

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 in accordance with accounting policies generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants. The accounts are prepared under the historical cost convention as modified by the revaluation of leasehold land and buildings and other investments, if any.

(b) Basis of consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 March. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on 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 goodwill or capital reserve which was not previously charged or recognised in the consolidated profit and loss account.

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

(c) Investments in subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of the voting power or issued share capital, or controls the composition of the board of directors.

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

(d) Investments 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 none of the participating parties has unilateral control over the economic activity.

The consolidated profit and loss account includes the Group's share of the results of jointly controlled entities for the year, and the consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entities.

1 Principal accounting policies *(continued)*

(e) Deferred development costs

Expenditure incurred on projects in developing new products is capitalised and deferred only when the project are clearly defined, the expenditure is separately identifiable and there is reasonable certainty that the projects are technically feasible and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are amortised, using the straight-line basis, over the expected useful lives of the products of generally two to five years, commencing in the year when the products are put into commercial production.

(f) Asset held for sale

An asset held for sale is stated at the lower of cost and net realisable value. Net realisable value is determined on the basis of the estimated selling price less any further costs expected to be incurred for disposal in the ordinary course of business.

(g) Fixed assets

Leasehold land and buildings are stated at valuation. Independent valuations are performed annually. Increases in valuation are credited to the asset revaluation reserve. Decreases in valuation are first offset against increases on earlier valuations in respect of the same property and are thereafter debited to profit and loss account. Any subsequent increases are credited to profit and loss account up to the amount previously debited.

Other tangible fixed assets are stated at cost less accumulated depreciation.

Leasehold land is depreciated over the period of the lease while other tangible fixed assets are depreciated at rates sufficient to write off their cost over their estimated useful lives on a straight-line basis. The estimated useful lives are as follows:

Leasehold land and buildings	20 - 50 years
Leasehold improvements	3 - 7 years
Furniture and fixtures	3 - 5 years
Machinery, equipment and tools	3 - 10 years
Motor vehicles	5 years
Computer hardware and software	3 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.

1 Principal accounting policies *(continued)*

(g) Fixed assets *(continued)*

The carrying amounts of fixed assets are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts.

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

(h) Assets under leases

(i) Finance leases

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

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

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

(ii) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on a straight-line basis over the lease term.

(i) 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.

1 Principal accounting policies *(continued)*

(j) Inventories

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

(k) 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.

(l) Deferred taxation

Deferred taxation is accounted for at the current taxation 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.

(m) 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.

On consolidation, the accounts of subsidiaries and jointly controlled entities expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Exchange differences are dealt with as a movement in reserves.

(n) Revenue recognition

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Revenue from sale of services is recognised when the services are rendered.

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

1 Principal accounting policies *(continued)*

(o) Retirement benefit costs

The Group's contribution to the defined contribution retirement scheme are expensed as rat incurred. The assets of the scheme are held separately from those of the Group in an independently administrated fund.

(p) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. The capitalisation rate is based on attributable cost of the specific borrowings. All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(q) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

2 Turnover, revenues and segment information

The Group is principally engaged in investment holding, manufacture and distribution of consumer electronic products and the provision of e-business solutions. Revenues recognised during the year are as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
Turnover		
Continuing operations:		
Provision of e-business solutions	23,964	3,930
Discontinued operations:		
Manufacture and distribution of consumer electronic products	16,075	53,195
Retail and distribution of footwear products	—	10,824
	<u>16,075</u>	<u>64,019</u>
	40,039	67,949
Other revenue		
Interest income	2,939	1,984
Total revenues	<u>42,978</u>	<u>69,933</u>

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

An analysis of the Group's turnover and contribution to operating loss before finance costs and share of loss of jointly controlled entities for the year by principal activity and market is as follows:

	Turnover		Operating (loss)/profit	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Principal activities:				
Continuing operations				
Provision of e-business solutions	23,964	3,930	(172,180)	27,291
Discontinued operations				
Manufacture and distribution of consumer electronic products	16,075	53,195	(64,676)	(121,788)
Retail and distribution of footwear products	—	10,824	—	12,742
	<u>40,039</u>	<u>67,949</u>	<u>(236,856)</u>	<u>(81,755)</u>
Principal markets:				
The People's Republic of China				
Hong Kong	34,848	16,956	(199,391)	(49,511)
Elsewhere	1,067	44,236	(7,685)	(28,168)
The United States of America	1,837	3,374	(14,410)	(2,493)
Taiwan	112	1,008	(2,882)	(744)
Others	2,175	2,375	(12,488)	(839)
	<u>40,039</u>	<u>67,949</u>	<u>(236,856)</u>	<u>(81,755)</u>

3 Operating (loss)/profit and discontinued operations

(a) Operating (loss)/profit is stated after charging the following:

	2001 HK\$'000	Group 2000 HK\$'000
Cost of inventories sold	26,643	67,705
Auditors' remuneration		
Current year	780	870
Overprovision for prior year	—	(346)
Depreciation		
Owned fixed assets	13,101	12,218
Leased fixed assets	2,486	442
Amortisation of deferred development costs	—	2,584
Write off of deferred development costs	4,315	—
Operating lease rentals in respect of		
Land and buildings	20,521	3,544
Equipment and others	806	203
Write off of inventories	—	763
Provision for diminution in value of jointly controlled entities	2,122	—
Provision for doubtful debts	8,096	8,249
Exchange loss, net	175	479
Write down of property held for sale	—	1,000
	<u> </u>	<u> </u>

3 Operating (loss)/profit and discontinued operations *(continued)*

(b) Discontinued operations

The Group's equity investments in subsidiaries which were engaged in the operation of manufacture and distribution of consumer electronic products were sold on 28 February 2001 at a loss of HK\$22,390,000. On 28 February 2000, the Group disposed of its subsidiaries which were engaged in the operation of retail and distribution of footwear at a profit of HK\$15,105,000.

Details in respect of the discontinued operations, accounted for up to the date of discontinuance, are as follows:

	2001 HK\$'000	2000 HK\$'000
Turnover		
Manufacture and distribution of consumer electronic products	16,075	53,195
Retail and distribution of footwear products	—	10,824
	<u>16,075</u>	<u>64,019</u>
(Loss)/profit on ordinary activities included in loss after finance costs		
Manufacture and distribution of consumer electronic products	(67,523)	(131,030)
Retail and distribution of footwear products	—	8,956
	<u>(67,523)</u>	<u>(122,074)</u>

A summary of the effects of this disposal is set out in note 22(c).

4 Finance costs

	2001 HK\$'000	Group 2000 HK\$'000
Interest on bank loans and overdrafts	1,381	1,586
Interest on other loans wholly repayable within five years	704	4,440
Interest on amounts due to related companies, wholly repayable within five years	762	7,347
Interest on finance leases wholly repayable within five year	647	28
Total finance costs incurred	<u>3,494</u>	<u>13,401</u>
Less: interest capitalised in machinery	—	(345)
	<u>3,494</u>	<u>13,056</u>

5 Taxation

No provision for Hong Kong and overseas profits tax has been made in the accounts as the Group has no estimated assessable profits for the year (2000: Nil).

At 31 March 2001, the Group had available tax losses to net off against its future profits. The deferred tax asset resulted therefrom of HK\$860,000 (2000: HK\$764,000) has not been recognised in the accounts as it is uncertain whether such an asset will crystallise in the foreseeable future.

The changes arising from the revaluation of properties of subsidiaries did not constitute a timing difference and accordingly, there were no deferred tax implications.

Apart from the aforesaid, there are no other material unprovided deferred tax assets or liabilities as at 31 March 2001 (2000: Nil).

6 Preference shares dividends

	2001 HK\$'000	2000 HK\$'000
Preference shares		
Accrued at 5% per annum (up to 22 October 2000) and 15% per annum (from 23 October 2000) on shares of HK\$1.00 each	1,018	2,112
Accrued at 5% per annum on shares of HK\$0.10 each	1,270	1,013
	<u>2,288</u>	<u>3,125</u>

Pursuant to Section 54 of the Companies Act 1981 of Bermuda (as amended) (the "Act"), a company incorporated in Bermuda is not permitted to pay dividends while there are reasonable grounds for believing that the Company is, or would after the payment be, unable to pay its liabilities as and when 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 account. Preference shares dividends accrued at the fixed rate of 5% per annum or 15% per annum as appropriate pursuant to the terms of the preference shares for the year ended 31 March 2001 amounted to HK\$2,288,000 (2000: HK\$3,125,000). The preference shares comprised the convertible cumulative non-voting preference shares of HK\$1.00 and HK\$0.10 each issued on 23 October 1996 and 17 December 1999 respectively. In accordance with the terms of issue, no dividend shall be payable on the preference shares of HK\$1.00 each for the period from the date of issue to 23 October 1998. Dividend on the preference share of HK\$0.10 each shall be payable semi-annually in arrears on 30 April and 31 October in each year. The preference shares dividends will only be paid subject to the approval of the board of directors and upon fulfillment of the aforementioned conditions of the Act.

7 Loss attributable to ordinary shareholders

The loss attributable to ordinary shareholders is dealt with in the accounts of the Company to the extent of HK\$301,151,000 (2000: HK\$18,648,000).

8 Loss per ordinary share

The calculation of basic loss per ordinary share is based on the loss attributable to ordinary shareholders of HK\$245,469,000 (2000: HK\$99,513,000) and the weighted average of 677,853,370 (2000: weighted average of 297,147,659) ordinary shares in issue during the year.

The diluted loss per share has not been presented for each of the two years ended 31 March 2001 as there is no dilution effect arising from the potential ordinary shares.

9 Retirement scheme

With effect from the 1 December 2000, the Group has set up a defined contribution retirement scheme, the Mandatory Provident Fund Scheme (the "MPF Scheme") for all the eligible employees of the Group. The Group did not provide retirement benefits for its employees prior to set up of the MPF Scheme.

Under the MPF Scheme, the employees are required to contribute 5% of their monthly salaries up to maximum of HK\$1,000 per employee and they can choose to make additional contributions. The employer's monthly contributions are calculated at 5% of each employee's monthly salaries up to a maximum of HK\$1,000 (the "mandatory contributions"). The employees are entitled to 100% of the employer's mandatory contributions upon their retirement at the age of 65 years old, death or total incapacity.

As at 31 March 2001, the Group's contributions to the MPF Scheme amounted to HK\$180,000 (2000: Nil).

10 Directors' and senior management's emoluments

(a) Directors' emoluments

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

	Group	
	2001 HK\$'000	2000 HK\$'000
Fees	120	430
Other emoluments		
— basic salaries, other allowances and benefits in kind	19,059	6,505
— retirement scheme contribution	20	—
— inducement to join	—	2,578
	<u>19,199</u>	<u>9,513</u>

Directors' fees disclosed above include HK\$120,000 (2000: HK\$430,000) paid to the independent non-executive directors.

The emoluments of the directors fell within the following bands:

Emolument bands	Number of directors	
	2001	2000
Nil - HK\$1,000,000	5	11
HK\$1,500,001 - HK\$2,000,000	4	—
HK\$5,000,001 - HK\$5,500,000	1	1
	<u>10</u>	<u>12</u>

No directors waived any emoluments during the year (2000: Nil).

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for each of the two years ended 31 March 2001 were also directors of the Company and their emoluments are reflected in the analysis presented above.

11 Fixed assets

Group	Land and buildings outside Hong Kong held under leases between 10 to 50 years HK\$'000	Leasehold improvements HK\$'000	Furniture and fixtures HK\$'000	Machinery, equipment and tools HK\$'000	Motor vehicles HK\$'000	Computer hardware and software HK\$'000	Total HK\$'000
Cost or valuation							
At 1 April 2000	122,500	4,559	2,803	50,213	8,132	9,834	198,041
Additions	6,576	742	937	2,891	—	18,486	29,632
Disposals	—	(4,511)	(2,914)	(29,285)	(2,938)	(612)	(40,260)
Disposal of subsidiaries	(129,076)	(790)	(601)	(23,765)	(5,194)	(26,864)	(186,290)
At 31 March 2001	—	—	225	54	—	844	1,123
Accumulated depreciation							
At 1 April 2000	—	915	549	24,548	3,982	523	30,517
Charge for the year	2,674	645	320	3,688	441	7,819	15,587
Disposals	—	(770)	(505)	(15,783)	(1,391)	(83)	(18,532)
Disposal of subsidiaries	(2,674)	(790)	(345)	(12,447)	(3,032)	(8,012)	(27,300)
At 31 March 2001	—	—	19	6	—	247	272
Net book value							
At 31 March 2001	—	—	206	48	—	597	851
At 31 March 2000	122,500	3,644	2,254	25,665	4,150	9,311	167,524

At 31 March 2001, no fixed assets were held by the Group under finance leases (2000: HK\$7,817,000).

At 31 March 2001, no fixed assets were pledged as security for the Group's bank loans (2000: HK\$91,480,000).

12 Investments in subsidiaries

	Company	
	2001 HK\$'000	2000 HK\$'000
Unlisted shares, at cost	1	46,001
Amounts due from subsidiaries	192,875	396,541
Provision for diminutions in value of investments in and amounts due from subsidiaries	(145,752)	(120,990)
	<u>47,124</u>	<u>321,552</u>

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

The following is a list of principal subsidiaries at 31 March 2001:

Name	Place of incorporation/ establishment and operations	Principal activities	Particulars of issued share capital	Interest held	
				Directly	Indirectly
netalone.com (BVI) Limited	The British Virgin Islands	Investment holding	1 share of US\$1.00 each	100%	—
netalone.com Management Limited	Hong Kong	Provision of management services	2 ordinary shares of HK\$1.00 each	100%	—
innovestor.com Limited	The British Virgin Islands	Investment holding	100 shares of US\$1.00 each	100%	—
PacificLink iMedia Limited	Hong Kong	Multimedia design	1,845 ordinary shares of HK\$1.00 each	—	51%

13 Investments in jointly controlled entities

	2001 HK\$'000	Group 2000 HK\$'000
Share of net assets	2,122	833
Provision for diminution in value	<u>(2,122)</u>	<u>—</u>
	<u>—</u>	<u>833</u>

The principal jointly controlled entity at 31 March 2001 is as follows:

Name	Place of incorporation/ establishment	Principal activities and place of operation	Effective percentage of interests in ownership/ voting power/ profit sharing
izzue.com (Hong Kong) Limited	Hong Kong	Development and operation of a vertical e-commerce Internet portal in the fashion and lifestyle category in Hong Kong	50%

14 Other investments

	2001 HK\$'000	Group 2000 HK\$'000
Listed in Hong Kong	35,410	—
Unlisted	<u>16,346</u>	<u>69,182</u>
Equity securities, at fair value	<u>51,756</u>	<u>69,182</u>
Market value of listed shares	<u>35,410</u>	<u>—</u>

14 Other investments *(continued)*

At 31 March 2001, the carrying amounts of interests in the following companies exceeded 10% of total assets of the Company and the Group respectively:

Name	Place of incorporation	Principal activities	Particulars of issued shares held	Interest held
DigiTel Group Limited	The Cayman Islands	Provision of system integration services	46,592,571 ordinary shares of HK\$0.1 each	5%
POPstar Communications Inc.	The United States of America	Provision of IP-messaging solutions	1,500,000 ordinary shares of US\$0.001 each	7%

15 Deferred development costs

	Group	
	2001 HK\$'000	2000 HK\$'000
At 1 April	4,315	5,702
Additions	—	1,732
Amortisation	—	(2,584)
Disposal of subsidiaries	—	(535)
Write off	(4,315)	—
	<u>—</u>	<u>—</u>
At 31 March	<u>—</u>	<u>4,315</u>

16 Asset held for sale

	Group	
	2001 HK\$'000	2000 HK\$'000
At 1 April, at net realisable value	6,326	—
Sale	(6,326)	—
Transfer from fixed assets	—	16,326
Write down	—	(10,000)
	<u>—</u>	<u>—</u>
At 31 March, at net realisable value	<u>—</u>	<u>6,326</u>

17 Inventories

	2001 HK\$'000	Group 2000 HK\$'000
Raw materials	—	3,563
Work in progress	—	299
Finished goods	—	2,417
	<u>—</u>	<u>6,279</u>
	<u>—</u>	<u>6,279</u>

18 Accounts receivable

The provision of e-business solutions are on open account terms with credit periods ranging from 0 to 30 days. The distribution of consumer electronic products and footwear products is on letters of credit or documents against payment.

At 31 March 2001, the ageing analysis of the trade receivables included in accounts receivable is as follows:

	2001 HK\$'000	Group 2000 HK\$'000
0-30 days	444	1,805
31-90 days	—	156
Over 90 days	—	11,308
	<u>444</u>	<u>13,269</u>
	<u>444</u>	<u>13,269</u>

19 Accounts and bills payable

At 31 March 2001, the ageing analysis of the trade payables included in accounts and bills payable is as follows:

	2001 HK\$'000	Group 2000 HK\$'000
0-30 days	—	900
31-90 days	—	1,219
Over 90 days	—	7,142
	<u>—</u>	<u>9,261</u>
	<u>—</u>	<u>9,261</u>

20 Share capital – Company

(a) Shares

	Ordinary shares of HK\$0.01 each		Convertible cumulative non-voting preference shares of HK\$1.00 each		Convertible cumulative non-voting preference shares of HK\$0.10 each	
	No. of shares	HK\$'000	No. of shares (note 1)	HK\$'000	No. of shares (note 2)	HK\$'000
Authorised :						
At 1 April 1999	1,300,000,000	130,000	100,000,000	100,000	—	—
Reclassification and subdivision	11,700,000,000	—	(35,000,000)	(35,000)	350,000,000	35,000
	13,000,000,000	130,000	65,000,000	65,000	350,000,000	35,000
Cancellation of unissued shares	(10,000,000,000)	(100,000)	(15,000,000)	(15,000)	—	—
At 31 March 2000, 1 April 2000 and 31 March 2001	<u>3,000,000,000</u>	<u>30,000</u>	<u>50,000,000</u>	<u>50,000</u>	<u>350,000,000</u>	<u>35,000</u>
Issued and fully paid:						
At 1 April 1999	229,907,659	22,991	42,218,700	42,219	—	—
Issue of shares	108,500,000	10,850	—	—	—	—
Reduction in share capital from HK\$0.10 each to HK\$0.01 each	—	(30,457)	—	—	—	—
Issue of preference shares of HK\$0.10 each	—	—	—	—	333,333,333	33,333
Issue of ordinary shares of HK\$0.01	75,000,000	750	—	—	—	—
Conversion of preference shares	100,000,000	1,000	—	—	(100,000,000)	(10,000)
Exercise of options	3,200,000	32	—	—	—	—
At 31 March 2000 and 1 April 2000	516,607,659	5,166	42,218,700	42,219	233,333,333	23,333
Issue of ordinary shares of HK\$0.01 each (note 20(a)(3)(i))	23,366,700	234	—	—	—	—
Conversion of preference shares of HK\$1.00 each (note 20(a)(3)(ii) and (iii))	82,000,000	820	(18,040,000)	(18,040)	—	—
Conversion of preference shares of HK\$0.10 each (note 20(a)(3)(ii) and (iv))	115,000,000	1,150	—	—	(115,000,000)	(11,500)
Exercise of options (note 20(a)(3)(v))	5,120,000	51	—	—	—	—
At 31 March 2001	<u>742,094,359</u>	<u>7,421</u>	<u>24,178,700</u>	<u>24,179</u>	<u>118,333,333</u>	<u>11,833</u>

20 Share capital – Company (continued)

(a) Shares (continued)

Notes:

- 1 The terms of the preference shares of HK\$1.00 each are set out in the relevant prospectus dated 3 October 1996 issued by the Company to its shareholders. The holders of the preference shares are entitled to convert their shares into ordinary shares at a conversion price of HK\$0.22 as adjusted. To the extent that the preference shares have not been converted on or prior to 15 October 2001, they shall be, subject to the Act, redeemed at par on 22 October 2001.
- 2 The terms of the preference shares of HK\$0.10 each issued on 17 December 1999 are as follows:
 - (i) the preference shares will be entitled to a cumulative annual dividend of 5% on the principal amount, payable semi-annually in arrears but will not be entitled to any further dividend distribution.
 - (ii) such dividend shall be paid subject to the approval of the board of directors of the Company and the fulfillment of Section 54 of the Act.
 - (iii) the holders of such preference shares will be entitled to convert their shares in multiple of 100,000 into ordinary shares at any time on or prior to the fifth anniversary of the date of issue at a conversion price of HK\$0.30 per share. To the extent that the preference shares have not been converted on or prior to the fifth anniversary of their issue date, they shall be, subject to the Act, redeemed by the Company at the principal amount on that date.
- 3 The movement in the shares during the year were as follows:
 - (i) On 4 May 2000, the Company entered into a share exchange agreement with an independent third party, BroadVision, Inc. ("BroadVision") pursuant to which BroadVision subscribed for 23,366,700 new ordinary shares of HK\$0.01 each in the Company at an issue price of HK\$1.00 per ordinary share. The consideration amounting to HK\$23,366,700 was settled by way of an issue and allotment of 76,665 new shares in BroadVision at an issue price of US\$39.13125 per BroadVision share.
 - (ii) On 13 June 2000, a total of 97,000,000 new ordinary shares of HK\$0.01 each in the Company were issued and allotted upon the conversion of 7,040,000 preference shares of HK\$1.00 each at a conversion price of HK\$0.22 per ordinary share and the conversion of 65,000,000 preference shares of HK\$0.10 each at conversion price of HK\$0.30 per ordinary share.
 - (iii) On 19 June 2000, a total of 50,000,000 new ordinary shares of HK\$0.01 each in the Company were issued and allotted upon the conversion of 11,000,000 preference shares of HK\$1.00 each at a conversion price of HK\$0.22 per ordinary share.
 - (iv) On 30 October 2000, a total of 50,000,000 new ordinary shares of HK\$0.01 each in the company were issued and allotted upon the conversion of 50,000,000 preference shares of HK\$0.10 each at conversion price of HK\$0.30 per ordinary share.
 - (v) During the year, 5,120,000 new ordinary shares of HK\$0.01 each were issued upon the exercise of share options.

20 Share capital – Company (continued)

(b) Share options

The Company adopted on 2 January 1992 a share option scheme under which the directors may, at their discretion, grant options to full time employees, including directors, to subscribe for shares in the Company. The maximum number of shares in respect of which options may be granted under the scheme is limited to 10% of the ordinary shares in issue at the time of granting of the options. At 31 March 2001, the outstanding options were:

Date of grant	Note	Exercise price per share HK\$	Balance outstanding at 1 April 2000	Number of options granted during the year	Number of options cancelled/lapsed during the year	Number of options exercised during the year	Balance outstanding at 31 March 2001
2 October 1999	(1)	0.65	8,800,000	—	(2,000,000)	—	6,800,000
2 October 1999	(2)	0.65	300,000	—	—	(100,000)	200,000
5 January 2000	(3)	2.65	15,635,000	—	(820,000)	—	14,815,000
20 March 2000	(4)	1.32	10,208,000	—	(2,454,000)	—	7,754,000
20 March 2000	(3)	1.32	3,226,000	—	—	—	3,226,000
16 June 2000	(3)	0.93	—	3,728,000	(2,928,000)	—	800,000
16 June 2000	(3)	1.04	—	364,000	(36,000)	—	328,000
7 August 2000	(4)	0.55	—	20,800,000	(350,000)	(1,820,000)	18,630,000
14 August 2000	(4)	0.57	—	1,814,000	(1,584,000)	—	230,000
15 September 2000	(3)	0.44	—	1,320,000	(1,320,000)	—	—
15 September 2000	(4)	0.49	—	20,000	(10,000)	—	10,000
31 October 2000	(4)	0.145	—	9,000,000	—	(3,200,000)	5,800,000
			<u>38,169,000</u>	<u>37,046,000</u>	<u>(11,502,000)</u>	<u>(5,120,000)</u>	<u>58,593,000</u>

Notes:

- The share options are exercisable from the date of grant to 31 December 2001.
- The share options are exercisable from the first anniversary of the date of grant to 31 December 2001.
- The share options are exercisable from the first anniversary of the date of grant to the business day preceding the third anniversary of the date of grant, of which a maximum of 33 1/3 % and 33 1/3% thereof are exercisable from the first and second anniversaries of the date of grant respectively. The remaining 33 1/3% are exercisable within three months before the third anniversary of the date of grant.
- The share options are exercisable from the date of grant to the business day preceding the third anniversary of the date of grant.
- In cases of resignation or termination of employment, the outstanding share options can be exercised within six months from the resignation or termination date provided that the options are exercisable in accordance with the above terms.

21 Reserves/(deficit)

Group

	Contributed surplus HK\$'000	Share premium account HK\$'000	Asset revaluation reserve HK\$'000	Capital reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 April 1999	1,790	117,216	6,378	806	(144,174)	(17,984)
Premium on issue of ordinary shares	—	230,950	—	—	—	230,950
Premium on issue of preference shares	—	66,667	—	—	—	66,667
Share issue expenses	—	(6,404)	—	—	—	(6,404)
Cancellation of share capital on reduction of share capital	30,457	—	—	—	—	30,457
Premium on conversion of preference shares	—	9,000	—	—	—	9,000
Exercise of share options	—	2,049	—	—	—	2,049
Transfer of share premium to contributed surplus	205,584	(205,584)	—	—	—	—
Application of contributed surplus to eliminate accumulated losses	(184,930)	—	—	—	184,930	—
Disposal of subsidiaries	(1,790)	—	(6,378)	—	—	(8,168)
Surplus on revaluation	—	—	16,422	—	—	16,422
Goodwill arising on acquisition of a subsidiary	—	—	—	—	(3,585)	(3,585)
Loss attributable to ordinary shareholders	—	—	—	—	(99,513)	(99,513)
At 31 March 2000 and at 1 April 2000	51,111	213,894	16,422	806	(62,342)	219,891
Premium on issue of ordinary shares (note 20(a)(3)(i))	—	23,133	—	—	—	23,133
Premium on conversion of preference shares (note 20(a)(3)(ii), (iii) and (iv))	—	27,570	—	—	—	27,570
Exercise of share options (note 20(a)(3)(v))	—	1,479	—	—	—	1,479
Disposal of subsidiaries	—	—	(16,422)	(806)	—	(17,228)
Loss attributable to ordinary shareholders	—	—	—	—	(245,469)	(245,469)
At 31 March 2001	<u>51,111</u>	<u>266,076</u>	<u>—</u>	<u>—</u>	<u>(307,811)</u>	<u>9,376</u>
Reserves/(deficit) retained by:						
Company and subsidiaries	51,111	266,076	—	—	(297,733)	19,454
Jointly controlled entities	—	—	—	—	(10,078)	(10,078)
	<u>51,111</u>	<u>266,076</u>	<u>—</u>	<u>—</u>	<u>(307,811)</u>	<u>9,376</u>

21 Reserves/(deficit) (continued)**Company**

	Contributed surplus HK\$'000	Share premium account HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 April 1999	52,489	117,216	(184,930)	(15,225)
Premium on issue of ordinary shares	—	230,950	—	230,950
Premium on issue of preference shares	—	66,667	—	66,667
Share issue expenses	—	(6,404)	—	(6,404)
Cancellation of share capital on reduction of share capital	30,457	—	—	30,457
Premium on conversion of preference shares	—	9,000	—	9,000
Exercise of share options	—	2,049	—	2,049
Transfer of share premium to contributed surplus	205,584	(205,584)	—	—
Application of contributed surplus to eliminate accumulated losses	(184,930)	—	184,930	—
Disposal of subsidiaries	(52,489)	—	—	(52,489)
Loss for the year	—	—	(18,648)	(18,648)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2000 and at 1 April 2000	51,111	213,894	(18,648)	246,357
Premium on issue of ordinary shares (note 20(a)(3)(i))	—	23,133	—	23,133
Premium on conversion of preference shares (note 20(a)(3)(ii),(iii) and (iv))	—	27,570	—	27,570
Exercise of share options (note 20(a)(3)(v))	—	1,479	—	1,479
Loss for the year	—	—	(301,151)	(301,151)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2001	<u>51,111</u>	<u>266,076</u>	<u>(319,799)</u>	<u>(2,612)</u>

22 Notes to the consolidated cash flow statement

(a) Reconciliation of loss before minority interests for the year to net cash (outflow)/inflow from operating activities

	Group	
	2001 HK\$'000	2000 HK\$'000
Loss before minority interests	(246,761)	(98,478)
Interest income	(2,939)	(1,984)
Interest expense	3,494	13,056
Share of loss of jointly controlled entities	6,411	3,667
Provision for diminution in value of jointly controlled entities	2,122	—
Loss on disposal of other investments	30,427	—
Unrealised loss on other investments	34,429	—
Depreciation and amortisation	15,587	15,244
Loss/(gain) on disposal of fixed assets	21,389	(938)
Deficit on revaluation of properties	—	127
Loss/(gain) on disposal of subsidiaries	48,132	(15,919)
Write down of property held for sale	—	1,000
Write down of asset held for sale	—	10,000
Write off of intangible asset	—	28,437
Write off of deferred development costs	4,315	—
Write off of fixed assets	—	904
Write off on inventories	—	763
Provision for doubtful debts	8,096	8,249
Decrease in accounts receivable	201	17,490
Decrease in asset held for sale	6,326	—
Decrease in inventories	2,314	27,264
(Increase)/decrease in prepayments, deposits and other receivables	(6,420)	427
Decrease in amount due from a jointly controlled entity	1,006	—
Increase/(decrease) in accounts and bills payable	947	(5,383)
(Decrease)/increase in accrued liabilities and other payables	(12,514)	19,303
	<u>(83,438)</u>	<u>23,229</u>
Net cash (outflow)/inflow from operating activities	<u>(83,438)</u>	<u>23,229</u>

22 Notes to the consolidated cash flow statement (continued)

(c) Disposal of subsidiaries

	Group	
	2001 HK\$'000	2000 HK\$'000
Net liabilities disposed of:		
Fixed assets	158,990	6,171
Other assets	—	535
Property held for sales	—	20,000
Inventories	3,965	14,663
Accounts receivable	4,528	7,856
Prepayments, deposits and other receivables	16,024	92
Bank and cash balances	11,931	678
Accounts and bills payables	(10,208)	(1,846)
Accrued liabilities and other payables	(16,897)	(7,767)
Obligations under finance leases	(6,036)	—
Short term bank loans, secured	(40,240)	—
Other loans	—	(44,794)
Amounts due to related companies	(784)	(266)
Minority interests	(15,348)	(2,567)
	<u>105,925</u>	<u>(7,245)</u>
Reserves released on disposal:		
Contributed surplus	—	(1,790)
Capital reserves	(806)	—
Asset revaluation reserves	(16,422)	(6,378)
(Loss)/gain on disposal	(48,132)	15,919
	<u>40,565</u>	<u>506</u>
Satisfied by:		
Accrued liabilities and other payables	—	53
Amounts due to related companies	—	1
Cash	40,565	452
	<u>40,565</u>	<u>506</u>
Analysis of net cash inflow/(outflow) in respect of the disposal of subsidiaries :		
	2001 HK\$'000	2000 HK\$'000
Cash consideration received	40,565	452
Bank and cash balances of disposed subsidiaries	(11,931)	(678)
Net cash inflow/(outflow) in respect of the disposal of subsidiaries	<u>28,634</u>	<u>(226)</u>

22 Notes to the consolidated cash flow statement (continued)

(d) Purchase of a subsidiary

	Group 2000 HK\$'000
Net assets acquired:	
Fixed assets	85
Prepayments, deposits and other receivables	6,455
Bank and cash balances	310
Bank overdrafts	(379)
Accrued liabilities and other payables	(167)
Minority interests	(3,089)
	<u>3,215</u>
Goodwill	3,585
	<u><u>6,800</u></u>
Satisfied by:	
Accrued liabilities and other payables	707
Amount due to a subsidiary	6,093
	<u><u>6,800</u></u>
Analysis of the net cash outflow in respect of the purchase of subsidiary :	
	2000 HK\$'000
Bank and cash balances	310
Bank overdrafts	(379)
	<u>(69)</u>
Net cash outflow in respect of the purchase of subsidiary	<u><u>(69)</u></u>

(e) Major non-cash transactions

On 4 May 2000, the Company entered into a share exchange agreement with an independent third party, BroadVision pursuant to which BroadVision subscribed for 23,366,700 new ordinary shares of HK\$0.01 each in the Company at an issue price of HK\$1.00 per ordinary share. The consideration which amounted to HK\$23,366,700 was settled by way of an issue and allotment of 76,665 new shares in BroadVision at an issue price of US\$39.13125 per BroadVision share. Details are set out in note 20(a)(3)(i).

23 Commitments

(a) Commitments under operating leases

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

	2001		2000	
	Land and buildings HK\$'000	Equipment and others HK\$'000	Land and buildings HK\$'000	Equipment and others HK\$'000
Within one year	315	—	—	—
In the second to fifth year inclusive	—	—	6,472	834
	<u>315</u>	<u>—</u>	<u>6,472</u>	<u>834</u>

The Company had no significant commitments under operating leases as at 31 March 2001.

(b) Capital commitments

The Company and the Group had no significant capital commitments as at 31 March 2001.

At 31 March 2000, the Group had capital commitments in respect of purchase of fixed assets are as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
Contracted but not provided for	<u>—</u>	<u>14,571</u>

(c) Financial commitments

The Company and the Group had no significant financial commitments as at 31 March 2001.

At 31 March 2000, the Group had financial commitments to subscribe for 6,500,000 ordinary shares of HK\$1.00 each in a jointly controlled entity at a consideration of HK\$6,500,000.

24 Related party transactions

The following is a summary of significant related party transactions:

	2001 HK\$'000	Group 2000 HK\$'000
Provision of e-business solutions to		
— investee companies	10,139	—
— a jointly controlled entity	<u>5,777</u>	<u>3,930</u>

Provision of e-business solutions to investee companies and a jointly controlled entity were conducted in the normal course of business and at terms mutually agreed between the parties.

25 Comparatives

Certain comparative figures have been reclassified to conform with current year's presentation.

26 Approval of accounts

The accounts were approved by the board of directors on 26 July 2001.