

Notes to the Financial Statements

For the year ended 31st March, 2001

1. GENERAL

The Company was incorporated in Bermuda on 30th July, 1997 as an exempted company under the Companies Act 1981 of Bermuda (as amended). The shares of the Company are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company. Its subsidiaries are principally engaged in property development for sale, leasing of investment properties, provision of property management services, construction and decoration services, property agency services and trading of communication products.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of investment properties, leasehold land and buildings and investments in securities. The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

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

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal respectively.

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

Goodwill and capital reserve

Goodwill or capital reserve arising on acquisition of a subsidiary, an associate or a jointly controlled entity represents respectively the excess or shortfall of the purchase consideration over the Group's share of the fair value ascribed to the separable net assets of the subsidiary, associate or jointly controlled entity at the date of acquisition, is dealt with through reserves in the year of acquisition.

On disposal of a subsidiary, an associate or a jointly controlled entity the attributable amount of goodwill or capital reserve previously written off against or credited to reserves at the time of acquisition is included in the determination of the profit or loss on disposal.

Notes to the Financial Statements

For the year ended 31st March, 2001

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

Properties under development for sale

Income from properties under development for sale, where there are no pre-sales prior to completion of development, is recognised on the execution of a binding sales agreement or when the relevant occupation permit is issued by the binding authority, whichever is the later.

Income from properties pre-sold prior to completion of development is recognised over the period from the execution of a binding sales agreement to the completion of development on the basis of development costs to date as a proportion of estimated total development costs.

Properties acquired for resale

When completed properties are acquired for resale, revenue is recognised on the execution of a binding sales agreement.

Construction contracts

When the outcome of a construction contract can be estimated reliably, revenue from fixed price construction contracts is recognised on the percentage of completion method, measured by reference to the value of work carried out during the period. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

Other

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

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

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

Property management and other fees are recognised when services are rendered.

Notes to the Financial Statements

For the year ended 31st March, 2001

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 independent professional valuations at the balance sheet date. Any surplus or deficit arising on 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 of the investment property revaluation reserve is charged to the income statement. Where 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 included in the determination of the profit and loss on disposal.

No depreciation and amortisation is provided in respect of investment properties which are held under leases with unexpired terms, including the renewable period, of more than twenty years.

Property, plant and equipment

Property, plant and equipment, other than leasehold land and buildings, 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 assets have 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 the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Notes to the Financial Statements

For the year ended 31st March, 2001

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (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.

Leasehold land and buildings are stated in the balance sheet at their revalued amount, being the fair value on the basis of their existing use at the date of revaluation less any subsequent accumulated depreciation and amortisation. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any surplus arising on revaluation of leasehold land and buildings is credited to the revaluation reserve, except to the extent that it reverses a revaluation deficit of the same asset previously recognised as an expense, in which case this surplus is credited to the income statement to the extent of the deficit previously charged. A decrease in net carrying amount arising on revaluation of an asset is charged to the income statement to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

Depreciation and amortisation is provided to write off the cost or valuation of property, plant and equipment over their estimated useful lives, using the straight line method, at the following rates per annum:

Leasehold land	Over the lease terms
Buildings	2%
Furniture, fixtures and equipment	20 – 30%
Motor vehicles	20 – 30%

Assets held under hire purchase contracts are depreciated over their estimated useful lives on the same basis as owned assets.

Notes to the Financial Statements

For the year ended 31st March, 2001

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Properties under development

Land and buildings in the course of development for rental or administrative purposes or for purposes not yet determined are carried at cost less any provision for impairment loss considered necessary by the directors. Cost includes land cost, development cost, borrowing costs capitalised and other direct costs attributable to such properties. Depreciation and amortisation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Properties under development which are due for completion more than one year from the balance sheet date are shown as non-current assets.

Properties under development which are due for completion within one year from the balance sheet date and are intended to be held for the long term for their investment potential are shown as non-current assets.

Properties under development which are due for completion within one year from the balance sheet date and are intended to be held for sale will be treated as properties under development for sale and are shown as current assets.

Properties under development for sale/properties held for sale

Properties under development for sale/properties held for sale are stated at the lower of cost and net realisable value. Cost includes land cost, development cost, borrowing costs capitalised and other direct costs attributable to such properties until they reach a marketable state. Net realisable value represents the estimated selling price less all estimated costs of completion and the estimated costs necessary to make the sale.

Capitalisation of borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

Notes to the Financial Statements

For the year ended 31st March, 2001

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 less any impairment loss.

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 Group's interests in associates are included in the consolidated balance sheet at the Group's share of net assets of the associates. The Group's share of post-acquisition results of the associates are included in the consolidated income statement.

When the Group transacts with its associates, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associate, except where the unrealised losses provide evidence of an impairment of the asset transferred.

Interests in jointly controlled entities

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and over which none of the participating parties has unilateral control. Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Group's interest in a jointly controlled entity is included in the consolidated balance sheet at the Group's share of the net assets of the jointly controlled entity. The Group's share of post-acquisition results of the jointly controlled entity is included in the consolidated income statement.

Notes to the Financial Statements

For the year ended 31st March, 2001

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Interests in jointly controlled entities *(Continued)*

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

Investments in securities

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

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

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

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

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

Inventories

Inventories represents trading merchandise and are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

Notes to the Financial Statements

For the year ended 31st March, 2001

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Construction contracts

When the outcome of a construction contract can be estimated reliably, contract costs are charged to the income statement by reference to the stage of completion of the contract activity at the balance sheet date on the same basis as contract revenue recognised.

When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

Construction contracts in progress at the balance sheet date are recorded in the balance sheet at the net amount of costs incurred plus recognised profits less recognised losses and progress billings, and are presented in the balance sheet as the "Amounts due from customers for contract work" (as an asset) or the "Amounts due to customers for contract work" (as a liability), as applicable. Amounts received before the related work is performed are included in the balance sheet, as a liability, under "Creditors and accrued charges". Amounts retented by the customers, but not yet paid, for work performed on a contract are included in the balance sheet under "Debtors, deposits and prepayments".

Assets held under hire purchase contracts

Assets held under hire purchase contracts are capitalised at their fair value at the date of acquisition. The corresponding liability to the hirer, net of interest charges, is included in the balance sheet as obligations under hire purchase contract. Finance costs, which represent the difference between the total commitments and the original principal at the inception of the hire purchase contract, are charged to the income statement so as to produce a constant periodic rate of charge on the remaining balances of the obligations for each accounting period.

Convertible debentures

Convertible debentures are separately disclosed and regarded as liabilities unless conversion actually occurs. The finance cost in respect of the convertible debenture is calculated and recognised in the income statement so as to produce a constant periodic rate of charge on the remaining balances of the convertible debentures for each accounting period.

Notes to the Financial Statements

For the year ended 31st March, 2001

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Convertible debentures *(Continued)*

The cost incurred in connection with the issue of convertible debentures are deferred and amortised on a straight line basis over the lives of the convertible debentures from the date of issue of the debentures to their final redemption date. If any of the debentures are purchased and cancelled, redeemed or converted prior to the final redemption date, an appropriate portion of any remaining unamortised costs will be charged immediately to the income statement.

Taxation

The charge for taxation is based on the results for the year after adjusting 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.

Foreign currencies

Transactions in currencies other than Hong Kong dollars are translated into Hong Kong dollars at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in currencies other than Hong Kong dollars are re-translated into Hong Kong dollars at the rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

Retirement benefit cost

The amount of contributions payable to the Group's benefits schemes 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 31st March, 2001

3. TURNOVER AND SEGMENTAL INFORMATION

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

	Turnover		Contribution to loss before taxation	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
By principal activity:				
Sale of properties	99,388	44,415	19,007	1,103
Gross rental income from investment properties	10,106	11,135	2,477	219
Property management service income	13,190	12,595	572	89
Construction and decoration service income	40,215	22,821	907	122
Property agency service income	765	1,045	(1,536)	(30)
Sale of goods	1,704	–	(1,393)	–
	<u>165,368</u>	<u>92,011</u>	<u>20,034</u>	<u>1,503</u>
Other operating expenses			(13,316)	(32,243)
Provision for impairment loss of properties under development			(45,194)	(177,609)
Provision for impairment loss of investments in securities			(159,300)	–
Impairment loss in goodwill attributable to an associate			(98,915)	–
Finance costs			(16,405)	(22,096)
Share of results of associates			(13,813)	(285)
Share of result of a jointly controlled entity			(5)	–
Loss before taxation			<u>(326,914)</u>	<u>(230,730)</u>

All of the activities of the Group are based in the People's Republic of China (the "PRC") and all of the Group's turnover and the loss before taxation are derived from the PRC, including Hong Kong.

Notes to the Financial Statements

For the year ended 31st March, 2001

4. OTHER REVENUE

	2001 HK\$'000	2000 HK\$'000
Included in other revenue are:		
Interest income	1,766	915
Sundry income	3,906	5,504
	<u>5,672</u>	<u>6,419</u>

5. OTHER OPERATING EXPENSES

	2001 HK\$'000	2000 HK\$'000
Deficit arising on revaluation of investment properties	(12,430)	(28,702)
Deficit arising on revaluation of land and buildings	(886)	(3,562)
Interest on overdue Hong Kong Profits Tax in respect of previous year	–	(1,038)
Indemnity of Hong Kong Profits Tax in respect of previous year, and overdue interest thereon, received by the Group (note 42(b))	–	1,059
	<u>(13,316)</u>	<u>(32,243)</u>

Notes to the Financial Statements

For the year ended 31st March, 2001

6. LOSS FROM OPERATIONS

	2001 HK\$'000	2000 HK\$'000
Loss from operations has been arrived at after charging:		
Auditors' remuneration:		
Current year	700	710
Underprovision in prior year	20	123
Cost of properties sold	71,269	33,322
Depreciation and amortisation		
Own assets	956	743
Assets held under hire purchase contracts	51	16
Loss on disposal of property, plant and equipment	46	–
Operating lease charges in respect of rented premises	130	–
and after crediting:		
Profit on disposal of investment properties	–	11,093
Rent income, net of outgoings	<u>8,831</u>	<u>8,814</u>

Notes to the Financial Statements

For the year ended 31st March, 2001

7. FINANCE COSTS

	2001 HK\$'000	2000 HK\$'000
Finance costs comprise:		
Interest on:		
Bank borrowings wholly repayable within five years	(23,756)	(26,662)
Bank borrowings not wholly repayable within five years	(3,530)	(2,615)
Other borrowing wholly repayable within five years	(406)	(2,010)
Consideration payable for the acquisition of an associate	–	(3,169)
Convertible debentures	(962)	(468)
Hire purchase contracts	(15)	(1)
	<u>(28,669)</u>	<u>(34,925)</u>
Less: Amount capitalised to properties under development	<u>18,367</u>	<u>18,273</u>
	(10,302)	(16,652)
Amortisation of expenses incurred in connection with the issue of convertible debentures	<u>(6,103)</u>	<u>(5,444)</u>
	<u>(16,405)</u>	<u>(22,096)</u>

Notes to the Financial Statements

For the year ended 31st March, 2001

8. DIRECTORS' EMOLUMENTS AND HIGHEST PAID INDIVIDUALS

Directors' emoluments

The directors' emoluments are analysed as follows:

	2001 HK\$'000	2000 HK\$'000
Fees:		
Executive directors	–	–
Non-executive directors	125	–
Independent non-executive directors	720	180
Other emoluments to executive directors:		
Salaries and other benefits	4,320	4,160
Retirement benefit scheme contributions	16	–
Total directors' emoluments	<u>5,181</u>	<u>4,340</u>

The emoluments of the directors were within the following bands:

	2001 Number of directors	2000 Number of directors
Up to HK\$1,000,000	10	9
HK\$2,000,001 to HK\$2,500,000	<u>1</u>	<u>1</u>

Highest paid individuals

The five highest paid individuals of the Group included three (2000: three) executive directors, details of whose emoluments are set out above. The emoluments of the remaining two (2000: two) highest paid individuals, other than directors of the Company, are as follows:

	2001 HK\$'000	2000 HK\$'000
Salaries and other benefits	<u>1,662</u>	<u>1,553</u>

The emoluments of each of the highest paid individuals was within the band of nil to HK\$1,000,000 in both years.

Notes to the Financial Statements

For the year ended 31st March, 2001

9. TAXATION

	2001 HK\$'000	2000 HK\$'000
The (charge) credit comprises:		
Profit for the year		
Hong Kong	(118)	(145)
Other regions in the PRC	(300)	(40)
	<u>(418)</u>	<u>(185)</u>
Overprovision in prior years		
Hong Kong	150	69
	<u>(268)</u>	<u>(116)</u>

Hong Kong Profits Tax is calculated at 16% of the estimated assessable profit for the year.

Taxation arising in other regions in the PRC is calculated at the rates prevailing in the relevant regions in the PRC.

Details of deferred taxation of the Group are set out in note 34.

10. NET LOSS FOR THE YEAR

Of the Group's net loss for the year of HK\$327,182,000 (2000: HK\$230,846,000), a loss of HK\$326,762,000 (2000: HK\$260,007,000) has been dealt with in the financial statements of the Company.

11. LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss for the year of HK\$327,182,000 (2000: HK\$230,846,000) and on the weighted average number of 1,170,749,148 shares (2000: 699,419,702 shares) in issue during the year.

Diluted loss per share has not been presented as the exercise of the Company's outstanding options, warrants and convertible debentures would result in a decrease in net loss per share in both years.

Notes to the Financial Statements

For the year ended 31st March, 2001

12. INVESTMENT PROPERTIES

	2001 HK\$'000	2000 HK\$'000
THE GROUP		
VALUATION		
At beginning of the year	214,650	250,350
Additions	–	48,201
Disposals	–	(44,500)
Deficit arising on revaluation	(12,430)	(39,401)
	<u>214,650</u>	<u>250,350</u>
At end of the year	<u>202,220</u>	<u>214,650</u>

The Group's investment properties as at 31st March, 2001 and 2000 are analysed as follows:

	2001 HK\$'000	2000 HK\$'000
Properties situated in Hong Kong held under long leases	130,020	138,450
Properties situated in Hong Kong held under medium-term leases	17,000	21,000
Properties situated in other regions of the PRC held under long leases	55,200	55,200
	<u>130,020</u>	<u>138,450</u>
	<u>202,220</u>	<u>214,650</u>

The investment properties were revalued as at 31st March, 2001 by DTZ Debenham Tie Leung Limited, an independent firm of professional valuers, on an open market value existing use basis. These valuations gave rise to the revaluation deficit of HK\$12,430,000 which has been charged to the income statement. The investment properties are leased out for rental purposes under operating leases.

At 31st March, 2001, the formal transfer of the title of the Group's investment properties situated in other regions of the PRC into the name of the subsidiary had not been completed.

Notes to the Financial Statements

For the year ended 31st March, 2001

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
THE GROUP				
COST OR VALUATION				
At 1st April, 2000	19,550	8,920	2,351	30,821
Additions	–	2,336	–	2,336
Disposals	–	(81)	(177)	(258)
Deficit arising on revaluation	(970)	–	–	(970)
At 31st March, 2001	18,580	11,175	2,174	31,929
Comprising:				
At cost	–	11,175	2,174	13,349
At valuation – 2001	18,580	–	–	18,580
	18,580	11,175	2,174	31,929
DEPRECIATION AND AMORTISATION				
At 1st April, 2000	–	8,173	2,255	10,428
Provided for the year	504	473	30	1,007
Eliminated on disposals	–	(35)	(177)	(212)
Eliminated on revaluation	(504)	–	–	(504)
At 31st March, 2001	–	8,611	2,108	10,719
NET BOOK VALUES				
At 31st March, 2001	18,580	2,564	66	21,210
At 31st March, 2000	19,550	747	96	20,393

Notes to the Financial Statements

For the year ended 31st March, 2001

13. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The Group's leasehold land and buildings as at 31st March, 2001 and 2000 are analysed as follows:

	2001 HK\$'000	2000 HK\$'000
Properties situated in Hong Kong held under long leases	16,800	16,800
Properties situated in Hong Kong held under medium-term leases	1,780	2,750
	<u>18,580</u>	<u>19,550</u>

The leasehold land and buildings were revalued as at 31st March, 2001 by DTZ Debenham Tie Leung Limited, an independent firm of professional valuers, on an open market value existing use basis. These valuations gave rise to the revaluation deficit of HK\$466,000, of which HK\$420,000 has been credited to the other property revaluation reserve and HK\$886,000 has been charged to the income statement.

At 31st March, 2001, had the leasehold land and buildings of the Group not been revalued and carried at historical cost less accumulated depreciation and amortisation, their carrying value would have been approximately HK\$22,384,000 (2000: HK\$22,887,000).

The net book value of property, plant and equipment includes an amount of HK\$325,000 (2000: HK\$169,000) in respect of assets held under hire purchase contracts.

Notes to the Financial Statements

For the year ended 31st March, 2001

14. INTEREST IN SUBSIDIARIES

	THE COMPANY	
	2001	2000
	HK\$'000	HK\$'000
Unlisted shares	610,354	610,354
Amounts due from subsidiaries	437,824	285,963
	<u>1,048,178</u>	<u>896,317</u>
Less: Provision for impairment loss	(855,803)	(660,321)
	<u>192,375</u>	<u>235,996</u>

The carrying value of the unlisted shares is based on the underlying net tangible assets of the subsidiaries at the time when they became members of the Group pursuant to the group reorganisation in 1997.

Particulars of the subsidiaries as at 31st March, 2001 are set out in note 44.

15. PROPERTIES UNDER DEVELOPMENT

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Land cost	267,264	474,350
Development cost	18,281	45,896
Interest capitalised	33,518	61,702
	<u>319,063</u>	<u>581,948</u>
Less: Provision for impairment loss	(206,451)	(307,609)
	<u>112,612</u>	<u>274,339</u>

The properties under development are situated in Hong Kong and are held under long leases and medium-term leases with a carrying value of approximately HK\$101,612,000 (2000: HK\$213,339,000) and HK\$11,000,000 (2000: HK\$61,000,000), respectively.

Notes to the Financial Statements

For the year ended 31st March, 2001

16. INTEREST IN ASSOCIATES

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Share of net assets	<u>–</u>	<u>13,813</u>

Particulars of the associates as at 31st March, 2001 are set out in note 45.

17. INTEREST IN A JOINTLY CONTROLLED ENTITY

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Share of net assets	<u>–</u>	<u>–</u>

Particulars of the jointly controlled entity as at 31st March, 2001 are as follows:

Name of company	Place of incorporation	Proportion of nominal value of issued capital held by the Group %	Principal activity
Fortune Trump Management Limited	Hong Kong	50	Provision of property management service

18. INVESTMENTS IN SECURITIES

	THE GROUP		THE COMPANY	
	Investment securities		Investment securities	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-current unlisted equity securities, at cost less provision for impairment loss	<u>57,814</u>	<u>550</u>	<u>37,610</u>	<u>–</u>

Notes to the Financial Statements

For the year ended 31st March, 2001

18. INVESTMENTS IN SECURITIES (Continued)

Particulars of the investments in securities of the Group as at 31st March, 2001 are as follows:

Name of company	Place of incorporation	Type of securities	Proportion of nominal value of issued share capital held
Codebank Limited *	Hong Kong	Ordinary shares	13.30%
CyberLiving Holdings Limited	British Virgin Islands	Ordinary shares	18.75%

* directly held by the Company

19. PROPERTIES HELD FOR SALE

The Group's properties held for sale as at 31st March, 2001 are analysed as follows:

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Properties situated in Hong Kong held under long leases	30,243	—
Properties situated in Hong Kong held under medium-term leases	23,025	—
	<u>53,268</u>	<u>—</u>

The properties held for sale are stated at estimated net realisable value at the balance sheet date.

During the year, the cost of properties held for sale of HK\$71,269,000 (2000: Nil) was recognised as an expense.

Notes to the Financial Statements

For the year ended 31st March, 2001

20. PROPERTIES UNDER DEVELOPMENT FOR SALE

THE GROUP

The Group's properties under development for sale, which are held under medium-term leases in Hong Kong, are stated at their estimated net realisable value at the balance sheet date.

21. INVENTORIES

THE GROUP

The Group's inventories represent trading merchandise of communication products and are carried at cost.

During the year, the cost of inventories of HK\$1,555,000 (2000: Nil) was recognised as an expense.

22. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Contract costs incurred to date plus recognised profits less recognised losses	23,757	29,457
Less: Progress billings	(27,810)	(42,465)
	<u>(4,053)</u>	<u>(13,008)</u>

Represented by:

Due from customers included in current assets	1,290	2,683
Due to customers included in current liabilities	(5,343)	(15,691)
	<u>(4,053)</u>	<u>(13,008)</u>

At 31st March, 2001, retentions held by customers for contract work included in the amount of debtors, deposits and prepayments amounted to approximately HK\$2,863,000 (2000: HK\$1,377,000).

Notes to the Financial Statements

For the year ended 31st March, 2001

23. DEBTORS, DEPOSITS AND PREPAYMENTS

The Group maintains a defined credit policy. For sales of goods, the Group allows an average credit period of 30 days to its trade customers. Rentals receivable from tenants and service income receivable from customers are payable on presentation of invoices. Included in debtors, deposits and prepayments are trade debtors totaling HK\$25,124,000 (2000: HK\$16,988,000), the aging analysis of which is stated as follows:

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Within one month	19,621	11,801
Over 1 month but less than 3 months	3,942	1,807
Over 3 months	1,561	3,380
	<u>25,124</u>	<u>16,988</u>

24. PLEDGED BANK DEPOSITS

THE GROUP

The pledged bank deposits have been placed in designated bank accounts in favour of the banks as part of the security for the banking facilities granted to the Group.

25. CREDITORS AND ACCRUED CHARGES

Included in creditors and accrued charges are trade creditors of HK\$34,466,000 (2000: HK\$31,184,000), the aging analysis of which is stated as follows:

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Within one month	11,160	8,641
Over 1 month but less than 3 months	5,556	1,816
Over 3 months	17,750	20,727
	<u>34,466</u>	<u>31,184</u>

Notes to the Financial Statements

For the year ended 31st March, 2001

26. DEPOSITS RECEIVED ON DISPOSAL OF SUBSIDIARIES

The amount represents deposits received from Mr. Lai Yiu Keung ("Mr. Lai"), a director of the Company, in connection with the disposal of certain subsidiaries to Mr. Lai. Details of this transaction are set out in note 43 (b).

27. BORROWINGS

	THE GROUP		THE COMPANY	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Borrowings comprise:				
Bank loans	203,908	260,273	–	–
Bank overdrafts	58,527	47,998	207	78
Other loan	–	18,000	–	–
	<u>262,435</u>	<u>326,271</u>	<u>207</u>	<u>78</u>

Analysed as:

Secured	262,228	326,134	–	–
Unsecured	207	137	207	78
	<u>262,435</u>	<u>326,271</u>	<u>207</u>	<u>78</u>

The borrowings are repayable as follows:

Within one year or on demand	210,297	193,576	207	78
More than one year, but not exceeding two years	42,425	82,780	–	–
More than two years, but not exceeding five years	4,446	49,915	–	–
More than five years	5,267	–	–	–
	<u>262,435</u>	<u>326,271</u>	<u>207</u>	<u>78</u>
Less : Amount due within one year or on demand included in current liabilities	<u>(210,297)</u>	<u>(193,576)</u>	<u>(207)</u>	<u>(78)</u>
Amount due after one year	<u>52,138</u>	<u>132,695</u>	<u>–</u>	<u>–</u>

Notes to the Financial Statements

For the year ended 31st March, 2001

28. OBLIGATIONS UNDER HIRE PURCHASE CONTRACTS

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
The maturity of obligations under hire purchase contracts is as follows:		
Within one year	137	51
More than one year, but not exceeding two years	38	53
More than two years, but not exceeding five years	26	64
	<u>201</u>	<u>168</u>
Less: Amount due within one year included in current liabilities	<u>(137)</u>	<u>(51)</u>
Amount due after one year	<u>64</u>	<u>117</u>

29. SHARE CAPITAL

	Number of shares		Amount	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Shares of HK\$0.10 each				
Authorised:				
At beginning of the year and at end of the year	<u>3,000,000,000</u>	<u>3,000,000,000</u>	<u>300,000</u>	<u>300,000</u>
Issued and fully paid:				
At beginning of the year	993,310,715	606,621,732	99,331	60,662
Conversion of debentures	197,645,981	61,065,305	19,765	6,107
Issued as consideration for the acquisition of investments in securities	139,300,000	–	13,930	–
Exercise of warrants	3,669,519	13,123,678	367	1,312
Exercise of share options	–	30,000,000	–	3,000
Issued as consideration for the acquisition of investment properties	–	90,000,000	–	9,000
Issued as consideration for the acquisition of an associate	–	192,500,000	–	19,250
At end of the year	<u>1,333,926,215</u>	<u>993,310,715</u>	<u>133,393</u>	<u>99,331</u>

Notes to the Financial Statements

For the year ended 31st March, 2001

29. SHARE CAPITAL (Continued)

During the year, the following changes in the issued share capital of the Company took place:

- (a) During the year, an aggregate of 197,645,981 shares of HK\$0.10 each in the Company were issued at conversion prices ranging from HK\$0.25 to HK\$1.00 per share upon the exercise of the conversion rights attaching to the convertible debentures amounting to HK\$89,513,000 (note 33).
- (b) During the year, 64,300,000 and 75,000,000 shares of HK\$0.10 each in the Company were issued at HK\$2.50 and HK\$0.73 per share, respectively, as consideration for the acquisition of certain investments in securities.
- (c) During the year, 3,669,519 warrants were exercised at the adjusted subscription price of HK\$0.74, resulting in the issue of 3,669,519 shares of HK\$0.10 each in the Company (note 31).

All the shares issued during the year rank pari passu in all respects with the then existing shares.

Changes in the issued share capital of the Company subsequent to 31st March, 2001 are set out in note 43(a).

30. SHARE OPTIONS

Pursuant to the Company's share option scheme adopted on 15th September, 1997, 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 not less than 80% of the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the options or the nominal value of the shares, whichever is the higher.

The maximum number of shares in respect of which options may be granted under the share option scheme shall not exceed 10% of the issued share capital of the Company from time to time and the maximum number of shares in respect of which options may be granted to any one employee shall not exceed 25% of the maximum number of shares in respect of which options may be granted under the share option scheme.

Notes to the Financial Statements

For the year ended 31st March, 2001

30. SHARE OPTIONS (Continued)

A summary of the movements of share options during the year is as follows:

Date of grant	Exercisable period	Exercise price HK\$	Number of share options		
			Balance at 1.4.2000	Lapsed during the year	Balance at 31.3.2001
23.12.1999	17.1.2000 to 16.1.2001	0.75	30,000,000	(30,000,000)	–
3.2.2000	15.2.2000 to 14.2.2001	1.86	3,000,000	(3,000,000)	–
9.3.2000	20.3.2000 to 19.3.2001	1.71	30,000,000	(30,000,000)	–
			<u>63,000,000</u>	<u>(63,000,000)</u>	<u>–</u>

31. WARRANTS

	2000 Warrants			
	Number		Value	
	2001	2000	2001 HK\$'000	2000 HK\$'000
Balance in issue at beginning of the year	108,497,801	119,999,860	80,288	90,000
Effect of adjustment in subscription price from HK\$0.75 to HK\$0.74	–	1,621,619	–	–
Exercised during the year	(3,669,519)	(13,123,678)	(2,715)	(9,712)
Expired during the year	(104,828,282)	–	(77,573)	–
Balance in issue at end of the year	<u>–</u>	<u>108,497,801</u>	<u>–</u>	<u>80,288</u>

On 12th October, 1998, a bonus issue of warrants (“2000 Warrants”) was made on the basis of one 2000 Warrant for every five existing shares then held on 23rd September, 1998. Each 2000 Warrant entitle the registered holder to subscribe in cash at an initial subscription price of HK\$0.75, subject to adjustment, for one share of HK\$0.10 each in the Company, at any time from the date of issue up to and including 12th October, 2000.

Notes to the Financial Statements

For the year ended 31st March, 2001

31. WARRANTS (Continued)

On 2nd June, 1999, adjustment was made to the subscription price of the 2000 Warrants from HK\$0.75 per share to HK\$0.74 per share in accordance with the terms of the instruments constituting the 2000 Warrants following the issue of shares upon the exercise in part of the conversion rights attaching to the convertible debentures of the Company.

The 2000 Warrants expired on 12th October, 2000.

32. SHARE PREMIUM AND RESERVES

	Share premium HK\$'000	Investment property revaluation reserve HK\$'000	Other property revaluation reserve HK\$'000	Surplus account HK\$'000	Capital reserve HK\$'000	Goodwill reserve HK\$'000	Deficit HK\$'000	Total HK\$'000
THE GROUP								
At 1st April, 1999	53,830	24,877	4,593	255,025	7,773	-	(143,391)	202,707
Premium arising on issue of shares	170,931	-	-	-	-	-	-	170,931
Released upon disposals	-	(11,178)	-	-	-	-	-	(11,178)
Deficit arising on revaluation	-	(13,699)	(4,284)	-	-	-	-	(17,983)
Goodwill arising on acquisition of an associate	-	-	-	-	-	(98,915)	-	(98,915)
Net loss for the year	-	-	-	-	-	-	(230,846)	(230,846)
At 31st March, 2000	224,761	-	309	255,025	7,773	(98,915)	(374,237)	14,716
Premium arising on issue of shares	273,666	-	-	-	-	-	-	273,666
Surplus arising on revaluation	-	-	420	-	-	-	-	420
Impairment loss in goodwill attributable to an associate	-	-	-	-	-	98,915	-	98,915
Net loss for the year	-	-	-	-	-	-	(327,182)	(327,182)
At 31st March, 2001	498,427	-	729	255,025	7,773	-	(701,419)	60,535
Attributable to:								
The Company and its subsidiaries	498,427	-	729	255,025	7,773	-	(655,400)	106,554
Associates	-	-	-	-	-	-	(46,014)	(46,014)
Jointly controlled entity	-	-	-	-	-	-	(5)	(5)
	498,427	-	729	255,025	7,773	-	(701,419)	60,535

Notes to the Financial Statements

For the year ended 31st March, 2001

32. SHARE PREMIUM AND RESERVES (Continued)

	Share Contributed		Deficit	Total
	premium	surplus		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE COMPANY				
At 1st April, 1999	53,830	555,303	(406,426)	202,707
Premium arising on				
issue of shares	170,931	–	–	170,931
Net loss for the year	–	–	(260,007)	(260,007)
At 31st March, 2000	224,761	555,303	(666,433)	113,631
Premium arising on				
issue of shares	273,666	–	–	273,666
Net loss for the year	–	–	(326,762)	(326,762)
At 31st March, 2001	498,427	555,303	(993,195)	60,535

Surplus account represents the difference between the nominal amount of the share capital issued by the Company and the aggregate of the nominal amount of the issued share capital and other reserve accounts of Plotio Limited, the subsidiary which was acquired by the Company pursuant to the group reorganisation in 1997.

The contributed surplus of the Company represents the difference between the consolidated shareholders' funds of Plotio Limited at the date on which the group reorganisation became effective and the nominal amount of the share capital of the Company issued under the group reorganization in 1997.

Under the Companies Act 1981 of Bermuda (as amended), contributed surplus is also available for distribution to shareholders. However, a company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if:

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

In the opinion of the directors, as at 31st March, 2000 and 31st March, 2001, the Company did not have any reserve available for distribution to shareholders.

Notes to the Financial Statements

For the year ended 31st March, 2001

33. CONVERTIBLE DEBENTURES

	THE GROUP AND THE COMPANY		
	3% Debentures	2% Debentures	Total
	HK\$'000	HK\$'000	HK\$'000
Principal amount:			
At 1st April, 2000	21,739	–	21,739
Issued during the year	–	77,500	77,500
Expenses incurred in connection			
with the issue of debentures	–	(4,517)	(4,517)
Amortisation of issue expenses	2,286	3,817	6,103
Converted into shares			
in the Company	(24,025)	(65,488)	(89,513)
	<u> </u>	<u> </u>	<u> </u>
At 31st March, 2001	<u> </u> –	<u> </u> 11,312	<u> </u> 11,312

- (a) On 26th November, 1999, agreements were entered into between the Company and two independent institutional investors relating to the subscription and issue of the 3% Debentures with principal amount of up to US\$5,000,000.

The subscription and issue of the 3% Debentures took place on 12th January, 2000 and the Company received in cash the sum of US\$5,000,000 (equivalent to HK\$38,750,000).

The principal terms of the 3% Debentures include the following:

- (i) The 3% Debentures may be converted into new shares in the Company from 23rd February, 2000 to 30th December, 2002.
- (ii) The conversion price for the 3% Debentures is the lesser of:
 - (1) 120% of the average closing price per share on the Stock Exchange over the fifteen trading days prior to the completion date; or
 - (2) the higher of 90% of the average closing price per share on the Stock Exchange over the ten trading days immediately prior to the date of the conversion notice; and the stipulated price applicable on the conversion date. The stipulated price is initially fixed at HK\$0.25 but subject to adjustments.

Notes to the Financial Statements

For the year ended 31st March, 2001

33. CONVERTIBLE DEBENTURES (Continued)

- (iii) The 3% Debentures bear interest at 3% per annum payable quarterly in arrears on 31st March, 30th June, 30th September and 30th December in each year.
- (iv) The maturity date of the 3% Debentures is 30th December, 2002.
- (v) The Company has the right at any time before the maturity date to redeem the whole or part of the outstanding 3% Debentures at 115% of the principal amount together with all accrued interest.
- (vi) The shares in the Company allotted and issued upon the exercise of the conversion rights attaching to 3% Debentures are rank pari passu in all respects with all other existing shares in issue on the date of conversion.

During the year ended 31st March, 2001, the Company allotted and issued 28,070,312 new shares of HK\$0.10 each in the Company at conversion prices ranging from HK\$0.81 to HK\$0.94 per share upon the exercise of the conversion rights attaching to the 3% Debentures for principal amounts in aggregate of US\$3,100,000.

- (b) On 3rd April, 2000, agreements were entered into between the Company and two independent institutional investors relating to the subscription and issue of the 2% Debentures with principal amount of up to US\$10,000,000.

The subscription and issue of the 2% Debentures took place on 24th May, 2000 and the Company received in cash the sum of US\$10,000,000 (equivalent to HK\$77,500,000).

The principal terms of the 2% Debentures include the following:

- (i) The 2% Debentures may be converted into new shares in the Company from 24th May, 2001 to 23rd May, 2003.

Notes to the Financial Statements

For the year ended 31st March, 2001

33. CONVERTIBLE DEBENTURES (Continued)

- (ii) The conversion price for the 2% Debentures is the lesser of:
 - (1) 120% of the average closing price per share on the Stock Exchange over the fifteen trading days prior to the completion date; or
 - (2) the higher of 90% of the average closing price per share on the Stock Exchange over the ten trading days immediately prior to the date of the conversion notice; and the stipulated price applicable on the conversion date. The stipulated price is initially fixed at HK\$0.25 but subject to adjustments.
- (iii) The 2% Debentures bear interest at 2% per annum payable quarterly in arrears on 31st March, 30th June, 30th September and 30th December in each year.
- (iv) The maturity date of the 2% Debentures is 23rd May, 2003.
- (v) The Company has the right at any time before the maturity date to redeem the whole or part of the outstanding 2% Debentures at 116% of the principal amount together with all accrued interest.
- (vi) The shares in the Company allotted and issued upon the exercise of the conversion rights attaching to 2% Debentures are rank pari passu in all respects with all other existing shares in issue on the date of conversion.

During the year ended 31st March, 2001, the Company allotted and issued 169,575,669 new shares of HK\$0.10 each in the Company at conversion prices ranging from HK\$0.25 to HK\$1.00 per share upon the exercise of the conversion rights attaching to the 2% Debentures for principal amounts in aggregate of US\$8,450,000.

Notes to the Financial Statements

For the year ended 31st March, 2001

34. DEFERRED TAXATION

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Balance at beginning of year	3,000	–
Charge for the year	–	3,000
Balance at end of year	<u>3,000</u>	<u>3,000</u>

At the balance sheet date, the components of deferred taxation liabilities (assets), provided and unprovided, are as follows:

	Provided		Unprovided	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Tax effect of timing differences because of:				
PRC land appreciation tax attributable to the revaluation surplus of the investment properties situated in the PRC	3,000	3,000	–	–
Tax losses	–	–	(56,757)	(48,824)
	<u>3,000</u>	<u>3,000</u>	<u>(56,757)</u>	<u>(48,824)</u>

The deferred tax asset in respect of tax losses available to set off against future taxable profits has not been recognised in the financial statements as it is not certain that the benefit will crystallise in the foreseeable future.

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

Notes to the Financial Statements

For the year ended 31st March, 2001

35. RECONCILIATION OF LOSS BEFORE TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2001 HK\$'000	2000 HK\$'000
Loss before taxation	(326,914)	(230,730)
Other operating expenses (note 5)	13,316	32,243
Provision for impairment loss of properties under development	45,194	177,609
Provision for impairment loss of investments in securities	159,300	–
Impairment loss in goodwill attributable to an associate	98,915	–
Interest expenses	10,302	16,652
Interest income	(1,766)	(915)
Amortisation of expenses incurred in connection with the issue of convertible debentures	6,103	5,444
Loss on disposal of property, plant and equipment	46	–
Share of results of associates	13,813	285
Share of result of a jointly controlled entity	5	–
Depreciation and amortisation	1,007	759
Profit on disposal of investment properties	–	(11,093)
Decrease in properties held for sale	71,269	–
Increase in inventories	(1,307)	–
Decrease in amounts due from customers for contract work	1,393	4,590
Decrease (increase) in debtors, deposits and prepayments	5,737	(17,595)
(Decrease) increase in amounts due to customers for contract work	(10,348)	15,691
Increase (decrease) in creditors and accrued charges	8,083	(7,389)
(Decrease) increase in deposits received in respect of pre-sold properties	(43,295)	43,295
Decrease in amount due to an associate	–	(5,176)
Net cash inflow from operating activities	<u>50,853</u>	<u>23,670</u>

Notes to the Financial Statements

For the year ended 31st March, 2001

36. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital and premium HK\$'000	Convertible debentures HK\$'000	Bank loans HK\$'000	Other loan HK\$'000	Amount due to a director HK\$'000	Obligations under hire purchase contracts HK\$'000	Amounts due to former shareholders HK\$'000
Balance at 1st April, 1999	114,492	15,720	317,619	-	5,256	-	20,849
Proceeds from issue of convertible debentures	-	38,750	-	-	-	-	-
Expenses incurred in connection with the issue of convertible debentures	-	(3,687)	-	-	-	-	-
Issue of shares upon conversion of convertible debentures	34,488	(34,488)	-	-	-	-	-
Amortisation of issue expenses	-	5,444	-	-	-	-	-
Issue of shares as consideration for the acquisition of investment properties	45,000	-	-	-	-	-	-
Issue of shares as consideration for the acquisition of an associate	107,800	-	-	-	-	-	-
Proceeds from issue of shares	22,312	-	-	-	-	-	-
New loan raised	-	-	-	18,000	-	-	-
Inception of hire purchase contracts	-	-	-	-	-	185	-
Repayment during the year	-	-	(57,346)	-	(4,197)	(17)	(16,554)
Indemnity of Hong Kong Profits Tax in respect of previous year, and overdue interest thereon, received by the Group (note 42(b))	-	-	-	-	(1,059)	-	-
Balance at 31st March, 2000	324,092	21,739	260,273	18,000	-	168	4,295
Proceeds from issue of convertible debentures	-	77,500	-	-	-	-	-
Expenses incurred in connection with the issue of convertible debentures	-	(4,517)	-	-	-	-	-
Issue of shares upon conversion of convertible debentures	89,513	(89,513)	-	-	-	-	-
Amortisation of issue expenses	-	6,103	-	-	-	-	-
Issue of shares as consideration for the acquisition of investments in securities	215,500	-	-	-	-	-	-
Proceeds from issue of shares	2,715	-	-	-	-	-	-
New loans raised	-	-	56,400	-	-	-	-
Inception of hire purchase contracts	-	-	-	-	-	207	-
Repayment during the year	-	-	(112,765)	(18,000)	-	(174)	-
Balance at 31st March, 2001	<u>631,820</u>	<u>11,312</u>	<u>203,908</u>	<u>-</u>	<u>-</u>	<u>201</u>	<u>4,295</u>

Notes to the Financial Statements

For the year ended 31st March, 2001

37. MAJOR NON-CASH TRANSACTIONS

During the year, the Group entered into the following major non-cash transactions:

- (a) The Group entered into hire purchase contract arrangements in respect of property, plant and equipment with a total capital value at the inception of the contracts of HK\$207,000;
- (b) 197,645,981 new shares of HK\$0.10 each in the Company were issued upon the exercise of the conversion rights attaching to the convertible debentures amounting to HK\$89,513,000 during the year; and
- (c) 64,300,000 and 75,000,000 new shares of HK\$0.10 each in the Company were issued at an issue price of HK\$2.50 and HK\$0.73 per share, respectively, as consideration for the acquisition of certain investments in securities.

38. RETIREMENT BENEFIT SCHEME

Prior to 1st December, 2000, the Group operated a defined contribution retirement benefit scheme ("Defined Contribution Scheme") for its qualifying employees in Hong Kong. The assets of the scheme were held separately from those of the Group in funds under the control of independent trustees. Where there are employees who leave the Defined Contribution Scheme prior to vesting fully in the contributions, the amount of the forfeited contributions would be used to reduce future contributions payable by the Group.

With effective from 1st December, 2000, the Group has joined a Mandatory Provident Fund Scheme ("MPF Scheme") for all employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of independent trustees.

Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect of MPF scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in the future years.

Notes to the Financial Statements

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38. RETIREMENT BENEFIT SCHEME (Continued)

The retirement benefit scheme contribution arising from the Defined Contribution Scheme and the MPF Scheme charged to the consolidated income statement represent contributions payable to the funds by the Group at rates specified in the rules of the schemes.

During the year, the retirement benefit schemes contribution, net of forfeited contributions utilised of approximately HK\$77,000 (2000: HK\$111,000), amounted to approximately HK\$669,000 (2000: HK\$285,000).

At the balance sheet date, the Group had no significant forfeited contributions available to reduce the contributions payable by the Group in the future years.

39. CAPITAL COMMITMENTS

	2001 HK\$'000	2000 HK\$'000
The Group had the following commitments in respect of:		
Contracted development expenditure for properties under development	18,533	—
Contracted capital expenditure for the acquisition of property, plant and equipment	3,493	—
	<u>22,026</u>	<u>—</u>

The Company did not have any capital commitments as at 31st March, 2001.

40. CONTINGENT LIABILITIES

THE COMPANY

At 31st March, 2001, the Company had outstanding unlimited guarantees and a corporate guarantee amounting to approximately HK\$122,000,000 (2000: HK\$102,000,000) issued to secure general banking and credit facilities granted to its subsidiaries. The total amount of facilities utilised by these subsidiaries as at 31st March, 2001 amounted to approximately HK\$137,789,000 (2000: HK\$182,086,000).

Notes to the Financial Statements

For the year ended 31st March, 2001

41. PLEDGE OF ASSETS

THE GROUP

At 31st March, 2001, the Group's borrowings were secured by the following:

- (a) first legal charges over the following property interests:
 - investment properties of HK\$146,600,000 (2000: HK\$159,200,000);
 - leasehold land and buildings of HK\$16,000,000 (2000: HK\$16,000,000);
 - properties under development of HK\$92,970,000 (2000: HK\$247,698,000);
 - properties held for sale of HK\$53,268,000 (2000: Nil); and
 - properties under development for sale of HK\$50,000,000 (2000: Nil);
- (b) bank deposits of HK\$16,169,000 (2000: HK\$14,796,000);
- (c) the interest in share capital of certain subsidiaries;
- (d) assignment of rental income generated from certain investment properties;
- (e) floating charges on all the existing and future assets undertakings of certain subsidiaries;
- (f) assignments of the right, title, interest and benefits in and under all the existing and future building contracts in respect of properties under development;
- (g) the benefit under all insurance policies of properties under development;
- (h) assignment of sales proceeds from sales of properties; and
- (i) subordination of shareholders' loans of a subsidiary of the Company.

Notes to the Financial Statements

For the year ended 31st March, 2001

42. RELATED PARTY TRANSACTIONS

- (a) The Group entered into the following significant transactions with related parties during the year and has the following significant balances with related parties as at 31st March, 2001:

(i) Transactions

Notes	Sales of goods		Rental income received		Service fee received (paid)		Architectural, structural, material and electrical service fee received	
	2001	2000	2001	2000	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hycomm Technology Incorporated (i)	257	-	-	-	-	-	670	-
King Alliance Limited (i)	-	-	-	960	-	-	-	-
T. K. Tsui & Associates (ii)	-	-	-	-	383	327	-	-
John Ho & Tsui (ii)	-	-	-	-	(21)	-	-	-
Pop Sales Company Limited (iii)	-	-	-	-	157	-	-	-

Notes to the Financial Statements

For the year ended 31st March, 2001

42. RELATED PARTY TRANSACTIONS (Continued)

(ii) Balances

	Notes	Amounts due from (to) related parties	
		2001 HK\$'000	2000 HK\$'000
Hycomm Technology Incorporated	(i)	<u>(1,165)</u>	<u>–</u>
King Alliance Limited	(i)	<u>–</u>	<u>322</u>
T.K. Tsui & Associates	(ii)	<u>578</u>	<u>595</u>
Pop Sales Company Limited	(iii)	<u>(421)</u>	<u>(5,550)</u>
Plotio (China) Limited	(iii)	<u>(90)</u>	<u>(90)</u>
Codebank Limited	(iv)	<u>2,000</u>	<u>–</u>
Mr. Lai	(v)	<u>(19,500)</u>	<u>–</u>

Notes:

- (i) Hycomm Technology Incorporated and King Alliance Limited are associates of the Group.
- (ii) T. K. Tsui & Associates and John Ho & Tsui are companies directly held by Messrs. Tsui Tack Kong and Ho John, respectively, non-executive directors of the Company.
- (iii) Mr. Lai, a director of the Company, has beneficial interests in these companies.
- (iv) The Group has advanced certain funds to Codebank Limited, a company in which the Company has a 13.30% equity interest, for working capital purposes. The amount is unsecured, interest-free and has no fixed terms of repayments.
- (v) The amount represents deposits received from Mr. Lai on disposal of certain subsidiaries. Details of the transaction are set out in note 43(b).

Notes to the Financial Statements

For the year ended 31st March, 2001

42. RELATED PARTY TRANSACTIONS *(Continued)*

The above transactions were carried out at prevailing market price or, where no market price was available, at terms agreed by both parties.

The amounts due from/to related parties are unsecured, interest-free and have no fixed terms of repayments. Except for the deposit received from Mr. Lai, which is shown under “Deposit received on disposal of subsidiaries” in the balance sheet, the amount due from and amounts due to other related parties are included in the balances of “Debtors, deposits and prepayments” and “Creditors and accrued charges” respectively in the balance sheet.

- (b) Pursuant to the Deed of Indemnity entered into between Mr. Lai, United Man’s Limited, Justgood Limited (collectively hereinafter referred to as the “Indemnifiers”) and the Company dated 19th September, 1997, the Indemnifiers, inter alia, jointly and severally agreed to indemnify the Group against any underprovision of taxation, together with all cost, interest, penalties, charges and expenses incidental or relating to the liability to taxation, to the extent that provision has not been made in the audited financial statements for any accounting period ended on or before 31st March, 1997 in respect of those subsidiaries acquired by the Company pursuant to the group reorganisation in 1997.

During the year ended 31st March, 2000, the Indemnifiers indemnified the Group underprovision of Hong Kong Profits Tax for the year ended 31st March, 1995 and overdue interest thereon amounting to HK\$21,000 and HK\$1,038,000 respectively.

Mr. Lai is a director of the Company who is also the former controlling shareholder of the subsidiaries acquired by the Company pursuant to the group reorganisation in 1997.

United Man’s Limited, a substantial shareholder of the Company, is a wholly owned subsidiary of Justwell Limited. The entire issued share capital of Justwell Limited is held by a trustee for the benefit of a discretionary trust the beneficiaries of which include certain other family members of Mr. Lai and Madam Chung Lai Ha.

Justgood Limited is a company incorporated in the British Virgin Islands which holds 30,000,000 shares in the Company. The entire issued share capital of which is beneficially owned by Mr. Lai.

Notes to the Financial Statements

For the year ended 31st March, 2001

43. POST BALANCE SHEET EVENTS

Subsequent to 31st March, 2001, the following post balance sheet events took place:

- (a) Pursuant to a subscription agreement entered into between the Company and Mr. Lai on 18th May, 2001, Mr. Lai agreed to subscribe for 150,000,000 new shares of HK\$0.10 each in the Company at par. The subscription price represents a discount of approximately 27.5% to the closing price of HK\$0.138 per share of the Company as quoted on the Stock Exchange on 17th May, 2001, the latest trading day prior to entering into the subscription agreement.

The net proceeds of the subscription of shares amounted to approximately HK\$14,600,000. The Company intends to use the net proceeds as to approximately HK\$13,400,000 for redeeming the outstanding Debentures and to the remaining HK\$1,200,000 for general working capital.

150,000,000 new shares of HK\$0.10 each in the Company were allotted and issued on 10th July, 2001 pursuant to the subscription agreement.

- (b) On 2nd June, 2000, the Company and Mr. Lai entered into an agreement for the disposal of the entire issued share capital of five wholly-owned subsidiaries, namely, Plotio Assets Limited, Plotio Investment Limited, Plotio Development Limited, Plotio Services Limited and Plotio Finance Limited (the "Disposal Agreement"). These subsidiaries and their respective subsidiaries, but excluding certain subsidiaries and associates of these subsidiaries that would be transferred to other parts of the Group and would thereupon cease to be subsidiaries and associates of these subsidiaries (the "Sale Group"), are principally engaged in property development and property related services.

The total consideration of the disposal of the Sale Group would be the higher of (i) HK\$34,449,000, being the aggregate adjusted net asset value of the Sales Group and (ii) the audited consolidated pro-forma net asset value of the Sale Group as at 30th June, 2000. The consideration was arrived at after arm's length negotiations with reference to the consolidated net asset value of the Sale Group and the valuation of the properties of the Sale Group as at 31st March, 2000.

Notes to the Financial Statements

For the year ended 31st March, 2001

43. POST BALANCE SHEET EVENTS (Continued)

Details of this transaction have been set out in a circular regarding “Major and Connected Transaction” dated 30th June, 2000 issued to the shareholders of the Company (the “Circular”).

Deposits of HK\$1,500,000 and HK\$18,000,000 were received from Mr. Lai on 2nd June, 2000 and 30th June, 2000, respectively, in accordance with the terms of the Disposal Agreement.

On 10th July, 2001, the Disposal Agreement was completed and the total consideration of the disposal of the Sale Group was determined at HK\$34,449,000, being the aggregate adjusted net asset value of the Sale Group as defined in the Circular.

The remaining balance of the consideration receivable from Mr. Lai of HK\$14,949,000, which is non-interest bearing and secured by 120,000,000 shares in the Company beneficially owned by Mr. Lai, will be settled within one year after the completion of the Disposal Agreement.

- (c) Pursuant to an agreement entered into between the Company and an independent third party (the “Vendor”) on 5th June, 2001 (the “Acquisition Agreement”), the Company agreed to purchase from the Vendor the entire issued share capital of Trans-Nova Telecom Limited (“TNT”) for a consideration of HK\$20,000,000. The consideration would be satisfied by the allotment and issue of 125,000,000 new shares of HK\$0.10 each in the Company at an agreed price of HK\$0.16 per share.

The Vendor has in the Acquisition Agreement warranted and guaranteed to the Company the audited net profit attributable to the shareholders of TNT for the financial year ending 31st March, 2002 (the “2002 Net Profit”) would not be less than HK\$2,000,000. Pursuant to the terms of the Acquisition Agreement, to the extent that the 2002 Net Profit is less than the guaranteed amount of HK\$2,000,000 but is more than zero, the Vendor shall pay the Company the amount of the shortfall with reference to the agreed price-earning ratio of 10 which has been used for the calculation of the consideration. If the 2002 Net Profit is below zero, the Vendor shall pay the Company the sum of HK\$20,000,000 plus the amount of the audited loss for the year ending 31st March, 2002.

Notes to the Financial Statements

For the year ended 31st March, 2001

43. POST BALANCE SHEET EVENTS (Continued)

Pursuant to an agreement entered into between the Company and Mr. Lau Chun Ting (the “Agent”), the Company is required to pay the Agent the sum of HK\$1,000,000 to be satisfied by the allotment and issue of 6,250,000 new shares of HK\$0.10 each in the Company at an agreed price of HK\$0.16 per share upon the completion of the Acquisition Agreement as an introduction fee.

44. SUBSIDIARIES

Particulars of the subsidiaries as at 31st March, 2001 are as follows:

Wholly owned subsidiaries incorporated and operated in Hong Kong:

Name of subsidiary	Issued and paid up share capital		Principal activities
	Ordinary shares	Deferred shares*	
Bestful Development Limited	HK\$100	HK\$10,000	Property development
Billtech Limited	HK\$100	HK\$10,000	Property development
Campoent Development Limited	HK\$10,000	–	Property investment
Cheerwise Development Limited	HK\$2	–	Investment holding
City Friend Development Limited	HK\$2	–	Property development
Daynice Development Limited	HK\$10,000	–	Inactive
Delighted Win Development Limited	HK\$2	–	Inactive

Notes to the Financial Statements

For the year ended 31st March, 2001

44. SUBSIDIARIES (Continued)

Name of subsidiary	Issued and paid up share capital		Principal activities
	Ordinary shares	Deferred shares*	
Goldfair Properties Limited	HK\$10,000	–	Property investment
Good Sails Investment Limited	HK\$100,000	–	Property development
Great Centre Limited	HK\$100	HK\$25,000	Inactive
Jet Nice Investments Limited	HK\$10,000	–	Property development
Joyful Interest Limited	HK\$10,000	–	Property investment
Keepprofit Development Limited	HK\$10,000	–	Property development
Keung Kee Cleaning Services Company Limited	HK\$100,000	–	Provision of cleaning services
Lee Wai Engineering Company Limited	HK\$100,000	–	Provision of engineering and maintenance services
Life Good Limited	HK\$2	–	Inactive
Monchase Underwriters Limited	HK\$2	–	Provision of insurance agency services
m499.com Limited	HK\$2	–	Trading of communication products
New Chief Limited	HK\$2	–	Provision of treasury services

Notes to the Financial Statements

For the year ended 31st March, 2001

44. SUBSIDIARIES (Continued)

Name of subsidiary	Issued and paid up share capital		Principal activities
	Ordinary shares	Deferred shares*	
Newborn Development Limited	HK\$100	HK\$100,000	Inactive
Nicecity Holdings Limited	HK\$100	HK\$10,000	Inactive
Ocean Tower Development Limited	HK\$10,000	–	Inactive
Oriental Gain Properties Limited	HK\$100	HK\$5,300	Property investment
Plotio Development Consultants Limited	HK\$10,000	–	Provision of consultant services for property development
Plotio Development (HK) Limited	HK\$100	HK\$100,000	Property investment
Plotio Finance (HK) Limited	HK\$1,000,000	–	Provision of financial services
Plotio Holdings (HK) Limited	HK\$10,000	–	Provision of treasury services
Plotio Investment (HK) Limited	HK\$100	HK\$100,000	Property investment and development
Plotio Property and Management Company Limited	HK\$100,000	–	Provision of property management services
Plotio Property Consultants Limited	HK\$90,002	–	Provision of property consultant services

Notes to the Financial Statements

For the year ended 31st March, 2001

44. SUBSIDIARIES (Continued)

Name of subsidiary	Issued and paid up share capital		Principal activities
	Ordinary shares	Deferred shares*	
Rammon Construction Limited	HK\$10,000	–	Property contractor and provision of interior decoration services
Suncore Limited	HK\$2	–	Property development
Superfull Engineering Limited	HK\$10,000	–	Inactive
Superstand Development Limited	HK\$2	–	Inactive
Sure Smart Development Limited	HK\$2	–	Property development
Total Busy Development Limited	HK\$1,000	HK\$450,000	Inactive
Turbo Speed Investment Limited	HK\$10,000	–	Property development
Win's Properties Limited	HK\$100,000	–	Property investment
Wholly owned subsidiaries incorporated in the British Virgin Islands and operated in Hong Kong:			
Election International Limited	US\$1	–	Investment holding
Immediate Effect Limited	US\$1	–	Investment holding
MobiData Incorporated	US\$1	–	Investment holding
Namjong Properties Limited	US\$1	–	Investment holding

Notes to the Financial Statements

For the year ended 31st March, 2001

44. SUBSIDIARIES (Continued)

Name of subsidiary	Issued and paid up share capital		Principal activities
	Ordinary shares	Deferred shares*	
Plotio Assets Limited	US\$1	–	Investment holding
Plotio Development Limited	US\$1	–	Investment holding
Plotio Finance Limited	US\$1	–	Investment holding
Plotio Investment Limited	US\$1	–	Investment holding
Plotio Limited	US\$1,000,000	–	Investment holding
Plotio Services Limited	US\$1	–	Investment holding
Rexy Investment Limited	US\$1	–	Investment holding
Uni-tech Properties Limited	US\$1	–	Investment holding

* The 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 distribution or winding up.

Other than Plotio Limited, which is held directly by the Company, all subsidiaries are held by the Company indirectly.

None of the subsidiaries had any loan capital subsisting at 31st March, 2001 or at any time during the year.

Notes to the Financial Statements

For the year ended 31st March, 2001

45. ASSOCIATES

Particulars of the associates as at 31st March, 2001 are as follows:

Name of company	Place of incorporation	Proportion of nominal value of issued capital held by the Group %	Principal activity
Hycomm Technology Incorporated #	British Virgin Islands	25.88	Investment holding
King Alliance Limited	Hong Kong	50	Wine trading
World Victory Limited #	Hong Kong	50	Inactive

Company not audited by Deloitte Touche Tohmatsu