

Notes to the Accounts

For the year ended 31st March 2001

1 Principal accounting policies

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of preparation

The accounts have been prepared under the historical cost convention as modified by the revaluation of certain properties and investments, in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants.

(b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st March. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

The gain or loss on disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill or capital reserve which was not previously charged or recognised in the consolidated profit and loss account.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

(c) Subsidiary

A subsidiary is a company in which an equity interest of more than 50% is held for the long-term and the Company has control over the composition of its Board of Directors.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision, if necessary, for any diminution in value other than temporary in nature. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Notes to the Accounts

For the year ended 31st March 2001

1 Principal accounting policies (Continued)

(d) Goodwill

Goodwill represents the excess of purchase consideration over the fair values ascribed to the net assets of subsidiaries acquired and is taken to reserves in the year of acquisition.

(e) Fixed assets

Leasehold land and buildings are stated at valuation. Valuation is determined by the Directors based on independent valuations which are performed every three years. The valuations are on a depreciated replacement cost basis related to individual properties and separate values are not attributed to land and buildings. In the intervening years, the Directors review the carrying value of these properties and adjustment is made where they consider that there has been a material change. Increases in valuation are credited to the fixed assets revaluation reserve. Decreases in valuation are first offset against increases on earlier valuations in respect of the same property and are thereafter debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

Other fixed assets are stated at cost less accumulated depreciation.

Fixed assets are depreciated at rates sufficient to write off their cost or valuation over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Leasehold land and buildings	Over the lease terms
Leasehold improvements	10 years or over the lease terms, whichever is shorter
Plant and machinery, furniture, equipment and motor vehicles	5 to 10 years

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

The carrying amounts of fixed assets are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. Expected future cash flows have not been discounted in determining the recoverable amount.

Notes to the Accounts

For the year ended 31st March 2001

1 Principal accounting policies (Continued)

(e) Fixed assets (Continued)

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account. Any revaluation reserve balance attributable to the relevant asset is transferred to retained earnings and is shown as a movement in reserves.

(f) Assets under leases

(i) Finance leases

Leases that substantially transfer to the Group all the rewards and risks of ownership of assets, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the fair value of the asset is recorded together with the obligation, excluding the interest element, to pay future rentals.

Payments to the lessor are treated as consisting of capital and interest elements. Finance charges are debited to the profit and loss account in proportion to the capital balances outstanding.

Assets held under finance leases are depreciated over the shorter of their estimated useful lives or the lease periods.

(ii) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

Notes to the Accounts

For the year ended 31st March 2001

1 Principal accounting policies (Continued)

(g) Investments in securities

(i) Investment securities

Investment securities are stated at cost less any provision for diminution in value.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The amount of reduction is recognised as an expense in the profit and loss account.

(ii) Other investments

Other investments are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of other investments are recognised in the profit and loss account. Profits or losses on disposal of other investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on the first-in, first-out basis, comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(i) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(j) Deferred taxation

Deferred taxation is accounted for at the current tax rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

Notes to the Accounts

For the year ended 31st March 2001

1 Principal accounting policies (Continued)

(k) Revenue recognition

Revenue from the sale of goods is recognised when the goods are delivered to customers and title has passed.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Dividend income is recognised when the right to receive payment is established.

Services income is recognised when the services are rendered.

(l) Retirement benefit costs

The Group did not contribute to any retirement schemes until December 2000, following the enforcement of the Hong Kong Mandatory Provident Fund Ordinance.

The scheme in Hong Kong is available to all Hong Kong employees starting from 1st December 2000. The assets of the scheme are held separately from those of the Group in independently administered funds.

The Group's contributions to the scheme are expensed as incurred.

(m) Borrowing costs

All borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(n) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The accounts of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Exchange differences arising therefrom are dealt with as a movement in reserves.

Notes to the Accounts

For the year ended 31st March 2001

2 Turnover, revenues and segment information

The Group is principally engaged in the manufacturing and distribution of portfolios and luggage products, the management of website and investment holding. Revenues recognised during the year are as follows:

	2001 HK\$'000	2000 HK\$'000
Turnover		
Continuing operations:		
Manufacture and sale of portfolios and portable cases, purses and accessories, luggage and related products	30,346	169,324
Advertising and agency services fees	2,119	–
	32,465	169,324
Discontinued operations:		
Manufacture and sale of fashion garments and paper products	–	11,857
	32,465	181,181
Other revenues		
Interest income	10,257	32
Dividend income from a listed investment	–	350
Profit on disposal of fixed assets	–	8
Other service income	473	2,091
	10,730	2,481
Total revenues	43,195	183,662

Notes to the Accounts

For the year ended 31st March 2001

2 Turnover, revenues and segment information (Continued)

An analysis of the Group's turnover and contribution to loss before taxation by principal activities and markets is as follows:

	Turnover		Contribution to loss before taxation	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Principal activities				
Continuing operations:				
Manufacture and sale of portfolios, portable cases, luggage products, purses and accessories	30,346	169,324	(13,347)	(68,220)
Management of website	2,119	–	(9,691)	–
Investment holding	–	–	(4,877)	(7,402)
Net finance income/(expenses)	–	–	8,203	(6,167)
Corporate expenses	–	–	(10,769)	(4,560)
	32,465	169,324	(30,481)	(86,349)
Discontinued operations:				
Manufacture and sale of fashion garments and paper products	–	11,857	–	(9,693)
	32,465	181,181	(30,481)	(96,042)

Notes to the Accounts

For the year ended 31st March 2001

2 Turnover, revenues and segment information (Continued)

	Turnover		Contribution to loss before taxation	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Principal markets				
Continuing operations:				
The United States of America	21,631	98,294	(9,476)	(51,011)
Europe	–	19,856	–	(7,539)
The People's Republic of China ("PRC"), Hong Kong	10,668	5,829	(20,932)	(2,798)
United Arab Emirates and Middle East	136	43,844	(60)	(24,235)
Other countries	30	1,501	(13)	(766)
	32,465	169,324	(30,481)	(86,349)
Discontinued operations:				
The United States of America	–	982	–	(265)
The PRC				
Hong Kong	–	2,048	–	(554)
Outside Hong Kong	–	8,712	–	(8,776)
Other countries	–	115	–	(98)
	–	11,857	–	(9,693)
	32,465	181,181	(30,481)	(96,042)

Notes to the Accounts

For the year ended 31st March 2001

3 Operating loss

Operating loss is stated after crediting and charging the following:

	2001 HK\$'000	2000 HK\$'000
Crediting		
Profit on disposal of subsidiaries	666	—
Bad debts recovered	112	—
Charging		
Provision for bad and doubtful debts	—	10,809
Provision for inventories	903	11,499
Cost of inventories sold	30,168	181,769
Depreciation		
Owned assets	2,902	4,461
Leased assets	616	454
Retirement benefit costs*	185	—
Write off of goodwill on cessation of business	—	4,952
Write off of fixed assets	634	9,667
Operating lease rentals in respect of land and buildings	1,712	1,609
Auditors' remuneration	514	750

* There was no contribution payable to retirement scheme as at 31st March 2001.

4 Finance costs

	2001 HK\$'000	2000 HK\$'000
Interest expense on bank loans and overdrafts	1,378	6,341
Interest expense on finance leases wholly repayable within five years	377	208
Other borrowing costs	299	—
	2,054	6,549

Notes to the Accounts

For the year ended 31st March 2001

5 Taxation

Tax has not been provided as the Group did not generate any assessable profits during the year (2000: Nil). The tax credit for the year ended 31st March 2000 represented overprovision in prior year.

Movements in the provision for deferred tax liabilities in respect of accelerated depreciation allowances are as follows:

	2001 HK\$'000	2000 HK\$'000
At beginning of year	456	456
Disposal of subsidiaries	(420)	–
At end of year	36	456

Deferred tax charge/(credit) for the year has not been provided in respect of the following:

	2001 HK\$'000	2000 HK\$'000
Accelerated depreciation allowances	1,990	–
Tax losses	8,546	(32,511)
	10,536	(32,511)

The potential deferred tax liabilities/(assets) as at the year end not provided for in the accounts amount to:

	2001 HK\$'000	2000 HK\$'000
Accelerated depreciation allowances	1,990	–
Tax losses	(23,965)	(32,511)
	(21,975)	(32,511)

Notes to the Accounts

For the year ended 31st March 2001

6 Loss attributable to shareholders

The loss attributable to shareholders dealt with in the accounts of the Company for the year ended 31st March 2001 was HK\$31,544,000 (2000: HK\$79,010,000).

7 Loss per share

The calculation of basic loss per share is based on the Group's loss attributable to shareholders of HK\$30,481,000 (2000: HK\$96,446,000) and the weighted average of 2,203,141,357 (2000: 81,645,356) ordinary shares in issue during the year. The prior year's weighted average number of shares in issue for the calculation of basic loss per share has been adjusted for the consolidation of the Company's shares effected in April 2000 (note 19b).

There were no potential dilutive ordinary shares in existence for the two years ended 31st March 2001 and therefore, no diluted loss per share was presented.

8 Directors' and senior management's remuneration

The aggregate amounts of emoluments paid and payable to the Directors of the Company during the year are as follows:

	2001 HK\$'000	2000 HK\$'000
Fees:		
Executive directors	–	–
Independent non-executive Directors	380	40
Other emoluments:		
Basic salaries, housing, other allowances and benefits in kind:		
Executive Directors	3,289	5,167
Independent non-executive Directors	–	–
	3,669	5,207

Notes to the Accounts

For the year ended 31st March 2001

8 Directors' and senior management's remuneration (Continued)

The emoluments of the Directors fell within the following bands:

Emoluments bands	Number of Directors	
	2001	2000
Nil – HK\$1,000,000	10	13
HK\$1,000,001 – HK\$1,500,000	1	1
HK\$1,500,001 – HK\$2,000,000	–	1
	11	15

None of the Directors has waived any remuneration during the year.

During the year 65,700,000 options were granted to the Directors under the Share Option Scheme as described in note 19. Details of the options granted are set out in the Directors' report.

The Directors' remuneration has been included in the "Staff costs" category in the profit and loss account on page 25.

The five highest paid individuals of the Group during the year included four (2000: four) Directors, details of whose remuneration are set out above. The remuneration of the remaining one individual for the year ended 31st March 2001 was comprised of basic salaries, housing, other allowances and benefits in kind, and amounted to HK\$434,000 (2000: HK\$540,000).

Notes to the Accounts

For the year ended 31st March 2001

9 Fixed assets

Group	Leasehold land and buildings HK\$'000	Leasehold improvements HK\$'000	Plant and machinery, furniture, equipment and motor vehicles HK\$'000	Total HK\$'000
Cost or valuation				
At 1st April 2000	35,500	6,528	20,588	62,616
Additions	858	386	653	1,897
Acquisition of subsidiaries	–	3,162	13,887	17,049
Disposals	–	(88)	(5,715)	(5,803)
Disposal of subsidiaries	(36,358)	(6,535)	(15,238)	(58,131)
At 31st March 2001	–	3,453	14,175	17,628
Accumulated depreciation				
At 1st April 2000	–	3,006	10,737	13,743
Charge for the year	727	842	1,949	3,518
Acquisition of subsidiaries	–	843	1,900	2,743
Disposals	–	(34)	(5,135)	(5,169)
Disposal of subsidiaries	(727)	(3,637)	(7,075)	(11,439)
At 31st March 2001	–	1,020	2,376	3,396
Net book value				
At 31st March 2001	–	2,433	11,799	14,232
At 31st March 2000	35,500	3,522	9,851	48,873

Notes to the Accounts

For the year ended 31st March 2001

9 Fixed assets (Continued)

The leasehold land and buildings were stated at valuation and other fixed assets are stated at cost. Had the leasehold land and buildings been stated at cost less accumulated depreciation, the carrying amounts as at 31st March 2000 would have been HK\$30,371,000.

The leasehold land and buildings were held under medium term leases outside Hong Kong. As at 31st March 2000, the land and buildings were pledged to secure a bank loan to the Group.

The leasehold land and buildings were revalued on a depreciated replacement cost basis by LCH (Asia-Pacific) Surveyors Limited, professional valuers, at 31st March 2000.

The net book value of the Group's assets held under finance leases as at 31st March 2001 amounted to HK\$1,706,000 (2000: HK\$5,148,000).

Company

	Leasehold improvements HK\$'000	Furniture and equipment HK\$'000	Total HK\$'0000
Cost			
At 1st April 2000	–	6	6
Additions	291	137	428
At 31st March 2001	291	143	434
Accumulated depreciation			
At 1st April 2000	–	1	1
Charge for the year	71	9	80
At 31st March 2001	71	10	81
Net book value			
At 31st March 2001	220	133	353
At 31st March 2000	–	5	5

Notes to the Accounts

For the year ended 31st March 2001

10 Investments in subsidiaries

	Company	
	2001 HK\$'000	2000 HK\$'000
Unlisted investments, at cost	51,538	51,538
Provision for diminution in value	(51,538)	(51,538)
Amounts due from subsidiaries less provision	224,977	4,970
	224,977	4,970

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

The following is a list of the principal subsidiaries as at 31st March 2001 and 2000:

Name	Place of incorporation/ operation	Principal activities	Particulars of issued share capital/registered capital	Interest held	
				2001	2000
Directly held					
Wolf Holdings Limited	British Virgin Islands	Investment holding	1,000 ordinary shares of US\$1 each	100%	100%
Indirectly held					
Elegant Handicraft (2000) Limited	Hong Kong	Trading of portfolios and portable cases, purses and accessories, luggage and related products	1,000,000 ordinary shares of HK\$1 each	100%	100%

Notes to the Accounts

For the year ended 31st March 2001

10 Investments in subsidiaries (Continued)

Name	Place of incorporation/ operation	Principal activities	Particulars of issued share capital/registered capital	Interest held	
				2001	2000
Quam.net Limited	Hong Kong	Investment holding	8,119,974 ordinary shares of HK\$1 each	100%	–
Quam (H.K.) Limited	Hong Kong	Management of website	5,000,000 ordinary shares of HK\$1 each	100%	–
Elegant Handicraft Limited	Hong Kong	Trading of portfolios and portable cases, purses and accessories, luggage and related products	8,000,000 ordinary shares of HK\$1 each	–	100%
Dongguan Elegant Handbags Factory Limited	The PRC	Manufacturing and trading of portfolios and portable cases, purses and accessories, luggage and related products	HK\$20,000,000	–	100%

Notes to the Accounts

For the year ended 31st March 2001

10 Investments in subsidiaries (Continued)

The above table lists the subsidiaries of the Company as at 31st March 2001 which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of the other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

11 Investment securities

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Unlisted equity investments, at cost	16,285	–	10,000	–

12 Trade receivables

The Group grants various credit periods to its customers and the analysis of the credit periods by principal activities is as follows:

Sale of portfolios and portable cases, purses, luggage and related products	30 to 45 days
Management of website	60 to 90 days

As at 31st March 2001, the ageing analysis of the trade receivables (net of provision) of the Group was as follows:

	2001 HK\$'000	2000 HK\$'000
Within 180 days	5,732	3,057
181 to 360 days	743	1,412
Over 360 days	–	349
	6,475	4,818

Notes to the Accounts

For the year ended 31st March 2001

13 Inventories

	Group	
	2001 HK\$'000	2000 HK\$'000
Raw materials	–	4,123
Work in progress	–	1,959
Finished goods	–	1,196
	–	7,278

Inventories of the Group were carried at cost as at 31st March 2000.

14 Other investments

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Equity investments listed in Hong Kong, at market value	1,927	–	1,927	–

15 Trade payables

As at 31st March 2001, the ageing analysis of the trade payables of the Group was as follows:

	2001 HK\$'000	2000 HK\$'000
Within 180 days	8,360	4,517
181 to 360 days	3,736	19,529
Over 360 days	232	482
	12,328	24,528

Notes to the Accounts

For the year ended 31st March 2001

16 Amount due to a director

The amount due to a director as at 31st March 2000 was unsecured and interest free and was fully repaid during the year.

17 Finance lease payables

	Group	
	2001	2000
	HK\$'000	HK\$'000
Finance lease payables:		
Within one year	1,072	1,431
In the second year	357	1,171
In the third to fifth years inclusive	–	624
Total minimum lease payments	1,429	3,226
Future finance charges	(165)	(535)
Total net finance lease payables	1,264	2,691
Current portion included under current liabilities	(948)	(1,132)
Non-current portion	316	1,559

Notes to the Accounts

For the year ended 31st March 2001

18 Bank and other borrowings

	Group	
	2001 HK\$'000	2000 HK\$'000
Bank overdrafts, secured	–	5,539
Bank loans, secured	–	19,191
Trust receipt loans, secured	–	36,750
Other loan, unsecured	–	1,033
Discounted bills payable	–	518
	–	63,031
Bank and other borrowings repayable		
within one year or on demand	–	49,012
Bank loans repayable in the second year	–	14,019
	–	63,031

Notes to the Accounts

For the year ended 31st March 2001

19 Share capital

	2001 HK\$'000	2000 HK\$'000
Authorised:		
10,000,000,000 (2000: 1,000,000,000) ordinary shares of HK\$0.01 (2000: HK\$0.10) each (note b)	100,000	100,000

Issued and fully paid:

	No. of shares	Par value HK\$	Amount HK\$'000
At 1st April 2000	293,400,000	0.10	29,340
Debt-to-Equity Conversion (note a)	15,451,429	0.10	1,545
Capital restructuring (note b)	(205,900,953)		(29,855)
Subscription and placing of new shares (note c)	1,100,000,000	0.01	11,000
Issue of shares in July 2000 (note d)	1,200,000,000	0.01	12,000
Issue of shares for acquisition of Quamnet (note e)	831,228,916	0.01	8,312
Repurchase of shares (note f)	(65,420,000)		(654)
At 31st March 2001	3,168,759,392	0.01	31,688
At 1st April 1999	225,000,000	0.10	22,500
Issue of shares (note g)	45,000,000	0.10	4,500
Exercise of share options (note h)	23,400,000	0.10	2,340
At 31st March 2000	293,400,000	0.10	29,340

Notes to the Accounts

For the year ended 31st March 2001

19 Share capital (Continued)

Notes:

- (a) In April 2000, certain trade creditors of the Group assigned to iBest Limited, a then substantial shareholder of the Company, their rights to debts totalling approximately HK\$15,451,000 owing to them by the Group (the "Trade Debts") in consideration for iBest Limited placing to them a total of 15,451,429 shares of the Company. iBest Limited subsequently subscribed for 15,451,429 new shares of HK\$0.10 each of the Company in consideration of it assigning its interest in the Trade Debts to the Company ("Debt-to-Equity Conversion").
- (b) Pursuant to resolutions passed at a special general meeting held on 19th April 2000, the par value of all the then existing shares of the Company (the "Old Shares") was reduced from HK\$0.10 each to one-third of one Hong Kong cent each (the "Capital Reduction"). Immediately following the completion of the Capital Reduction, every three Old Shares were consolidated into one new share of HK\$0.01 each (the "New Shares") (the "Capital Consolidation"). Each share of HK\$0.10 in the authorised share capital of the Company was subdivided into ten shares of HK\$0.01 each. As a result of the Capital Reduction and Capital Consolidation, the issued share capital of the Company was reduced from HK\$30,885,143 (after the Debt-to-Equity Conversion), divided into 308,851,429 Old Shares of HK\$0.10 each, to HK\$1,029,504 divided into 102,950,476 New Shares of HK\$0.01 each. The amount of capital reduction of HK\$29,855,639 was credited to the contributed surplus of the Company.
- (c) Pursuant to resolutions passed at the same special general meeting as in note (b) above, a conditional subscription agreement entered into between the Company and Newer Challenge Holdings Limited dated 28th February 2000 for the subscription of 500,000,000 New Shares at a subscription price of HK\$0.10 per New Share (the "Subscription") and a conditional placing agreement entered into between the Company and Kim Eng Securities (Hong Kong) Limited ("Kim Eng") under which the Company appointed Kim Eng as the placing agent to place 600,000,000 New Shares at a placing price of HK\$0.10 per New Share to certain independent investors on an underwritten basis (the "Placing"), were approved and the Subscription and Placing were completed on 20th April 2000.
- (d) In July 2000, 1,200,000,000 new ordinary shares of HK\$0.01 each in the capital of the Company were issued at a price of HK\$0.18 per share.

Notes to the Accounts

For the year ended 31st March 2001

19 Share capital (Continued)

- (e) On 30th January 2001, 831,228,916 ordinary shares of HK\$0.01 each in the capital of the Company were issued at HK\$0.19 per share as the consideration for the acquisition of the entire equity interest in Quam.net Limited.
- (f) During the year, the Company repurchased a total number of 65,420,000 of its own shares on The Stock Exchange of Hong Kong Limited, all of which were then cancelled. The aggregate price of HK\$3,969,402 paid was charged against share premium and accumulated losses, and the nominal value of the shares repurchased of HK\$654,200 was transferred to capital redemption reserve.
- (g) On 23rd October 1999, 45,000,000 shares of HK\$0.10 each in the Company were issued at par to an individual who is not connected with the directors, the chief executive or substantial shareholders of the Company or any of its subsidiaries, or any of their respective associates. The new shares rank pari passu in all respects with the then existing issued shares of the Company.
- (h) During the year ended 31st March 2000, subscription rights attaching to 23,400,000 share options were exercised, resulting in the issue of 23,400,000 shares of HK\$0.10 each in the Company for a total cash consideration of HK\$4,959,000.

Share options

Pursuant to the share option scheme adopted on 4th September 1997 (the "Share Option Scheme"), the Board of Directors may, on or before 3rd September 2007, at their discretion, invite full-time employees, including Directors of the Company or any of its subsidiaries to take up options to subscribe for the shares of the Company. The subscription price is the higher of 80% of the average of the official closing prices of the shares on The Stock Exchange of Hong Kong Limited for the five trading days immediately preceding the date of the grant of the option and the nominal value of the shares. HK\$10 is payable by the grantee of an option upon acceptance of the grant of an option.

The maximum number of shares in respect of which options may be granted under the Share Option Scheme may not exceed in nominal amount 10% of the issued share capital of the Company from time to time which has been duly allotted and issued. The maximum number of shares in respect of which options may be granted to any employee or Director may not exceed 25% of the aggregate number of shares in respect of which options are issued and issuable under the Share Option Scheme.

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For the year ended 31st March 2001

19 Share capital (Continued)

Share options (Continued)

Pursuant to an agreement dated 3rd January 2001 entered into between the Company and the holder (the "Quamnet Option Holder") of certain share options of Quam.net Limited ("Quamnet"), a subsidiary acquired by the Company in January 2001, certain share options of the Company were granted to the Quamnet Option Holder as consideration for the cancellation of the share options of Quamnet held.

Details of movements in the number of share options of the Company during the year are summarised as follows:

		Number of share options (in thousand)				
Exercise price per share	Exercise period	At 1st April 2000	Granted during the year	Exercised during the year	Lapsed during the year	At 31st March 2001
Options granted under the Share Option Scheme						
HK\$1.02	23.12.97 – 22.12.00	933	–	–	(933)	–
HK\$0.22	31.5.00 – 3.9.07	–	20,000	–	(2,400)	17,600
HK\$0.11	1.8.00 – 3.9.07	–	26,000	–	–	26,000
HK\$0.038	5.9.01 – 8.9.11	–	155,210	–	(1,960)	153,250
Options granted to the Quamnet Option Holder						
HK\$0.19	30.1.01 – 29.1.04	–	30,710	–	–	30,710
		933	231,920	–	(5,293)	227,560

The exercise in full of the 227,560,000 share options outstanding at 31st March 2001 would, under the capital structure of the Company then in existence, result in the issue of 227,560,000 additional shares of HK\$0.01 each in the Company at a total consideration, before issue expenses, of approximately HK\$18,391,000.

Notes to the Accounts

For the year ended 31st March 2001

20 Reserves

Group

	Share premium account HK\$'000	Fixed assets revaluation Goodwill HK\$'000	reserve HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Capital redemption reserve HK\$'000	Total HK\$'000
At 1st April 2000	22,445	–	5,445	3,098	(116,007)	–	(85,019)
Issue of shares	466,527	–	–	–	–	–	466,527
Reduction of paid-up capital	–	–	–	29,855	–	–	29,855
Goodwill on acquisition of subsidiaries	–	(197,398)	–	–	–	–	(197,398)
Disposal of subsidiaries	–	–	(5,445)	(873)	5,445	–	(873)
Repurchase of shares	(3,315)	–	–	–	(654)	654	(3,315)
Share issue expenses	(10,480)	–	–	–	–	–	(10,480)
Loss for the year	–	–	–	–	(30,481)	–	(30,481)
At 31st March 2001	475,177	(197,398)	–	32,080	(141,697)	654	168,816
At 1st April 1999	19,826	(9,492)	6,303	3,098	(19,561)	–	174
Issue of shares	2,619	–	–	–	–	–	2,619
Deficit on revaluation of fixed assets	–	–	(858)	–	–	–	(858)
Write off of goodwill on disposal of subsidiaries	–	4,540	–	–	–	–	4,540
Write off of goodwill on cessation of business	–	4,952	–	–	–	–	4,952
Loss for the year	–	–	–	–	(96,446)	–	(96,446)
At 31st March 2000	22,445	–	5,445	3,098	(116,007)	–	(85,019)

Notes to the Accounts

For the year ended 31st March 2001

20 Reserves (Continued)

Company

	Share premium account HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Capital redemption reserve HK\$'000	Total HK\$'000
At 1st April 2000	22,445	51,338	(150,000)	–	(76,217)
Issue of shares	466,527	–	–	–	466,527
Reduction of paid-up capital	–	29,855	–	–	29,855
Repurchase of shares	(3,315)	–	(654)	654	(3,315)
Share issue expenses	(10,480)	–	–	–	(10,480)
Loss for the year	–	–	(31,544)	–	(31,544)
At 31st March 2001	475,177	81,193	(182,198)	654	374,826
At 1st April 1999	19,826	51,338	(70,990)	–	174
Issue of shares	2,619	–	–	–	2,619
Loss for the year	–	–	(79,010)	–	(79,010)
At 31st March 2000	22,445	51,338	(150,000)	–	(76,217)

Notes to the Accounts

For the year ended 31st March 2001

21 Notes to consolidated cash flow statement

(a) Reconciliation of operating loss to net cash outflow/inflow from operating activities

	2001 HK\$'000	2000 HK\$'000
Operating loss	(28,427)	(89,493)
Interest income	(10,257)	(32)
Depreciation	3,518	4,915
Write off of fixed assets	634	9,667
Profit on disposal of subsidiaries	(666)	–
Dividend income	–	(350)
Write off of goodwill on cessation of business	–	4,952
Gain on disposal of fixed assets	–	(8)
Loss on disposal of discontinued operations	–	6,350
Decrease in inventories	811	19,758
(Increase)/decrease in trade receivables, prepayments, deposits and other receivables	(17,874)	18,743
(Increase)/decrease in other investments	(1,927)	12,400
(Decrease)/increase in trade payables, accrued liabilities and other payables	(39,800)	15,408
(Decrease)/increase in amount due to a director	(500)	500
Net cash (outflow)/inflow from operating activities	(94,488)	2,810

Notes to the Accounts

For the year ended 31st March 2001

21 Notes to consolidated cash flow statement (Continued)

(b) Analysis of changes in financing during the year

	Share capital (including share premium)		Bank and other borrowings		Finance lease payables	
	2001	2000	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At beginning of year	51,785	42,326	37,119	44,466	2,691	1,111
Cash inflow/(outflow) from financing	311,551	9,459	(18,427)	(7,347)	(1,762)	(1,021)
Non cash transactions						
Inception of finance leases	-	-	-	-	-	2,601
Shares issued for Debt-to-Equity Conversion (note 19a)	15,451	-	-	-	-	-
Shares issued for acquisition of subsidiaries (notes 19e and 21e)	157,933	-	-	-	-	-
Reduction of share capital (note 19b)	(29,855)	-	-	-	-	-
Obligations of subsidiaries acquired (note 21e)	-	-	-	-	1,422	-
Disposal of subsidiaries (note 21d)	-	-	(18,692)	-	(1,087)	-
At end of year	506,865	51,785	-	37,119	1,264	2,691

(c) Major non-cash transactions

Other than the non-cash transactions disclosed in note 21(b), the Group had no major non-cash transactions during the two years ended 31st March 2001.

Notes to the Accounts

For the year ended 31st March 2001

21 Notes to consolidated cash flow statement (Continued)

(d) Disposal of subsidiaries

	2001 HK\$'000	2000 HK\$'000
Net assets disposed of:		
Fixed assets	46,692	1,101
Inventories	6,467	2,061
Trade receivables, prepayments, deposits and other receivables	2,382	10,306
Cash and bank balances	5,272	426
Obligations under finance leases	(1,087)	–
Bank and other borrowings	(18,692)	–
Deferred taxation	(420)	–
Trade payables, accrued liabilities and other payables	(9,417)	(10,230)
Tax payable	(15,990)	(195)
Minority interests	–	(445)
	15,207	3,024
Attributable goodwill	–	4,540
Attributable contributed surplus	(873)	–
Profit/(loss) on disposal of subsidiaries	666	(6,350)
Consideration	15,000	1,214
Satisfied by:		
Cash	15,000	280
Other receivables	–	934
	15,000	1,214

Notes to the Accounts

For the year ended 31st March 2001

21 Notes to consolidated cash flow statement (Continued)

(d) Disposal of subsidiaries (Continued)

An analysis of the net inflow/outflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2001 HK\$'000	2000 HK\$'000
Cash and cash equivalents disposed of	(5,272)	(426)
Cash consideration	15,000	280
Net cash inflow/(outflow) in respect of the disposal of subsidiaries	9,728	(146)

The subsidiaries disposed of during the year ended 31st March 2001 absorbed HK\$23,907,000 of the Group's net operating cash flows, paid HK\$1,224,000 in respect of the net returns on investments and servicing of finance, received HK\$1,176,000 from investing activities and paid HK\$15,549,000 in respect of financing.

Notes to the Accounts

For the year ended 31st March 2001

21 Notes to consolidated cash flow statement (Continued)

(e) Purchase of subsidiaries

	2001 HK\$'000
Net assets acquired	
Fixed assets	14,306
Trade receivables, prepayments, deposits and other receivables	10,365
Cash and bank balances	3,829
Trade payables, accrued liabilities and other payables	(63,630)
Finance lease payables	(1,422)
	(36,552)
Goodwill arising on acquisition	197,398
Consideration and acquisition cost	160,846
Satisfied by:	
Allotment of shares	157,933
Cash	2,913
	160,846

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	2001 HK\$'000
Cash and cash equivalents acquired	3,829
Cash paid for the acquisition	(2,913)
Net cash inflow in respect of the purchase of subsidiaries	916

Notes to the Accounts

For the year ended 31st March 2001

21 Notes to consolidated cash flow statement (Continued)

(e) Purchase of subsidiaries (Continued)

The subsidiaries acquired during the year absorbed HK\$23,845,000 of the Group's net operating cash flows, paid HK\$216,000 in respect of net returns on investments and servicing of finance, utilised HK\$685,000 for investing activities and paid HK\$158,000 in respect of financing.

22 Commitments

(a) Operating lease commitments

At 31st March 2001, the Group had commitments to make payments in the next twelve months under operating leases, relating to land and buildings, which expire as follows:

	2001 HK\$'000	2000 HK\$'000
Within one year	2,495	–
In the second to fifth years inclusive	1,620	228
	4,115	228

(b) Capital commitments

	2001 HK\$'000	2000 HK\$'000
Contracted but not provided for other investments	3,428	–

23 Related party transactions

In January 2001, the Group acquired 100% equity interest in Quamnet at a consideration of approximately HK\$158 million (see note 21(e) for details). Mr. Bernard Pouliot is interested in around 3.3% of Quamnet via Porto Global Limited, a company 100% beneficially owned by him. Mr. Bernard Pouliot is a Director of the Company and the sole Director and sole shareholder of Newer Challenge Holdings Limited, a substantial shareholder of the Company which has an interest of approximately 20.8% in the Company before the acquisition of Quamnet.

Notes to the Accounts

For the year ended 31st March 2001

24 Subsequent events

On 7th June 2001, the Company entered into a sale and purchase agreement ("S&P Agreement") with Asia Pacific Creation Limited ("APC") in respect of the acquisition of the Hong Kong operations of APC. APC is engaged in the provision of financial services and securities broking business.

The consideration payable under the S&P Agreement is HK\$90 million and will be satisfied as to HK\$78.26 million in cash upon completion of the acquisition and the remaining balance of HK\$11.74 million by the issue of the convertible note with conversion price of HK\$0.072 at face value.

Upon full conversion of the convertible note, the number of shares issued will be 163,055,555 which will represent approximately 5.2% and 4.9% of the existing issued share capital and enlarged share capital of the Company respectively.

25 Comparative figures

The comparative figures are based on the accounts for the year ended 31st March 2000 which were not audited by PricewaterhouseCoopers.

Certain comparative figures have been reclassified to conform with the current year's presentation. These primarily relate to the reclassification of certain expenses in the consolidated profit and loss account, and the reclassification of trust receipt loans with original maturity over three months from operating to financing cash flows and other investments from investing to operating cash flows in the consolidated cash flow statement and the related notes thereto.

26 Approval of the accounts

The accounts were approved by the Board of Directors on 4th July 2001.