

Notes to Financial Statements

31 March 2002

1. *Corporate Information*

As at 31 March 2002 and during the year then ended, the principal activities of the Group are investment holding. There were no significant changes in the nature of the Group's principal activities during the year.

2. *Impact of New and Revised Hong Kong Statements of Standard Accounting Practice*

The following recently-issued and revised Hong Kong Statements of Standard Accounting Practice ("SSAPs") and related Interpretations are effective for the first time in the preparation of the current year's financial statements:

- SSAP 9 (Revised) Events after the balance sheet date
- SSAP 14 (Revised) Leases
- SSAP 18 (Revised) Revenue
- SSAP 26 Segment reporting
- SSAP 28 Provisions, contingent liabilities and contingent assets
- SSAP 29 Intangible assets
- SSAP 30 Business combinations
- SSAP 31 Impairment of assets
- SSAP 32 Consolidated financial statements and accounting for investments in subsidiaries
- Interpretation 12 Business combinations - subsequent adjustment of fair values and goodwill initially reported
- Interpretation 13 Goodwill - continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of adopting those SSAPs and Interpretations which have had significant effects on the financial statements, are summarised as follows:

SSAP 18 (Revised) prescribes the recognition of revenue and was revised as a consequence of the revision to SSAP 9. Proposed final dividends from an associate that are declared and approved by the associate after the balance sheet date are no longer recognised in the Group's financial statements for the year. The adoption of SSAP 18 has resulted in a prior year adjustment, further details of which are included in note 17 to the financial statements.

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 or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment reporting format, with the other as the secondary segment reporting format. The impact of SSAP 26 is the inclusion of significant additional segment reporting disclosures, which are set out in note 5 to the financial statements.

2. Impact of New and Revised Hong Kong Statements of Standard Accounting Practice (continued)

SSAP 30 prescribes the accounting treatment for business combinations, including the determination of the date of acquisition, the method for determining the fair values of the assets and liabilities acquired, and the treatment of goodwill or negative goodwill arising on acquisition. SSAP 30 requires the disclosure of goodwill or negative goodwill in the non-current assets section of the consolidated balance sheet. It requires that goodwill is amortised to the consolidated profit and loss account over its estimated useful life. Negative goodwill is recognised in the consolidated profit and loss account depending on the circumstances from which it arose, as further described in the accounting policy for negative goodwill disclosed in note 4 to the financial statements. The adoption of SSAP 30 has not resulted in a prior year adjustment.

SSAP 31 prescribes the recognition and measurement criteria for impairments of assets. SSAP 31 is required to be applied prospectively and therefore, has had no effect on amounts previously reported in prior year financial statements.

In addition to the above new and revised SSAPs and related Interpretations, certain minor revisions to SSAP 10: "Accounting for investments in associates" are effective for the first time for the current year's financial statements.

The only significant effect of these revisions is that SSAP 10 requires that negative goodwill arising on the acquisition of associates is accounted for in accordance with SSAP 30, except that negative goodwill arising on the acquisition of associates is included as part of the Group's interests in associates rather than separately presented on the face of the consolidated balance sheet. In addition, the recognition of negative goodwill in the profit and loss account is included within the associates section on the face of the profit and loss account rather than within loss from operating activities section.

3. Basis of Presentation

These financial statements have been prepared on a going concern basis notwithstanding that the Group and the Company had net current liabilities at 31 March 2002. The directors consider this basis to be appropriate as the Group has obtained, because as at the date of approval of these financial statements, a loan facility of HK\$220 million which is repayable on or before 18 April 2003 (note 23(c)). As at the date of approval of these financial statements, the loan facility had been utilised to the extent of HK\$149 million, leaving an unutilised available loan facility of HK\$71 million.

The Group is also in the process of disposing of its entire equity interest in an associate, China Online (Bermuda) Limited ("China Online"), a company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), by the following means:

- (i) Between April and July 2002, the Group disposed of an aggregate of 495,452,000 (equivalent to 5.34%) issued ordinary shares of China Online for an aggregate cash consideration of approximately HK\$23,452,000. The cash proceeds were used to partially repay the Group's borrowings and accrued interests outstanding as at 31 March 2002;

3. *Basis of Presentation (continued)*

- (ii) Subsequent to the balance sheet date, on 24 April 2002, the Company entered into a conditional sale and purchase agreement and various supplemental agreements for the disposal of its entire interest in a wholly-owned subsidiary, Vigor Online Offshore Limited ("Vigor Online"), (the "Disposal") which holds the Group's remaining 2,690,288,000 (equivalent to 28.97%) issued ordinary shares of China Online, to an independent third party (the "Purchaser") for a total cash consideration of HK\$269,028,800 (the "Proceeds"). The directors intend that part of the Proceeds will be used to repay the Group's borrowings in order to reduce its indebtedness. The completion of the Disposal is subject to the Purchaser obtaining a positive confirmation (the "Confirmation") from the executive of the Securities and Futures Commission that the Purchaser will not be required to make a general offer for all the China Online shares (other than the China Online shares beneficially owned by Vigor Online on the Completion Date as defined in the conditional sale and purchase agreement) upon the completion of the Disposal, and various consents from the mortgagee of the Group's China Online shares, the Stock Exchange and the Securities and Futures Commission in connection with the transactions contemplated by the agreements. Up to the date of approval of these financial statements, the Confirmation has not yet been obtained by the Purchaser. As a result, the longstop date in the conditional sale and purchase agreement has been extended to 19 August 2002 as mutually agreed between the Company and the Purchaser.

Further details of the financial impact of the above disposals on the Group, together with a pro forma adjusted consolidated net assets statement of the Group as at 31 March 2002, prepared as if the disposal had taken place on 31 March 2002, are set out in note 31 to the financial statements.

The directors are of the opinion that, in the light of the availability of the unutilised loan facility of HK\$71 million, the Group will have sufficient cash resources to satisfy its future working capital and other financing requirements. The expected net cash inflow from the Disposal will also strengthen the Group's liquidity position. Accordingly, these financial statements have been prepared on a going concern basis.

4. *Summary of Significant Accounting Policies*

Basis of preparation

These financial statements have been prepared in accordance with SSAPs, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of investments in securities, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 March 2002. The results of the subsidiaries disposed of during the year are consolidated from or to their effective dates of disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

4. Summary of Significant Accounting Policies (continued)

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The Company's interests in subsidiaries are stated at cost less any impairment losses.

Associates

An associate is a company, not being a subsidiary, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any impairment losses. Negative goodwill arising from the acquisition of associates, which was not previously recognised in reserves, is included as part of the Group's interests in associates.

Negative goodwill

Negative goodwill arising on the acquisition of associates represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets.

In the case of associates, any negative goodwill not yet recognised in the profit and loss account is included in the carrying amount thereof, rather than as a separately identified item on the consolidated balance sheet.

On disposal of 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 negative goodwill which has not been recognised in the profit and loss account and any relevant reserves as appropriate.

4. *Summary of Significant Accounting Policies (continued)*

Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life after taking into account its estimated residual value. The principal annual rates used for this purpose are as follows:

Furniture and equipment	15% - 25%
-------------------------	-----------

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Land held for development

Land held for development is stated at cost less any impairment losses.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, 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 asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

4. Summary of Significant Accounting Policies (continued)

Investments in securities

Investments in securities are non-trading investments in listed and unlisted equity securities which are stated at their fair values on an individual basis. Investments are recognised on a trade-date basis.

The gains or losses arising from changes in the fair values of a security are dealt with as movements in the asset revaluation reserve, until the security is sold, collected, or otherwise disposed of, or until the security is determined to be impaired, when the cumulative gain or loss derived from the security recognised in the asset revaluation reserve, together with the amount of any further impairment, is charged to the profit and loss account for the period in which the impairment arises. Where the circumstances and events which led to an impairment cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged and any appreciation in fair value is credited to the profit and loss account to the extent of the amount previously charged.

Revenue recognition

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:

- from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and
- underwriting commission income, when the obligation under the underwriting agreement has expired.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

4. Summary of Significant Accounting Policies (continued)

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of those employees who are eligible to participate in the Scheme. The Scheme has operated since 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the Scheme, except for the Group's voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the Scheme.

Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries and associates are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

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. Related parties may be individuals or corporate entities.

Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

5. Segment Information

SSAP 26 was adopted during the year, as detailed in note 2 to the financial statements. Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and 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) the corporate and strategic investment holding segment refers to the Group's investment holding business; and
- (b) the discontinued operations segment represented the Group's discontinued trading and manufacturing of telecommunication products (note 7).

In determining the Group's geographical segments, (i) revenues, results and assets from the strategic investment holding segment are attributed to the segment based on the location of the assets; while (ii) revenues and results from the discontinued operations are attributed to the segment based on the location of the customers and assets are attributed to the segment based on the location of the assets.

5. Segment Information (continued)

(a) Business segments

The following tables present revenue and loss for the Group's business segments.

Group

	Corporate and strategic investment holding		Discontinued operations		Consolidated	
	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:						
Interest income	287	3,574	-	-	287	3,574
Sales to external customers	-	-	-	4,029	-	4,029
Other revenue	56	1,526	-	1,031	56	2,557
Total	343	5,100	-	5,060	343	10,160
Segment results	(37,948)	(62,403)	-	(10,398)	(37,948)	(72,801)
Loss from operating activities					(37,948)	(72,801)
Finance costs					(24,171)	(31,952)
Share of profits less losses of associates	(115,257)	(496,108)	-	-	(115,257)	(496,108)
Negative goodwill recognised	-	36,030	-	-	-	36,030
Provision for impairment in value of interests in associates	(171,231)	-	-	-	(171,231)	-
Loss before tax					(348,607)	(564,831)
Tax					687	761
Net loss from ordinary activities attributable to shareholders					(347,920)	(564,070)
Other segment information:						
Depreciation	19	19	-	781	19	800
Negative goodwill recognised	-	36,030	-	-	-	36,030
Provision for impairment in value of investments in securities	10,889	81,770	-	-	10,889	81,770
Provision for impairment in value of land held for development	20,000	11,000	-	-	20,000	11,000

5. Segment Information (continued)

(a) Business segments (continued)

No further analysis of assets and liabilities by business segment is presented as the Group's assets and liabilities as at 31 March 2002 and 2001 are solely related to the corporate and strategic investment holding segment.

(b) Geographical segments

The following tables present revenue, loss and certain asset information for the Group's geographical segments.

Group

	Hong Kong		Elsewhere in the PRC		Australia		Consolidated	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Segment revenue:								
Interest income	287	3,574	-	-	-	-	287	3,574
Sales to external customers	-	2,568	-	1,461	-	-	-	4,029
	287	6,142	-	1,461	-	-	287	7,603
Segment results *	(16,690)	(42,940)	(20,369)	(10,684)	(889)	(19,177)	(37,948)	(72,801)
Other segment information:								
Segment assets	301,803	621,044	60,189	80,019	1,711	2,600	363,703	703,663
Cash and bank balances included in segment assets	54	13,778	10	7	-	-	64	13,785

* Disclosed pursuant to the requirements of the Listing Rules.

6. Turnover and Revenue

Turnover represents interest income and the net invoiced value of goods sold, after allowance for returns and trade discounts, but excludes intra-group transactions.

	Group	
	2002 HK\$'000	2001 HK'000
Continuing operations - investment holding	287	3,574
Discontinued operations - trading and manufacturing of telecommunication products	-	4,029
Turnover	287	7,603
Gain on disposal of investments in securities	56	1,031
Underwriting commission income (note 30)	-	1,526
Other revenue and gains	56	2,557
	343	10,160

7. Discontinued Operations

During the year ended 31 March 2001, the Group discontinued its business of the trading and manufacturing of telecommunication products following the disposal of Fleming Holdings Limited ("Fleming") and its subsidiaries (the "Fleming Group"). The Fleming Group was consolidated by the Group until the date of its disposal, at which time the assets and liabilities of the Fleming Group were transferred to the gain on disposal of the discontinued operations, which was as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Payment in relation to the disposal of the Fleming Group *	-	(16,000)
Less: Net liabilities of the Fleming Group	-	88,649
Waived amounts due from the Fleming Group **	-	(28,916)
Goodwill previously written off against goodwill reserve	-	(8,407)
Exchange fluctuation reserve realised upon disposal	-	(343)
Gain on disposal of subsidiaries	-	34,983

7. Discontinued Operations (continued)

Note: Pursuant to a sale and purchase agreement dated 27 October 2000 (the "Agreement"), the Group disposed of all of its equity interest (equivalent to 51% of the issued ordinary shares of) in Fleming to Alliston Developments Limited ("Alliston"), a then minority shareholder of Fleming, for a nominal consideration of HK\$1 in cash. The Agreement was completed on 6 November 2000 and included the following terms:

* The Group paid HK\$16,000,000 to a bank (the "Bank") to settle part of a loan together with the accrued interest thereon of HK\$35,167,000 in aggregate advanced to Contrad Limited ("Contrad"), a subsidiary of Fleming, by the Bank and to release the Group's corporate guarantee and a director's personal guarantee previously granted in favour of the Bank.

** The Group entered into a deed of waiver with Contrad and agreed to waive all its rights to seek repayment of the debts of HK\$28,916,000 in aggregate due from Contrad. The deed of waiver was also completed on 6 November 2000.

Under Chapter 14 of the Rules Governing the Listing of Securities on the Stock Exchange, Alliston was regarded as a connected person of the Company and the Agreement constituted a connected transaction for the Company. Further details of the Agreement are set out in an announcement of the Company dated 30 October 2000.

For accounting purposes, the effective date of discontinuance of the Group's business of the trading and manufacturing of telecommunication products was 6 November 2000. The operating loss before tax arising from the discontinued operations was HK\$11,877,000, which included costs of inventories sold of HK\$3,508,000 and finance costs of HK\$1,479,000.

8. Loss from Operating Activities

The Group's loss from operating activities is arrived at after charging/(crediting):

	2002 HK\$'000	2001 HK\$'000
Cost of inventories sold	–	3,508
Depreciation	19	800
Operating lease rentals in respect of land and buildings	614	592
Auditors' remuneration	750	720
Loss on disposal/write off of fixed assets	–	969
Provisions for inventories	–	142
Staff costs (excluding directors' remuneration, note 9):		
Wages and salaries	1,473	2,218
Mandatory provident fund contributions	69	21
	1,542	2,239
Exchange gains, net	–	(392)

9. Directors' Remuneration and the Five Highest Paid Employees

Directors' remuneration

	Group	
	2002 HK\$'000	2001 HK\$'000
Fees:		
Executive directors	-	-
Non-executive director	-	100
Independent non-executive directors	291	200
	291	300
Other emoluments of executive directors :		
Salaries, allowances and benefits in kind	3,194	3,307
Mandatory provident fund contributions	150	47
	3,344	3,354
	3,635	3,654

The staff costs amount disclosed in note 8 does not include directors' remuneration.

The remuneration of the directors during the year fell within the following bands:

	2002	2001
Nil - HK\$1,000,000	4	7
HK\$1,000,001 - HK\$1,500,000	1	-
HK\$1,500,001 - HK\$2,000,000	1	1
	6	8

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2001: Nil).

9. Directors' Remuneration and the Five Highest Paid Employees (continued)

Five highest paid employees

The five highest paid employees during the year included two (2001: three) directors, details of whose remuneration are set out above. Details of the remuneration of the remaining three (2001: two) non-directors, highest paid employees are analysed as follows:

	2002 HK\$'000	2001 HK\$'000
Salaries, allowances and benefits in kind	1,152	918
Mandatory provident fund contributions	53	14
	1,205	932

The remuneration of each of the remaining three (2001: two) non-directors, highest paid employees fell within the band of nil - HK\$1,000,000.

10. Finance Costs

	Group	
	2002 HK\$'000	2001 HK\$'000
Interest on:		
Bank overdrafts, trust receipt loans and other loans wholly repayable within five years	23,793	31,574
Amounts due to a related company	378	378
Total finance costs	24,171	31,952

11. Tax

No provision for Hong Kong profits tax has been made (2001: Nil) as the Group did not generate any assessable profits arising in Hong Kong during the year.

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof. The tax recoverable represents tax paid in excess of the estimated tax liability for the year.

11. Tax (continued)

	2002 HK\$'000	2001 HK\$'000
Group:		
Other than in Hong Kong	-	26
Share of tax attributable to associates	(687)	(787)
Tax credit for the year	(687)	(761)

The principal components of the Group's deferred tax liabilities/(assets) provided for and not provided for/(recognised) at the balance sheet are as follows:

	Provided		Not provided	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Tax losses carried forward	-	-	(10,172)	(5,938)

12. Net Loss from Ordinary Activities Attributable to Shareholders

The net loss from ordinary activities for the year attributable to shareholders dealt with in the financial statements of the Company is HK\$339,409,000 (2001: HK\$522,803,000).

13. Loss Per Share

The calculation of basic loss per share is based on the net loss attributable to shareholders for the year of HK\$347,920,000 (2001: HK\$564,070,000), and the weighted average of 5,806,770,004 (2001: 5,806,770,004) ordinary shares in issue during the year.

Diluted loss per share amounts for the years ended 31 March 2002 and 2001 have not been presented as the exercise prices of the outstanding share options and warrants of the Company were greater than the market price of the Company's shares prevailing during a substantial period of the two years ended 31 March 2002, and in respect of the remaining period of the two years, when the exercise of the outstanding share options and warrants would have been advantageous, the effect of these potential ordinary shares would have been anti-dilutive.

14. Fixed Assets

	Furniture and equipment HK\$'000
Group	
Cost:	
At beginning of year and at 31 March 2002	107
Accumulated depreciation:	
At beginning of year	33
Provided during the year	19
At 31 March 2002	52
Net book value:	
At 31 March 2002	55
At 31 March 2001	74
Company	
Cost:	
At beginning of year and at 31 March 2002	87
Accumulated depreciation:	
At beginning of year	25
Provided during the year	18
At 31 March 2002	43
Net book value:	
At 31 March 2002	44
At 31 March 2001	62

15. Land Held for Development

	Group	
	2002 HK\$'000	2001 HK\$'000
Cost	91,000	91,000
Less: Provisions for impairment in values	(31,000)	(11,000)
At 31 March	60,000	80,000

Details of the Group's land held for development are as follows:

Location	Use	Area	Tenure	Attributable interest of the Group
A development site situated in Hua Qiao Cun, Ban Qiao Town, Taicang City, Jiangsu Province, the People's Republic of China (the "PRC")	Currently under phased development. For the development of a scientific park with the main theme of high technology. For use as a base for industries utilising high technology.	392,763 square metres	Medium term lease	100%

The Group's land held for development is held via four wholly-owned PRC subsidiaries. Construction work commenced in January 2002. The registered capitals of two of the PRC subsidiaries have not yet been fully paid up and the aggregate outstanding unpaid registered capital amounted to HK\$12,732,000 as at 31 March 2002 (note 28). According to a PRC legal opinion obtained from legal advisors of the Group, the business licences of the two PRC subsidiaries will not be cancelled or revoked even if their registered capitals are not fully paid up. Furthermore, the land use rights certificates held by the PRC subsidiaries will not be revoked or cancelled by the relevant Land State Administration Bureau as all requisite premiums for the land use rights have been fully paid up and the construction work on the land has already commenced.

The Group's land held for development was valued by DTZ Debenham Tie Leung Limited, a firm of independent professional property valuers, on the open market existing state basis, at an aggregate value of HK\$60,000,000 (2001: HK\$80,000,000) as at 31 March 2002. In the opinion of the directors of the Company, the valuation deficit of HK\$20,000,000 represents an impairment in value of the land held for development and has therefore been charged to the profit and loss account for the year.

16. Interests in Subsidiaries

	Company	
	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	13,838	13,838
Due from subsidiaries	1,262,619	1,284,944
	1,276,457	1,298,782
Less: Provisions for impairment in values	(951,767)	(646,205)
	324,690	652,577

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

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration	Nominal value of issued ordinary share/ paid-up capital	Effective percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Cyber Range Limited	British Virgin Islands	US\$1	100	–	Investment holding
Harbour Fair Overseas Limited	British Virgin Islands	US\$1	100	–	Investment holding
Millennium Riders Limited	British Virgin Islands	US\$1	100	–	Investment holding
Vigor Online Offshore Limited	British Virgin Islands	US\$1	100	–	Investment holding
Chain Crown Limited	Hong Kong	HK\$2	–	100	Investment holding

16. Interests in Subsidiaries (continued)

Name	Place of incorporation/ registration	Nominal value of issued ordinary share/ paid-up capital	Effective percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
China Sci-Tech Secretaries Limited	Hong Kong	HK\$10,000	100	–	Provision of secretarial services
Dragon Hunter Investment Limited	Hong Kong	HK\$2	100	–	Investment holding
General Brave Limited	Hong Kong	HK\$2	–	100	Investment holding
Harbour Jade Limited	Hong Kong	HK\$2	100	–	Investment holding
Leven Limited	Hong Kong	HK\$2	–	100	Investment holding
Wah Ban Limited	Hong Kong	HK\$2	–	100	Investment holding
Suzhou Leven Real Estate Co., Ltd.	People's Republic of China	US\$3,250,000	–	100	Investment holding
Suzhou Chain Crown Real Estate Co., Ltd.	People's Republic of China	US\$3,500,000	–	100	Investment holding
Suzhou General Brave Real Estate Co., Ltd.	People's Republic of China	US\$1,573,798	–	100	Investment holding
Suzhou Wah Ban Real Estate Co., Ltd.	People's Republic of China	US\$1,843,859	–	100	Investment holding

16. Interests in Subsidiaries (continued)

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the 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.

Except for the subsidiaries incorporated in the British Virgin Islands which operate principally in Hong Kong, all subsidiaries operate principally in their respective places of incorporation/registration.

17. Interests in Associates

	Group	
	2002 HK\$'000	2001 HK\$'000 (Restated)
Share of net assets	445,088	567,076
Negative goodwill on acquisition	(2,380)	(2,380)
	442,708	564,696
Provision for impairment in value	(171,231)	-
	271,477	564,696
Market value of the Group's investments in an associate which is listed in Hong Kong	184,773	242,116

The Group is in the process of disposing of all of its interests in the associates (notes 3 and 31).

17. Interests in Associates (continued)

The comparative amount for 2001 has been restated by a prior year adjustment resulting in an increase of HK\$15,929,000 to the Group's interests in associates as at 31 March 2001, representing the 2000 proposed final dividends from its associate, China Online. The prior year adjustment reversed dividends from China Online which were declared and approved by China Online after 31 March 2001, but which were recognised by the Group as prepayment, deposits and other receivables in its financial statements for that year. The prior year adjustment resulted in a reduction of HK\$15,929,000 in the amount of the Group's prepayments, deposits and other receivables as at 31 March 2001 (note 18). This change in accounting policy has arisen from the adoption of revisions to SSAP 18, as further detailed in note 2 to the financial statements.

The movement in the negative goodwill arising from the acquisition of China Online during the year is as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
At beginning of year	2,380	31,741
On acquisition of interests in associates	-	6,669
Negative goodwill recognised in the profit and loss account	-	(36,030)
At 31 March	2,380	2,380

Particulars of the associates are as follows:

Name	Business structure	Place of incorporation and operations	Effective percentage of equity attributable to the Group		Principal activities
			2002	2001	
China Online (Bermuda) Limited *	Corporate	Bermuda/ Hong Kong	34.31	34.31	Investment holding

* Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

17. Interests in Associates (continued)

Extracts of the operating results and financial position of China Online which are based on the published audited financial statements prepared in accordance with generally accepted accounting principles in Hong Kong are as follows:

	2001 HK\$'000	2000 HK\$'000 (Restated)
Operating results for the year ended 31 December		
Turnover	2,339,466	2,663,069
Profit/(loss) before tax	(732,640)	1,321,989
Tax credit	2,002	2,161
Profit/(loss) before minority interests	(730,638)	1,324,150
Minority interests	13,384	17,612
Net profit/(loss) from ordinary activities attributable to shareholders	(717,254)	1,341,762
Dividend	46,432	-
Financial position as at 31 December		
Non-current assets	380,811	469,664
Current assets	1,132,940	2,120,653
Total assets	1,513,751	2,590,317
Current liabilities	190,159	418,898
Minority interests	305	9,231
	190,464	428,129
Net assets	1,323,287	2,162,188

17. Interests in Associates (continued)

As at 31 March 2002, the Group also held 1,164,132,547 (2001: 1,527,440,547) warrants of China Online with a carrying value amounting to HK\$1,655,000 (2001: HK\$15,274,000), which are classified as investments in securities (note 20). The carrying amount of the warrants is calculated using the Black-Scholes Model. Each warrant entitles the holder to subscribe in cash at a price of HK\$0.30 each, subject to adjustment, for one ordinary share in China Online, at any time up to 6 June 2003. The exercise of all of these warrants would increase the Group's equity interest in China Online to 39.04% (2001: 42.3%). No outstanding warrants as at 31 March 2002 have been exercised up to the date of approval of these financial statements.

The shares and warrants of China Online held by the Group are pledged to independent third parties to secure the other loans advanced to the Group and the Company (note 23).

18. Prepayments, Deposits and Other Receivables

	Group		Company	
	2002 HK\$'000	2001 HK\$'000 (Restated)	2002 HK\$'000	2001 HK\$'000
Deposit paid to court (note 29(a))	26,139	-	26,139	-
Prepayments, deposits and other receivables	2,564	1,092	1,453	1,090
	28,703	1,092	27,592	1,090

The deposit paid to the court was included in non-current assets as at 31 March 2001.

19. Due from an Associate

The amount due from an associate is unsecured, interest-free and has no fixed terms of repayment.

20. Investments in Securities

	Group	
	2002 HK\$'000	2001 HK\$'000
Non-trading investments in securities		
Listed in Hong Kong	58,861	77,867
Listed outside Hong Kong	21,777	21,777
	80,638	99,644
Provisions for impairment in values	(77,272)	(81,770)
	3,366	17,874
At fair value, 31 March		
Carrying amount analysed for reporting purposes as current	3,366	17,874

The market values of the Group's listed investments at the balance sheet date and at the date of approval of these financial statements were approximately HK\$13,370,000 (2001: HK\$17,874,000) and HK\$14,611,000 (2001: HK\$17,442,000), respectively. The directors considered that some of such market values do not represent the fair value of some of the Group's listed investments as the underlying investments were quoted at the lowest quotable price of HK\$0.01 per unit prevailing during a substantial period of the past few months.

21. Cash and Cash Equivalents

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Cash and bank balances	64	157	47	145
Time deposits	-	13,628	-	13,628
	64	13,785	47	13,773

22. Due to a Director

The amount due to a director is unsecured, interest-free and has no fixed terms of repayment.

23. Interest-bearing Borrowings

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Secured other loan repayable on demand (note (a))	810	810	–	–
Unsecured other loan repayable within one year (note (b))	18,750	20,000	18,750	20,000
Secured other loan repayable in the second year (note (c))	167,450	175,857	167,450	175,857
	187,010	196,667	186,200	195,857
Portion classified as current liabilities	(19,560)	(20,810)	(18,750)	(20,000)
Long term portion	167,450	175,857	167,450	175,857

Notes:

- (a) This secured other loan was advanced from an independent third party and was secured by the pledge of 185,740,000 (or approximately 2% of the) issued ordinary shares of China Online held by the Group (note 17). The secured other loan was repayable on demand and bore interest at 8.125% per annum (2001: 11% per annum). Subsequent to the balance sheet date, the loan was fully repaid by applying part of the proceeds from the sale of shares of China Online.
- (b) This unsecured other loan was advanced from an independent third party. The unsecured other loan is repayable on or before 12 August 2002 and bears interest at prime lending rate plus 2.5% per annum.
- (c) This secured other loan was advanced from another independent third party (the "Lender") and bears interest at the Hong Kong dollar prime lending rate plus 3% per annum and is repayable on or before 18 April 2003.

The loan is secured by:

- (i) the pledge of 3,000,000,000 (or approximately 32.31% of the) issued ordinary shares of China Online and all of the warrants of China Online held by the Group (note 17). Subsequent to the balance sheet date, part of the loan of approximately HK\$18 million was repaid by applying the proceeds from the sale of 309,712,000 China Online shares;
- (ii) corporate guarantees executed jointly and severally by certain subsidiaries of the Company; and
- (iii) shares in certain subsidiaries of the Company, whose underlying assets are the Group's land held for development (note 15).

On 9 May 2001, the Lender agreed to release the pledge of China Online warrants on the condition that the Group undertook to deliver any net proceeds received from the disposal of the China Online warrants to the Lender for the purpose of partial repayment of the loan.

24. Due to a Related Company

The amount due to a related company is unsecured and bears interest at 12% per annum. The related company has undertaken not to demand any repayment before 1 April 2003 (note 30(a)).

25. Share Capital

Shares

Authorised:

20,000,000,000 ordinary shares of HK\$0.01 each
(2001: 10,000,000,000 ordinary shares of HK\$0.10 each)

Issued and fully paid:

5,806,770,004 ordinary shares of HK\$0.01 each
(2001: 5,806,770,004 ordinary shares of HK\$0.10 each)

2002 HK\$'000	2001 HK\$'000
200,000	1,000,000
58,068	580,677

Pursuant to resolutions passed at an extraordinary general meeting of the Company held on 11 July 2001 (the "Extraordinary General Meeting"), the authorised share capital of the Company was approved to be reduced from HK\$1,000,000,000 divided into 10,000,000,000 ordinary shares of HK\$0.10 each, to HK\$100,000,000 divided into 10,000,000,000 ordinary shares of HK\$0.01 each, and then increased to HK\$200,000,000 by the creation of 10,000,000,000 new ordinary shares of HK\$0.01 each, both subject to the fulfillment of the conditions of the proposed reduction of share capital of the Company (the "Capital Reduction") as set out in the Company's circular dated 18 June 2001.

In addition, pursuant to a resolution passed at the Extraordinary General Meeting, the issued and fully paid up share capital of the Company was also approved to be reduced from approximately HK\$580,677,000, divided into 5,806,770,004 ordinary shares of HK\$0.10 each, to approximately HK\$58,067,700, divided into 5,806,770,004 ordinary shares of HK\$0.01 each, subject to the conditions of the Capital Reduction being fulfilled.

On 13 November 2001 (Cayman time) and 15 November 2001 (Cayman time), the Capital Reduction was approved by the Grand Court of the Cayman Islands and the listing committee of the Stock Exchange, respectively, and the Capital Reduction became effective on 15 November 2001 (Cayman time).

25. Share Capital (continued)

Share options

The Company operates a share option scheme (the "Scheme"), further details of which are set out under the heading "Share option scheme" in the Report of the Directors.

At 31 March 2002 and during the year then ended, the Company had 13,050,000 share options outstanding under the Scheme, with exercise periods ranging from 23 April 2000 to 22 April 2003 and an exercise price of HK\$0.10. The exercise in full of the share options would, under the present capital structure of the Company, result in the issue of 13,050,000 new ordinary shares of HK\$0.01 each for approximately HK\$1,305,000.

Warrants

Pursuant to an ordinary resolution passed at an extraordinary general meeting of the Company held on 6 December 1999, as part of a placement and an open offer for new ordinary shares of the Company, 500,000,000 warrants were issued, at no additional cost, to the first registered holders of the fully paid offer shares and placing shares in the proportion of one warrant for every five offer shares or placing shares held. Each warrant entitles the holder thereof to subscribe in cash for one share of HK\$0.01 each in the share capital of the Company at an initial subscription price of HK\$0.25 per share, subject to adjustment, at any time during the period commencing from the date of issue of the warrants until 29 December 2001, both dates inclusive. On 21 January 2000, the Company announced an adjustment to the subscription price of the issued warrants from HK\$0.25 per share to HK\$0.24 per share. During the year ended 31 March 2000, four warrants were exercised at HK\$0.24 per share. All of the remaining 499,999,996 warrants in the value of HK\$119,999,999.04 lapsed on 28 December 2001.

Repurchase of shares/warrants

Pursuant to the Company's share and warrant repurchase scheme approved by the shareholders at an annual general meeting held on 24 August 2001, the directors may repurchase the Company's shares and/or warrants at any time from 24 August 2001 up to the earlier of the conclusion of the next annual general meeting or the date on which the authority to repurchase shares or warrants is revoked or varied by an ordinary resolution. The maximum number of shares and warrants which may be repurchased pursuant to the repurchase scheme is limited to 10% of the issued shares and outstanding warrants at 24 August 2001, respectively. During the year no shares or warrants were repurchased.

Notes to Financial Statements

31 March 2002

26. Reserves/(Deficit)

Group

	Share premium account HK\$'000	Capital reserve HK\$'000 (Note a)	Other capital reserve HK\$'000 (Note b)	Warrant reserve HK\$'000	Asset	Exchange fluctuation reserve HK\$'000	Goodwill reserve HK\$'000	Accumulated deficit HK\$'000	Total HK\$'000
					revaluation reserve/ (deficit) HK\$'000				
At 1 April 2000	738,558	7,700	-	-	340,435	(343)	(8,407)	(243,910)	834,033
Arising on equity pick up of associates	-	-	-	31,010	(390,198)	66	-	(10,728)	(369,850)
Arising on disposal of subsidiaries	-	-	-	-	-	343	8,407	-	8,750
Net loss for the year	-	-	-	-	-	-	-	(564,070)	(564,070)
At 31 March and 1 April 2001	738,558	7,700	-	31,010	(49,763)	66	-	(818,708)	(91,137)
Share premium set off against accumulated deficit	(738,558)	-	-	-	-	-	-	738,558	-
Arising from Capital Reduction (note 25)	-	-	396,347	-	-	-	-	126,262	522,609
Arising on equity pick up of associates	-	-	-	-	(2,014)	(203)	-	10,728	8,511
Net loss for the year	-	-	-	-	-	-	-	(347,920)	(347,920)
At 31 March 2002	-	7,700	396,347	31,010	(51,777)	(137)	-	(291,080)	92,063
Reserves retained by:									
Company and subsidiaries	-	7,700	396,347	-	-	-	-	222,804	626,851
Associates	-	-	-	31,010	(51,777)	(137)	-	(513,884)	(534,788)
At 31 March 2002	-	7,700	396,347	31,010	(51,777)	(137)	-	(291,080)	92,063
Company and subsidiaries	738,558	7,700	-	-	-	-	-	(424,595)	321,663
Associates	-	-	-	31,010	(49,763)	66	-	(394,113)	(412,800)
At 31 March 2001	738,558	7,700	-	31,010	(49,763)	66	-	(818,708)	(91,137)

26. Reserves/(Deficit) (continued)**Company**

	Share premium account HK\$'000	Capital reserve HK\$'000 (Note a)	Other capital reserve HK\$'000 (Note b)	Accumulated deficit HK\$'000	Total HK\$'000
At 1 April 2000	738,558	35,125	–	(342,017)	431,666
Net loss for the year	–	–	–	(522,803)	(522,803)
At 31 March and 1 April 2001	738,558	35,125	–	(864,820)	(91,137)
Share premium set off against accumulated deficit	(738,558)	–	–	738,558	–
Arising from Capital Reduction	–	–	396,347	126,262	522,609
Net loss for the year	–	–	–	(339,409)	(339,409)
At 31 March 2002	–	35,125	396,347	(339,409)	92,063

Notes:

(a) The capital reserve of the Group represents the difference between the nominal value of the shares of the subsidiaries acquired, over the nominal value of the share capital of the Company issued in exchange therefor, in connection with the Group reorganisation completed in January 1994 (the "Reorganisation").

The capital reserve of the Company represents the excess of the fair value of the then combined net assets of the subsidiaries acquired, over the nominal value of the share capital of the Company issued in exchange therefor, pursuant to the Reorganisation.

(b) Pursuant to a resolution passed at the Extraordinary General Meeting, the amount standing to the credit of the Company's share premium account of HK\$738,558,000 and the credit arising from the Capital Reduction (note 25) were written off against the accumulated losses of the Company as at 31 March 2001 to the extent of HK\$864,820,000. Thereafter, the balance of the credit arising from the Capital Reduction was transferred to the other capital reserve which is a distributable reserve of the Company. Particulars of the Capital Reduction were set out in the Company's circular dated 18 June 2001.

27. Notes to the Consolidated Cash Flow Statement**(a) Reconciliation of loss from operating activities to net cash outflow from operating activities**

	Group	
	2002 HK\$'000	2001 HK\$'000 (Restated)
Loss from operating activities	(37,948)	(72,801)
Interest income	(287)	(3,574)
Depreciation	19	800
Provisions for impairment in value of investments in securities	10,889	81,770
Provisions for impairment in value of land held for development	20,000	11,000
Provisions against an amount due from a former minority shareholder	-	1,402
Provisions against other receivables	-	5,140
Gain on disposal of subsidiaries	-	(34,983)
Loss on disposal/write off of fixed assets	-	969
Gain on disposal of investments in securities	(56)	(1,031)
Decrease in accounts receivable	-	851
Decrease/(increase) in prepayments, deposits and other receivables	(1,472)	1,567
Decrease/(increase) in an amount due from associates	(35)	1,500
Decrease in inventories	-	1,445
Increase in accounts and bills payable	-	306
Increase/(decrease) in accrued liabilities and other payables	795	(4,010)
Net cash outflow from operating activities	(8,095)	(9,649)

27. Notes to the Consolidated Cash Flow Statement (continued)**(b) Analysis of changes in financing of the Group during the year**

	Advances from a related company HK\$'000	Trust receipt loans HK\$'000	Other loans HK\$'000	Advances from minority shareholders HK\$'000
At 1 April 2000	31,615	30,280	143,196	10,636
Net cash inflow/(outflow) from financing activities	659	(1,080)	53,471	-
Accrued interest expenses	378	-	-	-
Disposal of subsidiaries (Note 27(c))	(27,782)	(29,200)	-	(1,925)
Settled by transfer of investments in securities (Note 27(d))	-	-	-	(8,711)
At 31 March and 1 April 2001	4,870	-	196,667	-
Net cash outflow from financing activities	-	-	(9,657)	-
Accrued interest expenses	378	-	-	-
At 31 March 2002	5,248	-	187,010	-

27. Notes to the Consolidated Cash Flow Statement (continued)**(c) Disposal of subsidiaries**

	Group	
	2002 HK\$'000	2001 HK\$'000
Net liabilities disposed of:		
Fixed assets	-	17,528
Cash and bank balances	-	127
Accounts receivable	-	126
Prepayments and other receivables	-	1,483
Due to other companies of the Group	-	(28,916)
Due to former minority shareholders	-	(1,925)
Bank overdrafts	-	(78)
Due to a related company	-	(27,782)
Interest-bearing borrowings	-	(29,200)
Accounts and bills payable	-	(7,751)
Accrued liabilities and other payables	-	(12,261)
	-	(88,649)
Goodwill previously charged to the goodwill reserve	-	8,407
Exchange fluctuation reserve realised	-	343
Gain on disposal of subsidiaries	-	34,983
	-	(44,916)
Satisfied by:		
Cash payment	-	(16,000)
Waived amounts due from the disposed subsidiaries	-	(28,916)
	-	(44,916)

27. Notes to the Consolidated Cash Flow Statement (continued)

(c) Disposal of subsidiaries (continued)

Analysis of the net outflow of cash and cash equivalents in respect of the disposal of subsidiaries:

	Group	
	2002 HK\$'000	2001 HK\$'000
Cash consideration paid	–	(16,000)
Cash and bank balances disposed of	–	(127)
Bank overdrafts disposed of	–	78
Net outflow of cash and cash equivalents in respect of disposal of subsidiaries	–	(16,049)

During the year ended 31 March 2001, the subsidiaries disposed of contributed HK\$271,000 and HK\$476,000 to the Group's net cash inflow from operating activities and net cash outflow from financing activities, respectively, but had no significant impact in respect of the Group's investing activities, returns on investments and servicing of finance and tax. The subsidiaries disposed of during that year also contributed HK\$4,029,000 and HK\$10,398,000 to the Group's turnover and consolidated loss from operating activities, respectively.

(d) Major non-cash transactions

During the year ended 31 March 2001, the amount due to Beijing Hua Xun Communications Development Group Corporation ("Hua Xun"), a former minority shareholder of a disposed subsidiary, together with the default interest, of approximately HK\$5,440,000 in aggregate was fully settled by the transfer to Hua Xun of a 4% equity interest in Golden Cellular Communications Limited ("Golden Cellular") previously owned by the Group, resulting in a gain of approximately HK\$699,000.

The remaining 8% equity interest in Golden Cellular previously held by the Group was disposed of to an independent third party (the "Acquirer") during the year ended 31 March 2001 for a consideration of approximately HK\$9,813,000, resulting in a gain of HK\$332,000. In accordance with the instructions of the Group, the Acquirer paid HK\$3,271,000 directly to Beijing Fengtai District Huaxiang Industrial Group Corporation ("Fengtai"), a former minority shareholder of a subsidiary of the Company disposed of during that year, to settle part of the Group's amount due to Fengtai. In addition, the Acquirer paid HK\$1,402,000 to Hua Xun who received the consideration on behalf of the Group. The amounts receivable from Hua Xun and the Acquirer of HK\$1,402,000 and HK\$5,140,000, respectively, were fully provided of in 2001.

28. Commitments

As at the balance sheet date, the Group had the following commitments:

	2002 HK\$'000	2001 HK\$'000
Capital commitments in respect of investments in subsidiaries contracted but not provided for	12,732	12,732

The Company had no significant commitments as at 31 March 2002 (2001: Nil).

29. Pending Litigation

- (a) During the year ended 31 March 1999, the Company issued a post-dated cheque dated 15 October 1998 for HK\$23,636,122 (the "Cheque") to a third party (the "Third Party") on behalf of former associates of the Company. On 28 December 1998, the Third Party presented the Cheque for payment, but it was countermanded by the Company. On 30 January 1999, a writ of summons was issued by the Third Party against the Company, claiming for a sum of HK\$23,636,122 and accrued interest thereon. The Company filed a defence on 8 March 1999. The Company successfully resisted the Third Party's application for summary judgement against the Company and the Court granted the Company conditional leave to defend itself on 22 July 1999. The Company complied with the order of the Court and paid a sum of HK\$26,139,446 to the Court on 5 August 1999 (included in these financial statements in the balance of prepayments, deposits and other receivables as at 31 March 2002 and as a non-current asset as at 31 March 2001).

Subsequent to the balance sheet date, on 10 April 2002, the Court made a judgement in favour of the Third Party and the Company was ordered to pay to the Third Party the sum of HK\$23,636,122 and the accrued interest thereon at the rate of 5% per annum over the best lending rate quoted by a bank in Hong Kong for the period from 28 December 1998 to 10 April 2002 and thereafter at judgement rate until full payment (the "Judgement"). As at 10 April 2002, the interest accrued thereon amounted to approximately HK\$10 million in aggregate. On 24 May 2002, the Company lodged an appeal against the Judgement to the Court of Appeal of the High Court. No hearing date is fixed for such appeal. Notwithstanding the above, on 26 July 2002, the Court of Appeal ordered the Third Party is entitled to obtain the sum of HK\$26,139,446, being the amount paid to the Court by the Company on 5 August 1999, out from the High Court pursuant to the Judgement.

In relation to the forgoing legal proceedings, pursuant to a deed of undertaking and indemnity dated 26 July 1999 (the "Deed") and executed by Mr. Chiu Tao ("Mr. Chiu"), a director of the Company who became the Chairman of the Company on 12 June 2002, Mr. Chiu has undertaken to fully indemnify the Company against all losses, liabilities, damages, costs and expenses (save legal costs and expenses only) suffered or incurred by the Company as a result of or in connection with the claims.

29. Pending Litigation (continued)

Having taken legal counsel's advice, the directors of the Company consider that the Company has proper and valid grounds for the appeal against the Judgement and that the Deed is legally binding and enforceable. Accordingly, the directors of the Company consider that no provision for the claim is necessary.

- (b) On 1 September 1999, a former officer of the Company entered into a supply contract with an independent third party (the "Supplier") for the supply of 20,000 cable modems for a total consideration of US\$6,000,000 (approximately HK\$46,560,000), purportedly on behalf of the Company. On 8 September 1999, the Company announced that the supply contract was entered into without being properly authorised by the Company and, therefore, disputed the validity of the contract. On the same day, the Company issued a legal letter to the Supplier confirming that the Company would not recognise the supply contract and it should not be binding on the Company. Nevertheless, if proven to be valid, according to the terms of the contract, the Group would be liable to compensate the Supplier for a sum of US\$3.6 million (approximately HK\$28 million) as it failed to take delivery of the cable modems.

Having considered the advice of the Company's legal counsel, the directors of the Company believe that the Group has a favourable defence against the claim. Accordingly, the directors of the Company consider that no provision for the claim is necessary.

- (c) On 6 December 1999, Mr. Yeung Kang Lam ("Mr. Yeung"), who was appointed and subsequently resigned as a director of the Company during the year ended 31 March 2000, filed a High Court proceeding against the Company for a sum of HK\$932,958 and damages, interest and costs arising from the termination of an alleged employment letter which was signed between Mr. Yeung and Mr. Chiu. The directors consider that since no board meeting was ever called to approve the alleged employment letter of Mr. Yeung and the alleged remuneration relating thereto, the Company disputes the validity of the alleged employment letter. On 23 February 2000, the Company filed its defence against the claim. Having considered legal counsel's advice, the directors believe that the Company has a favourable defence to the allegation. Accordingly, the directors of the Company consider that no provision for the claim alleged by Mr. Yeung is necessary.

30. Related Party Transactions

In addition to those disclosed in other notes to these financial statements, the Group had the following transactions with related parties during the year:

	Notes	2002 HK\$'000	2001 HK\$'000
Interest expenses payable to a related company	(a)	378	378
Reimbursement of expenses from an associate	(b)	6,000	6,000
Underwriting commission received from associates	(c)	–	1,526

30. Related Party Transactions (continued)

Notes:

- (a) As at 31 March 2002, the balance due to Wonson Investments Limited ("Wonson"), a company beneficially owned by a director of the Company, Mr. Chiu, amounted to HK\$5,248,000 (2001:HK\$4,870,000). The balance due to Wonson is unsecured and bears interest at 12% per annum. Wonson has undertaken not to demand any repayment until 1 April 2003.
- (b) During the year, the Company received a reimbursement of expenses of HK\$6,000,000 (2001: HK\$6,000,000) from China Online. The reimbursement includes the salaries of two directors of China Online who are also the directors of the Company, other staff costs and daily operating expenses. The reimbursement is charged based on the actual cost incurred by the Company.
- (c) On 2 June 2000, the Group acquired 637,148,000 warrants (equivalent to 34.32% of the total outstanding warrants) of China Online at a price of HK\$0.05 per warrant on the basis of one warrant for every five existing shares held. Furthermore, the Group acquired 890,292,547 additional warrants of China Online on the same date pursuant to an underwriting agreement dated 24 March 2000, which was amended by a supplementary agreement dated 18 April 2000. The total underwriting commission received from China Online was approximately HK\$1,526,000. The underwriting commission was based on 2.5% of the total issue price of the warrants underwritten by the Company.
- (d) On 12 April 2000, the Group transferred a 4% equity interest in Golden Cellular to Hua Xun, a former minority shareholder of a disposed subsidiary, to settle the amount due to Hua Xun of approximately HK\$5,440,000. The gain arising from the disposal of this investment was approximately HK\$699,000. Further details of the transaction are set out in note 27(d).

In the opinion of the directors, all of the above transactions arose in the ordinary course of the Group's business.

31. Post Balance Sheet Events

Subsequent to the balance sheet date, as further detailed in note 3 to the financial statements, the Group commenced the process of disposing of all of its equity interest in China Online by the following means:

- (a) Between April and July 2002, the Group disposed of 495,452,000 representing approximately 5.34% of the issued ordinary shares of China Online for an aggregate cash consideration of approximately HK\$23,452,000.
- (b) As further detailed in a circular of the Company dated 21 May 2002 and press announcements of the Company dated 5 and 10 July 2002,
 - (i) the Group entered into a conditional sale and purchase agreement and various supplemental agreements to dispose of 2,690,288,000 representing approximately 28.97% of the issued ordinary shares of China Online through the disposal of Vigor Online to an independent third party, the Purchaser, for a total consideration of HK\$269,028,800 payable in cash; and

31. Post Balance Sheet Events (continued)

- (ii) the Company proposed to assign to the Purchaser the benefit of the entire loan in the aggregate amount of HK\$879,025,175 owing from Vigor Online to the Company for HK\$1.

The above transactions constituted a major transaction under the provision of Chapter 14 of the Listing Rules and were approved by the shareholders of the Company on 6 June 2002.

Following the approval of the above transactions by the shareholders of the Company on 6 June 2002, the above transactions are expected to be completed in August 2002, subject to the Purchaser obtaining the Confirmation and various consents from the mortgagee of the Group's China Online shares (note 23), the Stock Exchange and the Securities and Futures Commission in connection with the transactions contemplated by the agreements.

Set out below is a summary condensed pro forma consolidated balance sheet of the Group as at 31 March 2002 prepared as if the aforesaid disposals of China Online shares, together with the repayment of all of the other loans and interests secured by the Group's China Online shares (note 23), had been completed as at 31 March 2002.

	Audited consolidated net assets at 31 March 2002 HK\$ million	Pro forma adjustments		Pro forma adjusted consolidated net assets at 31 March 2002 HK\$ million
		Disposals of China Online shares and Vigor Online HK\$ million	Repayment of other loans and interests HK\$ million	
Interests in associates	272	(272)	-	-
Other non-current assets	60	-	-	60
	332	(272)	-	60
Current assets	32	292	(201)	123
Current liabilities	(41)	-	33	(8)
Net current assets/(liabilities)	(9)	292	(168)	115
Non-current liabilities	(173)	-	168	(5)
Net assets	150	20	-	170

32. Comparative Amounts

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

33. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 29 July 2002.