

Notes to the Financial Statements

For the year ended March 31, 2001

1. GENERAL

The Company is incorporated in Bermuda as an exempted company under the Companies Act 1981 of Bermuda (as amended) and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company acts as an investment holding company. Its subsidiaries are principally engaged in property investment and development, provision of building management services and investment holding.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

In preparing the financial statements, the directors have given careful consideration to the going concern status of the Group in the context of the Group's current liquidity difficulties.

Events of default have arisen under certain bank loans and credit facility agreements entered into by the Group. As a result, the relevant bank borrowings have become repayable on demand and have been reclassified as current liabilities. Accordingly, the Group is currently dependent upon the continued support of its bankers.

Against this background the directors are taking active steps to refinance the Group. As explained in note 38 to the financial statements, since the year end the Group raised HK\$79,000,000 by way of placing of shares in the Company. Also, the directors are currently in discussion with the Group's bankers for the rescheduling of the Group's borrowings. At the same time, the directors are seeking additional equity funds.

Provided that the Group's bankers continue to support the Group until such time as rescheduling arrangements can be agreed and put in place, the 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 have been prepared on a going concern basis.



Notes to the Financial Statements

For the year ended March 31, 2001

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of investment properties.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies which have been adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to March 31 each year.

The results of subsidiaries and associates 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.

Goodwill or capital reserve arising on the acquisition of subsidiaries, which represents the difference between the fair value of the purchase consideration and the fair value ascribed to the separable net assets at the date of acquisition, is dealt with through reserves in the year of acquisition.

On the disposal of a subsidiary, the attributable amount of goodwill previously eliminated against or credited to reserves is included in the determination of the profit or loss on disposal of the subsidiary.

All significant inter-company transactions and balances within the Group have been eliminated on consolidation.

Revenue recognition

Revenue from sales of properties is recognised on the execution of a legally binding purchase and sales agreement.

Rental income, including rentals invoiced in advance from properties let under operating leases, is recognised on a straight line basis over the respective leases.

Building management and agency fees are recognised when services are rendered.

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



Notes to the Financial Statements

For the year ended March 31, 2001

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition *(continued)*

Revenue from the sale of investments in securities is recognised on a trade day basis.

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

Subsidiaries

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or where the Company controls the composition of its board of directors or equivalent governing body.

Investments in subsidiaries are included in the Company's balance sheet at cost, as reduced by any impairment losses recognised.

Associates

An associate is an enterprise over which the Group is in a position to exercise significant influence, including participation in financial and operating policy decisions.

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.

Tangible fixed assets

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

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.



Notes to the Financial Statements

For the year ended March 31, 2001

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Tangible fixed assets (continued)

Where the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are not discounted to their present values.

Depreciation is provided to write off the cost of tangible fixed assets, other than investment properties, 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:

| | |
|-----------------------------------|-----------|
| Furniture, fixtures and equipment | 20% |
| Leasehold improvements | 20% |
| Motor vehicles | 20% – 25% |

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on professional valuations at the balance sheet date. Any surplus or deficit arising from the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance of the reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance on the investment property revaluation reserve is charged to the income statement. When a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

On subsequent disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property is transferred to the income statement.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.

Notes to the Financial Statements

For the year ended March 31, 2001

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Cost includes interest, finance charges, professional fees and other direct costs attributable to such properties until they reach a marketable state. Net realisable value represents the estimated selling price less all costs to completion and costs to be incurred in marketing and selling.

Taxation

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

Retirement benefits cost

The amount of contributions payable to the Group's defined contribution retirement benefit scheme is charged to the income statement.

Cash equivalents

Cash equivalents represent short term, highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advances.



Notes to the Financial Statements

For the year ended March 31, 2001

4. TURNOVER AND SEGMENTAL INFORMATION

The Group's turnover and (loss) profit before taxation were entirely derived from activities carried out in Hong Kong. An analysis of the Group's turnover and (loss) profit before taxation, analysed by principal activities are as follows:

| | Turnover | | Contribution to (loss) profit before taxation | |
|---|-----------------------|-----------------------|---|-----------------------|
| | 2001 | 2000 | 2001 | 2000 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Proceeds from sale of investment properties* | 105,000 | 734,580 | (62,175) | 107,824 |
| Proceeds from sale of properties held for sale | 485 | 4,146 | (121) | (182) |
| Rental income from properties | 20,346 | 32,397 | 2,995 | 5,958 |
| Building management and agency fees | 5,105 | 5,567 | 766 | 944 |
| | <u>130,936</u> | <u>776,690</u> | <u>(58,535)</u> | <u>114,544</u> |
| Deficit arising from revaluation of investment properties | | | (51,586) | – |
| Provision for estimated loss on properties held for sale | | | (29,261) | (3,000) |
| Impairment loss arising in respect of premium on acquisition of an associate | | | (17,581) | – |
| Impairment loss arising in respect of deposits for acquisition of investments | | | (45,835) | – |
| Gain on disposal of associates | | | 4,796 | – |
| Finance costs | | | (101,863) | (75,643) |
| Interest income | | | 228 | 872 |
| Share of results of associates | | | (8,761) | 1,825 |
| Others | | | (15,074) | (10,036) |
| (Loss) profit before taxation | | | <u>(323,472)</u> | <u>28,562</u> |

* These amounts included proceeds from disposal of subsidiaries engaged in property holding business.

Notes to the Financial Statements

For the year ended March 31, 2001

5. (LOSS) PROFIT FROM OPERATIONS

| | 2001 <i>HK\$'000</i> | 2000 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| (Loss) profit from operations has been arrived at after charging: | | |
| Auditors' remuneration | 610 | 700 |
| Depreciation | 1,422 | 1,975 |
| Loss on disposal of tangible fixed assets other than properties | 661 | 370 |
| Staff costs | | |
| – Directors' emoluments (<i>note 8</i>) | 10,494 | 3,998 |
| – Staff wages and salaries | 11,069 | 10,947 |
| – Provident fund | 358 | 135 |
| – Staff messing and welfare | 82 | 30 |
| | <u>22,003</u> | <u>15,110</u> |
| and after crediting: | | |
| Rental income, net of outgoings of approximately HK\$1,248,000 (2000: HK\$1,401,000) | <u>19,098</u> | <u>30,996</u> |

6. INVESTMENT INCOME, NET

| | 2001 <i>HK\$'000</i> | 2000 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Gain on disposal of listed investments in securities | <u>–</u> | <u>768</u> |



Notes to the Financial Statements

For the year ended March 31, 2001

7. FINANCE COSTS

| | 2001 | 2000 |
|---|-------------------------|------------------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Interest on bank borrowings wholly repayable within five years | (101,467) | (75,540) |
| Interest on debentures | (142) | (45) |
| Interest on other borrowings | (254) | (58) |
| | <u>(101,863)</u> | <u>(75,643)</u> |

8. EMOLUMENTS OF DIRECTORS AND EMPLOYEES

(a) Directors' emoluments are analysed as follows:

| | 2001 | 2000 |
|--|----------------------|---------------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Fees: | | |
| Executive | – | – |
| Non-executive | – | – |
| Independent non-executive | 310 | 60 |
| | 310 | 60 |
| Other emoluments to executive directors: | | |
| Salaries and other benefits | 10,184 | 3,938 |
| Total directors' emoluments | <u>10,494</u> | <u>3,998</u> |

Notes to the Financial Statements

For the year ended March 31, 2001

8. EMOLUMENTS OF DIRECTORS AND EMPLOYEES (continued)

The emoluments of the directors were within the following bands:

| | 2001 Number of directors | 2000 Number of directors |
|--------------------------------|--------------------------------|--------------------------------|
| Nil to HK\$1,000,000 | 12 | 13 |
| HK\$1,000,001 to HK\$1,500,000 | – | 2 |
| HK\$2,000,001 to HK\$2,500,000 | 1 | – |
| HK\$2,500,001 to HK\$3,000,000 | 1 | – |
| HK\$3,500,001 to HK\$4,000,000 | 1 | – |
| | <u>15</u> | <u>15</u> |

(b) Employees' emoluments

The five highest paid individuals included 3 (2000: 3) directors, details of whose emoluments are included in the amounts disclosed in (a) above. The emoluments of the remaining 2 (2000: 2) highest paid individuals are as follows:

| | 2001 HK\$'000 | 2000 HK\$'000 |
|---|------------------|------------------|
| Salaries and other benefits | 1,705 | 1,174 |
| Retirement benefit scheme contributions | 54 | 54 |
| | <u>1,759</u> | <u>1,228</u> |

The emoluments of each of the highest paid employees were within the band of nil to HK\$1,000,000.

9. TAXATION

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group incurred tax losses for both years.

Details of the unprovided deferred taxation are set out in note 27.



Notes to the Financial Statements

For the year ended March 31, 2001

10. NET (LOSS) PROFIT FOR THE YEAR

Of the Group's net loss for the year of approximately HK\$323,320,000 (2000: net profit of HK\$29,274,000), a net loss of approximately HK\$344,232,000 (2000: HK\$108,713,000) has been dealt with in the financial statements of the Company.

11. (LOSS) EARNINGS PER SHARE

The calculation of the basic and diluted (loss) earnings per share is based on the following data:

Earnings

| | 2001 HK\$'000 | 2000 HK\$'000 |
|--|-------------------------|----------------------|
| (Loss) earnings for the purposes of basic (loss) earnings per share (net (loss) profit for the year) | <u><u>(323,320)</u></u> | 29,274 |
| Effect of dilutive potential ordinary shares: | | |
| Interest on debentures | | <u>45</u> |
| Earnings for the purposes of diluted earnings per share | | <u><u>29,319</u></u> |

Number of shares

| | 2001 '000 | 2000 '000 |
|--|-------------------------|-----------------------|
| Weighted average number of ordinary shares for the purposes of basic (loss) earnings per share | <u><u>1,365,365</u></u> | 788,695 |
| Effect of dilutive potential ordinary shares: | | |
| Share options | | 10,809 |
| Debentures | | <u>22,377</u> |
| Weighted average number of ordinary shares for the purposes of diluted earnings per share | | <u><u>821,881</u></u> |

No diluted loss per share has been presented for the year ended March 31, 2001 as the exercise of the Company's outstanding share options and debenture conversion rights would result in a decrease in loss per share.

Notes to the Financial Statements

For the year ended March 31, 2001

12. TANGIBLE FIXED ASSETS

| | Investment properties <i>HK\$'000</i> | Furniture, fixtures and equipment <i>HK\$'000</i> | Leasehold improve- ments <i>HK\$'000</i> | Motor vehicles <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|-------------------------------------|---|---|---|--------------------------------------|--------------------------|
| THE GROUP | | | | | |
| COST OR VALUATION | | | | | |
| At April 1, 2000 | 590,000 | 11,243 | 5,043 | 544 | 606,830 |
| Additions | – | 234 | – | – | 234 |
| Disposals | (205,000) | – | (1,102) | – | (206,102) |
| Deficit arising from revaluation | (107,840) | – | – | – | (107,840) |
| At March 31, 2001 | 277,160 | 11,477 | 3,941 | 544 | 293,122 |
| Comprising: | | | | | |
| At cost | – | 11,477 | 3,941 | 544 | 15,962 |
| At valuation – 2001 | 277,160 | – | – | – | 277,160 |
| | 277,160 | 11,477 | 3,941 | 544 | 293,122 |
| DEPRECIATION | | | | | |
| At April 1, 2000 | – | 10,082 | 2,945 | 480 | 13,507 |
| Charge for the year | – | 725 | 633 | 64 | 1,422 |
| Eliminated on disposals | – | – | (441) | – | (441) |
| At March 31, 2001 | – | 10,807 | 3,137 | 544 | 14,488 |
| NET BOOK VALUES | | | | | |
| At March 31, 2001 | 277,160 | 670 | 804 | – | 278,634 |
| At March 31, 2000 | 590,000 | 1,161 | 2,098 | 64 | 593,323 |



Notes to the Financial Statements

For the year ended March 31, 2001

12. TANGIBLE FIXED ASSETS (continued)

The net book value of the Group's investment properties comprises:

| | 2001 <i>HK\$'000</i> | 2000 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Properties situated in Hong Kong and held under: | | |
| – Long leases | 187,160 | 465,000 |
| – Medium-term leases | 90,000 | 125,000 |
| | <u>277,160</u> | <u>590,000</u> |

Investment properties amounting to approximately HK\$191,791,000 (2000: HK\$301,115,000) are rented out under operating leases. Particulars of the investment properties are set out on page 61 of the annual report.

The investment properties were revalued at March 31, 2001 by Castores Magi Surveyors Limited, a firm of professional surveyors, on an open market value basis. The net deficit of approximately HK\$56,254,000 (2000: net surplus of HK\$69,291,000) arising from revaluation has been (charged) credited to the investment property revaluation reserve.

13. INTERESTS IN SUBSIDIARIES

| | THE COMPANY | |
|------------------------------------|-------------------------|-------------------------|
| | 2001 <i>HK\$'000</i> | 2000 <i>HK\$'000</i> |
| Unlisted shares, at cost | 1,071,061 | 1,071,061 |
| Amounts due from subsidiaries | 1,067,474 | 1,003,643 |
| Less: Impairment losses recognised | (1,909,766) | (1,568,747) |
| | <u>228,769</u> | <u>505,957</u> |

The cost of the unlisted shares is based on the carrying values or the underlying net tangible assets of the subsidiaries attributable to the Group at the date on which the Company became the ultimate holding company of the Group under the group reorganisation taken place in September 1996.

Notes to the Financial Statements

For the year ended March 31, 2001

13. INTERESTS IN SUBSIDIARIES (continued)

The amounts due from subsidiaries are unsecured, non-interest bearing and do not have fixed repayment terms.

Particulars of the Company's principal subsidiaries at March 31, 2001 are set out in note 35.

14. INTERESTS IN ASSOCIATES

| | THE GROUP | |
|--|---------------------|----------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 |
| Share of net assets | <u>2,823</u> | <u>10,268</u> |
| Premium arising from acquisition of an associate | 23,441 | 23,441 |
| Accumulated amortisation of premium | (5,860) | (1,172) |
| Impairment loss recognised in respect of premium | <u>(17,581)</u> | <u>-</u> |
| | <u>-</u> | <u>22,269</u> |
| Amount due from an associate | <u>-</u> | <u>11</u> |
| | <u><u>2,823</u></u> | <u><u>32,548</u></u> |

The Company's directors have reviewed and examined the operations of the associates and their profitability potential, and are of the opinion that the premium arising on the acquisition of the associate is not recoverable. Accordingly, an impairment loss has been recognised in the current period.

Particulars of the Company's associates at March 31, 2001 are set out in note 36.



Notes to the Financial Statements

For the year ended March 31, 2001

15. DEPOSITS FOR ACQUISITION OF INVESTMENTS

| | THE GROUP | |
|--|------------------|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 |
| The amount represents deposits paid for acquisition of equity interests in the following companies incorporated in the British Virgin Islands: | | |
| Union View Investments Holdings Limited ("Union View")* | 20,000 | 20,000 |
| Holdenby Enterprises Limited ("Holdenby")** | 16,004 | 3,000 |
| Drury Profits Limited ("Drury Profits")** | 9,831 | – |
| | 45,835 | 23,000 |
| Less: Impairment loss recognised | (45,835) | – |
| | – | 23,000 |

* On March 17, 2000, a subsidiary of the Company entered into an agreement to acquire a 99% equity interest in Union View for a total consideration of HK\$112,500,000. Union View had entered into an agreement with Shenzhen Holinet Industrial Co. Ltd., a company established in the People's Republic of China (the "PRC") and engaged in computer network safety systems, to establish a company in the PRC in which Union View would have a 25% equity interest. The agreement is conditional upon, among others, the approval of the shareholders of the Company. As this condition was not fulfilled, the agreement has become null and void and of no further force and effect. The Group is now undergoing legal proceedings to recover the deposit of HK\$20,000,000 in respect of the acquisition of investments in Union View.

** On April 14, 2000, a subsidiary of the Company entered into an agreement to acquire a 40% equity interest in Holdenby for a total consideration of HK\$32,000,000. Holdenby was in the process of acquiring a 51% equity interest in Hei Long Jiang Sida Paper Co., Ltd., whose principal business is the production and trading of various types of paper and related products. As at the balance sheet date, HK\$16,004,000 (2000: HK\$3,000,000) was paid as deposit for the investment.

On June 29, 2000, a subsidiary of the Company entered into an agreement to acquire a 60% equity interest in Drury Profits for a total consideration of HK\$65,000,000. As represented by the vendor, Drury Profits owns a 85% equity interest in 黑龍江興達導航定位應用技術有限公司 which is principal engaged in the design, integration and operation of Global Positioning Systems Application Systems. As at the balance sheet date, HK\$9,831,000 (2000:nil) was remained as deposit for the investment.

For both of the transactions stated above, the conditions precedent such as valuation of the business of and due diligence exercises on the joint ventures could not be fulfilled on or before the deadline for fulfilment of the conditions.

The agreements were lapsed pursuant to the agreements and the deposits should be refunded to the Group. The Group has been exploring every opportunity, including liaison with the relevant authorities in the PRC and seeking their assistance for the recovery of the deposits.

The Company's directors consider the possibility of recovering the above amounts is doubtful, and therefore the carrying amount of the deposits has been reduced to their estimated recoverable amount of nil.

Notes to the Financial Statements

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16. PROPERTIES HELD FOR SALE

THE GROUP

The properties are situated in Hong Kong and held under long leases.

The amount includes properties of approximately HK\$104,000,000 (2000: HK\$94,357,000) carried at net realisable value.

17. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are trade receivables of approximately HK\$5,633,000, (2000: HK\$5,057,000) comprising mainly rental receivables which are billed in advance and in respect of which settlement is expected upon receipt of billings. The following is an aged analysis of trade receivables at the balance sheet date:

| | THE GROUP | |
|----------------------|--------------|--------------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| Within 60 days | 3,174 | 1,642 |
| Between 61 – 90 days | 276 | 1,202 |
| Over 90 days | 2,183 | 2,213 |
| | <u>5,633</u> | <u>5,057</u> |

18. TRADE AND OTHER PAYABLES

The following is an analysis of trade and other payables at the balance sheet date:

| | THE GROUP | |
|---|----------------|---------------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| Trade payables with age of 91 days or above | 11,501 | 13,285 |
| Accrued bank loan interest | 141,748 | 66,203 |
| Other payables | 7,541 | 4,062 |
| | <u>160,790</u> | <u>83,550</u> |



Notes to the Financial Statements

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19. AMOUNT DUE TO A RELATED COMPANY

THE GROUP

At March 31, 2000, the amount was due to Chaton Limited, a wholly owned subsidiary of a shareholder of the Company. The amount was unsecured, non-interest bearing and was fully repaid during the year.

20. BANK BORROWINGS

| | THE GROUP | |
|--|------------------|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 |
| Bank loans | 463,915 | 573,307 |
| Bank overdrafts | 3,286 | 1,388 |
| | 467,201 | 574,695 |
| Analysed as: | | |
| Secured | 462,228 | 571,620 |
| Unsecured | 4,973 | 3,075 |
| | 467,201 | 574,695 |
| The bank borrowings bear interest at prevailing market rates and were originally scheduled for repayment as follows: | | |
| Within one year | 345,351 | 337,595 |
| Between one to two years | 61,037 | 147,750 |
| Between two to five years | 60,813 | 89,350 |
| | 467,201 | 574,695 |
| Less: Amounts due within one year and included in current liabilities | (467,201) | (572,408) |
| Amounts due after one year | - | 2,287 |

Notes to the Financial Statements

For the year ended March 31, 2001

21. SHARE CAPITAL

| | Number of shares | | Share capital | |
|---|------------------|-----------|----------------|----------|
| | 2001 | 2000 | 2001 | 2000 |
| | '000 | '000 | HK\$'000 | HK\$'000 |
| Shares of HK\$0.1 each | | | | |
| Authorised: | | | | |
| At beginning of the year | 2,000,000 | 2,000,000 | 200,000 | 200,000 |
| Increase during the year | 2,000,000 | – | 200,000 | – |
| At the end of the year | 4,000,000 | 2,000,000 | 400,000 | 200,000 |
| Issued and fully paid: | | | | |
| At the beginning of the year | 991,411 | 690,000 | 99,141 | 69,000 |
| Issue of shares | 360,000 | 301,411 | 36,000 | 30,141 |
| Exercise of debenture conversion rights | 144,370 | – | 14,437 | – |
| At the end of the year | 1,495,781 | 991,411 | 149,578 | 99,141 |

Changes in the share capital of the Company during the year are as follows:

- (a) On April 10, 2000, the Company issued and allotted 90,000,000 shares of HK\$0.1 each of the Company to independent investors through a placing agent at HK\$0.3 per share. The net proceeds from this placing amounting to HK\$26,225,000 were used for general working capital purposes. The new shares were issued under a general mandate granted to the board of directors at the special general meeting of the Company held on February 11, 2000 and ranked pari passu in all respects with the then existing shares of the Company.



Notes to the Financial Statements

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21. SHARE CAPITAL (continued)

- (b) On June 28, 2000, the Company issued and allotted 75,000,000 shares of HK\$0.1 each of the Company to independent investors through a placing agent at HK\$0.165 per share. The net proceeds from this placing amounting to HK\$11,919,000 were used for general working capital purposes. The new shares were issued under a general mandate granted to the board of directors on April 28, 2000 and ranked pari passu in all respects with the then existing shares of the Company.
- (c) Pursuant to a subscription agreement on June 23, 2000, Mr. Ye Changqing subscribed for 60,000,000 new share of HK\$0.1 each of the Company at HK\$0.167 per share. The net proceeds from this subscription amounting to approximately HK\$10,000,000 were used for repayment of bank borrowings and general working capital purposes. The new shares issued under a general mandate granted to the board of directors at the special general meeting of the Company held on April 28, 2000 and ranked pari passu in all respects with the then existing shares of the Company.
- (d) On September 1, 2000, the Company issued and allotted 135,000,000 shares of HK\$0.1 each of the Company to independent investors through a placing agent at HK\$0.1 per share. The net proceeds from this placing amounting to approximately HK\$11,081,000 were used for general working capital purposes. The new shares were issued under a general mandate granted to the board of directors at the special general meeting of the Company held on July 28, 2000 and ranked pari passu in all respects with the then existing shares of the Company.
- (e) During the year, debentures with a nominal value of US\$2,500,000 (equivalent to HK\$19,500,000) were converted to 144,370,000 shares of HK\$0.1 each of the Company. The converted shares ranked pari passu in all respects with the then existing shares of the Company.

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22. SHARE OPTION SCHEME

The Company has a share option scheme (the "Scheme") pursuant to which the board of directors of the Company may, at its discretion, grant options to eligible employees, including executive directors of the Company or any of its subsidiaries to subscribe for shares in the Company at a price equal to the higher of the nominal value of the shares and at a price not less than 80% of the average of the closing price of the shares on the Stock Exchange on the five trading days immediate preceding the date of grant of the options. The maximum number of shares in respect of which options may be granted under the Scheme shall not exceed 10% of the issued share capital of the Company from time to time.

The movements of the options granted under the Company's share option scheme during the year are as follows:

| | Number of option shares |
|--|-------------------------|
| Balance at April 1, 1999 | – |
| Granted during the year | 94,100,000 |
| Balance at March 31, 2000 | 94,100,000 |
| Cancelled upon resignation of a director | (14,000,000) |
| Granted during the year | 55,000,000 |
| Balance at March 31, 2001 | 135,100,000 |

The balance of outstanding options as at March 31, 2001 comprise:

| Date of share options granted | Exercisable period | Number of total share options granted | Exercise price HK\$ |
|-------------------------------|---|---------------------------------------|------------------------|
| October 20, 1999 | April 28, 2000 to April 27, 2003 | 70,000,000 | 0.17 |
| February 1, 2000 | August 28, 2000 to August 27, 2003 | 10,100,000 | 0.228 |
| March 2, 2001 | September 15, 2001 to September 14, 2004 | 55,000,000 | 0.10 |



Notes to the Financial Statements

For the year ended March 31, 2001

23. RESERVES

| | Share premium account <i>HK\$'000</i> | Investment property revaluation reserve <i>HK\$'000</i> | Accumulated losses <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|--|--|---|--|--------------------------|
| THE GROUP | | | | |
| At April 1, 1999 | 447,443 | 159,256 | (593,581) | 13,118 |
| Issue of shares | 23,919 | – | – | 23,919 |
| Expenses on issue of shares and debentures | (2,302) | – | – | (2,302) |
| Release upon disposal of investment properties | – | (204,212) | – | (204,212) |
| Released upon disposal of subsidiaries | – | 70,928 | – | 70,928 |
| Surplus arising from revaluation (note 12) | – | 69,291 | – | 69,291 |
| Net profit for the year | – | – | 29,274 | 29,274 |
| At March 31, 2000 | 469,060 | 95,263 | (564,307) | 16 |
| Issue of shares | 31,938 | – | – | 31,938 |
| Expenses on issue of shares | (3,650) | – | – | (3,650) |
| Released upon disposal of investment properties | – | (39,009) | – | (39,009) |
| Deficit arising from revaluation (note 12) | – | (56,254) | – | (56,254) |
| Net loss for the year | – | – | (323,320) | (323,320) |
| At March 31, 2001 | 497,348 | – | (887,627) | (390,279) |
| Reserves attributable to: | | | | |
| The Company and subsidiaries | 497,348 | – | (878,869) | (381,521) |
| Associates | – | – | (8,758) | (8,758) |
| | <u>497,348</u> | <u>–</u> | <u>(887,627)</u> | <u>(390,279)</u> |

Notes to the Financial Statements

For the year ended March 31, 2001

23. RESERVES (continued)

| | Share premium account <i>HK\$'000</i> | Contributed surplus <i>HK\$'000</i> | Accumulated losses <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|---|--|---|--|--------------------------|
| THE COMPANY | | | | |
| At April 1, 1999 | 447,443 | 1,029,761 | (1,464,443) | 12,761 |
| Issue of shares | 23,919 | – | – | 23,919 |
| Expenses on issue of shares and debentures | (2,302) | – | – | (2,302) |
| Net loss for the year (note 10) | – | – | (108,713) | (108,713) |
| At March 31, 2000 | 469,060 | 1,029,761 | (1,573,156) | (74,335) |
| Issue of shares | 31,938 | – | – | 31,938 |
| Expenses on issue of shares | (3,650) | – | – | (3,650) |
| Net loss for the year (note 10) | – | – | (344,232) | (344,232) |
| At March 31, 2001 | <u>497,348</u> | <u>1,029,761</u> | <u>(1,917,388)</u> | <u>(390,279)</u> |

Included in the Group's accumulated losses above is the following amount which is attributable to the Group's share of results of its associates:

| | <i>HK\$'000</i> |
|--|-----------------------|
| At April 1, 1999 | 712 |
| Share of results for the year | 1,825 |
| At March 31, 2000 | 2,537 |
| Share of results for the year | (8,761) |
| Eliminated upon disposal of interest in associates | (2,534) |
| At March 31, 2001 | <u>(8,758)</u> |



Notes to the Financial Statements

For the year ended March 31, 2001

23. RESERVES (continued)

The contributed surplus of the Company represents the difference between the consolidated shareholders' funds of the subsidiaries at the date on which they were acquired by the Company, and the nominal amount of the Company's shares issued for the acquisition at the time of the group reorganisation prior to the listing of the Company's shares on the Stock Exchange.

In addition to the retained profits, under the Companies Act 1981 of Bermuda (as amended), contributed surplus is also 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 account.

In the opinion of the directors, the Company had no reserves available for distribution to shareholders at March 31, 2001 and 2000.

Notes to the Financial Statements

For the year ended March 31, 2001

24. DEBENTURES

| | THE GROUP AND THE COMPANY |
|---|--|
| | <i>HK\$'000</i> |
| Balance at April 1, 1999 | – |
| Issued during the year | <u>23,400</u> |
| Balance at March 31, 2000 | 23,400 |
| Exercise of debenture conversion rights | <u>(19,500)</u> |
| Balance at March, 2001 | <u><u>3,900</u></u> |

The debentures bear interest at 3% per annum payable quarterly in arrears and are due in February 2003.

The debentures entitle the holders to convert into shares of HK\$0.1 each in the share capital of the Company from the date of issue of debentures up to the maturity date. Subsequent to the balance sheet date, all the debentures were converted into shares of the Company.

The conversion price is the lesser of:

- (a) 120% of the average closing price per share on the Stock Exchange over the 15 consecutive trading days prior to the signing of the subscription agreement; and
- (b) the higher of 90% of the average closing price per share of the lowest 10 days on the Stock Exchange over the 30 consecutive trading days immediately prior to the date of the conversion notice and the HK\$0.1 par value of the shares.

The converted shares shall, when allotted and issued, rank pari passu in all respects with all other shares in issue on the date of conversion.



Notes to the Financial Statements

For the year ended March 31, 2001

25. AMOUNTS DUE TO SUBSIDIARIES

THE COMPANY

The amounts are unsecured, non-interest bearing and do not have fixed repayment terms. In the opinion of the directors, no part of the amounts will be repayable within the next twelve months and, accordingly, the amounts are shown as non-current liabilities.

26. AMOUNT DUE TO AN ASSOCIATE

THE GROUP

The amount is unsecured, non-interest bearing and fully repaid during the year.

27. UNPROVIDED DEFERRED TAXATION

At the balance sheet date, the Group had the following net deferred taxation asset which has not been recognised in the financial statements as it is not certain whether the potential taxation benefit will be realised in the foreseeable future.

The major components of the Group's net deferred taxation asset not recognised are analysed as follows:

| | 2001 <i>HK\$'000</i> | 2000 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Tax effect of timing differences attributable to: | | |
| Differences between tax allowances and accounting depreciation | 401 | 434 |
| Tax losses available to set off future assessable profits | <u>83,007</u> | <u>53,826</u> |
| Net deferred taxation asset not recognised | <u><u>83,408</u></u> | <u><u>54,260</u></u> |

Notes to the Financial Statements

For the year ended March 31, 2001

27. UNPROVIDED DEFERRED TAXATION (continued)

The amount of net unprovided potential deferred taxation credit for the year is analysed as follows:

| | 2001 | 2000 |
|---|-----------------|----------|
| | HK\$'000 | HK\$'000 |
| Tax effect of timing differences attributable to: | | |
| Differences between tax allowances and accounting depreciation | (33) | 1,026 |
| Tax losses incurred | 29,181 | 4,077 |
| Net deferred taxation credit not recognised | 29,148 | 5,103 |

Deferred taxation has not been provided on the revaluation deficit or surplus arising from the valuation of the leasehold and investment properties as profits arising on the disposal of these assets would not be subject to taxation. Accordingly, the valuation deficit or surplus does not constitute a timing difference for taxation purpose.

The Company did not have any significant unprovided deferred taxation at the balance sheet date or during the year.



Notes to the Financial Statements

For the year ended March 31, 2001

28. RECONCILIATION OF (LOSS) PROFIT BEFORE TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

| | 2001 <i>HK\$'000</i> | 2000 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| (Loss) profit before taxation | (323,472) | 28,562 |
| Impairment loss arising in respect of deposits for acquisition of investments | 45,835 | – |
| Impairment loss arising in respect of premium on acquisition of an associate | 17,581 | – |
| Depreciation | 1,422 | 1,975 |
| Interest expenses | 101,863 | 75,643 |
| Interest income | (228) | (872) |
| Investment income, net | – | (768) |
| Gain on disposal of associates | (4,796) | – |
| Loss on disposal of tangible fixed assets other than properties | 661 | 370 |
| Deficit arising from revaluation of investment properties | 51,586 | – |
| Provision for estimated loss on properties held for sale | 29,261 | 3,000 |
| Release of investment property revaluation reserve upon disposal of investment properties | (39,009) | (133,284) |
| Share of results of associates | 8,761 | (1,825) |
| Decrease in investment properties | 205,000 | 642,343 |
| Decrease in properties held for sale | 606 | 3,474 |
| Decrease in trade and other receivables | 672 | 8,914 |
| Increase in trade and other payables | 1,695 | 1,025 |
| Decrease in deposits received | (687) | (8,672) |
| Decrease in amount due to an associate | (400) | – |
| Net cash inflow from operating activities | 96,351 | 619,885 |

Notes to the Financial Statements

For the year ended March 31, 2001

29. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

| | Share capital and premium <i>HK\$'000</i> | Amount due to a related company <i>HK\$'000</i> | Bank loans <i>HK\$'000</i> | Debentures <i>HK\$'000</i> |
|--|--|--|-------------------------------|-------------------------------|
| At April 1, 1999 | 516,443 | 4,692 | 1,253,910 | – |
| Disposal of subsidiaries | – | – | (98,857) | – |
| Repayments during the year | – | – | (584,501) | – |
| Advances during the year | – | – | 2,755 | – |
| Issued for cash during the year | 29,060 | – | – | – |
| Issued for the acquisition of an associate (<i>note 30</i>) | 25,000 | – | – | 23,400 |
| Expenses on issue of shares and debentures | (2,302) | – | – | – |
| At March 31, 2000 | 568,201 | 4,692 | 573,307 | 23,400 |
| Exercise of debenture conversion rights | 19,500 | – | – | (19,500) |
| Repayments during the year | – | (4,692) | (109,392) | – |
| Issued for cash during the year | 62,875 | – | – | – |
| Expenses on issue of shares | (3,650) | – | – | – |
| At March 31, 2001 | <u>646,926</u> | <u>–</u> | <u>463,915</u> | <u>3,900</u> |

30. NON-CASH TRANSACTIONS

During the year ended March 31, 2000, bank loans amounting to approximately HK\$98,857,000 were assigned to the purchaser upon disposal of subsidiaries engaged in property holding business. In addition, new shares were issued as fully paid at a total consideration of HK\$25,000,000 as partial settlement for the acquisition of an associate.

31. PLEDGE OF ASSETS

The general credit facilities of the Group are secured by the Group's investment properties and properties held for sale with an aggregate carrying value of approximately HK\$381,160,000 (2000: HK\$738,000,000).



Notes to the Financial Statements

For the year ended March 31, 2001

32. CAPITAL COMMITMENTS

At the balance sheet date, the Group had the following capital commitments:

| | 2001 | 2000 |
|---|-----------------|---------------|
| | HK\$'000 | HK\$'000 |
| Authorised but not contracted for in respect of: | | |
| Renovation work for investment properties | – | 21,642 |
| Acquisition of investment | – | 29,000 |
| | <u>–</u> | <u>50,642</u> |
| Contracted for but not provided in the financial statements in respect of: | | |
| Renovation work for investment properties | – | 1,093 |
| Acquisition of investment | – | 92,500 |
| | <u>–</u> | <u>93,593</u> |

The Company did not have any significant capital commitments at the balance sheet date.

33. CONTINGENT LIABILITIES

At March 31, 2001, the Company provided guarantees to banks to the extent of approximately HK\$268,100,000 (2000: HK\$378,100,000) in respect of banking facilities granted to certain subsidiaries and an aggregate amount of approximately HK\$268,100,000 (2000: HK\$378,100,000) was utilised by those subsidiaries.

Notes to the Financial Statements

For the year ended March 31, 2001

34. RELATED PARTY TRANSACTIONS

During the year, the Group had the following transactions with related parties:

| Name of company/director | Nature of transaction | 2001 HK'000 | 2000 HK\$'000 |
|--|--|----------------|------------------|
| Cymbeline Limited | Rental expenses paid by the Group | 96 | 96 |
| Good Harvest Securities Company Limited | Rental income received by the Group | 320 | 493 |
| | Interest expenses paid by the Group | 10 | – |
| Thai Wa Trading Company | Rental income received by the Group | – | 155 |
| Mr. Chu Yu Lin, David | Rental income received by the Group | 159 | 216 |

Mr. Chan King Hung has a beneficial interest in Cymbeline Limited.

Mrs. Chu Ho Miu Hing has a beneficial interest in Good Harvest Securities Company Limited.

Mr. Chan Fook Lai has a beneficial interest in Thai Wa Trading Company.

The above transactions were carried out with reference to the market price.

On April 14, 2000, a subsidiary of the Company entered into an agreement to acquire a 40% equity interest in Holdenby Enterprises Limited, a company wholly owned by a former chairman, Mr. He Chenguang, for total consideration of HK\$32,000,000. As at the balance sheet date, HK\$16,004,000 was paid as deposit for the investment.

On June 29, 2000, a subsidiary of the Company entered into an agreement to acquire a 60% equity interest in Drury Profits Limited, a company wholly owned by a former chairman, Mr. He Chenguang, for total consideration of HK\$65,000,000. As at the balance sheet date, HK\$9,831,000 was remained as deposit for the investment.



Notes to the Financial Statements

For the year ended March 31, 2001

34. RELATED PARTY TRANSACTIONS (continued)

Subsequently, both of the above transactions were lapsed due to the fact that the conditions precedent could not be fulfilled. Pursuant to the above agreements, the deposit paid should be refunded by Mr. He Chenguang. On March 6, 2001, the Group issued a writ of summons against Mr. He Chenguang for the recovery of the deposits paid for the above investments amounting to HK\$25,835,000.

On October 18, 2000, a subsidiary of the Company entered into heads of agreement to acquire a 40% equity interest in Regain Profits Limited, a company wholly owned by a former chairman, Mr. He Chenguang. Subsequently, a cancellation agreement has been signed on October 30, 2000.

In addition, certain banking facilities of the Group are secured by personal guarantees given by Messrs. Chan King Hung and Chu Yu Lin, David and Mrs. Chu Ho Miu Hing, on which no charge was paid by the Group.

35. SUBSIDIARIES

Particulars of the Company's principal subsidiaries at March 31, 2001 are as follows:

| Name of subsidiary | Place of incorporation and operation | Percentage of nominal value of issued share capital held by the Company | Issued and fully paid up share capital | Principal activities |
|-------------------------------|--------------------------------------|---|---|---|
| Calorie Limited | Hong Kong | 100% | Ordinary HK\$20,000 Deferred* HK\$14,000 | Investment holding |
| Deep Plan Investments Limited | Hong Kong | 100% | Ordinary HK\$10,000 | Property investment and provision of building management services |

Notes to the Financial Statements

For the year ended March 31, 2001

35. SUBSIDIARIES (continued)

| Name of subsidiary | Place of incorporation and operation | Percentage of nominal value of issued share capital held by the Company | Issued and fully paid up share capital | Principal activities |
|-------------------------------|--------------------------------------|---|--|--|
| Fine Point Properties Limited | Hong Kong | 100% | Ordinary HK\$1,955 Deferred* HK\$45 | Property investment and provision of building management services, but has become inactive during the year |
| Mass Come Development Limited | Hong Kong | 100% | Ordinary HK\$200,000 | Property investment and provision of building management services |
| Masterport Holdings Limited | British Virgin Islands | 100% | Ordinary US\$2 | Investment holding |
| Pure Fair Investment Limited | Hong Kong | 55% | Ordinary HK\$2 | Property trading |
| Rich Mode Development Limited | Hong Kong | 100% | Ordinary HK\$10,000 | Property investment and provision of building management services |
| Sanmark Investments Limited | Hong Kong | 100% | Ordinary HK\$200 Deferred* HK\$82 | Property trading |



Notes to the Financial Statements

For the year ended March 31, 2001

35. SUBSIDIARIES (continued)

| Name of subsidiary | Place of incorporation and operation | Percentage of nominal value of issued share capital held by the Company | Issued and fully paid up share capital | Principal activities |
|--|--------------------------------------|---|---|---|
| Star Cherry Investments Limited | British Virgin Islands | 100% | Ordinary US\$100 | Investment holding |
| Tucknam Property Management Limited | Hong Kong | 100% | Ordinary HK\$10,000 | Property management |
| WTF Digital Technology Limited | British Virgin Islands | 100% | Ordinary US\$100 | Investment holding |
| Wah Tak Fung (B.V.I.) Limited ** | British Virgin Islands | 100% | Ordinary US\$1,000,000 | Investment holding |
| Wah Tak Fung Management & Agency Limited | Hong Kong | 100% | Ordinary HK\$10,000 | Provision of agency services |
| WTF Technology Limited | Hong Kong | 100% | Ordinary HK\$2 | Investment holding |
| Well Trade Development Limited | Hong Kong | 100% | Ordinary HK\$2 Deferred* HK\$2 | Property investment and provision of building management services |
| WTF (Finance) Limited | Hong Kong | 100% | Ordinary HK\$100 | Group financing |

* The non-voting deferred shares practically carry no rights to dividends or to receive notice of or to attend or vote at any general meeting of the respective companies or to participate in any distributions on winding up.

** Directly held by the Company.

Notes to the Financial Statements

For the year ended March 31, 2001

35. SUBSIDIARIES (continued)

The directors are of the opinion that a complete list of the particulars of all subsidiaries would be of excessive length and therefore the above list discloses only the particulars of those subsidiaries as at March 31, 2001 which principally effect the results or assets of the Group.

None of the subsidiaries had any loan capital outstanding at the end of the year or at any time during the year.

36. ASSOCIATES

Particulars of the associates held indirectly by the Company at March 31, 2001 are as follows:

| Name of associate | Place of incorporation | Percentage of nominal value of issued share capital held indirectly by the Company | Issued and fully paid up share capital | Principal activities |
|-------------------------------------|------------------------|--|--|---|
| Grand Million International Limited | Hong Kong | 25% | Ordinary HK\$4 | Inactive |
| M.POS (HK) Limited | Hong Kong | 25% | Ordinary HK\$10,000 | Provision of mobile point of sale service |

37. RETIREMENT BENEFIT SCHEME

With the implementation of Mandatory Provident Fund Scheme in Hong Kong on December 1, 2000, the Group has maintained the defined contribution scheme registered under the Occupational Retirement Schemes Ordinance (ORSO Scheme) and has obtained an exemption satisfying the requirements of the Mandatory Provident Fund Scheme Ordinance (MPFO).

To comply with MPFO, a Mandatory Provident Fund Scheme with voluntary contributions has been established. Existing ORSO Scheme Members has been given a one-off choice on the MPF Exempted ORSO Scheme and the MPF Scheme. New Employees must join MPF Scheme when it commenced on December 1, 2000.



Notes to the Financial Statements

For the year ended March 31, 2001

37. RETIREMENT BENEFIT SCHEME *(continued)*

The amount charged to the income statement represents contributions payable of HK\$446,000 (2000: HK\$293,000) to the schemes by the Group at rates specified in the rules of the schemes less forfeitures of HK\$87,000 (2000: HK\$158,000) arising from employees leaving the Group prior to completion of qualifying service period.

At the balance sheet date, the total amount of forfeited contributions, which arose upon employees leaving the retirement benefits schemes and which are available to reduce the contributions payable in future years was HK\$7,000 (2000: HK\$17,000).

38. POST BALANCE SHEET EVENTS

Pursuant to a subscription agreement on May 8, 2001, Quizzical Holdings Limited subscribed for 130,000,000 new shares of HK\$0.1 each of the Company at HK\$0.1 per share. The net proceeds from this subscription amounting to approximately HK\$13,000,000 were used for repayment of bank borrowings and for general working capital purposes. The new shares were issued under a general mandate granted to the board of directors at the special general meeting of the Company held on July 28, 2000 and ranked *pari passu* in all respects with the then existing shares of the Company.

On July 5, 2001, the Company issued and allotted 330,000,000 shares of HK\$0.1 each of the Company to independent investors at HK\$0.2 per share. The net proceeds from this placing amounting to approximately HK\$66,000,000 were used for general working capital purposes. The new shares were issued under a general mandate granted to the board of directors at the special general meeting of the Company held on June 6, 2001 and ranked *pari passu* in all respects with the then existing shares of the Company.

A subsidiary of the Company had on July 10, 2001 entered into a conditional sale and purchase agreement with an independent third party, pursuant to which the subsidiary of the Company shall purchase from the third party such number of shares representing 12% of the issued share capital of World Master Resources Limited whose principal activities are the provision of satellite broadband internet access services in Hong Kong and the PRC at a consideration of HK\$25,000,000.

On July 20, 2001, the Company entered into a conditional agreement to acquire 1.5% equity interest in Hong Kong Satellite Technology Holdings Limited ("Hong Kong Satellite") at a consideration of US\$15 million from Mr. Chu Yu Lin, David and together with Mrs. Chu Ho Miu Hing held a total of 51% equity interest of Hong Kong Satellite. On the same date, the Company entered into a conditional subscription agreement to subscribe for 0.5% equity interest in Hong Kong Satellite for a total consideration of US\$5 million.

