

Notes to Financial Statements

For the year ended 31 March 2002

1. GENERAL INFORMATION

The Company is incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited. The Group is principally engaged in property investment, property development, operations of web sites and related services, and design, marketing, manufacture and trading of consumer electronic products. The Group ceased its operations of manufacture and trading of telecommunication products with effect from September 2001.

2. BASIS OF PREPARATION

For the year ended 31 March 2002, the Group incurred a net loss attributable to shareholders of HK\$32,488,000 and had net current liabilities of HK\$566,630,000 as at 31 March 2002. Notwithstanding these, the financial statements have been prepared on the assumption that the Group will continue to operate as a going concern. In the opinion of the directors, the liquidity of the Group can be maintained in the coming year. Proposed financing arrangements include, but are not limited to, the following:

- (a) The Group is currently negotiating with its bankers to extend and re-schedule the repayment terms of certain bank loans. The Group is also in the course of discussion with one of its bankers to apply for additional credit facilities. The directors anticipate that the Group will be able to maintain the existing credit facilities and obtain additional credit facilities from its bankers.
- (b) On 4 April 2002 the Company entered into an agreement with Mr. Yu Pun Hoi ("Mr. Yu"), a director and substantial shareholder of the Company, under which the Company agreed to appoint Mr. Yu, as placing agent and underwriter, to procure, on a fully underwritten basis, investors to subscribe for convertible notes in an aggregate principal amount of at least HK\$400 million. In addition, subject to completion of the issue of such convertible notes, Mr. Yu also has a right, exercisable within three months of such completion, to require the Company to issue convertible notes of up to an additional principal amount of HK\$200 million for subscription by the investors or by Mr. Yu or one or more of his associates. The net proceeds of the issue of such convertible notes will be used for repayment of liabilities and as working capital of the Group.

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

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

Notes to Financial Statements

For the year ended 31 March 2002

3. PRINCIPAL ACCOUNTING POLICIES

The financial statements on page 21 to 90 are prepared in accordance with and comply with all applicable Statements of Standard Accounting Practice (“SSAPs”) and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the rules governing the listing of securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). The financial statements are prepared under the historical cost convention as modified by the revaluation of certain property, plant and equipment and investments in securities.

(a) Adoption of revised/new SSAPs

In the current year, the Group has adopted, for the first time, the following SSAPs issued by the Hong Kong Society of Accountants.

SSAP 14 (Revised) – Leases

The adoption of SSAP 14 (Revised) has not resulted in any significant changes to the accounting treatment adopted for leases and accordingly, no prior year adjustment is required. Disclosure for the Group’s leasing arrangements is modified so as to comply with the new requirements of SSAP 14 (Revised). Comparative amounts have been restated to achieve a consistent presentation.

SSAP 26 – Segment reporting

SSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group’s predominant risks and returns are based on business segments or geographical segments and determines one of these bases to be the primary segment information reporting format, with the other as the secondary segment information reporting format. The impact of this SSAP is the inclusion of significant additional segment reporting disclosures, which are set out in note 5 to the financial statements.

SSAP 29 – Intangible assets

In adopting SSAP 29 the Group has reviewed its accounting policies to ensure its existing intangible assets fulfil the recognition criteria as required in SSAP 29. The adoption of this SSAP has resulted in no change to the previously adopted accounting treatment for intangible assets and the additional disclosures that it requires have not been significant for these financial statements. The SSAP does, however, require that impairment losses on intangible assets are aggregated with the accumulated amortisation, whereas previously they would have been deducted from the cost of the relevant asset.

SSAP 30 – Business combinations

In prior years, negative goodwill arising on the consolidation of subsidiaries and on acquisition of associates is eliminated against/taken to reserves in the year in which it arises. On disposal of a subsidiary or an associate, the attributable amount of goodwill/capital reserve is included in calculating the profit or loss on disposal. Positive goodwill arising on the consolidation of subsidiaries is recognised as an asset and amortised by equal annual instalments over its estimated useful economic life.

The Group has taken advantage of the transitional provisions in SSAP 30 which do not require restatement of positive/negative goodwill taken to reserves prior to 1 April 2001 and there is no financial effect to the Group for the prior years. However, any impairment arising on such goodwill is required to be accounted for in accordance with the newly issued SSAP 31 “Impairment of assets” retrospectively.

Notes to Financial Statements

For the year ended 31 March 2002

3. PRINCIPAL ACCOUNTING POLICIES (continued)

(a) Adoption of revised/new SSAPs (continued)

SSAP 31 – Impairment of assets

In adopting SSAP 31 the Group has assessed its assets to see if there is any indication of impairment or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

SSAP 32 – Consolidated financial statements and accounting for investments in subsidiaries

The adoption of SSAP 32 has not resulted in any significant changes in accounting policy and no prior year adjustment is considered necessary.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 March each year. All material intercompany transactions and balances within the Group are eliminated on consolidation.

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. The gain or loss on disposal of a subsidiary represents the difference between the proceeds of the disposal and the Group's share of its net assets together with any goodwill or negative goodwill which was not previously charged or recognised in the consolidated income statement.

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

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

(c) Subsidiaries

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

In the Company's balance sheet, subsidiaries are carried at cost less impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the balance sheet date.

Notes to Financial Statements

For the year ended 31 March 2002

3. PRINCIPAL ACCOUNTING POLICIES (continued)

(d) Associates

An associate is an enterprise in which the Group has significant influence and which is neither a subsidiary nor a joint venture of the Group.

The results of associates are accounted for by the Group using the equity method of accounting. The Group's interest in associates is stated at its share of net assets of the associates. The Company's investments in associates are stated at cost less impairment losses. Results of associates are accounted for by the Company on the basis of dividends received or receivable at the balance sheet date.

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

(e) Joint ventures

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

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

(f) Goodwill/capital reserve

Goodwill arising on an acquisition represents the excess of the cost of the acquisition over the fair value of the identifiable assets and liabilities acquired.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life for a period of not exceeding twenty years.

On disposal of subsidiaries or associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and the relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Notes to Financial Statements

For the year ended 31 March 2002

3. PRINCIPAL ACCOUNTING POLICIES (continued)

(f) Goodwill/capital reserve (continued)

Negative goodwill

Negative goodwill arising on an acquisition represents the excess of the fair value of the identifiable assets and liabilities acquired over the cost of acquisition.

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 income statement when the future losses and expenses are recognised. Any remaining negative goodwill, but not exceeding the fair value of the non-monetary assets acquired, is recognised as income on a systematic basis over the remaining weighted average useful life of those acquired depreciable/amortisable assets. Negative goodwill in excess of the fair value of the non-monetary assets acquired is recognised immediately in the consolidated income statement.

(g) Property, plant and equipment

(i) *Depreciation and amortisation*

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

Leasehold land	Over the lease terms
Buildings	2% to 5% or over the lease terms, which is shorter
Leasehold improvements	15% to 33 ¹ / ₃ %
Furniture, fixtures and equipment	10% to 33 ¹ / ₃ %
Motor vehicles and pleasure yacht	10% to 33 ¹ / ₃ %

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

(ii) *Measurement bases*

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

Advantage has been taken of the transitional relief provided by SSAP 17 "Property, plant and equipment" issued by the Hong Kong Society of Accountants from the requirement to make regular revaluations of the Group's land and buildings. Certain land and buildings had been carried at revalued amounts prior to 19 March 1993, and accordingly no further revaluation of such land and buildings is carried out.

Notes to Financial Statements

For the year ended 31 March 2002

3. PRINCIPAL ACCOUNTING POLICIES (continued)

(g) Property, plant and equipment (continued)

(ii) Measurement bases (continued)

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

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

(h) Investment properties

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

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

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

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

(i) Hotel properties

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

No depreciation is provided on hotel properties or on their integral fixed plant, furniture and fixtures and operating equipment. Expenditure on repairs and improvements of furniture and fixtures and renovation works is dealt with in the consolidated income statement through a planned maintenance provision account.

Notes to Financial Statements

For the year ended 31 March 2002

3. PRINCIPAL ACCOUNTING POLICIES (continued)

(i) Hotel properties (continued)

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

(j) Land held for development

Land held for development is stated at cost less impairment losses. Cost includes acquisition costs, development expenditure, interest and other direct costs attributable to the development.

(k) Investments

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

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

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

(l) Product development costs

Costs incurred on projects in developing new products, including the respective cost of acquiring the rights to technical know-how for the production of the relevant new products, will be capitalised and deferred only when the project is clearly defined, the costs are separately identifiable and there is reasonable certainty that the project is technically feasible and the outcome will be of commercial value. Product development costs which do not meet these criteria are expensed when incurred.

Product development costs are amortised, using the straight line method, over their estimated commercial lives of not more than three years commencing in the year when the product is put into commercial use. When the circumstances which have justified the deferral of the costs no longer apply, or are considered doubtful, the costs, to the extent to which they are considered to be irrecoverable, will be written off immediately to the income statement.

Notes to Financial Statements

For the year ended 31 March 2002

3. PRINCIPAL ACCOUNTING POLICIES (continued)

(m) *Proprietary software*

Costs of acquisition of new software are capitalised and treated as an intangible asset if these costs are not an integral part of the related hardware. Software is amortised on a straight line basis over a period of five years.

Costs incurred in order to restore or maintain the future economic benefits that an enterprise can expect from the originally assessed standard of performance of existing software systems are recognised as an expense when the restoration or maintenance work is carried out.

(n) *Property development projects*

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

(o) *Inventories*

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

(p) *Convertible notes*

Convertible notes are stated at the aggregate amount of proceeds received from the issue. The direct issuing costs are taken to the consolidated income statement in the year of issue. In the event that the notes are converted, the amount recognised in respect of the shares issued upon conversion is the principal amount at which the liability of the notes is stated as at the date of conversion.

(q) *Leases*

(i) *Finance leases*

Leases are classified as finance leases whenever the terms of the leases transfer substantially all the risks and rewards of ownership of the assets to the Group. Assets acquired by way of finance leases are stated at an amount equal to the lower of the fair value and the present value of the minimum lease payments at inception of the leases. The corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Finance charges implicit in the lease payments are charged to the income statement over the periods of the leases so as to produce a constant periodic rate of interest on the remaining balance of the obligations for each accounting period.

Notes to Financial Statements

For the year ended 31 March 2002

3. PRINCIPAL ACCOUNTING POLICIES (continued)

(q) Leases (continued)

(ii) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Annual rentals applicable to such operating leases are charged or credited to the consolidated income statement on a straight line basis over the lease terms. Lease incentives received are recognised in the consolidated income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

(r) Translation of foreign currencies

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

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

(s) Deferred tax/Future tax benefits

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

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

(t) Retirement benefits scheme

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

(u) Borrowing costs

Borrowing costs are charged to the consolidated income statement in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition and development of properties or land which necessarily take a substantial period of time to complete.

Notes to Financial Statements

For the year ended 31 March 2002

3. PRINCIPAL ACCOUNTING POLICIES (continued)

(v) Cash and cash equivalents

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

(w) Impairment

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the consolidated income statement unless the relevant asset is carried at revalued amount under another SSAP, in which case the impairment loss is treated as a revaluation reserve under that SSAP.

(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 the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment

An impairment loss in respect of goodwill is not reversed unless 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.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(x) Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segment be presented as the primary reporting format and geographical segment as the secondary reporting format.

Notes to Financial Statements

For the year ended 31 March 2002

3. PRINCIPAL ACCOUNTING POLICIES (continued)

(y) Recognition of revenue

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

- for sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- for rendering of services, when services are provided;
- for royalty income, on an accrual basis in accordance with the substance of the relevant agreement;
- for interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and
- for rental income, on a straight-line basis over the lease terms.

(z) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

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For the year ended 31 March 2002

4. TURNOVER

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

	Turnover	
	2002	2001
	HK\$'000	HK\$'000
Continuing operations:		
Operation of web sites and related services	128,832	65,678
Provision of financial information	11,029	–
Royalty income	27,777	–
Property sales	–	36,322
Property investment	3,259	3,512
Hotel operations	13,409	–
Provision of electronic manufacturing services	64,648	212,039
Sales of consumer electronic products	147,104	96,975
Sales of securities	68,280	29,632
	464,338	444,158
Discontinued operations:		
Sales of telecommunication products	3,586	40,312
	467,924	484,470

The Group's telecommunication business segment was discontinued with effect from September 2001.

	Turnover	
	2002	2001
	HK\$'000	HK\$'000
Discontinued operations – Telecommunication business		
Turnover	3,586	40,312
Operating loss	6,584	18,199
Liabilities waived by unsecured creditors	8,429	–

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For the year ended 31 March 2002

5. SEGMENT INFORMATION

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the services they provide. Each of the Group's business segments represents a strategic business unit that offers services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

- (a) Provision of financial information
- (b) Operation of web sites
- (c) Consumer packaged electronics
- (d) Telecommunication products
- (e) Electronic manufacturing services
- (f) Property development
- (g) Sales of securities
- (h) Hotel operation
- (i) Property investment
- (j) the corporate and other segment comprises operations other than those as specified above.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

No intersegment sales and transfers were transacted during the year (2001: HK\$NIL).

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5. SEGMENT INFORMATION (continued)

(a) Business segments

The following tables presents revenue, profit/(loss) and certain assets, liabilities and capital expenditure information for the Group's business segments for the year ended 31 March 2002:

	Provision of financial information HK\$'000	Operation of web sites HK\$'000	Consumer packaged electronics HK\$'000	Telecom- munication products HK\$'000	Electronic manufacturing services HK\$'000	Property development HK\$'000	Sales of securities HK\$'000	Hotel operation HK\$'000	Property investment HK\$'000	Other segment HK\$'000	Elimination HK\$'000	Total HK\$'000
Segment revenue												
Sales to external customers	38,806	128,832	147,104	3,586	64,648	-	68,280	13,409	3,259	-	-	467,924
Segment result	(3,150)	11,925	(40,493)	(7,001)	(2,473)	(19,395)	(9,699)	(664)	1,342	(3,207)	-	(72,815)
Other revenue												89,331
Gain on deemed partial disposal of a subsidiary			13,663	333	6,004							20,000
Unallocated corporate expenses												(98,007)
Loss from operations												(61,491)
Liabilities waived by unsecured creditors			81,350	8,429								89,779
Loan waived by a minority shareholder												25,000
Finance costs												(47,619)
Share of results of associates						(403)				(441)	403	(441)
Profit before taxation												5,228
Taxation												(5,333)
Loss before minority interests												(105)
Minority interests												(32,383)
Loss attributable to shareholders												(32,488)
Segment assets	412,129	82,923	44,597	401	95,069	4,116,241	1,767	354,278	100,318	37,241		5,244,964
Unallocated corporate assets												190,188
Interest in a jointly controlled entity												89
Interest in associates						209,597				(7,426)	(209,597)	(7,426)
Total assets												5,427,815
Segment liabilities	(4,851)	(13,379)	(20,556)	(2,357)	(13,359)	(691,153)	(45,379)	(40,590)	(940)	(74,934)	93,093	(814,405)
Unallocated corporate liabilities												(1,019,862)
Minority interests												(910,734)
Total liabilities												(2,745,001)
Other information:												
Capital expenditure	405,011	12,195	13,269	-	928	3,045,999	-	19,324	102	-	-	3,496,828
Depreciation and amortisation	19,533	8,140	13,350	176	6,942	12,768	-	3,756	76	4,924	-	69,665

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5. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

The following tables present revenue, profit/(loss) and certain assets, liabilities and capital expenditure information for the Group's business segments for the year ended 31 March 2001:

	Provision of financial information HK\$'000	Operation of web sites HK\$'000	Consumer packaged electronics HK\$'000	Telecom- munication products HK\$'000	Electronic manufacturing services HK\$'000	Property development HK\$'000	Sales of securities HK\$'000	Hotel operation HK\$'000	Property investment HK\$'000	Other segment HK\$'000	Elimination HK\$'000	Total HK\$'000
Segment revenue												
Sales to external customers	-	65,678	96,975	40,312	212,039	-	29,632	-	3,512	36,322	-	484,470
Segment result	-	(1,676)	(60,029)	(18,348)	(69,921)	(1,208)	4,173	(115)	(4,266)	(4,596)	-	(155,986)
Other revenue												35,938
Gain on partial disposal of subsidiaries												164,630
Unallocated corporate expenses												(21,559)
Profit from operations												23,023
Finance costs												(46,342)
Share of results of a jointly controlled entity					(429)							(429)
Share of results of associates					(741)	3,503						2,762
Loss before taxation												(20,986)
Taxation												878
Loss before minority interests												(20,108)
Minority interests												35,785
Profit attributable to shareholders												15,677
Segment assets	-	68,397	90,062	15,814	176,860	498,953	17	357,736	104,821	121,461		1,434,121
Unallocated corporate assets												679,239
Interest in a jointly controlled entity												5,279
Interest in associates			328			1,243,544				(7,002)		1,236,870
Total assets												3,355,509
Segment liabilities	-	(7,235)	(81,460)	(8,335)	(174,155)	(122,454)	(18,569)	(45,070)	(1,444)	(8,304)		(467,026)
Unallocated corporate liabilities												(845,371)
Minority interest												(166,377)
Total liabilities												(1,478,774)
Other information:												
Capital expenditure	-	20,198	61,122	10,732	120,029	358,040	-	355,153	162	149,260	-	1,074,696
Depreciation and amortisation	-	4,671	4,462	783	8,762	-	-	115	75	13,091	-	31,959

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For the year ended 31 March 2002

5. SEGMENT INFORMATION (continued)

(b) Geographical segments

The following tables present revenue, certain assets and capital expenditure information for the Group's geographical markets:

	Europe		UK/North America		Hong Kong		PRC		Others		Total	
	1 April 2001 to 31 March 2002 HK\$'000	1 April 2000 to 31 March 2001 HK\$'000	1 April 2001 to 31 March 2002 HK\$'000	1 April 2000 to 31 March 2001 HK\$'000	1 April 2001 to 31 March 2002 HK\$'000	1 April 2000 to 31 March 2001 HK\$'000	1 April 2001 to 31 March 2002 HK\$'000	1 April 2000 to 31 March 2001 HK\$'000	1 April 2001 to 31 March 2002 HK\$'000	1 April 2000 to 31 March 2001 HK\$'000	1 April 2001 to 31 March 2002 HK\$'000	1 April 2000 to 31 March 2001 HK\$'000
Segment revenue:												
Sales to external customers	31,261	91,803	77,954	31,720	71,078	68,425	181,508	65,677	106,123	226,845	467,924	484,470
Other segment information:												
Segment assets	-	-	10,966	41,962	262,014	456,855	4,971,984	935,304	-	-	5,244,964	1,434,121
Capital expenditure	-	-	252	28,682	52,474	192,327	3,444,102	853,687	-	-	3,496,828	1,074,696

Notes to Financial Statements

For the year ended 31 March 2002

6. LIABILITIES WAIVED BY UNSECURED CREDITORS

During the year, the Group entered into a Scheme of Arrangement with the unsecured creditors of Team Concept Manufacturing Limited (“TCM”), a then wholly-owned subsidiary of South Sea Holding Company Limited (“South Sea”), a subsidiary of the Company, pursuant to which the Group’s liabilities due to these unsecured creditors were discharged by the following:

- payment of cash totalling HK\$116,000;
- issue by South Sea of 106,531,974 shares of HK\$0.10 each in South Sea, credited as fully paid at par; and
- issue by South Sea of convertible debentures of an aggregate amount of HK\$10,653,000 in value.

The Scheme of Arrangement, details of which are set out in a circular issued by TCM dated 13 June 2001 and an announcement issued by South Sea dated 5 October 2001, resulted in a total gain of approximately HK\$89,779,000.

7(a). OTHER REVENUE

	2002 HK\$'000	2001 HK\$'000
Write back of impairment in value of land held for development	–	490
Write back of impairment in value of a property development project (note 17)	59,298	–
Interest income	7,229	34,592
Gain on waiver of amount due to a creditor	4,989	–
Negative goodwill recognised as income	10,566	–
Sundry income	7,249	856
	89,331	35,938

7(b). GAIN ON DEEMED PARTIAL DISPOSAL OF A SUBSIDIARY

Pursuant to a share placement agreement dated 31 July 2001, 20,000,000 shares of HK\$1.00 each in Team Industrial Company Limited (“TIC”), a then wholly-owned subsidiary of South Sea, were allotted and issued to Pacific Gloria Limited, an independent third party, at a cash consideration of HK\$20,000,000. The shares issued represented 35% of the enlarged share capital and rank pari passu with the then existing shares of TIC. This transaction resulted in a gain on deemed partial disposal of a subsidiary of HK\$20,000,000.

Notes to Financial Statements

For the year ended 31 March 2002

8. (LOSS)/PROFIT FROM OPERATIONS

	2002 HK\$'000	2001 HK\$'000
(Loss)/Profit from operations is arrived at after charging:		
Auditors' remuneration	4,527	3,097
Depreciation:		
Owned property, plant and equipment	31,402	19,775
Leased property, plant and equipment	649	275
	<u>32,051</u>	<u>20,050</u>
Operating lease rentals on land and buildings	20,154	9,886
Staff costs (excluding directors' remuneration)	84,608	70,742
Redundancy cost	782	3,454
Pension contributions:		
Gross pension cost	1,366	1,900
Less: forfeited contributions	(939)	(602)
Net pension cost	<u>427</u>	<u>1,298</u>
Cost of inventories sold – properties held for sale	–	38,878
Cost of provision of hotel services	6,801	–
Cost of provision of web sites and related services	40,155	9,630
Cost of provision of financial information services	4,222	–
Cost of provision of proprietary software	8,777	–
Cost of inventories sold – telecommunication products	6,727	45,326
Cost of inventories sold – consumer electronic products	131,121	124,437
Cost of provision of electronic manufacturing services	62,103	210,942
Cost of securities sold	57,368	25,049
Deficit on revaluation of investment properties	4,500	6,000
Deficit on revaluation of hotel properties and properties under development	19,416	–
Provision for impairment in value of land held for development	6,172	–
Provision for bad and doubtful debts	19,679	33,105
Loss on disposal of property, plant and equipment	6,155	–
Provision for inventories	–	24,497
Underwriting fee	10,000	–
Amortisation of goodwill	27,399	5,122
Amortisation of product development costs	5,127	6,787
Amortisation of proprietary software	5,088	–
Write off of product development costs	<u>917</u>	<u>–</u>

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For the year ended 31 March 2002

9. FINANCE COSTS

	2002 HK\$'000	2001 HK\$'000
Interest on:		
Bank loans and overdrafts		
– wholly repayable within five years	29,350	19,529
– not wholly repayable within five years	4,187	11,027
Other loans and convertible notes		
– wholly repayable within five years	26,083	15,546
Finance leases	156	240
	<u>59,776</u>	<u>46,342</u>
Less: Amounts capitalised under land held for development	<u>(12,157)</u>	<u>–</u>
	<u>47,619</u>	<u>46,342</u>

10. TAXATION

The tax charge/(credit) comprises:

	2002 HK\$'000	2001 HK\$'000
Company and subsidiaries:		
Overseas current tax		
– Over-provision in prior years	–	(808)
– Provision for the year	5,333	225
Deferred tax (note 30)	–	(295)
	<u>5,333</u>	<u>(878)</u>

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

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

	2002 HK\$'000	2001 HK\$'000
Tax effect of timing differences attributable to:		
Accelerated depreciation allowances	(11)	(11)
Tax losses	51,871	10,115
	<u>51,860</u>	<u>10,104</u>

Notes to Financial Statements

For the year ended 31 March 2002

11. (LOSS)/PROFIT FOR THE YEAR ATTRIBUTABLE TO SHAREHOLDERS

Of the Group's (loss)/profit for the year attributable to shareholders, a loss of HK\$660,412,000 (2001: a profit of HK\$590,673,000) is dealt with in the financial statements of the Company.

12. (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share is based on the loss for the year of HK\$32,488,000 (2001: profit of HK\$15,677,000) and the weighted average of 9,158,340,492 (2001: 3,915,589,370) ordinary shares in issue during the year.

As the exercise prices of the share options outstanding during the year were higher than the average market price of the Company's shares during the year, the diluted earnings per share for the year ended 31 March 2002 is not presented because the impact of the exercise of the share options is anti-dilutive.

Diluted earnings per share was not shown for last year as the full exercise of the share options granted by the Company would have an anti-dilutive effect on earnings per share.

13. PROPERTY, PLANT AND EQUIPMENT**Group**

	Hotel properties HK\$'000	Investment properties HK\$'000	Land and buildings HK\$'000	Properties under development HK\$'000	Leasehold improvements, furniture, fixtures and equipment HK\$'000	Motor vehicles and pleasure yacht HK\$'000	Total HK\$'000
Cost or valuation							
At 1 April 2001	83,448	104,000	100,071	222,645	212,567	6,342	729,073
Additions	-	-	-	19,323	24,720	459	44,502
Acquisition of subsidiaries	-	-	-	-	16,012	2,116	18,128
Deficit on revaluation	(8,448)	(4,500)	-	(10,968)	-	-	(23,916)
Disposals	-	-	(11,861)	-	(28,319)	(96)	(40,276)
At 31 March 2002	75,000	99,500	88,210	231,000	224,980	8,821	727,511
Accumulated depreciation							
At 1 April 2001	-	-	16,523	-	144,229	5,563	166,315
Charge for the year	-	-	2,116	-	29,427	508	32,051
Acquisition of subsidiaries	-	-	-	-	8,570	1,296	9,866
Disposals	-	-	(2,005)	-	(25,301)	(1)	(27,307)
At 31 March 2002	-	-	16,634	-	156,925	7,366	180,925
Net book value							
At 31 March 2002	75,000	99,500	71,576	231,000	68,055	1,455	546,586
At 31 March 2001	83,448	104,000	83,548	222,645	68,338	779	562,758
At cost or at valuation							
At cost	-	-	62,562	-	224,980	8,821	296,363
At valuation	75,000	99,500	25,648	231,000	-	-	431,148
At 31 March 2002	75,000	99,500	88,210	231,000	224,980	8,821	727,511

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For the year ended 31 March 2002

13. PROPERTY, PLANT AND EQUIPMENT (continued)

Company

	Leasehold improvements, furniture and fixtures	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000
Cost			
At 1 April 2001	1,629	674	2,303
Additions	291	–	291
	<u>1,920</u>	<u>674</u>	<u>2,594</u>
At 31 March 2002	1,920	674	2,594
Accumulated depreciation			
At 1 April 2001	1,101	539	1,640
Charge for the year	322	106	428
	<u>1,423</u>	<u>645</u>	<u>2,068</u>
At 31 March 2002	1,423	645	2,068
Net book value			
At 31 March 2002	497	29	526
	<u>528</u>	<u>135</u>	<u>663</u>
At 31 March 2001	528	135	663

- (a) Hotel properties and properties under development at 31 March 2002 are situated outside Hong Kong and held under long term leases. They were valued by DTZ Debenham Tie Leung Limited, independent professional qualified valuers, at 31 March 2002 on an open market value basis. The deficit of HK\$19,416,000 arising from the revaluation of hotel properties and properties under development, representing the shortfall of the revalued amounts below the carrying values of the properties, has been charged to the consolidated income statement.

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

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

Notes to Financial Statements

For the year ended 31 March 2002

13. PROPERTY, PLANT AND EQUIPMENT (continued)

The hotel properties and the properties under development were originally owned by a PRC party and subsequently transferred to Beijing Golden Era Hotel Limited, a wholly-owned subsidiary of the Company (note 14). However, the legal titles of these properties have not yet been changed to the subsidiary as at the year end date.

The Land Use Rights Certificate of the land will be granted upon full settlement of the land premium payables amounting to HK\$26,852,000 (2001: HK\$26,852,000) as at 31 March 2002.

At 31 March 2002, all of the Group's hotel properties and properties under development were pledged to secure general banking facilities granted to the Group.

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

The Group's investment properties were valued as at 31 March 2002 by Vigers Hong Kong Limited, independent professional qualified valuers, on an open market existing use basis at HK\$99,500,000. The deficit of HK\$4,500,000 arising from the revaluation of investment properties, representing the shortfall of the revalued amounts below the carrying values of these properties, has been charged to the consolidated income statement.

At 31 March 2002, all of the Group's investment properties were pledged to secure general banking facilities granted to the Group.

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

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

The net book value of the Group's land and buildings is analysed as follows:

	Hong Kong	Outside Hong Kong	Total
	HK\$'000	HK\$'000	HK\$'000
Medium term leasehold			
At cost	921	49,281	50,202
At 1993 professional valuation	21,374	—	21,374
	<u>22,295</u>	<u>49,281</u>	<u>71,576</u>

- (d) The net book value of the property, plant and equipment of the Group held under finance leases amounted to HK\$938,000 (2001: HK\$1,700,000).

Notes to Financial Statements

For the year ended 31 March 2002

14. INTERESTS IN SUBSIDIARIES

	Company	
	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	450,788	321,782
Amounts due from subsidiaries	3,859,890	2,809,620
Less: Provision for doubtful debts	(1,413,445)	(777,500)
	2,897,233	2,353,902
Amounts due to subsidiaries	(207,755)	(74,941)

Included in the amounts due from subsidiaries are amounts of HK\$145,000,000 (2001: HK\$145,000,000) and HK\$276,339,000 (2001: HK\$266,831,000) which bear interest at 5% and 7% per annum respectively. Except for these, the balances with subsidiaries are unsecured, interest free and the Company has undertaken not to demand repayment within one year from 31 March 2002.

Certain loan advances to a subsidiary were pledged to secure the Group's credit facilities (note 38).

The amounts due to subsidiaries are unsecured, interest free and have no fixed repayment terms.

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

Name	Country/ Place of incorporation/ registration and operations	Issued and paid-up share capital/ registered capital	Percentage held by		Principal activities
			the Company directly	indirectly	
Huckerbye Limited	British Virgin Islands/ Hong Kong	US\$1	100	–	Property investment
Linfield Properties Limited	British Virgin Islands	US\$10,000	55	30	Investment holding

Notes to Financial Statements

For the year ended 31 March 2002

14. INTERESTS IN SUBSIDIARIES (continued)

Name	Country/ Place of incorporation/ registration and operations	Issued and paid-up share capital/ registered capital	Percentage held by		Principal activities
			the Company directly	indirectly	
Rich Country Enterprises Limited	Hong Kong	HK\$2	100	–	Property development
Techgood Development Limited	Hong Kong	HK\$2	100	–	Provision of office management services
Union Max Development Limited	Hong Kong	HK\$2	100	–	Investment holding
Sino-i.com (Shanghai) Limited (“Sino-i.com Shanghai”) (note(d))	Hong Kong	HK\$2	100	–	Property investment
Airmount Limited	Hong Kong	HK\$200	–	100	Property investment
Crown Hint Limited	Hong Kong	HK\$2	–	100	Investment holding
Evallon Investment Limited	Hong Kong	HK\$1,000,000	–	100	Investment holding
Ever Genius Development Limited	Hong Kong	HK\$2	–	85	Investment in property development projects
Listar Properties Limited	British Virgin Islands	US\$20,000,000	1 (2001: 1)	83.18 (2001: 50)	Investment holding

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For the year ended 31 March 2002

14. INTERESTS IN SUBSIDIARIES (continued)

Name	Country/ Place of incorporation/ registration and operations	Issued and paid-up share capital/ registered capital	Percentage held by		Principal activities
			the Company directly	indirectly	
Honest Link Development Limited ("Honest Link")	Hong Kong	HK\$2	–	84.18 (2001:51)	Investment holding
Guangzhou Dong Jin Xin Cheng Properties Co., Ltd ("Dong Jin") (note (a))	PRC	US\$14,000,000	–	84.18 (2001: 51)	Property development
Oriental Rise Limited	Hong Kong	HK\$2	–	100	Property investment
Oriental Team Development Limited	Hong Kong	HK\$2	–	100	Property investment
Union Key Limited	Hong Kong	HK\$2	–	100	Investment holding
Topwide Corporation	British Virgin Islands	US\$1	100	–	Investment holding
Swift Gain International Inc.	British Virgin Islands	US\$1	100	–	Investment holding
Mark Chain Limited	Hong Kong	HK\$2	–	100	Investment holding
Admiral International Group Limited	British Virgin Islands	US\$1	100	–	Investment holding

Notes to Financial Statements

For the year ended 31 March 2002

14. INTERESTS IN SUBSIDIARIES (continued)

Name	Country/ Place of incorporation/ registration and operations	Issued and paid-up share capital/ registered capital	Percentage held by		Principal activities
			the Company directly	indirectly	
北京世華國際金融 信息有限公司 (「北京世華」) (note (b))	PRC	RMB130,000,000	–	80 (2001: Nil)	Provision of financial information on the Internet
Hampstead International Group Limited (“Hampstead”) (note (b))	British Virgin Islands	US\$1	–	100	Investment holding
深圳華企網實業 發展有限公司 (「深圳華企網」) (note (b))	PRC	RMB100,000,000 (2001: RMB50,000,000)	–	76	Operation of web sites and provision of web page design services
Shenzhen Guonan Industrial Development Co., Ltd (“Shenzhen Guonan”) (note (c))	PRC	RMB3,000,000	–	100	Investment holding
China Education Online Limited	Hong Kong	HK\$2	–	100 (2001:69.90)	Education portal
Dadi Entertainment Limited	Hong Kong	HK\$2	–	100	Music broadcasting on the Internet
Dadi Media Limited	Hong Kong	HK\$2	100	–	Investment holding
Powerful Resources Limited	British Virgin Islands	US\$1	–	100	Investment holding
China Enterprise ASP Limited	Hong Kong	HK\$9,000,000	–	80	Investment holding
Seewaa (Hong Kong) Financial Information Company Limited	Hong Kong	HK\$5,000,000	100	–	Provision for financial information on Internet
The Net Paper Limited	Hong Kong	HK\$2	–	100	Internet newspaper

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For the year ended 31 March 2002

14. INTERESTS IN SUBSIDIARIES (continued)

Name	Country/ Place of incorporation/ registration and operations	Issued and paid-up share capital/ registered capital	Percentage held by the Company		Principal activities
			directly	indirectly	
上海朗寧數碼投資 有限公司 (「上海朗寧」) (note (b) and (d))	PRC	US\$30,000,000	–	100	Investment holding
Hancheers International Enterprise Limited ("Hancheers")	Hong Kong	HK\$10,000	–	100	Investment holding
Rich King Inc.	British Virgin Islands	US\$50,000	100 (2001: nil)	– (2001:69.90)	Investment holding
Beijing Chinese Dadi Distance Education Company Limited (Note (e))	PRC	RMB10,154,174	–	80 (2001: 69.90)	Operation of an educational portal and provision of online distance learning education services
Beijing Golden Era Hotel Limited ("Golden Era Hotel") (Note (f))	PRC	US\$12,000,000	–	100	Hotel operation and investment holding
Victorious Limited	British Virgin Islands	US\$1	100	–	Investment holding
South Sea Holding Company Limited ("South Sea", a Hong Kong listed company)	Bermuda	HK\$2,993,180,418	–	67.71 (2001:69.90)	Investment holding
Team Industrial Company Limited (formerly known as Team Concepts (Hong Kong) Limited)	Hong Kong	HK\$57,143,000	–	44.01 (2001:69.90)	Investment holding and provision of management services

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14. INTERESTS IN SUBSIDIARIES (continued)

Name	Country/ Place of incorporation/ registration and operations	Issued and paid-up share capital/ registered capital	Percentage held by the Company		Principal activities
			directly	indirectly	
Team Concepts Marketing Limited (formerly known as Team Concepts Electronics Limited)	Hong Kong	HK\$500,000	–	44.01 (2001:69.90)	Design and marketing of electronic educational products
Team Concepts Technologies Limited	Hong Kong	HK\$20	–	44.01 (2001:69.90)	Design and marketing of consumer electronic products
Dong Guan Team Concepts Electronics Limited (note (g))	PRC	HK\$40,000,000	–	35.21 (2001:55.92)	Manufacture of telecommunication and consumer electronic products
Team Concepts North America, Limited	The United States of America	US\$10	–	67.71 (2001:69.90)	Provision of marketing services
Team Concepts (UK) Limited	The United Kingdom	GBP100	–	44.01 (2001:69.90)	Provision of marketing services
Team Concepts Manufacturing Limited	Hong Kong	HK\$500,000	–	44.01 (2001:69.90)	Manufacture of telecommunication and consumer electronic products
Liu Wan Development (BVI) Company Limited ("Liu Wan (BVI)") (note (h))	British Virgin Islands	US\$215,000,000	–	67.71 (2001: 45)	Investment holding
Liu Wan Investment Company Limited	Hong Kong	US\$2	–	67.71 (2001: 45)	Investment holding

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14. INTERESTS IN SUBSIDIARIES (continued)

Name	Country/ Place of incorporation/ registration and operations	Issued and paid-up share capital/ registered capital	Percentage held by		Principal activities
			the Company		
			Directly	Indirectly	
Shenzhen Liu Wan Industry Development Co., Ltd ("Shenzhen Liu Wan") (note (h))	PRC	RMB100,000,000	–	67.71 (2001: 45)	Investment holding and property investment
Shenzhen Jin Yi Tian Investment Company Limited ("Shenzhen Jin Yi Tian") (note (i))	PRC	RMB18,000,000	–	67.71 (2001: 45)	Property investment
Longwise Development Limited	Hong Kong	HK\$2	–	67.71 (2001: nil)	Investment holding
Chongqing Sheng Tai Properties Development Company Limited ("Chongqing Sheng Tai") (note (j))	PRC	US\$2,100,000	–	67.71 (2001: nil)	Property development, property investment and interior design

Notes:

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

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

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For the year ended 31 March 2002

14. INTERESTS IN SUBSIDIARIES (continued)

- (b) 北京世華 is an equity joint venture established on 12 October 1999 for the period of 20 years, of which 98.8% and 1.2% equity interest were owned by a PRC party and Hampstead respectively. Pursuant to an agreement dated 21 June 2001, 上海朗寧 acquired 78.8% equity interest in 北京世華 from the PRC party. As a matter of corporate structural arrangement, 深圳華企網 holds the 80% equity interest on trust for 上海朗寧, and as a result, 上海朗寧 effectively owned 80% interest in 北京世華.
- (c) Shenzhen Guonan is an equity joint venture established for a period of 50 years commencing 28 April 1999 and in which the Group is entitled to 80% of its results. Pursuant to two agreements entered into between the Group and the PRC co-venturer on 15 June 1999 and 31 March 2000, the PRC co-venturer has agreed to waive its entitlement to 20% of the results in Shenzhen Guonan in return for a fixed annual fee of RMB10,000 and an undertaking from the Group to pay up RMB495,000 of the required capital contribution to Shenzhen Guonan to be fulfilled by the PRC co-venturer. In addition, the Group also has effective control over the composition of the board of directors of Shenzhen Guonan. Accordingly, Shenzhen Guonan was accounted for on the basis as if it was a wholly-owned subsidiary of the Group.
- (d) 上海朗寧 is an equity joint venture established on 4 April 2000 and has been approved by the governing authority in Shanghai to run business for the period of 42 years up to 3 April 2042. Under a joint venture agreement entered into between a PRC party and Sino-i.com Shanghai which hold 40% and 60% equity interest respectively, and under a deed of trust dated 1 April 2001 executed by the PRC party in favour of Sino-i.com Shanghai, Sino-i.com Shanghai is the beneficial owner of such 40% equity interest, and as a result, Sino-i.com Shanghai effectively owned 100% equity interest in 上海朗寧.
- (e) Beijing Chinese Dadi Distance Education Company Limited is an equity joint venture company established in the PRC for a term of 20 years starting from 23 December 1999.
- (f) Golden Era Hotel was an equity joint venture established under a joint venture agreement between Hancheers and a PRC party. Golden Era Hotel is engaged in the operations of hotel and restaurants in the PRC. Pursuant to the joint venture agreement, Hancheers and the PRC party were required to contribute to the registered capital of Golden Era Hotel in the ratio of 49% and 51% respectively.

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

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14. INTERESTS IN SUBSIDIARIES (continued)

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

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

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

- (g) Dong Guan Team Concepts Electronics Limited was established as a co-operative joint venture in the PRC for a term of 30 years commencing from 5 June 1992. Upon the expiry of the term of the joint venture, the land and buildings of the joint venture will be taken over by the PRC party while the remaining assets will be taken over by the Group. The Group's profit entitlement in the joint venture is 52% of the retained profits.
- (h) Shenzhen Liu Wan was a cooperative joint venture established for a period of 50 years up to April 2049 under a joint venture agreement dated 28 March 2000 among Shenzhen Golden Era Industry Development Co., Ltd. ("Shenzhen Golden Era"), Liu Wan Investment Company Limited, Liu Wan (BVI) and a PRC party. Pursuant to the agreement, Shenzhen Golden Era injected a land site in Shenzhen into Shenzhen Liu Wan in return for a 10% entitlement of profit sharing in Shenzhen Liu Wan. According to an agreement dated 30 April 2000, the PRC party transferred all of its 5% interest including the profit-sharing and control in Shenzhen Liu Wan to Liu Wan (BVI) for a consideration of RMB321,000,000. According to an agreement dated 10 August 2000, Shenzhen Golden Era transferred all its 10% profit-sharing interest in Shenzhen Liu Wan to Liu Wan (BVI) for a consideration of HK\$500,000,000. As a result of the above, Liu Wan (BVI) owns 100% equity interest in Shenzhen Liu Wan.
- (i) Shenzhen Jin Yi Tian is a PRC enterprise established on 28 January 1997 for a period of 10 years up to 28 January 2007. Pursuant to an agreement dated 2 September 1999, Shenzhen Liu Wan and a PRC party acquired 90% and 10% respectively of the equity interest in Shenzhen Jin Yi Tian. Pursuant to an agreement dated 21 March 2001, the PRC party agreed to waive unconditionally its 10% equity interest in Shenzhen Jin Yi Tian and as a result, Shenzhen Liu Wan effectively owns 100% interest in Shenzhen Jin Yi Tian.
- (j) Chongqing Sheng Tai is a foreign investment enterprise wholly owned by Longwise Development Limited. Chongqing Sheng Tai was established under the laws of the PRC on 5 September 1992 for a period of 30 years up to 4 September 2022.

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For the year ended 31 March 2002

15. INTERESTS IN ASSOCIATE(S)

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Share of net assets	(633)	1,191,340	-	-
Amounts due from associates	-	72,117	19,794	19,776
Amounts due to associates	(6,793)	(26,587)	-	-
Less: Provision	-	-	(1,380)	-
	<u>(7,426)</u>	<u>1,236,870</u>	<u>18,414</u>	<u>19,776</u>

The balances with associates are unsecured, interest-free and have no fixed terms of repayment. The amounts due to associates as at 31 March 2001 included an amount of HK\$10,335,000 due to an associate which bore interest at the then prevailing market rate.

Particulars of the associate at 31 March 2002 are as follows:

Name	Place of incorporation and operation	Percentage of equity attributable to the Group	Principal activity
Genius Reward Company Limited	Hong Kong	50	Dormant

During the year, the Group's equity interest in Liu Wan (BVI), a former associate incorporated in the British Virgin Islands, was increased from 45% to 67.71%. As a result, the Group's equity interest in Liu Wan (BVI) has been reclassified from interests in associates to interests in subsidiaries.

16. INTEREST IN A JOINTLY CONTROLLED ENTITY

	Group	
	2002 HK\$'000	2001 HK\$'000
Share of net assets	-	-
Amount due from a jointly controlled entity	<u>89</u>	<u>5,279</u>

At 31 March 2002, the Group held 50% equity interest in Juguetes Electronicos Avanzados S.L. ("Juguetes Electronicos"), a company incorporated in Spain and principally engaged in the marketing of consumer electronic products. Subsequent to 31 March 2002, the Group has disposed of its 50% equity interest in Juguetes Electronicos to a third party.

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For the year ended 31 March 2002

17. LONG TERM INVESTMENTS

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Unlisted investment securities in the PRC, at cost	1,523	1,523	1,523	1,523
Consideration for acquisitions of investments (note (a))	13,808	39,111	–	–
Advances to prospective investee companies (note (a))	28,746	–	–	–
Options to acquire shares (note (b))	120,000	120,000	–	–
Club debenture, at cost	324	324	324	324
Interest in a property development project (note (c))	72,222	72,222	–	–
	236,623	233,180	1,847	1,847
Less: Provision for impairment in value of a property development project (note (c))	–	(59,298)	–	–
	236,623	173,882	1,847	1,847

Notes:

(a) The consideration for acquisitions of investments represents consideration paid for the acquisitions of interests in certain PRC companies. The Group has also made advances of HK\$28,746,000 to these prospective investee companies. As at 31 March 2002, the acquisitions have not yet been completed pending for the official approval from the relevant governmental authorities.

(b) Options to acquire shares

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

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

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For the year ended 31 March 2002

17. LONG TERM INVESTMENTS (continued)**(b) Options to acquire shares (continued)**

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

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

(c) Interest in a property development project

In a prior year, the Group acquired the beneficial interests, rights and obligations in a property development project undertaken by Nanjing Hanxi Real Estate Development Co., Ltd. ("Nanjing Hanxi"), a company wholly owned by King Corporation Limited (formerly known as CIM Company Limited)* ("King Corporation"). Interest in the property development project represents the capital contribution and advances made for financing the project undertakings. Included in the interest in a property development project is a loan advance of HK\$40,595,000 (2001: HK\$40,595,000) made to Nanjing Hanxi for the purpose of financing the construction cost of the project, which is unsecured, interest-free and repayable on demand.

Pursuant to an agreement dated 25 March 2002, King Corporation agreed to undertake all the liabilities and contingencies arising from the property development project in Nanjing Hanxi. Accordingly, the provision of HK\$59,298,000 made against the property development project in prior years has been written back during the year.

* King Corporation is a substantial shareholder of the Company, in which Mr Yu holds directorship/beneficial shareholdings. Besides, 50% equity interests in Genius Reward Company Limited, an associate of the Group, are held by King Corporation.

18. LAND HELD FOR DEVELOPMENT

		Group	
		2002	2001
		HK\$'000	HK\$'000
	Notes		
Land held in Hong Kong, at cost	(a)	102,981	102,981
Less: Impairment		(37,138)	(30,966)
		65,843	72,015
Land held in the PRC, at cost	(b)	3,628,130	358,041
		3,693,973	430,056
Interest capitalised in land held for development		135,763	—

Notes to Financial Statements

For the year ended 31 March 2002

18. LAND HELD FOR DEVELOPMENT (continued)

Notes:

- (a) Land held in Hong Kong

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

- (b) Land held in the PRC

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

The land is a vacant site. The Group has obtained the Land Use Rights Certificates from the PRC Government of Hua Du City, in respect of land with a total area of 228.79 acres under 70 years lease terms. The Land Use Rights Certificates of the remaining land with a total area of 691 acres would be granted upon full settlement of land premium payables. As at 31 March 2002, the Group had land premium payables in the amount of HK\$122,489,000 (2001: HK\$122,153,000) included in the consolidated balance sheet.

Location	Approximate site area (square metres)	Type of development
Liu Wan, Shekou, Shenzhen, the PRC (Lot No. K708-5, K708-2 and K708-3)	313,074	Shopping arcade/ residential/ hotel/recreational facilities

The land is a vacant site.

Pursuant to the Real Property Ownership Certificate, the land use rights of the land site Lot No. K708-5 with an area of 220,691 square metres for a term of 70 years from 1 January 1996 to 1 January 2066 was vested in Shenzhen Liu Wan Industry Development Co., Ltd. ("Shenzhen Liu Wan"), a subsidiary of the Company.

The Land Use Rights Certificate of the land site Lot No. K708-2 and K708-3 with an area of approximately 81,488 square metres will be granted upon full settlement of the land premium payables amounting to HK\$160,576,000 as at 31 March 2002.

Notes to Financial Statements

For the year ended 31 March 2002

18. LAND HELD FOR DEVELOPMENT (continued)**(b) Land held in the PRC (continued)**

During the year, Shenzhen Liu Wan and a third party entered into a co-operative agreement to develop the residential project in Liu Wan. Upon completion of the project, the third party will be entitled to 40% profit on the project. At 31 March 2002, the total deposit received from the third party for the project amounted to HK\$28,163,000 which is included under non-current liabilities in the consolidated balance sheet.

Location	Approximate site area (square metres)	Type of development
Sheng Tai Building, Long Qi Zhen, Jiang Bei County, Chongqing City, Sichuan Province, the PRC (Phases I and II)	13,892	Commercial and residential

The foundation work of Phase I of this development is in progress as at 31 March 2002.

The land site of Phase II of this development is vacant as at 31 March 2002.

Pursuant to the Land Use Rights Certificate issued by Jiang Bei County State-owned Land Bureau, the land use rights of Phase I with an area of 4,546 square metres for a term of 50 years up to 6 February 2043 was vested in Chongqing Sheng Tai Properties Development Company Limited ("Chongqing Sheng Tai"), a subsidiary of the Company.

Pursuant to the Land Use Rights Certificate issued by Jiang Bei County State-owned Land Bureau, the land use rights of Phase II with an area of 9,346 square metres for a term of 50 years from 13 January 2000 to 13 January 2050 was vested in Chongqing Sheng Tai.

Notes to Financial Statements

For the year ended 31 March 2002

19. INTANGIBLE ASSETS

	Product		Group		
	development	Proprietary	Negative	Goodwill	Total
	costs	software	goodwill	Goodwill	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost/Gross amount					
At 1 April 2001	8,726	–	–	218,658	227,384
Additions	6,087	39,353	–	–	45,440
Acquisition of subsidiaries	–	–	(363,151)	360,933	(2,218)
Goodwill arising on additional shareholding in subsidiaries	–	–	–	130,753	130,753
Write-off	(917)	–	–	–	(917)
	<u>13,896</u>	<u>39,353</u>	<u>(363,151)</u>	<u>710,344</u>	<u>400,442</u>
At 31 March 2002	13,896	39,353	(363,151)	710,344	400,442
(Accumulated amortisation)/ Accumulated amount recognised as income					
At 1 April 2001	–	–	–	(5,124)	(5,124)
Amortisation during the year	(5,127)	(5,088)	–	(27,399)	(37,614)
Amount recognised as income during the year	–	–	10,566	–	10,566
	<u>(5,127)</u>	<u>(5,088)</u>	<u>10,566</u>	<u>(32,523)</u>	<u>(32,172)</u>
At 31 March 2002	(5,127)	(5,088)	10,566	(32,523)	(32,172)
Carrying value					
At 31 March 2002	8,769	34,265	(352,585)	677,821	368,270
At 31 March 2001	8,726	–	–	213,534	222,260

Negative goodwill is recognised as income over a period of twenty years. Negative goodwill recognised as income during the year is included in other revenue in the consolidated income statement.

Notes to Financial Statements

For the year ended 31 March 2002

20. SHORT TERM INVESTMENT

	Group	
	2002	2001
	HK\$'000	HK\$'000
Listed equity investment in Hong Kong, at fair value	1,649	–
Market value of listed investment	1,649	–

21. INVENTORIES

	Group	
	2002	2001
	HK\$'000	HK\$'000
Raw materials	48,485	70,131
Work in progress	12,247	19,333
Finished goods	23,578	46,398
Goods in transit	12	1,434
	84,322	137,296
Less: Provision for slow-moving inventories	(53,659)	(97,331)
	30,663	39,965

All of the above inventories, except goods in transit, are stated at net realisable value.

Notes to Financial Statements

For the year ended 31 March 2002

22. TRADE AND OTHER RECEIVABLES

	Group	
	2002 HK\$'000	2001 HK\$'000
Trade receivables, analysed according to aging:		
0-90 days	14,271	21,466
91-180 days	39,597	14,724
181-270 days	1,740	6,290
271-360 days	2,992	5,663
Over 360 days	24,553	32,244
Less: Provisions	<u>(18,877)</u>	<u>(29,822)</u>
	64,276	50,565
Prepayments, deposits and other receivables	208,365	571,391
Less: Provisions	<u>(8,074)</u>	<u>(3,283)</u>
	<u>264,567</u>	<u>618,673</u>

For hotel operations, the normal credit period granted is 90 days. For sales of telecommunication and consumer electronic products, the majority of sales are entered into under letters of credit while the rest are entered into on credit terms ranging from 30 to 60 days. During the years 2001 and 2002, the Group encountered difficulties in collection of certain trade debts and appropriate provision has been made against certain bad and doubtful debts. For operations of web sites and related services, the normal credit period granted ranges from 30 to 60 days.

Notes to Financial Statements

For the year ended 31 March 2002

23. AMOUNTS DUE FROM RELATED COMPANIES

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

Group

	1 April 2001 HK\$'000	31 March 2002 HK\$'000	Maximum amount outstanding during the year HK\$'000
Nanjing Hanxi Real Estate Development Co., Ltd.	28,917	29,828	30,796
Sitechasia (Beijing) Network Software Development Co., Ltd.	891	891	891
	<u>29,808</u>	<u>30,719</u>	

Mr. Yu holds directorship and beneficial equity interests in these companies.

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

Notes to Financial Statements

For the year ended 31 March 2002

24. TRADE AND OTHER PAYABLES

	Group	
	2002 HK\$'000	2001 HK\$'000
Trade payables, analysed according to aging:		
0–90 days	8,926	19,614
91–180 days	5,618	23,475
181–270 days	2,458	31,643
271–360 days	269	19,406
Over 360 days	2,050	38,505
	19,321	132,643
Other payables and accruals (note 26)	264,363	110,464
	283,684	243,107

25. AMOUNT DUE TO A DIRECTOR/AMOUNTS DUE TO SHAREHOLDERS

The amounts due to a director and shareholders are unsecured, interest-free and repayable on demand.

26. OTHER PAYABLES AND ACCRUALS

Included in other payables and accruals are amounts of HK\$45,379,000 (2001: HK\$17,600,000) due to certain securities brokers and margin financiers which are secured by 6,661,930,000 shares in South Sea (representing about 32.87% out of 67.71% of the Group's total interest in South Sea). The amounts due bear interest at the rate of prime plus 2.625% to prime plus 4.005% per annum.

27. LOAN FROM A MINORITY SHAREHOLDER

The loan was due to a minority shareholder of a subsidiary of the Company. On 25 March 2002, the Group was informed by the minority shareholder in writing that the minority shareholder agreed to waive the loan unconditionally. This gave rise to a gain of HK\$25,000,000 which was recognised in the consolidated income statement.

Notes to Financial Statements

For the year ended 31 March 2002

28. BANK AND OTHER BORROWINGS

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Bank overdrafts				
– secured	272	85,125	–	–
– unsecured	3,092	6,842	–	–
	3,364	91,967	–	–
Restructure loan (note (a))	116,183	–	–	–
Short-term bank loans				
– secured	231,350	148,653	–	3,917
– unsecured	58,966	81,316	13,899	13,900
	290,316	229,969	13,899	17,817
Long-term bank loans-secured				
Due within one year	13,649	9,411	–	–
Due more than one year but not exceeding two years	10,131	9,251	–	–
Due more than two years but not exceeding five years	415,294	32,817	–	–
Due more than five years	35,120	46,530	–	–
	474,194	98,009	–	–
Long-term bank loans				
– unsecured				
Due more than two years but not exceeding five years	72,222	–	–	–
Obligations under finance leases				
Due within one year	486	1,071	–	–
Due in the second year	34	72	–	–
	520	1,143	–	–
Other borrowings	7,291	217,881	7,291	200,281
Other payables (note (b))	210,000	–	–	–
Convertible notes (note 29)	–	200,000	–	200,000
	1,174,090	838,969	21,190	418,098
Less: Current portion due within one year included under current liabilities	(525,106)	(550,299)	(21,190)	(218,098)
Non-current portion included under non-current liabilities	648,984	288,670	–	200,000

Notes to Financial Statements

For the year ended 31 March 2002

28. BANK AND OTHER BORROWINGS (continued)

The analysis of the borrowings is as follows:

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Wholly repayable within five years				
Bank loans	861,418	231,456	13,899	17,817
Bank overdrafts	3,364	91,967	–	–
Other borrowings	7,291	217,881	7,291	200,281
Other payables (note (b))	210,000	–	–	–
Convertible notes (note 29)	–	200,000	–	200,000
Obligations under finance leases	520	1,143	–	–
	1,082,593	742,447	21,190	418,098
Not wholly repayable within five years				
Bank loans	91,497	96,522	–	–
	1,174,090	838,969	21,190	418,098

As at 31 March 2002, the Group technically breached the covenants of certain bank loans totalling HK\$42,574,000 (2001: HK\$318,266,000). These bank loans have been due for repayment and are included as part of the Group's current liabilities.

Notes:

- (a) During the year, the Group entered into an agreement with one of its lending banks ("the Bank"), pursuant to which the repayment period for bank loans and overdrafts of approximately HK\$116 million due to the Bank was extended. Under the agreement, the Group was allowed to consolidate all these bank loans and overdrafts into a restructure loan which should be repaid on or before 14 November 2006 while interest on these balances for the first thirty months after 1 May 2001 would be waived.
- (b) On 18 September 2001, South Sea issued HK\$210,000,000 5% convertible notes to Power Ocean Investments Limited, an independent third party, for settlement of a loan of HK\$210,000,000 under a loan agreement dated 30 August 2001. These convertible notes bear interest at 5% per annum and are due on 18 September 2002. Each of the convertible notes carries the right to convert in whole or in part at any time commencing after the date of issue of the notes but before the due date the outstanding principal amounts of the notes into ordinary shares in South Sea at a conversion price of HK\$0.10 per share. The conversion price is subject to adjustment in certain circumstances. During the year, no notes were converted into shares of South Sea.

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For the year ended 31 March 2002

29. CONVERTIBLE NOTES

	Group HK\$'000	Company HK\$'000
3% convertible notes (note (a))		
At 1 April 2001	–	–
Issued during the year	1,000,000	–
Converted during the year	<u>(1,000,000)</u>	<u>–</u>
At 31 March 2002	<u>–</u>	<u>–</u>
Non-interest bearing convertible notes (note (b))		
At 1 April 2001	200,000	200,000
Settled during the year	<u>(200,000)</u>	<u>(200,000)</u>
At 31 March 2002	<u>–</u>	<u>–</u>

(a) 3% convertible notes

On 11 August 2001, convertible notes of HK\$200,000,000, HK\$220,000,000, HK\$140,000,000, HK\$70,000,000, and HK\$70,000,000 were issued to Rosewood Assets Limited (note i), Phippen Limited (note ii), Staverley Assets Limited (note iii), Wealthy Forecast Profits Limited and Ctradenet International Holdings Limited respectively. These convertible notes were originally due on 11 August 2004 and bore interest at 3% per annum. Each of the convertible notes carried the right at any time commencing on the date of issue but before the due date to convert the whole or part of the principal amounts of the notes into ordinary shares of the Company at a conversion price of HK\$0.10 per share. The conversion price was subject to adjustment in certain circumstances. On 28 August 2001, these convertible notes were fully converted into 7,000,000,000 ordinary shares of HK\$0.10 each at the conversion price of HK\$0.10 per share.

On 30 August 2001, convertible note of HK\$100,000,000 was issued to Macro Resources Limited, a company beneficially owned as to 60% by Mr. Yu and as to 40% by Citic Guoan Group Company Limited (a substantial shareholder of the Company). The convertible note was originally due on 30 October 2004 and bore interest at 3% per annum. The convertible note carried the right at any time commencing on the date of issue but before the due date to convert the whole or part of the principal amounts of the notes into ordinary shares of the Company at a conversion price of HK\$0.10 per share. The conversion price was subject to adjustment in certain circumstances. On 16 November 2001, the convertible note was fully converted into 1,000,000,000 ordinary shares of HK\$0.10 each at the conversion price of HK\$0.10 per share.

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For the year ended 31 March 2002

29. CONVERTIBLE NOTES (continued)

(a) 3% convertible notes (continued)

On 12 November 2001, convertible notes of HK\$50,000,000, HK\$100,300,000 and HK\$49,700,000 were issued to Ctradenet International Holdings Limited, Super Century Company Limited and Wealthy Forecast Profits Limited respectively. These convertible notes were originally due on 12 November 2004 and bore interest at 3% per annum. Each of the convertible notes carried the right at any time commencing on the date of issue but before the due date to convert the whole or part of the principal amounts of the notes into ordinary shares of the Company at a conversion price of HK\$0.10 per share. The conversion price was subject to adjustment in certain circumstances. On 19 November 2001, these convertible notes were fully converted into 2,000,000,000 ordinary shares of HK\$0.10 each at the conversion price of HK\$0.10 per share.

(b) Non-interest bearing convertible notes

On 19 January 2001, the Company issued HK\$200,000,000 convertible notes to Excellent Mission Developments Company Limited, an independent third party, for settlement of the consideration for the acquisition of Hancheers. These convertible notes were originally due on 1 July 2004 and would not bear any interest. Each of the convertible notes carried the right at any time commencing on 9 April 2001 but before 1 July 2004 to convert the whole or part of the principal amounts of the notes into ordinary shares of the Company at a conversion price of HK\$0.50 per share. The conversion price was subject to adjustment in certain circumstances. On 11 August 2001, the HK\$200,000,000 convertible notes were fully settled with the proceeds arising from the issues of the various convertible notes stated in note (a) above.

Note:

- i. Rosewood Assets Limited is a company wholly-owned by Mr Yu.
- ii. Phippen Limited is a wholly-owned subsidiary of Actinna Development Limited, which is a company wholly-owned by Mr Yu.
- iii. Staverley Assets Limited is a wholly-owned subsidiary of Elstrong Limited, which is a company wholly-owned by Citic Guoan Group Company Limited.

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For the year ended 31 March 2002

30. DEFERRED TAX

Movements in the deferred tax account are as follows:

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
At beginning of year	790	295	-	-
Charge for the year (note 10)	-	(295)	-	-
Acquisition of subsidiaries	-	790	-	-
At end of year	790	790	-	-

At 31 March 2002, the amount of deferred tax liability is as follows:

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Tax effect of timing differences attributable to accelerated depreciation allowances	790	790	-	-

As at 31 March 2002, the amount of unprovided deferred tax assets is as follows:

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Tax effect of timing differences attributable to:				
- accelerated depreciation allowances	19	30	19	30
- tax losses	91,707	39,836	17,195	14,082
	91,726	39,866	17,214	14,112

No provision has been made for deferred tax liability in respect of timing differences relating to product development costs deferred in the financial statements as it is not expected that the liability will crystallise in the foreseeable future due to recurring development costs.

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

Notes to Financial Statements

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31. SHARE CAPITAL

	Number of ordinary shares of HK\$0.50 each	Number of ordinary shares of HK\$0.10 each	HK\$'000
Authorised:			
At 1 April 2001	6,000,000,000	–	3,000,000
Reduction of nominal value (note (a))	(6,000,000,000)	6,000,000,000	(2,400,000)
Increase during the year (note (b))	–	24,000,000,000	2,400,000
	<u>–</u>	<u>24,000,000,000</u>	<u>2,400,000</u>
At 31 March 2002	<u>–</u>	<u>30,000,000,000</u>	<u>3,000,000</u>
Issued and fully paid:			
At 1 April 2000	3,916,176,877	–	1,958,088
Repurchase of shares	(1,672,000)	–	(836)
	<u>3,914,504,877</u>	<u>–</u>	<u>1,957,252</u>
At 31 March 2001 and 1 April 2001	3,914,504,877	–	1,957,252
Reduction of nominal value (note (a))	(3,914,504,877)	3,914,504,877	(1,565,802)
Conversion of convertible notes (note 29(a))	–	10,000,000,000	1,000,000
	<u>–</u>	<u>10,000,000,000</u>	<u>1,000,000</u>
At 31 March 2002	<u>–</u>	<u>13,914,504,877</u>	<u>1,391,450</u>

- (a) Pursuant to a special resolution passed on 3 May 2001 and confirmed by an order of the High Court of Hong Kong made on 27 June 2001, the authorised share capital of the Company was reduced from HK\$3,000,000,000 divided into 6,000,000,000 ordinary shares of HK\$0.50 each to HK\$600,000,000 divided into 6,000,000,000 ordinary shares of HK\$0.10 each with effect on 10 July 2001. Trading of the new ordinary shares of HK\$0.1 each commenced on 10 July 2001. The reduction was effected by cancelling paid-up capital to the extent of HK\$0.40 upon each of the 3,914,504,877 ordinary shares in issue as at 6 April 2001 and any further ordinary shares issued prior to 27 June 2001. The entire credit of HK\$1,565,801,950.80 arising from the capital reduction was utilised to eliminate part of the accumulated losses of the Company as at 31 March 2001.
- (b) By an ordinary resolution passed on 9 July 2001, the authorised share capital of the Company was increased from HK\$600,000,000 to HK\$3,000,000,000 by the creation of 24,000,000,000 new shares of HK\$0.10 each. These new shares rank *pari passu* in all respects with the existing shares of the Company.

Notes to Financial Statements

For the year ended 31 March 2002

31. SHARE CAPITAL (continued)**Share options**

The Company's share options outstanding at 31 March 2002 are as follows:

Exercise period	Exercise price HK\$	Number of shares issuable under the share options
1 February 2000 – 31 January 2003	0.50	20,410,000
1 November 2000 – 30 April 2003	0.50	3,000,000
		<u>23,410,000</u>

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

During the year, 5,000,000 share options of a director were lapsed automatically on the expiry period and 4,100,000 share options of employees were lapsed upon resignation.

The exercise in full of the share options would, under the capital structure of the Company as at 31 March 2002, result in the issue of 23,410,000 additional new shares of HK\$0.10 each in the Company.

32. SHARE PREMIUM

	Group and Company	
	2002 HK\$'000	2001 HK\$'000
At 31 March	<u>472,736</u>	<u>472,736</u>

Notes to Financial Statements

For the year ended 31 March 2002

33. RESERVES

	Capital redemption reserve HK\$'000	General reserve HK\$'000	Currency translation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Group					
At 1 April 2000	1,422	56,807	(5,887)	(699,373)	(647,031)
Minority interests' share of accumulated losses	–	–	–	2,535	2,535
Release on disposal of investment properties	–	753	–	–	753
Release on partial disposal of subsidiaries	–	2,952	–	–	2,952
Reserves attributable to minority shareholders	–	(545)	483	–	(62)
Exchange differences	–	–	(542)	–	(542)
Arising on acquisition of additional interest in an associate	–	71,930	–	–	71,930
Arising from repurchase of shares	836	–	–	(301)	535
Profit for the year attributable to shareholders	–	–	–	15,677	15,677
At 31 March 2001 and 1 April 2001	2,258	131,897	(5,946)	(681,462)	(553,253)
Capital reduction (note 31(a))	–	–	–	1,565,802	1,565,802
Release upon disposal of subsidiaries	–	(3,811)	5,002	–	1,191
Arising from acquisition of additional interest in an associate	–	(161,494)	–	–	(161,494)
Exchange differences	–	–	(1,130)	–	(1,130)
Loss for the year attributable to shareholders	–	–	–	(32,488)	(32,488)
At 31 March 2002	2,258	(33,408)	(2,074)	851,852	818,628
The reserves are retained as follows:					
Company and subsidiaries	2,258	(33,408)	(2,074)	852,485	819,261
Associate	–	–	–	(633)	(633)
At 31 March 2002	2,258	(33,408)	(2,074)	851,852	818,628
Company and subsidiaries	2,258	42,334	(5,946)	(675,197)	(636,551)
Associates	–	89,563	–	(6,265)	83,298
At 31 March 2001	2,258	131,897	(5,946)	(681,462)	(553,253)

Notes to Financial Statements

For the year ended 31 March 2002

33. RESERVES (continued)

	Capital redemption reserve HK\$'000	General reserve HK\$'000	Currency translation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Company					
At 1 April 2000	1,422	79,579	–	(760,073)	(679,072)
Arising from repurchase of shares	836	–	–	(301)	535
Profit for the year	–	–	–	590,673	590,673
At 31 March 2001 and 1 April 2001	2,258	79,579	–	(169,701)	(87,864)
Capital reduction (note 31(a))	–	–	–	1,565,802	1,565,802
Loss for the year	–	–	–	(660,412)	(660,412)
At 31 March 2002	2,258	79,579	–	735,689	817,526

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

34. OPERATING LEASE COMMITMENTS

- (a) At 31 March 2002, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	Land and buildings Group		Land and buildings Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Within one year	15,524	4,272	1,121	1,121
In the second to fifth years	20,488	1,847	–	–
After five years	11,526	2,487	–	–
	47,538	8,606	1,121	1,121

The Group leases a number of properties under operating leases. The leases run for an initial period of one to ten years, with options to renew the lease terms at the expiry dates or at dates as mutually agreed between the Group and the respective landlords. None of the leases includes any contingent rentals.

Notes to Financial Statements

For the year ended 31 March 2002

34. OPERATING LEASE COMMITMENTS (continued)

- (b) At 31 March 2002, the Group's total future minimum lease receivables under non-cancellable operating leases are as follows:

	Land and buildings	
	2002	2001
	HK\$'000	HK\$'000
Within one year	3,207	883
In the second to fifth years	6,387	349
After five years	5,216	—
	<u>14,810</u>	<u>1,232</u>

35. COMMITMENTS

(a) Capital commitments

	Group	
	2002	2001
	HK\$'000	HK\$'000
Contracted but not provided for	<u>86,281</u>	<u>652,038</u>

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

At 31 March 2002, the Company had no capital commitments.

(b) Other commitments

	Group		Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Commitments in respect of capital contribution to subsidiaries in the PRC	<u>271,656</u>	<u>190,375</u>	<u>11,625</u>	<u>11,625</u>

Notes to Financial Statements

For the year ended 31 March 2002

36. DIRECTORS' REMUNERATION

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

	Group	
	2002	2001
	HK\$'000	HK\$'000
Fees:		
Executive directors	–	–
Non-executive directors	–	–
Independent non-executive directors	18	–
Other emoluments paid and payable to executive directors:		
Basic salaries, housing, other allowances and benefits in kind	3,919	4,020
Pension scheme contributions	36	92
	3,973	4,112

The emoluments of the directors fell within the following bands:

Emolument bands	Number of directors	
	2002	2001
HK\$Nil – HK\$1,000,000	7	7
HK\$1,000,001 – HK\$1,500,000	1	1
HK\$2,000,001 – HK\$2,500,000	1	1
	9	9

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

No directors waived or agreed to waive any emoluments in respect of the year ended 31 March 2002 (2001: NIL).

Notes to Financial Statements

For the year ended 31 March 2002

36. DIRECTORS' REMUNERATION (continued)

Five highest paid individuals

The five highest paid individuals of the Group for the year included two (2001: two) executive directors, details of whose emoluments are set out above. The emoluments of the remaining three (2001: three) employees were as follows:

	2002 HK\$'000	2001 HK\$'000
Basic salaries, housing allowances	3,294	3,599
Pension scheme contributions	77	151
	<u>3,371</u>	<u>3,750</u>

The emoluments of these individuals were within the following bands:

Emolument bands

	Number of individuals	
	2002	2001
HK\$Nil – HK\$1,000,000	1	–
HK\$1,000,000 – HK\$1,500,000	2	3
	<u>3</u>	<u>3</u>

During the year, no emoluments were paid to the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office.

Notes to Financial Statements

For the year ended 31 March 2002

37. CONTINGENT LIABILITIES

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

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Subsidiaries	–	–	154,296	99,322
Associate (note)	7,235	7,235	7,235	7,235
Former subsidiaries	118,249	139,135	118,249	139,135
A minority shareholder of a former subsidiary	33,957	36,968	33,957	36,968
Third party	37,037	–	37,037	–
	196,478	183,338	350,774	282,660

Note: In previous years, the Company issued a guarantee on certain banking facilities granted to an associate. As at 31 March 2002, the associate has drawn down these banking facilities which gave rise to the above contingent liabilities.

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

38. PLEDGE OF ASSETS

As at 31 March 2002, the Group’s credit facilities were supported by the following:

- (a) first legal charges on the Group’s investment properties (note 13) and certain land and buildings located in Hong Kong, with an aggregate net book value of HK\$100,460,000 (2001: HK\$104,960,000);
- (b) first legal charges on hotel properties and properties under development in the PRC with an aggregate net book value of HK\$306,093,000 (2001: HK\$306,093,000);
- (c) fixed charges over land and buildings and other property, plant and equipment with an aggregate net book value of HK\$93,492,000 (2001: HK\$111,806,000);

Notes to Financial Statements

For the year ended 31 March 2002

38. PLEDGE OF ASSETS (continued)

- (d) charge over the land held for development with Land Lot No. K708-5 at Liu Wan and all proceeds from sales of that land held for development (note 18);
- (e) certain investment in and receivables with a net balance of HK\$166,759,000 (2001: HK\$185,843,000) in a subsidiary;
- (f) undertakings on the part of the Group for the assignment of rentals from the letting of certain investment properties, and proceeds from sales of certain investment properties;
- (g) Pledge of 6,661,930,000 (2001: 1,600,000,000), 240,000,000 (2001: 60,000,000) and 363,638,000 (2001: NIL) shares in South Sea as securities to brokers, bankers and the minority shareholder of a subsidiary respectively, the total of which represents about 35.85% out of 67.71% of total interest in South Sea held by the Group. The market value of such listed shares was about HK\$138,046,000 (2001: HK\$149,000,000).
- (h) charge over the share capital of a wholly-owned subsidiary of the Company and shares in certain subsidiaries within the Group; and
- (i) floating charge over other assets of certain companies within the Group.

Notes to Financial Statements

For the year ended 31 March 2002

39. RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

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

Financial transactions

Name of related party	Nature of transactions	2002	2001
		HK\$'000	HK\$'000
Genius Reward Company Limited #	Interest paid and payable	–	885
Mr. Yu Pun Hoi (“Mr. Yu”) ^α	Interest paid and payable	–	283
Pippen Limited ^β	Interest paid and payable	–	50
Staverley Assets Limited ^Σ	Interest paid and payable	–	60
King Corporation #	Acquisition of long term investments	–	1,800
CIM Hotel Management Limited [#]	Compensation receivable for termination of hotel management contract	–	9,985

Genius Reward Company Limited (“Genius Reward”) is an associate in which the Group holds 50% equity interests. The remaining 50% equity interests in this company are held by King Corporation, a substantial shareholder of the Company. In addition, Mr. Yu also holds directorship/beneficial shareholdings in King Corporation. CIM Hotel Management Limited is a wholly-owned subsidiary of King Corporation.

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

^β Pippen Limited is a substantial shareholder of the Company. In addition, Mr. Yu holds directorship/beneficial shareholdings in this company.

^Σ Staverley Assets Limited is a substantial shareholder of the Company. Mr. Li Shilin, a director of the Company, also holds directorship in this company.

Notes to Financial Statements

For the year ended 31 March 2002

39. RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS (continued)

Financial support

- (a) As at 31 March 2002, the Group's banking facilities were secured by properties of certain related companies, and corporate and personal guarantees executed by certain related parties of the Company.
- (b) As at 31 March 2002, the banking facilities granted to Genius Reward, an associate of the Group, were supported by corporate guarantees executed by the Company.
- (c) As at 31 March 2002, the Group has given corporate guarantees in connection with credit facilities granted to Hollybush Corporation, a related company. The contingent liabilities arising therefrom amounted to HK\$33,957,000 (2001: HK\$36,968,000) and are included in note 37 to the financial statements.

Balances with related parties

As at 31 March 2002, the Group had receivables and payables maintained with certain related parties. These balances are mainly in respect of advances to/from these parties.

Details of the terms of the Company's balances due from and to its subsidiaries are set out in note 14 to the financial statements.

40. PENDING LITIGATIONS

- (a) In a prior year, Team Concepts Marketing Limited (formerly known as Team Concepts Electronics Limited), a subsidiary of South Sea, issued a proceeding against an European distributor, Stadlbaucer Marketing & Vertrieb GmbH ("SMV"), for outstanding accounts receivable of approximately US\$0.8 million (HK\$6.2 million). SMV has filed a counterclaim for a sum amounting to Austrian Schilling 2.5 million (HK\$1.6 million) for alleged breach of exclusive distributorship contracts. Up to the date of approval of these financial statements, this court case is still in progress and no settlement has yet been received by the Group. Having taken appropriate legal advice, the directors are prepared to undergo arbitration through the Commerce Chamber of Austria, and are of the opinion that this litigation is unlikely to result in any material loss to the Group. In the opinion of the directors, adequate provision has been made against any potential loss.
- (b) At 31 March 2002 and subsequent to that date, a number of creditors in the PRC have issued writs against Dong Guan Team Concepts Electronics Limited, a subsidiary of South Sea, for the settlement of the outstanding debts totalling approximately HK\$2 million. The directors are of the opinion that these creditors have no rights to claim for the outstanding debts as the Group's debts due to them have been discharged under the Scheme of Arrangement as described in note 6 above. No provision for these claims has been made in the financial statements.

Notes to Financial Statements

For the year ended 31 March 2002

41. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT**(a) Reconciliation of profit/(loss) before taxation to net cash outflow from operating activities**

	2002 HK\$'000	2001 HK\$'000
Profit/(Loss) before taxation	5,228	(20,986)
Interest income	(7,229)	(34,592)
Interest expenses	47,619	46,342
Depreciation on property, plant and equipment	32,051	20,050
Amortisation of goodwill	27,399	5,122
Negative goodwill recognised as income	(10,566)	–
Write off of product development costs	917	–
Amortisation of product development costs	5,127	6,787
Amortisation of proprietary software	5,088	–
Loss/(Gain) on disposal of subsidiaries	1,591	(164,630)
Gain on disposal of an associate	(115)	–
Gain on deemed partial disposal of a subsidiary	(20,000)	–
Gain on waiver of amount due to a creditor	(4,989)	–
Loss on disposal of property, plant and equipment	6,155	–
Deficit on revaluation of properties	23,916	6,000
Provision for impairment in value of land held for development	6,172	–
Write-back of impairment in value of land held for development	–	(490)
Write back of impairment in value of property development project	(59,298)	–
Liabilities waived by unsecured creditors	(89,779)	–
Loan waived by a minority shareholder	(25,000)	–
Share of results of jointly controlled entities	–	429
Share of results of associates	441	(2,762)
Decrease in properties held for sale	–	37,742
Decrease in trade and other payables	(2,859)	(154,531)
(Decrease)/Increase in amount due to a director	(12,232)	29,514
Decrease in amounts due to shareholders	(1,160)	(230)
Increase in amounts due to related companies	–	15,816
Decrease in amount due from jointly controlled entities	5,190	3,298
Decrease in inventories	9,944	79,978
(Increase)/Decrease in trade and other receivables	(50,213)	24,299
	(106,602)	(102,844)

Notes to Financial Statements

For the year ended 31 March 2002

41. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Analysis of changes in financing of the Group

	Share capital including share premium HK\$'000	Minority interests HK\$'000	Bank and other borrowings HK\$'000	Amounts due to securities brokers and margin financiers HK\$'000	Convertible notes HK\$'000	Obligations under finance leases HK\$'000
At 1 April 2000	2,430,824	778	206,590	–	194,000	196
New loans raised	–	–	73,101	17,600	–	–
Repayments of loans	–	–	(194,317)	–	–	–
Repayments of obligations under finance leases	–	–	–	–	–	(444)
Capital contribution from minority interests	–	39,779	–	–	–	–
Other movements not involving cash flows:						
Re-allocation of convertible notes payable as other borrowings	–	–	194,000	–	(194,000)	–
Arising on acquisition of a subsidiary	–	88,290	248,885	–	–	–
Issue of convertible notes for acquisition of subsidiaries	–	–	–	–	200,000	–
Minority interests' share of accumulated losses	–	(2,535)	–	–	–	–
Minority interests' share of reserve movements	–	62	–	–	–	–
Minority interests arising on partial disposal of subsidiaries	–	75,788	–	–	–	–
Minority interests' share of loss for the year	–	(35,785)	–	–	–	–
Repurchase of owned shares	(836)	–	–	–	–	–
Inception of new finance leases	–	–	–	–	–	1,391
At 31 March 2001	<u>2,429,988</u>	<u>166,377</u>	<u>528,259</u>	<u>17,600</u>	<u>200,000</u>	<u>1,143</u>

Notes to Financial Statements

For the year ended 31 March 2002

41. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)**(b) Analysis of changes in financing of the Group (continued)**

	Share capital including share premium HK\$'000	Minority interests HK\$'000	Bank and other borrowings HK\$'000	Amounts due to securities brokers and margin financiers HK\$'000	Convertible notes HK\$'000	Obligations under finance leases HK\$'000
At 1 April 2001	2,429,988	166,377	528,259	17,600	200,000	1,143
New loans raised	–	–	477,224	27,779	–	–
Repayments of loans	–	–	(230,462)	–	–	–
Settlement of convertible notes	–	–	–	–	(200,000)	–
Issue of convertible notes	–	–	–	–	550,000	–
Repayments of obligations under finance leases	–	–	–	–	–	(623)
Capital contribution from a minority shareholder	–	20,000	–	–	–	–
Other movements not involving cash flows:						
Issue of convertible debentures by a subsidiary for acquisition of another subsidiary (note (e))	–	–	210,000	–	–	–
Arising on acquisition of a subsidiaries	–	24,252	185,185	–	–	–
Decrease in interest in a subsidiary	–	761,138	–	–	–	–
Arising on addition of interests in subsidiaries	–	(73,416)	–	–	–	–
Convertible notes issued for acquisition of a subsidiary	–	–	–	–	450,000	–
Conversion of convertible notes	1,000,000	–	–	–	(1,000,000)	–
Capital reduction	(1,565,802)	–	–	–	–	–
Minority interests' share of previous year's losses	–	(20,000)	–	–	–	–
Minority interests' share of profit for the year	–	32,383	–	–	–	–
At 31 March 2002	1,864,186	910,734	1,170,206	45,379	–	520

Notes to Financial Statements

For the year ended 31 March 2002

41. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(c) Acquisition of subsidiaries

	2002 HK\$'000	2001 HK\$'000
Net assets acquired:		
Property, plant and equipment	8,262	443,096
Product development costs	–	8,347
Land held for development	3,201,463	358,041
Interest in an associate	–	2,711
Interest in a jointly controlled entity	–	2,037
Inventories	642	119,943
Cash at banks	1,429	15,197
Trade and other receivables	133,293	89,322
Trade and other payables	(12,800)	(361,689)
Amounts due to jointly controlled entities	–	(186,437)
Land premium payables	(160,912)	(149,005)
Deposit received	(27,685)	–
Provision for tax	(99)	(208)
Deferred tax	–	(790)
Bank loans	(185,185)	(248,885)
Minority interests	(24,252)	(88,290)
	<u>2,934,156</u>	<u>3,390</u>
 (Negative goodwill)/Goodwill arising on acquisition	 (2,218)	 224,541
	<u>2,931,938</u>	<u>227,931</u>
 Satisfied by:		
Cash consideration	6	–
Decrease in shareholding in a subsidiary	755,278	–
Convertible notes issued as consideration	450,000	200,000
Decrease in interest in a jointly controlled entity	–	27,931
Decrease in interest in an associate	1,174,378	–
Decrease in long term investments	25,303	–
Decrease in other receivables	526,973	–
	<u>2,931,938</u>	<u>227,931</u>

Notes to Financial Statements

For the year ended 31 March 2002

41. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)**(c) Acquisition of subsidiaries (continued)**

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

	2002 HK\$'000	2001 HK\$'000
Cash consideration	(6)	—
Cash and bank balances of acquired subsidiaries	<u>1,429</u>	<u>15,197</u>
	<u>1,423</u>	<u>15,197</u>

(d) Disposal of subsidiaries

	2002 HK\$'000	2001 HK\$'000
Net assets disposed of:		
Trade and other receivables	1,005	—
Trade and other payables	<u>(605)</u>	<u>—</u>
	400	—
Reserves released on disposal:		
Currency translation reserve	5,002	—
General reserve	<u>(3,811)</u>	<u>—</u>
Loss on disposal of subsidiaries	<u>(1,591)</u>	<u>—</u>
	<u>—</u>	<u>—</u>

Notes to Financial Statements

For the year ended 31 March 2002

41. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(e) Major non-cash transactions

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

- (i) The acquisition of a subsidiary, Liu Wan (BVI), was satisfied by the issue of 7,163,850,000 shares of HK\$0.10 each of South Sea to independent vendors.
- (ii) The acquisition of a subsidiary, Longwise Development Limited was satisfied by the issue of 250,000,000 shares of HK\$0.10 of South Sea to an independent third party.
- (iii) The increase in shareholding of a subsidiary, Listar Properties Limited, was financed by a loan of HK\$210,000,000 which was subsequently settled by the issuance of HK\$210,000,000 5% interest-bearing convertible notes by South Sea to an independent third party.
- (iv) Under the Scheme of Arrangement as described in note 6, South Sea issued 106,531,974 shares of HK\$0.10 each and convertible debentures of HK\$10,653,000 to settle the total amount due to the unsecured creditors of TCM, resulting in liabilities waived by unsecured creditors of HK\$89,779,000.

42. POST BALANCE SHEET EVENT

On 4 April 2002, the Company (as issuer), and Mr Yu (as placing agent and underwriter) entered into an agreement, under which the Company agreed to appoint Mr Yu to procure, on a fully underwritten basis, investors to subscribe for the convertible notes in an aggregate principal amount of at least HK\$400 million by the date falling 90 days following the fulfilment of certain conditions. In addition, subject to completion of the issue of such notes, Mr Yu also has a right, exercisable within three months of such completion, to require the Company to issue the convertible notes of up to an additional principal amount of HK\$200 million for subscription by the investors or by Mr Yu or one or more of his associates. The net proceeds of the issue of such convertible notes will be used for repayment of liabilities and as working capital of the Group.

43. COMPARATIVE FIGURES

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs during the year, the accounting treatment and presentation of certain items in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative figures have been reclassified to conform with the current year's presentation.

44. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements on page 21 to 90 were approved by the board of directors on 26 July 2002.