

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the fifteen-month period ended 30 September 2000

### 18. PROPERTY, PLANT AND EQUIPMENT (continued)

As mentioned in note 17, subsequent to the balance sheet date, the Group disposed of the medium-term leasehold land and buildings and certain furniture, fixtures and equipment in Hong Kong, together with the investment properties, for a total consideration of HK\$46,000,000.

The Group's leasehold land and buildings in Hong Kong and freehold land and buildings outside Hong Kong were pledged to banks to secure credit facilities granted to the Group.

- (b) At 30 June 1999, the freehold land and buildings outside Hong Kong were valued by Jones Lang Wotton, Chartered Surveyors, on an open market value basis. No valuation as at 30 September 2000 has been obtained as, in the opinion of the Current Directors, the cost involved in obtaining such information would be out of proportion to the value to the members of the Company.

If the land and buildings had not been revalued but stated at cost less accumulated depreciation and amortisation, their carrying values would have been stated at HK\$16,128,000 (30.6.1999: HK\$16,543,000).

- (c) The amount represents the Group's interest in the factory premises under construction (the "Factory Premises"). The Group had entered into an agreement (the "Dongguan Agreement") with 東莞市城區工業發展總公司 ("工業公司") of Dongguan City on a 50:50 basis for the construction of the Factory Premises in the Tin Bao Industrial District of Dongguan (the "Project"). Pursuant to the Dongguan Agreement, the Group will contribute all the construction costs of the Factory Premises and 工業公司 will contribute the land use rights to the Project. The Group is entitled to use the Factory Premises to be constructed thereon rent-free for a period of five years upon commencement of operation, and then at nominal rental for the remaining forty-five years. At the expiration of the fifty-year period, the Factory Premises together with the land use rights will revert to 工業公司.

At 30 September 2000, the Group's interests in the Factory Premises were stated at HK\$14,151,000 based on the valuation carried out by the Current Directors.

- (d) No financial information in respect of the net book value of plant and equipment held under hire purchase contracts as at 30 September 2000 has been presented as the information is not available. The plant and equipment held under hire purchase contracts as at 30 June 1999 was HK\$5,272,000.

### 19. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	30.9.2000	30.6.1999
	HK\$'000	HK\$'000
Unlisted investments, at cost	106,713	106,713
Amounts due from subsidiaries	933,488	849,820
	<hr/>	<hr/>
	1,040,201	956,533
Less: Impairment losses recognised and amounts written-off	(1,040,201)	(854,972)
	<hr/>	<hr/>
	—	101,561
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## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the fifteen-month period ended 30 September 2000

### 19. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries of the Company as at 30 September 2000 are as follows:

Name of subsidiary	Place of incorporation/ operation	Issued and fully paid share capital/ registered capital	Percentage of issued share capital/ registered capital held by the Company		Principal activities
			Directly %	Indirectly %	
Dongguan S.Megga Telecommunications Limited	PRC/PRC	HK\$8,000,000 registered capital	–	70	Manufacture of telecommunications products, now inactive
Fairway Enterprises Limited	Hong Kong/ Hong Kong	2 ordinary shares of HK\$1 each	–	100	Property investment
Lucky Cheer Limited	Hong Kong/ Hong Kong	2 ordinary shares of HK\$1 each	–	100	Property investment
Maxway Properties Limited	Hong Kong/ Hong Kong	10,000 ordinary shares of HK\$1 each	–	100	Property trading and investment
S.Megga Estate Management Limited (in Receivership subsequent to 30 September 2000)	Hong Kong/ Hong Kong	1,000 ordinary shares of HK\$100 each	–	100	Investment holding, property trading and investment
S.Megga Global Limited (in Receivership subsequent to 30 September 2000)	British Virgin Islands/ Hong Kong	10 ordinary shares of HK\$0.10 each	–	100	Investment holding
S.Megga Nominee Limited (in Receivership subsequent to 30 September 2000)	Hong Kong/ Hong Kong	2 ordinary shares of HK\$1 each	–	100	Provision of nominee services, now inactive
S.Megga Technology Limited (in Receivership subsequent to 30 September 2000)	Hong Kong/ Hong Kong	2 ordinary shares of HK\$1 each	–	100	Research and development of telecommunications products, now inactive
S.Megga Telecommunications Limited (in Receivership subsequent to 30 September 2000)	Hong Kong/ Hong Kong	10 ordinary shares of HK\$100 each and 232,433 non-voting deferred shares of HK\$100 each (note b)	–	100	Manufacture of telecommunications products, now inactive

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the fifteen-month period ended 30 September 2000

### 19. INTERESTS IN SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation/ operation	Issued and fully paid share capital/ registered capital	Percentage of issued share capital/ registered capital held by the Company		Principal activities
			Directly %	Indirectly %	
S.Meggatel Sdn. Bhd.	Malaysia/ Malaysia	6,411,765 ordinary shares of 1 Ringgit each	–	70	Manufacture of cordless telephones and other telecommunications products, now inactive
S.Meggatel (BVI) Limited (in Receivership subsequent to 30 September 2000)	British Virgin Islands/ Hong Kong	232,433 ordinary shares of HK\$0.10 each	100	–	Investment holding

Notes:

- (a) The shares of all the above subsidiaries were pledged for the issuance of the 3 Years Convertible Notes and 7 Years Convertible Notes of the Company.
- (b) The non-voting deferred shares practically carry no rights to dividends or to receive notice of or to attend or vote at any general meeting of the respective companies or to participate in any distribution or winding up.

The Current Directors are of the opinion that a complete list of the particulars of subsidiaries will be of excessive length and therefore the above list contains only the particulars of those subsidiaries which principally affect the results or assets of the Group.

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

### 20. INTERESTS IN ASSOCIATES

	THE GROUP		THE COMPANY	
	30.9.2000 HK\$ '000	30.6.1999 HK\$ '000	30.9.2000 HK\$ '000	30.6.1999 HK\$ '000
		(As restated)		
Share of net assets	–	–	–	–
Unlisted shares, at cost	–	–	8,125	–
Amounts due from associates	65,986	65,894	52	–
	65,986	65,894	8,177	–
Less: Impairment losses recognised and amounts written off	(65,986)	(26,964)	(8,177)	–
	–	38,930	–	–

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the fifteen-month period ended 30 September 2000

### 20. INTERESTS IN ASSOCIATES (continued)

Particulars of the principal associates of the Group as at 30 September 2000 are as follows:

Name of associate	Place of incorporation/ operation	Effective percentage of equity capital attributable to the Group %	Principal activities
Act Power Enterprises Limited (“APE”)	British Virgin Islands/Hong Kong	40	Investment holding
Charmgold Development Limited (in Receivership subsequent to 30 September 2000)	Hong Kong/PRC	50	Property investment, now inactive
Cheertex Limited (in Receivership subsequent to 30 September 2000)	Hong Kong/ Hong Kong	50	Investment holding
Glory World Development Limited	Hong Kong/ Hong Kong	50	Investment holding
Take Queen Limited (in Receivership subsequent to 30 September 2000)	British Virgin Islands/ Hong Kong	50	Investment holding

*Notes:*

- (a) As explained in note 28(d), on 24 March 2000, the Company entered into a sale and purchase agreement (the “APE Agreement”) with certain parties to acquire 20,000 issued share capital in APE, representing a 40% equity interest in APE. APE acts as an investment holding company and the principal activities of its subsidiaries were providing internet contents in sports entertainment programmes and interactive information as well as the sale of sports related merchandises. Subsequent to the balance sheet date, all the shareholders of APE agreed to terminate the operations of the company and accordingly, the Company has written-off the outstanding interest in APE to the income statement.
- (b) The shares of all the above associates were pledged for the issuance of the 3 Years Convertible Notes and 7 Years Convertible Notes of the Company.

The Current Directors are of the opinion that a complete list of the particulars of associates will be of excessive length and therefore the above list contains only the particulars of those associates which principally affect the results or assets of the Group.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the fifteen-month period ended 30 September 2000

### 21. DEFERRED DEVELOPMENT EXPENDITURE

	THE GROUP	
	30.9.2000 HK\$'000	30.6.1999 HK\$'000
Development costs:		
Balance at beginning of the period/year	21,798	22,470
Amount capitalised during the period/year	21,571	22,927
Amount amortised during the period/year	(14,317)	(9,258)
Amount written-off during the period/year	(29,052)	(14,341)
Balance at end of the period/year	<u>—</u>	<u>21,798</u>

### 22. OTHER INVESTMENT

	THE GROUP	
	30.9.2000 HK\$'000	30.6.1999 HK\$'000
Club debenture, at cost	<u>368</u>	<u>368</u>

### 23. INVENTORIES

	THE GROUP	
	30.9.2000 HK\$'000	30.6.1999 HK\$'000
At cost, less provision and amounts written-off		
Raw materials	27,344	14,761
Work-in-progress	18,878	23,264
Finished goods	12,639	7,051
	<u>58,861</u>	<u>45,076</u>

Included in inventories as at 30 June 1999 were raw materials of HK\$13,847,000, work-in-progress of HK\$23,264,000 and finished goods of HK\$7,051,000 which were carried at net realisable value. No such analysis has been presented as the information is not available.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the fifteen-month period ended 30 September 2000

### 24. TRADE AND OTHER RECEIVABLES

No aged analysis in respect of trade and other receivables has been presented as the information is not available.

### 25. TRADE AND OTHER PAYABLES

No aged analysis in respect of trade and other payables has been presented as the information is not available.

### 26. CONVERTIBLE NOTES

	THE GROUP AND THE COMPANY				1999
	2000				
	3 Years Convertible Notes HK\$ '000	7 Years Convertible Notes HK\$ '000	Swiss Notes HK\$ '000	Total HK\$ '000	Swiss Notes HK\$ '000
Convertible notes balance brought forward	–	–	162,690	162,690	162,690
Issuance of new convertible notes to Swiss Noteholders	24,709	12,354	(37,063)	–	–
Issuance of new convertible notes to Bank Creditors	34,706	17,353	–	52,059	–
Issuance of shares to Swiss Noteholders	–	–	(125,627)	(125,627)	–
Amortisation of premium payable upon the final redemption of the convertible notes	1,016	350	–	1,366	–
Conversion during the period	(10,629)	(5,314)	–	(15,943)	–
	<u>49,802</u>	<u>24,743</u>	<u>–</u>	<u>74,545</u>	<u>162,690</u>
Less: Conversion option credited to conversion option reserve	(14,467)	(14,218)	–	(28,685)	–
Reversal of conversion option reserve upon the conversion of convertible notes into shares in the Company	2,588	2,544	–	5,132	–
	<u>(11,879)</u>	<u>(11,674)</u>	<u>–</u>	<u>(23,553)</u>	<u>–</u>
Total liability of the convertible notes	<u>37,923</u>	<u>13,069</u>	<u>–</u>	<u>50,992</u>	<u>162,690</u>
Principal value of convertible notes outstanding as at end of the period/year	<u>48,786</u>	<u>24,393</u>	<u>–</u>	<u>73,179</u>	<u>162,690</u>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

*For the fifteen-month period ended 30 September 2000*

### 26. CONVERTIBLE NOTES (continued)

The amount as at 30 June 1999 represented the outstanding Swiss Notes issued on 4 January 1994. As detailed in note 2(b) II in respect of the Swiss Noteholders Restructuring, all the outstanding Swiss Notes were refinanced and discharged by the issuance of HK\$24,709,000 3 Years Convertible Notes, HK\$12,354,000 7 Years Convertible Notes and 1,589,748,017 Restructuring Shares to the Swiss Noteholders.

Particulars of the 3 Years Convertible Notes and 7 Years Convertible Notes are summarised as follows:

#### (a) 3 Years Convertible Notes

Pursuant to the Debt Restructuring as explained in note 2(b), the Company issued an aggregate amount of approximately HK\$59,415,000 3 Years Convertible Notes to the Bank Creditors and Swiss Noteholders as partial settlement of debts due to them.

The 3 Years Convertible Notes are non-interest bearing and may be converted, at the option of the holders, into shares of HK\$0.02 each in the Company at a conversion price of HK\$0.02 per share, subject to customary adjustments, at any time during the period commencing on 21 July 2000 and ending 10 business days before 21 July 2003. Unless previously converted in accordance with the terms of the 3 Years Convertible Notes, the 3 Years Convertible Notes will be redeemed by the Company at their principal outstanding amount on the third anniversary of their issue date.

During the period, holders of approximately HK\$10,629,000 3 Years Convertible Notes exercised their rights to convert into 531,447,350 shares of HK\$0.02 each in the Company.

At 30 September 2000, the Company had outstanding 3 Years Convertible Notes conferring rights to subscribe for up to approximately HK\$48,786,000 in cash for shares at a conversion price of HK\$0.02 per share. Exercise in full of these outstanding 3 Years Convertible Notes would, under the capital structure of the Company at 30 September 2000, result in the issue of 2,439,307,450 addition shares of HK\$0.02 each in the Company.

#### (b) 7 Years Convertible Notes

In addition to the 3 Years Convertible Notes, the Company issued an aggregate amount of approximately HK\$29,707,000 7 Years Convertible Notes to the Bank Creditors and the Swiss Noteholders as partial settlement of debts due to them.

The 7 Years Convertible Notes are non-interest bearing and may be converted, at the option of the holders, into shares of HK\$0.02 each in the Company at a conversion price of HK\$0.10 per share, subject to customary adjustments, at any time during the period commencing on 21 July 2000 and ending 10 business days before 21 July 2007. Unless previously converted in accordance with the terms of the 7 Years Convertible Notes, the 7 Years Convertible Notes will be mandatorily converted into shares of HK\$0.02 each in the Company at a conversion price of HK\$0.10 per share on the seventh anniversary of their issue date.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the fifteen-month period ended 30 September 2000

### 26. CONVERTIBLE NOTES (continued)

During the period, holders of approximately HK\$5,314,000 7 Years Convertible Notes exercised their rights to convert into 53,143,800 shares of HK\$0.02 each in the Company.

At 30 September 2000, the Company had outstanding 7 Years Convertible Notes conferring rights to subscribe for up to approximately HK\$24,393,000 in cash for shares at a conversion price of HK\$0.10 per share. Exercise in full of these outstanding 7 Years Convertible Notes would, under the capital structure of the Company at 30 September 2000, result in the issue of 243,927,260 addition shares of HK\$0.02 each in the Company.

The Group is in breach of financial covenants relating to the terms of the 3 Years Convertible Notes and 7 Years Convertible Notes. Accordingly, these balances become repayable on demand and are classified as current liabilities.

### 27. BANK AND OTHER BORROWINGS

	THE GROUP		THE COMPANY	
	30.9.2000	30.6.1999	30.9.2000	30.6.1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank and other borrowings, which are repayable within one year, comprise:				
Bank loans	48,177	156,506	–	147,834
Other loans	7,800	–	–	–
Bank overdrafts	–	31,876	–	18,778
	<u>55,977</u>	<u>188,382</u>	<u>–</u>	<u>166,612</u>
Analysed as:				
Secured	48,177	17,486	–	–
Unsecured	7,800	170,896	–	166,612
	<u>55,977</u>	<u>188,382</u>	<u>–</u>	<u>166,612</u>



## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the fifteen-month period ended 30 September 2000

### 28. SHARE CAPITAL

	Number of ordinary shares	Amount HK\$'000
Authorised		
At 1 July 1998 and at 30 June 1999, at HK\$0.10 each	2,000,000,000	200,000
Capital reduction and sub-division of shares (note (c)(i))	8,000,000,000	–
	<hr/>	<hr/>
At 30 September 2000, at HK\$0.02 each	<u>10,000,000,000</u>	<u>200,000</u>
Issued and fully paid		
At 1 July 1998 and 30 June 1999, at HK\$0.10 each	974,809,360	97,481
Share placements on:		
– 22 February 2000 (note (a))	75,500,000	7,550
– 4 March 2000 (note (b))	119,460,000	11,946
	<hr/>	<hr/>
	1,169,769,360	116,977
Capital reduction (note (c)(i))	–	(93,582)
	<hr/>	<hr/>
At HK\$0.02 each	1,169,769,360	23,395
Shares issued to Bank Creditors, Swiss Noteholders and Success Manor Lenders (note (c)(ii))	3,828,436,398	76,569
Issuance of shares in respect of the acquisition of APE (note (d))	125,000,000	2,500
Share placement on 23 August 2000 (note (e))	300,000,000	6,000
Shares issued to CITIC Ka Wah Bank for partial settlement of a mortgage loan (note (f))	26,913,073	538
Shares issued upon conversion of 3 Years Convertible Notes and 7 Years Convertible Notes (note (g))	584,591,150	11,692
	<hr/>	<hr/>
At 30 September 2000, at HK\$0.02 each	<u>6,034,709,981</u>	<u>120,694</u>

During the fifteen-month period ended 30 September 2000, the following changes in the share capital in the Company took place:

- (a) On 22 February 2000, the Company, Kit Iu Limited (“Kit Iu”) and NSC Securities (Asia) Limited (the “Placing Agent”) entered into a placing agreement (the “First Placing Agreement”) and a subscription agreement (the “First Subscription Agreement”). Pursuant to the First Placing Agreement, the Company placed, through the Placing Agent, a total of 75,500,000 existing shares of HK\$0.10 each in the Company previously held by Kit Iu to independent places at a price of HK\$0.165 per placing share (the “First Placing Price”).

## NOTES TO THE FINANCIAL STATEMENTS (continued)

*For the fifteen-month period ended 30 September 2000*

### 28. SHARE CAPITAL (continued)

The First Placing Price of HK\$0.165 represented a discount of approximately 47.6% to the closing price of the Company's shares of HK\$0.315 per share as quoted on the Stock Exchange on 18 February 2000 which was arrived at following negotiations between Kit Iu, the Placing Agent and the Company.

Pursuant to the First Subscription Agreement, Kit Iu agreed to subscribe (the "First Subscription") for 75,500,000 new shares (the "First Subscription Shares"), which represented 7.75% and 7.2% of the Company's then existing and enlarged issued share capital, respectively. The proceeds of the First Subscription, after deducting commission and related expenses, of approximately HK\$11,400,000 were used as general working capital of the Group.

Kit Iu, a substantial shareholder of the Company, is held by the trustee of a discretionary trust whose beneficiaries include Mr. Paul Leung and Mr. Howard Leung.

The First Subscription Shares were issued under the general mandate granted to the Directors at the Company's annual general meeting held on 23 December 1999.

All the new shares rank *pari passu* with the then existing shares of the Company in all respects.

- (b) On 4 March 2000, the Company, Kit Iu and the Placing Agent entered into a placing agreement (the "Second Placing Agreement") and a subscription agreement (the "Second Subscription Agreement"). Pursuant to the Second Placing Agreement, the Company placed, through the Placing Agent, a total of 119,460,000 shares of HK\$0.10 each in the Company to independent places at a price of HK\$0.10 per placing share (the "Second Placing Price"). Out of the 119,460,000 shares, 75,500,000 shares represented the existing shares previously held by Kit Iu and the remaining 43,960,000 shares represented the new shares in the Company (the "Placed New Shares").

The Second Placing Price of HK\$0.10 represented a discount of approximately 56.5% to the closing price of the Company's shares of HK\$0.23 per share as quoted on the Stock Exchange on 3 March 2000 which was arrived at following negotiations between Kit Iu, the Placing Agent and the Company.

Pursuant to the Second Subscription Agreement, Kit Iu agreed to subscribe for 75,500,000 new shares (the "Second Subscription Shares"), which represented 7.19% and 6.46% of the Company's then existing and enlarged issued share capital, respectively, of the Company. The 43,960,000 new shares represented 4.17% and 3.74% of the Company's then existing and enlarged issued share capital, respectively. The proceeds of the placing of 119,460,000 shares, after deducting commission and related expenses, of approximately HK\$10,500,000 was used as general working capital of the Group.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

*For the fifteen-month period ended 30 September 2000*

### 28. SHARE CAPITAL (continued)

The Second Subscription Shares and the Placed New Shares were issued under the general mandate granted to the Directors at the Company's annual general meeting held on 23 December 1999.

All the new shares rank pari passu with the then existing shares of the Company in all respects.

(c) Changes in the share capital of the Company pursuant to Financial Restructuring are as follows:

(i) The restructuring of the Company's share capital

The nominal value of each issued share in the Company was reduced by HK\$0.08 to HK\$0.02. The entire credit balance arising from the capital reduction of approximately HK\$93,582,000 was applied to write-off part of the deficit of the Company to the same extent. The unissued share capital of the Company was sub-divided into shares of HK\$0.02 each.

(ii) Issuance of Restructuring Shares to the Bank Creditors, Swiss Noteholders and Success Manor Lenders.

Pursuant to the Debt Restructuring, 2,070,023,405 Restructuring Shares, 1,589,748,017 Restructuring Shares, and 168,664,976 Restructuring Shares of HK\$0.02 each in the Company were issued to the Bank Creditors, Swiss Noteholders and Success Manor Lenders, respectively, at a price of HK\$0.10 per share.

All the new shares rank pari passu with the then existing shares of the Company in all respects.

(d) On 24 March 2000, the Company entered into the APE Agreement with Asia Paging Company Limited, Well Master Group Limited, Wong Kin Chuen, Raymond, Ng Wai Keung, Lin Wing Hung and Lo Po Hong (together referred to as the "APE Vendors"). Pursuant to the APE Agreement, the Company agreed to acquire 20,000 issued share in APE by the issue and allotment of 125,000,000 new shares of HK\$0.02 each in the Company to the APE Vendors.

The issue price of HK\$0.065 per share represented the closing price of the Company's shares as quoted on the Stock Exchange on 7 July 2000, being the date of the completion of the APE Agreement.

The APE Agreement and the issuance of the new shares were approved by the shareholders of the Company at the Company's special general meeting held on 7 July 2000.

All the new shares rank pari passu with the then existing shares of the Company in all respects.