**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold** all your shares in Wireless InterNetworks Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser.

**The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.**

---

Wireless InterNetworks

**Wireless InterNetworks Limited**

**浩宇科技有限公司***

**(Receivers and Managers Appointed)**

*(Incorporated in Bermuda with limited liability)*

CCT TELECOM HOLDINGS LIMITED

**中建電訊集團有限公司***

*(Incorporated in the Cayman Islands with limited liability)*

# DONGGUAN DEFA INVESTMENT LIMITED

*(Incorporated in the British Virgin Islands with limited liability)*

**RESTRUCTURING OF WIRELESS INTERNETWORKS LIMITED INVOLVING, INTER ALIA, CAPITAL RESTRUCTURING, ASSET TRANSFER, SHARE TRANSFER, DEBT RESTRUCTURING INVOLVING SCHEMES OF ARRANGEMENT WITH CREDITORS, SUBSCRIPTION FOR NEW SHARES, ASSET INJECTION INVOLVING A MAJOR TRANSACTION, WHITEWASH WAIVER, GENERAL MANDATES TO ISSUE AND REPURCHASE SHARES AND CHANGE OF NAME TO CCT TECHNOLOGY HOLDINGS LIMITED**

**Financial Advisers to Wireless InterNetworks Limited (Receivers and Managers Appointed)**

KPMG Corporate Finance

**and**

道亨證券有限公司 DaoHengSecurities Ltd.

**Arranger and Manager of the Restructuring Proposal for CCT Telecom Holdings Limited**

Deloitte & Touche Corporate Finance Ltd 德勤企業財務顧問有限公司

**Independent Financial Adviser to the Independent Board Committee**

ANGLO CHINESE CORPORATE FINANCE, LIMITED

---

A letter from Anglo Chinese Corporate Finance, Limited, the Independent Financial Adviser to the Independent Shareholders, containing its recommendations to the Independent Board Committee, is set out on pages 39 to 49 of this circular.

A notice convening the SGM to be held at 2:30 p.m. on Wednesday, 24 April 2002 at Auditorium, 1st Floor, Duke of Windsors Social Service Building, 15 Hennessy Road, Wanchai, Hong Kong, is set out on pages 181 to 186 of this circular. A form of proxy for use at the SGM is enclosed. Regardless of whether you intend to attend the SGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Delivery of a form of proxy will not preclude you from attending and voting in person at the SGM or any adjourned SGM should you so desire.

31 March 2002

* *for identification purposes only*

# CONTENTS

*Page*

**Definitions** ..... 1

**Expected timetable** ..... 9

**Letter from the Board**

1 Introduction and background
- (a) Background ..... 10
- (b) Winding-up petition against the Company and its subsidiary, S.Megga ..... 12
- (c) PRC sealing orders ..... 13
- (d) Summary of the Restructuring Proposal ..... 13

2 The Restructuring Proposal
- (a) Capital Restructuring ..... 14
- (b) Debt Restructuring ..... 15
- (c) Asset Transfer and Share Transfer ..... 17
- (d) Subscription ..... 17
- (e) Asset Injection ..... 18

3 S. Megga's unsecured indebtedness and the S. Megga Scheme ..... 19

4 New Notes ..... 19

5 Conditions precedent to the Restructuring Agreements ..... 20

6 Completion of the Restructuring Agreements ..... 21

7 Escrow moneys ..... 21

8 Effects of the Restructuring Proposal on:
- (a) Share capital ..... 21
- (b) 3-Year Notes and 7-Year Notes ..... 21
- (c) Share options ..... 21
- (d) Shareholding structure ..... 21
- (e) Dilution of Shareholders' interests ..... 23
- (f) Net assets ..... 23

9 Use of proceeds from the Subscription ..... 23

10 Directors and management ..... 23

11 Reasons for the Restructuring of the Group ..... 24

12 Intentions of the Investors ..... 24

13 General Mandates to issue and repurchase Shares ..... 25

14 Change of name of the Company ..... 25

15 General ..... 26

16 Trading arrangements
- (a) Documents of title ..... 26
- (b) Trading arrangement ..... 27
- (c) Facilities for odd lot holders ..... 27

17 Special General Meeting ..... 28

18 Recommendations ..... 28

19 Additional information ..... 28

**Letter from the Investors** ..... 29

# CONTENTS

*Page*

**Letter from the Independent Board Committee** ..... 38

**Letter from the Independent Financial Adviser** ..... 39

**Appendix I – Financial information of the Group** ..... 50

**Appendix II – Accountants' report on ESL** ..... 147

**Appendix III – Explanatory statement** ..... 168

**Appendix IV – General information** ..... 172

**Notice of special general meeting** ..... 181

| | |
|---|---|
| ''3-Year Notes'' | the outstanding HK$60 million zero coupon secured convertible notes due 2003, convertible at a conversion price of HK$0.02 per Share, created by the Company and issued as of 21 July 2000 |
| ''7-Year Notes'' | the outstanding HK$30 million zero coupon secured convertible notes due 2007, convertible at a conversion price of HK$0.10 per Share, created by the Company and issued as of 21 July 2000 |
| ''Anglo Chinese'' or ''Independent Financial Adviser'' | Anglo Chinese Corporate Finance, Limited, an investment adviser and dealer registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong) and the independent financial adviser giving advice to the Independent Board Committee in relation to the Restructuring Agreements and the Whitewash Waiver |
| ''Announcement'' | the joint announcement of the Company and the Investors dated 20 September 2001 in relation to the financial restructuring of the Company |
| ''Asset Injection'' | the acquisition of the Sale Shares from CCT by the Company pursuant to the Injection Agreement |
| ''Asset Transfer'' | the transfer pursuant to the terms of the Asset Transfer Agreement of goodwill, customer lists and records, computer hardware, software licences/maintenance contracts, employees and intellectual property, each of which is secured under the Debenture from S.Megga, to another subsidiary of the Company |
| ''Asset Transfer Agreement'' | an agreement entered into on 21 September 2001 between, inter alia, S.Megga and another subsidiary of the Company to implement the Asset Transfer |
| ''associate(s)'' | has the meaning ascribed thereto under the Listing Rules |
| ''Authorised Share Capital Increase'' | the increase of the authorised share capital of the Company from HK$78,703,323.20 to HK$150,000,000 divided into 15,000,000,000 New Shares immediately upon the Share Consolidation becoming effective |
| ''Bank Creditors'' | the creditor banks of the Group as at the date of the completion of the Original Debt Restructuring (which formerly consisted of five banks in Hong Kong) to whom the Group owed unsecured debts in Hong Kong |
| ''Board'' | the board of Directors |
| ''Building'' | the S.Megga Building, 1-11 Kwai Hei Street, Kwai Chung, New Territories, Hong Kong |
| ''BVI'' | the British Virgin Islands |

| | |
|---|---|
| ''CCASS'' | The Central Clearing and Settlement System established and operated by Hongkong Clearing |
| ''CCT'' | CCT Telecom Holdings Limited, a company incorporated in the Cayman Islands with limited liability and the securities of which are listed on the Stock Exchange |
| ''Capital Reduction'' | the reduction of the nominal value of each issued Existing Share from HK$0.02 to HK$0.001 and the subdivision of each unissued Existing Share into 20 Shares of HK$0.001 each |
| ''Capital Restructuring'' | the Capital Reduction, the Share Consolidation and the Authorised Share Capital Increase |
| ''Code'' | the Hong Kong Code on Takeovers and Mergers |
| ''Companies Act'' | the Companies Act 1981 of Bermuda (as amended) |
| ''Companies Ordinance'' | the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) |
| ''Company'' | Wireless InterNetworks Limited (Receivers and Managers Appointed), a company incorporated in Bermuda with limited liability and the securities of which are listed on the Stock Exchange |
| ''Company Creditors' Meeting'' | a meeting of the Company's unsecured creditors convened at the direction of the Court and which was held on 11 January 2002 for the purpose of considering, and if thought fit, approving the Company Scheme |
| ''Company Scheme'' | the scheme of arrangement under section 166 of the Companies Ordinance between the Company and its unsecured creditors, with or subject to any modification thereof or addition thereto or condition approved or imposed by the Court |
| ''Completion'' | Completion of the Restructuring Agreements |
| ''Compromise Agreement'' | the conditional agreement dated 10 August 2001 between, among others, the Company, the Receivers, the Security Trustee and the Investors in respect of, inter alia, the compromise of the amounts due under the Notes (as amended from time to time) |
| ''Court'' | The High Court of Hong Kong |
| ''Creditors' Meetings'' | the Company Creditors' Meeting and the S.Megga Creditors' Meeting |
| ''Dao Heng Securities'' | Dao Heng Securities Limited, an investment adviser registered pursuant to the Securities Ordinance (Chapter 333 of the Laws of Hong Kong) and the financial adviser to the Company |

| | |
|---|---|
| ''Debenture'' | the composite guarantee and debenture dated 21 July 2000 and made between certain members of the Group and the Security Trustee granting fixed and floating charges over the assets of those companies as security, inter alia, for the repayment obligations of the Company under the Notes |
| ''Debt Restructuring'' | the Notes Restructuring Offer and the Company Scheme |
| ''Deed of Settlement'' | a deed of settlement dated 10 January 2002 entered into between Paul Leung, the Company, Charmgold Development Limited (Receivers and Managers Appointed), a wholly-owned subsidiary of the Company, and the Receivers, relating, inter alia, to the release and waiver by Paul Leung of all claims which he may have against the Company, other members of the Group, the Receivers and/or the Security Trustee, including the withdrawal of the Second Leung Winding-Up Petition |
| ''Defa'' | Dongguan Defa Investment Limited, an investment holding company incorporated in the BVI with limited liability |
| ''Director(s)'' | the directors of the Company |
| ''Dongguan S.Megga'' | Dongguan S.Megga Telecommunications Limited, an equity joint venture established in the PRC in which S.Megga is interested in approximately 70% of its issued capital |
| ''Enlarged Group'' | the Group as enlarged upon Completion by the acquisition of the Sale Shares |
| ''ESL'' | Electronic Sales Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of CCT |
| ''ESL Group'' | Electronic Sales Limited and its subsidiaries |
| ''Executive'' | the executive director of the Corporate Finance Division of the SFC or any delegate of such executive director |
| ''Existing Shares'' | as the context may require, existing issued and/or unissued shares of HK$0.02 each in the capital of the Company prior to the Capital Reduction becoming effective |
| ''First Deed of Modification'' | a deed of modification entered into on 11 October 2001 between the parties to the Compromise Agreement to amend certain of its provisions in relation to the Company Scheme |
| ''First Leung Winding-up Petition'' | the winding-up petition presented by Paul Leung against the Company on 16 August 2001 |
| ''GPI'' | GPI International Limited |

| | |
|---|---|
| ''Group'' | the Company and its subsidiaries |
| ''Hong Kong'' | the Hong Kong Special Administrative Region of the PRC |
| ''Hongkong Clearing'' | the Hong Kong Securities Clearing Company Limited |
| ''Horsford'' | Horsford Nominees Limited |
| ''Independent Board Committee'' | the independent committee of the Board consisting of both of the independent non-executive Directors, who are Mr. Gerald Clive Dobby and Mr. Wu Sai Wing |
| ''Independent Shareholders'' | the Shareholders, other than Kit Iu, its associates and parties acting in concert with it |
| ''Injection Agreement'' | the conditional agreement dated 10 August 2001 between the Company, the Receivers and CCT in respect of the transfer of the Sale Shares |
| ''Investors'' | CCT and Defa |
| ''June 14th Circular'' | the circular of the Company issued to the Shareholders on 14th June 2000 containing details of, inter alia, the Original Debt Restructuring |
| ''Kit Iu'' | Kit Iu Limited, a company incorporated in the BVI which according to the disclosure made to the Company under the SDI Ordinance, is held as to its entire issued share capital by the trustee of a discretionary trust, whose beneficiaries include Mr. Paul Leung, Mr. Winston Leung and Mr. Howard Leung |
| ''KPMG Corporate Finance'' | KPMG Corporate Finance Limited, an investment adviser registered pursuant to the Securities Ordinance (Chapter 333 of the Laws of Hong Kong) and the financial adviser to the Company |
| ''Latest Practicable Date'' | 27 March 2002, being the latest practicable date prior to the printing of this circular for ascertaining certain information referred to in this circular |
| ''Listing Rules'' | the Rules Governing the Listing of Securities on the Stock Exchange |
| ''Modified Debt Restructuring Agreement'' | a debt restructuring agreement dated 21 July 2000 amending and supplementing the provisions of the Original Debt Restructuring Agreement, and made between the same parties thereto |
| ''New Notes'' | the HK$45 million convertible notes due 2004 to be created by the Company and subscribed by CCT at Completion |
| ''New Shares'' | new ordinary shares of HK$0.01 each in the capital of the Company upon the Share Consolidation becoming effective |

| | |
|---|---|
| ''Noteholders'' | the registered holders of the Notes |
| ''Notes'' | the 3-Year Notes and the 7-Year Notes |
| ''Notes Restructuring Offer'' | the proposal in respect of the Notes as set out in the paragraph headed ''Noteholders'' in the ''Letter from the Board'' in this circular |
| ''Original Debt Restructuring'' | the Company's debt restructuring pursuant to the terms of the Original Debt Restructuring Agreement (as modified by the Modified Debt Restructuring Agreement) |
| ''Original Debt Restructuring Agreement'' | a debt restructuring agreement dated 6 November 1999 entered into between the Bank Creditors, a secured bank creditor, the Company and certain of its subsidiaries in relation to the debt restructuring of bank debts owed to the Bank Creditors and the secured bank creditor |
| ''Paul Leung'' | Paul Leung Ho Man, the former Chairman of the Company |
| ''PRC'' | the People's Republic of China which, for the purpose of this circular, excludes Hong Kong and the Macau Special Administrative Region of the People's Republic of China and Taiwan |
| ''Property'' | Space B on ground floor, workshops A and B on 1st, 2nd, 3rd, 4th, 6th, 12th and 13th floors, canteen A and workshop B on the 5th floor (including the flat roofs on the 1st, 2nd, 3rd and 13th floors), the main roof, the external walls, parking spaces Nos. P5-P11, V1, V2, V6, V7 and V8 and container parking space No. C1 on ground floor of the Building and all rights benefits and interests of S.Megga Estate of and in Kwai Chung Town Lot No. 338 and the Building and the fixtures |
| ''Receivers'' | Messrs. Paul Jeremy Brough and Nicholas Peter Etches of KPMG, Hong Kong, acting as the joint and several receivers and managers of the Company, of S.Megga and certain other members of the Group without personal liability |
| ''Reduced Shares'' | the ordinary shares of HK$0.001 each in the capital of the Company created upon the Capital Reduction becoming effective |
| ''Relevant Period'' | the period that commenced on 20 March 2001 (being the date of the commencement of the six month period prior to the date of the Announcement) and ended on the Latest Practicable Date |
| ''Repurchase Mandate'' | the repurchase mandate to be adopted by the Company as detailed under the paragraph headed ''13 General Mandates to issue and repurchase Shares'' in the ''Letter from the Board'' in this circular |

| | |
|---|---|
| ''Restructuring Agreements'' | the Compromise Agreement, the Injection Agreement and the Subscription Agreement |
| ''Restructuring Proposal'' | the Capital Restructuring, the Debt Restructuring, the Subscription, the Asset Injection and the Asset Transfer |
| ''S.Megga'' | S.Megga Telecommunications Limited (Receivers and Managers Appointed), a company incorporated in Hong Kong and an indirect wholly-owned subsidiary of the Company |
| ''S.Meggatel'' | S.Meggatel (BVI) Limited (Receivers and Managers Appointed), a company incorporated in the BVI and a wholly-owned subsidiary of the Company |
| ''S.Megga Creditors' Meeting'' | a meeting of S.Megga's unsecured creditors convened at the direction of the Court and which was held on 11 January 2002 for the purpose of considering, and if thought fit, approving the S.Megga Scheme |
| ''S.Megga Estate'' | S.Megga Estate Management Company Limited (Receivers and Managers Appointed), a company incorporated in the Hong Kong and a wholly-owned subsidiary of the Company |
| ''S.Megga Scheme'' | the scheme of arrangement under section 166 of the Companies Ordinance between S.Megga and its unsecured creditors, with or subject to any modification thereof or addition thereto or condition approved or imposed by the Court |
| ''S.Megga Scheme Cash'' | HK$2,000,000 in cash (after deducting the costs necessarily and reasonably incurred in preparing and implementing the S.Megga Scheme) to be made available to S.Megga under the terms of the Asset Transfer Agreement |
| ''S.Megga Scheme Consideration'' | the S. Megga Scheme Cash and the S. Megga Scheme Shares |
| ''S.Megga Scheme Shares'' | 100,000,000 New Shares to be allotted and issued to S.Megga (or as the Receivers may direct) under the terms of the Asset Transfer Agreement, and which subject to the S.Megga Scheme becoming effective are to be distributed to S.Megga's unsecured creditors |
| ''S.Megga Trading'' | S.Megga Trading Company Limited (Receivers and Managers Appointed), a company incorporated in the Hong Kong and a wholly-owned subsidiary of the Company |
| ''Sale Shares'' | the entire issued share capital of ESL |
| ''SCB'' | Standard Chartered Bank, Hong Kong Branch |
| ''SDI Ordinance'' | the Securities (Disclosure of Interest) Ordinance (Chapter 396 of the Laws of Hong Kong) |

| | |
|---|---|
| ''Second Deed of Modification'' | a deed of modification entered into on 27 December 2001, by which the Compromise Agreement was amended to extend the long stop date for the satisfaction of the conditions precedent contained in the Compromise Agreement to 31 March 2002 |
| ''Second Leung Winding-up Petition'' | the winding-up petition presented by Paul Leung against the Company on 25 September 2001 |
| ''Security Trustee'' | Standard Chartered Bank, Hong Kong Branch, in its capacity as agent and trustee for the Noteholders under the Debenture |
| ''Service Agreement'' | the service agreement dated 7 May 1998 made between the Company, S.Megga and Paul Leung (as amended by an appendum (referred to in paragraph (9) headed ''Material Contracts'' in Appendix IV to this circular)) by which Paul Leung was appointed chairman of the Company and the managing director of S.Megga |
| ''SFC'' | the Securities and Futures Commission |
| ''SGM'' | the special general meeting of the Company to be held for the purpose of passing the relevant resolutions pursuant to the Restructuring Agreements and the proposed change of name, the notice of which is set out on pages 181 to 186 of this circular |
| ''Share'' or ''Shares'' | the Existing Shares, the Reduced Shares or the New Shares, as the case may be |
| ''Share Consolidation'' | the consolidation of every 10 Reduced Shares into 1 New Share |
| ''Share Transfer'' | the transfer of the Transfer Shares pursuant to the term of the Note Restructuring Offer by a subsidiary of the Company to a company beneficially owned by the Receivers, to be held on trust for the Noteholders |
| ''Shareholder(s)'' | the holder(s) of Shares |
| ''Shortfall'' | has the meaning ascribed thereto in the paragraph headed ''Noteholders'' in the ''Letter from the Board'' in this circular |
| ''Stock Exchange'' | The Stock Exchange of Hong Kong Limited |
| ''Subscription'' | the subscription for 2,000,000,000 New Shares each by CCT and Defa pursuant to the terms and conditions of the Subscription Agreement |
| ''Subscription Agreement'' | the conditional agreement dated 10 August 2001 between the Company, the Receivers and the Investors in respect of the Subscription |

| | |
|---|---|
| ''Success Manor'' | Success Manor Investment Limited (In Liquidation), a 50% owned associated company of the Group incorporated in Hong Kong with limited liability |
| ''Swiss Noteholders'' | the holders of the Swiss Notes |
| ''Swiss Notes'' | the US$47.5 million 2.5% convertible loan notes due 2002 issued by the Company on 4 January 1994 and which were mandatorily converted on 21 July 2000 |
| ''Third Deed of Modification'' | a deed of modification entered into on 27 March 2002, by which the Compromise Agreement was amended to extend the long stop date for the satisfaction of the conditions precedent contained in the Compromise Agreement, to 10 May 2002 |
| ''Transfer Shares'' | 10 ordinary voting shares of HK$100 each in the existing issued share capital of S.Megga, being all of the issued ordinary voting share capital of S.Megga |
| ''Whitewash Waiver'' | a waiver by the Executive pursuant to Note 1 of the Notes on dispensations from Rule 26 of the Code from the obligation of the Investors and parties acting in concert with them to make a general offer for all the New Shares not already owned or agreed to be acquired by them upon completion of the Restructuring Agreements |
| ''HK$'' | Hong Kong dollars and cents |
| ''US$'' | United States dollars and cents |
| ''%'' | per cent. |

2002

Approval from the Bermuda Monetary Authority ..... Monday, 15 April

Latest time for lodging forms of proxy for the SGM ..... 2:30 p.m. on Monday, 22 April

SGM ..... 2:30 p.m. on Wednesday, 24 April

Noteholders' meeting to approve the Notes Restructuring Offer ..... 4:00 p.m. on Wednesday, 24 April

Announcement of results of the SGM and the meeting of the Noteholders ..... Thursday, 25 April

Capital Restructuring becomes effective ..... Thursday, 2 May

Completion of the Restructuring Agreements ..... Thursday, 2 May

The Company Scheme becomes effective ..... Thursday, 2 May

Announcement of completion of the Restructuring Agreements, and of the Company Scheme becoming effective ..... Friday, 3 May

Resumption of trading in New Shares ..... Friday, 3 May

Existing counter for trading in Existing Shares in board lots of 2,000 Existing Shares closes ..... Friday, 3 May

Temporary counter for trading in New Shares in board lots of 200 New Shares (in the form of existing share certificates) opens ..... Friday, 3 May

First day of free exchange of existing share certificates for new share certificates for New Shares ..... Friday, 3 May

Existing counter for trading in New Shares in board lots of 2,000 New Shares (in the form of new shares certificates) re-opens ..... Friday, 17 May

Parallel trading in New Shares (in the form of new share certificates and existing share certificates) starts ..... Friday, 17 May

Temporary counter for trading in New Shares in board lots of 200 New Shares (in the form of existing share certificates) closes ..... Monday, 10 June

Parallel trading in New Shares (in the form of new share certificates and existing share certificates) ends ..... Monday, 10 June

Free exchange of existing share certificates for new share certificates for New Shares ends ..... Thursday, 13 June




# Wireless InterNetworks Limited
# 浩宇科技有限公司*

**(Receivers and Managers Appointed)**

*(Incorporated in Bermuda with limited liability)*

*Executive Director:*
Mr. Leung Howard

*Independent non-Executive Directors:*
Mr. Gerald Clive Dobby
Mr. Wu Sai Wing

*Registered Office:*
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

*Principal Place of Business:*
8/F Prince's Building
Chater Road
Central, Hong Kong

31 March 2002

*To the Shareholders of*
*Wireless InterNetworks Limited*
*(Receivers and Managers Appointed)*

Dear Sir or Madam,

**RESTRUCTURING OF**
**WIRELESS INTERNETWORKS LIMITED**
**INVOLVING, INTER ALIA, CAPITAL RESTRUCTURING,**
**ASSET TRANSFER, SHARE TRANSFER,**
**DEBT RESTRUCTURING INVOLVING**
**SCHEMES OF ARRANGEMENT WITH THE CREDITORS,**
**SUBSCRIPTION FOR NEW SHARES,**
**ASSET INJECTION INVOLVING A MAJOR TRANSACTION,**
**WHITEWASH WAIVER, GENERAL MANDATES TO ISSUE**
**AND REPURCHASE SHARES AND**
**CHANGE OF NAME TO CCT TECHNOLOGY HOLDINGS LIMITED**

## 1. Introduction and background

### (a) Background

The Receivers and the respective boards of directors of the Company and of each of the Investors jointly announced on 20 September 2001 that the Restructuring Agreements, which consist of the Compromise Agreement, the Subscription Agreement and the Injection Agreement, were executed on 10 August 2001. The Announcement sets out the essential terms and conditions of the financial restructuring of the Company and of the Restructuring Agreements, and explains the effect of the Restructuring Proposal on the Company.

* *for identification purposes only*

The principal activities of the Group are the manufacturing and development of telecommunication products which were mainly sold in Europe. The Group had been in financial difficulties since 1997 due to insufficient financial support and global material shortage, since when, the Group's financial and trading position further deteriorated. In 1998, the Group started to work with the Bank Creditors and the Swiss Noteholders to restructure its indebtedness. The Group entered into an informal standstill arrangement with its Bank Creditors and the Swiss Noteholders with a view to implementing a financial restructuring. During the standstill period, the Group made substantial efforts to locate an investor willing to provide financial support to the Group. However, in the prevailing Asian economic downturn, the Group was unable to identify any investor who was prepared to rescue the Group from its financial difficulties on terms acceptable to the banks and financial institutions.

Accordingly, the Group had limited alternatives and proposed a ''self-rescue'' to its Bank Creditors and other financial creditors which, if implemented, would enable the Group to formulate a longer term restructuring. On 6 November 1999, the Group and its bank and financial creditors entered into the Original Debt Restructuring Agreement to implement the ''self-rescue''. The Original Debt Restructuring Agreement lapsed on 22 December 1999 as a number of conditions precedent were not satisfied and further negotiations commenced between the relevant parties. Subsequently, in around May 2000, the parties agreed to reinstate and modify the terms of the Original Debt Restructuring Agreement.

On 21 July 2000, the Company, the Bank Creditors and the Swiss Noteholders entered into the Modified Debt Restructuring Agreement under which each of the Bank Creditors and the Swiss Noteholders compromised their respective indebtedness into the 3-Year Notes, the 7-Year Notes and a certain number of Shares. The implementation of the Modified Debt Restructuring Agreement enhanced the financial positions of the Company and the Group significantly. Had the Modified Debt Restructuring Agreement not been achieved the Group and, in particular, the Company would not have been in a position to continue its business.

Upon completion of the Modified Debt Restructuring, Horsford, acting as the nominee for SCB, became the single largest Shareholder and Noteholder. The Notes issued by the Company are secured by the Debenture. The Debenture includes fixed and floating charges over, inter alia, all the property and assets of the Company and a guarantee of the obligations of the Company in respect of the Notes by other members of the Group.

After the completion of the Modified Debt Restructuring Agreement, the Group continued to operate under an extremely tight cashflow position, and, given market condition, its business operation continued to deteriorate and failed to generate sufficient cash to provide it with working capital. Ultimately, as a result of breaches of each of the Modified Debt Restructuring Agreement and the Debenture, the Security Trustee issued a letter of demand and declaration to each member of the Group to formally record and declare that events of default had arisen under the terms of the Debenture and that the security constituted by the Debenture had become enforceable immediately. Subsequently, two default redemption notices (one relating to the 3-Year Notes and one relating to the 7-Year Notes) were issued in accordance with the terms of the Notes stating that certain events of default had arisen and that the Notes were in default and were immediately repayable.

On 13 February 2001, SCB as Security Trustee pursuant to the term of the Debenture, appointed Messrs. Paul Jeremy Brough and Nicholas Peter Etches of KPMG as the joint and several receivers and managers of S.Megga. Trading of the Shares has been suspended since

2:30 p.m. on 12 February 2001. On 12 March 2001, pursuant to the terms of the Debenture, the Security Trustee appointed Messrs. Paul Jeremy Brough and Nicholas Peter Etches as the joint and several receivers and managers of the Company. Details of the two appointments were set out in the announcements of the Company dated 14 February 2001 and 19 March 2001, respectively. On 9 August 2001, Mr. Paul Jeremy Brough and Mr. Nicholas Peter Etches of KPMG were also appointed as the joint and several receivers and managers of the other members of the Group (which were not at that time in receivership). The Receivers were appointed to, inter alia, enforce and preserve the security granted pursuant to the Debenture and have power under the terms of the Debenture and by law to continue the operations of the Company and to sell or otherwise realise for the benefit of the Security Trustee all of the assets of the Company charged under the terms of the Debenture.

On 4 June 2001, the Company announced the appointment of Mr. Gerald Clive Dobby and Mr. Wu Sai Wing as independent non-executive Directors, and the removal of Mr. Paul Leung from his directorship of the Company.

On 18 June 2001, the Company announced that the Receivers and the principal shareholder have received proposals from a number of potential investors, which included proposals for the restructuring of the Company.

As set out in the Announcement, after detailed arm's length negotiation, the Restructuring Agreements were entered into between among others, CCT, the Company and the Receivers on 10 August 2001.

**(b) Winding-up petition against the Company and its subsidiary, S.Megga**

**(i) Against S.Megga**

On 12 February 2001, GPI filed a winding-up petition against S.Megga in respect of outstanding indebtedness of US$177,197, representing the price of goods sold and delivered by GPI to S.Megga. The most recent hearing of the winding-up petition was fixed for 22 October 2001, but with the consent of S.Megga and GPI, the hearing was vacated. Application was made to the Court for sanction of the S.Megga Scheme to be heard on 1 March 2002. On 1 March, the Court adjourned the hearing until 25 March 2002. On 25 March 2002, the Court further adjourned the hearing to a date to be fixed. If the order of the Court is granted to sanction the S.Megga Scheme, the winding up petition will be required to be withdrawn and the claim brought by GPI will be dealt with under the terms of the S.Megga Scheme.

**(ii) Against the Company**

The First Leung Winding-Up Petition which was presented by Paul Leung against the Company on 16 August 2001, and which was made in respect of salary and other benefits alleged to be owed to him by the Company, was subsequently withdrawn by Paul Leung by the filing of a consent order made by the Court on 29 November 2001.

The Second Leung Winding-Up Petition was presented by Paul Leung against the Company on 25 September 2001 and was made in respect of similar matters to those contained in the First Leung Winding Up Petition. The Second Leung Winding Up Petition was dismissed by the Court on 21 January 2002 by agreement under the terms of the Deed of Settlement.

**(c) PRC sealing orders**

In February 2001, the joint venture partner of Dongguan S.Megga took legal action against S.Megga at The People's Court, Dongguan, for the outstanding management fees, rents and processing fees. Since then, a total of 19 demands have been served on S.Megga and Dongguan S.Megga at The People's Court, Dongguan, of which five were presented by the Hong Kong based creditors of Dongguan S.Megga and four had already obtained sealing orders on certain assets located in the Dongguan factory. As at the Latest Practicable Date, three auctions had been held on 14 December 2001, 4 January 2002 and 25 January 2002 to dispose of certain assets in the Dongguan factory. No bid had been received during the auctions. A fourth auction was held on 28 February 2002 and certain assets, which **do not form part of the Restructuring Proposal and will not be acquired by the Investors under the Restructuring Proposal**, have been disposed of by the People's Court, Dongguan.

**(d) Summary of the Restructuring Proposal**

The Restructuring Proposal involves the following steps:

(i) the Investors will subscribe for 4,000,000,000 New Shares for HK$40 million in cash to be issued at a price per New Share equal to their nominal value;

(ii) the Company will acquire ESL at a consideration of HK$70 million, to be satisfied by the allotment and issue of 2,500,000,000 New Shares to be issued, at a price equal to their nominal value with the balance of the consideration to be satisfied by the issue of the New Notes;

(iii) the Asset Transfer from S.Megga to another subsidiary of the Company;

(iv) the Share Transfer from the Company to a company beneficially owned by the Receivers, to be held by it as trustee for the Noteholders;

(v) the Noteholders' indebtedness of approximately HK$63.7 million will be released and discharged entirely (as detailed under the paragraph headed ''Debt Restructuring'' in the section headed ''The Restructuring Proposal'' in this letter); and

(vi) the unsecured indebtedness of the Company of approximately HK$38.5 million will be compromised under the Company Scheme;

Immediately upon completion of the Restructuring Agreements,

(i) the consolidated net tangible asset value of the Group will be increased. As at 30 September 2001, the consolidated net liabilities of the Group were HK$50.4 million whereas immediately following Completion, the proforma consolidated net tangible asset value of the Group will be approximately HK$20.0 million;

(ii) the Investors, together with parties acting in concert with them, will be interested in an aggregate of approximately 71.76% of the enlarged issued share capital of the Company before conversion of the New Notes; and

(iii) the interest of Paul Leung, and parties acting in concert with him, in the issued share capital of the Company, will be reduced from approximately 2.21% to approximately 0.15% of the enlarged issued share capital of the Company immediately upon Completion and before conversion of the New Notes.

The purpose of this circular is to provide you with further information relating to the Restructuring Proposal, including a letter from the Investors, the advice of Anglo Chinese to the Independent Board Committee in respect of the Restructuring Agreements and the Whitewash Waiver, and a notice of the SGM at which resolutions will be proposed to seek your approval of, among other things, (i) the Capital Restructuring; (ii) the Debt Restructuring; (iii) the Subscription; (iv) the Asset Injection; (v) the issue of New Shares and New Notes; (vi) the Whitewash Waiver; (vii) the granting of general mandates to the Directors to issue and repurchase New Shares; and (viii) the change of name of the Company as set out in the notice of the SGM.

## 2 The Restructuring Proposal

The Restructuring Proposal involves the proposed Capital Restructuring, the Debt Restructuring, the Subscription and the Asset Injection. The Capital Restructuring will involve the Capital Reduction, the Share Consolidation and the Authorised Share Capital Increase. The Debt Restructuring will involve Notes Restructuring Offer and the Company Scheme. The S.Megga Scheme is separated from, and does not form part of, the Restructuring Proposal.

### (a) Capital Restructuring

The existing authorised share capital of the Company is HK$200,000,000 comprising 10,000,000,000 Existing Shares. The existing issued share capital of the Company is HK$127,680,712.42 comprising 6,384,035,621 Existing Shares.

Under the Restructuring Proposal, the Company's share capital will be restructured by way of the Capital Reduction, the Share Consolidation and the Authorised Share Capital Increase, each of which will occur in that order immediately before Completion.

#### (i) Capital Reduction

The par value of each of the issued Existing Shares will be reduced by HK$0.019 to HK$0.001 and each of the unissued Existing Shares will be sub-divided into 20 shares of HK$0.001 each. The Company's issued share capital of HK$127,680,712 comprising 6,384,035,621 Existing Shares will be reduced by HK$121,296,677 to HK$6,384,035 comprising 6,384,035,621 Reduced Shares.

The entire credit balance of HK$121,296,677 arising in the Company books from the Capital Reduction shall be applied to write off part of the brought forward accumulated losses of the Company .

#### (ii) Share Consolidation

Immediately upon the Capital Reduction becoming effective, every ten Reduced Shares will be consolidated into one New Share. The issued share capital of the Company comprising 6,384,035,621 Reduced Shares will be consolidated into 638,403,562 New Shares.

#### (iii) Authorised Share Capital Increase

Immediately upon the Share Consolidation becoming effective, the Company's authorised share capital will be increased from HK$78,703,323 (made up of 638,403,562

issued New Shares and 7,231,928,738 unissued New Shares) to HK$150,000,000 divided into 15,000,000,000 New Shares. As a result, the new authorised share capital will comprise 638,403,562 issued New Shares and 14,361,596,438 unissued New Shares immediately upon the Authorised Share Capital Increase becoming effective, but prior to the issue and allotment of any New Shares.

Each of the Capital Reduction, the Share Consolidation and the Authorised Share Capital Increase will be subject to the passing of the necessary resolutions by the Shareholders at the SGM.

**(b) Debt Restructuring**

As at the Latest Practicable Date, the total indebtedness owed by the Company and S.Megga to their creditors was approximately HK$1,059.0 million, of which HK$76.7 million was owed by the Company and the balance of HK$982.3 million was owed by S.Megga. The total indebtedness of HK$76.7 million of the Company comprises the indebtedness owed to the Noteholders of approximately HK$63.7 million and the balance of approximately HK$13 million was owed to other unsecured creditors. In consideration of the Notes issued to the Noteholders in July 2000, the Debenture was entered into on 21 July 2000 between certain members of the Group and the Security Trustee in which fixed and floating charges over the assets of those companies were granted to the Security Trustee as trustee for the Noteholders as security, inter alia, for the repayment of obligations of the Company under the Notes.

**(i) Noteholders**

As at the Latest Practicable Date, the Company was indebted to the Noteholders for approximately HK$63.7 million. The Notes are registered in the names of four separate holders being: DB Nominees (Hong Kong) Limited, HSBC Nominees (Hong Kong) Limited, Horsford Nominees Limited and Peter Reichenbach. DB Nominees (Hong Kong) Limited and HSBC Nominees (Hong Kong) Limited hold the Notes as nominees of each of Clearstream Services, Luxemburg, and Euroclear Brussels on behalf of unidentifiable beneficial owners. The Notes Restructuring Offer will be made to the Noteholders for the restructuring and compromise of the Company's indebtedness to them which, if accepted, will result in the Security Trustee releasing its security under the Debenture. The terms of the Notes Restructuring Offer will be as follows:

(A) an amount of HK$38.2 million will be paid by the Company upon Completion to be satisfied as to HK$20 million in cash from the proceeds of the Subscription and as to the balance by the issue of 1,820,000,000 New Shares to the Noteholders in each case pro-rata to the amount of the debt owed to each Noteholder. If at any time after the signing of the Restructuring Agreements, a Noteholder exercises its right of conversion attaching to the Notes of which it is the registered holder, its entitlement to a pro-rata portion of the cash amount and if exhausted, then its entitlement to a pro-rata portion of the New Shares, in that order, will be reduced by HK$0.01, or one New Share, as the case may be, for every HK$0.01 principal amount of the Notes so converted;

(B) the transfer of the Transfer Shares, being the entire issued voting share capital of S.Megga, by a subsidiary of the Company to a company beneficially owned by the Receivers, to be held by it as trustee for the Noteholders; and

(C) the resultant shortfall of approximately HK$25.5 million from the total indebtedness due to the Noteholders (the ''Shortfall'') will form part of the Company's unsecured indebtedness and will be compromised under the Company Scheme together with the indebtedness of the Company's unsecured creditors, details of which are referred to in (b)(ii) below.

For the purposes of the Company Scheme, the Company's assets charged under the Debenture for the benefit of the Noteholders, as secured creditors of the Company, will be treated as having a value of approximately HK$40.5 million by incorporating the value of the payment of HK$38.2 million to be made by the Company to the Noteholders under the Notes Restructuring Offer. Accordingly, subject to the approval by the Noteholders of the Notes Restructuring Offer and to Completion, the amount of the Shortfall will have been reduced from approximately HK$25.5 million to approximately HK$23.2 million (the ''Adjusted Shortfall''), and consequently the total unsecured indebtedness will have been reduced from approximately HK$38.5 million to approximately HK$36.2 million.

**(ii) Company's unsecured indebtedness**

As at the Latest Practicable Date, the indebtedness of the Company due to its unsecured creditors was approximately HK$13 million. After including the Shortfall of approximately HK$23.2 million, and subject to the approval by the Noteholders of the Notes Restructuring Offer, at Completion, the Company will have total unsecured indebtedness of approximately HK$36.2 million, which is proposed to be compromised under the Company Scheme.

At the Company Creditors' Meeting held on Friday 11 January 2002, the required majorities of the unsecured creditors who were entitled to vote in relation to the Company Scheme, voted in its favour. The unsecured creditors present in person or by proxy at the Company Creditors' Meeting who voted in favour of the Company Scheme, represented approximately 89.4% in number and 97.44% by value of the Company's unsecured indebtedness. Application has been made to the Court for the grant of an order sanctioning the Company Scheme under section 166 of the Companies Ordinance and the hearing of the application took place on 1 March 2002. The hearing was adjourned to 25 March 2002. On 25 March 2002, the Company Scheme was sanctioned by the Court. The Company Scheme will only become effective and binding on all the unsecured creditors of the Company upon an office copy of the Order of the Court sanctioning the Company Scheme being delivered to the Registrar of Companies in Hong Kong for registration.

A cash amount of HK$3 million from the proceeds of the Subscription will be made available to the unsecured creditors of the Company on Completion with which to effect the Scheme. In accordance with the terms of the Company Scheme, all unsecured indebtedness of the Company as at the effective date of the Company Scheme shall be discharged in full immediately upon payment of HK$3 million cash to the unsecured creditors (including the Noteholders to the extent of the Adjusted Shortfall) on a pro-rata basis to the amount of their outstanding unsecured indebetedness at the date of Completion. The Company Scheme and the Restructuring Proposal is inter-conditional to the extent that the Company Scheme can only be implemented upon completion of the Restructuring Proposal.

**(c) Asset Transfer and Share Transfer**

**(i) Asset Transfer**

Pursuant to the Asset Transfer Agreement, certain essential assets will be hived-down by S.Megga to another subsidiary of the Company. The assets include goodwill, customer lists and records, computer hardware, software licences/maintenance contracts, employees and intellectual properties as at the date of transfer. Before the Share Transfer as mentioned below, other assets owned by wholly-owned subsidiaries of S.Megga, and which will be retained by those wholly-owned subsidiaries after the Share Transfer has become effective, include certain residential properties in Dongguan, a factory under construction and certain machinery and equipment in a manufacturing plant in Dongguan. The entire issued ordinary voting share capital of S.Megga, including wholly-owned subsidiaries of S.Megga, will be transferred to a company beneficially owned by the Receivers, pursuant to the Share Transfer. The Company will satisfy the S.Megga Consideration payable to S.Megga (or as the Receivers may direct) for the Asset Transfer by (i) a payment to S.Megga (or as the Receivers may direct) of the S. Megga Scheme Cash; (ii) the allotment and issue to S.Megga (or as the Receivers may direct) of the S. Megga Scheme Shares; and (iii) the waiver of certain of the unsecured indebtedness of approximately HK$805.7 million owed by S.Megga to the Company and to certain other members of the Group. The S.Megga Consideration to be paid to S.Megga (or as the Receivers may direct) will be made available to the unsecured creditors of S.Megga in accordance with the S.Megga Scheme as described in section 3 below.

As the Asset Transfer involves the realization of security under the Debenture, the S.Megga Consideration remains subject to that security and is therefore available for distribution to the Security Trustee. In order to make the S.Megga Consideration to be received by S.Megga under the Asset Transfer available to be applied as payment under the S.Megga Scheme, the Security Trustee, as a concession, has agreed to release the S.Megga Consideration from the Debenture upon the sanctioning of the S.Megga Scheme by the Court. Further, in order to improve the distribution returns to the unsecured creditors of S.Megga, the Security Trustee has, as a further concession, also agreed to waive its rights to receive a distribution in respect of certain inter-company debts (in an aggregate sum of approximately HK$805.7 million) owed by S.Megga to the Company and certain members of the Group.

**(ii) Share Transfer**

As a term of the Notes Restructuring Offer referred to in (b)(i)(B) above, the entire voting share capital of S.Megga will be transferred to a company beneficially owned by the Receivers, to be held by it as trustee for the Noteholders.

**(d) Subscription**

CCT and Defa have each agreed to subscribe for 2,000,000,000 New Shares at a par value of HK$0.01 each for an aggregate amount of HK$40 million in cash, representing an aggregate of 44.16% of the enlarged issued share capital of the Company immediately following Completion but before conversion of the New Notes. The issue price is the same as the closing price of HK$0.01 of the Existing Shares before the suspension of trading in the Existing Shares which took effect at 2:30 p.m. on 12 February 2001. CCT will fund its subscription for the New Shares from its internal resources.

**(e) Asset Injection**

CCT has agreed to sell and the Company has agreed to buy 100% of the issued share capital of ESL at a consideration of HK$70 million to be satisfied at Completion (i) as to HK$25 million of the consideration by the allotment and issue by the Company of 2,500,000,000 New Shares at a subscription price of HK$0.01 each, representing 27.6% of the enlarged issued share capital of the Company immediately following Completion but before conversion of the New Notes and (ii) as to the balance of the consideration of HK$45 million by the issue of the New Notes by the Company to CCT. The Asset Injection constitutes a major transaction of the Company under the Listing Rules.

ESL is an indirect wholly-owned subsidiary of CCT and was incorporated in Hong Kong in 1972. ESL was acquired by CCT in May 1997 and is a leading manufacturer of switching mode and linear mode power supplies which operates a manufacturing plant in Dongguan, the PRC. The main products of ESL include transformers, AC/DC adaptors, and custom built-in power supply, which are used in the manufacturing of corded and cordless telephones. ESL has obtained ISO9001 certification and its products are distributed to customers in the United States of America, Europe, the PRC, Japan and Australia.

The total consideration payable under the Injection Agreement is HK$70 million and was determined on the basis of arm's length negotiation between CCT and the Company with reference to the valuation of American Appraisal Limited of 100% of ESL as at 31 July 2001 of HK$78.6 million. **Based on the audited net asset value of ESL Group as shown at in Appendix II to this circular, as at 31 October 2001, the excess of the consideration above the net asset value of ESL Group is approximately HK$29 million. If this excess is recognised as impairment loss in the year of the Completion, the profit and loss account of the Company will be reduced by this amount. The accounting policy as to how to treat this amount will be determined by the new management of the Company, and disclose in the forthcoming result announcement.**

For each of the two financial years ended 31 December 1999 and 2000, the audited profit attributable to shareholders of ESL was approximately HK$12.8 million and HK$5.3 million, respectively. The profit before taxation and extraordinary items of ESL amounted to approximately HK$14.4 million and HK$6.9 million for each of the two financial years ended 31 December 2000, respectively. As at 31 December 2000, the audited net tangible assets of ESL amounted to approximately HK$36 million.

Both the Investors and the Company consider that the business and assets acquired through the Asset Injection and the Asset Transfer and the other assets of the Group will enable the operations of the Group to continue, improve the asset and earnings quality, and complement and reinforce the Group's existing business.

As set out in Section 3(h) of Appendix II, ESL Group had certain transactions with its fellow subsidiaries for the each of the three years ended 31 December 2000, and the ten months ended 31 October 2001, and certain of ESL Group's banking facilities are secured by fixed deposits, land and building of certain fellow subsidiaries of ESL Group and corporate guarantees from CCT. It is the intention of the Investors that such transactions and credit facilities will continue after Completion. When CCT becomes the Company's substantial shareholder upon Completion, such transactions may likely constitute on-going connected transactions for the Company. The Company will undertake to comply fully all the relevant requirements under the Listing Rules.

**3. S.Megga's unsecured indebtedness and the S.Megga Scheme**

As at the Latest Practicable Date, the total amount of the indebtedness of S.Megga due to its unsecured creditors was approximately HK$982.3 million. This sum was made up of trading debts and employee claims of HK$112.9 million, inter-company debts of HK$805.7 million and guarantee liabilities of HK$63.7 million in respect of the Notes. The guarantee liabilities represent the liability of S.Megga to the Noteholders under the guarantee contained in the Debenture.

The amount of the unsecured indebtedness of S.Megga is proposed to be compromised under the S.Megga Scheme.

At the S.Megga Creditors' Meeting held on Friday 11 January 2002, the required majorities of the unsecured creditors who were entitled to vote in relation to the S.Megga Scheme, voted in its favour. The unsecured creditors present in person or by proxy at the S.Megga Creditors' Meeting who voted in favour of the S.Megga Scheme, represented approximately 54.33% in number and 98.65% by value of the unsecured indebtedness. Application has been made to the Court for the grant of an order sanctioning the S.Megga Scheme under section 166 of the Companies Ordinance and the hearing of the application took place on 1 March 2002. On 1 March 2002, the Court adjourned the hearing until 25 March 2002. On 25 March 2002, the Court further adjourned the hearing to a date to be fixed. The S.Megga Scheme will only become effective and binding on all the unsecured creditors of the Company upon an office copy of the Order of the Court sanctioning the S.Megga Scheme being delivered to the Registrar of Companies in Hong Kong for registration.

In accordance with the terms of the S.Megga Scheme, all unsecured indebtedness of S.Megga as at the effective date of the S.Megga Scheme shall be discharged in full immediately upon payment of the S. Megga Scheme Cash and the allotment and issue of the S.Megga Scheme Shares to the unsecured creditors on a pro-rata basis to the amount of their outstanding unsecured indebtedness at the date of Completion. In order to make available the S.Megga Consideration to satisfy the S.Megga Scheme, the Security Trustee, as a concession, has agreed to release the S.Megga Consideration from the Debenture upon the sanctioning of the S.Megga Scheme by the Court as described under the paragraph headed ''Asset Transfer'' above.

**4 New Notes**

**Summary terms of the New Notes**

| | |
|---|---|
| Issuer: | The Company |
| Issue size: | HK$45 million |
| Interest: | The New Notes will not bear any interest. |
| Maturity: | The third anniversary of the date of issue of the New Notes. If the principal amount of the New Notes is not converted into New Shares or repaid, such amount shall be automatically redeemed on the maturity date. |
| Transferability: | The New Notes may be assigned to any third party subject to compliance with the terms and conditions of the New Notes and further subject to the conditions, approvals, requirements and any other provisions of or under all applicable laws and regulations. If the New Notes are transferred to connected persons of the Company (as defined under the Listing Rules) other than CCT or its associates, the Company shall immediately notify the Stock Exchange. |

| | |
|---|---|
| Conversion: | The conversion price under the New Notes is HK$0.01 per New Share and the noteholder shall have the right on any business day being five business days prior to the maturity of the New Notes to convert the whole or part of the principal amount of the New Notes. |
| Listing: | No listing will be sought for the New Notes. |

**5 Conditions precedent to the Restructuring Agreements**

Completion will be subject to, inter alia, the following:

(i) the Court sanctioning the Company Scheme;

(ii) all necessary resolutions being passed by the Shareholders approving the Restructuring Agreements and the transactions contemplated thereunder;

(iii) the Bermuda Monetary Authority approving:

  (1) the issue of the New Shares to be allotted and issued under the Restructuring Agreements, the Asset Transfer and the S.Megga Scheme;

  (2) the issue of the New Notes; and

  (3) the New Shares falling to be issued on conversion of the New Notes;

(iv) the Capital Restructuring becoming effective which is subject to:

  (1) the approval of the Capital Restructuring at the SGM; and

  (2) the implementation of each of the Capital Reduction, the Share Consolidation and the Authorised Share Capital Increase, so that each of the same has become effective;

(v) the Executive granting the Whitewash Waiver which, if granted, would normally be subject to the approval of the Independent Shareholders at the SGM on a vote taken by poll;

(vi) the Stock Exchange approving in principle to grant the resumption of trading in the securities of the Company and the listing of, and permission to deal in, the New Shares to be allotted and issued under the Restructuring Agreements, the Asset Transfer, the S.Megga Scheme and the New Shares falling to be issued on conversion of the New Notes; and

(vii) the approval of the Notes Restructuring Offer by the requisite majority of the Noteholders in accordance with the terms and conditions of the Notes.

If court sanction is required for the Asset Transfer, the condition of completion of the Asset Transfer may be automatically waived or varied in the event and only to the extent that such sanction is required.

One of the conditions precedent to the Restructuring Agreements is the grant of a Whitewash Waiver from the SFC. Such condition cannot and will not be waived. If the Whitewash Waiver is granted, the Investors will not be required to make a general offer to the Shareholders under Rule 26 of the Code as a result of the issue and allotment of the New Shares to the Investors pursuant to the terms of the Subscription Agreement and the Injection Agreement. The Executive has agreed, subject to approval by Independent Shareholders, to waive any obligations to make a general offer which might result from the Completion.

## 6 Completion of the Restructuring Agreements

The Restructuring Agreements are required to be completed simultaneously. Completion is expected to take place on the fifth business day after fulfilment of the conditions precedent to the Restructuring Agreements, apart from the Capital Restructuring which is required to be satisfied immediately before Completion. If any of the conditions precedent to the Restructuring Agreements have not been fulfilled or waived on or before 10 May 2002 (the ''Long Stop Date''), or such other date as the Company, the Investors and the Receivers may otherwise agree in writing, the Restructuring Agreements will lapse.

## 7 Escrow Moneys

On 12 July 2001, CCT paid the amount of HK$2,000,000 to Deacons, the legal advisers to the Receivers, acting as the escrow agent, by way of an escrow deposit, which was to be released in monthly installments by Deacons to the Company for application towards certain monthly expenses of the Company. The escrow moneys and the interest accrued have now been paid in full by Deacons to the Company. On Completion, the amount of the subscription moneys required to be paid by CCT under the terms of the Subscription, will be reduced by the amount of the escrow moneys. If Completion does not take place for any reason, other than for a reason which is within the reasonable control of the Investors, the escrow moneys together with all interest accrued prior to the release of the moneys to the Company, will be returnable to CCT. Given that the entire amount of the escrow moneys together with the interest accrued have already been paid to the Company, should Completion not occur for such reason, CCT will remain as an unsecured creditor of the Company for this amount.

## 8 Effects of the Restructuring Proposal on:

### (a) Share capital

Details of the proposed changes to the share capital of the Company are set out in section 1 of Appendix I to this circular.

### (b) 3-Year Notes and 7-Year Notes

As at the Latest Practicable Date, the outstanding principal amount of the Notes for the Company was HK$63.7 million, comprising HK$42.5 million of the 3-Year Notes and HK$21.2 million of the 7-Year Notes. As at the Latest Practicable Date, Horsford, as nominee for SCB, held approximately HK$29.6 million of the 3-Year Notes, and approximately HK$14.8 million of the 7-Year Notes, and the remaining three Noteholders held between them an aggregate of approximately HK$12.9 million of the 3-Year Notes and approximately HK$6.4 million of the 7-Year Notes. Upon completion of the Debt Restructuring, the Notes will have been compromised under the Notes Restructuring Offer and the Company Scheme.

### (c) Share options

As at the Latest Practicable Date, the Company had no share options outstanding under the share option scheme adopted by the Company on 28 November 1991.

### (d) Shareholding structure

Horsford, as nominee for SCB, is the single largest Shareholder and beneficially holds 1,647,680,119 Shares, representing a shareholding of approximately 25.81% of the issued share capital of the Company as at the Latest Practicable Date. Upon Completion and before any conversion of the New Notes, Horsford's shareholding will be diluted to approximately 15.72%.

The following table shows the estimated changes in the shareholding of the Company upon Completion, both before conversion of the New Notes and after full conversion of the New Notes:

| | **Existing shareholding of the Company (Existing Shares at HK$0.02 each)** | | **Shareholding of the Company upon the Capital Restructuring becoming effective (New Shares at HK$0.01 each)** | | **Shareholding of the Company immediately upon Completion but before conversion of the New Notes (New Shares at HK$0.01 each)** | | **Shareholding of the Company immediately upon Completion and assuming full conversion of the New Notes (New Shares at HK$0.01 each)** | |
|---|---|---|---|---|---|---|---|---|
| | *(million)* | *%* | *(million)* | *%* | *(million)* | *%* | *(million)* | *%* |
| SCB *(Note 1)* | 1,647.7 | 25.81 | 164.8 | 25.81 | 1,424.4 | 15.72 | 1,424.4 | 10.51 |
| S.Megga *(Note 2)* | – | – | – | – | – | – | – | – |
| Directors *(Note 3)* | 141.1 | 2.21 | 14.1 | 2.21 | 14.1 | 0.16 | 14.1 | 0.10 |
| CCT | – | – | – | – | 4,500.0 | 49.68 | 9,000.0 | 66.38 |
| Defa | – | – | – | – | 2,000.0 | 22.08 | 2,000.0 | 14.75 |
| Other Public Shareholders | | | | | | | | |
| – unsecured creditors of S.Megga *(Note 2)* | – | – | – | – | 100 | 1.10 | 100 | 0.74 |
| – others | 4,595.2 | 71.98 | 459.5 | 71.98 | 1,019.9 *(Note 4)* | 11.26 | 1,019.9 | 7.52 |
| Total | 6,384.0 | 100.00 | 638.4 | 100.00 | 9,058.4 | 100.00 | 13,558.4 | 100.00 |

*Note:*

(1) These shares are held by Horsford Nominees Limited, as nominee for SCB.

(2) 100,000,000 New Shares under the Asset Transfer will be issued to S.Megga (or as the Receivers may direct) which will then be distributed to the unsecured creditors of S.Megga pursuant to the S.Megga Scheme.

(3) According to the disclosure made to the Company under the SDI Ordinance, the 141.1 million Shares were beneficially owned by Kit Iu, the entire share capital of which was according to that disclosure held by the trustee of a discretionary trust whose beneficiaries include Mr. Leung Ho Man Paul, Mr. Leung Winston and Mr. Leung Howard.

(4) The increase results from the allotment of shares to the Noteholders (excluding SCB) pursuant to the Notes Restructuring Offer as explained below.

| | **Notes Outstanding** *HK$ (million)* | **Pro-rata share of the New Shares No. of New Shares** *(million)* |
|---|---|---|
| SCB | 44.1 | 1,259.6 |
| Noteholders (excluding SCB) | 19.6 | 560.4 |
| Total | 63.7 | 1,820.0 |

Immediately upon Completion, the Investors together with parties acting in concert with them will be interested in an aggregate of approximately 71.76% of the enlarged issued share capital of the Company before conversion of the New Notes. Accordingly, the Investors will jointly apply to the SFC for a waiver of their obligations under the Code to make a general offer for all the Shares of the Company other than those already held by the Investors and parties acting in concert with them.

Since the Investors together with parties acting in concert with them will together hold in excess of 55% of the voting rights of the Company immediately following Completion, the creeper provisions of the Code will not be applicable and they will be free to acquire further voting rights in the Company without triggering a general offer obligation.

**(e) Dilution of Shareholders' interests**

As set out in the table shown under (d) above, the interests of the existing Independent Shareholders will be diluted from approximately 97.79% to 18.77% upon Completion assuming full conversion of the New Notes.

**(f) Net assets**

As detailed in section 4 headed ''Proforma statement of adjusted net tangible assets of the Enlarged Group'' in Appendix I to this circular, the proforma unaudited net tangible assets of the Group upon Completion will be approximately HK$20.0 million, representing approximately HK$0.002 per New Share. This represents an improvement of approximately HK$70.4 million, or HK$0.01 per Share compared to the audited net liabilities of the Group as at 30 September 2001 which amounted to approximately HK$50.4 million or HK$0.008 per Share. The adjustments on the net assets of the Group as a result of the Restructuring Proposal are set out in section 4 of Appendix I to this circular.

**9 Use of proceeds from the Subscription**

The proceeds from the Subscription of HK$40 million will be applied as follows:

(i) HK$20 million will be paid to the Noteholders as required by the terms of the Notes Restructuring Offer;

(ii) HK$3 million will be applied in payment to the unsecured creditors of the Company (including the Shortfall) under the Company Scheme;

(iii) HK$2 million (less the amount of all cash necessarily and reasonably incurred in preparing and implementing the S.Megga Scheme) will be applied in part settlement of the S.Megga Consideration to be paid to the unsecured creditors of S.Megga under the S.Megga Scheme; and

(iv) the remaining balance (to the extent not applied as working capital and other costs incurred up to Completion) will be used to meet the Group's future working capital requirements.

**10 Directors and management**

The current Board comprises of one executive Director, Mr. Howard Leung, and two independent non-executive Directors, Mr. Gerald Clive Dobby and Mr. Wu Sai Wing. The Investors intend that upon Completion, all existing Directors will resign from the Board and new Directors be appointed.

Mr. Mak Shiu Tong, Clement, Ms. Cheng Yuk Ching, Flora and Mr. Tam Ngai Hung, Terry will be appointed as executive Directors; Mr. Lau Ho Kit, Ivan and Mr. Chow Siu Ngor will be appointed as independent non-executive Directors; and Mr. Tong Chi Hoi, Ms. Chik Bik Fong, Ella, Mr. Ho Yiu Hong, Victor, Ms. Lo Yok Ming, Kitty and Mr. Li Man To, Feynman will be appointed as senior management of the Company upon Completion.

Details of the proposed new Directors and senior management are contained in the section headed ''Directors of the Company'' in the ''Letter from the Investors'' in the circular.

**11 Reasons for the Restructuring of the Group**

The Directors are of the view that, having consulted the Receivers and the Security Trustee and after taking into consideration the financial position of the Group and other alternative restructuring proposals received by the Company and the Receivers, the Restructuring Proposal represents the best available option to the Company, the creditors of the Company and the Shareholders having regard to factors which include the potential returns to both the creditors of the Company and the Shareholders, the availability of alternative means for the creditors of the Company to recover their investments and the time taken to conclude the Restructuring Proposal.

**12 Intentions of the Investors**

It is the intention of the Investors that the Company will remain focused on the Group's core business of manufacturing and development of telecommunication products. The Investors have no intention or plans for any further injection of assets into the Company.

**It is the intention of the Investors to maintain the listing of the Company on the Stock Exchange upon Completion. Immediately upon Completion, the Investors together with the parties acting in concert with them, and SCB will be interested in an aggregate of approximately 87.48% of the enlarged issued share capital of the Company before conversion of the New Notes. Accordingly, the public shareholding in the Company will become 12.52%, the Investors and their respective directors have undertaken to the Company that they will use their best endeavours and take appropriate steps to ensure that an adequate number of the New Shares will be placed to independent third parties to maintain the public float of not less than 25% of the enlarged issued share capital of the Company in order to meet the requirement under Rule 8.08 of the Listing Rules. If, upon Completion, the Stock Exchange believes that:**

- **a false market exists or may exist in the New Shares; or**
- **there are too few New Shares in public hands to maintain an orderly market,**

**then it will consider exercise its discretion to continue to suspend the trading in the New Shares.**

**The Stock Exchange will closely monitor all acquisitions or disposals of assets of the Company. The Stock Exchange has the discretion to require the Company to issue an announcement and/or a circular to its shareholders irrespective of the proposed transactions. The Stock Exchange also has the power to aggregate a series of transactions and any such transactions may result in the Company being treated as if it were a new applicant for listing.**

Details of the intention of the Investors with respect to the Group after Completion are set out in the Letter from the Investors in this circular.

**13 General Mandates to issue and repurchase Shares**

At the SGM, ordinary resolutions will be proposed to (i) grant a general mandate to the Directors to allot, issue and deal with additional New Shares not exceeding 20% of the enlarged issued share capital of the Company immediately following Completion; and (ii) add to such general mandate so granted to the Directors the number of any Shares repurchased by the Company representing up to 10% of the aggregate nominal amount of the share capital of the Company in issue and to be issued as mentioned herein. Notwithstanding these, the Board has no immediate plans to issue or repurchase any New Shares pursuant to the above general mandates.

As mentioned, the Directors will seek Shareholders' approval of the Repurchase Mandate to be proposed at the SGM. The Repurchase Mandate grants to the Directors a general and unconditional mandate to exercise all the powers of the Company to repurchase New Shares subject to the criteria set out in Appendix III to this circular. The Repurchase Mandate will be valid for such number of New Shares as represent 10% of the enlarged issued share capital of the Company immediately following Completion. The results of the resolutions to be proposed at the SGM in relation to such general mandates and the Repurchase Mandate will not affect Completion.

**14 Change of name of the Company**

In order to reflect the new ownership of the Company upon Completion and the wishes of the Investors, the Board has agreed that the name of the Company be changed to CCT Technology Holdings Limited. The proposed change of name is conditional upon:

(a) the passing of a special resolution by the Shareholders at the SGM to approve the change of name;

(b) Completion; and

(c) the approval by the Registrar of Companies in Bermuda (the "Registrar") and a certified resolution by the Shareholders of the change of name being filed with the Registrar.

The change of name will be effective on the date of entry of the new name on the register maintained by the Registrar.

The Company will carry out the necessary filing procedures with the Registrar of Companies in Hong Kong. Upon the proposed change of name becoming effective, the Chinese translation of the new name of the Company for identification purposes will be changed from 浩宇科技有限公司 to 中建科技集團有限公司.

The change of name will not affect any of the rights of the Shareholders. All existing share certificates in issue bearing the present name of the Company will, after the change of name becoming effective, continue to be evidence of title to the Shares and will be valid for trading, settlement and delivery respectively for the same number of Shares in the new name of the Company. Accordingly, there will not be any arrangement for free exchange of existing share certificates under the new name. Once the change of name has become effective, new share certificates of the Company will be issued in the new name of the Company. A further announcement will be made on the trading arrangements (including the date on which trading under the new name on the Stock Exchange will take effect) upon the change of name becoming effective and unconditional.

The Company will make a further announcement when the proposed name change becomes effective.

## 15 General

The Restructuring Agreements and the Whitewash Waiver are subject to the approval of the Independent Shareholders at the SGM. KPMG Corporate Finance and Dao Heng Securities have been appointed as financial advisers to the Company and to the Receivers. Deloitte & Touche Corporate Finance Limited has been appointed by CCT as the arranger and manager of the Restructuring Proposal.

Anglo Chinese has been appointed as the independent financial adviser to advise the Independent Board Committee in relation to the Company Scheme, the Restructuring Agreements and the Whitewash Waiver. Details of the advice and recommendation of Anglo Chinese, together with the principal factors and reasons taken into consideration in arriving at such advice and recommendation, are set out in the ''Letter from the Independent Financial Adviser'' of this circular.

The Company has submitted an application for the listing of, and permission to deal in, the New Shares to be allotted and issued under the Restructuring Agreements, the Asset Transfer, the Company Scheme, the S.Megga Scheme and the New Shares falling to be issued on conversion of the New Notes.

The Company will submit an application to the Bermuda Monetary Authority seeking its approval for the issue of the New Shares to be allotted and issued under the Restructuring Agreements, the Asset Transfer, the Company Scheme, the S.Megga Scheme, the New Notes and the New Shares falling to be issued on conversion of the New Notes.

The Investors have submitted an application to the Executive for the Whitewash Waiver which, if granted, would normally be subject to the approval of the Independent Shareholders on a vote taken by poll at the SGM.

Other than as disclosed in this circular, the Company has no other outstanding securities convertible into Shares, and no share or loan capital of the Company has been put under option or agreed conditionally or unconditionally to be put under option and no other conversion right affecting the Shares or other derivatives which are being offered for or which carry voting rights have been issued or granted or agreed conditionally, or unconditionally to be issued or granted.

Subject to the granting of the listing of , and permission to deal in, the New Shares on the Stock Exchange, the New Shares will be accepted as eligible securities by Hongkong Clearing for deposit, clearance and settlement in CCASS with effect from the commencement date of dealing in the New Shares on the Stock Exchange or such other date as determined by Hongkong Clearing. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the general rules of CCASS and CCASS Operational Procedures in effect from time to time.

## 16 Trading arrangements

Following the effective date of the Capital Restructuring, the Company proposes the following trading arrangements to its Shareholders and prospective directors.

### (a) Documents of title

Upon the Capital Restructuring becoming effective, the nominal value of the issued Shares will be reduced from HK$0.02 to HK$0.01 each. Accordingly, the Directors consider it is in the best interests of the Company and the public to reduce the risk of confusion by replacing all existing share certificates (which are light blue in colour) with new share certificates (which will be yellow in colour) for the purposes of trading in the market.

Upon completion of the Capital Restructuring, every certificate for ten Existing Shares in issue immediately before the Effective Date will be deemed to be certificates and valid documents of title for one New Share.

**(b) Trading arrangement**

Subject to satisfaction of the remaining conditions of the Capital Restructuring, the arrangements proposed for dealings in the New Shares are as follows:

(i) from 3 May 2002, the present counter for trading in the Existing Shares in board lots of 2,000 Existing Shares will be removed temporarily and a temporary counter for trading in New Shares represented by existing share certificates in board lots of 200 New Shares will be set up. Accordingly, ten Existing Shares will be deemed to represent one New Share. Existing share certificates may only be traded at this counter;

(ii) with effect from 17 May 2002, the present counter for trading in New Shares in board lots of 2,000 New Shares will be re-opened. Only new share certificates for New Shares can be traded at this counter;

(iii) during the period from 17 May 2002 to 10 June 2002 (both dates inclusive), there will be parallel trading at the above two counters; and

(iv) the temporary counter for trading in the New Shares in board lots of 200 New Shares (in the form of existing share certificates) will be removed after close of trading on 10 June 2002. Thereafter, trading will only be in New Shares in board lots of 2,000 New Shares and existing share certificates will cease to be acceptable for dealing purposes. However such certificates will continue to be good evidence of legal title to the New Shares on the basis of ten Existing Shares for one New Share and may be exchanged for new certificates for New Shares at any time.

Shareholders are urged to exchange their certificates for Existing Shares for certificates for New Shares as soon as possible from 3 May 2002, This may be done, free of charge, up to and including 13 June 2002 by delivering the existing share certificates to the branch share registrar of the Company in Hong Kong. Thereafter, existing share certificates will be accepted for exchange only on payment of a fee of HK$2.50 (or such other amount may from time to time be prescribed by the Stock Exchange) for each certificate for Existing Shares cancelled or for each certificate issued for New Shares, whichever is higher.

The new yellow share certificates is expected to be available for collection on or after the 10th business day from the date of submission of the existing light blue share certificates to the branch share registrar of the Company in Hong Kong. Unless otherwise instructed, new yellow share certificates will be issued in board lots of 2,000 New Shares.

**(c) Facilities for odd lot holders**

In order to alleviate the difficulties arising from the existence of odd lots as a result of the Debt Restructuring, the Company has appointed a broker to assist the Shareholders to match the sale and purchase of odd lots during period from 10:00 am 17 May 2002 to 4:00 pm 10 June 2002, both dates inclusive, assuming the resumption of the trading of the Shares will take place on 3 May 2002. Holders of the New Shares in odd lots (i.e. lots which are not in integral multiples of 2,000 New Shares) may through their broker contact FB Gemini Securities Limited during such period. Holders of the New Shares in odd lots should note that the matching of the sale and purchase of odd lots is not guaranteed.

Shareholders are recommended to consult their own professional advisers if they are in any doubt about the facility described above.

A further announcement in relation to the trading arrangement of the Shares will be made as and when appropriate.

**17 Special General Meeting**

A notice of the SGM is set out on pages 181 to 186 of this circular. The SGM will be held at 2:30 p.m. on Wednesday, 24 April 2002 at Auditorium, 1st Floor, Duke of Windsors Social Service Building, 15 Hennessy Road, Wanchai, Hong Kong. Resolutions will be proposed to consider and approve, inter alia:

(i) the Capital Restructuring;

(ii) the Restructuring Agreements and the allotment and issue of New Shares to the Investors;

(iii) the allotment and issue of New Shares to Noteholders under the Notes Restructuring Offer;

(iv) the Whitewash Waiver;

(v) a general mandate to be granted to the Directors to exercise the powers of the Company to allot, issue or grant New Shares;

(vi) a general mandate to be granted to the Directors to exercise the powers of the Company to repurchase New Shares; and

(vii) the change of name of the Company.

**18 Recommendations**

Your attention is drawn to (a) the letter from Anglo Chinese set out in this circular which contains its advice to the Independent Board Committee consisting of both of the independent non- executive Directors of the Company, who are Mr. Gerald Clive Dobby and Mr. Wu Sai Wing, and (b) the letter from the Independent Board Committee which contains its advice to the Independent Shareholders in relation to the Restructuring Agreements and the Whitewash Waiver as well as the principal factors and reasons considered by Anglo Chinese in arriving at its advice and recommendations to the Independent Board Committee, which in turn recommends the Independent Shareholders, to vote in favour of the relevant resolutions to be proposed at the SGM. Independent Shareholders are strongly advised to consider these letters before deciding to vote in favour of or against the resolutions to be proposed at the SGM.

The Directors consider that the general mandate to issue the New Shares and the Repurchase Mandate provide flexibility to the Company, and accordingly recommend all Shareholders to vote in favour of the relevant resolutions to be proposed at the SGM.

**19 Additional information**

Please refer to the Appendices to this circular for additional information.

Yours faithfully,
By order of the Board
**Wireless InterNetworks Limited**
**(Receivers and Managers appointed)**
**Howard Leung**
*Director*

**CCT TELECOM HOLDINGS LIMITED**
**中建電訊集團有限公司***
*(Incorporated in the Cayman Islands with limited liability)*

*Executive directors:*
Mr. Mak Shiu Tong, Clement
Ms. Cheng Yuk Ching, Flora
Mr. Tam Ngai Hung, Terry
Dr. William Donald Putt

*Independent non-executive directors:*
Mr. Samuel Olenick
Mr. Tam King Ching, Kenny
Mr. Lau Ho Man, Edward

*Registered office:*
The Office of The Harbour Trust Co. Ltd.
P.O. Box 1787 GT
One Capital Place
Grand Cayman
Cayman Islands
British West Indies

*Head office and principal place of business:*
32/F China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

**DONGGUAN DEFA INVESTMENT LIMITED**
*(Incorporated in the British Virgin Islands with limited liability)*

*Executive directors:*
Mr. Tan Jinrong
Mr. Xie Ruiqian
Ms. Liu Chuntao

*Registered office:*
The Office of Offshore Incorporations Limited
P.O. Box 957
Offshore Incorporations Centre
Road Town
Tortola
British Virgin Islands

31 March 2002

*To the Shareholders of*
*Wireless InterNetworks Limited*
*(Receivers and Managers Appointed)*

*Dear Sir or Madam,*

**RESTRUCTURING OF WIRELESS INTERNETWORKS LIMITED INVOLVING, INTER ALIA, CAPITAL RESTRUCTURING, ASSET TRANSFER, SHARE TRANSFER, DEBT RESTRUCTURING INVOLVING CREDITORS' SCHEMES OF ARRANGEMENT OF SUBSCRIPTION FOR NEW SHARES, ASSET INJECTION INVOLVING A MAJOR TRANSACTION, WHITEWASH WAIVER, GENERAL MANDATES TO ISSUE AND REPURCHASE SHARES AND CHANGE OF NAME TO CCT TECHNOLOGY HOLDINGS LIMITED**

## INTRODUCTION

It was announced on 20 September 2001 that the Restructuring Agreements, which consists of the Compromise Agreement, the Subscription Agreement and the Injection Agreement were executed on 10 August 2001. The essential terms of the Restructuring Agreements and the Company Scheme were

* *for identification purposes only*

set out in the Announcement, further details of which are set out in the ''Letter from the Board'' on pages 10 to 28 of the circular to the Shareholders (the ''Circular''), of which this letter forms part. The purpose of this letter is to provide you with, inter alia, additional information on the Investors as well as on the future plans and prospects of the Company after Completion.

Terms defined in the Circular shall have the same meanings when used in this letter.

Your attention is also drawn to the letter from the Independent Board Committee and the letter from Anglo Chinese, the Independent Financial Adviser, as set out in the Circular.

**INFORMATION ON CCT**

CCT is incorporated in the Cayman Islands with limited liability. The company, which listed on the Stock Exchange in 1991, is an integrated telecom products and service enterprise. Its business includes cordless telecom products manufacturing and distribution, mobile phone manufacturing, export and distribution in the PRC, multimedia business and hi-tech investment. Products manufactured by CCT include cordless phones, family radio systems (FRS), mobile phones, information appliances and components.

Information on the executive and independent non-executive directors of CCT is as follows:

*Executive directors:*

***Mr. Mak Shiu Tong, Clement***, aged 48, has been the chairman of CCT since January 1994. Mr. Mak is a substantial shareholder of CCT. He has over 25 years of experience in the electronics manufacturing distribution industry, specialising in telephone and telecommunications products. He holds a Diploma in Electronics Engineering.

***Ms. Cheng Yuk Ching, Flora***, aged 48, has been an executive director of CCT since February 1998. Ms. Cheng has over 22 years of experience in the electronics industry and has held senior positions in various well-known electronics companies. She holds a Diploma in Business Administration.

***Mr. Tam Ngai Hung, Terry***, aged 48, joined CCT in March 2001 as an executive director and group finance director. He has more than 22 years of experience in finance, accounting management, as well as extensive experience in mergers and acquisitions. He is a Fellow of the Association of Chartered Certified Accountants and an associate of both the Hong Kong Society of Accountants and The Institute of Chartered Secretaries and Administrators. Prior to joining CCT, he held a number of senior positions in several listed companies.

***Dr. Putt William Donald***, aged 64, has been an executive director of CCT since January 1997. Dr. Putt obtained his PhD in Management from the Massachusetts Institute of Technology in the United Sates. He has over 29 years of experience in the telecom industry, and was the president and co-founder of TeleConcepts Corporation, which specialised in the design, production and distribution of telecom products.

*Independent non-executive directors:*

***Mr. Samuel Olenick***, aged 74, has been an independent non-executive director of CCT since November 1997. He is a certified public accountant in the United States, and has many years of experience in the telecommunications field in the United States.

***Mr. Tam King Ching, Kenny***, aged 53, is a practising Certified Public Accountant in Hong Kong. He holds a Bachelor's Degree in Commerce and is a fellow member of the Hong Kong Society of Accountants and a member of the Institute of Chartered Accountants of Ontario, Canada. He is serving as a member of the Small and Medium Practitioners Committee and Expert Panel on Insolvency Practitioners in the Hong Kong Society of Accountants and a member of the Appeal Tribunal of The Hong Kong Federation of Insurers. Mr. Tam is also the vice president of The Society of Chinese Accountants and Auditors.

***Mr. Lau Ho Man, Edward***, aged 47, has been an independent non-executive director of CCT since February 2000. Mr. Lau has more than 22 years of experience in finance, accounting management and administration. He also has extensive experience in taxation and corporate finance matters. He is a Fellow of the Hong Kong Society of Accountants and the Association of Chartered Certified Accountants, and an associate of the Chartered Institute of Management Accountants and a Certified Public Accountant.

**INFORMATION ON DEFA**

Defa is an investment holding company incorporated in the British Virgin Islands with limited liability. It does not engage in any business activities other than entering into the Compromise Agreement and the Subscription Agreement to acquire New Shares. It is beneficially owned as to 50% by Mr. Tan Jinrong, as to 25% by Mr. Xie Ruiqian and as to 25% by Ms. Liu Chuntao who are also directors of Defa.

Information on the directors of Defa is as follows:

***Mr. Tan Jinrong***, aged 39, is the president of a privately owned conglomerate group in Dongguan City, the PRC. The businesses of the group include inter alia, property development, property management, transportation and construction management. Mr. Tan has over 15 years experience in corporate management, and has established an extensive business network in the PRC. Mr. Tan was awarded by Dongguan Municipal Government as the 2001 Outstanding Entrepreneur of Privately Owned Enterprises in Dongguan City.

***Ms. Liu Chuntao***, aged 39, is the managing director of an electrical engineering company in the PRC. Ms. Liu has over 15 years experience in electrical engineering and corporate management.

***Mr. Xie Ruiqian***, aged 38, is a director of a paper product company, and has many years of experience in the manufacturing industry.

**SHAREHOLDINGS AND DEALINGS IN THE COMPANY**

As at the Latest Practicable Date, CCT and Defa, together with their directors and parties acting in concert with them, were not interested in the securities of the Company other than by virtue of their agreement to acquire New Shares pursuant to the Restructuring Agreements. Neither CCT, Defa, their respective directors, nor any party acting in concert with them had dealt in any securities of the Company during the Relevant Period.

**MANAGEMENT DISCUSSION AND ANALYSIS ON ESL GROUP**

After steady growth over the years, ESL Group is now one of the leading manufacturers of switching mode and linear mode power supplies. The manufacturing base of ESL Group is located at Dongguan, the PRC with approximately 1,400 workers as at 31 October 2001. ESL Group manufactures a variety of power supply products including AC/DC adaptors, electronic lighting ballast and customer built-in power supplies.

The following is a discussion of the results of ESL Group for each of the three years ended 31 December 1998, 1999 and 2000, and the ten months ended 31 October 2001 based on the presentation set out in the accountants' report in Appendix II to this circular.

*Year ended 31 December 1998*

For the year ended 31 December 1998, ESL Group recorded a total turnover of approximately HK$84.5 million, and a net profit of approximately HK$3.6 million with a gross profit margin of approximately 31.8% for the year. During the year, ESL Group enjoyed steady growth in turnover and profit.

As at 31 December 1998, ESL Group had total borrowings of approximately HK$5.4 million, and the debt-to-equity ratio was about 27%. The borrowings included mainly trust receipt loans of approximately HK$4.9 million for purchase of raw materials.

*Year ended 31 December 1999*

For the year ended 31 December 1999, turnover of ESL Group increased by approximately 32% to HK$111.6 million, mainly due to the increase in sales to a fellow subsidiary, which manufactured telecommunication products, from approximately HK$14.9 million in 1998 to approximately HK$52.3 million in 1999 as the result of a substantial growth in demand of the telecommunication products manufactured by that fellow subsidiary. The sales to that fellow subsidiary have been carried out at prevailing market prices.

The gross margin for the year ended 31 December 1999 was approximately 29.6% which was comparable to previous years.

The net profit for the year ended 31 December 1999 increased to approximately HK$12.8 million, mainly driven by the increase in turnover for the year. The net profit generated from the sales to the fellow subsidiary for the year ended 31 December 1999 was approximately HK$5.9 million, representing about 46.8% of the total net profit for the year.

As at 31 December 1999, the total borrowing by ESL Group decreased by approximately HK$1.6 million to approximately HK$3.8 million due to the settlement of trust receipt loans by the cash flow generated from the operations. Together with the increase in the net assets value resulting from a net profit of approximately HK$12.8 million for the year, the debt-to-equity ratio decreased to about 12% as at 31 December 1999.

*Year ended 31 December 2000*

For the year ended 31 December 2000, turnover of ESL Group increased by approximately 12.7% to HK$125.8 million, as a result of increasing demand from customers and launching of new products. Sales to the fellow subsidiary increased by approximately 5.3% to HK$55.1 million.

The gross margin for year ended 31 December 2000 decreased to approximately 21.4% due to the increase in cost of materials throughout the year.

Notwithstanding the increase in turnover by approximately 12.7%, the net profit for year ended 31 December 2000 decreased to approximately HK$5.3 million due to the decrease in the gross margin. The net profit generated from the sales to the fellow subsidiary for the year ended 31 December 2000 was approximately HK$2.3 million, representing about 43.7% of the total net profit for the year.

As at 31 December 2000, ESL Group had total borrowings of approximately HK$7.2 million, which increased by approximately HK$3.4 million as compared to 31 December 1999 since trust receipt loans increased for purchase of raw materials in anticipation of increase in business volume in 2001. Accordingly the debt-to-equity ratio increased to about 19% as at 31 December 2000.

*Ten months ended 31 October 2001*

For the ten months ended 31 October 2001, ESL Group recorded a turnover of approximately HK$122.3 million, representing an average growth of approximately 16.7% as compared with the year 2000. The turnover for sales to the fellow subsidiary of the Group, which were carried out at prevailing market prices, was amounted to approximately HK$61.3 million during the period. As at 31 October 2001, the orders on hand were approximately HK$12.5 million, of which about HK$5.7 million was related to that fellow subsidiary.

The gross margin for the ten months ended 31 October 2001 was 16.4%, which was lower than the gross margin of 21.4% for the year ended 31 December 2000 because of the increase in sales of lower margin products.

Net profit for the period was amounted to approximately HK$3.1 million, representing an average decrease of approximately 29.8% as compared with the year 2000. The net profit generated from the sales to the fellow subsidiary for the period was approximately HK$1.6 million, representing about 50.1% of the total net profit. It was mainly resulted from the increase in overhead in relation to the relocation of the manufacturing plant to a 3-storey building located in Dongguan, the PRC. The new plant occupies a site area of approximately 60,000 square metres with an annual production capacity of approximately 36 million units of power supply products.

Based on ESL Group's audited financial statements, ESL Group had net current assets of about HK$26.7 million as at 31 October 2001. The current assets comprised cash and bank balances of about HK$13.6 million, trade and bills receivable of about HK$45.7 million, inventories of about HK$14.4 million, other deposits and prepayments of about HK$1.5 million. The current liabilities comprised trade payables of about HK$32.7 million, interest bearing loan and other borrowings of about HK$5.0 million, amount due to immediate holding company and ultimate holding company of about HK$2.3 million, tax payable of about HK$2.7 million, other payables and accruals of about HK$5.8 million.

The general credit period granted to the customers by the ESL Group varies from 30 to 90 days, whereas the average credit period granted by the suppliers to the ESL Group is about 30 to 60 days. Nevertheless, ESL Group generated net cash inflow from operating activities for each of the three years ended 31 December 2000 and the ten months ended 31 October 2001 due to effective cash management and tight control over credit terms granted to its customers. With net current assets of about HK$26.7 million and cash and bank balances of about HK$13.6 million as at 31 October 2001, ESL Group's management consider that ESL Group have sufficient working capital for its operations.

As at 31 October 2001, ESL Group had total borrowings of approximately HK$5.4 million, which was approximately HK$1.8 million less than 31 December 2000 due to the decrease in utilization of trust receipt facilities. Accordingly the debt-to-equity ratio decreased to about 13% as at 31 October 2001. As at 31 October 2001, ESL Group had aggregate banking facilities in respect of overdrafts and import and export facilities amounting to HK$160 million, which were jointly used with certain of its fellow subsidiaries. The facilities were secured by fixed deposits, land and buildings of certain of the ESL Group's fellow subsidiaries and corporate guarantee from CCT. It is the intention that such credit facilities of ESL Group will continue after the Completion.

The number of staff of the ESL Group was approximately 1,400 as at 31 October 2001. The total staff remuneration for the period amounted to approximately HK$18.4 million. Performance of the staff is normally reviewed on an annual basis with adjustment compatible to the market.

*Future plan*

Throughout the years, ESL Group has been able to strengthen itself by continuously improving its production technology and efficiency. With the relocation to a modern manufacturing plant in 2001, the production capacity and efficiency of ESL Group have been enhanced. In the future, ESL Group will continue to leverage its strong research and development team to develop innovative and high-end products so as to increase its market share.

For the past few years, sales to a fellow subsidiary amounted to a significant portion of the total sales since ESL Group has manufactured quality power supply products which can support the growth of the manufacturing operation of CCT group. It is ESL Group's plan to broaden and diversify its customer base in the future.

As set out in Section 3(h) of Appendix II, ESL Group had certain transactions with its fellow subsidiaries for the each of the three years ended 31 December 2000, and the ten months ended 31 October 2001, and certain of ESL Group's banking facilities are secured by fixed deposits, land and building of certain fellow subsidiaries of ESL Group and corporate guarantees from CCT. It is the intention of the Investors that such transactions and credit facilities will continue after Completion. When CCT becomes the Company's substantial shareholder upon Completion, such transactions may likely constitute on-going connected transactions for the Company. The Company will undertake to comply fully all the relevant requirements under the Listing Rules.

**FUTURE INTENTIONS**

*Business*

It is the intention of the Investors that the Company will remain focused on the Group's core business of manufacturing and development of telecommunication products. Other than as stated in the Announcement, the Investors have no intention or plans for any further injection of assets into the Company.

The Investors consider that after the Asset Injection, the Group's businesses have strong prospects, primarily due to the following: (i) the Group will have the necessary working capital to rebuild its manufacturing base and to re-establish its market position as a manufacturer of telecom products in Hong Kong and the PRC given its reputation and customer base; and (ii) CCT"s substantial management ability and PRC business experience in the field of telecommunication products and services will enhance and strengthen the Group's Hong Kong and PRC operations.

The Group's production has been suspended since 13 February 2001 pending the injection of additional working capital through the successful completion of a restructuring. Upon Completion, ESL will, as a member of the Group, continue its production uninterrupted by the Completion. It is expected that through ESL's manufacturing facilities, the Company will be able to resume production of certain of its existing product lines within a reasonably short period following Completion. This period is expected to be no longer than one month after Completion.

Under the Restructuring Proposal, certain assets of the Company, including key personnel and business contacts that are vital to sustain its business, will be retained. Upon Completion, the Investors will review the financial and operational positions of the Enlarged Group and will utilise the injection of working capital and CCT"s established market position and trading strength to revive the distressed operations of the Company. The Investors believe that CCT"s brand name and connections in the PRC market will provide the necessary leverage to re-establish the Company's business and its revenue base.

On the manufacturing operations of the Company, the Company has, with the assistance of the management of the Investors, identified potential buyers for new orders of telecom products from the existing customers of the Company. Production is expected to be carried out at the production facilities to be leased to the Company by ESL, which will form part of the Group upon Completion. This proposed arrangement is to ensure the procurement of new orders as soon as possible, and to prevent such customers from placing the orders elsewhere given the current financial difficulties of the Company.

On the trading operations of the Company, the Investors believe that the Company's sales and sourcing network, with the injection of new working capital, can be revitalized. CCT will engage the Company as its sourcing agent for certain telecom component products. When CCT becomes the Company's substantial shareholder upon Completion, the sourcing arrangement may constitute an ongoing connected transaction for the Company and/or CCT. Both CCT and the Company will undertake to comply fully with all the relevant requirements under the Listing Rules, if applicable.

*Directors of the Company*

It is intended that upon Completion, all existing Directors will resign from the Board and new Directors be appointed. It is the intention of the Investors to nominate at least 3 executive Directors and 2 independent non-executive Directors to the Board upon Completion.

Particulars of the proposed new executive Directors and independent non-executive Directors of the Company are set out below:

| **Name** | **Address** |
|---|---|
| **Executive Directors** | |
| Mr. Mak Shiu Tong, Clement | 32/F China Merchants Tower,<br>Shun Tak Centre<br>168-200 Connaught Road Central<br>Hong Kong |
| Ms. Cheng Yuk China, Flora | 32/F China Merchants Tower,<br>Shun Tak Centre<br>168-200 Connaught Road Central<br>Hong Kong |
| Mr. Tam Ngai Hung, Terry | 32/F China Merchants Tower,<br>Shun Tak Centre<br>168-200 Connaught Road Central<br>Hong Kong |
| **Independent non-executive Directors** | |
| Mr. Lau Ho Kit, Ivan | Room 3105, 31/F Tower One<br>Lippo Centre<br>89 Queensway<br>Hong Kong |
| Mr. Chow Siu Ngor | 1225 Prince's Building<br>10 Chater Road<br>Hong Kong |

**Executive Directors**

***Mr. Mak Shiu Tong, Clement,*** aged 48, is the chairman of CCT and a substantial shareholder of CCT. He has over 25 years of experience in the electronics manufacturing distribution industry, specialising in telephone and telecommunications products. He holds a Diploma in Electronics Engineering.

***Ms. Cheng Yuk Ching, Flora,*** aged 48, is an executive director of CCT. Ms. Cheng has over 22 years of experience in the electronics industry and has held senior positions in various well-known electronics companies. She holds a Diploma in Business Administration.

***Mr. Tam Ngai Hung, Terry,*** aged 48, is an executive director of CCT and group finance director. He has more than 22 years of experience in finance, accounting management, as well as extensive experience in mergers and acquisitions. He is a fellow of the Association of Chartered Certified Accountants and an associate of both the Hong Kong Society of Accountants and the Institute of Chartered Secretaries and Administrators. Mr. Tam has held a number of senior positions in several listed companies in the past.

**Independent non-executive Directors**

***Mr. Lau Ho Kit, Ivan,*** aged 43, has extensive experience in accounting and financial management. He holds a Master Degree in professional accounting and is a member of the Hong Kong Society of Accountants and the Association of Chartered Certified Accountants.

***Mr. Chow Siu Ngor,*** aged 46, is a practicing solicitor in Hong Kong. He graduated from the Chinese University of Hong Kong in 1981 with an Honours Degree in Social Science. He then obtained an Honours Degree in Laws from the University of Birmingham in 1987. He was admitted as a solicitor of the Supreme Court of Hong Kong in 1990 and has been in private practice since then. Currently, he is an Assistant Solicitor of Messrs. P.C. Woo & Co., Solicitors and Notaries of Hong Kong.

Particulars of the proposed new senior management of the Company are set out below:

**Senior management**

***Mr. Tong Chi Hoi,*** aged 35, is the chief operating officer of a subsidiary of CCT and is the chief technology officer for both cordless products and mobile phones. Mr. Tong has a First Class Honours Degree in Electrical and Electronics Engineering from the University of London. He has over 14 years of experience in the electronics manufacturing industry.

***Ms. Chik Bik Fong, Ella,*** aged 47, is the material director of a subsidiary of CCT. Ms. Chik has more than 20 years of extensive experience in sourcing materials and material control in the manufacturing of telecommunication products.

***Mr. Ho Yiu Hong, Victor,*** aged 34, is the finance director of a subsidiary of CCT. Mr. Ho has a First Class Honours Degree in Accountancy from the Hong Kong Polytechnic and a Master Degree in Business Administration from the University of Strathclyde. He is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Institute of Chartered Secretaries and Administrators.

***Ms. Lo Yok Ming, Kitty,*** aged 46, is the director of business development of a subsidiary of CCT, responsible for product management, sales and marketing and customer services. Ms. Lo has more than 20 years experience in the consumer electronics industry and has held senior positions in various multi-national companies in the past.

***Mr. Li Man To, Feynman,*** aged 31, has worked in the telecommunication industry since he graduated from the Chinese University of Hong Kong with a Bachelor's Degree in Electronic Engineering. Mr. Li has over 5 years of intensive experience in product operation and research and development, particularly in radio frequency circuit and propagation.

**GENERAL INFORMATION**

Your attention is drawn to the additional information set out in the appendices to the Circular.

Yours faithfully,
For and on behalf of
**CCT Telecom Holdings Limited**
**Mak Shiu Tong Clement**

Yours faithfully,
For and on behalf of
**Dongguan Defa Investment Limited**
**Tan Jinrong**

**Wireless InterNetworks Limited**

**浩宇科技有限公司 ***

**(Receivers and Managers Appointed)**

*(Incorporated in Bermuda with limited liability)*

*To the Independent Shareholders,*

31 March 2002

Dear Sir or Madam,

**RESTRUCTURING OF**
**WIRELESS INTERNETWORKS LIMITED**
**INVOLVING, INTER ALIA, CAPITAL RESTRUCTURING,**
**ASSET TRANSFER, SHARE TRANSFER,**
**DEBT RESTRUCTURING INVOLVING**
**SCHEMES OF ARRANGEMENT WITH THE CREDITORS,**
**SUBSCRIPTION OF NEW SHARES,**
**ASSET INJECTION INVOLVING A MAJOR TRANSACTION,**
**WHITEWASH WAIVER**

We refer to the circular dated 31 March 2002 issued to the Shareholders (the ''Circular''), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

As non-executive Directors who are independent of the parties to the Restructuring Proposal, we have been appointed by the Board to advise you as to whether, in our opinion, the respective terms of the Restructuring Proposals and the Whitewash Waiver taken as a whole, are fair and reasonable so far as the interests of the Independent Shareholders are concerned.

Anglo Chinese has been appointed by the Receivers as the independent financial adviser to advise us regarding the fairness and reasonableness of the respective terms and conditions of the Restructuring Proposals and the Whitewash Waiver. Details of its advice, together with the principal factors and reasons taken into consideration in arriving at such opinion, are set out on pages 39 to 49 of the Circular. Your attention is also drawn to the letter from the Board set out on pages 10 to 28 of the Circular and the additional information set out in the appendices to the Circular.

Having taken into account the principal factors and reasons considered by Anglo Chinese as stated in its letter of advice, we consider that the respective terms and conditions of the Restructuring Proposals and the Whitewash Waiver, taken as a whole, are fair and reasonable so far as the interests of the Independent Shareholders are concerned and are in the interests of the Company and its Shareholders. We therefore recommend that the Independent Shareholders vote in favour of the resolutions in relation to the Restructuring Agreements and the Whitewash Waiver to be proposed at the SGM.

Yours faithfully,
**Gerald Clive Dobby** **Wu Sai Wing**
*Independent Board Committee*

* *for identification purposes only*

ANGLO CHINESE
CORPORATE FINANCE, LIMITED
40th Floor, Two Exchange Square, 8 Connaught Place, Central, Hong Kong.
財務顧問有限公司 英高

*To the Independent Board Committee*

Wireless InterNetworks Limited
(Receivers and Managers Appointed)
8/F Prince's Building
Chater Road
Central, Hong Kong

31 March 2002

**RESTRUCTURING PROPOSAL**

**Introduction**

We refer to our appointment to advise you as regards the Restructuring Agreements and the Whitewash Waiver, details of which are set out in this circular dated 31 March 2002, of which this letter forms a part. Unless the context requires otherwise, terms used in this letter shall have the same meanings as those defined in this circular.

Mr. Howard Leung, the executive Director, has entered into a service contract with the Group and therefore he is not considered independent. There is no other executive Director on the Board. Accordingly, there is no executive Director sufficiently independent to advise the Independent Shareholders on the Restructuring Proposal. Messrs. Gerald Clive Dobby and Wu Sai Wing, the independent non-executive Directors, have been appointed by the Board to form the Independent Board Committee to consider and advise the Independent Shareholders on the terms of the Restructuring Agreements and the Whitewash Waiver. We have been appointed to advise the Independent Board Committee in this regard.

In formulating our advice, we have relied upon the accuracy of the information and representations contained in this circular. We have assumed that all statements and representations made or referred to in this circular were true at the time they were made and continue to be true as at the date of this circular. We have assumed that all statements of belief, opinion and intention made by the Directors and the directors of CCT and Defa in this circular have been reasonably made after due enquiry and have relied on the responsibility statements set out in section 1 of Appendix IV to this circular.

We consider that we have reviewed sufficient information to reach an informed view, to justify our reliance on the accuracy of the information contained in this circular and to provide a reasonable basis for our advice. The Directors have confirmed to us that no material facts have been omitted from the information supplied and opinions expressed and we have no reason to suspect that any material information has been withheld by the Directors or is misleading. We have not, however, conducted an independent in-depth investigation into the affairs of the Group or the prospects of the industry sector in which the Group operates.

**Principal factors**

In considering whether or not the terms of the Restructuring Agreements are fair and reasonable so far as the interests of the Independent Shareholders are concerned, we have given particular regard to the following principal factors and reasons:

– **Reasons for the Restructuring Proposal**

As stated in the letter from the Board in this circular, the Group has been experiencing financial difficulties since 1997 due to insufficient financial support and global material shortages. As at the close of business on 20 March 2002, the total indebtedness of the Group was approximately HK$1,065.3 million. In 2000, the Company entered into the Modified Debt Restructuring Agreement with the Bank Creditors and Swiss Noteholders to restructure its indebtedness. In February 2001, the Company breached the Modified Debt Restructuring Agreement and the Debenture (provided as security for repayment obligation undertaken under the Notes). In March 2001, the Company was placed under receivership and since then the Group has been actively searching for potential investors with an aim to raise new funds and restructure the Group. After extensive negotiations, two new investors, CCT and Defa have each agreed to subscribe for 2,000,000,000 New Shares in an aggregate amount of HK$40 million in cash. In addition, CCT has agreed to sell ESL, its indirectly wholly-owned subsidiary, to the Company at a consideration of HK$70 million. The Compromise Agreement, the Subscription Agreement and the Injection Agreement were executed on 10 August 2001 between, among others, the Investors, the Company and the Receivers.

All the transactions contemplated under the Restructuring Proposal are inter-conditional. While we comment on the individual features of the Restructuring Proposal below, Independent Shareholders should consider the Restructuring Proposal as one package and we have evaluated the Restructuring Proposal in this light.

– **Existing financial position of the Group**

*Net assets*

As set out in Appendix I to this circular, the consolidated net liabilities of the Group as at 30 September 2001 prior to Completion would be approximately HK$50.4 million, equivalent to net liabilities of approximately HK$0.008 per Existing Share. In view of the substantial deficit in the Group's shareholders' funds, without a debt restructuring of the Company, we expect that on a liquidation of the Company, the Shareholders would not be entitled to receive any distribution of the Group's assets.

*Financial results*

The audited consolidated results of the Group for the two financial years ended 30 June 1999, the fifteen months ended 30 September 2000 and the financial year ended 30 September 2001 as disclosed in Appendix I are summarised as follows:

| | Year ended 30 June | | 15 months ended 30 September | Year ended 30 September |
|---|---|---|---|---|
| | **1998** | **1999** | **2000** | **2001** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Turnover | 497,468 | 364,880 | 539,577 | 84,183 |
| Loss for the year/period | (182,620) | (158,765) | (206,132) | (44,953) |
| Share of results of associates | (8,463) | (50) | – | – |
| Loss before taxation | (191,083) | (158,815) | (206,132) | (44,953) |
| Taxation | 535 | – | – | – |
| Loss attributable to shareholders | (191,618) | (158,815) | (206,132) | (44,953) |
| Loss per share (cents): | | | | |
| Basic and diluted | (19.67) cents | (16.29) cents | (11.49) cents | (0.71) cents |

The Group incurred significant losses of HK$158.8 million and HK$206.1 million for the year ended 30 June 1999 and the fifteen months ended 30 September 2000 respectively. Of the HK$158.8 million loss for the year ended 30 June 1999, HK$82.1 million was related to penalty interest on overdue indebtedness in amount of HK$34.4 million, a deficit arising on revaluation of properties of HK$24.8 million, legal and professional fees in relation to restructuring and seeking new investors and other advisory services of HK$8.4 million, provision for special compensation to a customer of HK$5.0 million and others provisions of HK$3.7 million. Of the HK$206.1 million loss for the fifteen months ended 30 September 2000, HK$80.1 million was mainly related to deficit on revaluation of properties of HK$32.9 million, provisions for amounts due from associates of HK$39.0 million and a write off of goodwill on acquisition of an associate of HK$8.0 million. Deloitte Touche Tohmatsu, the auditors of the Company have qualified the accounts for the year ended 30 September 2000 as they were unable to form an opinion on the audited accounts of the Group for the year ended 30 September 2000 as to whether the accounts gave a true and fair view of the state of affairs of the Company and the Group as at 30 September 2000 and of the loss and cash flows of the Group for the year then ended and as to whether the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance. The report of the auditors is reproduced in Appendix I to this circular. For the year ended 30 September 2001, the Group recorded an operating loss of HK$44.95 million. We consider that without implementing a proposal to recapitalise and restructure the Group and inject a profitable business into the Group, it is not likely that the Group would be able to achieve a recovery through internal resources and existing business operations of the Group.

**The Restructuring Proposal**

In view of the financial difficulties of the Group, the Restructuring Proposal has been an essential to restore the capital base of the Company, to return the Group to profitability and to raise additional working capital. The Restructuring Proposal principally involves the proposed Capital Restructuring, the Debt Restructuring, the Asset Transfer and Share Transfer, the Subscription and the Asset Injection. The Capital Restructuring will involve the Capital Reduction, the Share Consolidation and the Authorised Share Capital Increase. The Debt Restructuring will involve the Notes Restructuring Offer and the Company Scheme.

*Capital Restructuring*

It is proposed that the nominal value of each issued Existing Share will be reduced by HK$0.019 to HK$0.001 and each unissued Existing Share will be sub-divided into 20 shares of HK$0.001 each. Following the Capital Reduction becoming effective, the Company's authorised share capital will have been reduced from HK$200,000,000.00 divided into 10,000,000,000 shares of HK$0.02 each to HK$78,703,323.20 divided into 7,870,332,320 shares of HK$0.01 each. Following the completion of the Capital Reduction, every ten Reduced Shares of HK$0.001 each will be consolidated into one New Share of HK$0.01 each. Immediately following the Share Consolidation becoming effective, the Authorised Share Capital Increase will become effective, whereby the authorised share capital of the Company will have been increased to HK$150,000,000.00 divided into 15,000,000,000 new shares.

The purposes of the Capital Reduction are to enable the Company to issue shares at a consideration below the current nominal value of the Existing Shares of HK$0.02 per Share which is significantly in excess of the current net tangible asset value per Share. The credit balance arising from the Capital Reduction of HK$121.3 million shall be applied to write off part of the brought forward accumulated losses of the Company. The approval of the Capital Restructuring by the Independent Shareholders is one of the conditions precedent to the Restructuring Agreements. Upon the Capital Restructuring becoming effective, each of Debt Restructuring, the Subscription and the Asset Injection can take place. In view of the foregoing, we consider that the Capital Restructuring is a reasonable and acceptable arrangement for all Shareholders and is in the interests of the Company.

*Debt Restructuring*

As at the Latest Practicable Date, the total indebtedness owed by S. Megga and the Company to their respective creditors was approximately HK$1,059.0 million of which HK$76.7 million was owed by the Company and the balance of HK$982.3 million was owed by S. Megga. The total indebtedness of HK$76.7 million of the Company comprises the indebtedness owed to the Noteholders of approximately HK$63.7 million and the balance of approximately HK$13 million was owed to other unsecured creditors.

An offer will be made to the Noteholders that an amount of HK$38.2 million will be paid by the Company upon Completion by way of cash of HK$20 million from the proceeds of the Subscription and the issue of 1,820,000,000 New Shares to the Noteholders at HK$0.01 per Share. The Shortfall of HK$25.5 million from the total indebtedness due to the Noteholders will form part of the Company's unsecured indebtedness to be compromised under the Company Scheme together with the indebtedness of the Company's unsecured creditors.

As at the Latest Practicable Date, total indebtedness of the Company due to its unsecured creditors was approximately HK$13 million. After including the Shortfall of HK$23.2 million (after taking into account of the difference between the value of the Company's assets charged and an amount of HK$38.2 million paid by the Company), the Company will have total unsecured

indebtedness of approximately HK$36.2 million. At the Company Creditors' Meetings held on Friday 11 January 2002, the Company Scheme was approved by the required majorities of Creditors and subsequently application has been made to the Court for sanction of the Company Scheme. In accordance with the terms of the Company Scheme, all unsecured indebtedness of the Company as at the Effective Date shall be discharged in full immediately upon payment of cash of HK$3 million to the unsecured creditors.

*Asset Transfer and Share Transfer*

Pursuant to the Asset Transfer Agreement, certain assets will be transferred by S.Megga to another subsidiary of the Company. Details of such assets are listed out under the section headed ''Asset Transfer and Share Transfer'' in the Letter from the Board. The remaining assets will be retained by S.Megga. The entire issued voting share capital of S.Megga, including wholly-owned subsidiaries of S.Megga, will then be transferred to a company beneficially owned by the Receivers, pursuant to the Share Transfer for a consideration of HK$2 million in cash; the allotment and issue to S.Megga (or as the Receivers may direct) of 100 million New Shares; and the waiver of certain of the unsecured indebtedness of approximately HK$805.7 million owed by S.Megga to the Company and to certain members of the Group. The consideration received by S.Megga will be made available to the unsecured creditors of S.Megga in accordance with S.Megga Scheme as described under the section headed ''Asset Transfer and Share Transfer'' in the ''Letter from the Board''.

As indicated in the statement of pro forma adjusted consolidated net asset value of the enlarged Group in Appendix I of this circular, the Debt Restructuring, and the Asset Transfer and Share Transfer will substantially improve the net worth position of the Group by approximately HK$70.4 million, which in our opinion, is in the interests of the Company and the Shareholders.

*Subscription*

Under the Subscription Agreement, CCT and Defa will each subscribe for 2,000,000,000 New Shares, representing in aggregate of 44.16% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares, at a price of HK$0.01 per New Share. The Subscription will raise HK$40 million in cash before expenses. The issue price of HK$0.01 represents a significant premium over the consolidated net liabilities of the Group as at 30 September 2001 of HK$0.008 per Existing Share prior to the Completion. The Subscription will result in CCT and Defa becoming the single largest shareholders of the Company upon Completion. On the above bases, we consider that the terms of the Subscription Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

*Assets injection*

– *Assets to be acquired*

Under the Injection Agreement, the Company will acquire from CCT, the entire issued share capital of ESL for a consideration of HK$70 million. ESL is an indirect wholly-owned subsidiary of CCT and is a leading manufacturer of switching mode and linear mode power supplies and operated at a manufacturing plant in Dongguan, the PRC. The main products of ESL include transformers, AC/DC adaptors, and custom built-in power supply, which are used in the manufacturing of corded and cordless telephones.

– *Financial information*

Set out below is a summary of the audited financial statements of ESL, which has been extracted from the accountants' report on ESL in Appendix II to this circular, for the two years ended 31 December 2000 and the ten months ended 31 October 2001.

| | 31 December | | Ten months ended 31 October |
|---|---|---|---|
| | **1999** | **2000** | **2001** |
| | *HK$'000* | *HK$'000* | *HK$000* |
| Turnover | 111,571 | 125,770 | 122,309 |
| Profit before tax | 14,391 | 6,887 | 4,422 |
| Taxation | (1,602) | (1,580) | (1,295) |
| Profit attributable to shareholders | 12,789 | 5,307 | 3,127 |

The audited net tangible assets of ESL amounted to approximately HK$37.9 million as at 31 October 2001.

– *Basis of the consideration*

The consideration payable by the Company for ESL of HK$70 million is based on arm's length negotiation between CCT and the Company with reference to the valuation of 100% interest in ESL by American Appraisal Limited as at 31 July 2001 of HK$78.6 million.

We attempted to identify market comparables for assessing the implied price/earnings multiple of 13.2 times which is based on the earnings for the year ended 31 December 2000 in order to ascertain the fairness of the consideration. Based on the available information on Bloomberg, we are only aware of 6 comparable power supplies manufacturers, and the shares of which, namely United Pacific Industries Limited, Xepex Electronics Co. Ltd., Phihong Enterprise Co. Ltd., Sino-American Electronic Co. Ltd., Sigma Telecom Co. Ltd., Fine Suntronix Co. Ltd. are listed on the stock exchanges in Hong Kong, Korea and Taiwan (as the case may be). Set out below is a comparison of historical price/earnings multiples of these listed companies.

| Company | Stock Exchange | Financial year ended | Share Price (as of 27 March 2002) | Earnings (in millions) | Price/ earnings Ratio | Price/ book Ratio |
|---|---|---|---|---|---|---|
| United Pacific Industries | Hong Kong | March 2001 | HK$ 0.49 | HK$ 88.4 | 3.1 | 0.9 |
| Xepex Electronics | Taiwan OTC | December 2000 | NT$ 53 | NT$ 91.2 | 22.6 | 4.7 |
| Phihong Enterprise | Taipei | December 2000 | NT$ 63 | NT$ 700.6 | 17.2 | 3.9 |
| Sino-American Electronic | Taiwan OTC | December 2000 | NT$ 19.7 | NT$ 96.2 | 11.2 | 1.6 |
| Sigma Telecom | KOSDAQ | December 2000 | WON 3,410 | WON 503.0 | 16.8 | 2.1 |
| Fine Suntronix | KOSDAQ | December 2000 | WON 3,280 | WON 3,172.6 | 9.1 | 1.6 |
| High | | | | | 22.6 | 4.7 |
| Low | | | | | 3.1 | 0.9 |
| Average | | | | | 13.3 | 2.5 |

*Source: Bloomberg*

The average historical price/earnings ratio of the above comparables was approximately 13.3 times, which compared similar to the price/earnings multiple of 13.2 times that was implied by the consideration. In addition, the average price to book ratio of the above comparables were approximately 2.5, which compared higher than the price to book ratio of 1.7 times as set out in the table above.

In our opinion, we find that the consideration paid by the Company was relatively expensive when compared to some comparables but we believe that it is reasonable in view of the potential benefits which the Restructuring Proposal can bring to the Company and we also believe that the prospects for the Company are poor if the Restructuring Agreements do not proceed. Notwithstanding the above, the price/earnings ratio of ESL that was implied by the consideration is within the range at which other comparables as set out in the above table. The consideration is used as the basis to determine the issue of 2,500,000,000 New Shares and the issue of the New Notes. We would therefore, consider that the consideration is fair and reasonable so far as the Company and the Independent Shareholders are concerned.

**Effects of the Restructuring Proposal**

*Shareholdings and dilution for the Independent Shareholders*

The following table sets out the shareholding structure of the Company before and after completion of the Restructuring Proposal:

| | Existing shareholding of the Company (Existing Shares at HK$0.02 each) | | Shareholding of the Company upon the Capital Restructuring becoming effective (New Shares at HK$0.01 each) | | Shareholding of the Company immediately upon Completion but before conversion of the New Notes (New Shares at HK$0.01 each) | | Shareholding of the Company immediately upon Completion and assuming full conversion of the New Notes (New Shares at HK$0.01 each) | |
|---|---|---|---|---|---|---|---|---|
| | *(million)* | *%* | *(million)* | *%* | *(million)* | *%* | *(million)* | *%* |
| SCB | 1,647.7 | 25.81 | 164.8 | 25.81 | 1,424.4 | 15.72 | 1,424.4 | 10.51 |
| S.Megga | – | – | – | – | – | – | – | – |
| Directors | 141.1 | 2.21 | 14.1 | 2.21 | 14.1 | 0.16 | 14.1 | 0.10 |
| CCT | – | – | – | – | 4,500.0 | 49.68 | 9,000.0 | 66.38 |
| Defa | – | – | – | – | 2,000.0 | 22.08 | 2,000.0 | 14.75 |
| Other Public Shareholders | | | | | | | | |
| – unsecured creditors of S.Megga | – | – | – | – | 100 | 1.10 | 100 | 0.74 |
| – others | 4,595.2 | 71.98 | 459.5 | 71.98 | 1,019.9 | 11.26 | 1,019.9 | 7.52 |
| Total | 6,384.0 | 100.00 | 638.4 | 100.00 | 9,058.4 | 100.00 | 13,558.4 | 100.00 |

As illustrated above, Independent Shareholders currently hold 97.79% of the total issued Existing Shares. Upon Completion but before and after conversion of the New Notes, this percentage will be reduced to 28.08% and 18.77% respectively of the enlarged issued share capital. The decrease in shareholding of Independent Shareholders is principally due to the dilution as a result of the allotment and issue of New Shares pursuant to the Subscription and the Asset Injection, which will result in CCT obtaining statutory control in the Company.

In view of the current financial condition of the Company, we consider that the degree of shareholding dilution for Independent Shareholders, though substantial, is acceptable, bearing in mind that in the absence of the Subscription and a statutory controlling interest in the Company being delivered to CCT, CCT would probably not be willing to proceed with the Restructuring Proposal.

*Net assets*

Based on the pro forma statement of adjusted consolidated net asset value of the Group as set out in Appendix I to this circular, the pro forma unaudited adjusted consolidated net asset value of the Group upon Completion will be approximately HK$20.0 million, equivalent to a net asset value of approximately HK$0.002 per New Share. This is a significant improvement against the consolidated net liabilities of the Group as at 30 September 2001 of approximately HK$50.4 million, equivalent to net liabilities of approximately HK$0.008 per Existing Share before implementation of the Restructuring Proposal. The improvement in the overall pro forma net asset position of the Group by approximately HK$70.4 million is a significant benefit to the Independent Shareholders.

*Working capital*

It is expected that gross proceeds of approximately HK$40 million will be raised from the Subscription. The Directors are of the opinion that following completion of the Restructuring Proposal and in the absence of unforeseeable circumstances, the Group will have sufficient working capital for its present requirements based on its existing scale of operation.

Shareholders should note that building on a slim net asset base of approximately HK$20.0 million upon Completion may be restricted, the Company may therefore require further fund raising, which may include share issues in the event of any new business development or investment or expansionary plan. Independent Shareholders may, therefore, face calls for further cash or suffer dilution of their shareholding interests in the Company. All equity fund raising activities will be subject to compliance with the Listing Rules.

*Results of operations*

Based on the audited consolidated financial statements for the 15 months period ended 30 September 2000 and for the financial year ended 30 September 2001 as set out in Appendix I to this circular, in that year the Group's turnover decreased significantly from HK$539.6 million to HK$84.2 million and one of the major reasons for such a reduction of turnover was lack of working capital to fund the existing business. We consider that the implementation of the Restructuring Proposal will provide new working capital for the Group to revitalise its existing business. We believe the successful implementation of the Restructuring Agreements will have a positive effect on the Group's operating results and on its ability to negotiate better credit terms with suppliers with its improved financial position. However, it should be noted that no assurance can be given that the Group's existing business will return to profitability in the near future.

Taking into consideration these effects of the Restructuring Proposal set out above, we consider that the Restructuring Agreements are beneficial to the Company and that the terms thereof are fair and reasonable to the Independent Shareholders.

**The Whitewash Waiver**

Immediately upon Completion, CCT and Defa and parties acting in concert with them will hold approximately 71.76% of the then enlarged share capital. As CCT and Defa will have acquired more than 35% of the issued share capital of the Company immediately upon completion of the Subscription and the Asset Injection, it would normally be required under Rule 26 of the Code to make a general offer to all Shareholders for the shares of the Company other than those already owned by it or parties acting in concert with it. CCT and Defa have made an application to the Executive for the Whitewash Waiver from the obligation to make an offer for the shares of the Company that may otherwise arise under Rule 26 of the Code as a result of the issue of the New Shares to it pursuant to the Subscription and the Asset Injection.

The Restructuring Agreements are conditional upon the granting of the Whitewash Waiver by the Executive and the Independent Shareholders' approving the Whitewash Waiver. In the event that the Whitewash Waiver is not granted or approved by Independent Shareholders, the Restructuring Agreements will lapse. Under such circumstances, if there is no other restructuring proposal available to restructure the Company, it is probable that the Company may go into liquidation. The Directors consider that the Restructuring Proposal is the most practical solution currently available to the problems faced by the Group.

We are of the opinion that the successful implementation of the Restructuring Agreements will have a positive effect on the Group's financial position and will enhance the value of the Independent Shareholders' interest in the Company. Therefore, we consider that the grant of the Whitewash Waiver is an acceptable element in the context of a financial rescue of the Company, which is an essential element of the Restructuring Proposal, we are of the view that the grant of the Whitewash Waiver is fair and reasonable to the interests of the Independent Shareholders.

**Future plans of the Group**

The future plans of the Group are set out in the letter from the Investors in this circular. Independent Shareholders are recommended to read this section carefully. In particular, the following points are made:

- the Group will continue to be engaged in its existing business of manufacturing and development of telecommunication products;

- the new management team has substantial ability and PRC business experience in the field of telecommunication products and services;

- the Group will have the necessary working capital to rebuild its manufacturing base and to re-establish its market position as a manufacturer of telecom products in Hong Kong and the PRC.

In view of the substantial losses made by the Group in the past, CCT and Defa considers that its priority is to review the financial position, business operations and assets portfolio of the Group with a view to restoring the profitability of the Group's existing businesses by tightening the financial and internal control of the Group. CCT and Defa currently has no further plan to inject any assets in the Group. Although we are not in a position to comment on the prospects of the Group, we concur with CCT and Defa that the existing proposal to the Group is necessary in order for the Group to improve the current financial status of the Group.

**Future management**

Upon Completion, CCT and Defa will nominate at least three executive Directors and two independent non-executive Directors to the Board upon Completion. As the new board have sufficient experience in the manufacturing of telecom products, the resignation of all the existing Directors will not affect the operation and business of the Group. The new management team, including Messrs. Mak Shiu Tong, Clement, Tam Ngai Hung, Terry and Ms. Cheng Yuk Ching, Flora, will continue to manage the core business of the Group.

In view of the new management team's experiences in the operation and business of electronics manufacturing distribution industry, we consider that the appointment of the new management team is in the interest of the Company and the Shareholders are concerned.

**Conclusion**

Although there are a number of elements to the Restructuring Proposal and a range of possible outcomes in terms of shareholdings, the issues to be considered by Independent Shareholders are, in our opinion, relatively straightforward. The Independent Shareholders in aggregate hold approximately 6,242.9 million Existing Shares, representing approximately 97.79% of the existing

issued share capital of the Company. Under the Restructuring Proposal, the Independent Shareholders will be diluted down to 18.77% of the issued share capital on Completion and assuming full conversion of the New Note. The financial position of the Group will be significantly improved after Completion enhancing the value of the interests of the Independent Shareholders and the Company. In view of the Company's current financial condition, we consider that the Company would be placed in liquidation in the absence of the Restructuring Proposal. In the event of such liquidation, based on the Group's consolidated net liabilities of HK$50.4 million as at 30 September 2001, it is expected that the Shareholders would not receive any distribution of capital.

**Recommendation**

For the reasons and factors set out above, we consider that the terms as regards the Restructuring Agreements and the Whitewash waiver, are fair and reasonable so far as the interests of the Independent Shareholders are concerned. Accordingly, we advise the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the SGM.

Yours faithfully,
For and on behalf of
**Anglo Chinese Corporate Finance, Limited**
**Dennis Cassidy**
*Director*

## 1. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date were, and following completion of the Restructuring Proposal will be, as follows:

| *Authorised:* | | *HK$* |
|---|---|---|
| 10,000,000,000 | Shares of HK$0.02 each as at the Latest Practicable Date | 200,000,000 |
| 15,000,000,000 | New Shares of HK$0.01 each upon the Capital Restructuring becoming effective | 150,000,000 |
| *Issued and fully paid:* | | |
| 6,384,035,621 | Shares of HK$0.02 each as at the Latest Practicable Date | 127,680,712.42 |
| 638,403,562 | New Shares of HK$0.01 each upon the Capital Restructuring becoming effective | 6,384,035.62 |
| 8,420,000,000 | New Shares of HK$0.01 each to be issued upon completion of the Restructuring Agreements but prior to the conversion of the New Notes | 84,200,000.00 |
| 9,058,403,562 | | 90,584,035.62 |

There has been no alteration in the number of issued Shares since 30 September 2001 which is the last financial year end date of the Company prior to the Latest Practicable Date.

As at the Latest Practicable Date, all of the issued Existing Shares rank pari passu in all respects with each other, including in particular, as to dividends, voting rights and return of capital. All the New Shares to be issued will rank pari passu in all respects with each other, including in particular, as to dividends, voting rights and return of capital.

As at the Latest Practicable Date, except for the Notes, the Company has no other outstanding warrants or securities convertible into Shares or New Shares, and no other share or loan capital of the Company has been put under option or agreed conditionally or unconditionally to be put under option and no other warrant or conversion right affecting the Shares or other derivatives in respect of the Company's securities or which carry voting rights has been issued or granted or agreed conditionally, or unconditionally to be issued or granted. The details of the Notes are contained on page 19 of this circular.

Subject to Completion, New Notes in the principal amount of HK$45 million will be issued. Exercise in full of the conversion rights attaching to the New Notes at the conversion price of HK$0.01 per New Share will lead to the issue of 4,500 million New Shares. The details of the New Notes are contained on page 19 of this circular.

## 2. FINANCIAL SUMMARY

The table set out below summarises the consolidated results of the Group for the preceding five financial periods ended 30 September 2001, as derived from the audited consolidated financial statements of the Company of each respective year adjusted to reflect the change in accounting policy of the Company as described in the note below. Shareholders should note the qualifications stated in the audit reports for the fifteen months ended 30 September 2000 and for the year ended 30 September 2001. Because of the significance of the possible effect of the limitations in evidence available to the auditors of the Company referred to in the basis of opinion section of their reports, the auditors were unable to form an opinion as to whether the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 30 September 2000 and 30 September 2001 or of the loss and cash flows of the Group for the fifteen-month period ended on 30 September 2000 and the year ended 30 September 2001 and as to whether the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance. For the preceding five financial periods ended 30 September 2001, the auditors also disclaimed their opinion in respect of the fundmental uncertainty relating to the going concern of the Company pending the results of a financial restructuring.

| | Year ended 30 June | | | 15 months ended | Year ended |
|---|---|---|---|---|---|
| | **1997** | **1998** | **1999** | **30 Sept 2000** | **30 Sept 2001** |
| | *HK$'000 (note below)* | *HK$'000 (note below)* | *HK$'000* | *HK$'000* | *HK$'000* |
| Turnover | 604,874 | 497,468 | 364,880 | 539,577 | 84,183 |
| Loss for the year/period | (579,166) | (182,620) | (158,765) | (206,132) | (44,953) |
| Share of results of associates | (14,452) | (8,463) | (50) | – | – |
| Loss before taxation | (593,618) | (191,083) | (158,815) | (206,132) | (44,953) |
| Taxation | (16,102) | 535 | – | – | – |
| Loss before minority interests | (577,516) | (191,618) | (158,815) | (206,132) | (44,953) |
| Minority interests | 13,940 | – | – | – | – |
| Loss attributable to shareholders | (563,576) | (191,618) | (158,815) | (206,132) | (44,953) |
| Loss per share (cents): | | | | | |
| Basic and diluted | (90.56 cents) | (19.67 cents) | (16.29 cents) | (11.49 cents) | (0.71 cents) |

*Note:* In 2000, the Company has adopted, for the first time, the Statement of Standard Accounting Practice 10 (Revised) ''Accounting for investments in associates'' issued by the Hong Kong Society of Accountants. The revision of SSAP 10 has not resulted in any significant changes to the accounting treatment adopted for associates, except in relation to associates with net deficits. Prior to 1 July 1999, the Group accounted for its share of all of the losses of such associates provided that the investment was regarded as long-term. Under SSAP 10 (Revised), recognition of such losses is discontinued when the losses equal to the carrying amount of the Group's investment, except to the extent that the Group has incurred obligations in respect of, or made payments to satisfy obligations of, the associates, that the Group has guarenteed or otherwise committed. Because the Group has no obligations to share the net deficits of certain associates of the Group, a prior period adjustment has been made in order to reflect the adjustment for the adopting of this new accounting policy. This change in accounting policy has been applied retrospectively resulting in reduction in the Group's deficit as at 1 July, 1998 and 1997 by HK$17,046,000 and HK$12,045,000 and in reduction in the Group's loss for the years ended 30 June 1998 and 1997 by HK$5,001,000 and HK$7,811,000, respectively.

The following table summarises the audited consolidated net assets of the Group as at the last five reported financial year end dates, as extracted from the respective financial statement of the Company and adjusted to reflect the change in accounting policy of the Company as described in the note below.

| | 30 June | | | 30 Sept | 30 Sept |
|---|---|---|---|---|---|
| | **1997** | **1998** | **1999** | **2000** | **2001** |
| | *HK$'000 (note below)* | *HK$'000 (note below)* | *HK$'000* | *HK$'000* | *HK$'000* |
| Total assets | 769,781 | 434,622 | 331,708 | 212,681 | 109,837 |
| Total liabilities and minority interests | (645,547) | (537,501) | (593,776) | (224,553) | (160,201) |
| Net assets/ (Net deficiency in assets) | 124,234 | (102,879) | (262,068) | (11,872) | (50,364) |

*Note:* In 2000, the Company has adopted, for the first time, the Statement of Standard Accounting Practice 10 (Revised) ''Accounting for investments in associates'' issued by the Hong Kong Society of Accountants. The revision of SSAP 10 has not resulted in any significant changes to the accounting treatment adopted for associates, except in relation to associates with net deficits. Prior to 1 July 1999, the Group accounted for its share of all of the losses of such associates provided that the investment was regarded as long-term. Under SSAP 10 (Revised), recognition of such losses is discontinued when the losses equal to the carrying amount of the Group's investment, except to the extent that the Group has incurred obligations in respect of, or made payments to satisfy obligations of, the associates, that the Group has guarenteed or otherwise committed. Because the Group has no obligations to share the net deficits of certain associates of the Group, a prior period adjustment has been made in order to reflect the adjustment for the adopting of this new accounting policy. This change in accounting policy has been applied retrospectively resulting in reduction in the Group's deficit as at 1 July, 1998 and 1997 by HK$17,046,000 and HK$12,045,000 and in reduction in the Group's loss for the years ended 30 June 1998 and 1997 by HK$5,001,000 and HK$7,811,000, respectively.

## 3. AUDITED FINANCIAL STATEMENTS

The following information is extracted from the audited financial statements of the Company for the fifteen-month ended 30 September 2000 and the year ended 30 September 2001.

### 3A. For the Fifteen-Month Ended 30 September 2000

德勤•關黃陳方會計師行

Certified Public Accountants
26/F, Wing On Centre
111 Connaught Road Central
Hong Kong

香港中環干諾道中111號
永安中心26樓

Deloitte Touche Tohmatsu

**TO THE MEMBERS OF WIRELESS INTERNETWORKS LIMITED (Receivers and Managers appointed)**
**(Formerly S.Megga International Holdings Limited)**
*(incorporated in Bermuda with limited liability)*

We have audited the financial statements on pages 58 to 101 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

**Respective responsibilities of Directors and auditors**

The Company's Directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

**Basis of opinion**

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants, except that the scope of our work was limited as explained below.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. However, the evidence available to us was limited as set out below.

1. As explained in note 6(b)i to the financial statements, the Current Directors of the Company (as defined in note 1 to the financial statements) have been unable to satisfy themselves as to whether the following amounts included in the financial statements have been completely and accurately recorded by the Group:

   – Turnover of HK$539,577,000;

   – Purchases, direct labour cost, and other direct and indirect manufacturing costs of HK$453,112,000, HK$26,758,000 and HK$73,275,000, respectively, included in cost of sales;

   – Other revenue of HK$55,191,000;

   – Selling and administrative expenses of HK$91,347,000;

   – Finance costs of HK$50,677,000;

   – Operating lease rental payments in respect of land and buildings and plant and machinery of HK$1,954,000 and HK$20,000 respectively;

   – Total directors' remuneration and other staff costs of HK$57,122,000 (excluding amount capitalised in deferred development expenditure) as analysed in notes 11 and 12 to the financial statements;

   – Gross rental income of HK$5,130,000;

   – Tax recoverable with nil balance; and

   – Trade and other payables of HK$115,626,000.

   As a result of the above, the Current Directors were also unable to satisfy themselves as to:

   – the appropriateness of the provision for bad and doubtful debts of HK$3,206,000; and

   – the reliability of the segmental information in note 9 to the financial statements.

2. Included in the Group's property, plant and equipment as at 30 September 2000 were freehold land and buildings outside Hong Kong with a carrying value of HK$14,754,000 as at that date. We were unable to obtain sufficient information and explanations to assess whether any impairment loss should be recognised in respect of this freehold land and buildings.

3. As explained in note 6(b)ii to the financial statements, the Current Directors have been unable to locate sufficient documentary records to satisfy themselves regarding the movements in deferred development expenditure of the Group for the fifteen-month period ended 30 September 2000. Accordingly, the Current Directors were unable to satisfy themselves regarding the appropriateness of the write-off of deferred development expenditure of HK$29,052,000 included in the consolidated income statement of the Group for the fifteen-month period ended 30 September 2000.

4. As explained in note 6(b)iii to the financial statements, included in bank balances and cash of the Group was an amount of HK$1,318,000 which the Current Directors were unable to reconcile to the bank statements. Also, included in bank balances and cash of the Group was an amount of

HK$167,000 in respect of which the Current Directors were unable to obtain any bank statements. Accordingly, the Current Directors were unable to satisfy themselves that the bank balances and cash of the Group was fairly stated in the consolidated balance sheet of the Group as at 30 September 2000.

5. As explained in note 6(b)iv to the financial statements, the Current Directors are unable to represent as to the completeness of recording of transactions entered into by the Group and the Company for the fifteen-month period ended 30 September 2000 and of the completeness of disclosure of claims, commitments and contingent liabilities in the financial statements as at 30 September 2000. The Current Directors are also unable to represent as to the completeness of identification and appropriateness of disclosure of the potential deferred taxation, pledge of assets, and related party transactions and balances.

6. As explained in note 6(c) to the financial statements, the joint venture partner of a subsidiary of the Company and certain creditors of the Company took legal actions against the Group. Demands have been served on the Group at The People's Court, Dongguan, the PRC, and certain assets of the Group located in the PRC, including inventories, plant and machinery, furniture, fixtures and equipment, moulds and tools and motor vehicles of the Group, have been put under sealing orders or taken possession of by the creditors.

   In addition, the Current Directors were unable to locate the list of inventories and fixed assets register or other sufficient documentary records to identify individual inventories, plant and machinery, furniture, fixtures and equipment, moulds and tools and motor vehicles either in Dongguan, the PRC, or in Hong Kong, amounting to HK$58,861,000, HK$ 34,676,000, HK$21,782,000, HK$2,676,000 and HK$790,000, respectively.

   Accordingly, the Current Directors were unable to satisfy themselves as to whether the inventories were fairly stated as at 30 September 2000 and similarly whether the plant and machinery, furniture, fixtures and equipment, moulds and tools and motor vehicles of the Group and the depreciation and amortisation charge in respect of property, plant and equipment of HK$15,120,000 (excluding amount capitalised in deferred development expenditure) for the fifteen-month period were fairly stated in the financial statements.

7. As explained in note 6(d) to the financial statements, included in the consolidated financial statements were amounts in respect of certain subsidiaries of the Company, namely Dongguan S.Megga Telecommunications Limited and S.Meggatel Sdn. Bhd. (together referred to as the ''Subsidiaries'') for the fifteen-month period ended 30 September 2000 as follows:

   – Other revenue of HK$45,000;

   – Selling and administrative expenses of HK$5,402,000;

   – Provision for bad and doubtful debts HK$94,000.

   – Finance costs of HK$432,000;

   – Other payables of HK$665,000;

   – Bank balances and cash of HK$801,000; and

   – Bank and other borrowings of HK$2,177,000.

The above amounts were included in the consolidated financial statements based on the unaudited management accounts of these Subsidiaries for the fifteen-month period ended 30 September 2000; being the only financial information the Current Directors could obtain. Accordingly, the Current Directors have been unable to satisfy themselves that the results, assets and liabilities of these Subsidiaries have been properly included in the consolidated financial statements of the Group.

8. We have been unable to obtain direct confirmations or other documentary evidence in respect of the Company's and the Group's borrowings from other loans lenders and holders of convertible notes in respect of balances due to them in the amount of HK$7,800,000 and HK$20,374,000, respectively, included in the consolidated balance sheet of the Group as at 30 September 2000. Accordingly, we were unable to satisfy ourselves as to whether these amounts were fairly stated in the financial statements.

There were no other satisfactory audit procedures that we could adopt to satisfy ourselves as to the matters set out in paragraphs 1 to 8 above. Any adjustments to the above figures would affect the net liabilities of the Group and the Company as at 30 September 2000 and the loss and cash flows of the Group for the fifteen-month period then ended.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

**Basis of preparation of financial statements**

In forming our opinion, we have considered the adequacy of the disclosure made in note 6(a) to the financial statements. In early 2001, receivers were appointed by the security trustee of the 3 Years Convertible Noteholders and 7 Years Convertible Noteholders in respect of the Company and certain subsidiaries of the Company, including S.Megga Telecommunications Limited, a principal subsidiary. Subsequent to the appointment of the receivers, the Group's production has been suspended pending the injection of additional funds which would be made available upon the successful completion of a restructuring proposal (the ''Restructuring Proposal''). Further, a supplier and a former director of the Company filed wind-up petitions against S.Megga Telecommunications Limited and the Company, respectively. Against this background, the Company entered into certain agreements (the ''Restructuring Agreements'') with certain third parties and details of the Restructuring Proposal are described in note 5 to the financial statements.

Providing that the Restructuring Proposal can be successfully implemented upon completion of the Restructuring Agreements, the Current Directors are satisfied that the operations and businesses of the Group can be reactivated and the financial difficulties of the Group resolved.

**Disclaimer of opinion**

Because of the significance of the possible effect of the limitations in evidence available to us referred to in the basis of opinion section of this report, we are unable to form an opinion as to whether the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 30 September 2000 or of the loss and cash flows of the Group for the fifteen-month period then ended and as to whether the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

In respect alone of the limitations on our work as set out in the basis of opinion section of this report;

- we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and

- we were unable to determine whether proper books of accounts have been kept.

**Deloitte Touche Tohmatsu**

25 February 2002

**CONSOLIDATED INCOME STATEMENT**

*FOR THE FIFTEEN-MONTH PERIOD ENDED 30 SEPTEMBER 2000*

| | NOTES | 1.7.1999 to 30.9.2000 HK$'000 | 1.7.1998 to 30.6.1999 HK$'000 |
|---|---|---|---|
| Turnover | 9 | 539,577 | 364,880 |
| Cost of sales | | (539,360) | (332,722) |
| | | 217 | 32,158 |
| Other revenue | 10 | 55,236 | 1,714 |
| Selling and administrative expenses | | (97,662) | (69,078) |
| Deficit arising on revaluation of properties | | (32,942) | (24,793) |
| Write-off of deferred development expenditure | | (29,052) | (14,341) |
| Provision for bad and doubtful debts | | (3,300) | – |
| Deficit arising on revaluation of plant and equipment | | (373) | – |
| Legal and professional fees for litigation against a former customer | | – | (5,373) |
| Loss from operations | 9&11 | (107,876) | (79,713) |
| Finance costs | 13 | (51,109) | (27,621) |
| Provision for amounts due from associates | | (39,022) | (2,588) |
| Write-off of goodwill on acquisition of an associate | | (8,045) | – |
| Impairment loss recognised in respect of an associate | | (80) | (1,086) |
| Penalty interest on overdue indebtedness | | – | (34,391) |
| Legal and professional fees for unsuccessful restructuring proposals | | – | (8,398) |
| Provision for special compensation to a customer | | – | (4,968) |
| Loss for the period | | (206,132) | (158,765) |
| Share of results of associates | | – | (50) |
| Loss attributable to shareholders | 15 | (206,132) | (158,815) |
| Loss per share | 16 | | |
| Basic and diluted | | (11.49 cents) | (16.29 cents) |

**CONSOLIDATED BALANCE SHEET**

*AS AT 30 SEPTEMBER 2000*

| | *NOTES* | **30.9.2000** *HK$'000* | **30.6.1999** *HK$'000* **(As restated)** |
|---|---|---|---|
| Non-current assets | | | |
| Investment properties | 17 | 18,000 | 18,000 |
| Property, plant and equipment | 18 | 110,273 | 153,432 |
| Interests in associates | 20 | – | 38,930 |
| Deferred development expenditure | 21 | – | 21,798 |
| Other investment | 22 | 368 | 368 |
| | | 128,641 | 232,528 |
| Current assets | | | |
| Inventories | 23 | 58,861 | 45,076 |
| Trade and other receivables | 24 | 15,984 | 35,278 |
| Tax recoverable | | – | 59 |
| Time deposits | | 5,864 | 700 |
| Bank balances and cash | | 3,331 | 18,067 |
| | | 84,040 | 99,180 |
| Current liabilities | | | |
| Trade and other payables | 25 | 117,204 | 167,573 |
| Bills payable | | – | 56,638 |
| Amounts due to associates | | – | 16,926 |
| Obligations under hire purchase contracts | | 380 | 1,567 |
| Convertible notes | 26 | 50,992 | 162,690 |
| Bank and other borrowings | 27 | 55,977 | 188,382 |
| | | 224,553 | 593,776 |
| Net current liabilities | | (140,513) | (494,596) |
| | | (11,872) | (262,068) |
| Capital and reserves | | | |
| Share capital | 28 | 120,694 | 97,481 |
| Reserves | 30 | (132,566) | (359,549) |
| | | (11,872) | (262,068) |

The financial statements on pages 58 to 101 were approved and authorised for issue by the board of directors on 25 February 2002 and are signed on its behalf by:

**Wu Sai Wing**
*DIRECTOR*

**Howard Leung**
*DIRECTOR*

**BALANCE SHEET**

*AS AT 30 SEPTEMBER 2000*

| | *NOTES* | **30.9.2000** *HK$'000* | **30.6.1999** *HK$'000* |
|---|---|---|---|
| Non-current assets | | | |
| Property, plant and equipment | 18 | – | 7 |
| Interests in subsidiaries | 19 | – | 101,561 |
| Interests in associates | 20 | – | – |
| | | – | 101,568 |
| Current assets | | | |
| Other receivables | | – | 127 |
| Time deposits | | 5,864 | – |
| Bank balances and cash | | 126 | 96 |
| | | 5,990 | 223 |
| Current liabilities | | | |
| Other payables | | 16,871 | 51,337 |
| Convertible notes | 26 | 50,992 | 162,690 |
| Bank and other borrowings | 27 | – | 166,612 |
| | | 67,863 | 380,639 |
| Net current liabilities | | (61,873) | (380,416) |
| | | (61,873) | (278,848) |
| Capital and reserves | | | |
| Share capital | 28 | 120,694 | 97,481 |
| Reserves | 30 | (182,567) | (376,329) |
| | | (61,873) | (278,848) |

**Wu Sai Wing**
*DIRECTOR*

**Howard Leung**
*DIRECTOR*

## CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

*FOR THE FIFTEEN-MONTH PERIOD ENDED 30 SEPTEMBER 2000*

| | 1.7.1999 to 30.9.2000 *HK$'000* | 1.7.1998 to 30.6.1999 *HK$'000* **(As restated)** |
|---|---|---|
| Exchange loss arising from translation of overseas operations not recognised in the consolidated income statement | – | (374) |
| Loss attributable to shareholders | (206,132) | (158,815) |
| Total recognised losses | (206,132) | (159,189) |
| Prior period adjustment effect of change in accounting policy on adoption of Statements of Standard Accounting Practice 10 (revised) resulting in a reduction in deficit as at 1 July 1998 (note 7 to the financial statements) | | 17,046 |

**CONSOLIDATED CASH FLOW STATEMENT**

*FOR THE FIFTEEN-MONTH PERIOD ENDED 30 SEPTEMBER 2000*

| | NOTES | 1.7.1999 to 30.9.2000 HK$'000 | 1.7.1998 to 30.6.1999 HK$'000 |
|---|---|---|---|
| NET CASH INFLOW FROM OPERATING ACTIVITIES | 31 | 29,077 | 14,204 |
| CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE | | | |
| Interest paid | | (49,743) | (20,176) |
| TAXATION | | | |
| Overseas tax refunded (paid) | | 59 | (31) |
| INVESTING ACTIVITIES | | | |
| Deferred development expenditure incurred | | (19,685) | (21,477) |
| Purchase of property, plant and equipment | | (6,994) | (7,570) |
| Amounts (advanced to) repaid by associates | | (92) | 11,871 |
| Proceeds from disposals of property, plant and equipment | | 120 | 8,741 |
| Proceed from disposal of an associate | | – | 2,486 |
| NET CASH OUTFLOW FROM INVESTING ACTIVITIES | | (26,651) | (5,949) |
| NET CASH OUTFLOW BEFORE FINANCING CARRIED FORWARD | | (47,258) | (11,952) |
| FINANCING | 32 | | |
| New bank and other borrowings raised | | 85,861 | – |
| Issue of shares, net of expenses | | 23,995 | – |
| Repayment of bank and other borrowings | | (38,000) | – |
| Repayment of capital element of hire purchase contracts | | (1,587) | (3,133) |
| Amounts repaid to associates | | (59) | – |
| NET CASH INFLOW (OUTFLOW) FROM FINANCING | | 70,210 | (3,133) |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | | 22,952 | (15,085) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD/YEAR | | (13,109) | 2,350 |
| EFFECT OF EXCHANGE RATE CHANGES | | (648) | (374) |
| CASH AND CASH EQUIVALENTS AT END OF THE PERIOD/YEAR | 33 | 9,195 | (13,109) |

**NOTES TO THE FINANCIAL STATEMENTS**
*FOR THE FIFTEEN-MONTH PERIOD ENDED 30 SEPTEMBER 2000*

## 1. GENERAL

The Company was incorporated as an exempted company in Bermuda with its shares listed on The Stock Exchange of Hong Kong Limited (the ''Stock Exchange''). The trading of the shares in the Company on the Stock Exchange has been suspended since 12 February 2001.

The Company acts as an investment holding company.

The activities of the Company's principal subsidiaries at 30 September 2000 are set out in note 19.

Pursuant to a special resolution passed at a special general meeting held on 7 July 2000, the name of the Company was changed from S.Megga International Holdings Limited to Wireless InterNetworks Limited.

During the period, the Company changed its financial year end date from 30th June to 30th September. The financial statements presented therefore cover the fifteen-month period from 1 July 1999 to 30 September 2000. The corresponding amounts shown for the income statement, statement of recognised gains and losses, cash flows and related notes cover a twelve-month period from 1 July 1998 to 30 June 1999 and therefore may not be comparable with amounts shown for the current period. No further changes to reporting dates are anticipated.

Subsequent to the appointment of the receivers as described in note 3 below, Mr. Kurabayashi Minoru, Mr, William Fang Wei Chang and Mr. Huang Pier Kuen, the former independent non-executive directors of the Company, resigned as directors of the Company on 30 December 2000. On 4 June 2001, the Company announced the appointment of Mr. Gerald Clive Dobby and Mr. Wu Sai Wing as non-executive directors of the Company, and the removal of Mr. Leung Ho Man, Paul (''Mr. Paul Leung'', a former director and the former Chairman of the Company) as director of the Company. The remaining executive director, Mr. Howard Leung, together with two newly appointed non-executive directors, Mr. Gerald Clive Dobby and Mr. Wu Sai Wing, are collectively referred to as the ''Current Directors''.

## 2. THE FINANCIAL RESTRUCTURING OF THE GROUP COMPLETED IN 2000

Against the background of the financial difficulties of the Group, the Group started in 1998 to work with all the then bank creditors of the Group (the ''Bank Creditors''), the holders (the ''Swiss Noteholders'') of the US$47,500,000 2.5% convertible loan notes due on 4 January 2002 (the ''Swiss Notes'') and the lenders (''Success Manor Lenders'') of Success Manor Investment Limited (''Success Manor'', a 50% owned associate of the Group incorporated in Hong Kong with limited liability) to restructure the indebtedness of the Group.

In July 2000, the Group has successfully implemented a financial restructuring (the ''Financial Restructuring''), details of which are set out in the Company's circular dated 14 June 2000. Details of the Financial Restructuring are summarised as follows:

(a) The restructuring of the Company's share capital

The nominal value of each issued share in the Company was reduced by HK$0.08 to HK$0.02. The entire credit balance arising from the capital reduction of approximately HK$93,582,000 was applied to write-off part of the deficit of the Company to the same extent. The unissued share capital of the Company was sub-divided into shares of HK$0.02 each.

(b) The debt restructuring (the ''Debt Restructuring'') with the Bank Creditors, Swiss Noteholders and Success Manor Lenders.

The Debt Restructuring consisted of three parts:

I. the Modified Debt Restructuring Agreement

Pursuant to the Modified Debt Restructuring Agreement, all the outstanding debts owing by the Group to the Bank Creditors of HK$269,061,000 was refinanced and restructured on the following basis:

i. issuance of HK$34,706,000 secured 3 years non-interest bearing convertible loan notes (''3 Years Convertible Notes'') to the Bank Creditors;

ii. issuance of HK$17,353,000 secured 7 years non-interest bearing convertible loan notes (''7 Years Convertible Notes'') to the Bank Creditors;

iii. issuance of 2,070,023,405 shares of HK$0.02 each at a price of HK$0.10 per share in the Company (the ''Restructuring Shares'') to the Bank Creditors; and

iv. raised a mortgage loan of HK46,000,000 from Standard Chartered Bank (''SC Bank''), which consisted of a new advance of HK$36,000,000 and a refinancing of existing debt of HK$10,000,000.

II. the Swiss Noteholders Restructuring

Pursuant to the Swiss Noteholders Restructuring, all the outstanding Swiss Notes of HK$196,038,000 was refinanced and discharged on the following basis:

i. issuance of HK$24,709,000 secured 3 Years Convertible Notes to the Swiss Noteholders;

ii. issuance of HK$12,354,000 secured 7 Years Convertible Notes to the Swiss Noteholders; and

iii. issuance of 1,589,748,017 Restructuring Shares to the Swiss Noteholders.

III. the placing agreement (the ''Placing Agreement'') with Success Manor Lenders

Pursuant to the Placing Agreement, the outstanding debt due to Success Manor Lenders of HK$16,866,000 was settled by a way of issuing 168,664,976 Restructuring Shares to Success Manor Lender.

Both of the 3 Years Convertible Notes and 7 Years Convertible Notes are secured by way of a guarantee and fixed and floating debenture (the ''Debentures'') granted by the Company and certain subsidiaries on certain assets of the Group.

**3. APPOINTMENT OF RECEIVERS**

After the completion of the Financial Restructuring in 2000, the Group continued to operate under extremely tight liquidity position and its business operation continued to deteriorate and was not generating sufficient cash flows.

On 13 February 2001, as a result of breaches of the Modified Debt Restructuring Agreement and the Debentures, SC Bank, the security trustee (the ''Security Trustee'') under the Debentures, appointed Messrs. Paul Jeremy Brough and Nicholas Peter Etches of KPMG (the ''Receivers'') as the joint and several receivers and managers of S.Megga Telecommunications Limited (''S.Megga Telecom''), a wholly-owned subsidiary of the Company. On 12 March 2001, the Security Trustee appointed the Receivers as the joint and several receivers and managers of the Company. On 9 August 2001, the Security Trustee appointed the Receivers as the joint and several receivers and managers of certain subsidiaries of the Company. The Receivers were appointed to, inter alia, enforce and preserve the security granted pursuant to the Debentures and are responsible for the assets and businesses of the Group.

Subsequent to the appointment of the Receivers in February 2001, the Group suspended all its operations and businesses.

**4. WINDING-UP PETITIONS AND SEALING ORDERS**

**(a) Winding-up petitions against the Company and S.Megga Telecom (the ''Winding-Up Petitions'')**

*i. Against S.Megga Telecom*

On 12 February 2001, GPI International Limited (''GPI'', a supplier of S.Megga Telecom) filed a winding-up petition against S.Megga Telecom. The most recent hearing of the winding-up petition was fixed for 22 October 2001, but with the consent of S.Megga Telecom and GPI, the hearing was vacated. Application has been made to The High Court of Hong Kong (the ''Court'') for the sanction of the S.Megga Telecom's Scheme (as defined under the section headed ''The Debt Restructuring Proposal of S. Megga Telecom'' in note 5) which will be heard on 1 March 2002. If the order of the Court is granted to sanction the S. Megga Telecom's Scheme, the winding-up petition will lapse and the claim brought by GPI will be dealt with under the terms of the S.Megga Telecom's Scheme.

*ii. Against the Company*

On 16 August 2001, Mr. Paul Leung presented a winding-up petition against the Company (the ''First Leung Winding-up Petition''), and which was made in respect of salary and other benefits alleged to be owed to him by the Company, was subsequently withdrawn by Mr. Paul Leung by the filing of a consent order made by the Court on 29 November 2001.

On 25 September 2001, Mr. Paul Leung presented another winding-up petition against the Company (the ''Second Leung Winding-up Petition''), and which was made in respect of similar matters to those contained in the First Leung Winding-up Petition. The Second Leung Winding-up Petition was dismissed by the Court on 21 January 2002 by agreement under the terms of a deed of settlement dated 10 January 2002, between Mr. Paul Leung, the Group and the Receivers.

**(b) Sealing orders**

In February 2001, the joint venture partner of Dongguan S.Megga Telecommunications Limited (''Dongguan S.Megga''), an equity joint venture set up in The People's Republic of China (the ''PRC'') other than Hong Kong of which S.Megga Telecom is interested in approximately 70% of its registered capital, took legal action against the Group at The People's Court, Dongguan, for outstanding management fees, rents and processing fees. Since then, a total of 19 demands have

been served on the Group at The People's Court, Dongguan, of which five were presented by the Hong Kong based creditors of Dongguan S.Megga and four had already obtained sealing orders on certain assets of the Group located in the Group's Dongguan premises. Three auctions had been held on 14 December 2001, 4 January 2002 and 25 January 2002 to dispose of certain assets in the Dongguan factory. No bid had been received during the auctions. A fourth auction is yet to be fixed by The People's Court, Donggnan.

Further details are summarised in note 6(c).

## 5. RESTRUCTURING PROPOSAL

Since the appointment of the Receivers, the Receivers and the Company have received several proposals from a number of potential investors for the Group's financial restructuring.

On 20 September 2001, the Company announced that the Subscription Agreement, the Comprise Agreement and the Injection Agreement (together referred to as the ''Restructuring Agreements''), were entered into between the Company, the Receivers, CCT Telecom Holdings Limited (''CCT'', a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the Stock Exchange) and Dongguan Defa Investment Limited (''Defa'', an investment holding company incorporated in the British Virgin Islands) on 10 August 2001.

The following transactions of the Restructuring Agreements are proposed (the ''Restructuring Proposal''):

### (a) The restructuring of the Company's share capital

*i. The capital reduction (the ''Capital Reduction'')*

- the nominal value of each issued share in the Company will be reduced by HK$0.019 to HK$0.001; and
- the unissued share capital of the Company will be sub-divided into twenty shares of HK$0.001 each.

The entire credit balance arising from the Capital Reduction shall be applied to write-off part of the deficit of the Company to the same extent.

*ii. The share consolidation (the ''Share Consolidation'')*

Following the Capital Reduction become effective, every ten reduced shares of HK$0.001 each in the Company will be consolidated into one new share of HK$0.01 each in the Company.

*iii. Increase of authorised share capital*

Immediately upon the Share Consolidation become effective, the authorised share capital of the Company will be increased to HK$150,000,000.

### (b) The transfer of assets and shares in S.Megga Telecom

*i. The transfer of assets of S.Megga Telecom*

Pursuant to an assets transfer agreement entered into between the Company and S.Megga Telecom on 21 September 2001, certain assets of S.Megga Telecom will be

hived-down to another subsidiary of the Company for a consideration of HK$2,000,000 in cash and 100,000,000 new shares of HK$0.01 each in the Company (together referred to as the ''Assets Transfer Consideration'').

*ii. The transfer of shares in S.Megga Telecom*

Immediately after the transfer of assets described above, the Company will then transfer all the Company's interest in the issued voting share capital of S.Megga Telecom to a company beneficially owned by the Receivers, to be held by it on behalf of the holders of the 3 Years Convertible Notes and 7 Years Convertible Notes (together referred to as the ''3 & 7 Years Noteholders'').

**(c) The injection of asset from CCT (the ''Asset Injection'')**

CCT has agreed to sell and the Company has agreed to buy the entire issued share capital of Electronic Sales Limited (''ESL'') at a consideration of HK$70,000,000 by:

i. issuance of 2,500,000,000 new shares in the Company at HK$0.01 each at a total consideration of HK$25,000,000; and

ii. issuance of HK$45,000,000 non-interest bearing convertible notes due on 2004 (the ''2004 Convertible Notes''). The 2004 Convertible Notes is redeemable on the third anniversary of the date of issue (the ''2004 Convertible Maturity Date''). The 2004 Convertible Notes carry rights at any time from the issue of the 2004 Convertible Notes to five business days prior to the 2004 Convertible Maturity Date to convert the whole or part of the principal of the 2004 Convertible Notes into new shares of HK$0.01 each in the Company at a price of HK$0.01 per share.

ESL is an indirect wholly-owned subsidiary of CCT. ESL was acquired by CCT in May 1997 and is a manufacturer of switching mode and linear mode power suppliers and operates at a manufacturing plant in Dongguan, the PRC. The main products of ESL include transformers, AC/DC adaptors, and custom built-in power supply, which are used in the manufacturing of corded and cordless telephones.

**(d) The subscription of new shares**

Pursuant to the Restructuring Agreements, CCT and Defa has each agreed to subscribe for 2,000,000,000 new shares in the Company at a par value of HK$0.01 each for an aggregate amount of HK$40,000,000 in cash (the ''Subscription''). The issue price of the new shares is the same as the closing price of HK$0.01 of the existing shares of the Company before the suspension of trading of the shares in the Company on the Stock Exchange on 12 February 2001.

**(e) The Debt Restructuring Proposal of the Company**

I. The 3 & 7 Years Noteholders

Up to the date of this report, the Company was indebted to the 3 & 7 Years Noteholders for approximately HK$63,700,000. The terms of the proposal in respect of the 3 Years Convertible Notes and 7 Years Convertible Notes will be as follows:

i. An amount of HK$38,200,000 will be paid by the Company by way of cash of HK$20,000,000 from the proceeds of the Subscription and the issue of 1,820,000,000 new shares of HK$0.01 each in the Company to the 3 & 7 Years Noteholders in each case pro-rata to the amount of the debt owed to each 3 & 7 Years Noteholders;

ii. The Company will transfer all the Group's interest in the issued voting share capital of S.Megga Telecom to a company beneficially owned by the Receivers, to be held by it on behalf of the 3 & 7 Years Noteholders; and

iii. The resulting shortfall of approximately HK$25,500,000 from the total indebtedness due to the 3 & 7 Years Noteholders (the ''3 & 7 Years Noteholders' Shortfall'') will form part of the Company's unsecured indebtedness and will be compromised under a scheme of arrangement (the ''Company's Scheme'') under Section 166 of the Hong Kong Companies Ordinance between the Company and its unsecured creditors as explained in note 5(a)II below.

For the purpose of the Company's Scheme, the Company's assets charged under the Debentures for the benefit of the 3 & 7 Years Noteholders, as secured creditors of the Company, will be treated as having a value of approximately HK$40,500,000 by incorporating the value of the payment of approximately HK$38,200,000 to be made by the Company to the 3 & 7 Years Noteholders. Accordingly, subject to the completion of the Restructuring Proposal, the amount of the 3 & 7 Years Noteholders' Shortfall of HK$25,500,000 will have been reduced to approximately HK$23,200,000 (the ''Adjusted 3 & 7 Years Noteholders' Shortfall'').

II. The unsecured indebtedness of the Company

Up to the date of this report, the indebtedness of the Company due to its unsecured creditors, including the Adjusted 3 & 7 Years Noteholders' Shortfall of approximately HK$23,200,000, was approximately HK$36,200,000 and is proposed to be compromised under the Company's Scheme. Cash of HK$3,000,000 from the proceeds of the Subscription will be made available to the unsecured creditors of the Company.

At a meeting of the Company's unsecured creditors convened at the direction of the Court and which was held on 11 January 2002 for the purpose of considering and approving of the Company's Scheme, the required majorities of the unsecured creditors who were entitled to vote in relation to the Company's Scheme voted in its favour. Application has been made to the Court for the grant of an order sanctioning the Company's Scheme under the Section 166 of the Companies Ordinance. The Court hearing has been fixed on 1 March 2002. The Company's Scheme will only become effective and binding on all the unsecured creditors of the Company upon an office copy of the order of the Court sanctioning the Company's Scheme being delivered to the Registrar of Companies in Hong Kong for registration.

Further details of the Restructuring Agreements and the Restructuring Proposal were announced by the Company on 20 September 2001, 11 October 2001, 14 November 2001, 27 December 2001 and 31 January 2002.

**The Debt Restructuring Proposal of S.Megga Telecom**

Up to the date of this report, the indebtedness of S.Megga Telecom due to its unsecured creditors, excluding the inter-company debts and guarantee liabilities of HK$817,200,000 and HK$52,600,000, respectively, was approximately HK$93,900,000 and is proposed to be settled under a scheme of arrangement (the ''S.Megga Telecom's Scheme'') under Section 166 of the Hong Kong Companies Ordinance between S.Megga Telecom and its unsecured creditors.

At a meeting of the S.Megga Telecom's unsecured creditors convened at the direction of the Court and which was held on 11 January 2002 for the purpose of considering and approving of the S.Megga Telecom's Scheme, the required majorities of the unsecured creditors who were entitled to vote in relation to the S.Megga Telecom's Scheme voted in its favour. Application has been made to the Court for the grant of an order sanctioning the S.Megga Telecom's Scheme under the Section 166 of the Companies Ordinance. The Court hearing has been fixed on 1 March 2002. The S.Megga Telecom's Scheme will only become effective and binding on all the unsecured creditors of S.Megga Telecom upon an office copy of the order of the Court sanctioning the S.Megga Telecom's Scheme being delivered to the Registrar of Companies in Hong Kong for registration.

The Assets Transfer Consideration shall be distributed amongst these unsecured creditors of S.Megga Telecom on a pro-rata basis in accordance with the terms of the S.Megga Telecom's Scheme.

**6. BASIS OF PREPARATION OF FINANCIAL STATEMENTS**

(a) In preparing the financial statements, the Current Directors have given careful consideration to the future operations and financing of the Group in the light of the deficiency of shareholders' funds of approximately HK$11,872,000 and the net current liabilities of approximately HK$140,513,000 as at 30 September 2000. Providing that the Restructuring Proposal described in note 5 can be successfully implemented upon completion of the Restructuring Agreements, the Current Directors are satisfied that the operations and businesses of the Group can be reactivated and the financial difficulties of the Group resolved.

(b) Following the appointment of the Receivers, the Group's production has been suspended pending the injection of additional funds which would be made available upon the successful completion of the Restructuring Proposal. Although the Current Directors have used their best endeavours to relocate all the financial and business records of the Group as most of the former directors of the Company, former senior management and former accounting personnel of the Group have left the Group, the Current Directors have been unable to locate sufficient documentary information to satisfy themselves regarding the treatment of certain items in the financial statements as follows:

i. The Current Directors have been unable to satisfy themselves that the following amounts included in the financial statements have been completely and accurately recorded by the Group:

– Turnover of HK$539,577,000;

– Purchases, direct labour cost, and other direct and indirect manufacturing costs of HK$453,112,000, HK$26,758,000 and HK$73,275,000, respectively, included in cost of sales;

– Other revenue of HK$55,191,000;

– Selling and administrative expenses of HK$91,347,000;

– Finance costs of HK$50,677,000;

– Operating lease rental payments in respect of land and buildings and plant and machinery of HK$1,954,000 and HK$20,000 respectively;

– Total directors' remuneration and other staff costs of HK$57,122,000 (excluding amount capitalised in deferred development expenditure) as analysed in notes 11 and 12;

– Gross rental income of HK$5,130,000;

– Tax recoverable with nil balance; and

– Trade and other payables of HK$115,626,000.

As a result of the above, the Current Directors were also unable to satisfy themselves as to:

– the appropriateness of the provision for bad and doubtful debts of HK$3,206,000; and

– the reliability of the segmental information in note 9.

ii. The Current Directors have been unable to locate sufficient documentary records to satisfy themselves regarding the movements in deferred development expenditure of the Group for the fifteen-month period ended 30 September 2000. Accordingly, the Current Directors were unable to satisfy themselves regarding the appropriateness of the write-off deferred development expenditure of HK$ 29,052,000 in the consolidated income statement of the Group for the fifteen-month period ended 30 September 2000.

iii. Included in bank balances and cash of the Group was an amount of HK$1,318,000 which the Current Directors were unable to reconcile to the bank statements. Also, included in bank balances and cash of the Group was an amount of HK$167,000 in respect of which the Current Directors were unable to obtain any bank statements. Accordingly, the Current Directors were unable to satisfy themselves that the bank balances and cash of the Group was fairly stated in the consolidated balance sheet of the Group as at 30 September 2000.

iv. Against this background described above, the Current Directors are unable to represent as to the completeness of recording of transactions entered into by the Group and the Company for the fifteen-month period ended 30 September 2000 and of the completeness of disclosure of claims, commitments and contingent liabilities in the financial statements as at 30 September 2000. The Current Directors are also unable to represent as to the completeness of identification and appropriateness of disclosure of the potential deferred taxation, pledge of assets, and related party transactions and balances.

(c) As explained in note 4(b), the joint venture partner of a subsidiary of the Company and certain creditors of the Company took legal actions against of the Group. Demands have been served on the Group at The People's Court, Dongguan, the PRC, and certain assets of the Group located in the PRC, including inventories, plant and machinery, furniture, fixtures and equipment, moulds and tools and motor vehicles of the Group, have been put under sealing orders or taken possession of by the creditors.

In addition, the Current Directors were unable to locate the list of inventories and fixed assets register or other sufficient documentary records to identify individual inventories, plant and machinery, furniture, fixtures and equipment, moulds and tools and motor vehicles either in Dongguan, the PRC, or in Hong Kong, amounting to HK$58,861,000, HK$ 34,676,000, HK$21,782,000, HK$2,676,000 and HK$790,000, respectively.

Accordingly, the Current Directors were unable to satisfy themselves as to whether the inventories were fairly stated as at 30 September 2000 and similarly whether the plant and machinery, furniture, fixtures and equipment, moulds and tools and motor vehicles of the Group and depreciation and amortisation charge of property, plant and equipment of HK$15,120,000 (excluding amount capitalised in deferred development expenditure) during the fifteen-month period thereon were fairly stated in the financial statements.

(d) Included in the consolidated financial statements were amounts in respect of certain subsidiaries of the Company, namely Dongguan S.Megga Telecommunications Limited and S.Meggatel Sdn. Bhd. (together referred to as the ''Subsidiaries'') for the fifteen-month period ended 30 September 2000 as follows:

- Other revenue of HK$45,000;
- Selling and administrative expenses of HK$5,402,000;
- Provision for bad and doubtful debts HK$94,000.
- Finance costs of HK$432,000;
- Other payables of HK$665,000;
- Bank balances and cash of HK$801,000; and
- Bank and other borrowings of HK$2,177,000.

The above amounts were included in the consolidated financial statements based on the unaudited management accounts of these Subsidiaries for the fifteen-month period ended 30 September 2000; being the only financial information the Current Directors could obtain. Accordingly, the Current Directors have been unable to satisfy themselves that the results, assets and liabilities of these Subsidiaries have been properly included in the consolidated financial statements of the Group.

## 7. ADOPTIONS OF NEW STATEMENTS OF STANDARD ACCOUNTING PRACTICE AND PRIOR PERIOD ADJUSTMENT

In the current period, the Company has adopted, for the first time, the following Statements of Standard Accounting Practice (''SSAP(s)'') issued by the Hong Kong Society of Accountants:

| | |
|---|---|
| SSAP 1 (Revised) | Presentation of financial statements |
| SSAP 2 (Revised) | Net profit or loss for the period, fundamental errors and changes in accounting policies |
| SSAP 10 (Revised) | Accounting for investments in associates |
| SSAP 24 | Accounting for investments in securities |

SSAPs 1 and 2 are concerned with the presentation and disclosure of financial information. The presentation in the current period's financial statements has been modified in order to conform with the requirements of those standards. Comparative amounts have been restated in order to achieve a consistent presentation.

In particular:

– additional analyses of income and expenditure have been presented; and

– items of income and expense that were separately identified on the face of the income statement in the prior year as ''exceptional items'' have been reclassified within an appropriate income or expenses classification.

In addition, the description of various components in the financial statements and the terminology used have been updated to reflect the terminology of the new standards. None of the amendments outlined above has affected the results for the current or prior periods.

The revision of SSAP 10 has not resulted in any significant changes to the accounting treatment adopted for associates, except in relation to associates with net deficits. In previous years, the Group accounted for its share of all of the losses of such associates provided that the investment was regarded as long-term. Under SSAP 10 (Revised), recognition of such losses is discontinued when the losses equal to the carrying amount of the Group's investment, except to the extent that the Group has incurred obligations in respect of, or made payments to satisfy obligations of, the associates, that the Group has guaranteed or otherwise committed. Because the Group has no obligations to share the net deficits of certain associates of the Group, a prior period adjustment has been made in order to reflect the adjustment for the adopting of this new accounting policy. This change in accounting policy has been applied retrospectively resulting in a reduction in the Group's deficit as at 1 July 1998 by HK$17,046,000.

SSAP 24 has introduced a new framework for the classification of investments in securities. In adopting SSAP 24, the Group has selected the benchmark treatment for securities other than held-to maturity securities. Disclosures presented have been modified to meet the requirements of the new standard.

Under SSAP 24, investments in securities are now classified as held-to-maturity (carried at amortised cost less provision for irrecoverable amounts), investment securities (carried at cost less impairment) and other investments (carried at fair value, with valuation movements dealt with in the income statement). In prior years, the Group's investments were classified either as long-term (carried at cost less provision for permanent diminution in value) or short-term (carried at the lower of cost and net realisable value). In the opinion of the Current Directors, the adoption of this standard had no significant effect on the results for the current or prior accounting periods.

## 8. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain properties.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

**Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 30th September 2000.

The results of subsidiaries acquired or disposed of during the period/year are included in the consolidated income statement from the effective date of acquisition or up to the effective dates of disposal, as appropriate.

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

**Goodwill**

Goodwill represents the excess of the purchase consideration over the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a subsidiary and is written off to reserves immediately on acquisition. Negative goodwill represents the excess of the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a subsidiary over the purchase consideration is credited to reserves.

Any premium or discount arising on the acquisition of an interest in an associate, representing the excess or shortfall, respectively, of the purchase consideration over the fair value ascribed to the Group's share of the separable net assets of the associate at the date of acquisition, is dealt with in the same manner as that described above for goodwill or capital reserve.

On disposal (including liquidation) of investments in subsidiaries and associates, the attributable amount of goodwill or capital reserve previously eliminated against or credited to reserves is included in the determination of the profit or loss on disposal of the subsidiary or associate.

**Investments in subsidiaries**

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued capital or controls more than half of the voting power, or where the Company controls the composition of its board of directors or equivalent governing body.

Investments in subsidiaries are included in the Company's balance sheet at cost, as reduced by provision for any impairment in value. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable during the period/year.

**Interests in associates**

An associate is an enterprise over which the Group is in a position to exercise significant influence, including participation in financial and operating policy decisions.

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the period/year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates.

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

Investments in associates are included in the Company's balance sheet at cost, as reduced by provision for any impairment in value. The results of the associates are accounted for by the Company on the basis of dividends received and receivable during the period/year.

**Investment properties**

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on independent professional valuations at the balance sheet date. Any revaluation surplus or deficit arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a revaluation decrease, in which case the excess of the revaluation deficit over the balance on the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation increase subsequently arises, this surplus is credited to the income statement to the extent of the decrease previously charged.

On disposal of investment properties, the balance on the investment property revaluation reserve attributable to the properties disposed of is credited to the income statement.

No depreciation and amortisation is provided on investment properties except where the unexpired terms of the relevant lease is twenty years or less.

**Property, plant and equipment**

Property, plant and equipment, other than factory premises under construction, are stated at cost or valuation less depreciation and amortisation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the assets have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which they are incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an asset, the expenditure is capitalised as an additional cost of the asset.

The gain or loss arising on disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Where the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are not discounted to their present values.

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

Any surplus arising on revaluation of land and buildings is credited to the property revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which cases this surplus is credit to the income statement to the extent of the deficit previously charged. A decrease in net carrying amount arising on revaluation of such properties is charged to the income statement to the extent that it exceeds the surplus, if any, held in the property revaluation reserve relating to previous revaluation of that particular asset. On the subsequent sale or retirement of such revalued asset, the attributable revaluation surplus not yet transferred to deficit in prior years is transferred to deficit.

Freehold land outside Hong Kong is not amortised.

Depreciation is provided to write off the cost or valuation of property, plant and equipment, other than factory premises under construction, over their estimated useful lives and after taking into account their estimated residual value at the following rates:

| | |
|---|---|
| Leasehold land | Over the unexpired term of relevant lease on straight-line method |
| Buildings | 2% per annum on straight-line method |
| Plant and machinery | 20% per annum on reducing balance method |
| Furniture, fixtures and equipment | 15% per annum on reducing balance method |
| Moulds and tools | 25% per annum on reducing balance method |
| Motor vehicles | 25% per annum on reducing balance method |

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

**Assets held under hire purchase contracts**

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

**Factory premises under construction**

Factory premises under construction in the PRC are stated at cost, less provision for any impairment in value. Cost includes development costs, attributable interest and overheads capitalised during the development period.

No depreciation and amortisation is provided for factory premises under construction until the construction is completed.

**Borrowing costs**

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

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

**Deferred development expenditure**

Development costs are deferred if there is a clearly defined development project which is technically feasible and commercially viable and the estimated future economic benefits are

sufficient to cover costs incurred. Such development costs are amortised based on the actual sales for a financial period as a proportion of the estimated total sales of the related products. All other development costs are written off in the period in which they are incurred.

The Director review the future economic benefits from the deferred development expenditure on a regular basis. Should the Directors consider that any particular development projects have no further commercial value, the unamortised balance of all related deferred costs will be written off immediately to the income statement.

**Investments in securities**

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

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

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by provision for any impairment in value.

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

**Inventories**

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

**Convertible loan notes**

Convertible loan notes are regarded as compound instruments, consisting of a liability component and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible loan notes and the fair value assigned to the liability component, representing the embedded option to convert the liability into equity of the Group, is included in reserves.

The interest expense on the liability component is calculated by applying the prevailing market interest rate for similar non-convertible debt to the instrument. The difference between this amount and the interest paid is added to the carrying value of the convertible loan notes.

**Turnover**

Turnover represents the net amounts received and receivable from sales of goods, property rentals and related building management income and interest income during the period/year.

**Revenue recognition**

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

Rental income under operating leases is recognised on a straight-line basis over the term of the relevant lease.

Building management fee income is recognised when services are rendered.

Interest income is recognised on a time basis, by reference to the principal outstanding at the rate applicable.

**Operating leases**

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease.

**Taxation**

The charge for taxation is based on the results for the period as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

**Foreign currencies**

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

On consolidation, the financial statements of overseas operations are translated at the rates ruling on the balance sheet date. All exchange differences arising on consolidation are dealt with in reserves.

**Cash equivalents**

Cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired; less advances from banks repayable within three months from the date of the advance.

## 9. SEGMENTAL INFORMATION

An analysis of the Group's turnover and contribution to loss from operations by principal activity is as follows:

| | Turnover | | Contribution to loss from operations | |
|---|---|---|---|---|
| | **1.7.1999 to 30.9.2000** | **1.7.1998 to 30.6.1999** | **1.7.1999 to 30.9.2000** | **1.7.1998 to 30.6.1999** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| *By principal activity:* | | | | |
| Telecommunications product manufacturing operation | 532,079 | 356,651 | (69,646) | (1,087) |
| Property investment | 5,291 | 6,985 | 1,989 | (7,133) |
| Interest income | 2,207 | 1,244 | 2,207 | 1,244 |
| | 539,577 | 364,880 | (65,450) | (6,976) |
| Other revenue | | | 55,236 | 1,714 |
| Selling and administrative expenses | | | (97,662) | (69,078) |
| Legal and professional fees for litigation against a customer | | | – | (5,373) |
| Loss from operations | | | (107,876) | (79,713) |

No analysis of the Group's turnover and contribution to loss from operations for the fifteen-month period ended 30 September 2000 by geographical market has been presented as the information is not available.

An analysis of the Group's turnover and contribution to loss from operations for the year ended 30 June 1999 by geographic market is as follows:

| | **Turnover** | **Contribution to loss from operations** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| *By geographical market:* | | |
| Europe: | | |
| Italy | 144,440 | 14,733 |
| Sweden | 52,044 | 10,018 |
| Other regions in Europe | 89,041 | (8,976) |
| North America | 61,059 | (3,075) |
| South East Asia | 18,296 | (19,676) |
| | 364,880 | (6,976) |
| Other revenue | | 1,714 |
| Selling and administrative expenses | | (69,078) |
| Legal and professional fees for litigation against a customer | | (5,373) |
| Loss from operations | | (79,713) |

## 10. OTHER REVENUE

Included in other revenue of the Group in the fifteen-month period ended 30 September 2000 was an amount of approximately HK$38,900,000 (1999: nil) in respect of receipt from a former customer for litigation settlement.

## 11. LOSS FROM OPERATIONS

| | 1.7.1999 to 30.9.2000 | 1.7.1998 to 30.6.1999 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Loss from operations has been arrived at after charging: | | |
| Amortisation of deferred development expenditure | 14,317 | 9,258 |
| Auditors' remuneration | 913 | 514 |
| Depreciation and amortisation of property, plant and equipment: | | |
| Owned assets | 16,893 | 15,862 |
| Assets held under hire purchase contracts | 113 | 1,318 |
| Less: Amount capitalised in deferred development expenditure | (1,886) | (1,450) |
| | 15,120 | 15,730 |
| Directors' remuneration: | | |
| Fees | – | 630 |
| Other emoluments | 5,774 | 4,084 |
| | 5,774 | 4,714 |
| Other staff costs | 66,708 | 53,182 |
| Total staff costs | 72,482 | 57,896 |
| Less: Amount capitalised in deferred development expenditure | (15,360) | (15,188) |
| | 57,122 | 42,708 |
| Loss on disposals of property, plant and equipment | 112 | 1,760 |
| Operating lease rental payments in respect of: | | |
| Land and buildings | 1,954 | 1,841 |
| Plant and machinery | 20 | 5 |
| and after crediting: | | |
| Gross rental income | 5,130 | 5,881 |

## 12. DIRECTORS' AND EMPLOYEE' REMUNERATION

No financial information in respect of the Directors' and employees' remuneration for the fifteen-month period ended 30 September 2000 has been presented as the information is not available.

The financial information in respect of the Directors' and employees' remuneration for the year ended 30 June 1999 was as follows:

### (a) Directors' remuneration

Particulars of the directors' remuneration paid during the year were as follows:

| | *HK$'000* |
|---|---|
| Directors' fees: | |
| Executive Directors | 150 |
| Independent Non-executive Directors | 480 |
| | 630 |
| Other emoluments paid to Executive Directors: | |
| Salary and other benefits | 4,012 |
| Pension scheme contributions | 72 |
| | 4,084 |
| | 4,714 |

The emoluments of Directors were within the following bands:

| | **Number** |
|---|---|
| Nil to HK$1,000,000 | 4 |
| HK$3,000,001 to HK$3,500,000 | 1 |
| | 5 |

### (b) Employees' remuneration

Among the five top-paid employees, there are two Executive Directors whose remuneration is disclosed in note 12(a) above. The aggregate remuneration of the remaining three employees was as follows:

| | *HK$'000* |
|---|---|
| Salary and other benefits | 2,984 |
| Pension scheme contributions | 194 |
| | 3,178 |

The emoluments of these three employees were within the following bands:

| | Number |
|---|---|
| Nil to HK$1,000,000 | 1 |
| HK$1,000,001 to HK$1,500,000 | 2 |
| | 3 |

## 13. FINANCE COSTS

| | 1.7.1999 to 30.9.2000 | 1.7.1998 to 30.6.1999 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Amortisation of premium payable upon the final redemption of the convertible notes (note 26) | 1,366 | – |
| Interest on bank loans and other borrowings wholly repayable within five years | 49,362 | 23,655 |
| Hire purchase charges | 381 | 752 |
| Interest on Swiss Notes | – | 3,214 |
| Total finance costs | 51,109 | 27,621 |

## 14. TAXATION

No provision for profits tax has been made in the financial statements as, in the opinion of the Current Directors, neither the Group nor the Company had any assessable profits for the period/year.

Details of potential deferred taxation are set out in note 35.

## 15. LOSS ATTRIBUTABLE TO SHAREHOLDERS

Of the Group's loss attributable to shareholders for the fifteen-month period ended 30 September 2000 of approximately HK$206,132,000 (for the year ended 30 June 1999: a loss attributable to shareholders of approximately HK$158,815,000), a loss of approximately HK$239,369,000 (for the year ended 30 June 1999: a loss of approximately HK$102,548,000) has been dealt with in the financial statements of the Company.

## 16. LOSS PER SHARE

The calculation of loss per share is based on the loss attributable to shareholders for the fifteen-month period ended 30 September 2000 of approximately HK$206,132,000 (for the year ended 30 June 1999: a loss attributable to shareholders of approximately HK$158,815,000) and on the weighted average number of 1,794,650,082 (for the year ended 30 June 1999: 974,809,360) shares in issue during the period/year.

The computation of diluted loss per share for the fifteen-month period ended 30 September 2000 has not assumed the exercise of the convertible notes as their exercise would be anti-dilutive. The computation of diluted loss per share for the year ended 30 June 1999 has not assumed the exercise of the share options and convertible notes as their exercise would be anti-dilutive.

**17. INVESTMENT PROPERTIES**

| | **THE GROUP** |
|---|---|
| | *HK$'000* |
| At valuation: | |
| At 1 July 1999 and at 30 September 2000 | 18,000 |

The investment properties in Hong Kong held under medium-term leases, which were rented out under operating leases, were revalued, together with the medium-term leasehold land and buildings and certain furniture, fixtures and equipment in Hong Kong, at 10 August 2000 by Knight Frank, a firm of international property valuers, on an open market value basis. In the opinion of the Current Directors, the market value of the investment properties at 10 August 2000 would not be significant different from that as at 30 September 2000. Accordingly, the investment properties were stated at HK$18,000,000.

Subsequent to the balance sheet date, the Group disposed of the investment properties, together with the medium-term leasehold land and buildings and certain furniture, fixtures and equipment in Hong Kong, for a total consideration of HK$46,000,000.

The investment properties of the Group were pledged to banks to secure credit facilities granted to the Group.

## 18. PROPERTY, PLANT AND EQUIPMENT

| | THE GROUP | | | | | | | | THE COMPANY |
|---|---|---|---|---|---|---|---|---|---|
| | Leasehold land and buildings in Hong Kong HK$'000 (note a) | Freehold land and buildings outside Hong Kong HK$'000 (note b) | Factory premises under construction in the PRC HK$'000 (note c) | Plant and machinery HK$'000 | Furniture, fixtures and equipment HK$'000 | Moulds and tools HK$'000 | Motor vehicles HK$'000 | Total HK$'000 | Furniture, fixtures and equipment |
| **AT COST OR VALUATION** | | | | | | | | | |
| At 1 July 1999 | 22,000 | 14,754 | 136,868 | 128,321 | 47,501 | 2,933 | 4,562 | 356,939 | 17 |
| Additions | – | – | 1,709 | 2,254 | 971 | 2,007 | 453 | 7,394 | – |
| Disposals | – | – | – | (2,016) | (13,988) | – | (640) | (16,644) | (17) |
| Deficit on revaluation | (556) | – | (124,426) | – | (10,238) | – | – | (135,220) | – |
| At 30 September 2000 | 21,444 | 14,754 | 14,151 | 128,559 | 24,246 | 4,940 | 4,375 | 212,469 | – |
| Analysed as: | | | | | | | | | |
| At cost | – | – | – | 128,559 | 17,690 | 4,940 | 4,375 | 155,564 | – |
| At valuation – 2000 | 21,444 | – | 14,151 | – | 6,556 | – | – | 42,151 | – |
| At valuation – 1999 | – | 14,754 | – | – | – | – | – | 14,754 | – |
| | 21,444 | 14,754 | 14,151 | 128,559 | 24,246 | 4,940 | 4,375 | 212,469 | – |
| **DEPRECIATION AND AMORTISATION** | | | | | | | | | |
| At 1 July 1999 | – | – | 91,484 | 84,024 | 22,339 | 1,681 | 3,979 | 203,507 | 10 |
| Provided for the period | 556 | – | – | 11,649 | 4,019 | 583 | 199 | 17,006 | 1 |
| Eliminated on disposals | – | | – | (1,790) | (14,029) | – | (593) | (16,412) | (11) |
| Eliminated on revaluation | (556) | – | (91,484) | – | (9,865) | – | – | (101,905) | – |
| At 30 September 2000 | – | – | – | 93,883 | 2,464 | 2,264 | 3,585 | 102,196 | – |
| **NET BOOK VALUE** | | | | | | | | | |
| At 30 September 2000 | 21,444 | 14,754 | 14,151 | 34,676 | 21,782 | 2,676 | 790 | 110,273 | – |
| At 30 June 1999 | 22,000 | 14,754 | 45,384 | 44,297 | 25,162 | 1,252 | 583 | 153,432 | 7 |

*Notes:*

(a) The leasehold land and buildings in Hong Kong held under medium-term leases were revalued, together with the investment properties and certain furniture, fixtures and equipment in Hong Kong, at 10 August 2000 by Knight Frank, a firm of international property valuers, on an open market value basis. In the opinion of the Current Directors, the market value of the leasehold land and buildings and the furniture, fixtures and equipment in Hong Kong at 10 August 2000 would not be significant different from that as at 30 September 2000. Accordingly, the leasehold land and buildings and the furniture, fixtures and equipment in Hong Kong were stated at HK$28,000,000 and the deficit arising on revaluation of HK$373,000 has been charged to the consolidated income statement.

If the land and buildings had not been revalued but stated at cost less accumulated depreciation and amortisation, their carrying values would have been stated at HK$16,442,000 (30.6.1999: HK$16,946,000).

As mentioned in note 17, subsequent to the balance sheet date, the Group disposed of the medium-term leasehold land and buildings and certain furniture, fixtures and equipment in Hong Kong, together with the investment properties, for a total consideration of HK$46,000,000.

The Group's leasehold land and buildings in Hong Kong and freehold land and buildings outside Hong Kong were pledged to banks to secure credit facilities granted to the Group.

(b) At 30 June 1999, the freehold land and buildings outside Hong Kong were valued by Jones Lang Wotton, Chartered Surveyors, on an open market value basis. No valuation as at 30 September 2000 has been obtained as, in the opinion of the Current Directors, the cost involved in obtaining such information would be out of proportion to the value to the members of the Company.

If the land and buildings had not been revalued but stated at cost less accumulated depreciation and amortisation, their carrying values would have been stated at HK$16,128,000 (30.6.1999: HK$16,543,000).

(c) The amount represents the Group's interest in the factory premises under construction (the ''Factory Premises''). The Group had entered into an agreement (the ''Dongguan Agreement'') with 東莞市城區工業發展總公司 (''工業公司'') of Dongguan City on a 50:50 basis for the construction of the Factory Premises in the Tin Bao Industrial District of Dongguan (the ''Project''). Pursuant to the Dongguan Agreement, the Group will contribute all the construction costs of the Factory Premises and 工業公司 will contribute the land use rights to the Project. The Group is entitled to use the Factory Premises to be constructed thereon rent-free for a period of five years upon commencement of operation, and then at nominal rental for the remaining forty-five years. At the expiration of the fifty-year period, the Factory Premises together with the land use rights will revert to 工業公司.

At 30 September 2000, the Group's interests in the Factory Premises were stated at HK$14,151,000 based on the valuation carried out by the Current Directors.

(d) No financial information in respect of the net book value of plant and equipment held under hire purchase contracts as at 30 September 2000 has been presented as the information is not available. The plant and equipment held under hire purchase contracts as at 30 June 1999 was HK$5,272,000.

## 19. INTERESTS IN SUBSIDIARIES

| | THE COMPANY | |
|---|---|---|
| | **30.9.2000** | **30.6.1999** |
| | *HK$'000* | *HK$'000* |
| Unlisted investments, at cost | 106,713 | 106,713 |
| Amounts due from subsidiaries | 933,488 | 849,820 |
| | 1,040,201 | 956,533 |
| Less: Impairment losses recognised and amounts written-off | (1,040,201) | (854,972) |
| | – | 101,561 |

Particulars of the principal subsidiaries of the Company as at 30 September 2000 are as follows:

| **Name of subsidiary** | **Place of incorporation/ operation** | **Issued and fully paid share capital/ registered capital** | **Percentage of issued share capital/ registered capital held by the Company** | | **Principal activities** |
|---|---|---|---|---|---|
| | | | **Directly %** | **Indirectly %** | |
| Dongguan S.Megga Telecommunications Limited | PRC/PRC | HK$8,000,000 registered capital | – | 70 | Manufacture of telecommunications products, now inactive |
| Fairway Enterprises Limited | Hong Kong/ Hong Kong | 2 ordinary shares of HK$1 each | – | 100 | Property investment |

| Name of subsidiary | Place of incorporation/ operation | Issued and fully paid share capital/ registered capital | Percentage of issued share capital/ registered capital held by the Company | | Principal activities |
|---|---|---|---|---|---|
| | | | Directly % | Indirectly % | |
| Lucky Cheer Limited | Hong Kong/ Hong Kong | 2 ordinary shares of HK$1 each | – | 100 | Property investment |
| Maxway Properties Limited | Hong Kong/ Hong Kong | 10,000 ordinary and shares of HK$1 each | – | 100 | Property trading and investment |
| S.Megga Estate Management Limited (in Receivership subsequent to 30 September 2000) | Hong Kong/ Hong Kong | 1,000 ordinary shares of HK$100 each | – | 100 | Investment holding, property trading and investment |
| S.Megga Global Limited (in Receivership subsequent to 30 September 2000) | British Virgin Islands/ Hong Kong | 10 ordinary shares of HK$0.10 each | – | 100 | Investment holding |
| S.Megga Nominee Limited (in Receivership subsequent to 30 September 2000) | Hong Kong/ Hong Kong | 2 ordinary shares of HK$1 each | – | 100 | Provision of nominee services, now inactive |
| S.Megga Technology Limited (in Receivership subsequent to 30 September 2000) | Hong Kong/ Hong Kong | 2 ordinary shares of HK$1 each | – | 100 | Research and development of telecommunications products, now inactive |
| S.Megga Telecommunications Limited (in Receivership subsequent to 30 September 2000) | Hong Kong/ Hong Kong | 10 ordinary shares of HK$100 each and 232,433 non-voting deferred shares of HK$100 each (note b) | – | 100 | Manufacture of telecommunications products, now inactive |
| S.Meggatel Sdn. Bhd. | Malaysia/ Malaysia | 6,411,765 ordinary shares of 1 Ringgit each | – | 70 | Manufacture of cordless telephones and other telecommunications products, now inactive |
| S.Meggatel (BVI) Limited (in Receivership subsequent to 30 September 2000) | British Virgin Islands/ Hong Kong | 232,433 ordinary shares of HK$0.10 each | 100 | – | Investment holding |

*Notes:*

(a) The shares of all the above subsidiaries were pledged for the issuance of the 3 Years Convertible Notes and 7 Years Convertible Notes of the Company.

(b) The non-voting deferred shares practically carry no rights to dividends or to receive notice of or to attend or vote at any general meeting of the respective companies or to participate in any distribution or winding up.

The Current Directors are of the opinion that a complete list of the particulars of subsidiaries will be of excessive length and therefore the above list contains only the particulars of those subsidiaries which principally affect the results or assets of the Group.

None of the subsidiaries had any loan capital outstanding at the end of the period/year.

## 20. INTERESTS IN ASSOCIATES

| | THE GROUP | | THE COMPANY | |
|---|---|---|---|---|
| | **30.9.2000** | **30.6.1999** | **30.9.2000** | **30.6.1999** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| | | **(As restated)** | | |
| Share of net assets | – | – | – | – |
| Unlisted shares, at cost | – | – | 8,125 | – |
| Amounts due from associates | 65,986 | 65,894 | 52 | – |
| | 65,986 | 65,894 | 8,177 | – |
| Less: Impairment losses recognised and amounts written off | (65,986) | (26,964) | (8,177) | – |
| | – | 38,930 | – | – |

Particulars of the principal associates of the Group as at 30 September 2000 are as follows:

| **Name of associate** | **Place of incorporation/ operation** | **Effective percentage of equity capital attributable to the Group %** | **Principal activities** |
|---|---|---|---|
| Act Power Enterprises Limited (''APE'') | British Virgin Islands/Hong Kong | 40 | Investment holding |
| Charmgold Development Limited (in Receivership subsequent to 30 September 2000) | Hong Kong/PRC | 50 | Property investment, now inactive |
| Cheertex Limited (in Receivership subsequent to 30 September 2000) | Hong Kong/ Hong Kong | 50 | Investment holding |
| Glory World Development Limited | Hong Kong/ Hong Kong | 50 | Investment holding |
| Take Queen Limited (in Receivership subsequent to 30 September 2000) | British Virgin Islands/ Hong Kong | 50 | Investment holding |

*Notes:*

(a) As explained in note 28(d), on 24 March 2000, the Company entered into a sale and purchase agreement (the ''APE Agreement'') with certain parties to acquire 20,000 issued share capital in APE, representing a 40% equity interest in APE. APE acts as an investment holding company and the principal activities of its subsidiaries were providing internet contents in sports entertainment programmes and interactive information as well as the sale of sports related merchandises. Subsequent to the balance sheet date, all the shareholders of APE agreed to terminate the operations of the company and accordingly, the Company has written-off the outstanding interest in APE to the income statement.

(b) The shares of all the above associates were pledged for the issuance of the 3 Years Convertible Notes and 7 Years Convertible Notes of the Company.

The Current Directors are of the opinion that a complete list of the particulars of associates will be of excessive length and therefore the above list contains only the particulars of those associates which principally affect the results or assets of the Group.

## 21. DEFERRED DEVELOPMENT EXPENDITURE

| | THE GROUP | |
|---|---|---|
| | **30.9.2000** | **30.6.1999** |
| | *HK$'000* | *HK$'000* |
| Development costs: | | |
| Balance at beginning of the period/year | 21,798 | 22,470 |
| Amount capitalised during the period/year | 21,571 | 22,927 |
| Amount amortised during the period/year | (14,317) | (9,258) |
| Amount written-off during the period/year | (29,052) | (14,341) |
| Balance at end of the period/year | – | 21,798 |

## 22. OTHER INVESTMENT

| | THE GROUP | |
|---|---|---|
| | **30.9.2000** | **30.6.1999** |
| | *HK$'000* | *HK$'000* |
| Club debenture, at cost | 368 | 368 |

## 23. INVENTORIES

| | THE GROUP | |
|---|---|---|
| | **30.9.2000** | **30.6.1999** |
| | *HK$'000* | *HK$'000* |
| At cost, less provision and amounts written-off | | |
| Raw materials | 27,344 | 14,761 |
| Work-in-progress | 18,878 | 23,264 |
| Finished goods | 12,639 | 7,051 |
| | 58,861 | 45,076 |

Included in inventories as at 30 June 1999 were raw materials of HK$13,847,000, work-in-progress of HK$23,264,000 and finished goods of HK$7,051,000 which were carried at net realisable value. No such analysis has been presented as the information is not available.

## 24. TRADE AND OTHER RECEIVABLES

No aged analysis in respect of trade and other receivables has been presented as the information is not available.

## 25. TRADE AND OTHER PAYABLES

No aged analysis in respect of trade and other payables has been presented as the information is not available.

## 26. CONVERTIBLE NOTES

| | THE GROUP AND THE COMPANY | | | | |
|---|---|---|---|---|---|
| | 2000 | | | | 1999 |
| | 3 Years Convertible Notes | 7 Years Convertible Notes | Swiss Notes | Total | Swiss Notes |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Convertible notes balance brought forward | – | – | 162,690 | 162,690 | 162,690 |
| Issuance of new convertible notes to Swiss Noteholders | 24,709 | 12,354 | (37,063) | – | – |
| Issuance of new convertible notes to Bank Creditors | 34,706 | 17,353 | – | 52,059 | – |
| Issuance of shares to Swiss Noteholders | – | – | (125,627) | (125,627) | – |
| Amortisation of premium payable upon the final redemption of the convertible notes | 1,016 | 350 | – | 1,366 | – |
| Conversion during the period | (10,629) | (5,314) | – | (15,943) | – |
| | 49,802 | 24,743 | – | 74,545 | 162,690 |
| Less: Conversion option credited to conversion option reserve | (14,467) | (14,218) | – | (28,685) | – |
| Reversal of conversion option reserve upon the conversion of convertible notes into shares in the Company | 2,588 | 2,544 | – | 5,132 | – |
| | (11,879) | (11,674) | – | (23,553) | – |
| Total liability of the convertible notes | 37,923 | 13,069 | – | 50,992 | 162,690 |
| Principal value of convertible notes outstanding as at end of the period/year | 48,786 | 24,393 | – | 73,179 | 162,690 |

The amount as at 30 June 1999 represented the outstanding Swiss Notes issued on 4 January 1994. As detailed in note 2(b) II in respect of the Swiss Noteholders Restructuring, all the outstanding Swiss Notes were refinanced and discharged by the issuance of HK$24,709,000 3 Years Convertible Notes, HK$12,354,000 7 Years Convertible Notes and 1,589,748,017 Restructuring Shares to the Swiss Noteholders.

Particulars of the 3 Years Convertible Notes and 7 Years Convertible Notes are summarised as follows:

### (a) 3 Years Convertible Notes

Pursuant to the Debt Restructuring as explained in note 2(b), the Company issued an aggregate amount of approximately HK$59,415,000 3 Years Convertible Notes to the Bank Creditors and Swiss Noteholders as partial settlement of debts due to them.

The 3 Years Convertible Notes are non-interest bearing and may be converted, at the option of the holders, into shares of HK$0.02 each in the Company at a conversion price of HK$0.02 per share, subject to customary adjustments, at any time during the period commencing on 21 July 2000 and ending 10 business days before 21 July 2003. Unless previously converted in accordance with the terms of the 3 Years Convertible Notes, the 3 Years Convertible Notes will be redeemed by the Company at their principal outstanding amount on the third anniversary of their issue date.

During the period, holders of approximately HK$10,629,000 3 Years Convertible Notes exercised their rights to convert into 531,447,350 shares of HK$0.02 each in the Company.

At 30 September 2000, the Company had outstanding 3 Years Convertible Notes conferring rights to subscribe for up to approximately HK$48,786,000 in cash for shares at a conversion price of HK$0.02 per share. Exercise in full of these outstanding 3 Years Convertible Notes would, under the capital structure of the Company at 30 September 2000, result in the issue of 2,439,307,450 addition shares of HK$0.02 each in the Company.

**(b) 7 Years Convertible Notes**

In addition to the 3 Years Convertible Notes, the Company issued an aggregate amount of approximately HK$29,707,000 7 Years Convertible Notes to the Bank Creditors and the Swiss Noteholders as partial settlement of debts due to them.

The 7 Years Convertible Notes are non-interest bearing and may be converted, at the option of the holders, into shares of HK$0.02 each in the Company at a conversion price of HK$0.10 per share, subject to customary adjustments, at any time during the period commencing on 21 July 2000 and ending 10 business days before 21 July 2007. Unless previously converted in accordance with the terms of the 7 Years Convertible Notes, the 7 Years Convertible Notes will be mandatorily converted into shares of HK$0.02 each in the Company at a conversion price of HK$0.10 per share on the seventh anniversary of their issue date.

During the period, holders of approximately HK$5,314,000 7 Years Convertible Notes exercised their rights to convert into 53,143,800 shares of HK$0.02 each in the Company.

At 30 September 2000, the Company had outstanding 7 Years Convertible Notes conferring rights to subscribe for up to approximately HK$24,393,000 in cash for shares at a conversion price of HK$0.10 per share. Exercise in full of these outstanding 7 Years Convertible Notes would, under the capital structure of the Company at 30 September 2000, result in the issue of 243,927,260 addition shares of HK$0.02 each in the Company.

The Group is in breach of financial convenants relating to the terms of the 3 Years Convertible Notes and 7 Years Convertible Notes. Accordingly, these balances become repayable on demand and are classified as current liabilities.

## 27. BANK AND OTHER BORROWINGS

| | THE GROUP | | THE COMPANY | |
|---|---|---|---|---|
| | 30.9.2000 | 30.6.1999 | 30.9.2000 | 30.6.1999 |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Bank and other borrowings, which are repayable within one year, comprise: | | | | |
| Bank loans | 48,177 | 156,506 | – | 147,834 |
| Other loans | 7,800 | – | – | – |
| Bank overdrafts | – | 31,876 | – | 18,778 |
| | 55,977 | 188,382 | – | 166,612 |
| Analysed as: | | | | |
| Secured | 48,177 | 17,486 | – | – |
| Unsecured | 7,800 | 170,896 | – | 166,612 |
| | 55,977 | 188,382 | – | 166,612 |

## 28. SHARE CAPITAL

| | Number of ordinary shares | Amount *HK$'000* |
|---|---|---|
| Authorised | | |
| At 1 July 1998 and at 30 June 1999, at HK$0.10 each | 2,000,000,000 | 200,000 |
| Capital reduction and sub-division of shares (note (c)(i)) | 8,000,000,000 | – |
| At 30 September 2000, at HK$0.02 each | 10,000,000,000 | 200,000 |
| Issued and fully paid | | |
| At 1 July 1998 and 30 June 1999, at HK$0.10 each | 974,809,360 | 97,481 |
| Share placements on: | | |
| – 22 February 2000 (note (a)) | 75,500,000 | 7,550 |
| – 4 March 2000 (note (b)) | 119,460,000 | 11,946 |
| | 1,169,769,360 | 116,977 |
| Capital reduction (note (c)(i)) | – | (93,582) |
| At HK$0.02 each | 1,169,769,360 | 23,395 |
| Shares issued to Bank Creditors, Swiss Noteholders and Success Manor Lenders (note (c)(ii)) | 3,828,436,398 | 76,569 |
| Issuance of shares in respect of the acquisition of APE (note (d)) | 125,000,000 | 2,500 |
| Share placement on 23 August 2000 (note (e)) | 300,000,000 | 6,000 |
| Shares issued to CITIC Ka Wah Bank for partial settlement of a mortgage loan (note (f)) | 26,913,073 | 538 |
| Shares issued upon conversion of 3 Years Convertible Notes and 7 Years Convertible Notes (note (g)) | 584,591,150 | 11,692 |
| At 30 September 2000, at HK$0.02 each | 6,034,709,981 | 120,694 |

During the fifteen-month period ended 30 September 2000, the following changes in the share capital in the Company took place:

(a) On 22 February 2000, the Company, Kit Iu Limited (''Kit Iu'') and NSC Securities (Asia) Limited (the ''Placing Agent'') entered into a placing agreement (the ''First Placing Agreement'') and a subscription agreement (the ''First Subscription Agreement''). Pursuant to the First Placing Agreement, the Company placed, through the Placing Agent, a total of 75,500,000 existing shares of HK$0.10 each in the Company previously held by Kit Iu to independent placees at a price of HK$0.165 per placing share (the ''First Placing Price'').

The First Placing Price of HK$0.165 represented a discount of approximately 47.6% to the closing price of the Company's shares of HK$0.315 per share as quoted on the Stock Exchange on 18 February 2000 which was arrived at following negotiations between Kit Iu, the Placing Agent and the Company.

Pursuant to the First Subscription Agreement, Kit Iu agreed to subscribe (the ''First Subscription'') for 75,500,000 new shares (the ''First Subscription Shares''), which represented 7.75% and 7.2% of the Company's then existing and enlarged issued share capital, respectively. The proceeds of the First Subscription, after deducting commission and related expenses, of approximately HK$11,400,000 were used as general working capital of the Group.

Kit Iu, a substantial shareholder of the Company, is held by the trustee of a discretionary trust whose beneficiaries include Mr. Paul Leung and Mr. Howard Leung.

The First Subscription Shares were issued under the general mandate granted to the Directors at the Company's annual general meeting held on 23 December 1999.

All the new shares rank pari passu with the then existing shares of the Company in all respects.

(b) On 4 March 2000, the Company, Kit Iu and the Placing Agent entered into a placing agreement (the ''Second Placing Agreement'') and a subscription agreement (the ''Second Subscription Agreement''). Pursuant to the Second Placing Agreement, the Company placed, through the Placing Agent, a total of 119,460,000 shares of HK$0.10 each in the Company to independent placees at a price of HK$0.10 per placing share (the ''Second Placing Price''). Out of the 119,460,000 shares, 75,500,000 shares represented the existing shares previously held by Kit Iu and the remaining 43,960,000 shares represented the new shares in the Company (the ''Placed New Shares'').

The Second Placing Price of HK$0.10 represented a discount of approximately 56.5% to the closing price of the Company's shares of HK$0.23 per share as quoted on the Stock Exchange on 3 March 2000 which was arrived at following negotiations between Kit Iu, the Placing Agent and the Company.

Pursuant to the Second Subscription Agreement, Kit Iu agreed to subscribe for 75,500,000 new shares (the ''Second Subscription Shares''), which represented 7.19% and 6.46% of the Company's then existing and enlarged issued share capital, respectively, of the Company. The 43,960,000 new shares represented 4.17% and 3.74% of the Company's then existing and enlarged issued share capital, respectively. The proceeds of the placing of 119,460,000 shares, after deducting commission and related expenses, of approximately HK$10,500,000 was used as general working capital of the Group.

The Second Subscription Shares and the Placed New Shares were issued under the general mandate granted to the Directors at the Company's annual general meeting held on 23 December 1999.

All the new shares rank pari passu with the then existing shares of the Company in all respects.

(c) Changes in the share capital of the Company pursuant to Financial Restructuring are as follows:

(i) The restructuring of the Company's share capital

The nominal value of each issued share in the Company was reduced by HK$0.08 to HK$0.02. The entire credit balance arising from the capital reduction of approximately HK$93,582,000 was applied to write-off part of the deficit of the Company to the same extent. The unissued share capital of the Company was sub-divided into shares of HK$0.02 each.

(ii) Issuance of Restructuring Shares to the Bank Creditors, Swiss Noteholders and Success Manor Lenders.

Pursuant to the Debt Restructuring, 2,070,023,405 Restructuring Shares, 1,589,748,017 Restructuring Shares, and 168,664,976 Restructuring Shares of HK$0.02 each in the Company were issued to the Bank Creditors, Swiss Noteholders and Success Manor Lenders, respectively, at a price of HK$0.10 per share.

All the new shares rank pari passu with the then existing shares of the Company in all respects.

(d) On 24 March 2000, the Company entered into the APE Agreement with Asia Paging Company Limited, Well Master Group Limited, Wong Kin Chuen, Raymond, Ng Wai Keung, Lin Wing Hung and Lo Po Hong (together referred to as the ''APE Vendors''). Pursuant to the APE Agreement, the Company agreed to acquire 20,000 issued share in APE by the issue and allotment of 125,000,000 new shares of HK$0.02 each in the Company to the APE Vendors.

The issue price of HK$0.065 per share represented the closing price of the Company's shares as quoted on the Stock Exchange on 7 July 2000, being the date of the completion of the APE Agreement.

The APE Agreement and the issuance of the new shares were approved by the shareholders of the Company at the Company's special general meeting held on 7 July 2000.

All the new shares rank pari passu with the then existing shares of the Company in all respects.

(e) On 23 August 2000, the Company, SC Bank and the Placing Agent entered into a placing agreement (the ''Third Placing Agreement'') and a subscription agreement (the ''Third Subscription Agreement''). Pursuant to the Third Placing Agreement, the Company placed, through the Placing Agent, a total of 300,000,000 existing shares of HK$0.02 each in the Company previously held by SC Bank to independent placees at a price of HK$0.062 per placing share (the ''Third Placing Price'').

The Third Placing Price of HK$0.062 represented a discount of approximately 11.4% to the closing price of HK$0.070 per share as quoted on the Stock Exchange on 21 August 2000 which was arrived at following negotiations between SC Bank, the Placing Agent and the Company.

Pursuant to the Third Subscription Agreement, SC Bank agreed to subscribe (the ''Third Subscription'') for 300,000,000 new shares (the ''Third Subscription Shares''), which represented 5.25% and 5.0% of the Company's then existing and enlarged issued share capital, respectively. The proceeds of the Third Subscription, after deducting commission and related expenses, of approximately HK$13,100,000 was used as general working capital of the Group.

SC Bank is a substantial shareholder of the Company.

The Third Subscription Shares were issued under the general mandate granted to the Directors at the Company's special general meeting held on 7 July 2000.

All the new shares rank pari passu with the then existing shares of the Company in all respects.

(f) On 25 August 2000, the Company entered into an agreement with CITIC Ka Wah Bank Limited (''Ka Wah''), pursuant to which the Company agreed to issue 26,913,073 new shares of HK$0.02 each in the Company at a price of HK$0.07 per share to Ka Wah as partial settlement of a mortgage granted by Ka Wah to S.Megga Estate Management Limited, a wholly-owned subsidiary of the Company, to secure indebtedness owed by S.Megga Telecom to Ka Wah.

The issue price of HK$0.07 represented a premium of 59.9% to the closing price of the Company's shares of HK$0.044 per share as quoted on the Stock Exchange on 24 August 2000 which was arrived at following negotiations between Ka Wah and the Company.

The issue of the new shares were issued under the general mandate granted to the Directors at the Company's special general meeting of the Company held on 7 July 2000.

All the new shares rank pari passu with the then existing shares of the Company in all respects.

(g) During the fifteen-month period ended 30 September 2000, the holders of 3 Years Convertible Notes and 7 Years Convertible Notes with subscription rights of approximately HK$10,629,000 and HK$5,314,000, respectively exercised their rights, resulting in the issue of 531,447,350 shares and 53,143,800 shares of HK$0.02 each in the Company at a price of HK$0.02 per share and HK$0.10 per share, respectively.

All the new shares rank pari passu with the then existing shares of the Company in all respects.

**29. SHARE OPTION SCHEME**

Pursuant to the share option scheme (the ''Scheme'') adopted by the Company on 28 November 1991 the Directors may, at their discretion, invite employees of the Group, including Directors of the Company and its subsidiaries, to take up options 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 in accordance with the terms of the Scheme.

Pursuant to the Scheme, options to purchase shares in the Company were granted to selected executives. Movements of share options granted during the period/year and at the balance sheet date are as follows:

| | Share options exercisable within the period from 9 June 1997 to 8 June 1999 at HK$0.283 | Share options exercisable within the period from 30 June 1997 to 29 June 1999 at HK$0.378 | Total |
|---|---|---|---|
| Balance at 1 July 1998 | 160,000 | 1,900,000 | 2,060,000 |
| Lapsed due to expiry of exercisable period | (160,000) | (1,900,000) | (2,060,000) |
| Balance at 30 June 1999 and at 30 September 2000 | – | – | – |

## 30. RESERVES

| | Share premium *HK$'000* | Contributed surplus *HK$'000* | Capital reserve *HK$'000* | Goodwill reserve *HK$'000* | Conversion option reserve *HK$'000* | Property revaluation reserve *HK$'000* | Translation reserve *HK$'000* | Deficit *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|---|---|---|---|---|
| **THE GROUP** | | | | | | | | | |
| At 1 July 1998 | | | | | | | | | |
| As previously reported | 415,194 | 34,600 | 47,926 | – | – | 20,176 | 390 | (735,692) | (217,406) |
| Prior period adjustment (note 7) | – | – | – | – | – | – | – | 17,046 | 17,046 |
| As restated | 415,194 | 34,600 | 47,926 | – | – | 20,176 | 390 | (718,646) | (200,360) |
| Exchange differences arising from translation of overseas operations | – | – | – | – | – | – | (374) | – | (374) |
| Loss for the year | – | – | – | – | – | – | – | (158,815) | (158,815) |
| At 30 June 1999 and 1 July 1999 | 415,194 | 34,600 | 47,926 | – | – | 20,176 | 16 | (877,461) | (359,549) |
| Capital reduction | – | – | – | – | – | – | – | 93,582 | 93,582 |
| Premium on issue of shares | 335,005 | – | – | – | – | – | – | – | 335,005 |
| Share issuing expenses | (19,009) | – | – | – | – | – | – | – | (19,009) |
| Exchange differences arising from translation of overseas operations | – | – | – | – | – | – | (648) | – | (648) |
| Goodwill arising on acquisition of APE | – | – | – | (8,045) | – | – | – | – | (8,045) |
| Translation reserve transferred to income statement | – | – | – | – | – | – | 632 | – | 632 |
| Written-off of goodwill on acquisition of APE | – | – | – | 8,045 | – | – | – | – | 8,045 |
| Conversion option reserve arising on the issuance of 3 Years Convertible Notes and 7 Years Convertible Notes | – | – | – | – | 28,685 | – | – | – | 28,685 |
| Reversal of conversion option reserve upon the conversion of the convertible notes into shares | – | – | – | – | (5,132) | – | – | – | (5,132) |
| Loss for the period | – | – | – | – | – | – | – | (206,132) | (206,132) |
| At 30 September 2000 | 731,190 | 34,600 | 47,926 | – | 23,553 | 20,176 | – | (990,011) | (132,566) |
| **THE COMPANY** | | | | | | | | | |
| At 1 July 1998 | 415,194 | 106,413 | – | – | – | – | – | (795,388) | (273,781) |
| Loss for the year | – | – | – | – | – | – | – | (102,548) | (102,548) |
| At 30 June 1999 and 1 July 1999 | 415,194 | 106,413 | – | – | – | – | – | (897,936) | (376,329) |
| Capital reduction | – | – | – | – | – | – | – | 93,582 | 93,582 |
| Premium on issue of shares | 335,005 | – | – | – | – | – | – | – | 335,005 |
| Share issuing expenses | (19,009) | – | – | – | – | – | – | – | (19,009) |
| Conversion option reserve arising on the issuance of 3 Years Convertible Notes and 7 Years Convertible Notes | – | – | – | – | 28,685 | – | – | – | 28,685 |
| Reversal of conversion option reserve upon the conversion of the convertible notes into shares | – | – | – | – | (5,132) | – | – | – | (5,132) |
| Loss for the period | – | – | – | – | – | – | – | (239,369) | (239,369) |
| At 30 September 2000 | 731,190 | 106,413 | – | – | 23,553 | – | – | (1,043,723) | (182,567) |

The contributed surplus of the Company represents the difference between the nominal value of the Company's shares issued in exchange for all the issued ordinary shares of S.Meggatel (BVI) Limited and the value of net assets of the underlying subsidiaries acquired. Under the Companies Act 1981 of Bermuda (as amended) and Bye-Laws of the Company, the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

(a) it is, or would after the payment, be unable to pay its liabilities as they become due;

(b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

| | **1.7.1999 to 30.9.2000** | **1.7.1999 to 30.6.1999** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Deficit of the Group comprises: | | |
| Company and subsidiaries | (971,396) | (875,892) |
| Associates | (18,615) | (18,615) |
| | (990,011) | (894,507) |

At the balance sheet date, the Company did not have any reserve available for distribution to its shareholders (30.6.1999: Nil).

## 31. RECONCILIATION OF LOSS ATTRIBUTABLE TO SHAREHOLDERS TO NET CASH INFLOW FROM OPERATING ACTIVITIES

| | 1.7.1999 to 30.9.2000 | 1.7.1999 to 30.6.1999 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Loss attributable to shareholders | (206,132) | (158,815) |
| Interest expenses | 51,109 | 27,621 |
| Amortisation of deferred development expenditure | 14,317 | 9,258 |
| Depreciation and amortisation of property, plant and equipment | 15,120 | 15,730 |
| Provision for amounts due from associates | 39,022 | 2,588 |
| Deficit arising on revaluation of properties | 32,942 | 24,793 |
| Write-off of deferred development expenditure | 29,052 | 14,341 |
| Write-off of goodwill on acquisition of an associate | 8,045 | – |
| Translation reserve charged to income statement | 632 | – |
| Loss on disposals of property, plant and equipment | 112 | 1,760 |
| Impairment in value of an associate | 80 | 1,086 |
| Deficit arising on revaluation of plant and equipment | 373 | – |
| Share of result of associates | – | 50 |
| Penalty interest on overdue indebtedness | – | 34,391 |
| (Increase) decrease in inventories | (13,785) | 14,034 |
| Decrease in properties held for resale | – | 27,869 |
| Decrease (increase) in trade and other receivables | 19,294 | (3,622) |
| Increase (decrease) in trade and other payables | 95,534 | (4,952) |
| (Decrease) increase in bills payable | (56,638) | 8,072 |
| Net cash inflow from operating activities | 29,077 | 14,204 |

## 32. ANALYSIS OF CHANGES IN FINANCING DURING THE PERIOD/YEAR

| | Share capital and share premium | Bank and other borrowings | Convertible notes | Obligations under hire purchase contracts | Amounts due to associates |
|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Balance at 1st July 1998 | 512,675 | 156,506 | 162,690 | 4,700 | 16,926 |
| Repayments during the year | – | – | – | (3,133) | – |
| Balance at 30 June 1999 and 1 July 1999 | 512,675 | 156,506 | 162,690 | 1,567 | 16,926 |
| Proceeds from issue of shares, less costs | 23,995 | – | – | – | – |
| New borrowings raised during the period | – | 85,861 | – | – | – |
| Repayments during the period | – | (38,000) | – | (1,587) | (59) |
| Non-cash items: | | | | | |
| Changes in financing in respect of Financial Restructuring (note 2): | | | | | |
| – Capital reduction | (93,582) | – | – | – | – |
| – Issuance of shares to Bank Creditors, Swiss Noteholders and Success Manor Lenders, including interest accrual (note 34(a)(i)) | 382,844 | (94,447) | (125,627) | – | (16,867) |
| – Issuance of convertible notes to Bank creditors (note 34(a)(ii)) | – | (52,059) | 52,059 | – | – |
| Conversion of convertible notes to shares in the Company | 15,943 | – | (15,943) | – | – |
| Issuance of shares on acquisition of APE (note 34(b)) | 8,125 | – | – | – | – |
| Issuance of shares to Ka Wah (note 34(c)) | 1,884 | (1,884) | – | – | – |
| Inception of obligations under hire purchase contracts (note 34(d)) | – | – | – | 400 | – |
| Amortisation of premium payable upon the final redemption of the convertible notes | – | – | 1,366 | – | – |
| Conversion option reserve arising on the issuance of 3 Years Convertible Notes and 7 Years Convertible Notes, less reversal of conversion option reserve upon the conversion of convertible notes into shares in the Company | – | – | (23,553) | – | – |
| Balance at 30 September 2000 | 851,884 | 55,977 | 50,992 | 380 | – |

## 33. ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS

| | 30.9.2000 | 30.6.1999 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Time deposits with original maturity of less than 3 months | 5,864 | 700 |
| Bank balances and cash | 3,331 | 18,067 |
| Bank overdrafts | – | (31,876) |
| | 9,195 | (13,109) |

## 34. MAJOR NON-CASH TRANSACTIONS

The Group's major non-cash transactions during the fifteen-month period ended 30 September 2000 are as follows:

(a) As explained in note 2(b):

(i) 3,828,436,398 Restructuring Shares of HK$0.02 each in the Company were issued to the Bank Creditors, Swiss Noteholders and Success Manor Lenders at a price of HK$0.10 per share as partial settlement of the debts owed to the Bank Creditors, Swiss Noteholders and Success Manor Lenders; and

(ii) 3 Years Convertible Notes and 7 Years Convertible Notes amounting to approximately HK$34,706,000 and HK$17,353,000, respectively, were issued to the Bank Creditors as partial settlement of the debts owed to the Bank Creditors.

(b) As explained in note 28(d), the Company issued 125,000,000 new shares of HK$0.02 each in the Company at a price of HK$0.065 per share to acquire a 40% equity interest in APE.

(c) As explained in note 28(f), the Company issued 26,913,073 new shares of HK$0.02 each in the Company at a price of HK$0.07 per share to Ka Wah as partial settlement of a mortgage loan granted by Ka Wah to the Group.

(d) The Group entered into hire purchase contracts in respect of property, plant and equipment with a total capital value at the inception of the contracts of HK$400,000.

## 35. POTENTIAL DEFERRED TAXATION

No financial information in respect of the potential deferred taxation has been presented for the fifteen-month period ended 30 September 2000 or at the balance sheet date as the information is not available.

At 30 June 1999, the potential deferred tax assets (liabilities) not recognised in the financial statements were as follows:

| | **THE GROUP** | **THE COMPANY** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Timing differences attributable to: | | |
| Tax losses not yet utilised | 67,865 | 11,912 |
| Excess of tax allowance over depreciation | (12,223) | – |
| Net deferred taxation assets not recognised | 55,642 | 11,912 |

The amount of potential deferred tax credit (charge) for the year ended 30 June 1999 is as follows:

| | THE GROUP | THE COMPANY |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Tax losses arising | 23,437 | 8,681 |
| Excess of tax allowance over depreciation | (4,495) | – |
| Net deferred taxation credit not recognised | 18,942 | 8,681 |

The potential deferred tax asset has not been recognised in the financial statements as it is uncertain as to whether the tax losses will be utilised in the foreseeable future.

Deferred tax has not been provided on the surplus arising on the revaluation of land and buildings as profits arising on disposals of these assets would not be subject to taxation and, accordingly, the revaluation does not constitute a timing difference for tax purposes.

**36. PLEDGE OF ASSETS**

The Group's investment properties, land and buildings and certain plant and equipment with an aggregate amount of approximately HK$60,754,000 (30.6.1999: HK$54,800,000) were pledged to secure the general credit facilities granted to the Group.

**37. CAPITAL COMMITMENTS**

No financial information in respect of capital commitments as at 30 September 2000 has been presented as the information is not available.

The Company and the Group did not have any significant capital commitments as at 30 June 1999.

**38. CONTINGENT LIABILITIES**

No financial information in respect of contingent liabilities as at 30 September 2000 has been presented as the information is not available.

At 30 June 1999, the Company had contingent liabilities as follows:

| | *HK$'000* |
|---|---|
| Contingent liabilities: | |
| Guarantees given in respect of banking facilities made available to subsidiaries (facilities utilised HK$62,123,000) | 173,940 |
| Guarantees given in respect of a hire purchase contract of a subsidiary | 1,567 |
| | 175,507 |

The Group did not have any significant contingent liabilities as at 30 June 1999.

## 39. LONG SERVICE PAYMENTS

No financial information in respect of long service payment as at 30 September 2000 has been presented as the information is not available.

At 30 June 1999, the Group had a number of employees who had completed the required number of years of service under Hong Kong's Employment Ordinance (the ''Ordinance'') to be eligible for long service payments on termination of their employment. The Group is only liable to make such payments if the termination of employment meets the circumstances which are specified in the Ordinance. Had the employment of all eligible employees been terminated on 30 June 1999 under the circumstances specified by the Ordinance, the maximum potential exposure would have been approximately HK$6,520,000. No provision has been made in the financial statements in respect of such long service payments.

## 40. LITIGATIONS

Other than disclosed in note 4(a), in the opinion of the Current Directors, neither the Company nor the Group is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Current Directors to be pending to threaten against the Group.

## 41. RELATED PARTY TRANSACTIONS AND BALANCES

Details of balances with related parties at the balance sheet date are set out in the consolidated balance sheet on page 59 and its accompanying notes.

No financial information in respect of related party transactions for the fifteen-month period ended 30 September 2000 has been presented as the information is not available.

The Group had the following significant transactions with a former associate during the year ended 30 June 1999.

| **Nature of transaction** | *HK$'000* |
|---|---|
| Purchase from NSM International Limited (''NSM'') | 2,476 |
| Sales to NSM | 15,711 |
| Rental income from NSM | 1,038 |

**3B. For the Year Ended 30 September 2001**

德勤•關黃陳方會計師行

Certified Public Accountants
26/F, Wing On Centre
111 Connaught Road Central
Hong Kong

香港中環干諾道中111號
永安中心26樓

Deloitte Touche Tohmatsu

**TO THE MEMBERS OF WIRELESS INTERNETWORKS LIMITED (Receivers and Managers appointed)**
**(Formerly S.Megga International Holdings Limited)**
*(incorporated in Bermuda with limited liability)*

We have audited the financial statements on pages 107 to 142 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

**Respective responsibilities of Directors and auditors**

The Company's Directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

**Basis of opinion**

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants, except that the scope of our work was limited as explained below.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. However, the evidence available to us was limited as set out below.

1. Our report on the financial statements of the Group for the fifteen-month period ended 30 September 2000 was disclaimed in view of the pervasive nature of the limitations on the scope of our audit resulting from the inability of the Current Directors (as defined in note 1 to the financial statements) to locate sufficient documentary information as explained in note 5(b) to the

financial statements. Accordingly, we were unable to form an opinion as to whether the net liabilities of the Group and of the Company as at 30 September 2000 and the results of the Group for the fifteen-month period ended 30 September 2000 were fairly stated. Any adjustments to the opening balances as at 1 October 2000 would affect the net liabilities of the Group and of the Company as at 30 September 2001 and the results of the Group for the year ended 30 September 2001. Also the comparative figures in respect of the net liabilities of the Group and of the Company as at 30 September 2000 shown on pages 108 and 109 and the results of the Group for the fifteen-month period ended 30 September 2000 shown on page 107 may not be comparable with the figures for the current year.

2. As explained in note 5(b)i to the financial statements, the Current Directors of the Company have been unable to satisfy themselves as to whether the following amounts included in the financial statements have been completely and accurately recorded by the Group:

   – Turnover of HK$84,183,000 (1.7.1999 to 30.9.2000: HK$539,577,000);

   – Purchases, direct labour cost, and other direct and indirect manufacturing costs of HK$38,903,000 (1.7.1999 to 30.9.2000: HK$453,112,000), HK$7,516,000 (1.7.1999 to 30.9.2000: HK$26,758,000) and HK$16,862,000 (1.7.1999 to 30.9.2000: HK$73,275,000, respectively, included in cost of sales;

   – Other revenue of HK$5,522,000 (1.7.1999 to 30.9.2000: HK$55,191,000);

   – Selling and administrative expenses of HK$25,630,000 (1.7.1999 to 30.9.2000: HK$91,347,000);

   – Finance costs of HK$5,252,000 (1.7.1999 to 30.9.2000: HK$50,677,000);

   – Operating lease rental payments in respect of land and buildings and plant and machinery of HK$1,916,000 (1.7.1999 to 30.9.2000: HK$1,974,000);

   – Total directors' remuneration and other staff costs of HK$18,334,000 (1.7.1999 to 30.9.2000: HK$57,122,000) (excluding amount capitalised in deferred development expenditure) as analysed in note 9 to the financial statements;

   – Gross rental income of HK$197,000 (1.7.1999 to 30.9.2000: HK$5,130,000);

   – Tax recoverable with nil balance; and

   – Trade and other payables of HK$91,172,000 (30.9.2000: HK$115,626,000).

   As a result of the above, the Current Directors were also unable to satisfy themselves as to:

   – the appropriateness of the provision for bad and doubtful debts of HK$4,675,000 (1.7.1999 to 30.9.2000: HK$3,206,000); and

   – the reliability of the segmental information in note 7 to the financial statements.

3. Included in the Group's property, plant and equipment as at 30 September 2001 were freehold land and buildings outside Hong Kong with a carrying value of HK$14,754,000 (30.9.2000: HK$14,754,000) as at that date. We were unable to obtain sufficient information and explanations to assess whether any impairment loss should be recognised in respect of this freehold land and buildings.

4. As explained in note 5(b)ii to the financial statements, the Current Directors have been unable to locate sufficient documentary records to satisfy themselves regarding the movements in deferred development expenditure of the Group for the year ended 30 September 2001.

5. As explained in note 5(b)iii to the financial statements, included in bank balances and cash of the Group as at 30 September 2001 was an amount of HK$95,000 (30.9.2000: HK$1,318,000) which the Current Directors were unable to reconcile to the bank statements. Also, included in bank balances and cash of the Group as at 30 September 2001 was an amount of HK$2,053,000 (30.9.2000: HK$167,000) in respect of which the Current Directors were unable to obtain any bank statements. Accordingly, the Current Directors were unable to satisfy themselves that the bank balances and cash of the Group was fairly stated in the consolidated balance sheet of the Group as at 30 September 2001.

6. As explained in note 5(b)iv to the financial statements, the Current Directors are unable to represent as to the completeness of recording of transactions entered into by the Group and the Company for the period from 1 October 2000 to 4 June 2001 and of the completeness of disclosure of claims, commitments and contingent liabilities in the financial statements as at 30 September 2001. The Current Directors are also unable to represent as to the completeness of identification and appropriateness of disclosure of the potential deferred taxation, pledge of assets, capital commitments, contingent liabilities and related party transactions and balances.

7. As explained in notes 3(b) and 5(c) to the financial statements, the joint venture partner of a subsidiary of the Company and certain creditors of the Company took legal actions against the Group. Demands have been served on the Group at The People's Court, Dongguan, the PRC, and certain assets of the Group located in the PRC, including inventories, plant and machinery, furniture, fixtures and equipment, moulds and tools and motor vehicles of the Group, have been put under sealing orders or taken possession of by the creditors.

   In addition, the Current Directors were unable to locate the list of inventories and fixed assets register or other sufficient documentary records to identify individual inventories, plant and machinery, furniture, fixtures and equipment, moulds and tools and motor vehicles either in Dongguan, the PRC, or in Hong Kong, amounting to HK$23,438,000 (30.9.2000: HK$58,861,000), HK$32,007,000 (30.9.2000: HK$ 34,676,000), HK$14,628,000 (30.9.2000: HK$21,782,000), HK$2,540,000 (30.9.2000: HK$2,676,000) and HK$676,000 (30.9.2000: HK$790,000), respectively, as at 30 September 2001.

   Accordingly, the Current Directors were unable to satisfy themselves as to whether the inventories were fairly stated as at 30 September 2001 and similarly whether the plant and machinery, furniture, fixtures and equipment, moulds and tools and motor vehicles of the Group and the depreciation and amortisation charge of property, plant and equipment of HK$3,271,000 (1.7.1999 to 30.9.2000: HK$15,120,000) (excluding amount capitalised in deferred development expenditure) for the year were fairly stated in the financial statements.

8. As explained in note 5(d) to the financial statements, included in the consolidated financial statements were amounts in respect of certain subsidiaries of the Company, namely Dongguan S.Megga Telecommunications Limited and S.Meggatel Sdn. Bhd. (together referred to as the ''Subsidiaries'') for the year ended 30 September 2001 as follows:

   – Other revenue of nil balance (1.7.1999 to 30.9.2000: HK$45,000);

   – Selling and administrative expenses of HK$8,000 (1.7.1999 to 30.9.2000: HK$5,402,000);

– Provision for bad and doubtful debts of nil balance (1.7.1999 to 30.9.2000: HK$94,000);

– Finance costs of nil balance (1.7.1999 to 30.9.2000: HK$432,000);

– Other payables of HK$292,000 (30.9.2000: HK$665,000);

– Bank balances and cash of HK$188,000 (30.9.2000: HK$801,000); and

– Bank and other borrowings of HK$2,177,000 (30.9.2000: HK$2,177,000).

The above amounts were included in the consolidated financial statements based on the unaudited management accounts of these Subsidiaries for the year ended 30 September 2001; being the only financial information the Current Directors could obtain. Accordingly, the Current Directors have been unable to satisfy themselves that the results, assets and liabilities of these Subsidiaries have been properly included in the consolidated financial statements of the Group.

9. We have been unable to obtain direct confirmations or other documentary evidence in respect of the Company's and the Group's borrowings from other loans lenders and holders of convertible notes in respect of balances due to them in the amount of HK$12,480,000 (30.9.2000: HK$7,800,000) and HK$48,888,000 (30.9.2000: HK$20,374,000), respectively, included in the consolidated balance sheet of the Group as at 30 September 2001. Accordingly, we were unable to satisfy ourselves as to whether these amounts were fairly stated in the financial statements.

There were no other satisfactory audit procedures that we could adopt to satisfy ourselves as to the matters set out in paragraphs 1 to 9 above. Any adjustments to the above figures would affect the net liabilities of the Group and of the Company as at 30 September 2001 and the loss and cash flows of the Group for the year then ended.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

**Basis of preparation of financial statements**

In forming our opinion, we have considered the adequacy of the disclosure made in note 5(a) to the financial statements. In early 2001, receivers were appointed by the security trustee of the 3 Years Convertible Noteholders and 7 Years Convertible Noteholders in respect of the Company and certain subsidiaries of the Company, including S.Megga Telecommunications Limited, a principal subsidiary. Subsequent to the appointment of the receivers, the Group's production has been suspended pending the injection of additional funds which would be made available upon the successful completion of a restructuring proposal (the ''Restructuring Proposal''). Further, a supplier and a former director of the Company filed wind-up petitions against S.Megga Telecommunications Limited and the Company, respectively. Against this background, the Company entered into agreements (the ''Conditional Subscription Agreement'') with certain third parties and details of the Restructuring Proposal are described in note 4 to the financial statements.

Providing that the Restructuring Proposal can be successfully implemented upon completion of the Restructuring Agreements, the Current Directors are satisfied that the operations and businesses of the Group can be reactivated and the financial difficulties of the Group resolved.

**Disclaimer of opinion**

Because of the significance of the possible effect of the limitations in evidence available to us referred to in the basis of opinion section of this report, we are unable to form an opinion as to whether the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 30 September 2001 or of the loss and cash flows of the Group for the year then ended and as to whether the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

In respect alone of the limitations on our work as set out in the basis of opinion section of this report;

- we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and

- we were unable to determine whether proper books of accounts have been kept.

**Deloitte Touche Tohmatsu**

25 February 2002

**CONSOLIDATED INCOME STATEMENT**

*FOR THE YEAR ENDED 30 SEPTEMBER 2001*

| | NOTES | 1.10.2000 to 30.9.2001 HK$'000 | 1.7.1999 to 30.9.2000 HK$'000 |
|---|---|---|---|
| Turnover | 7 | 84,183 | 539,577 |
| Cost of sales | | (98,704) | (539,360) |
| | | (14,521) | 217 |
| Other revenue | 8 | 5,522 | 55,236 |
| Selling and administrative expenses | | (25,838) | (97,662) |
| Provision for bad and doubtful debts | | (4,675) | (3,300) |
| Deficit arising on revaluation of properties | | – | (32,942) |
| Write-off of deferred development expenditure | | – | (29,052) |
| Deficit arising on revaluation of plant and equipment | | – | (373) |
| Loss from operations | 7&9 | (39,512) | (107,876) |
| Finance costs | 11 | (5,252) | (51,109) |
| Provision for amounts due from associates | | (189) | (39,022) |
| Write-off of goodwill on acquisition of an associate | | – | (8,045) |
| Impairment loss recognised in respect of an associate | | – | (80) |
| Loss attributable to shareholders | 13 | (44,953) | (206,132) |
| Loss per share<br>Basic and diluted | 14 | (0.71 cents) | (11.49 cents) |

There were no recognised gains or losses other than the loss from operations for the year/period.

**CONSOLIDATED BALANCE SHEET**

*AS AT 30 SEPTEMBER 2001*

| | *NOTES* | **30.9.2001** *HK$'000* | **30.9.2000** *HK$'000* |
|---|---|---|---|
| Non-current assets | | | |
| Investment properties | 15 | – | 18,000 |
| Property, plant and equipment | 16 | 78,756 | 110,273 |
| Interests in associates | 18 | – | – |
| Deferred development expenditure | 19 | – | – |
| Other investment | 20 | 368 | 368 |
| | | 79,124 | 128,641 |
| Current assets | | | |
| Inventories | 21 | 23,438 | 58,861 |
| Trade and other receivables | 22 | – | 15,984 |
| Time deposits | | – | 5,864 |
| Bank balances and cash | | 7,275 | 3,331 |
| | | 30,713 | 84,040 |
| Current liabilities | | | |
| Trade and other payables | 23 | 92,577 | 117,204 |
| Amount due to an associate | | 3,765 | – |
| Obligations under hire purchase contracts | | 314 | 380 |
| Convertible notes | 24 | 48,888 | 50,992 |
| Bank and other borrowings | 25 | 14,657 | 55,977 |
| | | 160,201 | 224,553 |
| Net current liabilities | | (129,488) | (140,513) |
| | | (50,364) | (11,872) |
| Capital and reserves | | | |
| Share capital | 26 | 127,681 | 120,694 |
| Reserves | 28 | (178,045) | (132,566) |
| | | (50,364) | (11,872) |

The financial statements on pages 107 to 142 were approved and authorised for issue by the board of directors on 25 February 2002 and are signed on its behalf by:

**Wu Sai Wing**
*DIRECTOR*

**Howard Leung**
*DIRECTOR*

**BALANCE SHEET**

*AS AT 30 SEPTEMBER 2001*

| | *NOTES* | **30.9.2001** *HK$'000* | **30.9.2000** *HK$'000* |
|---|---|---|---|
| Non-current assets | | | |
| Interests in subsidiaries | 17 | – | – |
| Interests in associates | 18 | – | – |
| | | – | – |
| Current assets | | | |
| Other receivables | | – | – |
| Time deposits | | – | 5,864 |
| Bank balances and cash | | 5,219 | 126 |
| | | 5,219 | 5,990 |
| Current liabilities | | | |
| Other payables | | 9,091 | 16,871 |
| Amount due to an associate | | 3,765 | – |
| Convertible notes | 24 | 48,888 | 50,992 |
| | | 61,744 | 67,863 |
| Net current liabilities | | (56,525) | (61,873) |
| | | (56,525) | (61,873) |
| Capital and reserves | | | |
| Share capital | 26 | 127,681 | 120,694 |
| Reserves | 28 | (184,206) | (182,567) |
| | | (56,525) | (61,873) |

**Wu Sai Wing**
*DIRECTOR*

**Howard Leung**
*DIRECTOR*

**CONSOLIDATED CASH FLOW STATEMENT**

*FOR THE YEAR ENDED 30 SEPTEMBER 2001*

| | NOTES | 1.10.2000 to 30.9.2001 HK$'000 | 1.7.1999 to 30.9.2000 HK$'000 |
|---|---|---|---|
| NET CASH (OUTFLOW) INFLOW FROM OPERATING ACTIVITIES | 29 | (4,889) | 29,077 |
| CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE | | | |
| Interest paid | | (895) | (49,743) |
| TAXATION | | | |
| Overseas tax refunded | | – | 59 |
| INVESTING ACTIVITIES | | | |
| Proceeds from disposals of property, plant and equipment | | 45,637 | 120 |
| Deferred development expenditure incurred | | (3,817) | (19,685) |
| Purchase of property, plant and equipment | | (146) | (6,994) |
| Amounts advanced to associates | | (189) | (92) |
| NET CASH INFLOW (OUTFLOW) FROM INVESTING ACTIVITIES | | 41,485 | (26,651) |
| NET CASH INFLOW (OUTFLOW) BEFORE FINANCING CARRIED FORWARD | | 35,701 | (47,258) |
| FINANCING | 30 | | |
| Repayment of bank and other borrowings | | (46,000) | (38,000) |
| New bank and other borrowings raised | | 4,680 | 85,861 |
| Amounts advanced from (repaid to) associates | | 3,765 | (59) |
| Repayment of capital element of hire purchase contracts | | (66) | (1,587) |
| Issue of shares, net of expenses | | – | 23,995 |
| NET CASH (OUTFLOW) INFLOW FROM FINANCING | | (37,621) | 70,210 |
| (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | | (1,920) | 22,952 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR/PERIOD | | 9,195 | (13,109) |
| EFFECT OF EXCHANGE RATE CHANGES | | – | (648) |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR/PERIOD | 31 | 7,275 | 9,195 |

**NOTES TO THE FINANCIAL STATEMENTS**
*FOR THE YEAR ENDED 30 SEPTEMBER 2001*

## 1. GENERAL

The Company was incorporated as an exempted company in Bermuda with its shares listed on The Stock Exchange of Hong Kong Limited (the ''Stock Exchange''). The trading of the shares in the Company on the Stock Exchange has been suspended since 12 February 2001.

The Company acts as an investment holding company.

The activities of the Company's principal subsidiaries at 30 September 2001 are set out in note 17.

Pursuant to a special resolution passed at a special general meeting held on 7 July 2000, the name of the Company was changed from S.Megga International Holdings Limited to Wireless InterNetworks Limited.

During the fifteen-month period ended 30 September 2000, the Company changed its financial year end date from 30th June to 30th September. The financial statements for the previous period presented therefore cover the fifteen-month period from 1 July 1999 to 30 September 2000. The corresponding amounts shown for the income statement and cash flows and related notes cover the fifteen-month period ended 30th September 2000 and therefore may not be comparable with amounts shown for the current year. No further changes to reporting dates are anticipated.

Subsequent to the appointment of the receivers as described in note 2 below, Mr. Kurabayashi Minoru, Mr, William Fang Wei Chang and Mr. Huang Pier Kuen, the former independent non-executive directors of the Company, resigned as directors of the Company on 30 December 2000. On 4 June 2001, the Company announced the appointment of Mr. Gerald Clive Dobby and Mr. Wu Sai Wing as non-executive directors of the Company, and the removal of Mr. Leung Ho Man, Paul (''Mr. Paul Leung'', a former director and the former Chairman of the Company) as director of the Company. The remaining executive director, Mr. Howard Leung, together with two newly appointed non-executive directors, Mr. Gerald Clive Dobby and Mr. Wu Sai Wing, are collectively referred to as the ''Current Directors''.

## 2. APPOINTMENT OF RECEIVERS

After the completion of the financial structure (the ''Financial Restructuring'') of the Company in 2000, the Group continued to operate under extremely tight liquidity position and its business operation continued to deteriorate and was not generating sufficient cash flows.

On 13 February 2001, as a result of breaches of the Modified Debt Restructuring Agreement and the Debentures, SC Bank, the security trustee (the ''Security Trustee'') under the Debentures, appointed Messrs. Paul Jeremy Brough and Nicholas Peter Etches of KPMG (the ''Receivers'') as the joint and several receivers and managers of S.Megga Telecommunications Limited (''S.Megga Telecom''), a wholly-owned subsidiary of the Company. On 12 March 2001, the Security Trustee appointed the Receivers as the joint and several receivers and managers of the Company. On 9 August 2001, the Security Trustee appointed the Receivers as the joint and several receivers and managers of certain subsidiaries of the Company. The Receivers were appointed to, inter alia, enforce and preserve the security granted pursuant to the Debentures and are responsible for the assets and businesses of the Group.

Subsequent to the appointment of the Receivers in February 2001, the Group suspended all its operations and businesses.

## 3. WINDING-UP PETITIONS AND SEALING ORDERS

### (a) Winding-up petitions against the Company and S.Megga Telecom (the ''Winding-Up Petitions'')

*i. Against S.Megga Telecom*

On 12 February 2001, GPI International Limited (''GPI'', a supplier of S.Megga Telecom) filed a winding-up petition against S.Megga Telecom. The most recent hearing of the winding-up petition was fixed for 22 October 2001, but with the consent of S.Megga Telecom and GPI, the hearing was vacated. Application has been made to The High Court of Hong Kong (the ''Court'') for the sanction of the S.Megga Telecom's Scheme (as defined under the section headed ''The Debt Restructuring Proposal of S. Megga Telecom'' in note 4) which will be heard on 1 March 2002. If the order of the Court is granted to sanction the S. Megga Telecom's Scheme, the winding-up petition will be required to be withdrawn and the claim brought by GPI will be dealt with under the terms of the S. Megga Telecom's Scheme.

*ii. Against the Company*

On 16 August 2001, Mr. Paul Leung presented a winding-up petition against the Company (the ''First Leung Winding-up Petition''), and which was made in respect of salary and other benefits alleged to be owed to him by the Company, was subsequently withdrawn by Mr. Paul Leung by the filing of a consent order made by the Court on 29 November 2001.

On 25 September 2001, Mr. Paul Leung presented another winding-up petition against the Company (the ''Second Leung Winding-up Petition''), and which was made in respect of similar matters to those contained in the First Leung Winding- up Petition. The Second Leung Winding-up Petition was dismissed by the Court on 21 January 2002 by agreement under the terms of a deed of settlement dated 10 January 2002 between Mr. Paul Leung, the Group and the Receivers.

### (b) Sealing orders

In February 2001, the joint venture partner of Dongguan S.Megga Telecommunications Limited (''Dongguan S.Megga''), an equity joint venture set up in The People's Republic of China (the ''PRC'') other than Hong Kong of which S.Megga Telecom is interested in approximately 70% of its registered capital, took legal action against the Group at The People's Court, Dongguan, for outstanding management fees, rents and processing fees. Since then, a total of 19 demands have been served on the Group at The People's Court, Dongguan, of which five were presented by the Hong Kong based creditors of Dongguan S.Megga and four had already obtained sealing orders on certain assets of the Group located in the Group's Dongguan premises. Three auctions had been held on 14 December 2001, 4 January 2002 and 25 January 2002 to dispose of certain assets in the Dongguan factory. No bid had been received during the auctions. A fourth auction is yet to be fixed by The Peopls's Court, Dongguan.

Further details are summarised in note 5(c).

## 4. RESTRUCTURING PROPOSAL

Since the appointment of the Receivers, the Receivers and the Company have received several proposals from a number of potential investors for the Group's financial restructuring.

On 20 September 2001, the Company announced that the Subscription Agreement, the Comprise Agreement and the Injection Agreement (together referred to as the ''Restructuring Agreements'') were entered into between the Company, the Receivers, CCT Telecom Holdings Limited (''CCT'', a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the Stock Exchange) and Dongguan Defa Investment Limited (''Defa'', an investment holding company incorporated in the British Virgin Islands) on 10 August 2001.

The following transactions of the Restructuring Agreements are proposed (the ''Restructuring Proposal''):

**(a) The restructuring of the Company's share capital**

*i. The capital reduction (the ''Capital Reduction'')*

– the nominal value of each issued share in the Company will be reduced by HK$0.019 to HK$0.001; and

– the unissued share capital of the Company will be sub-divided into twenty shares of HK$0.001 each.

The entire credit balance arising from the Capital Reduction shall be applied to write-off part of the deficit of the Company to the same extent.

*ii. The share consolidation (the ''Share Consolidation'')*

Following the Capital Reduction become effective, every ten reduced shares of HK$0.001 each in the Company will be consolidated into one new share of HK$0.01 each in the Company.

*iii. Increase of authorised share capital*

Immediately upon the Share Consolidation become effective, the authorised share capital of the Company will be increased to HK$150,000,000.

**(b) The transfer of assets and shares in S.Megga Telecom**

*i. The transfer of assets of S.Megga Telecom*

Pursuant to an assets transfer agreement entered into between the Company and S.Megga Telecom on 21 September 2001, certain assets of S.Megga Telecom will be hived-down to another subsidiary of the Company for a consideration of HK$2,000,000 in cash and 100,000,000 new shares of HK$0.01 each in the Company (together referred to as the ''Assets Transfer Consideration'').

*ii. The transfer of shares in S.Megga Telecom*

Immediately after the transfer of assets described above, the Company will then transfer all the Company's interest in the issued voting share capital of S.Megga Telecom to a company beneficially owned by the Receivers, to be held by it on behalf of the holders of the 3 Years Convertible Notes and 7 Years Convertible Notes (together referred to as the ''3 & 7 Years Noteholders'').

**(c) The injection of asset from CCT (the ''Asset Injection'')**

CCT has agreed to sell and the Company has agreed to buy the entire issued share capital of Electronic Sales Limited (''ESL'') at a consideration of HK$70,000,000 by:

i. issuance of 2,500,000,000 new shares in the Company at HK$0.01 each at a total consideration of HK$25,000,000; and

ii. issuance of HK$45,000,000 non-interest bearing convertible notes due on 2004 (the ''2004 Convertible Notes''). The 2004 Convertible Notes is redeemable on the third anniversary of the date of issue (the ''2004 Convertible Maturity Date''). The 2004 Convertible Notes carry rights at any time from the issue of the 2004 Convertible Notes to five business days prior to the 2004 Convertible Maturity Date to convert the whole or part of the principal of the 2004 Convertible Notes into new shares of HK$0.01 each in the Company at a price of HK$0.01 per share.

ESL is an indirect wholly-owned subsidiary of CCT. ESL was acquired by CCT in May 1997 and is a manufacturer of switching mode and linear mode power suppliers and operates at a manufacturing plant in Dongguan, the PRC. The main products of ESL include transformers, AC/DC adaptors, and custom built-in power supply, which are used in the manufacturing of corded and cordless telephones.

**(d) The subscription of other shares**

Pursuant to the Restructuring Agreements, CCT and Defa has each agreed to subscribe for 2,000,000,000 new shares in the Company at a par value of HK$0.01 each for an aggregate amount of HK$40,000,000 in cash (the ''Subscription''). The issue price of the new shares is the same as the closing price of HK$0.01 of the existing shares of the Company before the suspension of trading of the shares in the Company on the Stock Exchange on 12 February 2001.

**(e) The Debt Restructuring Proposal of the Company**

I. The 3 & 7 Years Noteholders

Up to the date of this report, the Company was indebted to the 3 & 7 Years Noteholders for approximately HK$63,700,000. The terms of the proposal in respect of the 3 Years Convertible Notes and 7 Years Convertible Notes will be as follows:

i. An amount of HK$38,200,000 will be paid by the Company by way of cash of HK$20,000,000 from the proceeds of the Subscription and the issue of 1,820,000,000 new shares of HK$0.01 each in the Company to the 3 & 7 Years Noteholders in each case pro-rata to the amount of the debt owed to each 3 & 7 Years Noteholders;

ii. The Company will transfer all the Group's interest in the issued voting share capital of S.Megga Telecom to a company beneficially owned by the Receivers, to be held by it on behalf of the 3 & 7 Years Noteholders; and

iii. The resulting shortfall of approximately HK$25,500,000 from the total indebtedness due to the 3 & 7 Years Noteholders (the ''3 & 7 Years Noteholders' Shortfall'') will form part of the Company's unsecured indebtedness and will be

compromised under a scheme of arrangement (the ''Company's Scheme'') under Section 166 of the Hong Kong Companies Ordinance between the Company and its unsecured creditors as explained in note 4(a)II below.

For the purpose of the Company's Scheme, the Company's assets charged under the Debentures for the benefit of the 3 & 7 Years Noteholders, as secured creditors of the Company, will be treated as having a value of approximately HK$40,500,000 by incorporating the value of the payment of approximately HK$38,200,000 to be made by the Company to the 3 & 7 Years Noteholders. Accordingly, subject to the completion of the Restructuring Proposal, the amount of the 3 & 7 Years Noteholders' Shortfall of HK$25,500,000 will have been reduced to approximately HK$23,200,000 (the ''Adjusted 3 & 7 Years Noteholders' Shortfall'').

II. The unsecured indebtedness of the Company

Up to the date of this report, the indebtedness of the Company due to its unsecured creditors, including the Adjusted 3 & 7 Years Noteholders' Shortfall of approximately HK$23,200,000, was approximately HK$36,200,000 and is proposed to be compromised under the Company's Scheme. Cash of HK$3,000,000 from the proceeds of the Subscription will be made available to the unsecured creditors of the Company.

At a meeting of the Company's unsecured creditors convened at the direction of the Court and which was held on 11 January 2002 for the purpose of considering and approving of the Company's Scheme, the required majorities of the unsecured creditors who were entitled to vote in relation to the Company's Scheme voted in its favour. Application has been made to the Court for the grant of an order sanctioning the Company's Scheme under the Section 166 of the Companies Ordinance. The Court hearing has been fixed on 1 March 2002. The Company's Scheme will only become effective and binding on all the unsecured creditors of the Company upon an office copy of the order of the Court sanctioning the Company's Scheme being delivered to the Registrar of Companies in Hong Kong for registration.

Further details of the Restructuring Agreements and the Restructuring Proposal were announced by the Company on 20 September 2001, 11 October 2001, 14 November 2001, 27 December 2001 and 31 January 2002.

**The Debt Restructuring Proposal of S.Megga Telecom**

Up to the date of this report, the indebtedness of S.Megga Telecom due to its unsecured creditors, excluding the inter-company debts and guarantee liabilities of HK$817,200,000 and HK$52,600,000, respectively, was approximately HK$93,900,000 and is proposed to be settled under a scheme of arrangement (the ''S.Megga Telecom's Scheme'') under Section 166 of the Hong Kong Companies Ordinance between S.Megga Telecom and its unsecured creditors.

At a meeting of the S.Megga Telecom's unsecured creditors convened at the direction of the Court and which was held on 11 January 2002 for the purpose of considering and approving of the S.Megga Telecom's Scheme, the required majorities of the unsecured creditors who were entitled to vote in relation to the S.Megga Telecom's Scheme voted in its favour. Application has been made to the Court for the grant of an order sanctioning the S.Megga Telecom's Scheme under the Section 166 of the Companies Ordinance. The Court hearing has been fixed on 1 March 2002. The S.Megga Telecom's Scheme will only become effective and binding on all the unsecured creditors of S.Megga Telecom upon an office copy of the order of the Court sanctioning the S.Megga Telecom's Scheme being delivered to the Registrar of Companies in Hong Kong for registration.

The Assets Transfer Consideration shall be distributed amongst these unsecured creditors of S.Megga Telecom on a pro-rata basis in accordance with the terms of the S.Megga Telecom's Scheme.

**5. BASIS OF PREPARATION OF FINANCIAL STATEMENTS**

(a) In preparing the financial statements, the Current Directors have given careful consideration to the future operations and financing of the Group in the light of the deficiency of shareholders' funds of approximately HK$50,364,000 and the net current liabilities of approximately HK$129,488,000 as at 30 September 2001. Providing that the Restructuring Proposal described in note 4 can be successfully implemented upon completion of the Restructuring Agreements, the Current Directors are satisfied that the operations and businesses of the Group can be reactivated and the financial difficulties of the Group resolved.

(b) Following the appointment of the Receivers, the Group's production has been suspended pending the injection of additional funds which would be made available upon the successful completion of the Restructuring Proposal. Although the Current Directors have used their best endeavours to relocate all the financial and business records of the Group as most of the former directors of the Company, former senior management and former accounting personnel of the Group have left the Group, the Current Directors have been unable to locate sufficient documentary information to satisfy themselves regarding the treatment of various balances of the Group and of the Company as at 30 September 2000 and for the fifteen-month period then ended. Any adjustments to the opening balances of the consolidated financial statements of the Company as at 1 October 2000 would affect the net liabilities of the Group and of the Company as at 30 September 2001 and the results of the Group for the year ended 30 September 2001. Also the comparative figures in respect of the net liabilities of the Group and of the Company as at 30 September 2000 shown on pages 108 and 109 and the results of the Group for the fifteen-month period ended 30 September 2000 shown on page 107 may not be comparable with the figures for the current year.

As explained in the above paragraph, the Current Directors have also been unable to locate sufficient documentary information to satisfy themselves regarding the treatment of certain items in the financial statements as follows:

i. The Current Directors have been unable to satisfy themselves as to whether the following amounts included in the financial statements have been completely and accurately recorded by the Group:

- Turnover of HK$84,183,000 (1.7.1999 to 30.9.2000: HK$539,577,000);
- Purchases, direct labour cost, and other direct and indirect manufacturing costs of HK$38,903,000 (1.7.1999 to 30.9.2000: HK$453,112,000), HK$7,516,000 (1.7.1999 to 30.9.2000: HK$26,758,000) and HK$16,862,000 (1.7.1999 to 30.9.2000: HK$73,275,000, respectively, included in cost of sales;
- Other revenue of HK$5,522,000 (1.7.1999 to 30.9.2000: HK$55,191,000);
- Selling and administrative expenses of HK$25,630,000 (1.7.1999 to 30.9.2000: HK$91,347,000);
- Finance costs of HK$5,252,000 (1.7.1999 to 30.9.2000: HK$50,677,000);

– Operating lease rental payments in respect of land and buildings and plant and machinery of HK$1,916,000 (1.7.1999 to 30.9.2000: HK$1,974,000);

– Total directors' remuneration and other staff costs of HK$18,334,000 (1.7.1999 to 30.9.2000: HK$57,122,000) (excluding amount capitalised in deferred development expenditure) as analysed in note 9;

– Gross rental income of HK$197,000 (1.7.1999 to 30.9.2000: HK$5,130,000);

– Tax recoverable with nil balance; and

– Trade and other payables of HK$91,172,000 (30.9.2000: HK$115,626,000).

As a result of the above, the Current Directors were also unable to satisfy themselves as to:

– the appropriateness of the provision for bad and doubtful debts of HK$4,675,000 (1.7.1999 to 30.9.2000: HK$3,206,000); and

– the reliability of the segmental information in note 7.

ii. The Current Directors have been unable to locate sufficient documentary records to satisfy themselves regarding the movements in deferred development expenditure of the Group for the year ended 30 September 2001.

iii. Included in bank balances and cash of the Group as at 30 September 2001 was an amount of HK$95,000 (30.9.2000: HK$1,318,000) which the Current Directors were unable to reconcile to the bank statements. Also, included in bank balances and cash of the Group as at 30 September 2001 was an amount of HK$2,053,000 (30.9.2000: HK$167,000) in respect of which the Current Directors were unable to obtain any bank statements. Accordingly, the Current Directors were unable to satisfy themselves that the bank balances and cash of the Group was fairly stated in the consolidated balance sheet of the Group as at 30 September 2001.

iv. The Current Directors are unable to represent as to the completeness of recording of transactions entered into by the Group and the Company for the period from 1 October 2000 to 4 June 2001 and of the completeness of disclosure of claims, commitments and contingent liabilities in the financial statements as at 30 September 2001. The Current Directors are also unable to represent as to the completeness of identification and appropriateness of disclosure of the potential deferred taxation, pledge of assets, capital commitment, contingent liabilities and related party transactions and balances.

(c) As explained in note 3(b) to the financial statements, the joint venture partner of a subsidiary of the Company and certain creditors of the Company took legal actions against the Group. Demands have been served on the Group at The People's Court, Dongguan, the PRC, and certain assets of the Group located in the PRC, including inventories, plant and machinery, furniture, fixtures and equipment, moulds and tools and motor vehicles of the Group, have been put under sealing orders or taken possession of by the creditors.

In addition, the Current Directors were unable to locate the list of inventories and fixed assets register or other sufficient documentary records to identify individual inventories, plant and machinery, furniture, fixtures and equipment, moulds and tools and motor vehicles either in Dongguan, the PRC, or in Hong Kong, amounting to HK$23,438,000 (30.9.2000: HK$58,861,000), HK$32,007,000 (30.9.2000: HK$ 34,676,000), HK$14,628,000 (30.9.2000: HK$21,782,000), HK$2,540,000 (30.9.2000: HK$2,676,000) and HK$676,000 (30.9.2000: HK$790,000), respectively, as at 30 September 2001.

Accordingly, the Current Directors were unable to satisfy themselves as to whether the inventories were fairly stated as at 30 September 2001 and similarly whether the plant and machinery, furniture, fixtures and equipment, moulds and tools and motor vehicles of the Group and the depreciation and amortisation charge of property, plant and equipment of HK$3,271,000 (1.7.1999 to 30.9.2000: HK$15,120,000) (excluding amount capitalised in deferred development expenditure) for the year ended were fairly stated in the financial statements.

(d) Included in the consolidated financial statements were amounts in respect of certain subsidiaries of the Company, namely Dongguan S.Megga Telecommunications Limited and S.Meggatel Sdn. Bhd. (together referred to as the ''Subsidiaries'') for the year ended 30 September 2001 as follows:

- Other revenue of nil balance (1.7.1999 to 30.9.2000: HK$45,000);
- Selling and administrative expenses of HK$8,000 (1.7.1999 to 30.9.2000: HK$5,402,000);
- Provision for bad and doubtful debts of nil balance (1.7.1999 to 30.9.2000: HK$94,000);
- Finance costs of nil balance (1.7.1999 to 30.9.2000: HK$432,000);
- Other payables of HK$292,000 (30.9.2000: HK$665,000);
- Bank balances and cash of HK$188,000 (30.9.2000: HK$801,000); and
- Bank and other borrowings of HK$2,177,000 (30.9.2000: HK$2,177,000).

The above amounts were included in the consolidated financial statements based on the unaudited management accounts of these Subsidiaries for the year ended 30 September 2001; being the only financial information the Current Directors could obtain. Accordingly, the Current Directors have been unable to satisfy themselves that the results, assets and liabilities of these Subsidiaries have been properly included in the consolidated financial statements of the Group.

## 6. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain properties.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

**Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 30th September.

The results of subsidiaries acquired or disposed of during the year/period are included in the consolidated income statement from the effective date of acquisition or up to the effective dates of disposal, as appropriate.

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

**Goodwill**

Goodwill represents the excess of the purchase consideration over the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a subsidiary and is written off to reserves immediately on acquisition. Negative goodwill represents the excess of the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a subsidiary over the purchase consideration is credited to reserves.

Any premium or discount arising on the acquisition of an interest in an associate, representing the excess or shortfall, respectively, of the purchase consideration over the fair value ascribed to the Group's share of the separable net assets of the associate at the date of acquisition, is dealt with in the same manner as that described above for goodwill or capital reserve.

On disposal (including liquidation) of investments in subsidiaries and associates, the attributable amount of goodwill or capital reserve previously eliminated against or credited to reserves is included in the determination of the profit or loss on disposal of the subsidiary or associate.

**Investments in subsidiaries**

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued capital or controls more than half of the voting power, or where the Company controls the composition of its board of directors or equivalent governing body.

Investments in subsidiaries are included in the Company's balance sheet at cost, as reduced by provision for any impairment in value. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable during the year/period.

**Interests in associates**

An associate is an enterprise over which the Group is in a position to exercise significant influence, including participation in financial and operating policy decisions.

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year/period. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates.

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

Investments in associates are included in the Company's balance sheet at cost, as reduced by provision for any impairment in value. The results of the associates are accounted for by the Company on the basis of dividends received and receivable during the period/year.

**Investment properties**

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on independent professional valuations at the balance sheet date. Any revaluation surplus or deficit arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a revaluation decrease, in which case the excess of the revaluation deficit over the balance on the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation increase subsequently arises, this surplus is credited to the income statement to the extent of the decrease previously charged.

On disposal of investment properties, the balance on the investment property revaluation reserve attributable to the properties disposed of is credited to the income statement.

No depreciation and amortisation is provided on investment properties except where the unexpired terms of the relevant lease is twenty years or less.

**Property, plant and equipment**

Property, plant and equipment, other than factory premises under construction, are stated at cost or valuation less depreciation and amortisation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the assets have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which they are incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an asset, the expenditure is capitalised as an additional cost of the asset.

The gain or loss arising on disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Where the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are not discounted to their present values.

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

Any surplus arising on revaluation of land and buildings is credited to the property revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which cases this surplus is credit to the income statement to the extent of the deficit previously charged. A decrease in net carrying amount arising on revaluation of such properties is charged to the income statement to the extent that it exceeds the surplus, if any, held in the property revaluation reserve relating to previous revaluation of that particular asset. On the subsequent sale or retirement of such revalued asset, the attributable revaluation surplus not yet transferred to deficit in prior years is transferred to deficit.

Freehold land outside Hong Kong is not amortised.

Depreciation is provided to write off the cost or valuation of property, plant and equipment, other than factory premises under construction, over their estimated useful lives and after taking into account their estimated residual value at the following rates:

| | |
|---|---|
| Leasehold land | Over the unexpired term of relevant lease on straight-line method |
| Buildings | 2% per annum on straight-line method |
| Plant and machinery | 20% per annum on reducing balance method |
| Furniture, fixtures and equipment | 15% per annum on reducing balance method |
| Moulds and tools | 25% per annum on reducing balance method |
| Motor vehicles | 25% per annum on reducing balance method |

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

**Assets held under hire purchase contracts**

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

**Factory premises under construction**

Factory premises under construction in the PRC are stated at cost, less provision for any impairment in value. Cost includes development costs, attributable interest and overheads capitalised during the development period.

No depreciation and amortisation is provided for factory premises under construction until the construction is completed.

**Borrowing costs**

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

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

**Deferred development expenditure**

Development costs are deferred if there is a clearly defined development project which is technically feasible and commercially viable and the estimated future economic benefits are sufficient to cover costs incurred. Such development costs are amortised based on the actual sales for a financial period as a proportion of the estimated total sales of the related products. All other development costs are written off in the period in which they are incurred.

The Director review the future economic benefits from the deferred development expenditure on a regular basis. Should the Directors consider that any particular development projects have no further commercial value, the unamortised balance of all related deferred costs will be written off immediately to the income statement.

**Investments in securities**

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

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

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by provision for any impairment in value.

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

**Inventories**

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

**Convertible loan notes**

Convertible loan notes are regarded as compound instruments, consisting of a liability component and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible loan notes and the fair value assigned to the liability component, representing the embedded option to convert the liability into equity of the Group, is included in reserves.

The interest expense on the liability component is calculated by applying the prevailing market interest rate for similar non-convertible debt to the instrument. The difference between this amount and the interest paid is added to the carrying value of the convertible loan notes.

**Turnover**

Turnover represents the net amounts received and receivable from sales of goods, property rentals and related building management income and interest income during the year/period.

**Revenue recognition**

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

Rental income under operating leases is recognised on a straight-line basis over the term of the relevant lease.

Building management fee income is recognised when services are rendered.

Interest income is recognised on a time basis, by reference to the principal outstanding at the rate applicable.

**Operating leases**

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease.

**Taxation**

The charge for taxation is based on the results for the period as adjusted for items which are non- assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

**Foreign currencies**

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

On consolidation, the financial statements of overseas operations are translated at the rates ruling on the balance sheet date. All exchange differences arising on consolidation are dealt with in reserves.

**Cash equivalents**

Cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired; less advances from banks repayable within three months from the date of the advance.

## 7. SEGMENTAL INFORMATION

An analysis of the Group's turnover and contribution to loss from operations by principal activity is as follows:

| | Turnover | | Contribution to loss from operations | |
|---|---|---|---|---|
| | **1.10.2000 to 30.9.2001** | **1.7.1999 to 30.9.2000** | **1.10.2000 to 30.9.2001** | **1.7.1999 to 30.9.2000** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| *By principal activity:* | | | | |
| Telecommunications product manufacturing operation | 83,774 | 532,079 | (19,219) | (69,646) |
| Property investment | 197 | 5,291 | (189) | 1,989 |
| Interest income | 212 | 2,207 | 212 | 2,207 |
| | 84,183 | 539,577 | (19,196) | (65,450) |
| Other revenue | | | 5,522 | 55,236 |
| Selling and administrative expenses | | | (25,838) | (97,662) |
| Loss from operations | | | (39,512) | (107,876) |

No analysis of the Group's turnover and contribution to loss from operations for the year ended 30 September 2001 and for the fifteen-month period ended 30 September 2000 by geographical market has been presented as the information is not available.

## 8. OTHER REVENUE

Included in other revenue of the Group in the fifteen-month period ended 30 September 2000 was an amount of approximately HK$38,900,000 in respect of receipt from a former customer for litigation settlement. There was no such item for the year ended 30 September 2001.

## 9. LOSS FROM OPERATIONS

| | 1.10.2000 to 30.9.2001 | 1.7.1999 to 30.9.2000 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Loss from operations has been arrived at after charging: | | |
| Amortisation of deferred development expenditure | 4,355 | 14,317 |
| Auditors' remuneration | 268 | 913 |
| Depreciation and amortisation of property, plant and equipment: | | |
| Owned assets | 3,809 | 16,893 |
| Assets held under hire purchase contracts | – | 113 |
| Less: Amount capitalised in deferred development expenditure | (538) | (1,886) |
| | 3,271 | 15,120 |
| Directors' remuneration: | | |
| Fees | – | – |
| Other emoluments | 75 | 5,774 |
| | 75 | 5,774 |
| Other staff costs | 21,848 | 66,708 |
| Total staff costs | 21,923 | 72,482 |
| Less: Amount capitalised in deferred development expenditure | (3,589) | (15,360) |
| | 18,334 | 57,122 |
| Loss on disposals of property, plant and equipment | 217 | 112 |
| Operating lease rental payments in respect of: | | |
| Land and buildings | 1,916 | 1,954 |
| Plant and machinery | – | 20 |
| and after crediting: | | |
| Gross rental income | 197 | 5,130 |

## 10. DIRECTORS' AND EMPLOYEE' REMUNERATION

No financial information in respect of the Directors' and employees' remuneration for the year ended 30 September 2001 and for the fifteen-month period ended 30 September 2000 has been presented as the information is not available.

## 11. FINANCE COSTS

| | 1.10.2000 to 30.9.2001 | 1.7.1999 to 30.9.2000 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Amortisation of premium payable upon the final redemption of the convertible notes (note 24) | 4,357 | 1,366 |
| Interest on bank loans and other borrowings wholly repayable within five years | 892 | 49,362 |
| Hire purchase charges | 3 | 381 |
| Total finance costs | 5,252 | 51,109 |

## 12. TAXATION

No provision for profits tax has been made in the financial statements as, in the opinion of the Current Directors, neither the Group nor the Company had any assessable profits for the period/year.

Details of potential deferred taxation are set out in note 33.

## 13. LOSS ATTRIBUTABLE TO SHAREHOLDERS

Of the Group's loss attributable to shareholders for the year ended 30 September 2001 of approximately HK$44,953,000 (for the fifteen-month period ended 30 September 2000: a loss attributable to shareholders of approximately HK$206,132,000), a loss of approximately HK$1,113,000 (for the fifteen-month period ended 30 September 2000: a loss of approximately HK$239,369,000) has been dealt with in the financial statements of the Company.

## 14. LOSS PER SHARE

The calculation of loss per share is based on the loss attributable to shareholders for the year ended 30 September 2001 of approximately HK$44,953,000 (for the fifteen-month period ended 30 September 2000: a loss attributable to shareholders of approximately HK$206,132,000) and on the weighted average number of 6,302,769,767 (for the fifteen-month period ended 30 September 2000: 1,794,650,082) shares in issue during the year.

The computation of diluted loss per share for the year ended 30 September 2001 and for the fifteen-month period ended 30 September 2000 has not assumed the exercise of the convertible notes as their exercise would be anti-dilutive.

## 15. INVESTMENT PROPERTIES

| | THE GROUP | |
|---|---|---|
| | 30.9.2001 | 30.9.2000 |
| | *HK$'000* | *HK$'000* |
| At valuation | – | 18,000 |

During the year, the Group disposed of the investment properties, together with the medium-term leasehold land and buildings in Hong Kong and certain furniture, fixtures and equipment, for a total consideration of HK$46,000,000. The total loss on disposal was approximately HK$217,000.

## 16. PROPERTY, PLANT AND EQUIPMENT

| | THE GROUP | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Leasehold land and buildings in Hong Kong** *HK$'000 (note a)* | **Freehold land and buildings outside Hong Kong** *HK$'000 (note b)* | **Factory premises under construction in the PRC** *HK$'000 (note c)* | **Plant and machinery** *HK$'000* | **Furniture, fixtures and equipment** *HK$'000* | **Moulds and tools** *HK$'000* | **Motor vehicles** *HK$'000* | **Total** *HK$'000* |
| **AT COST OR VALUATION** | | | | | | | | |
| At 1 October 2000 | 21,444 | 14,754 | 14,151 | 128,559 | 24,246 | 4,940 | 4,375 | 212,469 |
| Additions | – | – | – | 34 | 7 | 102 | 3 | 146 |
| Disposals | (21,444) | – | – | (44) | (6,598) | (16) | (47) | (28,149) |
| At 30 September 2001 | – | 14,754 | 14,151 | 128,549 | 17,655 | 5,026 | 4,331 | 184,466 |
| Analysed as: | | | | | | | | |
| At cost | – | – | – | 128,549 | 17,655 | 5,026 | 4,331 | 155,561 |
| At valuation – 2001 | – | – | 14,151 | – | – | – | – | 14,151 |
| At valuation – 1999 | – | 14,754 | – | – | – | – | – | 14,754 |
| | – | 14,754 | 14,151 | 128,549 | 17,655 | 5,026 | 4,331 | 184,466 |
| **DEPRECIATION AND AMORTISATION** | | | | | | | | |
| At 1 October 2000 | – | – | – | 93,883 | 2,464 | 2,264 | 3,585 | 102,196 |
| Provided for the year | 37 | – | – | 2,683 | 792 | 226 | 71 | 3,809 |
| Eliminated on disposals | (37) | – | – | (24) | (229) | (4) | (1) | (295) |
| At 30 September 2001 | – | – | – | 96,542 | 3,027 | 2,486 | 3,655 | 105,710 |
| **NET BOOK VALUE** | | | | | | | | |
| At 30 September 2001 | – | 14,754 | 14,151 | 32,007 | 14,628 | 2,540 | 676 | 78,756 |
| At 30 September 2000 | 21,444 | 14,754 | 14,151 | 34,676 | 21,782 | 2,676 | 790 | 110,273 |

*Notes:*

(a) As mentioned in note 15, during the year, the Group disposed of the medium-term leasehold land and buildings and certain furniture, fixtures and equipment in Hong Kong, together with the investment properties, for a total consideration of HK$46,000,000.

(b) At 30 June 1999, the freehold land and buildings outside Hong Kong were valued by Jones Lang Wotton, Chartered Surveyors, on an open market value basis. No valuation as at 30 September 2001 has been obtained as, in the opinion of the Current Directors, the cost involved in obtaining such information would be out of proportion to the value to the members of the Company.

If the land and buildings had not been revalued but stated at cost less accumulated depreciation and amortisation, their carrying values would have been stated at HK$15,713,000 (30.9.2000: HK$16,128,000).

(c) The amount represents the Group's interest in the factory premises under construction (the "Factory Premises"). The Group had entered into an agreement (the "Dongguan Agreement") with 東莞市城區工業發展總公司 ("工業公司") of Dongguan City on a 50:50 basis for the construction of the Factory Premises in the Tin Bao Industrial District of Dongguan (the "Project"). Pursuant to the Dongguan Agreement, the

Group will contribute all the construction costs of the Factory Premises and 工業公司 will contribute the land use rights to the Project. The Group is entitled to use the Factory Premises to be constructed thereon rent-free for a period of five years upon commencement of operation, and then at nominal rental for the remaining forty-five years. At the expiration of the fifty-year period, the Factory Premises together with the land use rights will revert to 工業公司.

At 30 September 2001, the Group's interests in the Factory Premises were stated at HK$14,151,000 based on the valuation carried out by the Current Directors.

(d) No financial information in respect of the net book value of plant and equipment held under hire purchase contracts as at 30 September 2001 and 2000 has been presented as the information is not available.

## 17. INTERESTS IN SUBSIDIARIES

| | THE COMPANY | |
|---|---|---|
| | **30.9.2001** | **30.9.2000** |
| | *HK$'000* | *HK$'000* |
| Unlisted investments, at cost | 106,713 | 106,713 |
| Amounts due from subsidiaries | 933,488 | 933,488 |
| | 1,040,201 | 1,040,201 |
| Less: Impairment losses recognised and amounts written-off | (1,040,201) | (1,040,201) |
| | – | – |

Particulars of the principal subsidiaries of the Company as at 30 September 2001 are as follows:

| **Name of subsidiary** | **Place of incorporation/ operation** | **Issued and fully paid share capital/ registered capital** | **Percentage of issued share capital/ registered capital held by the Company** | | **Principal activities** |
|---|---|---|---|---|---|
| | | | **Directly %** | **Indirectly %** | |
| Dongguan S.Megga Telecommunications Limited | PRC/PRC | HK$8,000,000 registered capital | – | 70 | Manufacture of telecommunications products, now inactive |
| Fairway Enterprises Limited | Hong Kong/ Hong Kong | 2 ordinary shares of HK$1 each | – | 100 | Property investment |
| Lucky Cheer Limited | Hong Kong/ Hong Kong | 2 ordinary shares of HK$1 each | – | 100 | Property investment |
| Maxway Properties Limited | Hong Kong/ Hong Kong | 10,000 ordinary shares of HK$1 each | – | 100 | Property trading and investment |
| S.Megga Estate Management Limited (in Receivership) | Hong Kong/ Hong Kong | 1,000 ordinary shares of HK$100 each | – | 100 | Investment holding, property trading and investment |
| S.Megga Global Limited (in Receivership) | British Virgin Islands/ Hong Kong | 10 ordinary shares of HK$0.10 each | – | 100 | Investment holding |

| Name of subsidiary | Place of incorporation/ operation | Issued and fully paid share capital/ registered capital | Percentage of issued share capital/ registered capital held by the Company | | Principal activities |
|---|---|---|---|---|---|
| | | | Directly % | Indirectly % | |
| S.Megga Nominee Limited (in Receivership) | Hong Kong/ Hong Kong | 2 ordinary shares of HK$1 each | – | 100 | Provision of nominee services, now inactive |
| S.Megga Technology Limited (in Receivership) | Hong Kong/ Hong Kong | 2 ordinary shares of HK$1 each | – | 100 | Research and development of telecommunications products, now inactive |
| S.Megga Telecommunications Limited (in Receivership) | Hong Kong/ Hong Kong | 10 ordinary shares of HK$100 each and 232,433 non-voting deferred shares of HK$100 each (note b) | – | 100 | Manufacture of telecommunications products, now inactive |
| S.Meggatel Sdn. Bhd. | Malaysia/ Malaysia | 6,411,765 ordinary shares of 1 Ringgit each | – | 70 | Manufacture of cordless telephones and other telecommunications products, now inactive |
| S.Meggatel (BVI) Limited (in Receivership) | British Virgin Islands/ Hong Kong | 232,433 ordinary shares of HK$0.10 each | 100 | – | Investment holding |

*Notes:*

(a) The shares of all the above subsidiaries were pledged for the issuance of the 3 Years Convertible Notes and 7 Years Convertible Notes of the Company.

(b) The non-voting deferred shares practically carry no rights to dividends or to receive notice of or to attend or vote at any general meeting of the respective companies or to participate in any distribution or winding up.

The Current Directors are of the opinion that a complete list of the particulars of subsidiaries will be of excessive length and therefore the above list contains only the particulars of those subsidiaries which principally affect the results or assets of the Group.

None of the subsidiaries had any loan capital outstanding at the end of the year/period.

## 18. INTERESTS IN ASSOCIATES

| | THE GROUP | | THE COMPANY | |
|---|---|---|---|---|
| | 30.9.2001 | 30.9.2000 | 30.9.2001 | 30.9.2000 |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Share of net assets | – | – | – | – |
| Unlisted shares, at cost | – | – | 8,125 | 8,125 |
| Amounts due from associates | 66,175 | 65,986 | 52 | 52 |
| | 66,175 | 65,986 | 8,177 | 8,177 |
| Less: Impairment losses recognised and amounts written off | (66,175) | (65,986) | (8,177) | (8,177) |
| | – | – | – | – |

Particulars of the principal associates of the Group as at 30 September 2001 are as follows:

| Name of associate | Place of incorporation/ operation | Effective percentage of equity capital attributable to the Group % | Principal activities |
|---|---|---|---|
| Act Power Enterprises Limited (''APE'') | British Virgin Islands/Hong Kong | 40 | Investment holding |
| Charmgold Development Limited (in Receivership) | Hong Kong/PRC | 50 | Property investment, now inactive |
| Cheertex Limited (in Receivership) | Hong Kong/ Hong Kong | 50 | Investment holding |
| Glory World Development Limited | Hong Kong/ Hong Kong | 50 | Investment holding |
| Take Queen Limited (in Receivership) | British Virgin Islands/Hong Kong | 50 | Investment holding |

The shares of all the above associates were pledged for the issuance of the 3 Years Convertible Notes and 7 Years Convertible Notes of the Company.

The Current Directors are of the opinion that a complete list of the particulars of associates will be of excessive length and therefore the above list contains only the particulars of those associates which principally affect the results or assets of the Group.

## 19. DEFERRED DEVELOPMENT EXPENDITURE

| | THE GROUP | |
|---|---|---|
| | 30.9.2001 | 30.9.2000 |
| | *HK$'000* | *HK$'000* |
| Development costs: | | |
| Balance at beginning of the year/period | – | 21,798 |
| Amount capitalised during the year/period | 4,355 | 21,571 |
| Amount amortised during the year/period | (4,355) | (14,317) |
| Amount written-off during the year/period | – | (29,052) |
| Balance at end of the year/period | – | – |

## 20. OTHER INVESTMENT

| | THE GROUP | |
|---|---|---|
| | **30.9.2001** | **30.9.2000** |
| | *HK$'000* | *HK$'000* |
| Club debenture, at cost | 368 | 368 |

## 21. INVENTORIES

| | THE GROUP | |
|---|---|---|
| | **30.9.2001** | **30.9.2000** |
| | *HK$'000* | *HK$'000* |
| At cost, less provision and amounts written-off | | |
| Raw materials | 12,716 | 27,344 |
| Work-in-progress | 9,448 | 18,878 |
| Finished goods | 1,274 | 12,639 |
| | 23,438 | 58,861 |

No financial information in respect of the net realisable value of inventories as at 30 September 2001 and 2000 has been presented as the information is not available.

## 22. TRADE AND OTHER RECEIVABLES

No aged analysis in respect of trade and other receivables has been presented as the information is not available.

## 23. TRADE AND OTHER PAYABLES

No aged analysis in respect of trade and other payables has been presented as the information is not available.

## 24. CONVERTIBLE NOTES

| | THE GROUP AND THE COMPANY | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2001 | | | | | 2000 | |
| | 3 Years Convertible Notes | 7 Years Convertible Notes | Total | 3 Years Convertible Notes | 7 Years Convertible Notes | Swiss Notes | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Convertible notes balance brought forward | 49,802 | 24,743 | *74,545* | – | – | 162,690 | 162,690 |
| Issuance of new convertible notes to Swiss Noteholders | – | – | – | 24,709 | 12,354 | (37,063) | – |
| Issuance of new convertible notes to Bank Creditors | – | – | – | 34,706 | 17,353 | – | 52,059 |
| Issuance of shares to Swiss Noteholders | – | – | – | – | – | (125,627) | (125,627) |
| Amortisation of premium payable upon the final redemption of the convertible notes during the year/period | 3,240 | 1,117 | *4,357* | 1,016 | 350 | – | 1,366 |
| Conversion during the year/period | (6,351) | (3,176) | *(9,527)* | (10,629) | (5,314) | – | (15,943) |
| | 46,691 | 22,684 | *69,375* | 49,802 | 24,743 | – | 74,545 |
| Less: Conversion option credited to conversion option reserve during the year/period | (11,879) | (11,674) | *(23,553)* | (14,467) | (14,218) | – | (28,685) |
| Reversal of conversion option reserve upon the conversion of convertible notes into shares in the Company during the year/period | 1,547 | 1,519 | *3,066* | 2,588 | 2,544 | – | 5,132 |
| | (10,332) | (10,155) | *(20,487)* | (11,879) | (11,674) | – | (23,553) |
| Total liability of the convertible notes | 36,359 | 12,529 | *48,888* | 37,923 | 13,069 | – | 50,992 |
| Principal value of convertible notes outstanding as at end of the year/period | 42,435 | 21,217 | *63,652* | 48,786 | 24,393 | – | 73,179 |

Particulars of the 3 Years Convertible Notes and 7 Years Convertible Notes are summarised as follows:

(a) 3 Years Convertible Notes

The 3 Years Convertible Notes are non-interest bearing and may be converted, at the option of the holders, into shares of HK$0.02 each in the Company at a conversion price of HK$0.02 per share, subject to customary adjustments, at any time during the period commencing on 21 July 2000 and ending 10 business days before 21 July 2003. Unless previously converted in accordance with the terms of the 3 Years Convertible Notes, the 3 Years Convertible Notes will be redeemed by the Company at their principal outstanding amount on the third anniversary of their issue date.

During the fifteen-month period ended 30 September 2000, holders of approximately HK$10,629,000 3 Years Convertible Notes exercised their rights to convert into 531,447,350 shares of HK$0.02 each in the Company.

During the year ended 30 September 2001, holders of approximately HK$6,351,000 3 Years Convertible Notes exercised their rights to convert into 317,569,800 shares of HK$0.02 each in the Company.

At 30 September 2001, the Company had outstanding 3 Years Convertible Notes conferring rights to subscribe for up to approximately HK$42,435,000 (30.9.2000: HK$48,786,000) in cash for shares at a conversion price of HK$0.02 per share. Exercise in full of these outstanding 3 Years Convertible Notes would, under the capital structure of the Company at 30 September 2001, result in the issue of 2,121,737,650 (30.9.2000: 2,439,307,450) addition shares of HK$0.02 each in the Company.

(b) 7 Years Convertible Notes

The 7 Years Convertible Notes are non-interest bearing and may be converted, at the option of the holders, into shares of HK$0.02 each in the Company at a conversion price of HK$0.10 per share, subject to customary adjustments, at any time during the period commencing on 21 July 2000 and ending 10 business days before 21 July 2007. Unless previously converted in accordance with the terms of the 7 Years Convertible Notes, the 7 Years Convertible Notes will be mandatorily converted into shares of HK$0.02 each in the Company at a conversion price of HK$0.10 per share on the seventh anniversary of their issue date.

During the fifteen-month period ended 30 September 2000, holders of approximately HK$5,314,000 7 Years Convertible Notes exercised their rights to convert into 53,143,800 shares of HK$0.02 each in the Company.

During the year ended 30 September 2001, holders of approximately HK$3,176,000 7 Years Convertible Notes exercised their rights to convert into 31,755,840 shares of HK$0.02 each in the Company.

At 30 September 2001, the Company had outstanding 7 Years Convertible Notes conferring rights to subscribe for up to approximately HK$21,217,000 (30.9.2000: HK$24,393,000) in cash for shares at a conversion price of HK$0.10 per share. Exercise in full of these outstanding 7 Years Convertible Notes would, under the capital structure of the Company at 30 September 2001, result in the issue of 212,171,420 (30.9.2000: 243,927,260) addition shares of HK$0.02 each in the Company.

The Group is in breach of financial convenants relating to the terms of the 3 Years Convertible Notes and 7 Years Convertible Notes. Accordingly, these balances become repayable on demand and are classified as current liabilities.

At 30 September 2001, SC Bank, a substantial shareholder of the Company, was interested in part of the convertible notes of the Company.

## 25. BANK AND OTHER BORROWINGS

| | THE GROUP | |
|---|---|---|
| | **30.9.2001** | **30.9.2000** |
| | *HK$'000* | *HK$'000* |
| Bank and other borrowings, which are repayable within one year, comprise: | | |
| Bank loans | 2,177 | 48,177 |
| Other loans | 12,480 | 7,800 |
| | 14,657 | 55,977 |
| Analysed as: | | |
| Secured | 2,177 | 48,177 |
| Unsecured | 12,480 | 7,800 |
| | 14,657 | 55,977 |

## 26. SHARE CAPITAL

| | **Number of ordinary shares** | **Amount** |
|---|---|---|
| Authorised | | |
| At 1 July 1999, at HK$0.10 each | 2,000,000,000 | 200,000 |
| Capital reduction and sub-division of shares *(note A(c)(i))* | 8,000,000,000 | – |
| At 30 September 2000 and 30 September 2001, at HK$0.02 each | 10,000,000,000 | 200,000 |
| Issued and fully paid | | |
| At 1 July 1999, at HK$0.10 each | 974,809,360 | 97,481 |
| Share placements on: | | |
| – 22 February 2000 *(note A(a))* | 75,500,000 | 7,550 |
| – 4 March 2000 *(note A(b))* | 119,460,000 | 11,946 |
| | 1,169,769,360 | 116,977 |
| Capital reduction *(note A(c)(i))* | – | (93,582) |
| At HK$0.02 each | 1,169,769,360 | 23,395 |
| Shares issued to Bank Creditors, Swiss Noteholders and Success Manor Lenders *(note A(c)(ii))* | 3,828,436,398 | 76,569 |
| Issuance of shares in respect of the acquisition of APE *(note A(d))* | 125,000,000 | 2,500 |
| Share placement on 23 August 2000 *(note A(e))* | 300,000,000 | 6,000 |
| Shares issued to CITIC Ka Wah Bank for partial settlement of a mortgage loan *(note A(f))* | 26,913,073 | 538 |
| Shares issued upon conversion of 3 Years Convertible Notes and 7 Years Convertible Notes *(note A(g))* | 584,591,150 | 11,692 |
| At 30 September 2000, at HK$0.02 each | 6,034,709,981 | 120,694 |
| Shares issued upon conversion of 3 Years Convertible Notes and 7 Years Convertible Notes *(note B)* | 349,325,640 | 6,987 |
| At 30 September 2001, at HK$0.02 each | 6,384,035,621 | 127,681 |

A. During the fifteen-month period ended 30 September 2000, the following changes in the share capital in the Company took place:

(a) On 22 February 2000, the Company, Kit Iu Limited (''Kit Iu'') and NSC Securities (Asia) Limited (the ''Placing Agent'') entered into a placing agreement (the ''First Placing Agreement'') and a subscription agreement (the ''First Subscription Agreement''). Pursuant to the First Placing Agreement, the Company placed, through the Placing Agent, a total of 75,500,000 existing shares of HK$0.10 each in the Company previously held by Kit Iu to independent placees at a price of HK$0.165 per placing share (the ''First Placing Price'').

The First Placing Price of HK$0.165 represented a discount of approximately 47.6% to the closing price of the Company's shares of HK$0.315 per share as quoted on the Stock Exchange on 18 February 2000 which was arrived at following negotiations between Kit Iu, the Placing Agent and the Company.

Pursuant to the First Subscription Agreement, Kit Iu agreed to subscribe (the ''First Subscription'') for 75,500,000 new shares (the ''First Subscription Shares''), which represented 7.75% and 7.2% of the Company's then existing and enlarged issued share capital, respectively. The proceeds of the First Subscription, after deducting commission and related expenses, of approximately HK$11,400,000 were used as general working capital of the Group.

Kit Iu, a substantial shareholder of the Company, is held by the trustee of a discretionary trust whose beneficiaries include Mr. Paul Leung and Mr. Howard Leung.

The First Subscription Shares were issued under the general mandate granted to the Directors at the Company's annual general meeting held on 23 December 1999.

All the new shares rank pari passu with the then existing shares of the Company in all respects.

(b) On 4 March 2000, the Company, Kit Iu and the Placing Agent entered into a placing agreement (the ''Second Placing Agreement'') and a subscription agreement (the ''Second Subscription Agreement''). Pursuant to the Second Placing Agreement, the Company placed, through the Placing Agent, a total of 119,460,000 shares of HK$0.10 each in the Company to independent placees at a price of HK$0.10 per placing share (the ''Second Placing Price''). Out of the 119,460,000 shares, 75,500,000 shares represented the existing shares previously held by Kit Iu and the remaining 43,960,000 shares represented the new shares in the Company (the ''Placed New Shares'').

The Second Placing Price of HK$0.10 represented a discount of approximately 56.5% to the closing price of the Company's shares of HK$0.23 per share as quoted on the Stock Exchange on 3 March 2000 which was arrived at following negotiations between Kit Iu, the Placing Agent and the Company.

Pursuant to the Second Subscription Agreement, Kit Iu agreed to subscribe for 75,500,000 new shares (the ''Second Subscription Shares''), which represented 7.19% and 6.46% of the Company's then existing and enlarged issued share capital, respectively, of the Company. The 43,960,000 new shares represented 4.17% and 3.74% of the Company's then existing and enlarged issued share capital, respectively. The proceeds of the placing of 119,460,000 shares, after deducting commission and related expenses, of approximately HK$10,500,000 was used as general working capital of the Group.

The Second Subscription Shares and the Placed New Shares were issued under the general mandate granted to the Directors at the Company's annual general meeting held on 23 December 1999.

All the new shares rank pari passu with the then existing shares of the Company in all respects.

(c) Changes in the share capital of the Company pursuant to Financial Restructuring are as follows:

(i) The restructuring of the Company's share capital

The nominal value of each issued share in the Company was reduced by HK$0.08 to HK$0.02. The entire credit balance arising from the capital reduction of approximately HK$93,582,000 was applied to write-off part of the deficit of the Company to the same extent. The unissued share capital of the Company was sub-divided into shares of HK$0.02 each.

(ii) Issuance of Restructuring Shares to the Bank Creditors, Swiss Noteholders and Success Manor Lenders.

Pursuant to the Debt Restructuring, 2,070,023,405 Restructuring Shares, 1,589,748,017 Restructuring Shares, and 168,664,976 Restructuring Shares of HK$0.02 each in the Company were issued to the Bank Creditors, Swiss Noteholders and Success Manor Lenders, respectively, at a price of HK$0.10 per share.

All the new shares rank pari passu with the then existing shares of the Company in all respects.

(d) On 24 March 2000, the Company entered into the APE Agreement with Asia Paging Company Limited, Well Master Group Limited, Wong Kin Chuen, Raymond, Ng Wai Keung, Lin Wing Hung and Lo Po Hong (together referred to as the ''APE Vendors''). Pursuant to the APE Agreement, the Company agreed to acquire 20,000 issued share in APE by the issue and allotment of 125,000,000 new shares of HK$0.02 each in the Company to the APE Vendors.

The issue price of HK$0.065 per share represented the closing price of the Company's shares as quoted on the Stock Exchange on 7 July 2000, being the date of the completion of the APE Agreement.

The APE Agreement and the issuance of the new shares were approved by the shareholders of the Company at the Company's special general meeting held on 7 July 2000.

All the new shares rank pari passu with the then existing shares of the Company in all respects.

(e) On 23 August 2000, the Company, SC Bank and the Placing Agent entered into a placing agreement (the ''Third Placing Agreement'') and a subscription agreement (the ''Third Subscription Agreement''). Pursuant to the Third Placing Agreement, the Company placed, through the Placing Agent, a total of 300,000,000 existing shares of HK$0.02 each in the Company previously held by SC Bank to independent placees at a price of HK$0.062 per placing share (the ''Third Placing Price'').

The Third Placing Price of HK$0.062 represented a discount of approximately 11.4% to the closing price of HK$0.070 per share as quoted on the Stock Exchange on 21 August 2000 which was arrived at following negotiations between SC Bank, the Placing Agent and the Company.

Pursuant to the Third Subscription Agreement, SC Bank agreed to subscribe (the ''Third Subscription'') for 300,000,000 new shares (the ''Third Subscription Shares''), which represented 5.25% and 5.0% of the Company's then existing and enlarged issued share capital, respectively. The proceeds of the Third Subscription, after deducting commission and related expenses, of approximately HK$13,100,000 was used as general working capital of the Group.

SC Bank is a substantial shareholder of the Company.

The Third Subscription Shares were issued under the general mandate granted to the Directors at the Company's special general meeting of the Company held on 7 July 2000.

All the new shares rank pari passu with the then existing shares of the Company in all respects.

(f) On 25 August 2000, the Company entered into an agreement with CITIC Ka Wah Bank Limited (''Ka Wah''), pursuant to which the Company agreed to issue 26,913,073 new shares of HK$0.02 each in the Company at a price of HK$0.07 per share to Ka Wah as partial settlement of a mortgage granted by Ka Wah to S.Megga Estate Management Limited, a wholly-owned subsidiary of the Company, to secure indebtedness owed by S.Megga Telecom to Ka Wah.

The issue price of HK$0.07 represented a premium of 59.9% to the closing price of the Company's shares of HK$0.044 per share as quoted on the Stock Exchange on 24 August 2000 which was arrived at following negotiations between Ka Wah and the Company.

The issue of the new shares were issued under the general mandate granted to the Directors at the Company's special general meeting held on 7 July 2000.

All the new shares rank pari passu with the then existing shares of the Company in all respects.

(g) During the fifteen-month period ended 30 September 2000, the holders of 3 Years Convertible Notes and 7 Years Convertible Notes with subscription rights of approximately HK$10,629,000 and HK$5,314,000, respectively, exercised their rights, resulting in the issue of 531,447,350 shares and 53,143,800 shares of HK$0.02 each in the Company at a price of HK$0.02 per share and HK$0.10 per share, respectively.

All the new shares rank pari passu with the then existing shares of the Company in all respects.

B. During the year ended 30 September 2001, the holders of 3 Years Convertible Notes and 7 Years Convertible Notes with subscription rights of approximately HK$6,351,000 and HK$3,176,000, respectively, had exercised their rights, resulting in the issue of 317,569,800 shares and 31,755,840 shares of HK$0.02 each in the Company at a price of HK$0.02 per share and HK$0.01 per share, respectively.

All the new shares rank pari passu with the then existing shares of the Company in all respects.

## 27. SHARE OPTION SCHEME

Pursuant to the share option scheme (the ''Scheme'') adopted by the Company on 28 November 1991 the Directors may, at their discretion, invite employees of the Group, including Directors of the Company and its subsidiaries, to take up options 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 in accordance with the terms of the Scheme.

No option under the Scheme was granted or exercised during the year ended 30 September 2001 and for the fifteen-month period ended 30 September 2000 and no option was outstanding as at 30 September 2001 and 2000.

## 28. RESERVES

| | Share premium *HK$'000* | Contributed surplus *HK$'000* | Capital reserve *HK$'000* | Goodwill reserve *HK$'000* | Conversion option reserve *HK$'000* | Property revaluation reserve *HK$'000* | Translation reserve *HK$'000* | Deficit *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|---|---|---|---|---|
| **THE GROUP** | | | | | | | | | |
| At 1 July 1999 | 415,194 | 34,600 | 47,926 | – | – | 20,176 | 16 | (877,461) | (359,549) |
| Capital reduction | – | – | – | – | – | – | – | 93,582 | 93,582 |
| Premium on issue of shares | 335,005 | – | – | – | – | – | – | – | 335,005 |
| Share issuing expenses | (19,009) | – | – | – | – | – | – | – | (19,009) |
| Exchange differences arising from translation of overseas operations | – | – | – | – | – | – | (648) | – | (648) |
| Goodwill arising on acquisition of APE | – | – | – | (8,045) | – | – | – | – | (8,045) |
| Translation reserve transferred to income statement | – | – | – | – | – | – | 632 | – | 632 |
| Written-off of goodwill on acquisition of APE | – | – | – | 8,045 | – | – | – | – | 8,045 |
| Conversion option reserve arising on the issuance of 3 Years Convertible Notes and 7 Years Convertible Notes | – | – | – | – | 28,685 | – | – | – | 28,685 |
| Reversal of conversion option reserve upon the conversion of the convertible notes into shares | – | – | – | – | (5,132) | – | – | – | (5,132) |
| Loss for the period | – | – | – | – | – | – | – | (206,132) | (206,132) |
| At 30 September 2000 and 1 October 2000 | 731,190 | 34,600 | 47,926 | – | 23,553 | 20,176 | – | (990,011) | (132,566) |
| Premium on issue of shares | 2,540 | – | – | – | – | – | – | – | 2,540 |
| Transfer | – | – | – | – | – | (20,176) | – | 20,176 | – |
| Reversal of conversion option reserve upon the conversion of the convertible notes into shares | – | – | – | – | (3,066) | – | – | – | (3,066) |
| Loss for the year | – | – | – | – | – | – | – | (44,953) | (44,953) |
| At 30 September 2001 | 733,730 | 34,600 | 47,926 | – | 20,487 | – | – | (1,014,788) | (178,045) |
| **THE COMPANY** | | | | | | | | | |
| At 1st July, 1999 | 415,194 | 106,413 | – | – | – | – | – | (897,936) | (376,329) |
| Capital reduction | – | – | – | – | – | – | – | 93,582 | 93,582 |
| Premium on issue of shares | 335,005 | – | – | – | – | – | – | – | 335,005 |
| Share issuing expenses | (19,009) | – | – | – | – | – | – | – | (19,009) |
| Conversion option reserve arising on the issuance of 3 Years Convertible Notes and 7 Years Convertible Notes | – | – | – | – | 28,685 | – | – | – | 28,685 |
| Reversal of conversion option reserve upon the conversion of the convertible notes into shares | – | – | – | – | (5,132) | – | – | – | (5,132) |
| Loss for the period | – | – | – | – | – | – | – | (239,369) | (239,369) |
| At 30 September 2000 and 1 October 2000 | 731,190 | 106,413 | – | – | 23,553 | – | – | (1,043,723) | (182,567) |
| Premium on issue of shares | 2,540 | – | – | – | – | – | – | – | 2,540 |
| Reversal of conversion option reserve upon the conversion of the convertible notes into shares | – | – | – | – | (3,066) | – | – | – | (3,066) |
| Loss for the year | – | – | – | – | – | – | – | (1,113) | (1,113) |
| At 30th September 2001 | 733,730 | 106,413 | – | – | 20,487 | – | – | (1,044,836) | (184,206) |

The contributed surplus of the Company represents the difference between the nominal value of the Company's shares issued in exchange for all the issued ordinary shares of S.Meggatel (BVI) Limited and the value of net assets of the underlying subsidiaries acquired. Under the Companies Act 1981 of Bermuda (as amended) and Bye-Laws of the Company, the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

(a) it is, or would after the payment, be unable to pay its liabilities as they become due;

(b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

| | **1.10.2000 to 30.9.2001** | **1.7.1999 to 30.9.2000** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Deficit of the Group comprises: | | |
| Company and subsidiaries | (996,173) | (971,396) |
| Associates | (18,615) | (18,615) |
| | (1,014,788) | (990,011) |

At the balance sheet date, the Company did not have any reserve available for distribution to its shareholders (30.9.2000: Nil).

## 29. RECONCILIATION OF LOSS ATTRIBUTABLE TO SHAREHOLDERS TO NET CASH (OUTFLOW) INFLOW FROM OPERATING ACTIVITIES

| | **1.10.2000 to 30.9.2001** | **1.7.1999 to 30.9.2000** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Loss attributable to shareholders | | |
| Interest expenses | (44,953) | (206,132) |
| Amortisation of deferred development expenditure | 5,252 | 51,109 |
| Depreciation and amortisation of property, plant and equipment | 4,355 | 14,317 |
| Loss on disposals of property, plant and equipment | 3,271 | 15,120 |
| Provision for amounts due from associates | 217 | 112 |
| Deficit arising on revaluation of properties | 189 | 39,022 |
| Write-off of deferred development expenditure | – | 32,942 |
| Write-off of goodwill on acquisition of an associate | – | 29,052 |
| Translation reserve charged to income statement | – | 8,045 |
| Deficit arising on revaluation of plant and equipment | – | 632 |
| Impairment loss recognised in respect of an associate | – | 373 |
| Decrease (increase) in inventories | – | 80 |
| Decrease in trade and other receivables | 35,423 | (13,785) |
| (Decrease) increase in trade and other payables | 15,984 | 19,294 |
| Decrease in bills payable | (24,627) | 95,534 |
| | – | (56,638) |
| Net cash (outflow) inflow from operating activities | (4,889) | 29,077 |

## 30. ANALYSIS OF CHANGES IN FINANCING DURING THE PERIOD/YEAR

| | Share capital and share premium | Bank and other borrowings | Convertible notes | Obligations under hire purchase contracts | Amounts due to associates |
|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Balance at 1 July 1999 | 512,675 | 156,506 | 162,690 | 1,567 | 16,926 |
| Proceeds from issue of shares, less costs | 23,995 | – | – | – | – |
| New borrowings raised during the period | – | 85,861 | – | – | – |
| Repayments during the period | – | (38,000) | – | (1,587) | (59) |
| Non-cash items: | | | | | |
| Changes in financing in respect of Financial Restructuring *(note 2)*: | | | | | |
| – Capital reduction | (93,582) | – | – | – | – |
| – Issuance of shares to Bank Creditors, Swiss Noteholders and Success Manor Lenders, including interest accrual *(note 32(a)(i))* | 382,844 | (94,447) | (125,627) | – | (16,867) |
| – Issuance of convertible notes to Bank creditors *(note 32(a)(ii))* | – | (52,059) | 52,059 | – | – |
| Conversion of convertible notes to shares in the Company | 15,943 | | | | |
| Issuance of shares on acquisition of APE *(note 32(b))* | 8,125 | – | (15,943) | – | – |
| Issuance of shares to Kah Wah *(note 32(c))* | 1,884 | – | – | – | – |
| Inception of obligations under hire purchase contracts *(note 32(d))* | – | (1,884) | – | – | – |
| Amortisation of premium payable upon the final redemption of the convertible notes | – | – | 1,366 | 400 | – |
| Conversion option reserve arising on the issuance of 3 Years Convertible Notes and 7 Years Convertible Notes, less reversal of conversion option reserve upon the conversion of convertible notes into shares in the Company | – | – | (23,553) | – | – |
| Balance at 30 September 2000 and 1 October 2000 | 851,884 | 55,977 | 50,992 | 380 | – |
| New borrowings raised during the year | – | 4,680 | – | – | 3,765 |
| Repayments during the year | – | (46,000) | – | (66) | – |
| Non-cash items: | | | | | |
| Conversion of convertible notes to shares in the Company | 9,527 | – | (9,527) | – | – |
| Amortisation of premium payable upon the final redemption of the convertible notes | – | – | 4,357 | – | – |
| Conversion option reserve arising on the issuance of 3 Years Convertible Notes and 7 Years Convertible Notes, less reversal of conversion option reserve upon the conversion of convertible notes into shares in the Company | – | – | 3,066 | – | – |
| Balance at 30 September 2001 | 861,411 | 14,657 | 48,888 | 314 | 3,765 |

## 31. ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS

| | 2001 | 2000 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Time deposits with original maturity of less than 3 months | – | 5,864 |
| Bank balances and cash | 7,275 | 3,331 |
| | 7,275 | 9,195 |

## 32. MAJOR NON-CASH TRANSACTIONS

The Group's major non-cash transactions during the fifteen-month period ended 30 September 2000 are as follows:

(a) The following shares were issued in respect of the Financial Restructuring of the Group as explained in note 2:

(i) 3,828,436,398 shares of HK$0.02 each in the Company were issued to certain bank creditors of the Group (the ''Bank Creditors''), the Swiss Noteholders and the lenders of Success Manor Investment Limited (the ''Success Manor Lenders'' an associate of the Group) at a price of HK$0.10 per share as partial settlement of the debts owed to the Bank Creditors, Swiss Noteholders and Success Manor Lenders; and

(ii) 3 Years Convertible Notes and 7 Years Convertible Notes amounting to approximately HK$34,706,000 and HK$17,353,000, respectively, were issued to the Bank Creditors as partial settlement of the debts owed to the Bank Creditors.

(b) As explained in note 26A(d), the Company issued 125,000,000 new shares of HK$0.02 each in the Company at a price of HK$0.065 per share to acquire a 40% equity interest in APE.

(c) As explained in note 26A(f), the Company issued 26,913,073 new shares of HK$0.02 each in the Company at a price of HK$0.07 per share to Ka Wah as partial settlement of a mortgage loan granted by Ka Wah to the Group.

(d) The Group entered into hire purchase contracts in respect of property, plant and equipment with a total capital value at the inception of the contracts of HK$400,000 during the fifteen-month period ended 30 September 2000.

## 33. POTENTIAL DEFERRED TAXATION

No financial information in respect of the potential deferred taxation has been presented for the year ended 30 September 2001 and for the fifteen-month period ended 30 September 2000 or at the respective balance sheet dates as the information is not available.

The potential deferred tax asset has not been recognised in the financial statements as it is uncertain as to whether the tax losses will be utilised in the foreseeable future.

Deferred tax has not been provided on the surplus arising on the revaluation of land and buildings as profits arising on disposals of these assets would not be subject to taxation and, accordingly, the revaluation does not constitute a timing difference for tax purposes.

## 34. PLEDGE OF ASSETS

The Group's investment properties and land and buildings and certain furniture, fixtures and equipment with an aggregate amount of approximately HK$14,754,000 (30.9.2000: HK$60,754,000) were pledged to secure the general credit facilities granted to the Group.

## 35. LONG SERVICE PAYMENTS

No financial information in respect of long service payment as at 30 September 2001 and 2000 has been presented as the information is not available.

## 36. LITIGATIONS

Other than disclosed in note 3(a), in the opinion of the Current Directors, neither the Company nor the Group is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Current Directors to be pending to threaten against the Group.

## 4. PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS OF THE ENLARGED GROUP

The following is a summary of the pro forma statement of adjusted net tangible assets of the Enlarged Group immediately upon Completion based on the audited consolidated net assets of the Group as at 30 September 2001 extracted from its 2001 annual report of the Company as set out in section 3B of this Appendix to this circular, adjusted to reflect the effect of the Restructuring Agreements.

| | **The Group** | **Adjustments** | | **The Enlarged Group** |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *Notes* | *HK$'000* |
| Fixed Assets | 78,756 | (44,849) | (i) | 33,907 |
| Other investment | 368 | (368) | (ii) | – |
| **Current Assets** | | | | |
| Inventories | 23,438 | (9,063) | (iii) | 14,375 |
| Trade and bills receivables | – | 45,672 | (iv) | 45,672 |
| Prepayments, deposits and other receivables | – | 1,524 | (v) | 1,524 |
| Bank balances and cash | 7,275 | 14,842 | (vi) | 22,117 |
| **Current Liabilities** | | | | |
| Trade and other payables | 92,577 | (52,825) | (vii) | 39,752 |
| Tax payable | – | 2,668 | (viii) | 2,668 |
| Obligations under hire purchase contracts and finance leases | 314 | 38 | (ix) | 352 |
| Bank loans and other borrowings | 14,657 | (7,785) | (x) | 6,872 |
| Convertible notes | 48,888 | (48,888) | (xiii) | – |
| Amounts due to associates | 3,765 | (3,765) | (xi) | – |
| Amounts due to group companies of ESL | – | 2,306 | (xii) | 2,306 |
| **Net current (liabilities)/assets** | (129,488) | | | 31,738 |
| **Net liabilities before restructuring** | (50,364) | | | |
| **Non-current Liabilities** | | | | |
| New Notes | – | 45,000 | (xiv) | 45,000 |
| **Other Non-Current Liabilities** | | | | |
| Obligations under hire purchase contracts and finance leases | – | 375 | (ix) | 375 |
| Deferred taxation | – | 260 | (viii) | 260 |
| **Pro forma unaudited net tangible assets of the Enlarged Group after Restructuring** | | | | 20,010 |

Notes to the adjustments arising from the implementation of the Restructuring Agreements:

**(i) Fixed Assets**

| | *HK$'000* |
|---|---|
| Assets excluded from the Asset Transfer | (56,751) |
| Property, plant and machinery of ESL at net book value as at 31 October 2001 as a result of the Asset Injection | 11,902 |
| | (44,849) |

**(ii) Other Investment**

Other investment comprises of investment of S.Megga which is excluded from the Asset Transfer.

**(iii) Inventories**

| | *HK$'000* |
|---|---|
| Inventories excluded from the Asset Transfer | (23,438) |
| Inventories of ESL as a result of the Asset Injection | 14,375 |
| | (9,063) |

**(iv) Trade and bills receivables**

Trade and bills receivables comprises of trade and bill receivables of ESL arising from normal trading activities as a result of the Asset Transfer.

**(v) Prepayments, deposits and other receivables**

Prepayments, deposits and other receivables of ESL as a result of the Asset Injection

**(vi) Bank balances and cash**

The movements in bank balances and cash represent the financial effect of the following items:

| | *HK$'000* |
|---|---|
| Proceeds from the issue of Subscription Shares | 40,000 |
| Cash payment to the Noteholders under the Notes Restructuring Offer | (20,000) |
| Cash payment to the unsecured creditors under the Company Scheme | (3,000) |
| Cash payment to the unsecured creditors under the S.Megga Scheme | (2,000) |
| Bank balances and cash excluded from the Asset Transfer | (1,972) |
| Bank balances and cash of ESL as a result of the Asset Injection | 13,592 |
| Estimated cash payment to the Noteholders from assets realisation of the Company and restructuring cost | (9,778) |
| Estimated cash payment for expenses of the Group during the period from 1 October 2001 to the date of the Latest Practicable Date | (2,000) |
| | 14,842 |

**(vii) Trade and other payables**

| | *HK$'000* |
|---|---|
| Company's unsecured indebtedness compromised under the Company Scheme | (9,091) |
| Part of S.Megga's unsecured indebtedness compromised under S.Megga Scheme | (79,216) |
| Trade and other payables excluded from the Asset Transfer | (2,980) |
| Trade and other payables of ESL as a result of the Asset Injection | 38,462 |
| | (52,825) |

**(viii) Tax payable and deferred taxation**

It comprises of tax payable and deferred taxation of ESL as a result of Asset Injection.

**(ix) Obligations under the hire purchase contracts and finance leases**

| | *HK$'000* |
|---|---|
| Hire purchase contracts excluded from the Asset Transfer | (314) |
| Finance leases of ESL as a result of the Asset Injection | |
| – current portion | 352 |
| | 38 |
| – non current portion | 375 |

**(x) Bank loans and other borrowings**

| | *HK$'000* |
|---|---|
| Other borrowings excluded from the Asset Transfer | (12,480) |
| Trust receipts loans and current portion of finance leases payables of ESL as a result of the Asset Injection | 4,695 |
| | (7,785) |

**(xi) Amounts due to associates**

| | *HK$'000* |
|---|---|
| Amounts due to associates compromised under the Company Scheme | (3,765) |

**(xii) Amounts due to group companies of ESL**

| | *HK$'000* |
|---|---|
| Group companies balances of ESL as a result of the Asset Injection | 2,306 |

**(xiii) Convertible Notes**

The movement in Convertible Notes represents the financial effect of the Notes Restructuring Offer.

**(xiv) New Notes**

The New Notes of HK$45,000,000 are issued as part of the consideration for the Asset Injection.

The adjustments in relation to the Asset Injection were based on the net tangible assets of ESL as at 31 October 2001 as set out in the accountants report of ESL in Appendix II to this circular.

## 5. STATEMENT OF INDEBTEDNESS

### (a) Statement of indebtedness of the Group

As at the close of business on 27 March 2002, being the latest practical date for the purpose of this indebtedness statement, the total indebtedness owed by the Companies of the Group to all of its creditors was approximately HK$1,065.3 million, of which HK$76.7 million was owed by the Company and the balance of HK$982.3 million was owed by S.Megga, and the balance of approximately HK$6.3 million owed by other subsidiaries within the Group. The total

indebtedness of HK$76.7 million of the Company comprises the indebtedness owed to the Noteholders of approximately HK$63.7 million and the balance of approximately HK$13 million was owed to other unsecured creditors. S.Megga's indebtedness of HK$982.3 million was mainly owed to trade creditors in Hong Kong and the PRC, and of which approximately HK$800 million was due to the Company and other group companies. This inter-group balance of approximately HK$800 million will be eliminated on the consolidated account of the Company.

Based on information currently available to the Directors, saved as aforesaid and for the restructuring costs due to the Receivers, the financial advisers and other professionals and apart from intra-group liabilities, none of the companies in the Group had any outstanding mortgage, charge or debenture, loan capital, bank overdraft, loan, debt security or other similar indebtedness or any hire purchase commitment, finance lease commitment, guarantee or other material contingent liability at the close of the business on 27 March 2002.

There is no material change in the Group's indebtedness and contingent liabilities from 11 January 2002 to the Latest Practicable Date.

**(b) Statement of indebtedness of ESL Group**

At the close of business on 31 January 2002 (being the latest practicable date for ascertaining information regarding this indebtedness statement), the ESL Group had no outstanding borrowings other than the obligations under finance leases of approximately HK$0.6 million.

As at close of business on 31 January 2002, the ESL Group had aggregate banking facilities in respect of overdrafts and import and export facilities amounting to HK$160 million, which were jointly used by ESL and certain of its fellow subsidiaries. These facilities were secured by (i) the corporate guarantee of CCT, the ultimate holding company of ESL, for the approximately aggregate amount of HK$120 million; (ii) pledge of fixed deposits of a fellow subsidiary of ESL of approximately HK$40 million; and (iii) fixed charge over certain properties held by ESL's fellow subsidiaries.

Save as aforesaid and apart from intra-group liabilities, the ESL Group did not, at the close of business on 31 January 2002, have any mortgages, charges, debentures, loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, hire purchase or finance lease commitments, guarantees or other material contingent liabilities.

## 6. MATERIAL ADVERSE CHANGE

Other than as disclosed in this appendix, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 30 September 2001, the date to which the latest published audited accounts of the Company have been made up.

## 7. WORKING CAPITAL STATEMENT ON THE ENLARGED GROUP

The Investors confirm that they will support the working capital requirements of the Group after Completion.

The respective directors of CCT and Defa are of the opinion that, in the absence of unforeseen circumstances and subject to Completion and with the financial support of the Investors, the Group will have sufficient working capital to fund the continued operation of the Group for the coming twelve months after Completion.

*According to Rule 4.06 and Rule 14.16(4) of the Listing Rules, the accountants' report must include the results of the company, in whose share capital an interest has been agreed to be acquired since the date to which the latest published audited accounts of the issuer have been made up, in respect of the three financial years immediately preceding the issue of the circular. The financial periods reported on by the accountants in the accountants' report of ESL cover each of the three years ended 31 December 2000, and the ten months ended 31 October 2001 but do not cover the entire financial year ended 31 December 2001. The Company has sought and obtained a waiver from strict compliance with such requirement from the Stock Exchange. The directors of each of CCT and Defa confirm that they have performed sufficient due diligence on ESL to ensure that, save as disclosed herein, up to the date of issue of this circular, there has been no material adverse change in the financial position of ESL since 31 October 2001, and there is no event which would materially affect the information shown in the accountants' report set out in appendix II to the circular.*

ERNST & YOUNG
安永會計師事務所

15th Floor
Hutchison House
10 Harcourt Road
Central
Hong Kong

31 March 2002

The Directors
Electronic Sales Limited

Dear Sirs,

We set out below our report on the financial information regarding Electronic Sales Limited (the ''Company'') and its subsidiaries (hereinafter collectively referred to as the ''Group''), for each of the three years ended 31 December 2000 and the ten months ended 31 October 2001 (the ''Relevant Periods''), prepared on the basis set out in Section 1 below, for inclusion in the circular of Wireless InterNetworks Limited (''WINL'') dated 31 March 2002 (the ''Circular'') in relation to the proposed acquisition of the entire issued share capital of the Company by WINL (the ''Proposed Acquisition'').

The Company was incorporated with limited liability in Hong Kong on 2 June 1972 under the Companies Ordinance of Hong Kong.

We have acted as auditors of the companies now comprising the Group for the three years ended 31 December 2000, except for 東莞易訊電子製品有限公司, as is was incorporated after 31 December 2000. No audited finacial statements have been prepared for Terrison Limited and Canova Limited for the two years ended 31 December 2000 and for the three years ended 31 December 2000, respectively, as they were dormant during the said periods.

As at the date of this report, for each of the companies now comprising the Group, no audited financial statements have been prepared for the ten months ended 31 October 2001 (or for the period from their respective dates of incorporation to 31 October 2001 where this is a shorter period). We have, however, for the purpose of this report, performed an independent audit of the management accounts of these companies in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants (the ''HKSA''), and carried out such procedures as we considered necessary for inclusion of the financial information relating to these companies in this report.

We have not audited any financial statements of the companies comprising the Group in respect of any period subsequent to 31 October 2001.

We have examined the audited financial statements or, where appropriate, management accounts of the companies now comprising the Group for the Relevant Periods, or from the dates of their incorporation where this is a shorter period, and have carried out such additional procedures as we considered necessary, in accordance with the Auditing Guideline ''Prospectuses and the reporting accountant'' issued by the HKSA.

The summaries of the consolidated results, consolidated statements of movements in equity and consolidated cash flows of the Group for the Relevant Periods and of the consolidated balance sheets of the Group as at 31 December 1998, 1999, 2000 and 31 October 2001 (the ''Summaries'') set out in this report have been prepared based on the audited financial statements or, where appropriate, management accounts of the companies now comprising the Group, and are presented on the basis set out in Section 1 below.

The directors of the Company are responsible for the preparation of the Summaries which give a true and fair view. The directors of the respective companies of the Group are responsible for the preparation of the respective financial statements or, where financial statements are not prepared, management accounts which give a true and fair view. In preparing the Summaries, financial statements and management accounts which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion on the Summaries.

In our opinion, the Summaries together with the notes thereon give, for the purpose of this report, a true and fair view of the consolidated results and consolidated cash flows of the Group for the Relevant Periods and of the consolidated balance sheets of the Group as at 31 December 1998, 1999, 2000 and 31 October 2001.

## 1. BASIS OF PRESENTATION

The Summaries, which are based on the audited financial statements or, where appropriate, the management accounts of the companies now comprising the Group, include the consolidated results, statements of movements in equity, cash flows and balance sheets of the companies now comprising the Group or since the dates of their incorporation where this is a shorter period. All material intra-Group transactions and balances have been eliminated on consolidation.

At the date of this report, the Company had direct interests in the following subsidiaries, which are private companies (or, if incorporate outside Hong Kong, have characteristics substantially similar to a private company incorporated in Hong Kong), the particulars of which are set out below:

| Company name | Place and date of incorporation and registration | Issued and fully paid-up share/ registered capital | Percentage of equity attributable to the Company | | Principal activities |
|---|---|---|---|---|---|
| | | | Direct % | Indirect % | |
| Canova Limited | Hong Kong 26 October 1984 | HK$2 | 100 | – | Dormant |

| Company name | Place and date of incorporation and registration | Issued and fully paid-up share/ registered capital | Percentage of equity attributable to the Company | | Principal activities |
|---|---|---|---|---|---|
| | | | Direct % | Indirect % | |
| Terrison Limited | Hong Kong 3 July 1984 | HK$100 | 100 | – | Dormant |
| 東莞易訊電子製品有限公司 | People's Republic of China 5 February 2001 | Registered capital of HK$60,000,000 (paid-up capital: HK$13,608,781) | 100 | – | Manufacturing of transformers and adaptors |

## 2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted by the Group in arriving at the financial information set out in this report, which conform with Hong Kong Statements of Standard Accounting Practice and accounting principles generally accepted in Hong Kong, are set out below:

**Subsidiaries**

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

**Fixed assets and depreciation**

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

| | |
|---|---|
| Machinery | 15% |
| Tools, moulds and equipment | 15% |
| Furniture and office equipment | 12.5% – 20% |
| Motor vehicles | 30% |

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

**Leased assets**

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

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

**Research and development costs**

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; 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 stated at cost less accumulated amortisation unless, in the opinion of the directors, there has been impairment in value when they are written down to a value determined by the directors. Amortisation is calculated at an annual rate of 25% on a reducing balance basis commencing from the year of capitalisation.

**Impairment**

At each balance sheet date an assessment is made whether there is any indication of impairment of any assets, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists the assets' recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

A previously recognised impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount, however not to an amount higher than the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised in prior years.

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

**Deferred tax**

Deferred tax is provided, using the liability method, on all significant timing differences to the extent that it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

**Foreign currencies**

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

**Revenue recognition**

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and

(b) interest income, on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable.

**Retirement benefits schemes**

The Group operates defined contribution retirement benefits schemes in Hong Kong, for those employees who are eligible and have elected to participate in the schemes. The assets of the schemes are held separately from those of the Group in independently administered funds. Contributions are made based on a percentage of the participating employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the schemes. Forfeited contributions in respect of unvested benefits of staff leavers are used to reduce the Group's ongoing contributions.

**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. Related parties may be individuals or corporate entities.

**Cash equivalents**

Cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

## 3. RESULTS

The following is a summary of the consolidated results of the Group for the Relevant Periods, prepared on the basis set out in Section 1 above:

| | Notes | Year ended 31 December | | | Ten months ended 31 October |
|---|---|---|---|---|---|
| | | 1998 | 1999 | 2000 | 2001 |
| | | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Turnover | (a) | 84,494 | 111,571 | 125,770 | 122,309 |
| Cost of sales | | (57,604) | (78,545) | (98,799) | (102,288) |
| Gross profit | | 26,890 | 33,026 | 26,971 | 20,021 |
| Other revenue | (a) | 669 | 708 | 837 | 759 |
| Selling and distribution expenses | | (3,427) | (1,384) | (972) | (458) |
| Administrative expenses | | (19,609) | (17,497) | (19,227) | (15,285) |
| Profit from operating activities | (b) | 4,523 | 14,853 | 7,609 | 5,037 |
| Finance costs | (c) | (252) | (462) | (722) | (615) |
| Profit before tax | | 4,271 | 14,391 | 6,887 | 4,422 |
| Tax | (e) | (658) | (1,602) | (1,580) | (1,295) |
| Net profit from ordinary activities attributable to shareholders | | 3,613 | 12,789 | 5,307 | 3,127 |
| Dividends | (f) | – | – | – | – |

*Notes:*

**(a) Turnover and revenue**

Turnover represents the invoiced value of goods sold during the Relevant Periods, after allowances for returns and trade discounts.

An analysis of the Group's turnover and revenue by principal activity is as follows:

| | Year ended 31 December | | | Ten months ended 31 October |
|---|---|---|---|---|
| | 1998 | 1999 | 2000 | 2001 |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| By principal activity: | | | | |
| Sales of transformers and adaptors | 84,494 | 111,571 | 125,770 | 122,309 |
| Turnover | 84,494 | 111,571 | 125,770 | 122,309 |
| Management fee | 20 | – | – | – |
| Interest income | 291 | 103 | 60 | 37 |
| Sundry income | 358 | 304 | 407 | 722 |
| Exchange gains, net | – | 301 | 370 | – |
| Other revenue | 669 | 708 | 837 | 759 |
| Total revenue | 85,163 | 112,279 | 126,607 | 123,068 |

The Group's turnover is further analysed below by geographical area of principal market of the Group's products.

| | Year ended 31 December | | | Ten months ended 31 October |
|---|---|---|---|---|
| | 1998 | 1999 | 2000 | 2001 |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Hong Kong | 60,354 | 92,025 | 105,933 | 116,480 |
| Japan | 13,910 | 11,665 | 10,113 | 1,002 |
| Elsewhere | 10,230 | 7,881 | 9,724 | 4,827 |
| Turnover | 84,494 | 111,571 | 125,770 | 122,309 |

**(b) Profit from operating activities**

The Group's profit from operating activities is arrived at after charging/(crediting):

| | Year ended 31 December | | | Ten months ended 31 October |
|---|---|---|---|---|
| | 1998 | 1999 | 2000 | 2001 |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Auditors' remuneration | 180 | 250 | 125 | 413 |
| Depreciation: | | | | |
| Owned fixed assets | 1,629 | 2,177 | 2,408 | 2,030 |
| Leased fixed assets | 40 | 263 | 305 | 247 |
| | 1,669 | 2,440 | 2,713 | 2,277 |
| Amortisation of intangible assets | 385 | 367 | 726 | 563 |
| Write-off of intangible assets | 9 | – | – | – |
| Loss/(gain) on disposal of fixed assets | 834 | – | 10 | (54) |
| Provisions for bad and doubtful debts | 733 | 43 | – | – |
| Operating lease rentals in respect of land and buildings | 2,951 | 3,275 | 3,159 | 2,281 |
| Staff costs (excluding directors' remuneration – note 3(d)): | | | | |
| Wages and salaries | 14,362 | 18,998 | 22,569 | 17,940 |
| Pension scheme contributions | – | 485 | 540 | 505 |
| | 14,362 | 19,483 | 23,109 | 18,445 |
| Research and development expenses | 4,200 | 1,570 | – | – |
| Write-back of bad and doubtful debt provision on trade receivables | – | – | (127) | – |
| Exchange losses/(gains), net | 183 | (301) | (370) | 269 |
| Interest income | (291) | (103) | (60) | (37) |

The Group's contribution to profit from operating activities by principal activitiy and by geographical area of principal market of the Group's products is analysed as follows:

| | Year ended 31 December | | | Ten months ended 31 October |
|---|---|---|---|---|
| | 1998 | 1999 | 2000 | 2001 |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| By principal activity: | | | | |
| Sales of transformers and adaptors | 4,523 | 14,853 | 7,609 | 5,037 |
| Profit from operating activities | 4,523 | 14,853 | 7,609 | 5,037 |
| By geographical area of principal market: | | | | |
| Hong Kong | 3,133 | 12,337 | 5,844 | 5,345 |
| Japan | 2,839 | 1,927 | 1,150 | 106 |
| Elsewhere | (1,449) | 589 | 615 | (414) |
| Profit from operating activities | 4,523 | 14,853 | 7,609 | 5,037 |

**(c) Finance costs**

| | Year ended 31 December | | | Ten months ended 31 October |
|---|---|---|---|---|
| | 1998 | 1999 | 2000 | 2001 |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Interest on: | | | | |
| Bank overdrafts and trust receipt loans | 250 | 424 | 674 | 555 |
| Finance leases | 2 | 38 | 48 | 60 |
| | 252 | 462 | 722 | 615 |

During the Relevant Periods, all of the finance costs were charged to the profit and loss account when incurred.

**(d) Directors' and senior executives' remuneration**

Details of the directors' remuneration are as follows:

| | Year ended 31 December | | | Ten months ended 31 October |
|---|---|---|---|---|
| | 1998 | 1999 | 2000 | 2001 |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Fees | – | – | – | – |
| Salaries, housing benefits and other allowances | 1,217 | 1,132 | – | – |
| Pensions scheme contributions | – | 51 | – | – |
| | 1,217 | 1,183 | – | – |

The number of directors whose remuneration fell within the following bands are as follows:

| | Year ended 31 December | | | Ten months ended 31 October |
|---|---|---|---|---|
| | 1998 | 1999 | 2000 | 2001 |
| | *Number of directors* | *Number of directors* | *Number of directors* | *Number of directors* |
| Nil – HK$1,000,000 | 6 | 5 | 4 | 3 |
| HK$1,000,001 – HK$1,500,000 | 1 | 1 | – | – |
| | 7 | 6 | 4 | 3 |

The five highest paid individuals in the Group included one director for the years ended 31 December 1998 and 1999 and did not include any director for the year ended 31 December 2000 and the ten months ended 31 October 2001, and information relating to their remuneration has been disclosed above. Details of the remuneration of the remaining non-director, highest paid individuals during each of the Relevant Periods are as follows:

| | Year ended 31 December | | | Ten months ended 31 October |
|---|---|---|---|---|
| | 1998 | 1999 | 2000 | 2001 |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Salaries, housing benefits and other allowances | 2,398 | 2,950 | 2,525 | 2,516 |
| Pensions scheme contributions | – | 260 | 217 | 153 |
| | 2,398 | 3,210 | 2,742 | 2,669 |

The remuneration of the remaining non-director, highest paid individuals during each of the Relevant Periods fell within the band from nil to HK$1,000,000.

During the Relevant Periods, no remuneration has been paid by the Group to the directors or any of the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office. No director has waived or agreed to waive any remuneration during the Relevant Periods.

**(e) Tax**

| | Year ended 31 December | | | Ten months ended 31 October |
|---|---|---|---|---|
| | 1998 | 1999 | 2000 | 2001 |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Provision for the year/period: | | | | |
| – Hong Kong | 702 | 1,607 | 1,210 | 2,500 |
| Overprovision in prior years | (44) | (5) | (110) | – |
| Deferred tax – Section 4(i) | – | – | 480 | (1,205) |
| Tax charge for the year/period | 658 | 1,602 | 1,580 | 1,295 |

Hong Kong profits tax has been provided at the applicable rates on the estimated assessable profits arising in Hong Kong during the Relevant Periods.

In accordance with the Corporate Income Tax Law applicable in the PRC, the PRC subsidiary of the Group is entitled to full exemption from PRC Corporate Income Tax for two years starting from its first profit making year after deducting all the brought forward tax losses, and 50% reduction in PRC Corporate Income Tax for the subsequent three years. As at 31 October 2001, the PRC subsidiary had not generated any profits since the date of its incorporation.

Save as disclosed, the Group did not have any significant unprovided deferred tax in respect of each of the Relevant Periods.

**(f) Dividends**

No dividends have been paid or declared by the Group or its subsidiaries during the Relevant Periods.

**(g) Earnings per share**

No basic and diluted earnings or loss per share is presented as its inclusion, for the purpose of this report, is not considered meaningful.

**(h) Related party transactions**

(a) During the Relevant Periods, the Group had the following material transactions with related parties:

| | Notes | Year ended 31 December 1998 | 1999 | 2000 | Ten months ended 31 October 2001 |
|---|---|---|---|---|---|
| | | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Sales of finished goods to a fellow subsidiary | (i) | 14,952 | 52,251 | 55,067 | 61,250 |
| Sales of raw materials to a fellow subsidiary | (i) | 392 | – | 231 | 9,963 |
| Sales of fixed assets to a fellow subsidiary | (ii) | 1,057 | – | – | – |
| Purchases of moulds from a fellow subsidiary | (i) | – | – | 213 | 1,995 |
| Office rental expenses paid to a fellow subsidiary | (iii) | 226 | 429 | 767 | 559 |
| Research and development expenses paid to a fellow subsidiary | (iv) | 4,200 | 1,570 | – | – |
| Reimbursement of manufacturing costs received from a fellow subsidiary | (v) | – | 1,244 | – | – |
| Machinery rental expenses paid to a fellow subsidiary | (vi) | – | 631 | 2,234 | – |
| Consultancy fee paid to a fellow subsidiary | (vii) | – | – | – | 76 |
| Sales rebate paid to a fellow subsidiary | (viii) | 1,227 | – | – | – |

*Notes:*

(i) The transactions were carried out at prevailing market prices.

(ii) The fixed assets were sold at prices agreed by both parties.

(iii) The rental expenses were related to the premises occupied and used by the Group as its office and warehouse and were charged at rates approximating to prevailing market rates.

(iv) Research and development expenses were charged in accordance with the terms of the Research and Development Service Agreement (the "Service Agreement") entered into between the Group and a fellow subsidiary dated 15 August 1998. Pursuant to the Service Agreement, the fellow subsidiary agreed to provide research and development services and consultancy services to the Group which were charged at a monthly rate of HK$350,000. With effect from May 1999, the agreement was terminated by both parties.

(v) The manufacturing costs, included electricity, salaries, staff messing and rental expenses which incurred were in the factory in the PRC were charged at actual costs incurred.

(vi) The machinery rental expenses were paid for use of machinery for manufacturing purposes at rates agreed between both parties.

(vii) The consultancy fee was charged on a cost basis for technical support service rendered in respect of business operations of the Group.

(viii) The sales rebate was charged at a rate of 8% on the invoiced amount.

The directors of the Company confirm that the above transactions will continue after the Proposed Acquisition is completed.

(b) Certain of the Group's credit facilities are secured by fixed deposits, land and buildings of its fellow subsidiaries and corporate guarantees from CCT Telecom Holdings Limited, the Group's ultimate holding company, further details of which are included in Section 4(g).

The directors of the Company confirm that such credit facilities of the Group will continue after the Proposed Acquisition is completed.

## 4. CONSOLIDATED BALANCE SHEETS

The following is a summary of the consolidated balance sheets of the Group as at 31 December 1998, 1999, 2000 and 31 October 2001, after making such adjustments as we consider appropriate and on the basis set out in Section 1 above:

| | | As at 31 December | | | As at 31 October |
|---|---|---|---|---|---|
| | *Notes* | **1998** | **1999** | **2000** | **2001** |
| | | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| NON-CURRENT ASSETS | | | | | |
| Fixed assets | (a) | 5,545 | 10,179 | 10,701 | 11,902 |
| Intangible assets | (b) | 1,144 | 1,101 | 1,894 | 3,079 |
| | | 6,689 | 11,280 | 12,595 | 14,981 |
| CURRENT ASSETS | | | | | |
| Inventories | (c) | 10,549 | 12,609 | 16,834 | 14,375 |
| Trade and bills receivables | (d) | 16,024 | 39,380 | 56,365 | 45,672 |
| Prepayments, deposits and other receivables | | 758 | 973 | 807 | 1,524 |
| Tax prepaid | | 661 | – | – | – |
| Due from the ultimate holding company | (e) | – | – | 38 | – |
| Due from fellow subsidiaries | (e) | 3,157 | 3,709 | – | – |
| Cash and bank balances | | 10,412 | 5,447 | 4,634 | 13,592 |
| | | 41,561 | 62,118 | 78,678 | 75,163 |
| CURRENT LIABILITIES | | | | | |
| Trade payables | (f) | 12,274 | 22,020 | 25,728 | 32,665 |
| Other payables and accruals | | 2,308 | 3,555 | 4,737 | 5,797 |
| Due to the ultimate holding company | (e) | – | 3 | – | 253 |
| Due to the immediate holding company | (e) | – | – | 13,834 | 2,053 |
| Due to fellow subsidiaries | (e) | 7,522 | 9,399 | – | – |
| Interest-bearing loans and other borrowings | (g) | 5,072 | 3,343 | 7,109 | 5,047 |
| Tax payable | | – | 1,047 | 427 | 2,668 |
| | | 27,176 | 39,367 | 51,835 | 48,483 |
| NET CURRENT ASSETS | | 14,385 | 22,751 | 26,843 | 26,680 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 21,074 | 34,031 | 39,438 | 41,661 |
| NON-CURRENT LIABILITIES | | | | | |
| Finance lease payables | (h) | 286 | 454 | 74 | 375 |
| Deferred tax | (i) | 985 | 985 | 1,465 | 260 |
| | | 1,271 | 1,439 | 1,539 | 635 |
| | | 19,803 | 32,592 | 37,899 | 41,026 |
| CAPITAL AND RESERVES | | | | | |
| Share capital | (j) | 5,948 | 5,948 | 5,948 | 5,948 |
| Reserves | (k) | 13,855 | 26,644 | 31,951 | 35,078 |
| | | 19,803 | 32,592 | 37,899 | 41,026 |

*Notes:*

**(a) Fixed assets**

| | Machinery | Tools, moulds and equipment | Furniture and office equipment | Motor vehicles | Total |
|---|---|---|---|---|---|
| | *HK'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Cost: | | | | | |
| At 1 January 1998 | 8,226 | 4,197 | 3,926 | 747 | 17,096 |
| Additions | 2,543 | 141 | 1,125 | 536 | 4,345 |
| Disposals | (1,057) | (2,037) | (1,186) | (168) | (4,448) |
| At 31 December 1998 | 9,712 | 2,301 | 3,865 | 1,115 | 16,993 |
| Accumulated depreciation: | | | | | |
| At 1 January 1998 | 6,122 | 3,642 | 2,109 | 410 | 12,283 |
| Provided for the year | 912 | 146 | 444 | 167 | 1,669 |
| Disposals | (40) | (1,837) | (459) | (168) | (2,504) |
| At 31 December 1998 | 6,994 | 1,951 | 2,094 | 409 | 11,448 |
| Net book value at 31 December 1998 | 2,718 | 350 | 1,771 | 706 | 5,545 |
| Cost: | | | | | |
| At 1 January 1999 | 9,712 | 2,301 | 3,865 | 1,115 | 16,993 |
| Additions | 5,288 | 255 | 1,416 | 115 | 7,074 |
| At 31 December 1999 | 15,000 | 2,556 | 5,281 | 1,230 | 24,067 |
| Accumulated depreciation: | | | | | |
| At 1 January 1999 | 6,994 | 1,951 | 2,094 | 409 | 11,448 |
| Provided for the year | 1,388 | 124 | 621 | 307 | 2,440 |
| At 31 December 1999 | 8,382 | 2,075 | 2,715 | 716 | 13,888 |
| Net book value at 31 December 1999 | 6,618 | 481 | 2,566 | 514 | 10,179 |
| Cost: | | | | | |
| At 1 January 2000 | 15,000 | 2,556 | 5,281 | 1,230 | 24,067 |
| Additions | 1,503 | 579 | 725 | 454 | 3,261 |
| Disposals | (5) | – | (31) | – | (36) |
| At 31 December 2000 | 16,498 | 3,135 | 5,975 | 1,684 | 27,292 |
| Accumulated depreciation: | | | | | |
| At 1 January 2000 | 8,382 | 2,075 | 2,715 | 716 | 13,888 |
| Provided for the year | 1,466 | 144 | 748 | 355 | 2,713 |
| Disposals | (1) | – | (9) | – | (10) |
| At 31 December 2000 | 9,847 | 2,219 | 3,454 | 1,071 | 16,591 |
| Net book value at 31 December 2000 | 6,651 | 916 | 2,521 | 613 | 10,701 |

| | Machinery | Tools, moulds and equipment | Furniture and office equipment | Motor vehicles | Total |
|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Cost: | | | | | |
| At 1 January 2001 | 16,498 | 3,135 | 5,975 | 1,684 | 27,292 |
| Additions | 2,462 | 289 | 741 | – | 3,492 |
| Disposals | – | – | (59) | (148) | (207) |
| At 31 October 2001 | 18,960 | 3,424 | 6,657 | 1,536 | 30,577 |
| Accumulated depreciation: | | | | | |
| At 1 January 2001 | 9,847 | 2,219 | 3,454 | 1,071 | 16,591 |
| Provided for the period | 1,331 | 166 | 519 | 261 | 2,277 |
| Disposals | - | – | (59) | (134) | (193) |
| At 31 October 2001 | 11,178 | 2,385 | 3,914 | 1,198 | 18,675 |
| Net book value at 31 October 2001 | 7,782 | 1,039 | 2,743 | 338 | 11,902 |

The net book value of the fixed assets of the Group held under finance leases included in the total amount of fixed assets is as follows:

| | As at 31 December | | | As at 31 October |
|---|---|---|---|---|
| | 1998 | 1999 | 2000 | 2001 |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Furniture and office equipment | – | 652 | 545 | 1,129 |
| Motor vehicles | 495 | 335 | 174 | 40 |

**(b) Intangible assets**

| | As at 31 December | | | As at 31 October |
|---|---|---|---|---|
| | 1998 | 1999 | 2000 | 2001 |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Cost | 2,243 | 2,567 | 4,086 | 5,834 |
| Accumulated amortisation | (1,099) | (1,466) | (2,192) | (2,755) |
| Net book value | 1,144 | 1,101 | 1,894 | 3,079 |

**(c) Inventories**

| | As at 31 December | | | As at 31 October |
|---|---|---|---|---|
| | 1998 | 1999 | 2000 | 2001 |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Raw materials | 3,196 | 5,499 | 7,302 | 11,188 |
| Work in progress | 5,198 | 3,397 | 5,704 | 1,251 |
| Finished goods | 2,155 | 3,713 | 3,828 | 1,936 |
| | 10,549 | 12,609 | 16,834 | 14,375 |

As at the end of each of the Relevant Periods, no inventories were stated at net realisable value.

**(d) Trade and bills receivables**

The aging analysis of trade and bills receivables is as follows:

| | As at 31 December | | | As at 31 October |
|---|---|---|---|---|
| | 1998 | 1999 | 2000 | 2001 |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Current to 30 days | 4,870 | 7,589 | 12,312 | 12,039 |
| 31 to 60 days | 6,356 | 9,947 | 11,010 | 15,032 |
| 61 to 90 days | 2,800 | 7,708 | 9,899 | 7,872 |
| Over 90 days | 1,998 | 14,136 | 23,144 | 10,729 |
| | 16,024 | 39,380 | 56,365 | 45,672 |

The above analysis aged trade and bills receivables which are stated net of provisions for doubtful debts, is based on the date of recognition of the sales.

The Group normally allows an average credit period of 30 to 90 days to its trade customers.

Included in the balances for the years ended 31 December 1998, 1999, 2000 and the ten months ended 31 October 2001, approximately HK$3,857,000, HK$24,547,000, HK$41,059,000 and HK$33,210,000, respectively were trade receivables from a fellow subsidiary of the Group, arising from normal trading activities.

**(e) Due from/(to) ultimate holding company, immediate holding company and fellow subsidiaries**

The balances with ultimate holding company, immediate holding company and fellow subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

**(f) Trade payables**

The aging analysis of trade payables is as follows:

| | As at 31 December | | | As at 31 October |
|---|---|---|---|---|
| | 1998 | 1999 | 2000 | 2001 |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Current to 30 days | 3,647 | 6,542 | 7,364 | 7,367 |
| 31 to 60 days | 3,506 | 6,290 | 7,686 | 10,654 |
| 61 to 90 days | 2,948 | 5,289 | 5,698 | 9,899 |
| 91 days to 1 year | 2,173 | 3,899 | 4,980 | 4,745 |
| | 12,274 | 22,020 | 25,728 | 32,665 |

The above analysis aged trade payables is based on the date of receipt of the goods purchased.

The Group is normally granted an average credit period of 30 to 60 days by its trade creditors.

**(g) Interest-bearing loans and borrowings**

| | As at 31 December | | | As at 31 October |
|---|---|---|---|---|
| | 1998 | 1999 | 2000 | 2001 |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Trust receipt loans, secured | 4,944 | 2,963 | 6,729 | 4,695 |
| Current portion of finance lease payables | 128 | 380 | 380 | 352 |
| | 5,072 | 3,343 | 7,109 | 5,047 |

The Group's banking facilities as at 31 October 2001 were secured by:

(i) a pledge of fixed deposit of a fellow subsidiary amounting to HK$45,695,309;

(ii) fixed charges over certain of the investment properties of a fellow subsidiary with a net carrying value amounting to approximately HK$13,050,000;

(iii) fixed charges over certain of the leasehold land and buildings of a fellow subsidiary with an aggregate net book value amounting to approximately HK$56,952,000; and

(iv) corporate guarantees given by the Group's ultimate holding company.

**(h) Finance lease payables**

The Group had obligations under finance leases at the end of each of the Relevant Periods as follows:

| | As at 31 December | | | As at 31 October |
|---|---|---|---|---|
| | 1998 | 1999 | 2000 | 2001 |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Amounts payable: | | | | |
| Within one year | 139 | 423 | 424 | 407 |
| In the second year | 139 | 424 | 82 | 382 |
| In the third to fifth years, inclusive | 174 | 82 | – | – |
| Total minimum finance lease payments | 452 | 929 | 506 | 789 |
| Future finance charges | (38) | (95) | (52) | (62) |
| Total net finance lease payables | 414 | 834 | 454 | 727 |
| Portion classified as current liabilities | (128) | (380) | (380) | (352) |
| Long term portion | 286 | 454 | 74 | 375 |

| | Present value of minimum lease payments as at 31 October 2001 |
|---|---|
| | *HK$'000* |
| Amounts payable: | |
| Within one year | 391 |
| In the second year | 353 |
| Total minimum finance lease payments | 744 |

**(i) Deferred tax**

| | As at 31 December | | | As at 31 October |
|---|---|---|---|---|
| | 1998 | 1999 | 2000 | 2001 |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| At beginning of year/period | 985 | 985 | 985 | 1,465 |
| Charge/(credit) for the year/period – Section 3(e) | – | – | 480 | (1,205) |
| At end of year/period | 985 | 985 | 1,465 | 260 |

Deferred tax has been provided at the rate of 16% on the cumulative timing differences at the balance sheet dates which principally comprise accelerated depreciation allowances.

The Group did not have any significant unprovided deferred tax liabilities in respect of each of the Relevant Periods.

**(j) Share capital**

| | As at 31 December | | | As at 31 October |
|---|---|---|---|---|
| | **1998** | **1999** | **2000** | **2001** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Authorised: | | | | |
| 70,000 ordinary shares of HK$100 each | 7,000 | 7,000 | 7,000 | 7,000 |
| Issued and fully paid: | | | | |
| 59,480 ordinary shares of HK$100 each | 5,948 | 5,948 | 5,948 | 5,948 |

**(k) Reserves**

| | **Share premium account** | **Accumulated profit** | **Total** |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Balance at 1 January 1998 | 276 | 9,966 | 10,242 |
| Profit for the year | – | 3,613 | 3,613 |
| Balance at 31 December 1998 and at 1 January1999 | 276 | 13,579 | 13,855 |
| Profit for the year | – | 12,789 | 12,789 |
| Balance at 31 December 1999 and at 1 January 2000 | 276 | 26,368 | 26,644 |
| Profit for the year | – | 5,307 | 5,307 |
| Balance at 31 December 2000 and at 1 January 2001 | 276 | 31,675 | 31,951 |
| Profit for the period | – | 3,127 | 3,127 |
| Balance at 31 October 2001 | 276 | 34,802 | 35,078 |

**(l) Contingent liabilities**

At 31 October 2001, the Group had no material contingent liabilities.

**(m) Commitments**

(i) At 31 October 2001, the Group had no material capital commitments.

(ii) Commitments under operating leases

At 31 October 2001, the Group had total future minimum lease payments commitments under non-cancellable operating leases in respect of land and buildings to make payments in the following years:

| | *HK$'000* |
|---|---|
| Within one year | 539 |
| In the second to fifth years, inclusive | 122 |
| | 661 |

## 5. CONSOLIDATED CASH FLOW STATEMENTS

The following is a summary of the consolidated cash flow statements of the Group for the Relevant Periods, prepared on the basis set out in Section 1 above:

| | Notes | Year ended 31 December | | | Ten months ended 31 October |
|---|---|---|---|---|---|
| | | 1998 | 1999 | 2000 | 2001 |
| | | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| NET CASH INFLOW FROM OPERATING ACTIVITIES | (a) | 2,863 | 4,247 | 2,947 | 16,728 |
| RETURNS ON INVESTMENTS AND SERVICING OF FINANCE | | | | | |
| Interest received | | 291 | 103 | 60 | 37 |
| Interest paid | | (250) | (424) | (674) | (555) |
| Interest element of finance lease payments | | (2) | (38) | (48) | (60) |
| Net cash inflow/(outflow) from returns on investments and servicing of finance | | 39 | (359) | (662) | (578) |
| TAX | | | | | |
| Hong Kong profits tax refunded/(paid) | | (2,863) | 106 | (1,720) | (259) |
| INVESTING ACTIVITIES | | | | | |
| Purchases of fixed assets | | (3,910) | (6,317) | (3,261) | (2,795) |
| Additions to intangible assets | | (683) | (324) | (1,519) | (1,748) |
| Proceeds on disposals of fixed assets | | 1,110 | – | 16 | 68 |
| Net cash outflow from investing activities | | (3,483) | (6,641) | (4,764) | (4,475) |
| NET CASH INFLOW/(OUTFLOW) BEFORE FINANCING ACTIVITY | | (3,444) | (2,647) | (4,199) | 11,416 |
| FINANCING ACTIVITY | | | | | |
| Repayment of capital element of finance lease payments | (b) | (21) | (337) | (380) | (424) |
| Net cash outflow from financing activity | | (21) | (337) | (380) | (424) |
| INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | | (3,465) | (2,984) | (4,579) | 10,992 |
| Cash and cash equivalents at beginning of year/period | | 8,933 | 5,468 | 2,484 | (2,095) |
| CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD | | 5,468 | 2,484 | (2,095) | 8,897 |

ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS

| | As at 31 December | | | As at 31 October |
|---|---|---|---|---|
| | 1998 | 1999 | 2000 | 2001 |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Cash and bank balances | 10,412 | 5,447 | 4,634 | 13,592 |
| Trust receipt loans with maturity within three months | (4,944) | (2,963) | (6,729) | (4,695) |
| | 5,468 | 2,484 | (2,095) | 8,897 |

*Notes:*

**(a) Reconciliation of profit from operating activities to net cash inflow from operating activities**

| | Year ended 31 December | | | Ten months ended 31 October |
|---|---|---|---|---|
| | 1998 | 1999 | 2000 | 2001 |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Profit from operating activities | 4,523 | 14,853 | 7,609 | 5,037 |
| Depreciation | 1,669 | 2,440 | 2,713 | 2,277 |
| Amortisation of intangible assets | 385 | 367 | 726 | 563 |
| Write-off of intangible assets | 9 | – | – | – |
| Loss/(gain) on disposal of fixed assets | 834 | – | 10 | (54) |
| Provision for bad and doubtful debts | 733 | 43 | – | – |
| Write-back of bad and doubtful debt provisions on trade receivables | – | – | (127) | – |
| Interest income | (291) | (103) | (60) | (37) |
| Decrease/(increase) in inventories | 1,816 | (2,060) | (4,225) | 2,459 |
| Decrease/(increase) in trade and bills receivables | (3,038) | (23,399) | (16,858) | 10,693 |
| Decrease/(increase) in prepayments, deposits and other receivables | (473) | (215) | 166 | (717) |
| Decrease/(increase) in amount due from the ultimate holding company | – | – | (38) | 38 |
| Decrease/(increase) in amounts due from fellow subsidiaries | (986) | (552) | 3,709 | – |
| Increase in trade payables | 66 | 9,746 | 3,708 | 6,937 |
| Increase in other payables and accruals | 547 | 1,247 | 1,182 | 1,060 |
| Increase/(decrease) in amount due to the ultimate holding company | – | 3 | (3) | 253 |
| Increase/(decrease) in amount due to the immediate holding company | – | – | 13,834 | (11,781) |
| Increase/(decrease) in amounts due to fellow subsidiaries | (2,931) | 1,877 | (9,399) | – |
| Net cash inflow from operating activities | 2,863 | 4,247 | 2,947 | 16,728 |

**(b) Analysis of changes in financing during the Relevant Periods**

| | Finance lease obligations |
|---|---|
| | *HK$'000* |
| Balance at 1 January 1998 | – |
| Inception of finance lease contracts | 435 |
| Net cash outflow from financing | (21) |
| Balance at 31 December 1998 and at 1 January1999 | 414 |
| Inception of finance lease contracts | 757 |
| Net cash outflow from financing | (337) |
| Balance at 31 December 1999 and at 1 January 2000 | 834 |
| Net cash outflow from financing | (380) |
| Balance at 31 December 2000 and at 1 January 2001 | 454 |
| Inception of finance lease contracts | 697 |
| Net cash outflow from financing | (424) |
| Balance at 31 October 2001 | 727 |

**(c) Major non-cash transactions**

| | Year ended 31 December | | | Ten months ended 31 October |
|---|---|---|---|---|
| | 1998 | 1999 | 2000 | 2001 |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Finance lease arrangements in respect of fixed assets with a total capital value at the inception of the leases | 435 | 757 | – | 697 |

## 6. CONSOLIDATED STATEMENTS OF MOVEMENTS IN EQUITY

The movements in the shareholders' equity of the Group for the Relevant Periods, prepared on the basis set out in Section 1 above, are as follows:

| | Year ended 31 December | | | Ten months ended 31 October |
|---|---|---|---|---|
| | 1998 | 1999 | 2000 | 2001 |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| At beginning of year/period | 16,190 | 19,803 | 32,592 | 37,899 |
| Net profit from ordinary activities attributable to shareholders | 3,613 | 12,789 | 5,307 | 3,127 |
| At end of year/period | 19,803 | 32,592 | 37,899 | 41,026 |

## 7. NET ASSETS OF THE COMPANY

As at 31 October 2001, the net assets of the Company were approximately HK$41,000,000.

## 8. DISTRIBUTABLE RESERVES

As at 31 October 2001, the Company's reserves available for cash distribution and distribution in specie were HK$35,078,000 calculated in accordance with the provision of Section 79B of the Companies Ordinance.

## 9. SUBSEQUENT EVENT

No significant event has taken place subsequent to 31 October 2001.

## 10. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 October 2001.

Yours faithfully,
**Ernst & Young**
*Certified Public Accountants*
Hong Kong

The information set out in this appendix serves as the explanatory statement required under Rule 10.06(1)(b) of the Listing Rules to provide the Shareholders with all the information reasonably necessary for them to make an informed decision on whether to vote for or against the ordinary resolution approving the Repurchase Mandate and constitutes the memorandum of the terms of the proposed repurchases required under the bye-laws of the Company.

**LISTING RULES FOR REPURCHASE OF SECURITIES**

The Listing Rules permit companies whose primary listing are on the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the most important of which are summarized below:

**(a) Shareholders' approval**

The Listing Rules provide that all proposed repurchases of security by a company whose primary listing is on the Stock Exchange must be approved in advance by an ordinary resolution, either by way of general mandate or by specific approval in relation to a specific transaction.

**(b) Source of funds**

Repurchases must be made out of funds which are legally available for such purpose in accordance with the laws of the jurisdiction in which the company is incorporated or otherwise established and with the company's constitutive documents.

**(c) Trading restrictions**

A minimum of 10% of the issued and fully paid share capital of a company outstanding as at the date of the passing of the resolution approving the repurchase mandate may be repurchased on the Stock Exchange or on any other stock exchange recognized by the SFC and the Stock Exchange for this purpose. A company may not issue or announce an issue of securities for a period of 30 days immediately following a repurchase, whether on the Stock Exchange or otherwise (other than an issue of shares pursuant to the exercise of warrants, share options of similar instruments requiring the Company to issue securities which were outstanding prior to such repurchase) without prior approval to the Stock Exchange. In addition, all repurchases of securities on the Stock Exchange in any given calendar month are limited to a maximum of 25% of the trading volume of such securities in the immediately preceding calendar month and a company may not repurchase its securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the Stock Exchange trading rules from time to time.

A company is also prohibited from making securities repurchases on the Stock Exchange if the repurchase would result in the number of listed securities which are in the hands of the public falling below the relevant prescribed minimum percentage for the Company as determined by the Stock Exchange.

**(d) Status of repurchased securities**

The Listing Rules provide that the listing of all repurchased securities will be automatically cancelled and the certificate(s) for such repurchased securities must be cancelled and destroyed.

**(e) Suspension of repurchases**

A company is prohibited from repurchasing securities on the Stock Exchange at any time after a price sensitive development has occurred or has been the subject of a decision until such time as the price sensitive information is made publicly available. In particular, during the period of one month immediately preceding either the preliminary announcement of a company's annual results or publication of a company's interim report, a company (other than a company listed pursuant to the provisions of Chapter 21 of the Listing Rules) may not repurchase securities on the Stock Exchange, unless the circumstances are exceptional. In addition, the Stock Exchange reserves the right to prohibit repurchases of securities on the Stock Exchange if a company has breached the Listing Rules.

**(f) Reporting requirement**

Repurchases on the Stock Exchange or otherwise must be reported to the Stock Exchange in the prescribed form not later than 9:30 a.m. (Hong Kong time) on the following business day in respect of the total number of shares purchased by the company and the purchase price per share or the highest and lowest prices paid for such purchases. In addition, a company's annual report is required to disclose on a monthly basis details regarding repurchases made during the year, including the number of securities repurchased each month, the repurchase price per relevant securities or the highest and lowest price paid for such repurchases and the aggregate prices paid. A company shall procure that any broker appointed by the company to effect repurchases of securities shall disclose to the Stock Exchange such information with respect to repurchases made on behalf of the company as the Stock Exchange may request. The directors' report shall contain reference to the purchases made during the year and the directors' reasons for making such purchases.

**(g) Connected parties**

A company is prohibited from knowingly repurchasing securities on the Stock Exchange from a connected person (as defined in the Listing Rules), and a connected person must not knowingly sell his securities to the company on the Stock Exchange.

**SHARE CAPITAL OUTSTANDING**

As at the Latest Practical Date, the aggregate nominal amount of issued share capital of the Company was HK$127,680,712 comprising 6,384,035,621 Existing Shares. Immediately upon Completion, the aggregate nominal amount of issued share capital of the Company will be HK$90,584,035 comprising 9,058,403,562 New Shares. Subject to the passing of the relevant ordinary resolution approving the Repurchase Mandate and no further Shares are issued prior to the SGM, the Company will be allowed under the Repurchase Mandate to repurchase a maximum of 63,840,356 New Shares immediately following Completion.

**REASONS FOR REPURCHASES**

The Directors believe that the Repurchase Mandate is in the interests of the Company and the Shareholders since it will give the restructured Company the flexibility to do so if and when appropriate. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the value of the Company's securities and/or its earnings per share. The future Directors of the restructured Company will only exercise such power in circumstances where they believe such repurchase will have a material benefit to the Company and the Shareholders.

**FUNDING OF REPURCHASES**

Repurchase of the Company's securities must be funded out of funds legally available for the purpose in accordance with the memorandum of association and bye-laws of the Company and the applicable laws of Bermuda, being capital paid up on the purchased Shares or out of the funds of the Company otherwise available for dividend or distribution or out of the proceeds of a fresh issue of Shares made for the purpose. The premium payable on a purchase over the par value of the Shares to be purchased must be provided for out of funds of the Company otherwise available for dividend or distribution or out of the Company's share premium account. It is envisaged that the funds required for any repurchase would be derived from such sources.

There may be a material adverse impact on the working capital or gearing position of the Company (as compared with the position disclosed in the latest published audited financial statements as at 30 June 1999) in the event that the Repurchase Mandate is exercised in full. However, the Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or the gearing levels which in the opinion of the Directors are from time to time appropriate for the Company.

**DISCLOSURE OF INTEREST**

None of the Directors nor, to the best of their knowledge having made all reasonable enquiries, any of his respective associates (as defined in the Listing Rules), has a present intention to sell securities to the Company if the Repurchase Mandate is approved by the Shareholders.

No connected person (as defined in the Listing Rules) of the Company has notified the Company that he/she has a present intention to sell securities to the Company, or has undertaken not to do so, in the event that the Company is authorized to make repurchases of its own securities.

**UNDERTAKING OF THE DIRECTORS**

The Directors have undertaken to the Stock Exchange that they will exercise the power of the Company to make repurchases pursuant to the Repurchase Mandate in accordance with the Listing Rules, the laws of Bermuda and the memorandum of association and bye-laws of the Company.

During the six months preceding the date of this circular, the Company has not repurchased any securities of the Company.

**SHARE PRICES**

Trading of the Shares has been suspended since 2:30 p.m. on Monday 12 February 2001. The closing price before suspension was HK$0.01 per Share.

The highest and lowest prices at which the Shares were trade on the Stock Exchange during each of the previous 12 calendar months preceding the suspension were as follows:

| | **Highest** *HK$* | **Lowest** *HK$* |
|---|---|---|
| **2000** | | |
| March | 0.246 | 0.121 |
| April | 0.159 | 0.073 |
| May | 0.103 | 0.057 |
| June | 0.074 | 0.057 |
| July | 0.084 | 0.058 |
| August | 0.086 | 0.036 |
| September | 0.046 | 0.02 |
| October | 0.027 | 0.012 |
| November | 0.025 | 0.013 |
| December | 0.015 | 0.01 |
| **2001** | | |
| January | 0.012 | 0.01 |
| February | 0.011 | 0.01 |

**GENERAL**

If as a result of a repurchase of the New Shares, a Shareholder's proportionate interest in voting rights of the Company increases, such increase will be treated as an acquisition for the purpose of the Code. As a result, a Shareholder or a group of Shareholders, acting in concert with each other could, depending on the level of increase of the Shareholders' interest, obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Code. The Directors have no intention to exercise the Repurchase Mandate to such an extent that will result in a requirement of a Shareholder, or group of Shareholders acting in concert, to make a general offer under the Code.

As at the Latest Practicable Date, the only controlling Shareholder, Horsford (held Shares on behalf of SCB) is beneficially interested in approximately 25.81% of the existing share capital of the Company. Immediately upon Completion, the Investors together with the parties acting in concert with them, will be interested in an aggregate of approximately 71.76% of the enlarged issued share capital of the Company before conversion of the New Notes. The Directors are not aware of any consequences which would arise under the Code as a result of any repurchases pursuant to the Repurchase Mandate.

Any purchase of Shares which results in the amount of Shares held by the public being reduced to less than 25% could only be implemented with the agreement of the Stock Exchange. Except in extraordinary circumstances such agreement would not normally be given by the Stock Exchange.

## 1 RESPONSIBILITY STATEMENTS

This circular includes particulars given in compliance with the Code and the Listing Rules for the purpose of giving information with regard to the Company, CCT and Defa. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular (other than relating to CCT and Defa) and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed in this circular (other than those expressed by CCT and Defa) have been arrived at after due and careful consideration and there are no other facts the omission of which would make any statement herein misleading.

The information contained in this circular relating to CCT and Defa, has been supplied by the boards of directors of CCT and Defa. The boards of directors of CCT and Defa jointly and severally accept full responsibility for the accuracy of information relating to CCT and Defa contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed in this circular relating to CCT and Defa have been arrived at after due and careful consideration and there are no other facts the omission of which would make any statement herein misleading.

## 2 MARKET PRICES

The table below shows the closing price of the Shares on the Stock Exchange on the last day on which trading in the Shares took place in each of the 12 calendar months immediately preceding the date of the Announcement.

| **Date** | **Closing price per Share** *HK$* |
|---|---|
| **2000** | |
| September | 0.025 |
| October | 0.014 |
| November | 0.014 |
| December | 0.012 |
| **2001** | |
| January | 0.01 |
| February | 0.01 |
| March | N/A |
| April | N/A |
| May | N/A |
| June | N/A |
| July | N/A |
| August | N/A |

Trading in the Shares has been suspended since 2:30 p.m. on 12 February 2001 and will continue to be suspended while the Receivers remain appointed to the Company. The closing price before suspension was HK$0.01 per Share which is deemed the closing price immediately preceding the date of the Announcement and the Latest Practicable Date.

The highest and lowest closing prices of the Shares on the Stock Exchange during the 12 months immediately preceding the date of the Announcement were HK$0.03 on 21 September 2000 and HK$0.01 on 28 February 2001.

## 3 INTEREST IN SECURITIES OF THE COMPANY

### (a) Directors

As at the Latest Practicable Date, the interests of the Directors in the securities of the Company and its associated corporations (within the meaning of the SDI Ordinance) which had been notified to the Company and the Stock Exchange pursuant to section 28 of the SDI Ordinance (including interests which they were deemed or taken to have under section 31 of, or Part I of the Schedule to, the SDI Ordinance); or which were required, pursuant to section 29 of the SDI Ordinance, to be entered in the register referred to therein; or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange, were as follows:

| | Number of Shares held | | | % of interest in the |
|---|---|---|---|---|
| **Name** | **Personal** | **Family** | **Other** *(see note)* | **Company** |
| Mr. Howard Leung | Nil | Nil | 141,121,280 | 2.21% |

*Note:* According to the disclosure made to the Company under the SDI Ordinance, the 141,121,280 Existing Shares were beneficially owned by Kit Iu, the entire share capital of which was according to that disclosure held by the trustee of a discretionary trust whose beneficiaries include Mr. Leung Ho Man Paul, Mr. Leung Winston and Mr. Leung Howard.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and their associates had any interest in the securities of the Company or any associated corporations (as defined in the SDI ordinance) which were required to be notified to the Company and the Stock Exchange pursuant to section 28 of the SDI Ordinance (including interests which were deemed or taken to have under section 31 of, or Part I of the Schedule to, the SDI Ordinance) or which they were required, pursuant to section 29 of the SDI Ordinance, to be entered in the register referred to therein or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

### (b) Substantial Shareholders

Save as disclosed below, as at the Latest Practicable Date, so far as is known to, or can be ascertained after reasonable enquiry by, the Directors, there was no person who was, directly or indirectly, interested in 10% or more of the nominal value of any class of issued share capital carrying rights to vote in all circumstances at general meetings of the Company or any other member of the Group or had any options in respect of such issued capital:

| **Name** | **Number of Existing Shares held** | **% of interest in the Company** |
|---|---|---|
| Standard Chartered Bank | 1,647,680,119 | 25.81% |

*Note:* These Shares are registered in the name of Horsford Nominees Limited, as the nominee for SCB.

### (c) CCT and Defa

As at the Latest Practicable Date, CCT and Defa, together with their directors and parties acting in concert with them were not interested in the securities of the Company, other than by their agreement to acquire New Shares pursuant to the Restructuring Agreements.

**(d) Others**

As at the Latest Practicable Date,

i) So far as the Directors are aware, none of the subsidiaries or associates of the Company, nor any pension funds of the Company or of any of its subsidiaries, nor KPMG Corporate Finance, DaoHeng Securities, Anglo Chinese, Deloitte & Touche Corporate Finance Limited or American Appraisal Limited had any interest in the securities of the Company; and

ii) So far as the Directors are aware, no person who had any arrangement of the kind referred to in Note 8 to Rule 22 of the Code with the Company, CCT and Defa or any party acting in concert with any of them had any interest in the securities of the Company.

## 4 DEALINGS IN SECURITIES OF THE COMPANY

**(a) Directors**

None of the Directors nor parties acting in concert within them had dealt in any securities of the Company during the Relevant Period.

**(b) CCT and Defa**

Neither CCT, Defa, their respective directors, nor any party acting in concert with them had dealt in any securities of the Company during the Relevant Period.

**(c) Others**

During the period from the date of the Announcement to the Latest Practicable Date,

i) So far as the Directors are aware, none of the subsidiaries or associates of the Company, nor any pension funds of the Company or any of its subsidiaries, nor KPMG Corporate Finance, DaoHeng Securities, Anglo Chinese, Deloitte & Touche Corporate Finance Limited or American Appraisal Limited had dealt in any securities of the Company;

ii) So far as the Directors are aware, no person who had any arrangement of the kind referred to in Note 8 of Rule 22 of the Code with the Company, CCT and Defa or with any persons acting in concert with any of them had dealt in any securities of the Company; and

iii) No person, who, prior to the posting of this circular, has irrevocably committed themselves to accept or reject the Restructuring Agreements had dealt in any securities of the Company.

## 5 INTERESTS AND DEALINGS IN CCT AND DEFA

Neither the Company, the Directors, nor parties acting in concert with them had any interest in the securities of the Investors, and none of them had dealt in any such securities during the Relevant Period.

## 6 ARRANGEMENTS AFFECTING DIRECTORS

(a) Particulars of the Directors' service contracts

Each of Mr. Wu Sai Wing and Mr. Gerald Clive Dobby, both being the non-executive Directors has entered into a contract for the provision of his services commencing on 7 June 2001 with the Company which will continue until terminated by no less than one month's prior notice in writing served by either party on the other.

Mr. Howard Leung, the executive Director, has entered into a service contract commencing 2 August 2001 with the Company which will continue until terminated by no less than one month prior notice in writing served by either party on the other.

Each of the executive Director and the non-executive Directors is entitled to a monthly fixed remuneration without any other allowances and benefits.

(b) None of the Directors has any service contract with any member of the Group which is not terminable within one year without payment of compensation (other than statutory compensation) and, save as disclosed above, no service contract has been entered into or amend within six months before the date of the Announcement.

(c) Since 30 September 2001 (being the date to which the latest published audited accounts of the Company were made up), none of the Directors had any interest, direct or indirect, in any assets which have been acquired or disposed of or are proposed to be acquired or disposed of by or leased to any member of the Group.

(d) There is no existing or proposed agreement or arrangement between the Investors or parties acting in concert with them and any of the Directors or any other person which is conditional on the outcome of the Restructuring Agreements or otherwise connected therewith.

(e) Save for the Restructuring Agreements, there is no material contract or arrangement entered into by any of the Directors and the Investors, or parties acting in concert with them in which any Director has a material personal interest.

(f) No benefits have been or will be given to the Directors as compensation for loss of office or otherwise in connection with the Restructuring Agreements.

(g) No variation will be made to the remuneration payable to and benefits in kind receivable by the Directors as a consequence of the Asset Injection.

## 7 EXPERTS

The following are the qualifications of the experts who have given an opinion or advice which is contained or referred to in this circular:

| Name | Qualification |
|---|---|
| KPMG Corporate Finance | Registered investment adviser |
| Dao Heng Securities | Registered investment adviser |
| Anglo Chinese | Registered investment adviser |

| Name | Qualification |
|---|---|
| Deloitte & Touche Corporate Finance Limited | Registered investment adviser |
| American Appraisal Limited | Property valuers |

KPMG Corporate Finance, Dao Heng Securities, Anglo Chinese, Deloitte & Touche Corporate Finance Limited and American Appraisal Limited:

- have no shareholding in any member of the Group or any right to subscribe for or to nominate persons to subscribe for securities in any member of the Group;
- have given and have not withdrawn their written consents to the issue of this circular with the inclusion of their respective letters and references to their names, as the case may be, in the form and context in which they respectively appear; and
- do not have any direct or indirect interest in any assets which have been since 30 September 2001, the date of the latest published audited accounts of the Group were made up, acquired or disposed of, or leased to, or which are proposed to be acquired or disposed of by, or leased to the Company or any of its subsidiaries.

## 8 LITIGATION

Save as described below, neither the Company nor any other members of the Group is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against any member of the Group as at the Latest Practicable Date.

*GPI*

On 12 February 2001, GPI filed a winding-up petition against S.Megga in respect of outstanding indebtedness of US$177,197, representing the price of goods sold and delivered by GPI to S.Megga. The most recent hearing of the winding-up petition was fixed for 22 October 2001, but with the consent of S.Megga and GPI, the hearing was vacated. Application was made to the Court for sanction of the S.Megga Scheme to be heard on 1 March 2002. On 1 March, the Court adjourned the hearing until 25 March 2002. On 25 March 2002, the Court further adjourned the hearing to a date to be fixed.

*First Leung Winding-Up Petition/Second Leung Winding-Up Petition*

The First Leung Winding-Up Petition which was presented against the Company on 16 August 2001, and which was made in respect of salary and other benefits alleged to be owed to him by the Company, was subsequently withdrawn by Paul Leung by the filing of a consent order made by the Court on 29 November 2001.

The Second Leung Winding-Up Petition was presented by Leung against the Company on 25 September 2001 and was made in respect of similar matters to those contained in the First Leung Winding Up Petition. Pursuant to the terms of the Deed of Settlement, the Second Leung Winding-Up Petition was dismissed by the Court on 21 January 2002.

## 9 MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business have been entered into by the members of the Group within the two years preceding the date of the Announcement and are, or may be, material:

(a) A placing and subscription agreement dated 22 February 2000 between the Company, Kit Iu, and NSC Securities (Asia) Limited (''NSC'') whereby it was agreed that Kit Iu would place 75.5 million shares of its existing shares in the Company to third parties at HK$0.165 per share; NSC would procure placees for the shares and Kit Iu would at the same time subscribe for 75.5 million new shares in the Company at the same price.

(b) A placing and subscription agreement dated 4 March 2000 between the Company, Kit Iu, and NSC whereby it was agreed that Kit Lu would place 75.5 million shares of its existing shares in the Company to third parties at HK$0.10 per share; NSC would procure placees for the shares and Kit Iu would at the same time subscribe for 75.5 million new shares in the Company at the same price.

(c) A placing agreement dated 4 March 2000 between the Company and NSC whereby it was agreed that NSC would procure placees for 43.96 million new shares in the Company at HK$0.10 per share.

(d) A settlement agreement dated 6 March 2000 whereby S.Megga and S.Meggatel Sdn Bhd agreed to settle and stipulate to the dismissal of legal action in the Delaware Court against Lucent Technologies Inc. and member companies of the Group, a joint venture partner and Lucent Technologies Inc. agreed, inter alia, to release claims as against each other and not to sue each other on terms and conditions set out in the settlement agreement.

(e) A conditional sale and purchase agreement dated 24 March 2000 between the Company and Asia Paging Company Limited, Well Master Group Limited, Wong Kin Chuen, Ng Wai Keung, Lin Wing Hung and Lo Po Hong whereby the Company agreed to purchase from the existing shareholders of APE Power Enterprises Limited (''APE'') a 40% shareholding interest in APE in consideration of the sum of HK$50 million to be satisfied by the issue of 125 million new shares in the Company at HK$0.40 per share.

(f) The Debenture.

(g) The terms and conditions of the 3-Year Notes.

(h) The terms and conditions of the 7-Year Notes.

(i) A loan facility agreement dated 21 July 2000 between S.Megga Estate and SCB in respect of a new loan facility provided by SCB of HK$46 million (the ''New Loan Facility'').

(j) The Modified Debt Restructuring Agreement.

(k) A guarantee and indemnity dated 21 July 2000 provided by the Company to SCB for the obligations of S.Megga Estate in respect of the New Loan Facility.

(l) A mortgage dated 21 July 2000 provided by S.Megga Estate in favour of SCB in respect of the New Loan Facility over its interest in the Property.

(m) A conditional placing agreement dated 21 July 2000 between the Company and Success Manor whereby all indebtedness of the Company due to Success Manor was discharged.

(n) A notice to Swiss Noteholders dated 30 June 2000 setting out the resolutions to be voted upon by the Swiss Noteholders for the purpose of approving, inter alia, the Swiss Notes becoming mandatorily convertible.

(o) The Exchange Offer (as defined in the June 14th Circular) made to Swiss Noteholders on 30 June 2000 setting out the terms on which Swiss Noteholders were to be entitled to restructure their indebtedness on equivalent commercial terms to those offered to the Bank Creditors.

(p) A conditional subscription agreement dated 28 July 2000 (the ''Paul Leung Subscription Agreement'') between the Company, Paul Leung and his nominee whereby the Company agreed to issued a HK$10 million 3 year zero coupon convertible bond to a nominee of Mr. Leung Ho Man, Paul.

(q) An appendum dated 18 August 2000 between the Company, S.Megga and Paul Leung, amending the Service Agreement, by which it was agreed, inter alia, that a compensation payment would be payable to Paul Leung in the event of the termination, on certain specified grounds only, of his Service Agreement prior to a specified date, and also entitling him to a performance bonus linked to the net profit of the Company and S.Megga. The Service Agreement was terminated by mutual agreement by the Settlement Deed.

(r) A conditional placing and subscription agreement dated 23 August 2000 between SCB, NSC and the Company whereby it was agreed that SCB would place 300,000,000 existing shares to third parties at HK$0.062 per share; NSC would procure placees for the shares and SCB or its nominee would at the same time subscribe for 300,000,000 new shares at the same price.

(s) A placing agreement dated 25 August 2000 between CITIC Ka Wah Bank, the Company, S.Megga Estate and S.Megga whereby its was agreed that the Company would issue and allot 26,913,073 new Shares to a nominee of CITIC Ka Wah Bank at a price of HK$0.07 per Share in partial redemption of a mortgage granted by S.Megga Estate over the Property to secure indebtedness owed by S.Megga to CITIC Ka Wah Bank.

(t) A mortgage dated 28 August 2000 in favour of SCB over the Property.

(u) A deed of priority dated 28 August 2000 in favour of SCB in relation to providing of its security over the Property.

(v) A deed of indemnity dated 4 September 2000, given by the Company in favour of Standard Registrars Limited in relation to potential liabilities arising out of the registration of certain transfers of shares on the Company's branch register of members.

(w) A termination deed dated 15 September 2000 between the Company, Paul Leung and his nominee whereby it was agreed that the Paul Leung Subscription Agreement be terminated with immediate effect.

(x) A sale and purchase agreement entered into on 8 September 2000 between S.Megga Estate as the vendor and High Fashion Garments Company Limited as the purchaser of the Property (as supplemented by a supplemental agreement dated 8 September 2000 entered into between S.Megga Estate and High Fashion).

(y) The Restructuring Agreements.

(z) The First Deed of Modification.

(aa) A deed of waiver dated 21 September 2001 between S.Meggatel, S.Megga, the Receivers and the Security Trustee under which in consideration of the execution of the Asset Transfer Agreement, S.Meggatel waived its right to claim repayment of certain indebtedness owed to it by S.Megga.

(bb) A deed of waiver dated 21 September 2001 between S.Megga Trading, S.Megga, the Receivers and the Security Trustee under which in consideration of the execution of the Asset Transfer Agreement, S.Megga Trading waived its right to claim repayment of certain indebtedness owed to it by S.Megga.

(cc) A deed of waiver dated 21 September 2001 between S.Megga Estate, S.Megga, the Receivers and the Security Trustee under which in consideration of the execution of the Asset Transfer Agreement, S.Megga Estate waived its right to claim repayment of certain indebtedness owed to it by S.Megga.

(dd) The Asset Transfer Agreement.

(ee) The transfer of the entire voting share capital of S.Megga to a company beneficially owned by the Receivers.

(ff) The Second Deed of Modification.

(gg) The Deed of Settlement.

(hh) The Third Deed of Modification.

## 10 MATERIAL CHANGES IN THE FINANCIAL OR TRADING POSITION

Save as disclosed herein, the Directors are not aware of any material change in the financial or trading position or prospects of the Group since 30 September 2001, the date to which the latest audited accounts of the Group were made up.

## 11 MISCELLANEOUS

As at the Latest Practicable Date, there are no agreements or arrangements as to the transfer of any New Shares to be acquired by the Investors or parties acting in concert with them pursuant to the Restructuring Agreements to any other person.

The Company's secretary is Chan Suk King, an associate of the Hong Kong Society of Accountants and the Hong Kong Institute of Company Secretaries.

The Company's Hong Kong branch share registrar is Standard Registrars Limited at 5/F, Wing On Centre, 111 Connaught Road, Central, Hong Kong.

The principal place of business of the Company is 8/F Prince's Building, Central, Hong Kong.

The registered office of CCT is at the office of Habour Trust Company Limited, PO Box 1787, GT, One Capital Place, Grand Cayman, Cayman Islands, British West Indies.

The registered office of Defa is at P O Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands.

The English text of this circular and the form of proxy shall prevail over the Chinese text in the case of any inconsistency.

## 12 DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the office of the Receivers at 8/F, Prince's Building, Central, Hong Kong up to and including 24 April 2002:

(a) The memorandum of association and the bye-laws of the Company;

(b) The consolidated audited accounts of the Company for the 15-month period ended 30 September 2000 and for the year ended 30 September 2001;

(c) The material contracts referred to in the paragraph headed ''Material Contracts'' in this appendix;

(d) The letter of advice from Anglo Chinese;

(e) The accountants' report of ESL as set out in appendix II to this circular;

(f) The valuation report prepared by American Appraisal Limited as at 31 July 2001;

(g) The written consents referred to in the paragraph under ''Experts'' in this appendix;

(h) The auditors' reports, the text of which is set out in section 3 of appendix I to this circular; and

(i) Services contracts of the existing Directors referred to in the paragraph headed ''Arrangements affecting Directors'' in this appendix.

# Wireless InterNetworks Limited

# 浩宇科技有限公司*

**(Receivers and Managers Appointed)**

*(Incorporated in Bermuda with limited liability)*

**NOTICE IS HEREBY GIVEN** that a Special General Meeting of Wireless InterNetworks Limited will be held at Auditorium, 1st Floor, Duke of Windsor Social Service Building, 15 Hennessy Road, Wan Chai, Hong Kong on 24 April 2002 at 2:30 p.m. for the purpose of considering and, if thought fit, passing the following resolutions:

## SPECIAL RESOLUTIONS

1. ''**THAT**, conditional upon the approval of Resolutions Nos. 5, 6 and 7 set out in the notice dated 31 March 2002 of which this Resolution forms part, convening the special general meeting, and conditional upon compliance with section 46(2) of the Companies Act 1981 of Bermuda (the ''Act''), and with effect from the time as from which such condition is fulfilled:

   (a) the issued share capital of the Company be reduced by HK$121,296,676.80 from HK$127,680,712.42 to HK$6,384,035.62 by cancelling paid up capital to the extent of HK$0.019 on each of the shares of HK$0.02 each in issue in the capital of the Company on the date of which compliance has been made with section 46(2) of the Act (the ''Capital Reduction'') so that each issued share shall be treated as one fully paid share up share of HK$0.001 each in issue in the capital of the Company (''Share'') and any liability of the holders of such Shares to make any further contribution to the capital of the Company on each such Share shall be treated as satisfied;

   (b) all of the Shares resulting from the Capital Reduction shall rank pari passu in all respects with each other and have the rights and privileges and be subject to the restrictions contained in the Company's bye-laws;

   (c) the Company shall apply the credit which shall arise as a result of the Capital Reduction towards eliminating the accumulated brought forward losses of the Company as at 30 September 2001 and the Directors of the Company be and are hereby authorised to apply such credit in such manner as may be permitted by law;

   (d) conditional upon the Capital Reduction becoming effective and with effect from immediately thereafter, every share of HK$0.02 in the unissued share capital of the Company (which shall include those unissued shares arising from the Capital Reduction pursuant to (a) above) be and is hereby sub-divided into twenty shares of HK$0.001 each (the ''Share Sub-division''); and

   (e) any one of the directors of the Company be and is hereby authorised generally to do all things appropriate to effect and implement any of the foregoing.''

2. ''**THAT** conditional upon completion of each of the Compromise Agreement, the Subscription Agreement and the Injection Agreement referred to in Resolutions Nos. 5, 6 and 7 respectively as set out in the notice dated 31 March 2002 of which this Resolution forms part, convening the special general meeting and subject to the approval by the Registrar of Companies in Bermuda, the name of the Company be changed from ''Wireless InterNetworks Limited'' to ''CCT Technology Holdings Limited'' and the Chinese translation of the name of the Company, for

identification purposes, be changed from ''浩宇科技有限公司'' to ''中建科技集團有限公司'' with effect from the date of entry of the new name on the register maintained by the Registrar of Companies in Bermuda in place of the former name.''

**ORDINARY RESOLUTIONS**

3. ''**THAT** conditional upon the approval of Resolution No. 1 set out in the notice dated 31 March 2002 (the ''Notice'') of which this Resolution forms part, convening the special general meeting, and conditional upon and with effect from immediately after the Share Sub-division (as defined in Resolution No.1 set out in the Notice) becoming effective, every ten issued and unissued ordinary shares of HK$0.001 each in the capital of the Company created upon the Capital Reduction and the Share Sub-division becoming effective shall be consolidated (''Share Consolidation'') into one ordinary share of HK$0.01 each (''New Share'').''

4. ''**THAT** conditional upon the approval of Resolutions Nos. 1 and 3 set out in the notice dated 31 March 2002 (the ''Notice'') of which this Resolution forms part, convening the special general meeting, and conditional upon and with effect from immediately after the Share Consolidation (as defined in Resolution No. 3 set out in the Notice) becoming effective, the authorised share capital of the Company shall be increased from HK$78,703,323.20 to HK$150,000,000 divided into 15,000,000,000 New Shares (as defined in Resolution No. 3 set out in the Notice) by the creation of 7,129,667,680 New Shares (''Authorised Share Capital Increase''), such New Shares to rank pari passu in all respects with the existing shares in issue in the capital of the Company.''

5. ''**THAT** the entry by the Company into the Compromise Agreement (as defined in the Company's circular to shareholders dated 31 March 2002 (the ''Circular'')), a copy of which together with a copy of the Circular has been produced to the meeting marked ''A'' and ''B'' respectively, and in each case signed by the Chairman of the meeting for identification purposes, and the transactions contemplated by the Compromise Agreement and the performance thereof by the Company, be and are hereby confirmed, ratified and approved, and that the Directors be and are hereby authorised to the extent of their authority so to act, to do all such things and take all such action as they may consider to be necessary or desirable to give effect to the terms of the Compromise Agreement including without limiting the foregoing, allotting and issuing the S.Megga Scheme Shares to S.Megga (or to such other person or persons as the Receivers may direct) in accordance with the terms of the Asset Transfer Agreement (each of those terms as defined in the Circular), and to complete the transactions contemplated by the Compromise Agreement.''

6. ''**THAT** conditional upon the approval of Resolution No. 5 set out in the notice dated 31 March 2002 (the ''Notice'') of which this Resolution forms part, convening the special general meeting, the entry by the Company into the Subscription Agreement (as defined in the Circular (as defined in Resolution No. 5 set out in the Notice) a copy of which has been produced to the meeting marked ''C'', and signed by the Chairman of the meeting for identification purposes, and the transactions contemplated by the Subscription Agreement and the performance thereof by the Company, be and are hereby confirmed, ratified and approved, and conditional upon the Authorised Share Capital Increase (as defined in Resolution No. 4 set out in the Notice) becoming effective, the Directors be and they are hereby authorised to allot and issue New Shares (as defined in Resolution No. 3 set out in the Notice) upon completion of the the Subscription Agreement on the terms set out in the Subscription Agreement.''

7. ''**THAT** conditional upon the approval of Resolution No. 5 set out in set out in the notice dated 31 March 2002 (the ''Notice'') of which this Resolution forms part, convening the special general meeting, the entry by the Company into the Injection Agreement (as defined in the Circular, itself defined in Resolution No. 5 set out in the Notice), a copy of which has been produced to the meeting marked ''D'', and signed by the Chairman of the meeting for identification purposes, and the transactions contemplated by the Injection Agreement and the performance thereof by the

Company, be and are hereby confirmed, ratified and approved and, was conditional upon the Authorised Share Capital Increase (as defined in Resolution No. 4 set out in the Notice) becoming effective, the Directors be and are hereby authorised to the extent that they have authority so to act, to do all such things and take all such action as they may consider necessary or desirable to give effect to the terms of the Injection Agreement and to complete the transactions contemplated by the Injection Agreement, including without limiting the foregoing, to allot and issue New Shares and to issue New Notes (each as defined in the Circular) upon completion of the Injection Agreement on the terms set out in the Injection Agreement, and further that the Directors be and they are hereby authorised to allot and issue New Shares upon exercise of the rights of conversion attaching to the New Notes in accordance with the terms and conditions of the New Notes.''

8. ''**THAT** conditional upon (i) the Authorised Share Capital Increase (as defined in Resolution No. 4 of the notice dated 31 March 2002 (the ''Notice''), of which this Resolution form part, convening the special general meeting) becoming effective and (ii) the approval by the Noteholders of the Notes Restructuring Offer (both as defined in the Circular, itself defined in Resolution No. 5 set out in the Notice), the Directors be and are hereby authorised to the extent that they have authority so to act, to do all such things and take all such action as they may consider to be necessary or desirable to give effect to the terms of the Notes Restructuring Offer including without limiting the foregoing, allotting and issuing of such number of New Shares (as defined in Resolution No. 3 of the Notice) as shall be required by the terms of the Notes Restructuring Offer.''

9. ''**THAT**, subject to the passing of Resolutions Nos. 5, 6 and 7 set out in the notice dated 31 March 2002 (the ''Notice'') of which this Resolution forms part, convening the special general meeting, the waiver (the ''Whitewash Waiver'') granted by the Executive Director of the Corporate Finance Division of the Securities and Futures Commission pursuant to Note 1 of the Notes on Dispensations from Rule 26 of the Hong Kong Code on Takeovers and Mergers waiving any obligation on the part of CCT Telecom Holdings Limited and Dongguan Defa Investment Limited and parties acting in concert with one or both of them, to make a general offer for all the shares of the Company not already owned by them or agreed to be acquired upon completion of the Subscription Agreement and the Injection Agreement (as defined in Resolutions Nos. 6 and 7 respectively of the notice) and the transactions contemplated therein, be and is hereby approved, and the Directors be and are hereby authorised to the extent that they have authority so to act, to do all such things and take all such action as they may consider to be necessary or desirable to give effect to any of the matters relating to, or incidental to, the Whitewash Waiver.''

10. ''**THAT**

(a) subject to paragraph (c) of this Resolution, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares of the Company (''Shares'') or securities convertible into Shares or options, warrants or similar rights to subscribe for any Shares and to make or grant offers, agreements and options which might require the exercise of such powers, be and is hereby generally and unconditionally approved;

(b) the approval in paragraph (a) above shall authorise the directors of the Company during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;

(c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally, to be allotted (whether pursuant to an option or otherwise) and issued by the directors of the Company pursuant to the approval in paragraph (a) of this resolution, otherwise than pursuant to:

(i) a Rights Issue (as hereinafter defined);

(ii) the exercise of rights of subscription or conversion attaching to any warrants issued by the Company or any securities which are convertible into Shares;

(iii) any issue of Shares under any option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or of any of its subsidiaries of Shares or rights to acquire Shares; and

(iv) any scrip dividend or similar arrangement providing for the allotment of Shares in lieu of the whole or part of a dividend on Shares in accordance with the bye-laws of the Company in force from time to time,

shall not exceed 20 per cent. of the aggregate of the nominal amount of the share capital of the Company in issue at the date of the passing of this resolution as enlarged by the issue of New Shares upon the Completion of the Restructuring Agreements, including under the terms of each of the Notes Restructuring Offer and the Asset Transfer Agreement (each as defined in the Company's circular to shareholders dated 31 March 2002, a copy of which has been produced to the meeting marked ''B'' and signed by the Chairman of the meeting for identification purposes), and the said approval shall be limited accordingly; and

(d) For the purposes of this resolution:

''Rights Issue'' means an offer of Shares, or offer or issue of warrants, options or other securities giving rights to subscribe for Shares open for a period fixed by the directors of the Company to holders of Shares whose names appear on the register of members on a fixed record date in proportion to their then holdings of such Shares (subject to such exclusion or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of, any recognised regulatory body or any stock exchange in any territory applicable to the Company); and

''Relevant Period'' means the period from the date of the passing of this resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company; or

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company or any applicable laws to be held; or

(iii) the revocation or variation of the authority set out in this resolution by an ordinary resolution of the shareholders of the Company in general meeting.''

11. ''**THAT**

(a) the directors of the Company be and are hereby generally and unconditionally authorised to exercise during the Relevant Period all the powers of the Company to purchase its shares in the capital of the Company, subject to and in accordance with applicable laws;

(b) the aggregate nominal amount of the shares which may be purchased pursuant to the approval in paragraph (a) above shall not in total exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this Resolution as enlarged by the issue of New Shares upon the Completion of the Restructuring Agreements, including under the terms of each of the Notes Restructuring Offer and the Asset Transfer Agreement (each as defined in the Company's circular to shareholders dated 31 March 2002, a copy of which has been produced to the meeting marked ''B'' and signed by the Chairman of the meeting for identification purposes), and the said approval shall be limited accordingly; and

(c) for the purpose of this Resolution:

''Relevant Period'' means the period from the date of the passing of this resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company; or

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company or any applicable laws to be held; or

(iii) the revocation or variation of the authority set out in this resolution by an ordinary resolution of the shareholders of the Company in general meeting.''

12. ''**THAT**, conditional upon the passing of Resolutions Nos. 10 and 11 as set out in the notice dated 31 March 2002 of which this Resolution forms part, convening the special general meeting, the general mandate granted to the Directors and for the time being in force to exercise the powers of the Company to allot, issue and deal with shares or other securities be and is hereby extended by the addition to the aggregate nominal amount of share capital which may be allotted or agreed conditionally or unconditionally to be allotted by the Directors pursuant to such general mandate of an amount representing the aggregate nominal amount of shares in the capital of the Company repurchased by the Company since the granting of the said general mandate pursuant to the exercise by the Directors of the powers of the Company to repurchase such shares, provided that such amount shall not exceed 10 percent of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this Resolution as enlarged by the issue of New Shares upon the Completion of the Restructuring Agreements, including under the terms of each of the Notes Restructuring Offer and the Asset Transfer Agreement (each as defined in the Company's circular to shareholders dated 31 March 2002, a copy of which has been produced to the meeting marked ''B'' and signed by the Chairman of the meeting for identification purposes).''

By Order of the Board
**Howard Leung**
*Director*

Hong Kong, 31 March 2002

**Principal place of business in Hong Kong:**
8th Floor, Prince's Building
10 Chater Road
Central
Hong Kong

*Notes:*

1. Any member of the Company entitled to attend and vote at the special general meeting is entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a member of the Company.

2. Where there are joint registered holders of any share, any one of such persons may vote at the special general meeting either personally or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at the special general meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members in respect of such share shall alone be entitled to vote in respect thereof.

3. To be valid, a form of proxy, together with the power of attorney or other authority, if any, under which it is signed or a certified copy of that power or authority, must be deposited at the Company's branch share registrars, Standard Registrars Limited, 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong, not later than 48 hours before the time appointed for holding the special general meeting or adjourned meeting. Completion and return of the form of proxy will not preclude shareholders from attending the special general meeting and voting in person.