

## NOTES TO THE FINANCIAL STATEMENTS (continued)

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

### 28. SHARE CAPITAL (continued)

- (e) On 23 August 2000, the Company, SC Bank and the Placing Agent entered into a placing agreement (the “Third Placing Agreement”) and a subscription agreement (the “Third Subscription Agreement”). Pursuant to the Third Placing Agreement, the Company placed, through the Placing Agent, a total of 300,000,000 existing shares of HK\$0.02 each in the Company previously held by SC Bank to independent places at a price of HK\$0.062 per placing share (the “Third Placing Price”).

The Third Placing Price of HK\$0.062 represented a discount of approximately 11.4% to the closing price of HK\$0.070 per share as quoted on the Stock Exchange on 21 August 2000 which was arrived at following negotiations between SC Bank, the Placing Agent and the Company.

Pursuant to the Third Subscription Agreement, SC Bank agreed to subscribe (the “Third Subscription”) for 300,000,000 new shares (the “Third Subscription Shares”), which represented 5.25% and 5.0% of the Company’s then existing and enlarged issued share capital, respectively. The proceeds of the Third Subscription, after deducting commission and related expenses, of approximately HK\$13,100,000 was used as general working capital of the Group.

SC Bank is a substantial shareholder of the Company.

The Third Subscription Shares were issued under the general mandate granted to the Directors 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.

- (f) On 25 August 2000, the Company entered into an agreement with CITIC Ka Wah Bank Limited (“Ka Wah”), pursuant to which the Company agreed to issue 26,913,073 new shares of HK\$0.02 each in the Company at a price of HK\$0.07 per share to Ka Wah as partial settlement of a mortgage granted by Ka Wah to S.Megga Estate Management Limited, a wholly-owned subsidiary of the Company, to secure indebtedness owed by S.Megga Telecom to Ka Wah.

The issue price of HK\$0.07 represented a premium of 59.9% to the closing price of the Company’s shares of HK\$0.044 per share as quoted on the Stock Exchange on 24 August 2000 which was arrived at following negotiations between Ka Wah and the Company.

The issue of the new shares were issued under the general mandate granted to the Directors at the Company’s special general meeting of the Company held on 7 July 2000.

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

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the fifteen-month period ended 30 September 2000

### 28. SHARE CAPITAL (continued)

- (g) During the fifteen-month period ended 30 September 2000, the holders of 3 Years Convertible Notes and 7 Years Convertible Notes with subscription rights of approximately HK\$10,629,000 and HK\$5,314,000, respectively exercised their rights, resulting in the issue of 531,447,350 shares and 53,143,800 shares of HK\$0.02 each in the Company at a price of HK\$0.02 per share and HK\$0.10 per share, respectively.

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

### 29. SHARE OPTION SCHEME

Pursuant to the share option scheme (the ‘‘Scheme’’) adopted by the Company on 28 November 1991 the Directors may, at their discretion, invite employees of the Group, including Directors of the Company and its subsidiaries, to take up options to subscribe for shares in the Company, subject to a maximum of 10% of the issued share capital of the Company from time to time in accordance with the terms of the Scheme.

Pursuant to the Scheme, options to purchase shares in the Company were granted to selected executives. Movements of share options granted during the period/year and at the balance sheet date are as follows:

	Share options exercisable within the period from 9 June 1997 to 8 June 1999 at HK\$0.283	Share options exercisable within the period from 30 June 1997 to 29 June 1999 at HK\$0.378	Total
Balance at 1 July 1998	160,000	1,900,000	2,060,000
Lapsed due to expiry of exercisable period	(160,000)	(1,900,000)	(2,060,000)
	<hr/>	<hr/>	<hr/>
Balance at 30 June 1999 and at 30 September 2000	<hr/> <hr/> —	<hr/> <hr/> —	<hr/> <hr/> —

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the fifteen-month period ended 30 September 2000

### 30. RESERVES

	Share premium HK\$'000	Contributed surplus HK\$'000	Capital reserve HK\$'000	Goodwill reserve HK\$'000	Conversion option reserve HK\$'000	Property revaluation reserve HK\$'000	Translation reserve HK\$'000	Deficit HK\$'000	Total HK\$'000
<b>THE GROUP</b>									
At 1 July 1998									
As previously reported	415,194	34,600	47,926	-	-	20,176	390	(735,692)	(217,406)
Prior period adjustment (note 7)	-	-	-	-	-	-	-	17,046	17,046
As restated	415,194	34,600	47,926	-	-	20,176	390	(718,646)	(200,360)
Exchange differences arising from translation of overseas operations	-	-	-	-	-	-	(374)	-	(374)
Loss for the year	-	-	-	-	-	-	-	(158,815)	(158,815)
At 30 June 1999 and 1 July 1999	415,194	34,600	47,926	-	-	20,176	16	(877,461)	(359,549)
Capital reduction	-	-	-	-	-	-	-	93,582	93,582
Premium on issue of shares	335,005	-	-	-	-	-	-	-	335,005
Share issuing expenses	(19,009)	-	-	-	-	-	-	-	(19,009)
Exchange differences arising from translation of overseas operations	-	-	-	-	-	-	(648)	-	(648)
Goodwill arising on acquisition of APE	-	-	-	(8,045)	-	-	-	-	(8,045)
Translation reserve transferred to income statement	-	-	-	-	-	-	632	-	632
Written-off of goodwill on acquisition of APE	-	-	-	8,045	-	-	-	-	8,045
Conversion option reserve arising on the issuance of 3 Years Convertible Notes and 7 Years Convertible Notes	-	-	-	-	28,685	-	-	-	28,685
Reversal of conversion option reserve upon the conversion of the convertible notes into shares	-	-	-	-	(5,132)	-	-	-	(5,132)
Loss for the period	-	-	-	-	-	-	-	(206,132)	(206,132)
At 30 September 2000	731,190	34,600	47,926	-	23,553	20,176	-	(990,011)	(132,566)
<b>THE COMPANY</b>									
At 1 July 1998	415,194	106,413	-	-	-	-	-	(795,388)	(273,781)
Loss for the year	-	-	-	-	-	-	-	(102,548)	(102,548)
At 30 June 1999 and 1 July 1999	415,194	106,413	-	-	-	-	-	(897,936)	(376,329)
Capital reduction	-	-	-	-	-	-	-	93,582	93,582
Premium on issue of shares	335,005	-	-	-	-	-	-	-	335,005
Share issuing expenses	(19,009)	-	-	-	-	-	-	-	(19,009)
Conversion option reserve arising on the issuance of 3 Years Convertible Notes and 7 Years Convertible Notes	-	-	-	-	28,685	-	-	-	28,685
Reversal of conversion option reserve upon the conversion of the convertible notes into shares	-	-	-	-	(5,132)	-	-	-	(5,132)
Loss for the period	-	-	-	-	-	-	-	(239,369)	(239,369)
At 30 September 2000	731,190	106,413	-	-	23,553	-	-	(1,043,723)	(182,567)

The contributed surplus of the Company represents the difference between the nominal value of the Company's shares issued in exchange for all the issued ordinary shares of S.Meggatel (BVI) Limited and the value of net assets of the underlying subsidiaries acquired. Under the Companies Act 1981 of Bermuda (as amended) and Bye-Laws of the Company, the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

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

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the fifteen-month period ended 30 September 2000

### 30. RESERVES (continued)

	<b>1.7.1999</b> <b>to</b> <b>30.9.2000</b> <i>HK\$'000</i>	<b>1.7.1998</b> <b>to</b> <b>30.6.1999</b> <i>HK\$'000</i>
Deficit of the Group comprises:		
Company and subsidiaries	(971,396)	(875,892)
Associates	(18,615)	(18,615)
	<u>(990,011)</u>	<u>(894,507)</u>

At the balance sheet date, the Company did not have any reserve available for distribution to its shareholders (30.6.1999: Nil).

### 31. RECONCILIATION OF LOSS ATTRIBUTABLE TO SHAREHOLDERS TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	<b>1.7.1999</b> <b>to</b> <b>30.9.2000</b> <i>HK\$'000</i>	<b>1.7.1998</b> <b>to</b> <b>30.6.1999</b> <i>HK\$'000</i>
Loss attributable to shareholders	(206,132)	(158,815)
Interest expenses	51,109	27,621
Amortisation of deferred development expenditure	14,317	9,258
Depreciation and amortisation of property, plant and equipment	15,120	15,730
Provision for amounts due from associates	39,022	2,588
Deficit arising on revaluation of properties	32,942	24,793
Write-off of deferred development expenditure	29,052	14,341
Write-off of goodwill on acquisition of an associate	8,045	–
Translation reserve charged to income statement	632	–
Loss on disposals of property, plant and equipment	112	1,760
Impairment in value of an associate	80	1,086
Deficit arising on revaluation of plant and equipment	373	–
Share of result of associates	–	50
Penalty interest on overdue indebtedness	–	34,391
(Increase) decrease in inventories	(13,785)	14,034
Decrease in properties held for resale	–	27,869
Decrease (increase) in trade and other receivables	19,294	(3,622)
Increase (decrease) in trade and other payables	95,534	(4,952)
(Decrease) increase in bills payable	(56,638)	8,072
	<u>29,077</u>	<u>14,204</u>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the fifteen-month period ended 30 September 2000

### 32. ANALYSIS OF CHANGES IN FINANCING DURING THE PERIOD/YEAR

	Share capital and share premium <i>HK\$'000</i>	Bank and other borrowings <i>HK\$'000</i>	Convertible notes <i>HK\$'000</i>	Obligations under hire purchase contracts <i>HK\$'000</i>	Amounts due to associates <i>HK\$'000</i>
Balance at 1st July 1998	512,675	156,506	162,690	4,700	16,926
Repayments during the year	–	–	–	(3,133)	–
Balance at 30 June 1999 and 1 July 1999	512,675	156,506	162,690	1,567	16,926
Proceeds from issue of shares, less costs	23,995	–	–	–	–
New borrowings raised during the period	–	85,861	–	–	–
Repayments during the period	–	(38,000)	–	(1,587)	(59)
Non-cash items:					
Changes in financing in respect of Financial Restructuring (note 2):					
– Capital reduction	(93,582)	–	–	–	–
– Issuance of shares to Bank Creditors, Swiss Noteholders and Success Manor Lenders, including interest accrual (note 34(a)(i))	382,844	(94,447)	(125,627)	–	(16,867)
– Issuance of convertible notes to Bank creditors (note 34(a)(ii))	–	(52,059)	52,059	–	–
Conversion of convertible notes to shares in the Company	15,943	–	(15,943)	–	–
Issuance of shares on acquisition of APE (note 34(b))	8,125	–	–	–	–
Issuance of shares to Ka Wah (note 34(c))	1,884	(1,884)	–	–	–
Inception of obligations under hire purchase contracts (note 34(d))	–	–	–	400	–
Amortisation of premium payable upon the final redemption of the convertible notes	–	–	1,366	–	–
Conversion option reserve arising on the issuance of 3 Years Convertible Notes and 7 Years Convertible Notes, less reversal of conversion option reserve upon the conversion of convertible notes into shares in the Company	–	–	(23,553)	–	–
Balance at 30 September 2000	851,884	55,977	50,992	380	–

### 33. ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS

	30.9.2000 <i>HK\$'000</i>	30.6.1999 <i>HK\$'000</i>
Time deposits with original maturity of less than 3 months	5,864	700
Bank balances and cash	3,331	18,067
Bank overdrafts	–	(31,876)
	9,195	(13,109)

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the fifteen-month period ended 30 September 2000

### 34. MAJOR NON-CASH TRANSACTIONS

The Group's major non-cash transactions during the fifteen-month period ended 30 September 2000 are as follows:

- (a) As explained in note 2(b):
  - (i) 3,828,436,398 Restructuring Shares of HK\$0.02 each in the Company were issued to the Bank Creditors, Swiss Noteholders and Success Manor Lenders at a price of HK\$0.10 per share as partial settlement of the debts owed to the Bank Creditors, Swiss Noteholders and Success Manor Lenders; and
  - (ii) 3 Years Convertible Notes and 7 Years Convertible Notes amounting to approximately HK\$34,706,000 and HK\$17,353,000, respectively, were issued to the Bank Creditors as partial settlement of the debts owed to the Bank Creditors.
- (b) As explained in note 28(d), the Company issued 125,000,000 new shares of HK\$0.02 each in the Company at a price of HK\$0.065 per share to acquire a 40% equity interest in APE.
- (c) As explained in note 28(f), the Company issued 26,913,073 new shares of HK\$0.02 each in the Company at a price of HK\$0.07 per share to Ka Wah as partial settlement of a mortgage loan granted by Ka Wah to the Group.
- (d) The Group entered into hire purchase contracts in respect of property, plant and equipment with a total capital value at the inception of the contracts of HK\$400,000.

### 35. POTENTIAL DEFERRED TAXATION

No financial information in respect of the potential deferred taxation has been presented for the fifteen-month period ended 30 September 2000 or at the balance sheet date as the information is not available.

At 30 June 1999, the potential deferred tax assets (liabilities) not recognised in the financial statements were as follows:

	<b>THE GROUP</b> <i>HK\$'000</i>	<b>THE COMPANY</b> <i>HK\$'000</i>
Timing differences attributable to:		
Tax losses not yet utilised	67,865	11,912
Excess of tax allowance over depreciation	(12,223)	—
Net deferred taxation assets not recognised	<u>55,642</u>	<u>11,912</u>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the fifteen-month period ended 30 September 2000

### 35. POTENTIAL DEFERRED TAXATION (continued)

The amount of potential deferred tax credit (charge) for the year ended 30 June 1999 is as follows:

	THE GROUP HK\$'000	THE COMPANY HK\$'000
Tax losses arising	23,437	8,681
Excess of tax allowance over depreciation	(4,495)	–
Net deferred taxation credit not recognised	<u>18,942</u>	<u>8,681</u>

The potential deferred tax asset has not been recognised in the financial statements as it is uncertain as to whether the tax losses will be utilised in the foreseeable future.

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

### 36. PLEDGE OF ASSETS

The Group's investment properties, land and buildings and certain plant and equipment with an aggregate amount of approximately HK\$60,754,000 (30.6.1999: HK\$54,800,000) were pledged to secure the general credit facilities granted to the Group.

### 37. CAPITAL COMMITMENTS

No financial information in respect of capital commitments as at 30 September 2000 has been presented as the information is not available.

The Company and the Group did not have any significant capital commitments as at 30 June 1999.

### 38. CONTINGENT LIABILITIES

No financial information in respect of contingent liabilities as at 30 September 2000 has been presented as the information is not available.

At 30 June 1999, the Company had contingent liabilities as follows:

	HK\$'000
Contingent liabilities:	
Guarantees given in respect of banking facilities made available to subsidiaries (facilities utilised HK\$62,123,000)	173,940
Guarantees given in respect of a hire purchase contract of a subsidiary	1,567
	<u>175,507</u>

The Group did not have any significant contingent liabilities as at 30 June 1999.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the fifteen-month period ended 30 September 2000

### 39. LONG SERVICE PAYMENTS

No financial information in respect of long service payment as at 30 September 2000 has been presented as the information is not available.

At 30 June 1999, the Group had a number of employees who had completed the required number of years of service under Hong Kong's Employment Ordinance (the "Ordinance") to be eligible for long service payments on termination of their employment. The Group is only liable to make such payments if the termination of employment meets the circumstances which are specified in the Ordinance. Had the employment of all eligible employees been terminated on 30 June 1999 under the circumstances specified by the Ordinance, the maximum potential exposure would have been approximately HK\$6,520,000. No provision has been made in the financial statements in respect of such long service payments.

### 40. LITIGATIONS

Other than disclosed in note 4(a), in the opinion of the Current Directors, neither the Company nor the Group is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Current Directors to be pending to threaten against the Group.

### 41. RELATED PARTY TRANSACTIONS AND BALANCES

Details of balances with related parties at the balance sheet date are set out in the consolidated balance sheet on page 25 and its accompanying notes.

No financial information in respect of related party transactions for the fifteen-month period ended 30 September 2000 has been presented as the information is not available.

The Group had the following significant transactions with a former associate during the year ended 30 June 1999.

<b>Nature of transaction</b>	<i>HK\$'000</i>
Purchase from NSM International Limited ("NSM")	2,476
Sales to NSM	15,711
Rental income from NSM	<u>1,038</u>