
			Directly %	Indirectly %	
eglobaljob.com Limited	Hong Kong	Ordinary HK\$2	100	–	Investment holding
Faith Profit Limited	Hong Kong	Ordinary HK\$10,000	100	–	Property holding
Fronteer Securities (HK) Limited	Hong Kong	Ordinary HK\$2	–	100	Financial and securities investment
Hai Xia Finance Limited (formerly known as Mall 368.com Limited)	Hong Kong	Ordinary HK\$2	–	100	Securities investment
Hai Xia Travel Limited (formerly known as PhoneBox International Limited)	Hong Kong	Ordinary HK\$2	–	100	Investment holding
Iwai's Holdings (Hong Kong) Limited	Hong Kong	Ordinary HK\$1,000 Non-voting deferred shares HK\$1,000,000 (Note)	–	100	Investment holding, property investment and provision of management services to group companies
Iwai's Investments Limited	The British Virgin Islands/ Hong Kong	Ordinary HK\$10,000	100	–	Investment holding
Luckford Enterprise Limited	Hong Kong	Ordinary HK\$10,000	100	–	Property development
Masaru Iwai Enterprises (Hong Kong) Limited	Hong Kong	Ordinary HK\$1,000,000	–	100	Trading of fashion apparel and accessories

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2002

16. INTERESTS IN SUBSIDIARIES – continued

Name of subsidiary	Place of incorporation/ operations	Paid up issued share capital	Proportion of nominal value of issued capital held by the Company		Principal activities
			Directly %	Indirectly %	
Wellgem Asia Limited	Hong Kong	Ordinary HK\$10,000	100	–	Property development
York Winner Investment Limited	Hong Kong	Ordinary HK\$2	–	100	Financial and securities investment

The above table lists the principal subsidiaries of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Note: The deferred shares, which are not held by the Group, carry practically no rights to dividends or to receive notice of or to attend or vote at any general meeting of the company or to participate in any distribution on winding up.

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

17. TRADE AND OTHER RECEIVABLES

The Group does not allow any credit terms to its trade customers.

The following is an aged analysis of trade and other receivables at the reporting date:

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
0 – 60 days	99	11
61 – 90 days	–	–
More than 90 days	2	181
	101	192
Deposits, prepayments and other receivables	125	298
	226	490

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2002

18. INVESTMENTS IN SECURITIES

	THE GROUP		THE COMPANY	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Equity securities:				
Other investments listed in Hong Kong	33,700	359	31,900	–
Market value of listed securities	33,700	359	31,900	–

Details of other investments held by the Group and the Company as at March 31, 2002 with carrying value of HK\$33,550,000 and HK\$31,900,000 respectively are as follows:

Name of company	Place of incorporation	Class of share capital	Percentage of nominal value of issued share capital held by the Group Company		Principal activities
Greater China Holdings Limited ("Greater China")	Bermuda	Ordinary	11.51%	10.94%	Trading of handbags, securities trading, manufacturing and trading of cut and sew products, plastic items and porcelain products and investment holding

19. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade and other payables at the reporting date:

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
0 – 60 days	447	718
61 – 90 days	197	5
More than 90 days	2,025	1,530
	<u>2,669</u>	<u>2,253</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2002

20. SHARE CAPITAL

	Ordinary shares		Preference shares		Total
	No. of shares '000 HK\$0.01 each	HK\$'000	No. of shares '000 HK\$1 each	HK\$'000	HK\$'000
Authorised	<u>9,000,000</u>	<u>90,000</u>	<u>124,902</u>	<u>124,902</u>	<u>214,902</u>
Issued and fully paid:					
At April 1, 2000	208,292	2,083	67,500	67,500	69,583
Issuance of new preference shares (Note a)	—	—	56,402	56,402	56,402
At March 31, 2001	208,292	2,083	123,902	123,902	125,985
Issuance of new ordinary shares (Note c and d)	130,000	1,300	—	—	1,300
Conversion of preference shares to ordinary shares (Note b)	138,462	1,385	(18,000)	(18,000)	(16,615)
Exercise of share options (Note e)	8,272	83	—	—	83
At March 31, 2002	<u>485,026</u>	<u>4,851</u>	<u>105,902</u>	<u>105,902</u>	<u>110,753</u>

The following changes in the Company's share capital have taken place during the past two years:

- (a) In connection with the acquisition of subsidiaries during the year ended March 31, 2001, 56,402,477 non-voting cumulative redeemable convertible preference shares ("CP shares") at a price of HK\$1 each were issued and allotted as consideration. The new CP shares can be converted into new shares at an initial conversion price of HK\$0.20 each, subject to adjustments.
- (b) During the year, Heng Fung has exercised the option to convert 18,000,000 CP shares into 138,461,537 ordinary shares of HK\$0.01 each at HK\$0.13 per share.
- (c) On August 30, 2001, the Company issued 30,000,000 ordinary shares for a total consideration of HK\$18,000,000 to raise additional working capital to the Company.
- (d) On January 22, 2002, the Company subscribed for 600,000,000 ordinary shares of Greater China in consideration of issuing 100,000,000 ordinary shares of the Company.
- (e) During the year, the directors have exercised the share options to subscribe 8,272,000 ordinary shares of HK\$0.01 each at HK\$0.11 per share.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2002

20. SHARE CAPITAL – continued

The CP Shares shall carry equal rights and rank pari passu with one another as follows:

- (a) Holders of the CP Shares issued during the year ended March 31, 1999 are entitled in priority to any dividend payable in respect of the ordinary shares of the Company at cumulative annual preferential dividend rates of 3 per cent. per annum on the principal amount of the CP shares which are specified in the subscription agreement dated February 12, 1999 and two supplement agreements dated February 15, 1999 and March 9, 1999 respectively. Subject to the Companies Act of Bermuda, the dividend is cumulative and payable semi-annually in arrears on March 31 and September 30 in each year during the conversion period which falls after the second anniversary from the date of issue of the CP Shares and the first payment is due on September 30, 2001. No interest is payable for the first and second year in which the CP shares are outstanding. The conversion price of the CP Shares is HK\$0.13 each and the maturity date of the CP shares is March 30, 2004.
- (b) Dividend on CP shares issued on January 4, 2001 will only be payable commencing on the third year at 2.5 per cent. per annum on the principal amount of the respective CP shares outstanding. The conversion price of the CP shares is HK\$0.20 each, subject to adjustments, and the maturity date of the CP shares is January 3, 2006.
- (c) The CP Shares are convertible in multiples of 1,000,000 into ordinary shares of the Company.
- (d) The CP Shares are also redeemable at the principal amounts on the maturity date or the earliest date permitted under the Companies Act of Bermuda, whichever is the later. The maturity date is the fifth anniversary of the issue date of the CP shares.
- (e) The CP Shares do not have any voting rights.

Options

A summary of the options granted is as follows:

Date of grant	Exercisable period	Exercise price HK\$	Number of share options at 4.1.2001	Exercised during the year	Number of share options at 3.31.2002
2.10.1998	2.10.1998 to 2.9.2008	0.11	9,272,000	(8,272,000)	1,000,000

No share option was granted during the year.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2002

21. RESERVES

	Investment property revaluation reserve <i>HK\$'000</i>	Asset revaluation reserve <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Special reserve <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Deficit <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP							
At April 1, 2000	717	3,962	22,718	1,602	-	(79,212)	(50,213)
Deficit on revaluation	(40)	(140)	-	-	-	-	(180)
Net loss for the year	-	-	-	-	-	(5,172)	(5,172)
At March 31, 2001	677	3,822	22,718	1,602	-	(84,384)	(55,565)
Deficit on revaluation	(677)	(708)	-	-	-	-	(1,385)
Private placements	-	-	42,500	-	-	-	42,500
Exercise of share options	-	-	827	-	-	-	827
Conversion of preference shares	-	-	16,615	-	-	-	16,615
Net loss for the year	-	-	-	-	-	(7,294)	(7,294)
At March 31, 2002	-	3,114	82,660	1,602	-	(91,678)	(4,302)
THE COMPANY							
At April 1, 2000	-	-	22,718	-	48,474	(143,021)	(71,829)
Acquisition of subsidiaries	-	-	-	-	46,238	-	46,238
Net loss for the year	-	-	-	-	-	(48,072)	(48,072)
At March 31, 2001	-	-	22,718	-	94,712	(191,093)	(73,663)
Private placement	-	-	42,500	-	-	-	42,500
Exercise of share option	-	-	827	-	-	-	827
Conversion of preference shares	-	-	16,615	-	-	-	16,615
Net loss for the year	-	-	-	-	-	(14,714)	(14,714)
At March 31, 2002	-	-	82,660	-	94,712	(205,807)	(28,435)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2002

21. RESERVES – continued

Notes:

The special reserve of the Group represents the difference between the nominal value of the shares of the acquired subsidiaries and the nominal value of the Company's shares issued for the acquisition at the time of the group reorganisation prior to the listing of the Company's shares in 1995.

The contributed surplus of the Company represents the difference between the underlying net assets of the subsidiaries acquired by the Company as at the date of acquisition and the nominal amount of the Company's share capital issued as consideration for the acquisition.

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

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

At March 31, 2002, the Company had no reserve available for distribution.

22. AMOUNTS DUE TO SUBSIDIARIES

The amounts are unsecured, interest-free and have no fixed term of repayment. The subsidiaries have confirmed that repayment of the amounts will not be demanded within one year from the balance sheet date and accordingly, the amounts are classified as non-current.

23. UNPROVIDED DEFERRED TAXATION

At the balance sheet date, the Group had a net deferred tax asset of HK\$9,109,000 (2001: HK\$8,153,000) not been recognised in the financial statements as realisation of this asset in the foreseeable future is uncertain. Details of the unprovided deferred tax asset are as follows:

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
Tax effect of timing differences because of:		
Shortfall of tax allowances over depreciation	314	49
Other timing differences	(967)	–
Tax losses	9,762	8,104
	<hr/>	<hr/>
Net deferred tax asset	9,109	8,153
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2002

23. UNPROVIDED DEFERRED TAXATION – *continued*

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

	THE GROUP	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Shortfall of tax allowances over depreciation	265	2,592
Other timing differences	(967)	–
Tax losses arising	1,658	698
	<u>956</u>	<u>3,290</u>

Deferred taxation has not been provided on the valuation surplus arising on the revaluation of land and buildings and investment properties as profits arising on the disposal of these assets would not be subject to taxation. Accordingly, the valuation does not constitute a timing difference for tax purposes.

The Company had no significant unprovided deferred taxation for the year or at the balance sheet date.

24. RECONCILIATION OF LOSS BEFORE TAXATION TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss before taxation	(7,383)	(5,172)
Interest expense	–	7
Interest income	(59)	(128)
Depreciation	403	517
Loss on disposal of property, plant and equipment	22	35
Impairment loss recognised in respect of properties held for development	6,900	–
Deficit on revaluation of investment properties	1,030	–
Dividend income from listed investments	(8)	(5)
Decrease in inventories	–	500
Decrease in trade and other receivables	264	159
(Increase) decrease in investments in securities	(7,541)	296
Increase in trade and other payables	416	23
Decrease in bills payable	–	(217)
(Decrease) increase in amount due to ultimate holding company	(532)	1,581
Increase in amount due to a fellow subsidiary	591	113
	<u>(5,897)</u>	<u>(2,291)</u>
Net cash outflow from operating activities	<u>(5,897)</u>	<u>(2,291)</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2002

25. ACQUISITION OF SUBSIDIARIES

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
NET ASSETS ACQUIRED		
Investment properties	–	13,300
Properties held for development	–	43,100
Property, plant and equipment	–	3
Other receivables	–	33
Bank balances and cash	–	222
Other payables	–	(67)
Taxation	–	(189)
	<u>–</u>	<u>56,402</u>
	<u>–</u>	<u>56,402</u>
SATISFIED BY		
Preference shares allotted	–	56,402
	<u>–</u>	<u>56,402</u>
NET CASH INFLOW ARISING ON ACQUISITION		
Bank balances and cash acquired	–	222
	<u>–</u>	<u>222</u>

The subsidiaries acquired last year did not have any material effect on the cashflow of the Group.

The subsidiaries acquired last year did not have any material effect on the turnover and the operating loss of the Group.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2002

26. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Trust receipt loans <i>HK\$'000</i>	Share capital and premium <i>HK\$'000</i>
At April 1, 2000	201	92,301
Repayment of trust receipt loans	(201)	–
Preference shares issued for acquisition of subsidiaries	–	56,402
	–	56,402
At March 31, 2001	–	148,703
Issuance of new ordinary shares	–	18,000
Ordinary shares issued for exchange of shares of Greater China <i>(Note 20(d))</i>	–	25,800
Exercise of share options	–	910
	–	910
At March 31, 2002	–	193,413

27. MAJOR NON-CASH TRANSACTIONS

- (a) During the year ended March 31, 2001, consideration for the acquisition of subsidiaries was settled by way of issuance of 56,402,477 preference shares of the Company.
- (b) During the year, the Company subscribed for 600,000,000 ordinary shares of Greater China in consideration of issuing 100,000,000 ordinary shares of the Company. Details of which are set out in note 20.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2002

28. OPERATING LEASE COMMITMENTS

The Group and the Company as lessee

At the balance sheet date, the Group and the Company had commitment for future minimum lease payments under a non-cancellable operating lease in respect of rented premises which fall due as follows:

	THE GROUP AND THE COMPANY	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Within one year	179	–
In the second to fifth years inclusive	75	–
	254	–
	254	–

Operating lease payments represent rentals payable by the Group and the Company in respect of leased land and buildings. Lease is negotiated for a term of two years with fixed rental.

The Group and the Company as lessor

At the balance sheet date, the Group and the Company had contracted with tenants for the following future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	THE GROUP		THE COMPANY	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Within one year	348	612	–	–
In the second to fifth year inclusive	253	144	–	–
	601	756	–	–
	601	756	–	–

Leases are negotiated for an average term of two years.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2002

29. PLEDGE OF ASSETS

At the balance sheet date, the Group pledged a bank deposit of nil (2001: HK\$1,051,000) to secure banking facilities granted to the Group.

30. CONTINGENT LIABILITIES

Two former staff issued writs against the Company claiming for wrongful dismissal of approximately HK\$1,862,000 (2001: HK\$1,862,000). The directors are advised by the legal counsel of the Company that it is unlikely that the former staff will succeed in their claims. Accordingly, no provision has been made in these financial statements.

31. MANDATORY PROVIDENT FUND SCHEME

With effective from December 1, 2000, the Group has joined a Mandatory Provident Fund Scheme ("MPF Scheme") for all employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rate specified in the rules. The only obligation of the Group with respect of MPF Scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in the future years.

The MPF Scheme contributions arising from the MPF Scheme charged to the income statement represent contributions paid or payable to the funds by the Group at rates specified in the rules of the schemes.

32. RELATED PARTY TRANSACTIONS

- (i) For the year ended March 31, 2001, the Company acquired subsidiaries at a consideration of HK\$56,402,477 from Heng Fung. The consideration was determined with reference to the audited net asset values of the subsidiaries acquired on November 24, 2000.
- (ii) Pursuant to an agreement dated November 2, 2001 entered into between the Company and Heng Fung Underwriter Limited ("Heng Fung Underwriter"), a fellow subsidiary of the Group, the Group paid management service fee of HK\$900,000 to Heng Fung Underwriter for the provision of management and support services related to corporate services, capital raising and other support as requested by the Group during the period from October 1, 2001 to March 31, 2002.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2002

32. RELATED PARTY TRANSACTIONS – *continued*

- (iii) Pursuant to an agreement dated November 30, 2001 entered into between the Company and Online Credit Card Limited (“Online Credit”), a fellow subsidiary of the Group, the Group paid an one-time non-refundable initial set up fee of HK\$980,000 to Online Credit for issuance of a Co-branded MasterCard Card known as “Hai Xia Online MasterCard”.
- (iv) At the balance sheet date, advances from the ultimate holding company and a fellow subsidiary amounting to HK\$1,049,000 and HK\$980,000 (2001: HK\$1,581,000 and HK\$389,000) respectively.

The amounts are unsecured, interest-free and with no fixed repayment term.

33. POST BALANCE SHEET EVENTS

- (i) On April 29, 2002, a co-operative agreement was entered into between the Company and Hai Xia Finance Holdings Limited (“Hai Xia Finance”) pursuant to which Hai Xia Finance will procure exclusive investment projects in the area of natural gas pipelines installation and supply of natural gas. A summary of the terms of the co-operative agreement is set out in an announcement of the Company dated April 30, 2002.
- (ii) On May 4, 2002, a subsidiary of the Company entered into three agreements to acquire an aggregate of 60% interest in Beijing Xiangke Jiahua Oil & Gas Technology Co., Ltd. 北京翔科嘉華油氣技術有限公司, by way of purchase of existing equity interests and injection of new capital for an aggregate consideration of approximately HK\$29 million. A summary of the terms of the three agreements is set out in an announcement of the Company dated May 9, 2002.
- (iii) On May 7, 2002, a placing agreement was entered into between the Company and Sino-Finance Asset Management Limited (“Sino-Finance”) pursuant to which the Company has agreed to allot and issue to Sino-Finance an aggregate of 33,333,333 new ordinary shares in the capital of the Company at a price of HK\$0.90 per share, subject to, among other things, the Stock Exchange granting the listing of, and permission to deal in the new shares. A summary of the terms of the placing agreement is set out in an announcement of the Company dated May 9, 2002.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2002

33. POST BALANCE SHEET EVENTS – *continued*

- (iv) On May 13, 2002, Hai Xia Finance Limited (“Hai Xia FL”), a subsidiary of the Company entered into an agreement with Hong Kong Syndisome Co., Limited (“HKSCo”) pursuant to which HKSCo and Hai Xia FL agreed to form a company to be incorporated in Samoa (the “Samoa Company”). The Samoa Company will be owned as to 55% by Hai Xia FL and 45% by HKSCo. The proposed total investment in the Samoa Company is approximately HK\$120 million which will be funded as to HK\$66 million by Hai Xia FL and HK\$54 million by HKSCo. Of the amount to be funded by Hai Xia FL, HK\$8.4 million will be contributed by Hai Xia Finance when Hai Xia FL assigns 7% of its shareholding in the Samoa Company to Hai Xia Finance pursuant to an agreement as stated in note (v) below. A summary of the terms of this agreement is set out in an announcement of the Company dated May 16, 2002.
- (v) On May 16, 2002, an agreement was entered into between Hai Xia FL and Hai Xia Finance pursuant to which Hai Xia FL agrees to assign 7% of its shareholding in the Samoa Company to Hai Xia Finance upon formation of the Samoa Company and Hai Xia Finance agreed to invest a total of HK\$8.4 million to the Samoa Company. A summary of the terms of the agreement is set out in an announcement of the Company dated May 16, 2002.
- (vi) On June 8, 2002, the Company entered into an agreement with Hai Xia Finance pursuant to which the Company and Hai Xia Finance agreed to form a company to be incorporated in the British Virgin Islands (the “BVI Company”). The BVI Company will be owned as to 49% by the Company and 51% by Hai Xia Finance. The proposed issued share capital of the BVI Company is HK\$10 million which will be funded by the Company and Hai Xia Finance as to HK\$4.9 million and HK\$5.1 million respectively. A summary of the terms of this agreement is set out in an announcement of the Company dated June 10, 2002.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2002

33. POST BALANCE SHEET EVENTS – *continued*

(vii) On June 13, 2002, China Gas Development Group Limited, a company which is indirectly owned as to 49% by the Company and 51% by Hai Xia Finance (“Samoa Company II”), entered into:

- (a) An agreement with the People’s Government of Suizhou City (“PGSC”) pursuant to which Samoa Company II and PGSC agreed to establish a Sino-foreign equity joint venture company in the People’s Republic of China (the “PRC”) (“Suizhou JV”) to principally engaged in the design, construction and operation of natural gas pipeline network and ancillary facilities as well as provision of piped natural gas in Suizhou, Hubei Province, the PRC. It is expected that the Suizhou JV will have a registered capital of approximately RMB50 million (approximately HK\$47 million) to be contributed and owned as to 85% by Samoa Company II and 15% by PGSC. The total investment of the Suizhou JV is estimated to be approximately RMB150 million (approximately HK\$142 million). It is expected that the Suizhou JV shall have a term of 50 years.
- (b) An agreement with Yichang City Natural Gas Company Limited (“YCNG”) pursuant to which the Samoa Company agreed to establish a Sino-foreign equity joint venture company in the PRC (“Yichang JV”) to principally engage in the design, construction and operation of natural gas pipeline network and ancillary facilities as well as provision of piped natural gas in Yichang, Hubei Province, the PRC. It is expected that the Yichang JV will have a registered capital of approximately RMB54 million (approximately HK\$51 million) to be contributed and owned as to 90% by Samoa Company II and 10% by YCNG. The total investment of the Yichang JV is estimated to be approximately RMB180 million (approximately HK\$170 million). It is expected that the Yichang JV shall have a term of 28 years.
- (c) An agreement with Development Plan Commission of Shiyan City (“DPC”) pursuant to which Samoa Company II and DPC agreed to establish a Sino-foreign equity joint venture company in the PRC (“Shiyan JV”) to invest in the natural gas projects in Shiyan, Hubei Province, the PRC. It is agreed that Shiyan JV will be owned as to not less than 50% by Samoa Company II and the remaining balance by DPC. The total investment of the Shiyan JV is to be determined in accordance with a project feasibility report to be completed.

A summary of the terms of the above agreements is set out in the announcement of the Company dated June 14, 2002.

(viii) On July 15, 2002, Timeslink Holdings Limited (“Timeslink”), a subsidiary of the Company entered into an agreement with China Main Investment (H.K.) Company Limited and Ms. Ma Xiaoling pursuant to which Timeslink has conditionally agreed to acquire the entire share capital of Elegant Cheer Limited and the shareholder’s loan at a total consideration of HK\$19 million. The consideration shall be satisfied by the Company by way of issuing, credited as fully paid 16,325,829 ordinary shares of the Company at a price of HK\$1.1638 per share.