

1 General

The Company was incorporated in Bermuda as an exempted company with limited liability. Its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company's shares had been suspended for trading on the Stock Exchange since 23rd April, 2002.

The Company is an investment holding company. The activities of subsidiaries are set out in note 34.

2 Basis of preparation of financial statements

- (a) In preparing the financial statements, the current directors have given careful consideration to the going concern of the Group in the light of net current liabilities of approximately HK\$3,710,000 as at 31st March, 2002. As a result, the Group faced financial difficulties due to the working capital deficiency.

The Company had 24,178,700 outstanding preference shares of HK\$1.0 each which should have been redeemed at par on 22nd October, 2001. On 15th October, 2001, the Company received a demand letter from a preference shareholder, who holds 24,137,700 preference shares of HK\$1.0 each, requesting for the redemption of the preference shares.

Against this background, the Company is currently in negotiation with the preference shareholders regarding refinancing arrangements ("Refinancing Arrangements"). At the same time, the Group is actively seeking potential investors so as to obtain an injection of new equity finance into the Group. On the basis that the Refinancing Arrangements can be completed successfully and the additional equity financing for the Group can be obtained, the current directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the financial statements were prepared on a going concern basis.

- (b) These financial statements were prepared based on the limited financial information prepared and left by the former management and other latest information and records available to the current directors who were appointed on 21st June, 2002. The current directors have used their best endeavour to access all the financial and business records of the Group. Most of the books and records are kept at the Group's office located in Shanghai. Despite the repeated requests and demands, the current directors continue to be denied access to the books and records situated in Shanghai as the persons present at the Group's Shanghai office refused to recognise the authority of the current directors. The current directors have instructed the Company's lawyers to assist in gaining access to such records. In view of this, the current directors were unable to obtain sufficient documentary information to satisfy themselves regarding the matters described below.

2 Basis of preparation of financial statements *(continued)*

(i) The current directors have been unable to satisfy themselves that the following amounts included in the financial statements have been completely and accurately recorded by the Group:

- Turnover of HK\$10,080,000;
- Other revenue of HK\$574,000;
- Changes in inventories of finished goods and work in progress with nil amount;
- Raw materials and consumables used of HK\$9,645,000;
- Staff costs of HK\$9,658,000;
- Depreciation expenses of HK\$109,000;
- Unrealised loss on other investments of HK\$23,813,000;
- Loss on disposal of subsidiaries of HK\$1,224,000;
- Loss on disposal of other investments of HK\$2,175,000;
- Other operating expenses of HK\$2,986,000;
- Finance costs of HK\$196,000;
- Share of results of jointly controlled entities with nil amount;
- Taxation with nil amount;
- Minority interests with nil amount;
- Investments in jointly controlled entities with nil amount;
- Trade and other receivables of HK\$13,323,000;
- Trade and other payables of HK\$29,837,000;
- Amount due to a shareholder of HK\$5,691,000;
- Short-term loan of HK\$1,414,000; and
- Reserves with a net debit balance of HK\$40,245,000.

As a result, the current directors were unable to satisfy themselves as to the reliability of the related disclosure in the financial statements.

(ii) The current directors have been unable to satisfy themselves that the following amounts included in the financial statements have been completely and accurately recorded by the Company:

- Interests in subsidiaries of HK\$6,756,000;
- Other receivables of HK\$125,000;
- Other payables of HK\$3,619,000; and
- Reserves with a net debit balance of HK\$40,170,000.

As a result, the current directors were unable to satisfy themselves as to the reliability of the related disclosure in the financial statements.

2 Basis of preparation of financial statements *(continued)*

- (iii) The current directors have been unable to identify items of property, plant and equipment at the Group's offices in the People's Republic of China (the "PRC") and Hong Kong, previously included in the books of account with a net book value of HK\$416,000. Accordingly, the current directors were unable to satisfy themselves as to the appropriateness of the associated write-off in the same amount reflected in the consolidated income statement for the year ended 31st March, 2002.
- (iv) Included in other investments was an amount of HK\$16,346,000 in respect of the investments in unlisted shares as at 31st March, 2002. The current directors were unable to obtain sufficient evidence to satisfy themselves regarding the fair values of these shares at 31st March, 2002 and the appropriateness of the impairment loss on investments in unlisted shares reflected in note 16 to the financial statements. Also, the current directors were unable to obtain sufficient evidence to support the existence and proper recording of these unlisted shares.
- (v) Included in bank balances and cash of the Group was an amount of HK\$19,903,000 in respect of which the current directors were unable to obtain any bank statements. Accordingly, the current directors were unable to satisfy themselves that the bank balances and cash of HK\$19,903,000 was fairly stated in the consolidated balance sheet of the Group as at 31st March, 2002.
- (vi) Against the background described above, the current directors are unable to represent as to the completeness of recording of transactions entered into by the Group for the period from 1st April, 2001 to 21st June, 2002 and of the completeness of disclosure of claims, commitments and contingent liabilities in the financial statements. The current directors are also unable to represent as to the completeness of identification and disclosure of related party transactions and balances.

3 Changes in accounting policies

In the current year, the Group has adopted for the first time a number of new and revised Statements of Standard Accounting Practice ("SSAP") issued by the Hong Kong Society of Accountants (the "HKSA"). Adoption of these Standards had led to a number of changes in the Group's accounting policies. The revised accounting policies are set out in note 4. In addition, the new and revised Standards have introduced additional and revised disclosure requirements which have been adopted in these financial statements. Comparative amounts and disclosures for the prior year have been restated in order to achieve a consistent presentation.

The adoption of these new and revised Standards has resulted in the following changes to the Group's accounting policies that have affected the amounts reported for the current or prior periods.

3 Changes in accounting policies *(continued)*

Dividends proposed or declared after the balance sheet date

In prior years, dividends proposed or declared were recognised as a liability in the accounting period to which they related. With effect from 1st April, 2001, in order to comply with SSAP 9 (Revised) issued by the HKSA, the Group recognises dividends proposed or declared as a liability in the accounting period in which they are declared by the directors (in the case of interim dividends) or approved by the shareholders (in the case of final dividends).

As a result of the new accounting policy, preference shares dividends are not recognised as a liability until they are approved by the Board of Directors. Accordingly, the Group's net assets as at 1st April, 2000 and 31st March, 2001 have been increased by HK\$4,005,000 and HK\$6,293,000 respectively. There is no impact on the Group's loss for the year presented. The new accounting policy has been adopted retrospectively, with the opening balance of accumulated losses and the comparative information adjusted for the amounts relating to prior periods.

Leases

In accordance with SSAP 14 (Revised) "Leases", some amendments were introduced to the basis of accounting for operating leases and to the disclosures specified for the Group's leasing arrangements. These changes have not had any material effect on the results for the current or prior accounting periods and, accordingly, no prior period adjustment has been required. Disclosures for the Group's leasing arrangements have been modified so as to comply with the requirements of SSAP 14 (Revised). Comparative amounts have been restated in order to achieve a consistent presentation.

Segment reporting

In the current year, the Group has changed the basis of identification of reportable segments to that required by SSAP 26 "Segment Reporting". Segment disclosures for the year ended 31st March, 2002 have been amended so that they are presented on a consistent basis.

Goodwill

In the current year, the Group has adopted SSAP 30 "Business combinations" and has elected not to restate goodwill (negative goodwill) previously eliminated against (credited to) reserves. Accordingly, goodwill arising on acquisitions prior to 31st March, 2001 is held in reserves and will be charged to the income statement at the time of disposal of the relevant subsidiary, or at such time as the goodwill is determined to be impaired. Negative goodwill arising on acquisitions prior to 31st March, 2001 will be credited to income at the time of disposal of the relevant subsidiary.

Goodwill arising on acquisitions after 31st March, 2001 is capitalised and amortised over its estimated useful life. Negative goodwill arising on acquisitions after 31st March, 2001 is presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

4 Significant accounting policies

The financial statements have been prepared under the historical cost convention as modified for the valuation of investments in securities.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st March each year. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Goodwill and capital reserve

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or jointly controlled entity at the date of acquisition.

Goodwill arising on acquisitions after 1st April, 2001 is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of a jointly controlled entity is included within the carrying amount of the jointly controlled entity. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

Goodwill arising on acquisitions prior to 1st April, 2001 continues to be held in reserves, and will be charged to the income statement at the time of disposal of the relevant subsidiary or jointly controlled entity, or at such time as the goodwill is determined to be impaired.

On disposal of a subsidiary or jointly controlled entity, the attributable amount of unamortised goodwill is included in the determination of the profit or loss on disposal.

Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or jointly controlled entity at the date of acquisition over the cost of acquisition.

Negative goodwill arising on acquisitions after 1st April, 2001 is presented as deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

Negative goodwill arising on acquisitions prior to 1st April, 2001 continues to be held in reserves and will be credited to income at the time of disposal of the relevant subsidiary or jointly controlled entity.

4 Significant accounting policies *(continued)*

Negative goodwill *(continued)*

To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised in income immediately.

Negative goodwill arising on the acquisition of a jointly controlled entity is deducted from the carrying value of that jointly controlled entity. Negative goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a deduction from assets.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Jointly controlled entities

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Group's interests in jointly controlled entities are included in the consolidated balance sheet at the Group's share of the net assets of the jointly controlled entities less any identified impairment loss. The Group's share of the post-acquisition results of jointly controlled entities is included in the consolidated income statement.

When the Group transacts with its jointly controlled entities, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant joint venture, except where unrealised losses provide evidence of an impairment of the assets transferred.

Turnover

Turnover represents the net amounts received and receivable for goods sold and for services provided, less returns and allowances, during the year.

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Service income is recognised when the services are rendered.

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

4 Significant accounting policies (continued)

Other Investments

Investments in securities are recognised on a trade date basis and are initially measured at cost.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the year.

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual values, using the straight line method, over the following estimated useful lives:

Furniture and fixtures	3 - 5 years
Machinery, equipment and tools	3 - 10 years
Computer hardware and software	3 years

Assets held under finance leases are depreciated over their estimated useful lives or, where shorter, the lease term on the same basis as owned assets.

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

4 Significant accounting policies *(continued)*

Leases

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair values at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant leases so as to produce a constant periodic rate of charge on the remaining balances of the obligations for each accounting period.

All other leases are classified as operating leases and the annual rental expenses are charged to the income statement on a straight line basis over the relevant lease term.

Foreign currencies

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions or at the contracted settlement rate. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

On consolidation, the financial statements of subsidiaries which are denominated in currencies other than the Hong Kong dollar are translated at the rates ruling on the balance sheet date. All exchange differences arising on consolidation are dealt with in reserves.

Retirement benefits scheme

The pension costs charged in the income statement represent the amount of contributions payable to the mandatory provident fund schemes ("MPF Scheme").

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

For the year ended 31st March, 2002

5 Turnover and segment information

The Group is principally engaged in manufacture and distribution of computer related products and consumer electronic products and the provision of e-business solutions.

The Group's turnover and operating results for the year ended 31st March, 2002, analysed by principal activity and geographical location of operations, are as follows:

	Turnover		Operating results	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
By principal activity:				
Continuing operations				
Manufacture and distribution of computer related products	9,935	—	(55,723)	—
Professional service fees	145	—	5	—
	<u>10,080</u>	<u>—</u>	<u>(55,718)</u>	<u>—</u>
Discontinued operations				
Provision of e-business solutions	—	23,964	—	(172,180)
Manufacture and distribution of consumer electronic products	—	16,075	—	(64,676)
	<u>—</u>	<u>40,039</u>	<u>—</u>	<u>(236,856)</u>
	<u>10,080</u>	<u>40,039</u>	<u>(55,718)</u>	<u>(236,856)</u>
By geographical location of operation:				
The People's Republic of China (the "PRC")				
Hong Kong	—	34,848	(27,155)	(199,391)
Elsewhere	10,080	1,067	(28,563)	(7,685)
The United States of America	—	1,837	—	(14,410)
Taiwan	—	112	—	(2,882)
Others	—	2,175	—	(12,488)
	<u>10,080</u>	<u>40,039</u>	<u>(55,718)</u>	<u>(236,856)</u>

As explained in note 2, no segment information in respect of segment assets and liabilities is presented as no sufficient information is available.

6 Other revenue

	2002 HK\$'000	2001 HK\$'000
Interest income	24	2,939
Other income	550	—
	<u>574</u>	<u>2,939</u>

7 Loss from operations

	2002 HK\$'000	2001 HK\$'000
Loss from operations has been arrived at after charging:		
Cost of inventories sold	9,645	26,643
Auditors' remuneration		
Current year	250	780
Depreciation		
Owned assets	109	13,101
Assets held under finance leases	—	2,486
Write off of deferred development costs	—	4,315
Operating lease rentals in respect of		
Land and buildings	2,149	20,521
Equipment and others	—	806
Impairment loss recognised in respect of		
jointly controlled entities	—	2,122
Allowances for doubtful debts	—	8,096
Exchange loss, net	7	175
	<u>7</u>	<u>175</u>

For the year ended 31st March, 2002

8 Directors' emoluments

The emoluments of the directors and the five highest paid individuals are summarised as follows:

(a) Directors' emoluments

	2002 HK\$ '000	2001 HK\$ '000
Fees	—	120
Other emoluments:		
Salaries and other benefits	2,417	19,059
Contributions to retirement benefits scheme	—	20
	<u>2,417</u>	<u>19,079</u>
	<u>2,417</u>	<u>19,199</u>

The directors' emoluments are within the following bands:

	2002 Number of directors	2001 Number of directors
Nil to HK\$1,000,000	3	5
HK\$1,500,001 - HK\$2,000,000	1	4
HK\$5,000,001 - HK\$5,500,000	—	1
	<u>4</u>	<u>10</u>

No director waived any emoluments in the year ended 31st March, 2002 (2001: nil).

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, three (2001: five) were directors of the Company whose emoluments are included in the disclosures in note 8(a) above. The emoluments of the remaining two (2001: nil) individuals were salaries and other benefits totalling HK\$514,000 (2001: nil).

9 Finance costs

	2002 HK\$'000	2001 HK\$'000
Interests on:		
Bank loans and overdrafts	196	1,381
Other loans wholly repayable within five years	—	704
Finance lease obligations	—	647
Amount due to related companies wholly repayable within five years	—	762
	<u>196</u>	<u>3,494</u>

10 Taxation

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group had no assessable profit for the year.

Details of the unprovided deferred taxation are set out in note 24.

11 Dividends

	2002 HK\$'000	2001 HK\$'000
Preference shares		
Accrued at 5% per annum (up to 22nd October, 2000) and 15% per annum (from 23rd October, 2000) on shares of HK\$1.00 each	2,116	1,018
Accrued at 5% per annum on shares of HK\$0.10 each	<u>1,775</u>	<u>1,270</u>
	<u>3,891</u>	<u>2,288</u>

11 Dividends *(continued)*

Pursuant to Section 54 of the Companies Act 1981 of Bermuda (as amended) (the "Act"), a company incorporated in Bermuda is not permitted to pay dividends while there are reasonable grounds for believing that the Company is, or would after the payment be, unable to pay its liabilities as and when they become due or the realisable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account. Preference shares dividends accrued at the fixed rate of 5% per annum or 15% per annum as appropriate pursuant to the terms of the preference shares of the year ended 31st March, 2002 amounted to HK\$3,891,000 (2001: HK\$2,288,000). The preference shares comprised the convertible cumulative non-voting preference shares of HK\$1.00 and HK\$0.10 each issued on 23rd October, 1996 and 17th December, 1999 respectively. In accordance with the terms of issue, no dividend shall be payable on the preference shares of HK\$1.00 each for the period from the date of issue to 23rd October, 1998. Dividend on the preference share of HK\$0.10 each shall be payable semi-annually in arrears on 30th April and 31st October in each year. The preference shares dividends will only be paid subject to the approval of the board of directors and upon fulfilment of the aforementioned conditions of the Act.

Since the preference shares dividends shall be paid subjects to the approval of the Board of Directors and fulfilment of Section 54 of the Companies Act 1981 of Bermuda, no preference shares dividends have been recognised as a liability as at 31st March, 2002. No dividend has been paid in respect of preference shares for the year ended 31st March, 2002.

12 Loss per share

The calculation of the basic loss per share is based on the loss for the year of HK\$55,914,000 (2001 restated: HK\$243,181,000) and the weighted average of 742,094,359 (2001: 677,853,370) ordinary shares in issue during the year.

The computation of diluted loss per share does not assume the exercise of share option as their exercise would reduce loss per share for both years.

13 Property, plant and equipment

	Furniture and fixtures <i>HK\$'000</i>	Machinery, equipment and tools <i>HK\$'000</i>	Computer hardware and software <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP				
COST				
At 1st April, 2001	225	54	844	1,123
Additions	—	30	108	138
Disposals	(225)	(63)	(496)	(784)
Eliminated on disposal of a subsidiary	—	—	(428)	(428)
At 31st March, 2002	—	21	28	49
ACCUMULATED DEPRECIATION				
At 1st April, 2001	19	6	247	272
Provided for the year	—	6	103	109
Eliminated on disposals	(19)	(8)	(341)	(368)
At 31st March, 2002	—	4	9	13
NET BOOK VALUES				
At 31st March, 2002	—	17	19	36
At 31st March, 2001	206	48	597	851
THE COMPANY				
COST				
At 1st April, 2001	—	—	—	—
Additions	—	9	—	9
Disposals	—	(9)	—	(9)
At 31st March, 2002	—	—	—	—
ACCUMULATED DEPRECIATION				
At 1st April, 2001	—	—	—	—
Provided for the year	—	2	—	2
Eliminated on disposals	—	(2)	—	(2)
At 31st March, 2002	—	—	—	—
NET BOOK VALUES				
At 31st March, 2002	—	—	—	—
At 31st March, 2001	—	—	—	—

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14 Interests in subsidiaries

	THE COMPANY	
	2002 HK\$'000	2001 HK\$'000
Unlisted investments, at cost	1	1
Amounts due from subsidiaries	<u>190,673</u>	<u>192,875</u>
	190,674	192,876
Less: impairment loss	<u>(183,918)</u>	<u>(145,752)</u>
	<u>6,756</u>	<u>47,124</u>

Based on the information available, the directors are not aware of any debt securities outstanding at the end of the year or at any time during the year.

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

Particulars of the principal subsidiaries of the Company at 31st March, 2002 are set out in note 34.

15 Investments in jointly controlled entities

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Share of net assets	—	2,122
Impairment loss recognised	<u>—</u>	<u>(2,122)</u>
	<u>—</u>	<u>—</u>

The principal jointly controlled entity at 31st March, 2001 was as follows:

Name	Place of incorporation/ establishment	Principal activities and place of operation	Effective percentage of interests in ownership voting power/ profit sharing
izzue.com (Hong Kong) Limited	Hong Kong	Development and operation of a vertical e-commerce internet portal in the fashion and lifestyle category in Hong Kong	50%

16 Other investments

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Unlisted shares	16,346	16,346
Impairment loss recognised	(16,346)	—
	<u>—</u>	<u>16,346</u>
Listed shares in Hong Kong	35,410	35,410
Disposal during the year	(4,735)	—
Unrealised loss	(23,813)	—
	<u>6,862</u>	<u>35,410</u>
	<u>6,862</u>	<u>51,756</u>
Market value of listed shares	<u>6,862</u>	<u>35,410</u>

At 31st March, 2002, the particulars of the principal investments are as follows:

Name	Place of incorporation	Principal activities	Particulars of issued shares held	Interest held
DigiTel Group Limited	The Cayman Islands	Provision of system integration services	40,362,571 ordinary shares of HK\$0.1 each	3.9%

For the year ended 31st March, 2002

17 Trade and other receivables

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Trade receivables	2,406	444
Other receivables	10,917	594
	<u>13,323</u>	<u>1,038</u>

As explained in note 2, no aged analysis in respect of trade receivables is presented as no sufficient information is available.

18 Trade and other payables

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Trade payables	2,255	—
Other payables	27,582	1,661
	<u>29,837</u>	<u>1,661</u>

As explained in note 2, no aged analysis in respect of trade payables is presented as no sufficient information is available.

19 Amount due to a shareholder

THE GROUP

The amount due to a shareholder is unsecured, interest-free and repayable on demand.

20 Short-term loan

THE GROUP

As explained in note 2, no sufficient information is available for description of the terms of the loan.

21 Share capital

	Ordinary shares of HK\$0.01 each		Convertible cumulative non-voting preference shares of HK\$1.00 each		Convertible cumulative non-voting preference shares of HK\$0.10 each		Total HK\$'000
	No. of shares	HK\$'000	No. of shares (Note 21(a))	HK\$'000	No. of shares (Note 21(b))	HK\$'000	
Authorised:							
At 1st April, 2000, 31st March, 2001 and 31st March, 2002	<u>3,000,000,000</u>	<u>30,000</u>	<u>50,000,000</u>	<u>50,000</u>	<u>350,000,000</u>	<u>35,000</u>	
Issued and fully paid:							
At 1st April, 2000	516,607,659	5,166	42,218,700	42,219	233,333,333	23,333	70,718
Issue of ordinary shares of HK\$0.01 each (Note 21(c)(i))	23,366,700	234	—	—	—	—	234
Conversion of preference shares of HK\$1.00 each (Note 21(c)(ii) and (iii))	82,000,000	820	(18,040,000)	(18,040)	—	—	(17,220)
Conversion of preference shares of HK\$0.10 each (Note 21(c)(ii) and (iv))	115,000,000	1,150	—	—	(115,000,000)	(11,500)	(10,350)
Exercise of options (Note 21(c)(v))	<u>5,120,000</u>	<u>51</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>51</u>
At 31st March, 2001 and 31st March, 2002	<u>742,094,359</u>	<u>7,421</u>	<u>24,178,700</u>	<u>24,179</u>	<u>118,333,333</u>	<u>11,833</u>	<u>43,433</u>

Notes:

- a. The terms of the preference shares of HK\$1.00 each are set out in the relevant prospectus dated 3rd October, 1996 issued by the Company to its shareholders. The holders of the preference shares are entitled to convert their shares into ordinary shares at a conversion price of HK\$0.22 as adjusted. To the extent that the preference shares have not been converted on or prior to 15th October, 2001, they shall be, subject to the Act, redeemed at par on 22nd October, 2001.

21 Share capital *(continued)*

- b. The terms of the preference shares of HK\$0.10 each issued on 17th December, 1999 at a price of HK\$0.30 each ("Principal Amount") are as follows:
- (i) the preference shares will be entitled to a cumulative annual dividend of 5% on the Principal Amount, payable semi-annually in arrears but will not be entitled to any further dividend distribution.
 - (ii) such dividend shall be paid subject to the approval of the board of directors of the Company and the fulfilment of Section 54 of the Act.
 - (iii) the holders of such preference shares will be entitled to convert their shares in multiple of 100,000 into ordinary shares at any time on or prior to the fifth anniversary of the date of issue at a conversion price of HK\$0.30 per share. To the extent that the preference shares have not been converted on or prior to the fifth anniversary of their issue date, they shall be, subject to the Act, redeemed by the Company at the Principal Amount on that date.
- c. The movement in the shares during the year ended 31st March, 2001 were as follows:
- (i) On 4th May, 2000, the Company entered into a share exchange agreement with an independent third party, BroadVision, Inc. ("BroadVision") pursuant to which BroadVision subscribed for 23,366,700 new ordinary shares of HK\$0.01 each in the Company at an issue price of HK\$1.00 per ordinary share. The consideration amounting to HK\$23,366,700 was settled by way of an issue and allotment of 76,665 new shares in BroadVision at an issue price of US\$39.13125 per BroadVision share.
 - (ii) On 13th June, 2000, a total of 97,000,000 new ordinary shares of HK\$0.01 each in the Company were issued and allotted upon the conversion of 7,040,000 preference shares of HK\$1.00 each at a conversion price of HK\$0.22 per ordinary share and the conversion of 65,000,000 preference shares of HK\$0.10 each at conversion price of HK\$0.30 per ordinary share which is equal to the Principal Amount.
 - (iii) On 19th June, 2000, a total of 50,000,000 new ordinary shares of HK\$0.01 each in the Company were issued and allotted upon the conversion of 11,000,000 preference shares of HK\$1.00 each at a conversion price of HK\$0.22 per ordinary share.
 - (iv) On 30th October, 2000, a total of 50,000,000 new ordinary shares of HK\$0.01 each in the Company were issued and allotted upon the conversion of 50,000,000 preference shares of HK\$0.10 each at conversion price of HK\$0.30 per ordinary share which is equal to the Principal Amount.
 - (v) During the year, 5,120,000 new ordinary shares of HK\$0.01 each were issued upon the exercise of share options.

22 Share options

At 31st March, 2002, the following options to subscribe for shares were outstanding under the Company's share option scheme:

Date of grant	Notes	Exercise price per share HK\$	Balance outstanding at 31st March, 2002
5th January, 2000	(1)	2.65	7,000,000
20th March, 2000	(2)	1.32	5,500,000
7th August, 2000	(2)	0.55	8,780,000
31st October, 2000	(2)	0.145	5,200,000
			<u>26,480,000</u>

Notes:

- The share options are exercisable from the first anniversary of the date of grant to the business day preceding the third anniversary of the date of grant, of which a maximum of 33 $\frac{1}{3}$ % and 33 $\frac{1}{3}$ % thereof are exercisable from the first and second anniversaries of the date of grant respectively. The remaining 33 $\frac{1}{3}$ % are exercisable within three months before the third anniversary of the date of grant.
- The share options are exercisable from the date of grant to the business day preceding the third anniversary of the date of grant.
- No options were granted during the year. All the outstanding share option lapsed as at the date of this annual report. The Company cannot grant any more options under the Scheme as the Scheme has expired on 2nd January, 2002.

For the year ended 31st March, 2002

23 Reserves

	Contributed surplus <i>HK\$ '000</i>	Share premium account <i>HK\$ '000</i>	Asset revaluation reserve <i>HK\$ '000</i>	Capital reserve <i>HK\$ '000</i>	Accumulated losses <i>HK\$ '000</i>	Total <i>HK\$ '000</i>
THE GROUP						
At 1st April, 2000						
— As previously stated	51,111	213,894	16,422	806	(62,342)	219,891
— Prior year adjustments in respect of preference shares dividends accrued	—	—	—	—	4,005	4,005
— As restated	51,111	213,894	16,422	806	(58,337)	223,896
Premium on issue of ordinary shares (note 21(c)(i))	—	23,133	—	—	—	23,133
Premium on conversion of preference shares (note 21(c)(ii), (iii) and (iv))	—	27,570	—	—	—	27,570
Exercise of share options (note 21(c)(v))	—	1,479	—	—	—	1,479
Disposal of subsidiaries	—	—	(16,422)	(806)	—	(17,228)
Loss for the year	—	—	—	—	(243,181)	(243,181)
At 31st March, 2001 and 1st April, 2001	51,111	266,076	—	—	(301,518)	15,669
Loss for the year	—	—	—	—	(55,914)	(55,914)
At 31st March, 2002	<u>51,111</u>	<u>266,076</u>	<u>—</u>	<u>—</u>	<u>(357,432)</u>	<u>(40,245)</u>

23 Reserves (continued)

	Contributed surplus <i>HK\$ '000</i>	Share premium account <i>HK\$ '000</i>	Accumulated losses <i>HK\$ '000</i>	Total <i>HK\$ '000</i>
THE COMPANY				
At 1st April, 2000				
— As previously stated	51,111	213,894	(18,648)	246,357
— Prior year adjustments in respect of preference shares dividends accrued	—	—	4,005	4,005
— As restated	51,111	213,894	(14,643)	250,362
Premium on issue of ordinary shares (note 21(c)(i))	—	23,133	—	23,133
Premium on conversion of preference shares (note 21(c) (ii), (iii) and (iv))	—	27,570	—	27,570
Exercised of share options (note 21(c)(v))	—	1,479	—	1,479
Loss for the year	—	—	(298,863)	(298,863)
At 31st March, 2001 and 1st April, 2001	51,111	266,076	(313,506)	3,681
Loss for the year	—	—	(43,851)	(43,851)
At 31st March, 2002	<u>51,111</u>	<u>266,076</u>	<u>(357,357)</u>	<u>(40,170)</u>

The contributed surplus of the Company represents the difference between the consolidated shareholders' funds of the subsidiaries at the date on which the corporate reorganisation became effective and the nominal amount of the Company's shares issued under the reorganisation.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus 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:

- (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) 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.

At the balance sheet date, in the opinion of the directors, the Company had no reserves available for distribution to shareholders.

For the year ended 31st March, 2002

24 Deferred taxation

At the balance sheet date, the net potential deferred tax asset in respect of timing differences, which have not been recognised, is analysed as follows:

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
Tax effect of timing differences attributable to:		
Tax losses	<u>860</u>	<u>860</u>

The net potential deferred tax asset has not been recognised in the financial statements as it is not certain that the asset will be realised in the foreseeable future.

The net potential deferred tax credit arising during the year, which has not been recognised in the income statement, is as follows:

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
Tax effect of timing differences attributable to:		
Tax loss arising	<u>—</u>	<u>96</u>

The Company had no significant unprovided deferred taxation for the year or at the balance sheet date.

25 Reconciliation of loss before taxation to net cash inflow (outflow) from operating activities

	2002 HK\$'000	2001 HK\$'000
Loss before taxation	(55,914)	(246,761)
Interest income	(24)	(2,939)
Interest expenses	196	3,494
Share of loss of jointly controlled entities	—	6,411
Impairment loss recognised in respect of jointly controlled entities	—	2,122
Loss on disposal of other investments	2,175	30,427
Impairment loss recognised in respect of other investments	16,346	—
Unrealised loss on other investments	23,813	34,429
Depreciation and amortisation	109	15,587
Loss on disposal of property, plant and equipment	416	21,389
Loss on disposal of subsidiaries	1,224	48,132
Write-off of deferred development costs	—	4,315
Allowance for doubtful debts	—	8,096
Increase in trade and other receivables	(12,915)	(6,219)
Decrease in asset held for sale	—	6,326
Decrease in inventories	—	2,314
Decrease in amount due from a jointly controlled entity	—	1,006
Increase (decrease) in trade and other payables	29,050	(11,567)
Net cash inflow (outflow) from operating activities	<u>4,476</u>	<u>(83,438)</u>

For the year ended 31st March, 2002

26 Disposal of subsidiaries

	2002 HK\$'000	2001 HK\$'000
Net assets disposed of:		
Property, plant and equipment	428	158,990
Inventories	—	3,965
Trade receivable	443	4,528
Prepayments deposits and other receivables	187	16,024
Bank and cash balances	4,079	11,931
Trade and bills payables	—	(10,208)
Accrued liabilities and other payables	(874)	(16,897)
Obligations under finance leases	—	(6,036)
Short term bank loans, secured	—	(40,240)
Amounts due to related companies	(2,055)	(784)
Taxation	(34)	—
Minority interests	—	(15,348)
	<u>2,174</u>	<u>105,925</u>
Reserves released on disposal:		
Capital reserves	—	(806)
Asset revaluation reserves	—	(16,422)
Loss on disposal	(1,224)	(48,132)
	<u>950</u>	<u>40,565</u>
Satisfied by:		
Cash	<u>950</u>	<u>40,565</u>
Analysis of net cash (outflow) inflow in respect of the disposal of subsidiaries:		
	2002 HK\$'000	2001 HK\$'000
Cash consideration received	950	40,565
Bank and cash balances of disposed subsidiaries	(4,079)	(11,931)
Net cash (outflow) inflow in respect of the disposal of subsidiaries	<u>(3,129)</u>	<u>28,634</u>

27 Analysis of changes in financing during the year

	Share capital including premium <i>HK\$'000</i>	Amount due to a shareholder <i>HK\$'000</i>	Other loans <i>HK\$'000</i>	Short- term loan <i>HK\$'000</i>	Amounts due to related companies <i>HK\$'000</i>	Bank loans <i>HK\$'000</i>	Obligations under finance leases <i>HK\$'000</i>	Minority interests <i>HK\$'000</i>
At 31st March, 2000	284,612	—	28,382	—	3,703	34,579	8,259	21,017
Issue of ordinary shares on acquisition of investment	23,367	—	—	—	—	—	—	—
Net cash inflow (outflow) from financing	1,530	—	(28,382)	—	(2,919)	5,661	(2,223)	—
Disposal of subsidiaries	—	—	—	—	(784)	(40,240)	(6,036)	(15,348)
Minority share of loss	—	—	—	—	—	—	—	(3,580)
At 31st March, 2001 and 1st April, 2001	309,509	—	—	—	—	—	—	2,089
Net cash inflow from financing	—	10,925	—	1,414	—	—	—	—
Disposal of a subsidiary	—	—	—	—	—	—	—	(2,089)
At 31st March, 2002	<u>309,509</u>	<u>10,925</u>	<u>—</u>	<u>1,414</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

28 Retirement benefits scheme

With effect from the 1st December, 2000, the Group has set up a defined contribution retirement scheme, the Mandatory Provident Fund Scheme (the "MPF Scheme") for all the eligible employees of the Group. The Group did not provide retirement benefits for its employees prior to set up of the MPF Scheme.

Under the MPF Scheme, the employees are required to contribute 5% of their monthly salaries up to maximum of HK\$1,000 per employee and they can choose to make additional contributions. The employer's monthly contributions are calculated at 5% of each employee's monthly salaries up to a maximum of HK\$1,000 (the "mandatory contributions"). The employees are entitled to 100% of the employer's mandatory contributions upon their retirement at the age of 65 years old, death or total incapacity.

As at 31st March, 2002, the Group's contributions to the MPF Scheme amounted to HK\$25,000 (2001: HK\$180,000).

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29 Operating lease commitments

As explained in note 2, no sufficient information in respect to the Operating Lease Commitments for the Company and the Group is available. In the prior year, at the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Within one year	—	393
In the second to fifth year inclusive	—	393
	<u>—</u>	<u>393</u>
	<u>—</u>	<u>786</u>

The Company had no significant operating lease commitment at 31st March, 2001.

30 Capital commitments

As explained in note 2, no sufficient information is available in respect of the Capital Commitments of the Group and the Company. At the balance sheet date, the Company had capital commitments based on the disclosure in the Interim Report announced on 13th May, 2002 ("Interim Report") as follows:

	THE COMPANY	
	2002 HK\$'000	2001 HK\$'000
Contracted for but not provided in the financial statements in respect of the capital contributions to its PRC subsidiaries	<u>30,600</u>	<u>—</u>

31 Post balance sheet event

- (a) Pursuant to a special general meeting (“SGM”) of the Company held on 21st June, 2002, all directors of the Company (except one independent non-executive director) (“Former Directors”) resigned prior to the SGM or were removed at the SGM and a new board of directors was elected. An investigation committee was established at a board meeting held on 24th June, 2002 to implement a thorough review of the current financial position and operations of the Company and its subsidiaries (the “Group”). However, as mentioned in note 2 (b), despite repeated requests and demands, the current directors continue to be denied access to the books and records as of the date of the financial statements.
- (b) The new board of directors after the SGM has noted that there was a purported board meeting held on 14th June, 2002 (6 days before the SGM to remove all the then directors), of which Mr. Hon Tung Keung and Mr. Chen Jun (the former chairman and executive director respectively) formed a quorum, to approve a disposal of the 100% owned Leap Communications International Inc to Harvest Century Investment Limited at a consideration of USD1.00. Leap Communications International Inc holds 100% of Leap Telecommunications (Shanghai) Limited, which is one of the principal subsidiaries of the Company. The new board of directors, after certain investigation and enquiry, believe that such disposal was not duly approved and authorized by all the board members at that time. It was also noted that certain former directors at that time did not have knowledge about this disposal. The current directors do not have any knowledge of Harvest Century Investment Limited nor its shareholders. The directors are seeking professional advice in this regard.

32 Contingent liability

The current directors noted from an announcement dated 29th April, 2002 made by the former directors that a verbal demand notice was received from one of the creditors demanding immediate settlement of the outstanding debts of RMB9,600,000. The current directors do not have any knowledge or any documents to believe that such transaction is existing, valid and properly authorized. The current directors are also investigating certain purported transactions which were not properly approved by the Board, and recorded in the minute book. The current directors are seeking professional advice on these purported transactions.

For the year ended 31st March, 2002

33 Related party transactions

As explained in note 2, no sufficient information is available in respect of the related party transaction of the Group and the Company. Based on the disclosure in the Interim Report during the year, the Group has entered into the following transactions with related parties:

	2002 HK\$'000	2001 HK\$'000
Provision of e-business solutions (<i>Note a</i>)		
— to investee companies	—	10,139
— to a jointly controlled entity	—	5,777
Purchase of goods	4,348	—
Rental expenses	645	—
Advances from a shareholder (<i>Note b</i>)	<u>5,691</u>	<u>—</u>

Notes:

- a. Provision of e-business solutions to investee companies and a jointly controlled entity were conducted in the normal course of business and at terms mutually agreed between the parties.
- b. Advances from a shareholder include the capital contributions and operating expenses of certain PRC subsidiaries.

34 Particulars of subsidiaries

Particulars of the Company's subsidiaries at 31st March, 2002 are as follows:

Name of the company	Place of incorporation/ registration	Principal activities	Particulars of issued share capital/ registered capital	Interest held	
				Directly	Indirectly
innovator.com Limited	The British Virgin Islands	Investment holding	100 shares of US\$1.00 each	100%	—
Leap Communications International Inc.	The British Virgin Islands	Investment holding	1 share of US\$1.00 each	100%	—
Leap Construction Group Ltd.	The British Virgin Islands	Inactive	100 shares of US\$1.00 each	—	100%
Leap Information Technologies Inc.	The British Virgin Islands	Investment holding	1 shares of US\$1.00 each	100%	—
Leap Multimedia International Inc.	The British Virgin Islands	Investment holding	1 shares of US\$1.00 each	100%	—
Leap Strategic Holdings Limited	The British Virgin Islands	Investment holding	100 shares of US\$1.00 each	100%	—
netalone.com (BVI) Limited	The British Virgin Islands	Investment holding	1 share of US\$1.00 each	100%	—
netalone.com (Nominees) Ltd.	The British Virgin Islands	Inactive	1 share of US\$1.00 each	100%	—
Leap Information Technologies (Shanghai) Ltd.*	The PRC	Distribution of computer related products	HK\$10,000,000	—	100%
Leap Multimedia (Shanghai) Ltd.*	The PRC	Provision for professional services	HK\$10,000,000	—	100%
Leap Telecommunications (Shanghai) Limited*	The PRC	Distribution of computer related products	HK\$16,000,000	—	100%
netalone.com Management Limited*	Hong Kong	Provision of management services	2 ordinary shares of HK\$1.00 each	100%	—

* netalone.com Management Limited operates in Hong Kong and the PRC subsidiaries operate in the PRC while all other subsidiaries operate in the British Virgin Islands.