

Notes to the Accounts

For the year ended 31 March 2002

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 investments, in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA").

In the current year, the Group adopted the following Statements of Standard Accounting Practice ("SSAPs") issued by the HKSA which are effective for accounting periods commencing on or after 1 January 2001:

SSAP 9 (revised)	:	Events after the balance sheet date
SSAP 14 (revised)	:	Leases (effective for accounting periods commencing on or after 1 July 2000)
SSAP 26	:	Segment reporting
SSAP 28	:	Provisions, contingent liabilities and contingent assets
SSAP 29	:	Intangible assets
SSAP 30	:	Business combinations
SSAP 31	:	Impairment of assets
SSAP 32	:	Consolidated financial statements and accounting for investments in subsidiaries

The effect of adopting these standards are set out in the accounting policies below.

(b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 March. Subsidiaries are those entities in which the Group has the power to exercise control governing the financial and operating policies of the entity.

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.

Notes to the Accounts

For the year ended 31 March 2002

1. Principal accounting policies *(continued)*

(b) Consolidation *(continued)*

The gain or loss on the 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 unamortised goodwill/negative goodwill or goodwill/negative goodwill previously written off against reserves and which was not previously charged or recognised in the consolidated profit and loss account.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(c) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition.

In accordance with SSAP 30, goodwill on acquisitions occurring on or after 1 April 2001 is included in intangible assets and is amortised on a straight line basis over a period of ten years.

Goodwill on acquisitions that occurred prior to 1 April 2001 was written off against reserves. The Group has taken advantage of the transitional provision 1(a) in SSAP 30 and goodwill previously written off against reserves has not been restated. However any impairment arising on such goodwill is accounted for in accordance with SSAP 31.

(ii) Trading rights

Trading rights represent those rights to trade in the securities and futures exchanges in Hong Kong. Trading rights are stated at cost less accumulated amortisation. Trading rights are amortised to write off their cost on a straight line basis over their remaining useful lives.

(iii) Impairment of intangible assets

Where an indication of impairment exists, the carrying amount of any intangible asset, including goodwill previously written off against reserves, is assessed and written down immediately to its recoverable amount.

Notes to the Accounts

For the year ended 31 March 2002

1. Principal accounting policies *(continued)*

(d) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and impairment losses.

Fixed assets are depreciated at rates sufficient to write off their costs less accumulated impairment losses over their estimated useful lives on a straight line basis. The estimated useful lives are as follows:

Leasehold improvements	10 years or over the lease terms whichever is shorter
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.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

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.

(e) Assets under leases

(i) Finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in liabilities. The finance charges are charged to the profit and loss account over the lease periods.

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

Notes to the Accounts

For the year ended 31 March 2002

1. Principal accounting policies *(continued)*

(e) Assets under leases *(continued)*

(ii) Operating leases

Leases where substantially all the risks and rewards 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.

(f) Investments in securities

(i) Investment securities

Investment securities are stated at cost less any provision for impairment losses.

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 investments is reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to the profit and loss account when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(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.

Notes to the Accounts

For the year ended 31 March 2002

1. Principal accounting policies *(continued)*

(f) Investments in securities *(continued)*

(iii) *Held-to-maturity securities*

Held-to-maturity securities are stated in the balance sheet at cost plus/less any discount/premium amortised to date. The discount or premium is amortised over the period to maturity and is included as interest income/expense in the profit and loss account. Provision is made when there is a diminution in value other than temporary.

The carrying amounts of individual held-to-maturity securities or holdings of the same securities are reviewed at the balance sheet date in order to assess the credit risk and whether the carrying amounts are expected to be recovered. Provisions are made when carrying amounts are not expected to be recovered and are recognised in the profit and loss account as an expense immediately.

(g) 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.

(h) Revenue recognition

Revenue from commission and brokerage income is recognised on a trade date basis.

Revenue from website management and related services and advisory and placement fee income is recognised when the services are rendered.

Realised gains and losses on other investments are recognised on conclusion of sales contracts. Unrealised gains and losses on other investments are recognised on the basis set out in note 1(f)(ii).

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.

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

Notes to the Accounts

For the year ended 31 March 2002

1. Principal accounting policies *(continued)*

(i) Retirement benefits costs

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit schemes cost charged to the profit and loss account represents contributions payable by the Group to the schemes.

The Group's contributions to the schemes are expensed as incurred. The assets of the schemes are held separately from those of the Group in an independently administered fund. The employer contributions vest fully with the employees when contributed into the schemes, except for the employer voluntary contributions, which are refunded to the Group when the employee leaves the Group prior to vesting fully in the contributions.

(j) Borrowing costs

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

(k) 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 there from are dealt with as a movement in reserves.

(l) 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 31 March 2002

1. Principal accounting policies *(continued)*

(m) Segment reporting

In accordance with the Group's internal financial reporting the Group has determined that business segments are presented as the primary reporting format and geographical as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, fixed assets, investments in securities, receivables and operating cash and mainly exclude corporate cash. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to fixed assets (note 11) and intangible assets (note 10), including additions resulting from acquisition through purchases of subsidiaries.

In respect of geographical segment reporting, sales are based on the country in which the customer is located. Total assets and capital expenditure are where the assets are located.

Notes to the Accounts

For the year ended 31 March 2002

2. Turnover, revenues and segment information

The Group is principally engaged in securities and futures broking, provision of website management and related services, and investment holding and trading. Revenues recognised during the year are as follows:

	2002 HK\$'000	2001 HK\$'000
Turnover		
Continuing operations:		
Advertising and agency service income	6,189	2,119
Website management and related service income	4,489	–
Commission income on securities and futures trading	9,158	–
Advisory and placement fee income	17,116	–
Net realised and unrealised gains/(losses) on other investments	14,511	(4,877)
Investment income	504	–
Interest income from margin financing and money lending operations	3,403	–
	<u>55,370</u>	<u>(2,758)</u>
Discontinued operations:		
Manufacture and sales of portfolios, portable cases, luggage products, purses and accessories	11,770	30,346
	<u>67,140</u>	<u>27,588</u>
Other revenues		
Interest income from banks and others	2,606	10,257
Other service income	–	473
	<u>2,606</u>	<u>10,730</u>
Total revenues	<u>69,746</u>	<u>38,318</u>

Notes to the Accounts

For the year ended 31 March 2002

2. Turnover, revenues and segment information *(continued)*

(a) Primary reporting format – business segments

The Group is organised into four main business segments:

- Securities broking – securities and futures broking, provision of advisory, placement and margin financing services
- Investments – investments holding and trading
- Websites management – management of websites as advertising and referral tools by on line customers
- Portfolios – manufacture and sales of portfolios, portable cases, luggage products, purses and accessories

On 15 September 2001, the portfolios segment was sold.

There are no sales or other transactions between the business segments.

Notes to the Accounts

For the year ended 31 March 2002

2. Turnover, revenues and segment information *(continued)*

(a) Primary reporting format – business segments *(continued)*

	Continuing operations			Discontinued operations	Group 2002 HK\$'000
	Securities	Websites	Investments	Portfolios	
	broking	management			
	2002	2002	2002	2002	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	29,677	10,678	15,015	11,770	67,140
Segment results	(982)	(38,529)	7,375	4,779	(27,357)
Net corporate expenses					(5,821)
Operating loss					(33,178)
Finance costs					(1,643)
Loss before taxation					(34,821)
Taxation					61
Loss for the year					(34,760)
Segment assets	172,775	15,151	104,259		292,185
Unallocated assets					1,681
Total assets					293,866
Segment liabilities	94,914	10,090			105,004
Unallocated liabilities					19,300
Total liabilities					124,304
Capital expenditure	38,510	1,396			39,906
Depreciation					
– segment	1,119	4,617			5,736
– unallocated					112
Amortisation of intangible assets	1,770	90			1860
Impairment of goodwill		809			809
Impairment loss on investment securities			7,640		7,640

Notes to the Accounts

For the year ended 31 March 2002

2. Turnover, revenues and segment information *(continued)*

(a) Primary reporting format – business segments *(continued)*

	Continuing operations		Discontinued operations	
	Websites management	Investments	Portfolios	Group
	2001	2001	2001	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	<u>2,119</u>	<u>(4,877)</u>	<u>30,346</u>	<u>27,588</u>
Segment results	<u>(9,691)</u>	<u>(4,877)</u>	<u>(13,347)</u>	(27,915)
Net corporate expenses				<u>(512)</u>
Operating loss				(28,427)
Finance costs				<u>(2,054)</u>
Loss for the year				<u>(30,481)</u>
Segment assets	23,427	18,212	9,889	51,528
Unallocated assets				<u>188,014</u>
Total assets				<u>239,542</u>
Segment liabilities	18,127		16,639	34,766
Unallocated liabilities				<u>4,272</u>
Total liabilities				<u>39,038</u>
Capital expenditure				
– segment	14,406		1,369	15,775
– unallocated				428
Depreciation				
– segment	570		2,868	3,438
– unallocated				80

Notes to the Accounts

For the year ended 31 March 2002

2. Turnover, revenues and segment information *(continued)*

(b) Secondary reporting format – geographical segments

The Group's four business segments operate mainly in the following geographical areas:

Hong Kong – Websites management, securities broking, investments and portfolios

United States of America – Portfolios

There are no sales between the geographical segments.

	Turnover		Segment results	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Continuing operations:				
Hong Kong	55,370	(2,758)	(32,136)	(14,568)
Discontinued operations:				
The United States of America	7,826	21,631	(408)	(9,476)
Hong Kong and other countries	3,944	8,715	(902)	(4,537)
Gain on disposal of discontinued operations	—	—	6,089	666
	11,770	30,346	4,779	(13,347)
	67,140	27,588	(27,357)	(27,915)
Net corporate expenses			(5,821)	(512)
Operating loss			(33,178)	(28,427)

All assets of the Group as at 31 March 2002 and 2001 are in Hong Kong.

All (2001: a substantial portion of) capital expenditure of the Group for the year relates to the Hong Kong segment.

Notes to the Accounts

For the year ended 31 March 2002

3. Operating loss

Operating loss is stated after crediting and charging the following:

	2002 HK\$'000	2001 HK\$'000
Crediting		
Profit on disposal of subsidiaries	6,089	666
Bad debts recovered	–	112
Dividend income from listed investments	24	–
Charging		
Amortisation of intangible assets		
– Goodwill	1,135	–
– Trading rights	725	–
Auditors' remuneration	1,240	514
Cost of inventories sold	11,216	30,168
Depreciation		
– Owned assets	5,469	2,902
– Leased assets	379	616
Impairment of goodwill	809	–
Operating lease rentals in respect of land and buildings	5,917	1,712
Provision for inventories	–	903
Write off/loss on disposal of fixed assets	224	634

4. Finance costs

	2002 HK\$'000	2001 HK\$'000
Interest expense on bank loans and overdrafts	1,290	1,378
Interest expense on finance leases wholly repayable within five years	125	377
Interest expense on convertible note	216	–
Other borrowing costs	12	299
	1,643	2,054

Notes to the Accounts

For the year ended 31 March 2002

5. Taxation

Tax has not been provided as the Group did not generate any assessable profits for the year (2001: Nil). The tax credit for the year ended 31 March 2002 represents overprovision in prior years.

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

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
At beginning of year	36	456
Disposal of subsidiaries	—	(420)
At end of year	<u>36</u>	<u>36</u>

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

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Accelerated depreciation allowances	(778)	1,990
Tax losses	(13,661)	8,546
Other timing differences	2,079	—
	<u>(12,360)</u>	<u>10,536</u>

The potential deferred tax (assets)/liabilities as at the year end not recognised in the accounts amounts to:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Accelerated depreciation allowances	1,212	1,990
Tax losses	(48,626)	(23,965)
Other timing differences	2,079	—
	<u>(45,335)</u>	<u>(21,975)</u>

Notes to the Accounts

For the year ended 31 March 2002

6. Loss attributable to shareholders

The loss attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$62,502,000 (2001: HK\$31,544,000).

7. Loss per share

The calculation of basic loss per share is based on the Group's loss attributable to shareholders of HK\$34,760,000 (2001: HK\$30,481,000) and the weighted average of 3,169,694,901 (2001: 2,203,141,347) ordinary shares in issue during the year.

There were no potential dilutive ordinary shares in existence for the two years ended 31 March 2002 and therefore, no diluted loss per share was presented.

8. Retirement benefit costs

	2002 HK\$'000	2001 HK\$'000
Retirement benefit costs	<u>1,241</u>	<u>185</u>

The retirement benefits costs represent gross contributions paid and payable by the Group to the schemes. Contributions totalling HK\$176,000 (2001: HK\$26,000) were payable to the schemes at the year end and are included in accrued liabilities and other payables. There was no forfeited contributions utilised during the year (2001: Nil).

9. 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:

	2002 HK\$'000	2001 HK\$'000
Fees:		
Executive Directors	56	—
Non-executive Directors	64	—
Independent non-executive Directors	240	380
Other emoluments:		
Salaries, housing and other allowances and benefits in kind:		
Executive Directors	<u>4,774</u>	<u>3,289</u>
	<u>5,134</u>	<u>3,669</u>

Notes to the Accounts

For the year ended 31 March 2002

9. Directors' and senior management's remuneration *(continued)*

The emoluments of the Directors fell within the following bands:

Emoluments bands	Number of Directors	
	2002	2001
Nil – HK\$1,000,000	7	10
HK\$1,000,001 – HK\$1,500,000	–	1
HK\$1,500,001 – HK\$2,000,000	2	–
	<u>9</u>	<u>11</u>

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

During the year, no option (2001: 65,700,000 options) was granted to the Directors under the Share Option Scheme as described in note 20.

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

The five highest paid individuals of the Group for the year include three (2001: four) Directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2001: one) individuals during the year are as follows:

	2002	2001
	HK\$'000	HK\$'000
Salaries, housing and other allowances and benefits in kind	<u>2,575</u>	<u>430</u>

The emoluments of the two (2001: one) individuals fell within the following bands:

	Number of individuals	
	2002	2001
Nil – HK\$1,000,000	–	1
HK\$1,000,001 – HK\$1,500,000	2	–
	<u>2</u>	<u>1</u>

Notes to the Accounts

For the year ended 31 March 2002

10. Intangible assets

Group

	Goodwill <i>HK\$'000</i>	Trading rights in exchanges in Hong Kong <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2001	—	—	—
Acquisition of subsidiaries (<i>note 22(e)</i>)	20,641	14,150	34,791
Impairment charge (<i>note 3</i>)	(809)	—	(809)
Amortisation charge (<i>note 3</i>)	(1,135)	(725)	(1,860)
At 31 March 2002	18,697	13,425	32,122
At 31 March 2002			
Cost	20,641	14,150	34,791
Accumulated amortisation and impairment losses	(1,944)	(725)	(2,669)
Net book amount	18,697	13,425	32,122

Notes to the Accounts

For the year ended 31 March 2002

11. Fixed assets

Group

	Leasehold improvements <i>HK\$'000</i>	Furniture, equipment and motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost			
At 1 April 2001	3,453	14,175	17,628
Additions	—	829	829
Acquisition of subsidiaries	3,812	16,458	20,270
Disposals	—	(401)	(401)
At 31 March 2002	7,265	31,061	38,326
Accumulated depreciation			
At 1 April 2001	1,020	2,376	3,396
Charge for the year	2,275	3,573	5,848
Acquisition of subsidiaries	2,272	13,712	15,984
Disposals	—	(101)	(101)
At 31 March 2002	5,567	19,560	25,127
Net book value			
At 31 March 2002	1,698	11,501	13,199
At 31 March 2001	2,433	11,799	14,232

The net book value of the Group's assets held under finance leases as at 31 March 2002 amounted to HK\$1,327,000 (2001: HK\$1,706,000).

Notes to the Accounts

For the year ended 31 March 2002

11. Fixed assets (continued)

Company

	Leasehold improvements <i>HK\$'000</i>	Furniture and equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost			
At 1 April 2001	291	143	434
Additions	—	7	7
At 31 March 2002	291	150	441
Accumulated depreciation			
At 1 April 2001	71	10	81
Charge for the year	98	14	112
At 31 March 2002	169	24	193
Net book value			
At 31 March 2002	122	126	248
At 31 March 2001	220	133	353

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For the year ended 31 March 2002

12. Investments in subsidiaries

	Company	
	2002 HK\$'000	2001 HK\$'000
Unlisted investments, at cost	159,929	51,538
Provision for impairment losses	(51,538)	(51,538)
Amounts due from subsidiaries less provision	198,456	224,977
Amount due to a subsidiary	(13,541)	—
	<u>293,306</u>	<u>224,977</u>

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

The following is a list of the principal subsidiaries as at 31 March 2002 and 2001:

Name	Place of incorporation/ operation	Principal activities	Particulars of issued share capital	Equity interest held	
				2002	2001
Directly held					
# APC Capital (Holdings) Limited	Hong Kong	Investment holding	3,180,000 non-voting deferred shares of HK\$10 each 9,520,000 ordinary shares of HK\$10 each	100%	—
Quam Capital (Holdings) Limited	Hong Kong	Investment holding	2 ordinary shares of HK\$1 each	100%	100%
Wolf Holdings Limited	British Virgin Islands	Investment holding	1,000 ordinary shares of US\$1 each	100%	100%

Notes to the Accounts

For the year ended 31 March 2002

12. Investments in subsidiaries (continued)

Name	Place of incorporation/ operation	Principal activities	Particulars of issued share capital	Equity interest held	
				2002	2001
Indirectly held					
Quam.net Limited	Hong Kong	Investment holding	8,119,974 ordinary shares of HK\$1 each	100%	100%
# Quam Asset Management Limited	Hong Kong	Investment adviser	100,000 ordinary shares of HK\$10 each	100%	—
# Quam Capital Limited	Hong Kong	Corporate finance and investment adviser	2,000,000 ordinary shares of HK\$1 each	100%	—
# Quam Corporate Services Limited	Hong Kong	Secretarial services	2 ordinary shares of HK\$1 each	100%	—
# Quam Finance Limited	Hong Kong	Finance and money lending	50,000,000 ordinary shares of HK\$1 each	100%	—
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%
# Quam Futures Limited	Hong Kong	Futures trading	6,500,000 ordinary shares of HK\$1 each	100%	—

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For the year ended 31 March 2002

12. Investments in subsidiaries (continued)

Name	Place of incorporation/ operation	Principal activities	Particulars of issued share capital	Equity Interest held	
				2002	2001
# Quam Securities Company Limited	Hong Kong	Securities dealing	4,000,000 ordinary shares of HK\$10 each	100%	–
Quam (H.K.) Limited	Hong Kong	Website management and other related services	5,000,000 ordinary shares of HK\$1 each	100%	100%
Quam (IA) Limited	Hong Kong	Investment adviser and restricted securities dealer	2,000 ordinary shares of HK\$1 each	100%	100%
Quam Ventures (BVI) Limited	British Virgin Islands	Investment holding	1 ordinary share of US\$1	100%	100%
# Well Foundation Company Limited	Hong Kong	Investment holding	2 ordinary shares of HK\$10 each	100%	–

Subsidiaries not audited by PricewaterhouseCoopers.

The aggregate net assets, turnover and loss before taxation of subsidiaries not audited by PricewaterhouseCoopers amounted to approximately 42%, 42% and 6% (2001: Nil) of the Group's total net assets, turnover and loss before taxation respectively.

The above table lists the subsidiaries of the Company as at 31 March 2002 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.

Notes to the Accounts

For the year ended 31 March 2002

13. Investment securities

	Group		Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Unlisted equity investments	1,490	16,285	—	10,000
Unlisted investment in venture capital fund	20,000	—	—	—
Unlisted held-to-maturity securities (note)	5,000	—	—	—
Club debenture	653	—	—	—
	<u>27,143</u>	<u>16,285</u>	<u>—</u>	<u>10,000</u>

Note:

The held-to-maturity securities are pledged to a bank to secure a banking facility of HK\$2.5 million granted to the Group.

14. Trade receivables

The trade receivables as at 31 March 2002 mainly consist of receivables of website management and related services and securities and futures broking businesses. The credit terms of securities and futures broking business are in accordance with the industry practice. The Group grants credit periods of 60 to 90 days to its customers on website management and related services.

Included in trade receivables of the Group as at 31 March 2002 are loans to margin clients amounting to HK\$53,395,000 (2001: Nil) which have no due date.

The ageing analysis of other trade receivables (net of provision) of HK\$32,701,000 (2001: HK\$6,475,000) of the Group was as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Within 180 days	32,701	5,732
181 to 360 days	—	743
	<u>32,701</u>	<u>6,475</u>

Notes to the Accounts

For the year ended 31 March 2002

15. Other investments

	Group		Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Equity investments				
– Listed in Hong Kong	76,038	1,927	69,679	1,927
– Listed outside Hong Kong	1,078	–	–	–
	<u>77,116</u>	<u>1,927</u>	<u>69,679</u>	<u>1,927</u>

16. Trade payables

Included in trade payables of the Group as at 31 March 2002 are amounts payable to margin clients of HK\$17,166,000 (2001: Nil) for which funds have been or will be transferred to trust bank accounts for settlement in accordance with the securities and futures broking industry practice.

The ageing analysis of other trade payables of HK\$32,794,000 (2001: HK\$12,328,000) of the Group was as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Within 180 days	32,794	8,360
181 to 360 days	–	3,736
Over 360 days	–	232
	<u>32,794</u>	<u>12,328</u>

Notes to the Accounts

For the year ended 31 March 2002

17. Convertible note

The convertible note (the "Note") was issued for settlement of part of the consideration for the acquisition of APC Capital (Holdings) Limited and its subsidiaries during the year.

The Note is unlisted and bears interest at 3.25% per annum. The Noteholder has the right, during the period from 6 March 2002 to 6 September 2002 (the "Maturity Date"), to convert the whole or part of the principal amount of the Note into ordinary shares of HK\$0.01 each of the Company at a conversion price of HK\$0.072 per share. The Company has the right, during the period from 6 September 2001 (the date of issue of the Note) to the Maturity Date, to require the Noteholder to convert the whole or part of the principal amount of the Note into shares of the Company. Payment of the outstanding principal amount of the Note plus interest accrued thereon will be made in cash on the Maturity Date.

As at the date of approval of these accounts, neither the Company nor the Noteholder has exercised the conversion right. The conversion of the whole of the principal amount of the Note will result in the issue of 163,055,555 shares of the Company, which represents around 5% of the issued shares of the Company as at 31 March 2002.

18. Finance lease payables

	Group	
	2002	2001
	HK\$'000	HK\$'000
Finance lease payables:		
Within one year	357	1,072
In the second year	—	357
Total minimum lease payments	357	1,429
Future finance charges	(41)	(165)
Present value of finance lease payables	316	1,264
Current portion included under current liabilities	(316)	(948)
Non-current portion	—	316
	2002	2001
	HK\$'000	HK\$'000

The present value of finance lease payables is as follows:

Within one year	316	948
In the second year	—	316
	316	1,264

Notes to the Accounts

For the year ended 31 March 2002

19. Bank loans

The bank loans are secured by marketable securities of HK\$74.6 million pledged by margin clients of the Group (note 23) and debt securities of HK\$5 million owned by the Group (note 13).

20. Share capital

	2002 HK\$'000	2001 HK\$'000
<i>Authorised:</i>		
10,000,000,000 ordinary shares of HK\$0.01 each (<i>note d</i>)	<u>100,000</u>	<u>100,000</u>
<i>Issued and fully paid:</i>		
	No. of shares	Par value HK\$ Amount HK\$'000
At 1 April 2001	3,168,759,392	0.01 31,688
Issue of shares for acquisition of subsidiaries (<i>note a</i>)	82,540,325	0.01 825
Repurchase of shares (<i>note b</i>)	<u>(27,772,000)</u>	<u>0.01 (278)</u>
At 31 March 2002	<u>3,223,527,717</u>	<u>32,235</u>
At 1 April 2000	293,400,000	0.10 29,340
Debt-to-Equity Conversion (<i>note c</i>)	15,451,429	0.10 1,545
Capital restructuring (<i>note d</i>)	(205,900,953)	(29,855)
Subscription and placing of new shares (<i>note e</i>)	1,100,000,000	0.01 11,000
Issue of shares in July 2000 (<i>note f</i>)	1,200,000,000	0.01 12,000
Issue of shares for acquisition of Quam (<i>note g</i>)	831,228,916	0.01 8,312
Repurchase of shares (<i>note h</i>)	<u>(65,420,000)</u>	<u>0.01 (654)</u>
At 31 March 2001	<u>3,168,759,392</u>	<u>0.01 31,688</u>

Notes to the Accounts

For the year ended 31 March 2002

20. Share capital (continued)

Notes:

- (a) In May and December 2001, 5,000,000 and 77,540,325 ordinary shares of HK\$0.01 each in the capital of the Company were issued at HK\$0.19 and HK\$0.055 per share respectively as consideration for the acquisition of the entire equity interest in HKGrowth.com Company Limited and V Six Securities Limited.
- (b) During the year ended 31 March 2002, the Company repurchased a total number of 27,772,000 of its own shares on The Stock Exchange of Hong Kong Limited, all of which were then cancelled.
- (c) 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 approximately 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").
- (d) Pursuant to resolutions passed at a special general meeting held on 19 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.
- (e) Pursuant to resolutions passed at the same special general meeting as in note (d) above, a conditional subscription agreement entered into between the Company and Newer Challenge Holdings Limited dated 28 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 ("King 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 20 April 2000.
- (f) 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.
- (g) On 31 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.
- (h) During the year ended 31 March 2001, 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.

Notes to the Accounts

For the year ended 31 March 2002

20. Share capital *(continued)*

Share options

Pursuant to the share option scheme adopted on 4 September 1997 (the “Share Option Scheme”), the Board of Directors may, on or before 3 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.

Pursuant to an agreement dated 3 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.

Notes to the Accounts

For the year ended 31 March 2002

20. Share capital *(continued)*

Share options *(continued)*

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

Exercise price per share	Exercise period	Number of share options (in thousand)				At 31 March 2002
		At 1 April 2001	Granted during the year	Exercised during the year	Lapsed during the year	

Options granted under the Share Option Scheme

HK\$0.22	31.5.00 – 3.9.07	17,600	–	–	(600)	17,000
HK\$0.11	1.8.00 – 3.9.07	26,000	–	–	(1,000)	25,000
HK\$0.038	5.9.01 – 8.9.11	153,250	–	–	(83,600)	69,650

Options granted to the Quamnet Option Holder

HK\$0.19	30.1.01 – 29.1.04	30,710	–	–	–	30,710
		<u>227,560</u>	<u>–</u>	<u>–</u>	<u>(85,200)</u>	<u>142,360</u>

The exercise in full of the 142,360,000 share options outstanding at 31 March 2002 would, under the capital structure of the Company then in existence, result in the issue of 142,360,000 additional shares of HK\$0.01 each in the Company at a total consideration, before issue expenses, of approximately HK\$14,972,000.

Notes to the Accounts

For the year ended 31 March 2002

21. Reserves

Group

	Share	Fixed assets		Contributed	Accumulated	Capital	
	premium	Goodwill	revaluation	surplus	losses	redemption	Total
	HK\$'000	HK\$'000	reserve	HK\$'000	HK\$'000	reserve	HK\$'000
At 1 April 2001	475,177	(197,398)	–	32,080	(141,697)	654	168,816
Issue of shares	4,390	–	–	–	–	–	4,390
Repurchase of shares	(1,119)	–	–	–	(278)	278	(1,119)
Loss for the year	–	–	–	–	(34,760)	–	(34,760)
At 31 March 2002	478,448	(197,398)	–	32,080	(176,735)	932	137,327
At 1 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 31 March 2001	475,177	(197,398)	–	32,080	(141,697)	654	168,816

Notes to the Accounts

For the year ended 31 March 2002

21. Reserves (continued)

Company

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2001	475,177	81,193	(182,198)	654	374,826
Issue of shares	4,390	–	–	–	4,390
Repurchase of shares	(1,119)	–	(278)	278	(1,119)
Loss for the year	–	–	(62,502)	–	(62,502)
At 31 March 2002	478,448	81,193	(244,978)	932	315,595
At 1 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 31 March 2001	475,177	81,193	(182,198)	654	374,826

Notes to the Accounts

For the year ended 31 March 2002

22. Notes to consolidated cash flow statement

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

	2002 HK\$'000	2001 HK\$'000
Operating loss	(33,178)	(28,427)
Interest income from bank and others	(2,606)	(10,257)
Depreciation	5,848	3,518
Write off/loss on disposal of fixed assets	224	634
Profit on disposal of subsidiaries	(6,089)	(666)
Impairment loss on investment securities	7,640	—
Amortisation of intangible assets	1,860	—
Impairment of goodwill	809	—
Increase in deposits with securities and futures clearing companies	(230)	—
Decrease in inventories	—	811
Decrease/(increase) in trade receivables, prepayments, deposits and other receivables	22,571	(17,874)
Increase in bank balances held on behalf of customers	(7,631)	—
Increase in other investments	(71,628)	(1,927)
Increase/(decrease) in trade payables, accrued liabilities and other payables	5,247	(39,800)
Decrease in amount due to a director	—	(500)
Net cash outflow from operating activities	(77,163)	(94,488)

Notes to the Accounts

For the year ended 31 March 2002

22. Notes to consolidated cash flow statement (continued)

(b) Analysis of changes in financing during the year

	Share capital (including share premium)		Convertible note, bank loans with original maturity beyond three months		Finance lease payables	
	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At beginning of year	506,865	51,785	–	37,119	1,264	2,691
Cash (outflow)/inflow from financing	(1,397)	311,551	(500)	(18,427)	(948)	(1,762)
Non-cash transactions						
Shares issued for Debt-to-Equity Conversion (note 20(c))	–	15,451	–	–	–	–
Shares issued for acquisition of subsidiaries (notes 20(a), 20(g) and 22(e))	5,215	157,933	–	–	–	–
Issue of convertible note for acquisition of subsidiaries (note 22(e))	–	–	11,740	–	–	–
Reduction of share capital (note 20(d))	–	(29,855)	–	–	–	–
Obligations of subsidiaries acquired (note 22(e))	–	–	14,000	–	–	1,422
Disposal of subsidiaries (note 22(d))	–	–	–	(18,692)	–	(1,087)
At end of year	510,683	506,865	25,240	–	316	1,264

Notes to the Accounts

For the year ended 31 March 2002

22. Notes to consolidated cash flow statement *(continued)*

(c) Major non-cash transactions

Other than the non-cash transactions disclosed in note 22(b), the Group had no major non-cash transactions during the two years ended 31 March 2002.

(d) Disposal of subsidiaries

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Net assets disposed of:		
Fixed assets	—	46,692
Inventories	—	6,467
Trade receivables, prepayments, deposits and other receivables	11,760	2,382
Cash and bank balances	992	5,272
Obligations under finance leases	—	(1,087)
Bank and other borrowings	—	(18,692)
Deferred taxation	—	(420)
Trade payables, accrued liabilities and other payables	(18,841)	(9,417)
Tax payable	—	(15,990)
	<u>(6,089)</u>	15,207
Attributable contributed surplus	—	(873)
Profit on disposal of subsidiaries	<u>6,089</u>	666
Consideration	<u>—</u>	<u>15,000</u>
Satisfied by:		
Cash	<u>—</u>	<u>15,000</u>

Notes to the Accounts

For the year ended 31 March 2002

22. Notes to consolidated cash flow statement *(continued)*

(d) Disposal of subsidiaries *(continued)*

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

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Cash and cash equivalents disposed of	(992)	(5,272)
Cash consideration	—	15,000
Net cash (outflow)/inflow in respect of the disposal of subsidiaries	<u>(992)</u>	<u>9,728</u>

The cash flows contributed by the subsidiary disposed of during the year were not material.

Notes to the Accounts

For the year ended 31 March 2002

22. Notes to consolidated cash flow statement (continued)

(e) Purchase of subsidiaries

	2002 HK\$'000	2001 HK\$'000
Net assets acquired		
Fixed assets	4,286	14,306
Trading rights in exchanges in Hong Kong	14,150	—
Deposits with securities and futures clearing companies	3,900	—
Investment securities	652	—
Other investments	3,561	—
Trade receivables, prepayments, deposits and other receivables	94,346	10,365
Tax recoverable	244	—
Bank balances held on behalf of customers	26,491	—
Cash and bank balances	17,622	3,829
Trade payables, accrued liabilities and other payables	(49,052)	(63,630)
Finance lease payables	—	(1,422)
Bank loans	(27,500)	—
	88,700	(36,552)
Goodwill arising on acquisition	20,641	197,398
Consideration and acquisition cost	109,341	160,846
Satisfied by:		
Allotment of shares	5,215	157,933
Issue of convertible note	11,740	—
Cash	92,386	2,913
	109,341	160,846

Notes to the Accounts

For the year ended 31 March 2002

22. Notes to consolidated cash flow statement *(continued)*

(e) Purchase of subsidiaries *(continued)*

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

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Cash and bank balances	17,622	3,829
Short term bank loans with original maturity within three months	<u>(13,500)</u>	<u>–</u>
Cash and cash equivalents acquired	4,122	3,829
Consideration for the acquisition payable in cash	(92,386)	(2,913)
Consideration payable included in other payable	<u>3,016</u>	<u>–</u>
Net cash (outflow)/inflow in respect of the purchase of subsidiaries	<u>(85,248)</u>	<u>916</u>

The subsidiaries acquired during the year absorbed HK\$13,001,000 of the Group's net operating cash flows, paid HK\$729,000 in respect of net returns on investments and servicing of finance, utilised HK\$1,010,000 for investing activities, received HK\$283,000 in respect of taxation and paid HK\$500,000 for financing activities.

23. Assets held as collateral

The market value of securities held as collateral against receivables from customers at 31 March 2002 was approximately HK\$192,398,000 of which HK\$74,622,000 was pledged by the Group to banks and authorised institutions to secure loan and overdraft facilities granted to the Group.

Notes to the Accounts

For the year ended 31 March 2002

24. Loans to directors and related companies

Pursuant to Section 161B(1) of the Hong Kong Companies Ordinance, details of the loan and advance facilities granted to Directors of the Company and related companies controlled by them during the year are as follows:

	Facilities approved	Maximum outstanding during the year	Balance at 31.3.2002	31.3.2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Mr Bernard Pouliot and related companies controlled by him	5,000	845	845	—
Mr Kenneth Lam Kin Hing	5,000	209	3	—

Facilities granted are loans to margin accounts which are secured by the securities pledged. The credit terms are in accordance with the securities and futures broking business industry practice which have no due date. Interest is charged at the Standard Chartered Bank prime rate plus 3% per annum.

25. Commitments

(a) Operating lease commitments

At 31 March 2002, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	2002	As restated 2001
	HK\$'000	HK\$'000
Within one year	4,504	4,119
In the second to fifth years inclusive	855	2,032
	5,359	6,151

Comparative figures have been restated to comply with SSAP 14 (revised) on Leases which is effective for accounting periods commencing on or after 1 July 2000.

Notes to the Accounts

For the year ended 31 March 2002

25. Commitments *(continued)*

(b) Capital commitments

	2002 HK\$'000	2001 HK\$'000
Contracted but not provided for in respect of other investments	<u>—</u>	<u>3,428</u>

26. Related party transactions

Significant related party transactions, which were carried out in the normal course of the Group's business during the year, are as follows:

- (a) Consultancy fee amounting to HK\$2,734,000 (2001: Nil) was received from a related company for advisory services provided to the related company. Certain Directors of the Company, namely Mr Kenneth Lam Kin Hing, Mr Bernard Pouliot and Mr William Chao Hang Man are directors of the related company and Mr Kenneth Lam Kin Hing and Mr Bernard Pouliot have indirect equity interest in the related company.
- (b) In September 2001, the Group acquired from Asia Pacific Creations Limited (the "Vendor") APC Capital (Holdings) Limited ("APC") and its subsidiaries at a consideration of approximately HK\$90 million, creating goodwill on acquisition of approximately HK\$18 million. Mr Bernard Pouliot, a Director and substantial shareholder of the Company, and Mr Kenneth Lam Kin Hing, a then Director of a subsidiary of the Company, have equity interests in the Vendor.

27. Comparative figures

Certain comparative figures have been reclassified to conform with the current year's presentation. These primarily relate to the reclassification of certain income in the consolidated profit and loss account.

28. Approval of the accounts

The accounts were approved by the Board of Directors on 8 July 2002.