

NOTES TO THE FINANCIAL STATEMENTS

30 September 2002

(Amount expressed in Hong Kong dollars unless otherwise stated)

1. Basis of preparation and accounting policies

The unaudited condensed consolidated financial statements for the Period have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants and the disclosure requirements set out in Appendix 16 of the Listing Rules of the Stock Exchange of the Hong Kong Limited (“SEHK”). The accounting policies and basis of preparation used in the preparation of the condensed consolidated financial statements are consistent with those followed in the Group’s annual financial statements for the year ended 31 March 2002 except for the adoption of the following revised and new SSAPs which are effective for the first time for the Period:

- SSAP 1 (Revised) : “Presentation of Financial Statements”
- SSAP 11 (Revised) : “Foreign Currency Translation”
- SSAP 15 (Revised) : “Cash Flow Statements”
- SSAP 25 (Revised) : “Interim Financial Reporting”
- SSAP 33 : “Discontinuing Operations”
- SSAP 34 : “Employee Benefits”

SSAP 1 (Revised) prescribes the basis of presentation of financial statements and set out guidelines for their structure and minimum requirements for the content thereof. The main revision to this SSAP is to change the requirements from presenting a statement of recognized gains and losses to a statement of changes in equity. The condensed consolidated statement of changes in equity for the Period and the comparative figures have been presented in accordance with this revised SSAP.

SSAP 11 (Revised) prescribes the basis for translation of foreign currency transactions and financial statements. This revised SSAP has had no major impact on the condensed consolidated financial statements for the Period.

SSAP 15 (Revised) prescribes the provision of information about the historical changes in cash and cash equivalents by means of a cash flow statement which classifies cash flows during the Period into operating, investing and financing activities. The condensed consolidated cash flow statements for the Period and the comparative figures have been presented in accordance with this revised SSAP.

SSAP 25 (Revised) prescribes the presentation and disclosures following changes in SSAP 1 (Revised) and SSAP 15 (Revised). The condensed consolidated financial statements for the Period and the comparative figures have been prepared in accordance with these revised SSAPs.

SSAP 33 prescribes the basis for reporting information about discontinuing/discontinued operations. The impact of this SSAP is the inclusion of the significant disclosures which are set out in the condensed consolidated profit and loss account, condensed consolidated cash flow statement and notes 2, 3, 4, 15 and 16 to the financial statements.

SSAP 34 prescribes the accounting treatment and disclosure for employee benefits. This new SSAP has had no major impact on the condensed consolidated financial statements for the Period.

The condensed consolidated financial statements for the Period include the financial statements of the Company and its subsidiaries. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

2. Turnover and segment information

Turnover for the Period mainly represents interest income received and receivable during the Period, which is recognized on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

During the Period, the Group was principally engaged in investment holding. Accordingly, no analysis of segment information by principal activity and geographical area is presented.

An analysis of turnover is as follows:

	For the six months ended 30 September	
	2002 '000 (Unaudited)	2001 '000 (Unaudited)
Continuing operations:		
Interest income	<u>1,346</u>	<u>3,928</u>
Discontinuing operations:		
Construction, maintenance and demolition works	–	94,515
Supply of building products	–	3,102
Others	–	646
	<u>–</u>	<u>98,263</u>

3. Other revenue and gains

An analysis of other revenue and gains is as follows:

	For the six months ended 30 September	
	2002 '000 (Unaudited)	2001 '000 (Unaudited)
Continuing operations:		
Rental income from operating leases	723	723
Consultancy service fee income	1,146	–
Others	5	–
	<u>1,874</u>	<u>723</u>
Discontinuing operations:		
Gain on disposal of fixed assets, net	–	25,230
Others	–	2,525
	<u>–</u>	<u>27,755</u>

4. (Loss) Profit from operating activities

(Loss) Profit from operating activities is arrived at after charging:

	For the six months ended 30 September	
	2002 '000 (Unaudited)	2001 '000 (Unaudited)
Depreciation – continuing operations	485	481
– discontinuing operations	–	2,981
	<u>485</u>	<u>3,462</u>

5. Tax

No Hong Kong profits tax has been provided as there were no assessable profits arising in Hong Kong during the Period (2001: Nil).

No provision for deferred tax has been made as the Group did not have any significant unprovided deferred tax liabilities in respect of the Period (2001: Nil).

6. Interim dividend

The directors do not propose any interim dividends in respect of the Period (2001: Nil).

7. Loss per share

The calculation of basic loss per share is based on the net loss attributable to shareholders for the Period of approximately HK\$1,845,000 (2001: HK\$11,234,000) and on the weighted average number of 2,400,001,640 (2001: 2,400,001,640) ordinary shares in issue during the Period.

Diluted loss per share amounts for the periods ended 30 September 2002 and 2001 have not been disclosed as the share options outstanding during these periods had an anti-dilutive effect on the basic loss per share for these periods.

8. Interests in associates

	As at	
	30 September 2002 '000 (Unaudited)	31 March 2002 '000 (Audited)
Share of net assets other than goodwill	–	9,544
Less: Provision for impairment	–	(4,059)
	<u>–</u>	<u>5,485</u>

On 9 May 2002, the Group swapped the entire interests in an associate, BeXcom Greater China Co. Ltd., for 2,781,076 preference B shares of an investee company, BeXcom Pte. Ltd., which were included in long term investments (note 9). The Group did not record any gain or loss on this swap as the Group had made full provisions for impairments in the investments in these two companies during the last financial year ended 31 March 2002 due to their continuing non-performances.

During the Period, the liquidation work of another associate, HiOffice.net Pte. Ltd., was substantially completed, and a first-round distribution of residual cash to shareholders of approximately HK\$5,491,000 was received by the Company. Subsequent to the Period ended, the final-round distribution of residual cash to shareholders of approximately HK\$72,000 was received by the Company.

9. Long term investments

	As at	
	30 September 2002 '000 (Unaudited)	31 March 2002 '000 (Audited)
Overseas unlisted equity investments, at cost	49,467	46,164
Less: Provision for impairment	<u>(49,467)</u>	<u>(46,164)</u>
	<u>—</u>	<u>—</u>

As mentioned in note 8 above, on 9 May 2002, the Group swapped the entire interests in BeXcom Greater China Co. Ltd. for 2,781,076 preference B shares of BeXcom Pte. Ltd. The Group had made full provisions on these new swapped shares in BeXcom Pte. Ltd.

10. Short term investments

	As at	
	30 September 2002 '000 (Unaudited)	31 March 2002 '000 (Audited)
Overseas unlisted equity investments, at fair value	3,942	3,830
Overseas unlisted debt investment, at fair value	<u>38,954</u>	<u>39,000</u>
	<u>42,896</u>	<u>42,830</u>

11. Share capital

	As at	
	30 September 2002 '000 (Unaudited)	31 March 2002 '000 (Audited)
Authorised:		
5,000,000,000 ordinary shares of HK\$0.1 each	<u>500,000</u>	<u>500,000</u>
Issued and fully paid:		
2,400,001,640 ordinary shares of HK\$0.1 each	<u>240,000</u>	<u>240,000</u>

Share options

The Company operates a share option scheme (“the Scheme”), further details of which are set out below under the section “Staff Remuneration Policy and Share Option Scheme”.

Pursuant to the Scheme adopted on 28 July 1992, the Company may grant options to the directors and employees of the Group to subscribe for shares in the Company, subject to a maximum of 10% of the issued share capital of the Company from time to time, excluding for this purpose shares issued on the exercise of options. The subscription price will be determined by the Company’s directors, and will not be less than the higher of (i) The SEHK closing price of the Company’s shares on the date of the offer of the share options; and (ii) a maximum of 20% discount over the average of the closing price of the shares quoted on the SEHK on the five trading days immediately preceding the date of offer of the option.

The movements in the share options during the Period were as follows:

	Number of share options granted on	
	20 June 2000	26 March 2001
At beginning of the Period	34,250,000	111,500,000
Lapsed during the Period	<u>(500,000)</u>	<u>–</u>
At end of the Period	<u>33,750,000</u>	<u>111,500,000</u>
Exercise price per share	<u>HK\$1.17</u>	<u>HK\$0.32</u>

The exercise period of the above share options is three years commencing on the expiry of six months after the date on which the share options are granted.

12. Reserves

The detailed movements in reserves during the Period were disclosed in the Condensed Statement of Changes in Equity.

13. Operating lease arrangement

(a) As lessor

The Group sub-leases its office premises under an operating lease arrangement, with the lease negotiated for a term of 34 months. The term of the lease also requires the tenant to pay security deposits.

As at 30 September 2002, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenant falling due as follows:

	As at	
	30 September 2002 '000 (Unaudited)	31 March 2002 '000 (Audited)
Within one year	963	1,445
In the second to fifth years, inclusive	—	241
	<u>963</u>	<u>1,686</u>

(b) As lessee

The Group leases certain of its office properties and equipment under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to two years, and those for office equipment for terms ranging between one and three years.

As at 30 September 2002, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at	
	30 September 2002 '000 (Unaudited)	31 March 2002 '000 (Audited)
Within one year	2,298	4,247
In the second to fifth years, inclusive	158	597
	<u>2,456</u>	<u>4,844</u>

14. Commitments and contingent liabilities

As at 30 September 2002 and 31 March 2002, the Group had no significant commitments or contingent liabilities.

15. Related party transactions

The Group had the following significant related party transactions during the Period:

		For the six months ended 30 September	
	Notes	2002 '000 (Unaudited)	2001 '000 (Unaudited & restated)
Continuing operations:			
Consultancy fee income from			
a related company	(i)	834	832
Rental income from an investee company	(ii)	723	723
Consultancy fee income from an associate	(iii)	312	-
Discontinuing operations:			
		-	-

Notes:

- (i) The consultancy fee received in respect of management advisory services from a related company, of which a chief operating officer of the Group is the president, and was charged on mutually agreed terms with reference to actual time and staff costs incurred.
- (ii) The rental income from an investee company was charged based on open market rental.
- (iii) The consultancy fee was received from HiOffice.net Pte. Ltd. in respect of the monitoring work of the liquidation process by the Group, and was charged on mutually agreed terms with reference to actual time and staff costs incurred.

16. Discontinued operations

The Group had no discontinuing/discontinued operations during the Period.

On 11 October 2001 and 10 January 2002 of last financial year ended 31 March 2002, in view of the strategic plan to concentrate business on the Group's core activities, the Company disposed of certain subsidiaries, the principal activities of which were construction and sale of building products in Hong Kong. The disposals were completed on 31 October 2001 and 28 February 2002, respectively. An analysis of the total assets and liabilities of those subsidiaries which had been disposed of is as follows:

	'000 (Audited)
Total assets	367,316
Total liabilities	<u>(351,558)</u>
Net assets	<u><u>15,758</u></u>

BUSINESS REVIEW AND PROSPECTS

During the Period, the Group incurred a loss attributable to shareholders of approximately HK\$1.8 million, an improvement of approximately HK\$9.4 million as compared to the same period ended 30 September 2001 (a loss of approximately HK\$11.2 million). The improvement reflects the Board's effective management of operating expenses.

Following the disposals of construction and related businesses at last financial year, the Group has shifted its core business focus to communications, media and financial services industries, as well as in technologies that are transforming them. In this regard, the Group has been evaluating potential investment projects that fall within these areas. While some of the project evaluations are only at their preliminary stages, some have progressed to more advanced stages.

If market conditions permit, the Group intends to proceed with these investment projects in the coming months by either acquiring the entire interests in the companies that operate the relevant businesses, or acquiring the entire business division from the relevant companies. The acquisition of these businesses will form the basis for building a major operating business in these areas for the Group. If the Group decides to proceed with these investment projects, the Company's current approach is to acquire these investments in stages so as to facilitate an orderly integration of each of these businesses into the Group. Over time, the Group intends to build a portfolio of operating entities and a major business franchise in these business sectors.

However, the Board believes that, under the current volatile market conditions, the Company should be making prudent management and investment decisions in order to protect shareholders' value. It is the intention of the Board to continue such cautious approach in applying the Group's managerial and financial resources in implementing any of the Group's proposed investment projects. To-date, the Group has not entered into any agreement in relation to any potential investment projects at this time.

Looking forward, the Board is still optimistic about the future of our business. The Board is of the view that by focusing on the above business sectors, the Group can best leverage its experience and network, and thus best realize its potential to improve Group's profits and enhance long-term shareholders' value.

STAFF REMUNERATION POLICY AND SHARE OPTION SCHEME

The Group maintained a team of 7 professional staff as at 30 September 2002.

Employees are paid at salaries comparable to market rates. The Group provides free medical insurance coverage for permanent staff and continues to investigate the possibility of introducing other benefits which would help retain current experienced staff and attract new employees so that the Group can maintain a capable workforce to meet present and future requirements.

There had been no change in the Company's share option scheme from which disclosed in the Group's annual financial statements for the year ended 31 March 2002, except that 500,000 share options with exercise price HK\$1.17 were lapsed during the Period. No new share option was granted during the Period.

The following share options were outstanding under the share option scheme during the Period:

Name or category of participant	Number of share options			Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK\$	Price of Company's share at grant date of options*** HK\$
	At 1 April 2002	Lapsed during the Period	At 30 September 2002				
Directors:							
Jeffrey John Leon KOO, Jr.	30,000,000	-	30,000,000	20-06-2000	21-12-2000 to 20-12-2003	1.17	1.55
Other employees:							
Class A	4,250,000	(500,000)	3,750,000	20-06-2000	21-12-2000 to 20-12-2003	1.17	1.55
Class B	111,500,000	-	111,500,000	26-03-2001	27-09-2001 to 26-09-2004	0.32	0.395
	<u>145,750,000</u>	<u>(500,000)</u>	<u>145,250,000</u>				

* The vesting period of the share options is from the date of grant until the commencement of the exercise period.

** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

*** The price of the Company's shares disclosed as at the date of grant of the share options is the SEHK closing price on the trading day immediately prior to the date of grant of the options.