(Expressed in Hong Kong dollars)

1. BACKGROUND

The Company is incorporated in Bermuda under the Companies Act 1981 of Bermuda (as amended) as an exempted company with limited liability. Its shares are listed on The Stock Exchange of Hong Kong Limited.

The Group primarily operates in the telecommunication infrastructure sector in Hong Kong and other regions in the PRC and is subject to special risks due to the development cost and time involved and fast-changing environment of the sector. As a development stage enterprise, the sustainability of the Group is dependent on its ability to successfully implement its business development plans, which are dependent on, among things, adequate financing being continuously available to the Group to fund the developing operations, before sufficient cash flows are generated from such operations. The directors of the Company have evaluated all the relevant facts available to them, including the undertaking from a major shareholder to provide financial support to the Group, and are of the opinion that there do not exist any material adverse conditions precluding the Group from implementing its business development plans. Accordingly, the financial statements have been prepared on a going concern basis.

The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or to amounts and classification of liabilities that might be necessary should the going concern basis not be applicable.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Listing Rules. A summary of the significant accounting policies adopted by the Group is set out below.

(b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is historical cost.

(c) Subsidiaries

A subsidiary is an enterprise controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

(Expressed in Hong Kong dollars)

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Subsidiaries *(continued)*

An investment in a subsidiary is consolidated into the consolidated financial statements, unless a subsidiary is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Group, in which case, it is stated in the consolidated balance sheet at fair value with changes in fair value recognised in the consolidated profit and loss account as they arise.

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transctions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 2(i)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Company, in which case, it is stated at fair value with changes in fair value recognised in the profit and loss account as they arise.

(d) Associates

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

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's net assets, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significant impair its ability to transfer funds to the investor, in which case it is stated at fair value with changes in fair value recognised in the consolidated profit and loss account as they arise. The consolidated profit and loss account reflects the Group's share of the post-acquisition results of the associates for the year, including any amortisation of positive or negative goodwill charged or credited during the year in accordance with note 2(e).

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the profit and loss account.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Goodwill

Positive goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired. In respect of controlled subsidiaries, positive goodwill is amortised to the consolidated profit and loss account on a straight-line basis over its estimated useful life. Positive goodwill is stated in the consolidated balance sheet at cost less any accumulated amortisation and any impairment losses (see note 2(i)).

In respect of acquisitions of associates, positive goodwill is amortised to the consolidated profit and loss account on a straight-line basis over its estimated useful life. The cost of positive goodwill less any accumulated amortisation and any impairment losses (see note 2(i)) is included in the carrying amount of the interest in associates.

Negative goodwill arising on acquisitions of controlled subsidiaries and associates represents the excess of the Group's share of the fair value of the identifiable assets and liabilities acquired over the cost of the acquisition. Negative goodwill is accounted for to the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which have not yet been recognised, it is recognised in the consolidated profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill, but not exceeding the fair values of the non-monetary assets acquired, is recognised in the consolidated profit and loss account over the weighted average useful life of those non-monetary assets that are depreciable/amortisable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the consolidated profit and loss account.

In respect of any negative goodwill not yet recognised in the consolidated profit and loss account.

— for controlled subsidiaries, such negative goodwill is shown in the consolidated balance sheet as a deduction from assets in the same balance sheet classification as positive goodwill; and

— for associates, such negative goodwill is included in the carrying amount of the interests in associates.

On disposal of a controlled subsidiary or an associate during the year, any attributable amount of purchased goodwill not previously amortised through the consolidated profit and loss account is included in the calculation of the profit or loss on disposal.

(Expressed in Hong Kong dollars)

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Investments in securities

The Group's policies for investments in securities are as follows:

(i) Investments held on a continuing basis for an identified long-term purpose are classified as "investment securities". Investment securities are stated in the balance sheet at cost less any provisions for diminution in value. Provisions are made when the fair values have declined below the carrying amounts, unless there is evidence that the decline is temporary, and are recognised as an expense in the profit and loss account, such provisions being determined for each investment individually.

(ii) Provisions against the carrying value of investment securities are written back when the circumstances and events that led to the write-down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(iii) Profits or losses on disposal of investments in securities are determined as the difference between the estimated net disposal proceeds and the carrying amount of the investments and are accounted for in the profit and loss account as they arise.

(g) Fixed assets

(i) Fixed assets are stated in the balance sheet at cost less accumulated depreciation (see note 2(h)) and impairment losses (see note 2(i)).

(ii) Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the enterprise. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

(iii) Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the profit and loss account on the date of retirement or disposal.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Amortisation and depreciation

Depreciation is calculated to write off the cost of fixed assets in use on a straight-line basis over their estimated useful lives as follows:

Leasehold improvements	4 to 10 years or over the remaining term of the respective leases, whichever is shorter
Fibre-optic network	20 years
Plant and machinery	7 years
Furniture, fixtures and equipment	4 to 5 years or over the remaining term of the respective leases, whichever is shorter
Motor vehicles	4 to 5 years

(i) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

— fixed assets;
— investments in subsidiaries and associates; and
— positive goodwill.

If any such indication exists, the asset's recoverable amount is estimated. For goodwill that is amortised over 20 years from initial recognition, the recoverable amount is estimated at each balance sheet date. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

(Expressed in Hong Kong dollars)

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Impairment of assets *(continued)*

(ii) Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the profit and loss account in the year in which the reversals are recognised.

(j) Leased assets

Leases of assets under which the lessee assumes substantially all the risks and benefits of ownership are classified as finance leases. Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.

(i) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost of the assets in equal annual amounts over the term of the relevant lease or, where it is likely the Company or Group will obtain ownership of the asset, the life of the asset, as set out in note 2(h). Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(i). Finance charges implicit in the lease payments are charged to the profit and loss account over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are written off as an expense of the accounting period in which they are incurred.

2. **SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

(j) Leased assets *(continued)*

(ii) Operating leases charges

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the profit and loss account in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the profit and loss account as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the profit and loss account in the accounting period in which they are incurred.

(k) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(l) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the profit and loss account as follows:

(i) Rental income of fibre-optic network

Rental income receivable under operating leases in respect of fibre-optic network is recognised on a straight-line basis over the periods of the respective leases.

(ii) Servicing fees

Servicing fees receivable in respect of telecommunications and internet network engineering and related services are recognised upon the rendering of the services.

(Expressed in Hong Kong dollars)

2. **SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

(l) **Revenue recognition** *(continued)*

(iii) Interest income

Interest income from bank deposits is accrued on a time-apportioned basis by reference to the principal outstanding and the interest rate applicable.

(m) **Retirement costs**

Contributions to the Group's retirement benefit schemes are charged to the profit and loss account when incurred. Particulars of the retirement benefit schemes are set out in note 30 on the financial statements.

(n) **Translation of foreign currencies**

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses arising on foreign currency translation are dealt with in the profit and loss account.

The results and balance sheet items of foreign enterprises are translated into Hong Kong dollars at the rate of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in reserves.

On disposal of a foreign enterprise, the cumulative amount of the exchange differences which relate to that foreign enterprise is included in the calculation of the profit and loss on disposal.

(o) **Deferred taxation**

Deferred taxation is provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which are expected with reasonable probability to crystallise in the foreseeable future.

Future deferred tax benefits are not recognised unless their realisation is assured beyond reasonable doubt.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(p) Borrowing costs

Borrowing costs are expensed in the profit and loss account in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditures for the asset are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(q) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

(r) Cash equivalents

Cash equivalents are 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. For the purposes of the cash flow statement, cash equivalents would also include bank overdrafts and advances from banks repayable within three months from the date of the advance.

(s) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(s) Segment reporting *(continued)*

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

3. TURNOVER

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are set out in note 33.

Turnover represents the aggregate of income receivable from leasing of fibre-optic network and servicing fees receivable from the provision of telecommunications and internet network engineering and related services for the year. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2002	2001
	$'000	*$'000*
Telecommunications and internet network engineering and related services	**5,543**	12,931
Leasing of fibre-optic network	**—**	12,139
	5,543	25,070

4. SEGMENTAL REPORTING

Segment information is presented in respect of the Group's business and geographical segments. Business segments information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

Business segments

The Group comprises the following main business segments:

	Telecommunications and internet network engineering and related services		Leasing of fibre-optic network		Unallocated		Consolidated	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001
	$'000	*$'000*	***$'000***	*$'000*	***$'000***	*$'000*	***$'000***	*$'000*
Revenue from external customers	**5,543**	12,931	**—**	12,139	**—**	—	**5,543**	25,070
Segment result	**(14,693)**	(21,591)	**(4,709)**	(22,974)	**—**	—	**(19,402)**	(44,565)
Unallocated operating income and expenses							**(3,260)**	(36,065)
Loss from operations							**(22,662)**	(80,630)
Finance costs							**(18,613)**	(16,932)
Non-operating expenses, net	**—**	(286,014)	**(305,000)**	(272,219)	**(18,600)**	(93,283)	**(323,600)**	(651,516)
Share of loss of associate							**—**	(1,355)
Loss from ordinary activities before taxation							**(364,875)**	(750,433)
Taxation							**—**	(2,520)
							(364,875)	(752,953)
Minority interests							**—**	8,455
Loss for the year							**(364,875)**	(744,498)
Depreciation and amortisation for the year	**3,509**	18,100	**—**	34,359	**378**	303	**3,887**	52,762
Impairment losses for the year	**—**	257,382	**305,000**	265,958	**—**	—	**305,000**	523,340
Segment assets	**2,258**	21,521	**395,027**	700,714	**1,122**	79,297	**398,407**	801,532
Segment liabilities	**(3,323)**	(26,420)	**(7,675)**	(364)	**(189,070)**	(262,534)	**(200,068)**	(289,318)
Capital expenditure incurred during the year	**1,543**	31,398	**7**	962,961	**8**	454	**1,558**	994,813

The Group does not have any inter-segment sales.

(Expressed in Hong Kong dollars)

4. SEGMENTAL REPORTING *(continued)*

Geographical segments

The Group participates in two principal economic environments: Hong Kong and other areas of the PRC.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of the assets.

	Hong Kong		PRC		Consolidated	
	2002	2001	**2002**	2001	**2002**	2001
	$'000	*$'000*	***$'000***	*$'000*	***$'000***	*$'000*
Revenue from external customers	**5,543**	12,889	**—**	12,181	**5,543**	25,070
Segment result	**(14,693)**	(21,633)	**(4,709)**	(22,932)	**(19,402)**	(44,565)
Segment assets	**3,389**	100,824	**395,018**	700,708	**398,407**	801,532
Segment liabilities	**(192,401)**	(288,981)	**(7,667)**	(337)	**(200,068)**	(289,318)
Capital expenditure incurred during the year	**1,551**	31,852	**7**	962,961	**1,558**	994,813

5. OTHER REVENUE AND OTHER NET INCOME

	2002	2001
	$'000	*$'000*
Other revenue		
Bank interest income	**12**	1,186
Other interest income	**4,698**	—
	4,710	1,186
Other net income		
(Loss)/gain on disposal of fixed assets	**(7,079)**	934
Exchange loss	**—**	(1,276)
Net gain on debt waiver	**—**	3,487
Bad debts recovery	**10,199**	—
Others	**306**	105
	3,426	3,250

6. NON-OPERATING EXPENSES, NET

	Note	2002	2001
		$'000	*$'000*
			(restated)
(Gain)/loss on disposal of subsidiaries	*6(i)*	**(3,395)**	13,333
Impairment losses on fixed assets	*14(b)*	**305,000**	232,051
Provision for diminution in value of investment securities	*16*	**33,150**	76,050
Loss on termination of new data centres construction		—	14,779
Legal and professional fees in connection with asset acquisitions		—	3,900
Amortisation of goodwill	*13(b)*	—	20,114
Impairment losses on goodwill	*6(ii) & 13(b)*	—	291,289
Loss on disposal of listed investments		**2,845**	—
Gain on disposal of investment securities		**(14,000)**	—
		323,600	651,516

Notes:

(i) In order to rationalise its business structure and performance, the Group disposed of certain subsidiaries during the year and recorded a gain of $3,395,000 (2001: loss of $13,333,000 as restated) on disposal of these subsidiaries. Aggregate turnover and loss from ordinary activities after taxation of the disposed subsidiaries for the period from 1 April 2001 to the dates of disposals amounted to $4,776,000 and $22,729,000 respectively.

(ii) Due to uncertainties existing in the present market conditions in the PRC coupled with the slow down in the progress of the Group's internet-related and fibre-optic network businesses in Hong Kong and the PRC, the directors consider that there are indications of impairment of goodwill arising from the acquisitions of certain subsidiaries which are engaged in these businesses. Accordingly, the directors have carried out a review of the recoverable amount of the goodwill, taking into account the value in use of the operations as a whole, the above mentioned uncertainties surrounding such operations and, expected future cash flows from such operations. Based on the directors' assessment, a full provision of $291,289,000 for impairment losses on goodwill is considered necessary. This has been accounted for as a prior year adjustment as a result of the change in accounting policy for goodwill *(note 13)*.

(Expressed in Hong Kong dollars)

7. LOSS FROM ORDINARY ACTIVITIES BEFORE TAXATION

Loss from ordinary activities before taxation is arrived at after charging:

	2002	2001
	$'000	*$'000*
(a) Finance costs:		
Interest on bank loans and overdrafts, convertible bonds and other loans repayable within five years	**18,594**	14,646
Loans arrangement fee	**—**	2,250
Finance charges on obligations under finance leases	**19**	36
	18,613	16,932
(b) Other items:		
Auditors' remuneration	**1,330**	786
Depreciation		
— owned assets	**3,780**	32,515
— assets held under finance leases	**107**	133
Operating lease charges in respect of properties	**3,947**	5,298
Retirement benefits scheme contributions	**430**	308

8. TAXATION

(a) Taxation in the consolidated profit and loss account represents:

	2002	2001
	$'000	*$'000*
Taxation outside Hong Kong	**—**	2,272
Share of associate's taxation	**—**	248
	—	2,520

No provision for Hong Kong Profits Tax has been made as the Group sustained a loss for Hong Kong Profits Tax purposes for both years ended 31 March 2001 and 2002.

8. TAXATION *(continued)*

(a) Taxation in the consolidated profit and loss account represents *(continued)***:**

For the year ended 31 March 2001, taxation for overseas subsidiaries was charged at the appropriate current rates of taxation ruling in the relevant countries. Taxation for PRC operations of the associate was charged at the appropriate current rates of taxation ruling in the PRC.

For the year ended 31 March 2002, no provision for taxation outside Hong Kong has been made as the overseas subsidiaries sustained a loss for tax purposes.

(b) No deferred tax asset in respect of unutilised tax losses carried forward, which are available to set off against future assessable profits, has been recognised as it is uncertain that these tax losses will be utilised in the foreseeable future.

9. DIRECTORS' REMUNERATION

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

	2002	2001
	$'000	*$'000*
Fees	**360**	360
Salaries and other emoluments	**581**	2,478
Discretionary bonuses	**—**	42
Retirement scheme contributions	**83**	38
	1,024	2,918

The remuneration of the directors is within the following bands:

	Number of directors	
	2002	2001
$Nil — $1,000,000	**6**	4
$1,000,001 — $1,500,000	**—**	—
$1,500,001 — $2,000,000	**—**	1

Included in directors' remuneration were fees of $360,000 (2001: $360,000) paid to the independent non-executive directors during the year.

9. DIRECTORS' REMUNERATION *(continued)*

There were no amounts paid during the years ended 31 March 2001 and 2002 to directors in connection with their retirement from employment with the Company, or inducement to join the Company. Directors' emoluments waived during the year amounted to $747,000 (2001: $Nil).

10. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, one (2001: one) is a director whose emoluments are disclosed in note 9. The remuneration of the remaining four (2001: four) highest paid individuals is as follows:

	2002	2001
	$'000	*$'000*
Salaries and other emoluments	**2,606**	3,462
Discretionary bonuses	**—**	101
Retirement scheme contributions	**91**	56
	2,697	3,619

The emoluments of the four (2001: four) individuals with the highest emoluments are within the following bands:

	No. of individuals	
	2002	2001
$Nil — $1,000,000	**4**	3
$1,000,001 — $1,500,000	**—**	1

11. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The consolidated loss attributable to shareholders includes a loss of $634,609,000 (2001: $368,521,000) which has been dealt with in the financial statements of the Company.

12. LOSS PER SHARE

(a) Basic loss per share

The calculation of the basic loss per share is based on the loss attributable to shareholders of $364,875,000 (2001: $744,498,000 as restated) and the weighted average number of 11,128,887,000 (2001: 9,328,313,000 as restated) ordinary shares in issue during the year.

(b) Diluted loss per share

Diluted loss per share for both years are not shown as the potential ordinary shares are anti-dilutive.

13. CHANGE IN ACCOUNTING POLICY

In prior years, positive goodwill arising on acquisition of subsidiaries, being the excess of the cost over the fair value of the Group’s share of the separate net assets acquired, was eliminated against reserves in the year of acquisition. On disposal of a subsidiary during the year, any attributable amount of purchased goodwill which had previously been dealt with as a movement on Group reserves was included in the calculation of the profit or loss on disposal.

With effect from 1 April 2001, in order to comply with Statement of Standard Accounting Practice 30 (“SSAP 30") issued by the Hong Kong Society of Accountants, the Group adopted a new accounting policy for positive goodwill as set out in note 2(e).

Under the new accounting policy, positive goodwill is amortised to the profit and loss account on a straight-line basis over its estimated useful life. Positive goodwill is stated in the consolidated balance sheet at cost less any accumulated amortisation and any impairment losses. On disposal of a subsidiary during the year, any attributable amount of purchased goodwill not previously amortised through the profit and loss account is included in the calculation of the profit or loss on disposal.

The new accounting policy has been adopted retrospectively, with the restatement of goodwill arising from acquisitions of subsidiaries and associate prior to 1 April 2001 and the opening balance of accumulated losses and the comparative information adjusted for the amounts relating to prior periods.

The effects of adopting the new accounting policy on the Group’s loss for the years ended 31 March 2001 and 2002 and the Group’s net assets and accumulated losses as at 31 March 2001 and 2002 are as follows:

13. CHANGE IN ACCOUNTING POLICY *(continued)*

(a) Impact on net assets

Goodwill is the only item affecting the Group's net assets as a result of the change in accounting policy.

Movements of goodwill for the years ended 31 March 2002 and 2001 are as follows:

	2002	2001
	$'000	*$'000*
	(restated)	(restated)
Cost:		
At 1 April	**312,898**	410,087
Additions arising on acquisitions of subsidiaries	**—**	8,540
Disposals of subsidiaries	**(270,928)**	(12,284)
Transfer from revaluation reserve	**—**	(91,785)
Adjustment to goodwill arising on acquisition of subsidiaries in prior years	**—**	(1,660)
At 31 March	**41,970**	312,898
Accumulated amortisation:		
At 1 April	**312,898**	1,802
Amortisation for the year	**—**	20,114
Disposals of subsidiaries	**(270,928)**	(307)
Impairment losses *(note 6(ii))*	**—**	291,289
At 31 March	**41,970**	312,898
Carrying amount:		
At 31 March	**—**	—

Goodwill is amortised over its estimated useful life of 20 years.

13. CHANGE IN ACCOUNTING POLICY *(continued)*

(b) Impact on profit and loss account

	2002	2001
	$'000	*$'000*
Amortisation of goodwill	—	20,114
Impairment losses on goodwill	—	291,289
Overstatement of loss on disposal of subsidiaries	—	(307)
Net effect on profit and loss account	—	311,096

(c) Impact on accumulated losses

	2002	2001
	$'000	*$'000*
Accumulated amortisation of goodwill	—	1,802
Reversal of goodwill previously dealt with as a movement on Group reserves	—	(410,087)
Net effect on accumulated losses at 1 April	—	(408,285)
Net effect on profit and loss account *(note 13(b))*	—	311,096
Reversal of movements of goodwill taken directly to reserves	—	5,404
Transfer from revaluation reserve	—	91,785
Net effect on accumulated losses at 31 March	—	—

(Expressed in Hong Kong dollars)

14. FIXED ASSETS

(a) The Group

	Leasehold improvements	Fibre-optic network	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Cost:						
At 1 April 2001	3,084	947,723	18,037	2,088	395	971,327
Additions	—	—	1,360	198	—	1,558
Through disposal of subsidiaries	—	—	(11,406)	(372)	—	(11,778)
Disposals	(2,898)	—	(5,651)	(1,890)	—	(10,439)
At 31 March 2002	186	947,723	2,340	24	395	950,668
Accumulated depreciation:						
At 1 April 2001	971	247,723	1,709	85	132	250,620
Charge for the year	583	—	2,707	498	99	3,887
Through disposal of subsidiaries	—	—	(2,719)	(241)	—	(2,960)
Written back on disposal	(1,387)	—	(1,312)	(336)	—	(3,035)
Impairment losses (note 14(b))	—	305,000	—	—	—	305,000
At 31 March 2002	167	552,723	385	6	231	553,512
Net book value:						
At 31 March 2002	19	395,000	1,955	18	164	397,156
At 31 March 2001	2,113	700,000	16,328	2,003	263	720,707

14. FIXED ASSETS *(continued)*

(b) Due to uncertainty of the fibre-optic network market, the directors have performed an assessment of the recoverable amount of the fibre-optic network. Based on this assessment, the directors consider the recoverable amount of the fibre-optic network to be approximately $395 million as at 31 March 2002 and accordingly have written down the carrying amount of the fibre-optic network by $305 million (included in "Non-operating expenses"). The estimate of the recoverable amount is arrived at after taking into account the professional valuation by an independent valuer, Grant Sherman Appraisal Limited, which is based on the expected future cash flows from the fibre-optic network.

(c) The net book value of fixed assets includes an amount of $164,000 (2001: $299,000) in respect of assets held under finance leases.

15. INTERESTS IN SUBSIDIARIES

	The Company	
	2002	2001
	$'000	*$'000*
Unlisted shares, at cost	**1**	289,285
Less: Impairment losses	**—**	(289,285)
	1	—
Loans to subsidiaries	**—**	29,578
Amounts due from subsidiaries	**1,078,152**	3,457,558
Less: Provision	**(660,716)**	(2,426,585)
	417,436	1,030,973
Amounts due to subsidiaries	**(19,333)**	(6,458)
	398,104	1,054,093

Balances with subsidiaries are unsecured, interest free and have no fixed terms of repayment.

Details of the principal subsidiaries are set out in note 33 on the financial statements.

(Expressed in Hong Kong dollars)

16. INVESTMENT SECURITIES

	The Group
	$'000
Unlisted shares, at cost	
At 1 April 2001	151,200
Addition	8,876
Disposal	(50,876)
At 31 March 2002	109,200
Provision for diminution in value of investment securities	
At 1 April 2001	(76,050)
Provision for the year	(33,150)
At 31 March 2002	(109,200)
Net book value	
As at 31 March 2002	—
As at 31 March 2001	75,150

17. TRADE AND OTHER RECEIVABLES

	The Group	
	2002	2001
	$'000	*$'000*
Debtors, deposits and prepayments	**1,064**	4,175

The credit terms granted to customers by the Group range from 14 days to 90 days.

Included in trade and other receivables are trade debtors (net of specific allowances for bad and doubtful debts) with the following ageing analysis:

	The Group	
	2002	2001
	$'000	*$'000*
Within 3 months	**44**	1,959
More than 3 months but less than 12 months	**240**	23
	284	1,982

All of the trade and other receivables are expected to be recovered within one year.

18. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2002	2001	**2002**	2001
	$'000	*$'000*	***$'000***	*$'000*
Cash at bank and in hand	**187**	1,500	**133**	40

19. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2002	2001	**2002**	2001
	$'000	*$'000*	***$'000***	*$'000*
Trade payables	**126**	1,260	**—**	—
Other payables and accrued charges	**18,017**	29,002	**8,256**	7,698
	18,143	30,262	**8,256**	7,698

All of the trade and other payables are expected to be settled within one year.

20. BANK LOANS AND OVERDRAFTS AND OTHER LOANS

(a) Bank loans and overdrafts are unsecured and repayable as follows:

	The Group	
	2002	2001
	$'000	*$'000*
Within 1 year or on demand	**11,107**	11,130
After 1 year but within 2 years	**—**	2,891
	11,107	14,021

(b) Other loans are unsecured and bear interest at the prevailing commercial lending rates. All outstanding other loans at 31 March 2002 were fully repaid after the year end.

(Expressed in Hong Kong dollars)

21. OBLIGATIONS UNDER FINANCE LEASES

At 31 March 2002, the Group had obligations under finance leases repayable as follows:

	The Group		
	Present value of the minimum lease payments	**Interest expense relating to future periods**	**Total minimum lease payments**
	$'000	*$'000*	*$'000*
2002			
Within 1 year	**91**	**7**	**98**
After 1 year but within 2 years	**32**	**1**	**33**
After 2 years but within 5 years	**—**	**—**	**—**
	32	**1**	**33**
	123	**8**	**131**
2001			
Within 1 year	90	19	109
After 1 year but within 2 years	100	9	109
After 2 years but within 5 years	55	6	61
	155	15	170
	245	34	279

22. CONVERTIBLE BONDS

The Group and the Company

	2002	2001
	$'000	*$'000*
Short term		
4% convertible bonds *(note 22(a))*	**23,614**	23,614
Long term		
4% convertible bonds *(note 22(a))*	**631**	631
5% convertible bonds *(note 22(b))*	**49,000**	—
	49,631	631

Notes:

(a) The convertible bonds ("4% Bonds") bear interest at a fixed rate of 4% per annum payable bi-annually. Part of the 4% Bonds of $23,614,000 are convertible after 15 March 2001 but on or before 14 March 2002 and the remaining $631,000 are convertible after 14 April 2002 but on or before 13 April 2003 into ordinary shares of the Company at the fixed conversion price, subject to adjustment in certain events, of $0.10 per share (the "4% Conversion Price"). After the capital reorganisation (note 23(c)) and the open offer (note 31(a)), the 4% Conversion Price was adjusted to $0.05 per share. As disclosed in note 31(b), the directors have proposed to effect a further capital reorganisation. If the proposal is approved by the shareholders, the 4% Conversion Price will be adjusted to $1 per new ordinary share. The 4% Bonds of $23,614,000 were not converted into ordinary shares of the Company during the year and were repaid in full subsequent to the year end. In the event of full conversion of the remaining $631,000 4% Bonds at the adjusted 4% Conversion Price and assuming the proposed capital reorganisation (note 31(b)) is effected, 631,000 new ordinary shares of the Company would be issued. These 4% Bonds, if not converted into ordinary shares by 13 April 2003, will be repaid to bondholders.

22. CONVERTIBLE BONDS *(continued)*

(b) The convertible bonds ("5% Bonds") of $100,000,000 which were issued on 26 June 2001 bear interest at a fixed rate of 5% per annum payable bi-annually. The 5% Bonds are convertible on any business day, prior to 5 business days prior to 25 June 2004 into ordinary shares of the Company. During the first 29 days after the date of issue of the 5% Bonds, the 5% Bonds are convertible into ordinary shares of the Company at the fixed conversion price, subject to adjustment in certain events, of $0.10 per share (the "5% Conversion Price"). On or after 30 days from the issue of the 5% Bonds, the 5% Bonds are convertible into ordinary shares of the Company at the lower of the 5% Conversion Price and the floating conversion price (being 93% of the arithmetic average of any 4 closing prices per share during the 20 consecutive trading days immediately prior to the relevant exercise date), provided that such price shall not be less than the nominal value of the ordinary shares, otherwise the conversion price shall be the nominal value of the ordinary shares. On 29 June 2001, the conversion rights of the 5% Bonds in the aggregate amount of $20,000,000 were exercised and 200,000,000 ordinary shares of $0.10 each of the Company were allotted and issued to the bondholder at the 5% Conversion Price. After the capital reorganisation (note 23(c)), the 5% Conversion Price was adjusted to $0.05 per share. After the open offer (note 31(a)), the 5% Conversion Price was further adjusted to $0.04 per share. If the proposal to effect a further capital reorganisation is approved by the shareholders (note 31(b)), the 5% Conversion Price will be adjusted to $0.80 per new ordinary share.

During the period from 12 October 2001 to 15 January 2002, the conversion rights of the 5% Bonds in the aggregate amount of $31,000,000 were exercised and 1,963,235,293 shares were allotted and issued to the bondholder at prices ranging from $0.015 to $0.017 per share.

In the event of full conversion of the remaining $49,000,000 5% Bonds at the adjusted 5% Conversion Price and assuming the proposed capital reorganisation (note 31(b)) is effected, 61,250,000 new ordinary shares of the Company would be issued. These 5% Bonds, if not converted into ordinary shares by 5 business days prior to 25 June 2004, will be repaid to the bondholder.

23. SHARE CAPITAL

	2002 Number of shares *('000)*	**2002** $'000	2001 Number of shares *('000)*	2001 $'000
Authorised:				
Ordinary shares of $0.01 each	**100,000,000**	**1,000,000**		
Ordinary shares of $0.1 each			10,000,000	1,000,000
Issued and fully paid:				
At 1 April	**5,037,532**	**503,753**	4,431,222	443,122
Issue of shares	**—**	**—**	6,309	631
Share issued for the acquisition of Equity Smart Limited	**—**	**—**	600,000	60,000
Shares issued under warrant subscription rights	**—**	**—**	1	—
Issue of shares on conversion of convertible bonds *(note 22)*	**200,000**	**20,000**	—	—
Capital reorganisation *(note 23(c))*	**5,237,532**	**(419,002)**	—	—
Issue of shares on conversion of convertible bonds during the period from 12 October 2001 to 15 January 2002 *(note 22)*	**1,963,235**	**19,632**	—	—
At 31 March	**12,438,299**	**124,383**	5,037,532	503,753

23. SHARE CAPITAL *(continued)*

Notes:

(a) Warrants subscription rights

Pursuant to an ordinary resolution passed on 10 January 2000, a bonus issue of warrants was issued to the Company's shareholders at 31 January 2000, in the proportion of one warrant for every five shares of $0.10 each, entitling the holders thereof to subscribe in cash for new shares at a subscription price of $0.38 per share up to 3 February 2003. After the capital reorganisation (note 23(c)), the subscription price was adjusted to $0.19 per share. After the open offer (note 31(a)), the subscription price was further adjusted to $0.18 per share.

If the proposal to effect a further capital reorganisation is approved by the shareholders (note 31(b)), the subscription price will be adjusted to $3.60 per new ordinary share.

(b) Share options

The Company has a share option scheme which was adopted on 30 June 2000 whereby the directors of the Company are authorised, at their discretion, to invite employees of the Group, to take up options to subscribe for shares of the Company (the "Options"). The exercise price of options was determined by the directors being the higher of a price not less than 80% of the average of the closing prices of the shares on The Stock Exchange of Hong Kong Limited on the five business days immediately preceding the date on which the options is offered to the employees and the nominal value of the ordinary shares of the Company.

Pursuant to a board resolution dated 12 July 2000, the Company granted Options to certain of its employees, at an aggregate consideration of $37, for subscribing a total of 29,550,000 ordinary shares of $0.1 each of the Company at a price of $0.25 per share during the period from 12 July 2001 to 11 July 2005, both dates inclusive. After the capital reorganisation (note 23(c)), the subscription price was adjusted to $0.125 per share. After the open offer (note 31(a)), the subscription price was further adjusted to $0.117 per share. None of these Options have been exercised up to 31 March 2002. As at 31 March 2002, the number of share options outstanding is 15,600,000 (2001: 27,550,000) and the number of shares to be subscribed under the Options is 15,600,000 (2001: 27,550,000).

On 6 July 2002, the Company issued a circular to the shareholders which include, inter-alia, a proposal to terminate the existing share option scheme and adopt a new share option scheme in order to comply with recent changes to the Listing Rules with respect to share option scheme. Details of the proposed new share option scheme are set out in the circular.

(c) Capital reorganisation

Pursuant to a special resolution passed on 11 August 2001, a capital reorganisation was undertaken which involved share subdivision on the basis that every issued and unissued share of $0.10 each in the capital of the Company was divided into two subdivided shares of $0.05 each and the nominal value of each of the subdivided shares in issue was reduced from $0.05 to $0.01 by cancelling $0.04 paid up capital on each issued subdivided share. Every unissued subdivided share of $0.05 each was further divided into five new shares of $0.01 each.

The reduction in share capital amounted to $419,002,000 and was credited to the contributed surplus account.

24. RESERVES

(a) The Group

	Revaluation reserve $'000	Share premium $'000	Contributed surplus $'000	Accumulated losses $'000	Total $'000
At 1 April 2000					
— as previously reported	92,556	1,924,762	—	(1,630,059)	387,259
— prior period adjustment in respect of goodwill *(note 13(c))*	—	—	—	408,285	408,285
— as restated	92,556	1,924,762	—	(1,221,774)	795,544
Issue of shares	—	49,200	—	—	49,200
Transfer of realised revaluation reserve	(771)	—	—	771	—
Adjustment to goodwill arising on acquisition of subsidiaries	(91,785)	—	—	—	(91,785)
Loss for the year	—	—	—	(744,498)	(744,498)
At 31 March 2001	—	1,973,962	—	(1,965,501)	8,461
At 1 April 2001	—	1,973,962	—	(1,965,501)	8,461
Issue of shares under conversion of convertible bonds *(note 22)*	—	11,368	—	—	11,368
Capital reorganisation *(note 23(c))*	—	—	419,002	—	419,002
Loss for the year	—	—	—	(364,875)	(364,875)
At 31 March 2002	—	1,985,330	419,002	(2,330,376)	73,956

24. RESERVES *(continued)*

(b) The Company

	Share premium *$'000*	Contributed surplus *$'000*	Accumulated losses *$'000*	Total *$'000*
At 1 April 2000	1,924,762	15,538	(1,321,837)	618,463
Issue of shares	49,200	—	—	49,200
Loss for the year	—	—	(368,521)	(368,521)
At 31 March 2001	1,973,962	15,538	(1,690,358)	299,142
At 1 April 2001	1,973,962	15,538	(1,690,358)	299,142
Issue of shares under conversion of convertible bonds *(note 22)*	11,368	—	—	11,368
Capital reorganisation *(note 23(c))*	—	419,002	—	419,002
Loss for the year	—	—	(634,609)	(634,609)
At 31 March 2002	1,985,330	434,540	(2,324,967)	94,903

(c) 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 the contributed surplus, if:

(i) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or

(ii) the realisable value of the Company's assets would thereby be less than the aggregate of its liabilities, issued share capital and share premium account.

In the opinion of the directors, as at 31 March 2002, the Company has no reserves available for distribution to its shareholders (2001: $Nil).

25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of loss from ordinary activities before taxation to net cash outflow from operating activities

	2002 $'000	2001 $'000
Loss from ordinary activities before taxation	**(364,875)**	(750,433)
Share of loss of associate	**—**	1,355
Interest expense	**18,594**	14,646
Interest element of finance lease rentals	**19**	36
Interest income	**(4,710)**	(1,186)
Depreciation	**3,887**	32,648
Amortisation of goodwill	**—**	20,114
Impairment losses on goodwill	**—**	291,289
Loss/(gain) on disposal of fixed assets	**7,079**	(934)
Net gain on debt waiver	**—**	(3,487)
Bad debts recovery	**(10,199)**	—
Forfeiture of dividends by shareholders	**(4)**	(17)
(Gain)/loss on disposal of subsidiaries (note 25(c))	**(3,395)**	13,333
Impairment losses on fixed assets	**305,000**	232,051
Provision for diminution in value of investment securities	**33,150**	76,050
Gain on disposal of investment securities	**(14,000)**	—
Loss on disposal of listed investments	**2,845**	—
Decrease in stocks	**—**	543
Decrease/(increase) in trade and other receivables	**5,109**	(3,302)
Decrease in amounts due from de-consolidated subsidiaries	**—**	289
Increase in trade and other payables	**5,601**	23,599
Increase in sales tax payable	**—**	29
Net cash outflow from operating activities	**(15,899)**	(53,377)

25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(b) Analysis of changes in financing

	Share capital and premium	Bank and other borrowings	Convertible bonds
	$'000	*$'000*	*$'000*
At 1 April 2000	2,367,884	18,773	23,614
Proceeds from bank and other loans	—	213,600	—
Repayments of bank loans and other borrowings	—	(14,024)	—
Shares issued for the acquisition of Equity Smart Limited	109,200	—	—
Shares and convertible bonds issue for repayment of bank borrowings	631	(1,262)	631
Bank loans waived	—	(3,487)	—
Interest expenses payable	—	12,655	—
At 31 March 2001	2,477,715	226,255	24,245
At 1 April 2001	2,477,715	226,255	24,245
Proceeds from other borrowings	—	14,880	—
Repayments of bank loans and other borrowings	—	(55,623)	—
Issue of share under convertible bonds	51,000	—	(51,000)
Convertible bonds issued for repayment of other borrowings	—	(100,000)	100,000
Capital reorganisation	(419,002)	—	—
Interest expense payable	—	14,767	—
At 31 March 2002	2,109,713	100,279	73,245

25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(c) Disposal of subsidiaries

	Note	*$'000*
Net assets disposed of:		
Fixed assets		8,818
Trade and other receivables		2,735
Cash and cash equivalents		53
Trade and other payables		(13,370)
Obligations under finance leases		(32)
		(1,796)
Gain on disposal		3,395
Disposal proceeds		1,599
Disposal proceeds offset with other payable	*25(d)(ii)*	(1,599)
Cash and cash equivalents of subsidiaries disposed of		(53)
Net cash outflow from disposal of subsidiaries		(53)

(Expressed in Hong Kong dollars)

25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(d) Major non-cash transactions

(i) During the year ended 31 March 2002, the Group entered into a settlement agreement with a debtor and a third party. Under this agreement, the principal and interest of the loan due from the debtor totalling $17,529,000 was assigned to the third party in return for the transfer of 50,000,000 shares of a company listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited to the Group. The details of settlement are as follows:

	$'000
Loan principal plus interest	17,529
Provision for bad debts made in previous year	(14,119)
Unprovided balance	3,410
Less: Market value of the listed investment at the date of transfer to the Group	(8,876)
Bad debts recovery credited to profit and loss account	(5,466)

Before 31 March 2002, all listed investments have either been sold or set off against other payable due to the Group's creditor *(note 25(d)(ii))*.

(ii) During the year ended 31 March 2002, the Group entered into a settlement agreement with a third party. Under this settlement agreement, shares in a subsidiary and certain listed investment were disposed of at a consideration of $1,599,000 and $2,751,000 respectively which was offset against other payable due to this third party of $4,350,000.

26. COMMITMENTS

(a) Commitments under operating leases

At 31 March 2002, the total future minimum lease payments under non-cancellable operating leases relating to properties are payable as follows:

	The Group	
	2002	2001
	$'000	*$'000*
Within 1 year	**299**	8,366
After 1 year but within 5 years	**—**	9,122
	299	17,488

(b) Capital commitments

Capital commitments outstanding at 31 March 2002 not provided for in the financial statements were as follows:

	The Group	
	2002	2001
	$'000	*$'000*
Contracted for	**—**	139

(c) Investment commitments

As at 31 March 2002, the Group was committed to make capital contributions totalling $65,000,000 (2001: $182,000,000) to certain subsidiaries in the PRC.

(Expressed in Hong Kong dollars)

27. CONTINGENCIES

Bank guarantees

As at 31 March 2002, corporate guarantees given by the Company to banks in respect of banking facilities granted to certain subsidiaries amounted to $11,107,000 (2001: $14,021,000).

28. OUTSTANDING LITIGATION

Significant litigation as at 31 March 2002 and up to the date of these financial statements is summarised as follows:

On 21 September 1999, a former director of the Company, Mr Wong Chong Shan commenced proceedings in the High Court against the Company claiming a sum of $5,000,000. Mr Wong Chong Shan alleged that he paid the said sum on the Company's behalf in August 1997 to a third party as deposit and that the Company failed to make repayment to him. The directors have considered the matter and take the view that since no positive steps have been taken by Mr Wong Chong Shan to prosecute the action since 10 December 1999, it is not necessary at this stage to make a provision in the financial statements for these proceedings.

29. MATERIAL RELATED PARTY TRANSACTIONS

Particulars of material related party transactions are as follows:

	2002	2001
	$'000	*$'000*
Unsecured and interest bearing loans from related parties	**97,164**	—
Interest expense	**14,725**	—

A director of the Company, who was appointed subsequent to 31 March 2002, is also the beneficial shareholder of the related parties and the Company.

The loans due to the related parties as at 31 March 2002 and 31 March 2001 amounted to $97,164,000 and $219,005,000 respectively. Interest expenses for the year ended 31 March 2002 amounted to $14,725,000 (2001: $12,655,000). The directors consider that the loans granted as at 31 March 2001 were not related party transactions as the relevant director became a major shareholder of the Company during the year ended 31 March 2002.

30. RETIREMENT BENEFIT SCHEMES

With effect from 1 December 2000, the Group participates in Mandatory Provident Fund schemes ("MPF Schemes") for all its employees and executive directors in Hong Kong. The MPF Schemes are registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Schemes are held separately from those of the Group in funds under the control of an independent third party trustee. Pursuant to the rules of the MPF Schemes, the Group and its employees are each required to make contributions to the schemes at specific rates. Contributions of the Group to the MPF Schemes are charged to profit and loss account as incurred. For the year, the retirement benefit scheme contributions borne by the Group amounted $430,000 (2001: $308,000).

The Group has no obligations for payments of employee retirement benefits beyond the contributions described above.

31. POST BALANCE SHEET EVENTS

(a) An open offer of 6,219,149,537 new shares of $0.01 each ("Offer shares") was made to the Company's shareholders at 8 May 2002, at a subscription price of $0.018 per share and on the basis of one offer share for every two existing shares held on 23 April 2002, for an aggregate consideration before expenses of approximately $111,945,000. 77.82% of the total number of Offer shares was subscribed and the remaining 22.18% of the Offer shares was either taken up or placed with investors by the underwriters.

(b) On 20 June 2002, the directors announced that they proposed to effect the following capital reorganisation:

(i) the share consolidation on the basis that every twenty issued and unissued shares of $0.01 each in the capital of the Company will be consolidated into one consolidated share of $0.20 each;

(ii) the nominal value of each of the consolidated shares in issue will be reduced from $0.20 to $0.01 by cancelling $0.19 paid up on each issued consolidated share and the subdivision of each unissued consolidated share of $0.20 each into twenty new shares of $0.01 each and as a result, the credit of an amount of approximately $177,246,000 will arise and such amount will be credited to the contributed surplus account subject to the Companies Act and the bye-laws of the Company; and

(iii) an amount of approximately $1.7 billion, standing to part of the credit of the share premium account of the Company, be cancelled and such credit of approximately $1.7 billion arising therefrom be applied to eliminate the whole accumulated losses of the Company of approximately $1.7 billion as at 30 September 2001.

Details of the proposed capital reorganisation are set out in a circular dated 6 July 2002 to the shareholders. The proposal is subject to, inter-alia, the passing of the relevant resolutions by the Company's shareholders at a special general meeting to be held on 29 July 2002.

(Expressed in Hong Kong dollars)

32. COMPARATIVE FIGURES

Certain comparative figures have been adjusted as a result of changes in accounting policy for goodwill (note 13) and presentation of profit and loss account. The directors consider that the change in presentation of the profit and loss account will reflect the results of the Group more appropriately.

33. PRINCIPAL SUBSIDIARIES

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

Name	Place of incorporation/ operation	Issued and fully paid capital/ registered capital	Percentage of equity attributable to the Group	Principal activities
			%	
REXCAPITAL Property Management Limited (formerly known as Good Sign (HK) Limited)	Hong Kong	2 $1 shares	100	Arrangement of leases
REXCAPITAL Infrastructure (GD) Limited (formerly known as HiNet Infrastructure (GD) Limited)@	British Virgin Islands	1 US$1 share	100	Investment holding
REXCAPITAL Enterprises Limited (formerly known as Max Benefits Development Limited)	Hong Kong	2 $1 shares	100	Provision of management services
Maxgrace International Limited	Hong Kong	2 $1 shares	100	Provision of management services
Silver Lake Assets Limited	British Virgin Islands	1 US$1 share	100	Investing in fibre-optic network
廣州宏永利通信工程有限公司*	PRC	$30,000,000	100	Investing in fibre-optic network
廣州恒盛昌通信工程有限公司*	PRC	$30,000,000	100	Investing in fibre-optic network
意念科技（深圳）有限公司**	PRC	$20,000,000	100	Not yet commence business

@ Subsidiaries held directly by the Company.

* These two entities were Sino-foreign cooperative joint venture ("the Joint Ventures") established by the Group jointly with companies controlled by an independent third party. The Group is responsible for paying up the registered capital of the Joint Ventures and providing further funding to the Joint Ventures in form of shareholders' loan, if required. Any distributable profits of the Joint Ventures are required to be firstly paid to the Group up to an aggregate amount of the registered capital and shareholder's loan provided by the Group and may then be distributed between the Group and the joint venture partner in the ratio of 92:8. Based on the terms of joint venture agreements and articles of association of the Joint Ventures, the Company's directors are of the opinion that the Joint Ventures are controlled by the Group. Accordingly, the Joint Ventures have been accounted for as subsidiaries and included in the consolidated financial statements for the year.

** This is a wholly-owned foreign investment enterprise registered under the laws of the PRC.