

Notes to the Financial Statements

For the year ended 31 March 2003

1. GENERAL

The Company is incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 29.

2. ADOPTION OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first time, the following new and revised Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants:

| | |
|-------------------|--------------------------------------|
| SSAP 1 (Revised) | Presentation of financial statements |
| SSAP 11 (Revised) | Foreign currency translation |
| SSAP 15 (Revised) | Cash flow statements |
| SSAP 34 | Employee benefits |

The adoption of these new and revised SSAPs has resulted in a change in the format of presentation of the cash flow statement and the inclusion of the statement of changes in equity, but has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required. Comparative figures for the prior period have been restated in order to achieve a consistent presentation.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation 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 31 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 with the Group have been eliminated on consolidation.

Notes to the Financial Statements

For the year ended 31 March 2003

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition

Dividend income from investments in securities is recognised when the Group's rights to receive payment have been established.

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

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated 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 value, using the straight line method, at the following rates per annum:

| | |
|-------------------------|---------|
| Leasehold improvements | 33% |
| Furniture and equipment | 15%–25% |

The gain or loss arising on the 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.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss. Income from investments in subsidiaries is accounted for when the Company's right to receive the dividend payment has been established.

Interests in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates less negative goodwill arising from acquisition and any identified impairment losses.

Negative goodwill

Negative goodwill arising from acquisition of associates represented the excess of the Group's interest in the fair value of the identifiable assets and liabilities of associate at the date of acquisition over the cost of acquisition. Negative goodwill arising on acquisition of an associate is deducted from the carrying value of that associate.

Notes to the Financial Statements

For the year ended 31 March 2003

3. 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 economic lives 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 as income immediately.

Negative goodwill arising from acquisition of associates will be credited to the income statement at the time of disposal of the relevant associates.

Land held for development

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

Investments in securities

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

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost less any impairment loss. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

All securities other than held-to-maturity debt securities are measured at fair value at subsequent reporting dates.

When securities are held for trading purposes, unrealised gains and losses are included in net profit or loss for the year. For other securities, unrealised gains and losses are dealt with in equity until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in net profit or loss for the year.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its 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. An impairment loss is recognised as an expense immediately.

Notes to the Financial Statements

For the year ended 31 March 2003

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment *(continued)*

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.

Taxation

The charge for taxation is based on the results for the year after adjusting for items which are non-assessable or disallowed. Timing differences arise from the recognition for the 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.

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

In preparing the consolidated financial statements, the results of operations outside Hong Kong are translated using the average exchange rates for the year. The assets and liabilities of the operations outside Hong Kong are translated using the rates ruling on the balance sheet date. On consolidation, any differences arising on translation of operations outside Hong Kong are dealt with in the translation reserve.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight line basis over the lease terms.

Retirement benefit scheme

Payments to Mandatory Provident Fund are charged as an expense as they fall due.

Notes to the Financial Statements

For the year ended 31 March 2003

4. TURNOVER

Turnover represents the amount received and receivable for dividend income and interest income for the year. An analysis of turnover is as follows:

| | <u>2003</u> HK\$'000 | <u>2002</u> HK\$'000 |
|---|-------------------------|-------------------------|
| Dividend income from listed investments in securities | 840 | - |
| Interest income | 4,087 | 287 |
| | <u>4,927</u> | <u>287</u> |

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

(a) Geographical segments

The Group is engaged in the corporate and strategic investment holding. Corporate and strategic investment holding represents the investments in securities and development of properties for investment potential. The directors of the Company consider the geographical segments by location of assets as source of the Group's risks and return.

A geographical breakdown of the Group's turnover and segment results by geographical market is as follows:

| | <u>Turnover</u> | | <u>Segment results</u> | |
|--|-------------------------|-------------------------|-------------------------|-------------------------|
| | <u>2003</u> HK\$'000 | <u>2002</u> HK\$'000 | <u>2003</u> HK\$'000 | <u>2002</u> HK\$'000 |
| The People's Republic of China (the "PRC"), other than | | | | |
| Hong Kong | - | - | (10,164) | (20,369) |
| Hong Kong | 4,927 | 287 | (18,441) | (16,690) |
| Australia | - | - | 244 | (889) |
| | <u>4,927</u> | <u>287</u> | | |
| Loss from operations | | | (28,361) | (37,948) |
| Finance costs | | | (10,697) | (24,171) |
| Gain on disposal of interest in an associate (<i>note</i>) | | | 38,442 | - |
| Share of results of an associate (<i>note</i>) | | | (44,603) | (115,257) |
| Loss on legal proceedings | | | (30,906) | - |
| Amount received in connection with legal proceedings | | | 29,790 | - |
| Impairment loss recognised in respect of interest in an associate (<i>note</i>) | | | - | (171,231) |
| Loss before taxation | | | <u>(46,335)</u> | <u>(348,607)</u> |

Note: These amounts were arised from interest in an associate listed in Hong Kong.

Notes to the Financial Statements

For the year ended 31 March 2003

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Geographical segments (continued)

The following table provides an analysis of segment assets and liabilities, analysed by the geographical areas in which the assets and liabilities are located:

| | Carrying amount of segment assets | | Carrying amount of segment liabilities | |
|---|--------------------------------------|------------------|---|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 | 2003 HK\$'000 | 2002 HK\$'000 |
| The PRC, other than Hong Kong | 53,170 | 60,189 | 6,271 | 3,182 |
| Hong Kong | 87,590 | 301,803 | 4,163 | 18,132 |
| Australia | - | 1,711 | - | - |
| | <u>140,760</u> | <u>363,703</u> | <u>10,434</u> | <u>21,314</u> |
| Other borrowings and amount due to a related company | | | <u>5,626</u> | <u>192,258</u> |
| | | | <u>16,060</u> | <u>213,572</u> |

Other information

| | The PRC, other than Hong Kong HK\$'000 | Hong Kong HK\$'000 | Australia HK\$'000 | Total HK\$'000 |
|--|---|-----------------------|-----------------------|-------------------|
| <u>Year ended 31 March 2003</u> | | | | |
| Capital additions | 2,765 | 370 | - | 3,135 |
| Depreciation | - | 69 | - | 69 |
| Impairment losses recognised in respect of: | | | | |
| Land held for development | 9,765 | - | - | 9,765 |
| Investments in securities | - | 1,001 | - | 1,001 |
| <u>Year ended 31 March 2002</u> | | | | |
| Depreciation | - | 19 | - | 19 |
| Impairment losses recognised in respect of: | | | | |
| Land held for development | 20,000 | - | - | 20,000 |
| Investments in securities | - | 10,000 | 889 | 10,889 |

(b) Business segments

Since the Group only engaged in the corporate and strategic investment holding, no analysis of revenue, assets and liabilities by business segment is presented.

Notes to the Financial Statements

For the year ended 31 March 2003

6. LOSS FROM OPERATIONS

| | 2003 <i>HK\$'000</i> | 2002 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Loss from operations has been arrived at after charging: | | |
| Directors' emoluments | 1,148 | 3,635 |
| Contributions to Mandatory Provident Fund | 33 | 69 |
| Other staff costs | 1,204 | 1,473 |
| | <u>2,385</u> | <u>5,177</u> |
| Total staff costs | 2,385 | 5,177 |
| Auditors' remuneration | 990 | 750 |
| Depreciation | 69 | 19 |
| Minimum lease payments under operating leases in respect of land and buildings | 304 | 614 |
| | <u>304</u> | <u>614</u> |

(i) Information regarding directors' emoluments

| | 2003 <i>HK\$'000</i> | 2002 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Directors' emoluments: | | |
| Directors' fees | | |
| Executive | - | - |
| Non-executive | - | - |
| Independent non-executive | 300 | 291 |
| | <u>300</u> | <u>291</u> |
| Other emoluments to executive directors | | |
| Salaries and other benefits | 826 | 3,194 |
| Contributions to Mandatory Provident Fund | 22 | 150 |
| | <u>848</u> | <u>3,344</u> |
| Total emoluments | <u>1,148</u> | <u>3,635</u> |

The emoluments of the directors were within the following bands:

| | Number of directors | |
|--------------------------------|---------------------|----------|
| | 2003 | 2002 |
| HK\$nil to HK\$1,000,000 | 9 | 4 |
| HK\$1,000,001 to HK\$1,500,000 | - | 1 |
| HK\$1,500,001 to HK\$2,000,000 | - | 1 |
| | <u>9</u> | <u>6</u> |

Notes to the Financial Statements

For the year ended 31 March 2003

6. LOSS FROM OPERATIONS (continued)

(ii) Information regarding employees' emoluments:

Of the five individuals with the highest emoluments in the Group, two (2002: two) were directors of the Company whose emoluments are included in note 6(i) above. The emoluments of the remaining three (2002: three) individuals were as follows:

| | <u>2003</u> HK\$'000 | <u>2002</u> HK\$'000 |
|---|-------------------------|-------------------------|
| Salaries and other benefits | 780 | 1,152 |
| Contributions to Mandatory Provident Fund | <u>17</u> | <u>53</u> |
| | <u><u>797</u></u> | <u><u>1,205</u></u> |

The emoluments of each of the three individuals fell within the band of nil to HK\$1,000,000.

7. FINANCE COSTS

| | <u>2003</u> HK\$'000 | <u>2002</u> HK\$'000 |
|--|-------------------------|-------------------------|
| Interest on borrowings wholly repayable within five years: | | |
| Bank and other borrowings | (10,319) | (23,793) |
| Amount due to a related company | <u>(378)</u> | <u>(378)</u> |
| | <u><u>(10,697)</u></u> | <u><u>(24,171)</u></u> |

8. GAIN ON DISPOSAL OF INTEREST IN AN ASSOCIATE

During the year, the Group disposed of its interest in an associate through disposal of the entire share capital of a wholly owned subsidiary to an independent third party. The gain on disposal is computed as follows:

| | HK\$'000 |
|---|-----------------------|
| Net assets disposed of | |
| Interest in an associate | 217,039 |
| Investments in securities | <u>352</u> |
| | 217,391 |
| Reserves attributable to the Group and released upon disposal | <u>30,739</u> |
| | 248,130 |
| Gain on disposal of interest in an associate | <u>38,442</u> |
| Cash consideration received | <u><u>286,572</u></u> |

Other than cash consideration received, the associate disposed of did not have any significant impact on the Group's cash flows. Share of loss of the associate for the year was amounted to HK\$44,603,000.

Notes to the Financial Statements

For the year ended 31 March 2003

9. LOSS ON LEGAL PROCEEDINGS/AMOUNT RECEIVED IN CONNECTION WITH LEGAL PROCEEDINGS

Pursuant to a judgement dated 10 April 2002 in favour of a third party in connection with a claim for a sum of HK\$23,636,122 for the Company's cheque payment on behalf of former associates and the accrued interest thereon, the Group was ordered to pay HK\$23,636,122, interest of HK\$6,153,480 and the Group's share of legal costs of HK\$1,115,751. An aggregate amount of HK\$29,789,602, excluding legal costs, has been paid by the Company to settle the aforesaid claim.

Pursuant to a deed of undertaking and indemnity dated 26 July 1999 (the "Deed") executed by Mr. Chiu Tao, a director of the Company, Mr. Chiu has undertaken to fully indemnify the Group against all losses, liabilities, damages, costs and expenses (save legal costs and expenses only) suffered or incurred by the Group as a result of or in connection with the claims. The Company has exercised its rights under the Deed and demanded Mr. Chiu to honour the undertaking and indemnity as set out therein. Mr. Chiu has paid HK\$29,789,602 to the Company in accordance with the Deed during the year.

10. TAXATION CREDIT

The taxation credit in prior year represented the share of taxation credit attributable to an associate of the Group.

No provision for taxation has been made by the Group in the financial statements since the Company and its subsidiaries did not have any assessable profits arising in Hong Kong for the year.

At the balance sheet date, the Group's deferred taxation asset not recognised in respect of tax losses available to set off against future assessable profits was approximately HK\$10,172,000 (2002: HK\$10,172,000). Deferred taxation asset has not been recognised in the financial statements as it is not certain that the relevant tax losses will be utilised in the foreseeable future.

11. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss for the year of approximately HK\$46,335,000 (2002: HK\$347,920,000) and 5,806,770,004 (2002: 5,806,770,004) shares in issue during the year.

No diluted loss per share figures have been presented for either 2003 or 2002 because the exercise price of the Company's share options outstanding was higher than the average market price of the Company's shares in either 2003 or 2002.

Notes to the Financial Statements

For the year ended 31 March 2003

12. PROPERTY, PLANT AND EQUIPMENT

| | Leasehold improvements | Furniture and equipment | Total |
|------------------------|---------------------------|-------------------------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| THE GROUP | | | |
| COST | | | |
| At 1 April 2002 | – | 107 | 107 |
| Additions | 262 | 108 | 370 |
| | <hr/> | <hr/> | <hr/> |
| At 31 March 2003 | 262 | 215 | 477 |
| | <hr/> | <hr/> | <hr/> |
| DEPRECIATION | | | |
| At 1 April 2002 | – | 52 | 52 |
| Provided for the year | 41 | 28 | 69 |
| | <hr/> | <hr/> | <hr/> |
| At 31 March 2003 | 41 | 80 | 121 |
| | <hr/> | <hr/> | <hr/> |
| NET BOOK VALUES | | | |
| At 31 March 2003 | 221 | 135 | 356 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |
| At 31 March 2002 | – | 55 | 55 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |
| THE COMPANY | | | |
| COST | | | |
| At 1 April 2002 | – | 87 | 87 |
| Additions | 262 | 108 | 370 |
| | <hr/> | <hr/> | <hr/> |
| At 31 March 2003 | 262 | 195 | 457 |
| | <hr/> | <hr/> | <hr/> |
| DEPRECIATION | | | |
| At 1 April 2002 | – | 43 | 43 |
| Provided for the year | 41 | 28 | 69 |
| | <hr/> | <hr/> | <hr/> |
| At 31 March 2003 | 41 | 71 | 112 |
| | <hr/> | <hr/> | <hr/> |
| NET BOOK VALUES | | | |
| At 31 March 2003 | 221 | 124 | 345 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |
| At 31 March 2002 | – | 44 | 44 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

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For the year ended 31 March 2003

13. LAND HELD FOR DEVELOPMENT

| | THE GROUP | |
|------------------------------|---------------|---------------|
| | 2003 | 2002 |
| | HK\$'000 | HK\$'000 |
| Cost | 93,765 | 91,000 |
| Impairment losses recognised | (40,765) | (31,000) |
| | <u>53,000</u> | <u>60,000</u> |

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

| <u>Location</u> | <u>Use</u> | <u>Area</u> | <u>Tenure</u> | <u>Attributable interest of the Group</u> |
|---|---|-----------------------|-------------------|---|
| A development site situated in Hua Qiao Cun, Ban Qiao Town, Taicang City, Jiangsu Province, 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 through 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 2003. According to a legal opinion obtained from the Group's PRC legal advisors, the business licenses 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 State Land 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.

Land held for development was valued at their open market value, existing state basis, at 31 March 2003 by DTZ Debenham Tie Leung Limited, a firm of international property advisors. This valuation gave rise to a revaluation decrease of HK\$9,765,000 (2002: HK\$20,000,000). In the opinion of the directors of the Company, the revaluation decrease of HK\$9,765,000 (2002: HK\$20,000,000) represents an impairment loss of the land held for development and, therefore, has been charged to the consolidated income statement.

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14. INTERESTS IN SUBSIDIARIES

| | THE COMPANY | |
|-------------------------------|-----------------|------------------|
| | 2003 | 2002 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Unlisted shares, at cost | 13,838 | 13,838 |
| Amounts due from subsidiaries | 462,785 | 1,262,619 |
| | <u>476,623</u> | <u>1,276,457</u> |
| Impairment losses recognised | (350,905) | (951,767) |
| | <u>125,718</u> | <u>324,690</u> |

The amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayment. In the opinion of directors, the Company will not demand for repayment of the amounts within the next twelve months from the balance sheet date. Accordingly, the amounts are classified as non-current assets.

The impairment losses are recognised to the extent of the shortfall of the estimated recoverable amounts from subsidiaries over the carrying values of interests in subsidiaries.

Particulars of the Company's principal subsidiaries at 31 March 2003 are set out in note 29.

15. INTEREST IN AN ASSOCIATE

| | THE GROUP | |
|---|-----------------|-----------------|
| | 2003 | 2002 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Share of net assets | – | 445,088 |
| Negative goodwill on acquisition | – | (2,380) |
| | <u>–</u> | <u>442,708</u> |
| Impairment losses recognised | – | (171,231) |
| | <u>–</u> | <u>271,477</u> |
| Market value of the Group's associate listed in Hong Kong | – | 184,773 |

The Group's associate was disposed of during the year. Details of the disposal are set out in note 8.

Notes to the Financial Statements

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16. AMOUNT DUE FROM AN ASSOCIATE

The amount was unsecured, interest free and had no fixed repayment terms.

17. INVESTMENTS IN SECURITIES

THE GROUP

| | Trading securities | | Non-trading securities | | Total | |
|--|--------------------|----------|------------------------|---------------|----------------|---------------|
| | 2003 | 2002 | 2003 | 2002 | 2003 | 2002 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Listed equity securities: | | | | | | |
| - in Hong Kong | 84,867 | - | 44,515 | 58,861 | 129,382 | 58,861 |
| - outside Hong Kong | - | - | - | 21,777 | - | 21,777 |
| | <u>84,867</u> | <u>-</u> | <u>44,515</u> | <u>80,638</u> | <u>129,382</u> | <u>80,638</u> |
| Impairment losses recognised | - | - | (44,515) | (77,272) | (44,515) | (77,272) |
| Carrying amount analysed for reporting purposes as current asset | <u>84,867</u> | <u>-</u> | <u>-</u> | <u>3,366</u> | <u>84,867</u> | <u>3,366</u> |
| Market value | <u>84,867</u> | <u>-</u> | <u>N/A</u> | <u>13,370</u> | <u>84,867</u> | <u>13,370</u> |

The directors considered that the market value of the non-trading securities do not represent their fair value as the underlying investments were quoted at the lowest quotable price of HK\$0.01 per unit throughout the year.

18. AMOUNT DUE TO A DIRECTOR

The amount is unsecured, interest free and has no fixed repayment terms.

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19. OTHER BORROWINGS

| | THE GROUP | | THE COMPANY | |
|-----------------------|------------------|------------------|------------------|------------------|
| | 2003 HK\$'000 | 2002 HK\$'000 | 2003 HK\$'000 | 2002 HK\$'000 |
| Secured other loans | - | 168,260 | - | 167,450 |
| Unsecured other loans | - | 18,750 | - | 18,750 |
| | - | 187,010 | - | 186,200 |

The maturity of the other loans is as follows:

| | | | | |
|---|---|----------|---|----------|
| On demand or within one year | - | 19,560 | - | 18,750 |
| More than one year, but not exceeding two years | - | 167,450 | - | 167,450 |
| | - | 187,010 | - | 186,200 |
| Less: Amounts due within one year shown under current liabilities | - | (19,560) | - | (18,750) |
| | - | 167,450 | - | 167,450 |

The amounts were fully repaid during the year.

20. AMOUNT DUE TO A RELATED COMPANY

The amount is unsecured, bears interest at 12% per annum and has no fixed repayment terms. The related company has undertaken not to demand for repayment until 1 April 2004. Therefore, the amount is classified as non-current.

21. SHARE CAPITAL

| | Number of ordinary shares | Issued and fully paid share capital HK\$'000 |
|--|------------------------------|---|
| Balance as at 1 April 2001 | 5,806,770,004 | 580,677 |
| Transfer to other capital reserve and accumulated losses resulting from cancelling the paid-up capital to the extent of HK\$0.09 on each issued and fully paid share | - | (522,609) |
| Balance as at 31 March 2002 and 31 March 2003 | 5,806,770,004 | 58,068 |

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21. SHARE CAPITAL *(continued)*

(i) Information regarding share capital

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).

(ii) Information regarding share options

Pursuant to the share option scheme of the Company, adopted on 12 January 1994, the directors of the Company may grant options to eligible employees of the Company and its subsidiaries, including directors of the Company and its subsidiaries, for the purpose of providing incentive, to subscribe for shares in the Company at a price of the higher of 80 percent of the average price of the closing prices of the shares of the Company on the Stock Exchange as stated in the Stock Exchange's quotation sheets for the five trading days immediately preceding the date of options offered or the nominal value of the share of the Company. Options granted may be exercised at a period of three years commencing on the expiry of twelve months after the acceptance of the option granted, which shall not be more than ten years from the date of adoption of the share option scheme. Options granted must be taken up within 28 days of the date of options offered, upon payment of HK\$10.

The maximum number of shares in respect of which options may be granted under the Scheme may not exceed 10% of the issued shares of the Company from time to time which have been duly allotted and issued. The maximum number of shares in respect of which options may be granted to any one employee or director may not exceed 25% of the aggregate number of shares in respect of which options are issued and issuable under the Scheme. At 31 March 2003, the number of shares issuable under share options granted under the Scheme was 13,050,000 (2002: 13,050,000), which represented approximately 0.2% (2002: 0.2%) of the Company's shares in issue.

Notes to the Financial Statements

For the year ended 31 March 2003

21. SHARE CAPITAL (continued)

(ii) Information regarding share options (continued)

Pursuant to the amendments upon the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") relating to the share option scheme in September 2001, no more options can be granted under the share option scheme.

Details of the Company's share options granted to a director of the Company are as follows:

| <u>Name of director</u> | <u>Date of grant</u> | <u>Exercise price</u> | <u>Exercisable period</u> | <u>Share options outstanding at 1.4.2002 and 31.3.2003</u> |
|-------------------------|----------------------|-----------------------|---------------------------|--|
| Chiu Tao | 23 April 1999 | HK\$0.10 | 23.4.2000 to 22.4.2003 | 13,050,000 |

No other share option was granted to other employee or director.

No charge is recognised in the income statement in respect of the value of options granted.

22. RESERVES

THE GROUP

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, in connection with the Group reorganisation completed in January 1994 (the "Reorganisation").

The other capital reserve of the Group represents the balance of the credit arising from the Capital Reduction.

Included in the Group's reserves are the following amounts attributable to the Group's associate:

| | <u>2003</u> <u>HK\$'000</u> | <u>2002</u> <u>HK\$'000</u> |
|---------------------------|--------------------------------|--------------------------------|
| Warrant reserve | - | 31,010 |
| Asset revaluation reserve | - | (51,777) |
| Translation reserve | - | (137) |
| Accumulated losses | - | (513,884) |
| | <u>-</u> | <u>(534,788)</u> |

Notes to the Financial Statements

For the year ended 31 March 2003

22. RESERVES (continued)

| | Share premium <i>HK\$'000</i> | Capital reserve <i>HK\$'000</i> <i>(note a)</i> | Other capital reserve <i>HK\$'000</i> <i>(note b)</i> | Accu- mulated losses <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|--|-------------------------------------|--|---|---|--------------------------|
| THE COMPANY | | | | | |
| At 1 April 2001 | 738,558 | 35,125 | - | (864,820) | (91,137) |
| Share premium set off against accumulated losses | (738,558) | - | - | 738,558 | - |
| Movement in equity arising from the Capital Reduction | - | - | 396,347 | 126,262 | 522,609 |
| Net loss for the year | - | - | - | (339,409) | (339,409) |
| At 31 March 2002 and 1 April 2002 | - | 35,125 | 396,347 | (339,409) | 92,063 |
| Net loss for the year | - | - | - | (25,431) | (25,431) |
| At 31 March 2003 | <u>-</u> | <u>35,125</u> | <u>396,347</u> | <u>(364,840)</u> | <u>66,632</u> |

Notes:

- (a) 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, 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 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.

In the opinion of the directors, the Company's reserve available for distribution to shareholders were as follows:

| | 2003 <i>HK\$'000</i> | 2002 <i>HK\$'000</i> |
|-----------------------|-------------------------|-------------------------|
| Capital reserve | 35,125 | 35,125 |
| Other capital reserve | 396,347 | 396,347 |
| Accumulated losses | <u>(364,840)</u> | <u>(339,409)</u> |
| | <u>66,632</u> | <u>92,063</u> |

Notes to the Financial Statements

For the year ended 31 March 2003

23. RETIREMENT BENEFIT SCHEME

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. The Mandatory Provident Fund Scheme is funded by monthly contribution from both employees and the Group at a rate of 5% of the employee's basic salary with maximum employee's contribution of not exceeding HK\$1,000 a month.

The retirement benefit cost charged to the income statement of HK\$55,000 (2002: HK\$219,000) represents contributions payable to the scheme by the Group at rate specified in the rules of the scheme.

24. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group and the Company had commitments for future minimum lease payments payable under non-cancellable operating leases which fall due as follows:

| | THE GROUP AND THE COMPANY | |
|---------------------------------------|------------------------------|-----------------|
| | 2003 | 2002 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| In respect of rented premises: | | |
| Within one year | 257 | - |
| In the second to fifth year inclusive | 392 | - |
| | <u>649</u> | <u>-</u> |

Operating lease payments represent rentals payable by the Group and the Company for their rented premises. Leases are negotiated for an average term of three years.

25. PENDING LITIGATION

- (a) 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. The Supplier was claiming damages of a sum of US\$3.6 million (approximately HK\$28 million) in respect of the Group's failure to take delivery of the cable modems.

Having considered legal counsel's advice, 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.

Notes to the Financial Statements

For the year ended 31 March 2003

25. PENDING LITIGATION *(continued)*

- (b) 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 of the Company 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 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.

26. PLEDGE OF ASSETS

At 31 March 2002, the Group pledged investments in 3,000,000,000 shares in China Online (Bermuda) Limited ("China Online"), all of the warrants of China Online held by the Group and shares in certain subsidiaries whose underlying assets are the Group's land held for development (note 13) for an other loan of HK\$168,260,000. The other loan was fully repaid during the year.

27. CONNECTED TRANSACTIONS AND RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following transactions with related parties:

| | <u>2003</u> | <u>2002</u> |
|---|-----------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Amount received from a director in connection with an indemnity for legal proceedings <i>(note a)</i> | 29,790 | - |
| Interest expenses payable to a related company <i>(note b)</i> | 378 | 378 |
| Reimbursement of expenses from an associate <i>(note c)</i> | <u>2,500</u> | <u>6,000</u> |

Notes to the Financial Statements

For the year ended 31 March 2003

27. CONNECTED TRANSACTIONS AND RELATED PARTY TRANSACTIONS *(continued)*

Notes:

- (a) Pursuant to the Deed executed by Mr. Chiu Tao, a director of the Company, 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 brought by a third party to pay a sum of HK\$23.6 million and accrued interest on 30 January 1999.
- (b) At the balance sheet date, the balance due to Wonson Investments Limited ("Wonson") in which Mr. Chiu Tao has a beneficial interest, amounted to HK\$5,626,000 (2002: HK\$5,248,000). The amount due to Wonson is unsecured and bears interest at 12% per annum. Wonson has undertaken not to demand for repayment until 1 April 2004.
- (c) During the year, the Company received a reimbursement of expenses of HK\$2,500,000 (2002: HK\$6,000,000) from China Online, a former associate. The reimbursement included the salaries of two directors of China Online who were also the directors of the Company, other staff costs and daily operating expenses. The reimbursement was charged on the actual cost incurred by the Company.

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

28. POST BALANCE SHEET EVENT

Pursuant to a subscription agreement dated 30 June 2003 entered into between the Company and Sunderland Properties Limited ("Sunderland"), Sunderland agreed to subscribe 1,150,000,000 ordinary shares in the Company at HK\$0.02 per share, subject to the approval of the Listing Committee of the Stock Exchange. Sunderland and its beneficial owner, in the opinion of the directors, are independent third parties and not connected persons (as defined in the Listing Rules) of the Company. General mandate was granted by shareholders of the Company to the directors of the Company on 28 August 2002 for the issue of shares. The estimated net proceeds amounting to HK\$22 million is for general working capital of the Group. Approval from the Listing Committee of the Stock Exchange was obtained on 15 July 2003.

Notes to the Financial Statements

For the year ended 31 March 2003

29. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 March 2003 are as follows:

| Name of subsidiary | Place of incorporation/ operation | Issued share capital/ registered and paid up capital | Proportion of nominal value of issued share capital/ registered and paid up capital held by the Company | | Principal activities |
|------------------------------------|--------------------------------------|---|--|------------|--|
| | | | Directly | Indirectly | |
| China Sci-Tech Secretaries Limited | Hong Kong | HK\$10,000 | 100% | – | Provision of secretarial services and investment holding |
| Cyber Range Limited | British Virgin Islands* | US\$1 | 100% | – | Investment holding |
| Dragon Hunter Investment Limited | Hong Kong | HK\$2 | 100% | – | Investment holding |
| Effort Leader Limited | British Virgin Islands* | US\$1 | 100% | – | Investment holding |
| Harbour Fair Overseas Limited | British Virgin Islands* | US\$1 | 100% | – | Investment holding |
| Harbour Jade Limited | Hong Kong | HK\$2 | 100% | – | Investment holding |
| Millennium Riders Limited | British Virgin Islands* | US\$1 | 100% | – | Investment holding |
| Chain Crown Limited | Hong Kong | HK\$2 | – | 100% | Investment holding |
| General Brave Limited | Hong Kong | HK\$2 | – | 100% | Investment holding |
| Leven Limited | Hong Kong | HK\$2 | – | 100% | Investment holding |

Notes to the Financial Statements

For the year ended 31 March 2003

29. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

| Name of subsidiary | Place of incorporation/ operation | Issued share capital/ registered and paid up capital | Proportion of nominal value of issued share capital/ registered and paid up capital held by the Company | | Principal activities |
|--|---|---|--|------------|-----------------------|
| | | | Directly | Indirectly | |
| Wah Ban Limited | Hong Kong | HK\$2 | - | 100% | Investment holding |
| Skytop Technology Limited | Hong Kong | HK\$2 | - | 100% | Securities investment |
| Suzhou Chain Crown Real Estate Co., Ltd. | People's Republic of China [#] | US\$3,500,000 | - | 100% | Property holding |
| Suzhou General Brave Real Estate Co., Ltd. | People's Republic of China [#] | US\$1,573,798 | - | 100% | Property holding |
| Suzhou Leven Real Estate Co., Ltd. | People's Republic of China [#] | US\$3,250,000 | - | 100% | Property holding |
| Suzhou Wah Ban Real Estate Co., Ltd. | People's Republic of China [#] | US\$1,843,859 | - | 100% | Property holding |

* These companies are engaged in investment business and have no specific principal place of operations.

[#] These companies are established as wholly foreign owned enterprises.

In the opinion of the directors, the above companies will principally affect the operations of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had any debt securities at 31 March 2003 or at any time during the year.