

Notes to the Financial Statements

1. GENERAL

The Company is incorporated in Bermuda with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited.

The Company is an investment holding company. The principal activities of its subsidiaries, associates and joint ventures are set out in notes 34, 35 and 36, respectively.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of investments in securities.

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries (hereinafter collectively referred to as the “Group”) made up to 31 December each year.

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

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

Goodwill

Goodwill arising on the acquisition of a subsidiary, representing the difference between the purchase consideration and the fair value ascribed to the separable net assets of the subsidiary at the date of acquisition, is dealt with through reserves in the year of acquisition. Where there is a permanent diminution in the value of goodwill, the amount is written down immediately through the income statement to its recoverable value.

Any premium or discount arising on the acquisition of interests in associates and investments in joint ventures, 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 and joint venture at the date of acquisition, is dealt with in the same manner as that described above for goodwill.

On disposal of a subsidiary, an associate or a joint venture, the amount of goodwill previously charged or credited to reserves at the time of acquisition is included in the determination of the profit and loss on disposal.

Notes to the Financial Statements (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Turnover

Turnover represents the amount received and receivable for goods sold during the year.

Revenue recognition

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

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

Option income is recognised when the option contract expires or is exercised.

Dividend income from investments in securities is recognised when the Group's rights to receive dividend payment have been established.

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

Gains and losses arising from trading in future metals contracts are recognised when the future metals contract is exercised. Open positions of future metals contracts are valued at market prices at the balance sheet date. Gains and losses arising thereon are dealt with in the income statement.

Property, plant and equipment

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

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of that 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.

Notes to the Financial Statements (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

Depreciation is provided to write off the cost of other property, plant and equipment over their estimated useful lives and after taking into account the estimated residual value, using the straight line method, at the following rates per annum:

Leasehold improvements	20%
Furniture, fixtures and equipment	20%
Motor vehicles	25%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

Finance leases

Leases are classified as finance leases whenever the terms of the leases transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair values at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the outstanding principal amount at the inception of the finance leases, are charged to the income statement over the period of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases and the annual rentals are charged to the income statement on a straight-line basis over the relevant lease term.

Subsidiaries

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

Investments in subsidiaries are included in the Company's balance sheet at cost, as reduced by any decline in the value of the subsidiary that is other than temporary.

Notes to the Financial Statements (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates.

Joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and over which none of the participating parties has unilateral control.

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

Investments in securities

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

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

All securities other than held-to-maturity debt securities are measured at fair value on subsequent reporting dates.

When securities are held for trading purposes, unrealised gains and losses are included in net profit or loss for the period. For other securities, unrealised gains and losses are dealt with in equity until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss is included in net profit or loss for the period.

Notes to the Financial Statements (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

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

Taxation

The charge for taxation is based on the results for the year after adjusting for items which are non-assessable or disallowed. Certain items of income and expenses are recognised for tax purposes in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting timing differences, computed under the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

Foreign currencies

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

On consolidation, the financial statements of subsidiaries, associates and joint ventures which are denominated in currencies other than the Hong Kong dollars are translated at the rates ruling on the balance sheet date. All exchange differences arising on consolidation are dealt with in the translation reserve.

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.

Notes to the Financial Statements (Continued)

3. OTHER REVENUE

	2000	1999
	HK\$'000	HK\$'000
Interest income on bank deposits	8,509	766
Option income	1,368	15,150
Net realised gain on disposal of trading securities	335	—
Dividend income from investments in securities	175	—
Rental income	—	28
Others	1,171	—
	<u>11,558</u>	<u>15,944</u>

4. LOSS FROM OPERATIONS

	2000	1999
	HK\$'000	HK\$'000
Loss from operations has been arrived at after charging:		
Directors' emoluments	5,891	4,683
Other staff costs	8,037	4,824
Total staff costs	<u>13,928</u>	<u>9,507</u>
Auditors' remuneration		
Current year	680	1,148
Unprovision in previous years	180	—
Depreciation		
Own assets	164	82
Leased assets	46	80
Loss on disposal of property, plant and equipment	57	—
Net realised loss on futures contracts	—	16,072
Provision for bad and doubtful debts	2,364	31,904
Rentals payable under operating leases in respect of		
Rented premises	939	892
Motor vehicles	545	580
	<u>939</u>	<u>892</u>
	<u>545</u>	<u>580</u>

Notes to the Financial Statements (Continued)

4. LOSS FROM OPERATIONS (Continued)

(i) Information regarding directors' emoluments

	2000 HK\$'000	1999 HK\$'000
Directors' emoluments:		
Directors' fees		
Executive	—	—
Independent non-executive	200	690
	<u>200</u>	<u>690</u>
Other emoluments to executive directors		
Salaries and other benefits	5,691	3,993
	<u>5,691</u>	<u>3,993</u>
Total emoluments	<u><u>5,891</u></u>	<u><u>4,683</u></u>

The emoluments of the directors were within the following bands:

	Number of directors	
	2000 HK\$'000	1999 HK\$'000
HK\$ nil to HK\$1,000,000	8	15
HK\$1,000,001 to HK\$1,500,000	1	1
HK\$2,000,001 to HK\$2,500,000	1	—
	<u><u>1</u></u>	<u><u>—</u></u>

During the year, two (1999: four) directors waived emoluments of HK\$800,000 (1999: HK\$2,000,000).

(ii) Information regarding employees' emoluments:

Of the five individuals with the highest emoluments in the Group, four (1999: four) of them were directors of the Company. The emoluments of the remaining one (1999: one) individual were as follows:

	2000 HK\$'000	1999 HK\$'000
Salaries and other benefits	<u><u>2,298</u></u>	<u><u>365</u></u>

Notes to the Financial Statements (Continued)

5. FINANCE COSTS

	2000 HK\$'000	1999 HK\$'000
Interest on borrowings wholly repayable within five years:		
Bank borrowings	3,776	8,088
Short term loans	1,979	1,619
	<u>5,755</u>	<u>9,707</u>
Finance lease charges	9	17
	<u>5,764</u>	<u>9,724</u>

6. TAXATION

	2000 HK\$'000	1999 HK\$'000
The charge comprises:		
Share of Hong Kong Profits Tax of associates	45	—
Share of overseas tax of joint ventures	74	—
	<u>119</u>	<u>—</u>

No provision for taxation has been made for the Group in the financial statements since the Group has no assessable profit for the year. Details of the net potential deferred taxation (liability) asset not recognised are set out in note 23.

7. NET LOSS FOR THE YEAR

Of the Group's net loss for the year of approximately HK\$189,080,000 (1999: HK\$180,296,000), a loss of approximately HK\$231,653,000 (1999: HK\$148,553,000) has been dealt with in the financial statements of the Company.

Notes to the Financial Statements (Continued)

8. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss for the year of approximately HK\$189,080,000 (1999: HK\$180,296,000) and on the weighted average of 3,970,112,724 shares in issue (1999: 826,512,631 shares in issue) after adjusting for the effects of the rights issues taken place during the year.

Diluted loss per share figures are not presented for either 2000 or 1999 as the exercise price of the Company's warrants outstanding was higher than the average fair value of the Company's shares during both years.

9. PROPERTY, PLANT AND EQUIPMENT

	Properties HK\$'000	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
THE GROUP					
COST					
At 1 January 2000	26,088	400	527	615	27,630
Additions	—	28	179	—	207
Disposals	—	—	(57)	—	(57)
Disposal of subsidiaries	(26,088)	—	—	—	(26,088)
At 31 December 2000	—	428	649	615	1,692
DEPRECIATION					
At 1 January 2000	—	—	386	483	869
Provided for the year	—	86	71	53	210
At 31 December 2000	—	86	457	536	1,079
NET BOOK VALUES					
At 31 December 2000	—	342	192	79	613
At 31 December 1999	26,088	400	141	132	26,761

At 31 December 1999, the net book value of the Group's property, plant and equipment included an amount of HK\$132,000 in respect of assets held under finance leases.

The Group's properties as at 31 December 1999 were held outside Hong Kong and were held under medium term leases.

Notes to the Financial Statements (Continued)

9. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
THE COMPANY				
COST				
At 1 January 2000	400	—	—	400
Additions	28	282	86	396
Disposals	—	(57)	—	(57)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 December 2000	428	225	86	739
DEPRECIATION				
Provided for the year and balance at 31 December 2000	86	33	7	126
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
NET BOOK VALUES				
At 31 December 2000	342	192	79	613
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 December 1999	400	—	—	400
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Notes to the Financial Statements (Continued)

10. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2000	1999
	HK\$'000	HK\$'000
Unlisted shares, at cost	65,822	66,322
Amounts due from subsidiaries	711,166	58,201
	<u>776,988</u>	<u>124,523</u>
Provision for impairment	(350,000)	—
	<u>426,988</u>	<u>124,523</u>

Details of the Company's subsidiaries at 31 December 2000 are set out in note 34.

11. INTERESTS IN ASSOCIATES

	THE GROUP	
	2000	1999
	HK\$'000	HK\$'000
Share of net assets	218,839	1,769
Loans due from associates	54,050	54,050
	<u>272,889</u>	<u>55,819</u>
Provision for loans due from associates	(54,050)	—
	<u>218,839</u>	<u>55,819</u>

Loans due from associates are unsecured, non-interest bearing and have no fixed repayment terms.

Details of the Group's associates at 31 December 2000 are set out in note 35.

Notes to the Financial Statements (Continued)

11. INTERESTS IN ASSOCIATES (Continued)

The Group has a 34.87% interest in the issued ordinary share capital of Beauforte Investors Corporation Limited, a company which is incorporated in Hong Kong with its shares listed on The Stock Exchange of Hong Kong Limited. The Group's share of net assets in Beauforte Investors Corporation Limited and its subsidiaries was approximately HK\$218,839,000 (1999: nil). The following details have been extracted from the audited consolidated financial statements of Beauforte Investors Corporation Limited:

	2000 HK\$'M	1999 HK\$'M
Result for the year		
Turnover	<u>41.7</u>	<u>28.3</u>
Profit before taxation	4.9	34.0
Taxation credit (charge)	<u>4.1</u>	<u>(2.0)</u>
	<u>9.0</u>	<u>32.0</u>
Financial position		
Non-current assets	103.0	245.7
Current assets	526.0	402.2
Current liabilities	<u>(1.4)</u>	<u>(30.9)</u>
Net assets	<u>627.6</u>	<u>617.0</u>
Net assets attributable to the Group	<u>218.8</u>	<u>—</u>

Notes to the Financial Statements (Continued)

12. INTERESTS IN JOINT VENTURES

	THE GROUP	
	2000 HK\$'000	1999 HK\$'000
Share of net assets (liabilities)	8,046	(3,547)
Loan due from joint venture	—	58,375
Advances to joint venture	—	49,106
	<u>8,046</u>	<u>103,934</u>
Provision for impairment	—	(103,934)
	<u>8,046</u>	<u>—</u>

At 31 December 1999, interest in joint venture represented 51% equity interest in Shangqiu Yonghe Aluminium Co., Ltd., which was established in the People's Republic of China for the manufacture and sales of aluminium products. The Group disposed of the entire interest in the joint venture during the year.

In 1999, the loan to joint venture was interest bearing at US prime rate plus 2.375%, secured by a performance guarantee issued by a bank in the People's Republic of China and had no fixed repayment term. The advances to joint venture were unsecured, non-interest bearing and had no fixed repayment terms.

Details of the Group's joint ventures as at 31 December 2000 are set out in note 36.

13. INVENTORIES

THE GROUP

At the balance sheet date, all of the Group's inventories were carried at net realisable value.

Notes to the Financial Statements (Continued)

14. TRADE AND OTHER RECEIVABLES

	THE GROUP		THE COMPANY	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Trade receivables	4,979	156,384	—	—
Other receivables, deposits and prepayments	1,182	3,671	925	686
Amount due from an associate	—	743	—	—
	<u>6,161</u>	<u>160,798</u>	<u>925</u>	<u>686</u>

At the balance sheet date, trade receivables of the Group were within the credit terms given to the customers.

The Group has adopted the credit policy of allowing invoices to be payable within 180 days for the sales of communication products and 30 days for the metal trading from the date of issuance. The Group also allows longer credit period to its major customers.

15. INVESTMENTS IN SECURITIES

	THE GROUP	
	2000 HK\$'000	1999 HK\$'000
Trading securities		
Listed equity securities in Hong Kong, at market value	<u>94,443</u>	<u>—</u>

Notes to the Financial Statements (Continued)

16. TRADE AND OTHER PAYABLES

	THE GROUP		THE COMPANY	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade payables	107	6,781	—	—
Other payables and accrued charges	5,030	12,257	2,647	1,371
	<u>5,137</u>	<u>19,038</u>	<u>2,647</u>	<u>1,371</u>
An aged analysis of trade payables is as follows:				
Not yet due	107	6,339	—	—
Overdue over 90 days	—	442	—	—
	<u>107</u>	<u>6,781</u>	<u>—</u>	<u>—</u>

17. SHORT TERM LOANS

	THE GROUP		THE COMPANY	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
An analysis of short term loans is as follows:				
Secured	95,000	—	95,000	—
Unsecured	—	48,287	—	31,000
	<u>95,000</u>	<u>48,287</u>	<u>95,000</u>	<u>31,000</u>

At 31 December 2000, short term loans were secured by the Group's equity interest in Beauforte Investors Corporation Limited, an associate of the Group, with a carrying value of approximately HK\$218,839,000 (1999: nil) at 31 December 2000.

Short term loans are interest bearing at prevailing market rates and repayable within one year.

Notes to the Financial Statements (Continued)

18. BANK BORROWINGS

	THE GROUP		THE COMPANY	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
The bank borrowings comprise:				
Bank loans, secured	—	58,375	—	—
Bank overdraft	—	148	—	148
	<u>—</u>	<u>58,523</u>	<u>—</u>	<u>148</u>

19. SHARE CAPITAL

	Number of ordinary shares	Issued and fully paid share capital HK\$'000
Share of HK\$0.10 each		
Balance as at 1 January 1999	420,000,000	42,000
Issue of shares:		
– by placements	265,000,000	26,500
– as consideration shares for acquisition of Chinachem Industries Limited	100,800,000	10,080
– by rights issues	302,400,000	30,240
Balance as at 31 December 1999	1,088,200,000	108,820
Issue of shares:		
– by placements	1,000,000,000	100,000
– upon exercise of warrants	85,818	9
– by rights issues	2,610,408,000	261,040
Balance as at 31 December 2000	<u>4,698,693,818</u>	<u>469,869</u>

On 9 August 1999, the authorised share capital of the Company was increased from HK\$100,000,000 to HK\$500,000,000 by the creation of an additional 4,000,000,000 ordinary shares of HK\$0.10 each. Such new shares rank pari passu in all respects with the then existing issued and unissued shares of HK\$0.10 each in the capital of the Company.

Notes to the Financial Statements (Continued)

19. SHARE CAPITAL (Continued)

On 7 March 2000, the authorised share capital of the Company was further increased from HK\$500,000,000 to HK\$2,000,000,000 by the creation of an additional 15,000,000,000 ordinary shares of HK\$0.10 each. Such new shares rank pari passu in all respects with the then existing issued and unissued shares of HK\$0.10 each in the capital of the Company.

Details of movements in the issued and fully paid share capital of the Company were as follows:

- (a) On 28 April 1999, the Company entered into an agreement with a placing agent for the placement of 84,000,000 ordinary shares of HK\$0.10 each of the Company at a price of HK\$0.10 per share. The placement of shares was completed on 18 May 1999 and these shares rank pari passu in all respects with the then existing shares of the Company. On 10 December 1999, the Company entered into another agreement with a placing agent for the placing of 181,000,000 ordinary shares of HK\$0.10 each of the Company at a price of HK\$0.11 per share. The placement of shares was completed on 30 December 1999 and these shares rank pari passu in all respects with the then existing shares of the Company.

The net proceeds of the above placements were applied for repayment of the Group's borrowings and for general working capital purposes.

- (b) Pursuant to an agreement dated 17 June 1999, the Company's wholly-owned subsidiary, Northlink Holdings Limited, acquired 3,400 shares of HK\$1.00 each of Chinachem Industries Limited. Part of the consideration was satisfied by the issue of 100,800,000 ordinary shares at a price of HK\$0.13 each of the Company.
- (c) On 14 October 1999, the Company raised fund by way of rights issue of 302,400,000 rights shares of HK\$0.10 each at HK\$0.15 per rights share, payable in full on acceptance (in the proportion of one rights share for every two existing shares held) with 120,960,000 warrants in the proportion of two warrants for every five rights shares taken up. The warrants entitled the holders to subscribe for ordinary shares of the Company at a price of HK\$0.15 per share, subject to adjustment, for HK\$18,144,000 in cash at any time on or after 19 October 1999 until 18 October 2002.

The net proceeds of the above rights issue were applied for repayment of the Group's borrowings and for general working capital purposes.

- (d) On 11 January 2000, the Company entered into an agreement with a placing agent for the placement of 217,000,000 ordinary shares of HK\$0.10 each in the Company at HK\$0.11 per share. The placement of shares was completed on 24 January 2000 and these shares rank pari passu in all respects with the then existing shares of the Company.

The net proceeds of the above placement was applied for repayment of the Group's borrowings and for general working capital purposes.

Notes to the Financial Statements (Continued)

19. SHARE CAPITAL (Continued)

- (e) On 3 April 2000, the Company entered into another agreement with a placing agent for the placement of 783,000,000 ordinary shares of HK\$0.10 each in the Company at HK\$0.123 per share. The placement of shares was completed on 18 April 2000 and these shares rank pari passu in all respects with the then existing shares of the Company.

The net proceeds of the above placement was applied to meet the funding obligation of the Group's investment in a joint venture and for general working capital purposes. Subsequently, part of the proceeds was used to apply for the acquisition of interest in an associate.

- (f) On 26 February 2000 and 10 April 2000, 4,000 and 81,818 ordinary shares of HK\$0.10 each in the Company were issued as a result of exercising warrants at subscription price of HK\$0.15 per share and HK\$0.11 per share, respectively.
- (g) On 28 March 2000, the Company raised fund by way of rights issue of 2,610,408,000 rights shares of HK\$0.10 each at HK\$0.10 per rights share, payable in full on acceptance (in the proportion of two rights shares for every existing share held).

The net proceeds of the above rights issue was originally intended to be applied for the investment in a lithium mining project of approximately HK\$150,000,000 and projects in metals and minerals of approximately HK\$64,000,000, and the remaining balance be applied for general working capital purposes. The usage of the net proceeds was subsequently changed to apply for the investment in technology and related business including strategic acquisitions of equity interests in companies and for general working capital purposes. Eventually, the net proceeds was used for the acquisition of interest in an associate and for general working capital purposes.

Details of changes to the share capital taken place subsequent to 31 December 2000 are set out in note 33.

20. SHARE OPTIONS

Pursuant to the share option scheme of the Company adopted on 2 July 1998, the Company may grant options to directors and employees of the Company or its subsidiaries 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. Options granted are exercisable at any time for a period of ten years from the date of grant. The subscription price of the option shares is the higher of the nominal value of the shares and an amount which is not less than 80% of the average of the closing prices of the shares on the five trading days immediately preceding the date of grant of the options.

No share options have been granted by the Company since its adoption.

Notes to the Financial Statements (Continued)

21. WARRANTS

On 14 October 1999, the Company issued warrants in registered form in units of HK\$0.15 of subscription rights entitling their holders to subscribe for share of HK\$0.10 each of the Company at an initial price of HK\$0.15 per share, subject to adjustment, at any time on or after the date of issue thereof but not later than 18 October 2002. The subscription price of the warrants was adjusted from HK\$0.15 per share to HK\$0.11 per share with effect from 8 March 2000 as a result of rights issue as stated in note 19(g).

During the year, warrants carrying subscription rights of HK\$9,600 were exercised. At 31 December 2000, warrants carrying subscriptions rights of HK\$18,134,400, representing 164,858,181 ordinary shares of the Company to be issued under the present capital structure, remained outstanding.

Notes to the Financial Statements (Continued)

22. RESERVES

	Share premium	Translation reserve	Goodwill reserve	Capital reserve	Investment revaluation reserve	Accumulated profits (losses)	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP							
Balance at 1 January 1999	52,193	276	—	802	—	139,458	192,729
Share premium arising from issue of shares, net of expenses	18,005	—	—	—	—	—	18,005
Net loss for the year (note 7)	—	—	—	—	—	(180,296)	(180,296)
Balance at 31 December 1999	70,198	276	—	802	—	(40,838)	30,438
Share premium arising from issue of shares, net of expenses	11,757	—	—	—	—	—	11,757
Share premium arising from exercise of warrants	1	—	—	—	—	—	1
Realised on disposal of subsidiaries	—	(276)	—	—	—	—	(276)
Goodwill arising on acquisition of associates	—	—	(86,050)	—	—	—	(86,050)
Goodwill arising on investment in a joint venture	—	—	(10,000)	—	—	—	(10,000)
Write off of goodwill arising on investment in a joint venture	—	—	10,000	—	—	—	10,000
Share of reserve movements of associate	—	—	—	—	2,799	—	2,799
Net loss for the year (note 7)	—	—	—	—	—	(189,080)	(189,080)
Balance at 31 December 2000	81,956	—	(86,050)	802	2,799	(229,918)	(230,411)
Attributable to:							
The Company and its subsidiaries	81,956	—	(86,050)	802	—	(224,008)	(227,300)
Associates and joint ventures	—	—	—	—	2,799	(5,910)	(3,111)
	<u>81,956</u>	<u>—</u>	<u>(86,050)</u>	<u>802</u>	<u>2,799</u>	<u>(229,918)</u>	<u>(230,411)</u>

Notes to the Financial Statements (Continued)

22. RESERVES (Continued)

	Share premium HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
THE COMPANY				
Balance at 1 January 1999	52,193	65,621	(2,996)	114,818
Share premium arising from				
issue of shares, net of expenses	18,005	—	—	18,005
Net loss for the year (<i>note 7</i>)	—	—	(148,553)	(148,553)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Balance at 31 December 1999	70,198	65,621	(151,549)	(15,730)
Share premium arising from				
issue of shares, net of expenses	11,757	—	—	11,757
Share premium arising from				
exercise of warrants	1	—	—	1
Net loss for the year (<i>note 7</i>)	—	—	(231,653)	(231,653)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Balance at 31 December 2000	<u>81,956</u>	<u>65,621</u>	<u>(383,202)</u>	<u>(235,625)</u>

The capital reserve of the Group represents the difference between the nominal value of the share capital issued by the Company and the nominal value of the share capital and share premium of the companies now forming the Group pursuant to the group reorganisation prior to the listing of the Company's shares in 1998.

The contributed surplus of the Company represents the difference between the value of the underlying net assets of the subsidiaries acquired by the Company and the nominal amount of the share capital issued by the Company pursuant to the group reorganisation in 1998.

Under the laws in Bermuda, the contributed surplus account of the Company is also 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; or
- (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.

The Company did not have any distributable reserves at 31 December 2000 and 1999.

Notes to the Financial Statements (Continued)

23. UNPROVIDED DEFERRED TAXATION

At the balance sheet date, the major components of the net potential deferred taxation (liability) asset not recognised in the financial statements are analysed as follows:

	THE GROUP	
	2000	1999
	HK\$'000	HK\$'000
Tax losses	—	7,657
Difference between depreciation allowance claimed for tax purposes and depreciation charged in the financial statements	(80)	(28)
Net potential deferred taxation (liability) asset	<u>(80)</u>	<u>7,629</u>

The Company did not have any significant unprovided deferred taxation for the year or at the balance sheet date.

Notes to the Financial Statements (Continued)

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

	2000	1999
	HK\$'000	HK\$'000
Loss before taxation	(188,961)	(180,296)
Loss on disposal of property, plant and equipment	57	—
Depreciation	210	162
Unrealised loss on trading securities	126,085	—
Net realised gain on trading securities	(335)	—
Interest income	(8,509)	(766)
Interest expenses	5,755	9,707
Finance lease charges	9	17
Share of results of associates	(2,216)	6,127
Share of results of joint ventures	1,880	—
Gain on disposal of subsidiaries	(8,610)	—
Gain on disposal of a joint venture	(5,000)	—
Provision for loans and receivable due from associates	55,009	—
Write off of goodwill arising on investment in a joint venture	10,000	—
(Increase) decrease in inventories	(4,586)	46,309
Decrease in trade and other receivables	95,862	99,699
Decrease in amount due from joint venture	—	110,153
Increase (decrease) in trade and other payables	2,580	(49,078)
	<u>79,230</u>	<u>42,034</u>
Net cash inflow from operating activities	<u>79,230</u>	<u>42,034</u>

Notes to the Financial Statements (Continued)

25. DISPOSAL OF SUBSIDIARIES

	2000 HK\$'000	1999 HK\$'000
Net assets disposed of comprise:		
Property, plant and equipment	26,088	—
Inventories	4,680	—
Trade and other receivables	58,032	—
Bank balances and cash	11,226	—
Trade and other payables	(16,481)	—
Taxation payable	(6,052)	—
Bank loans	(58,375)	—
	<u>19,118</u>	<u>—</u>
Realisation of reserves upon disposal of subsidiaries	(276)	—
Gains on disposal of subsidiaries	8,610	—
	<u>27,452</u>	<u>—</u>
Satisfied by:		
Cash	<u>27,452</u>	<u>—</u>
Analysis of net inflow of cash and cash equivalents in respect of disposal of subsidiaries:		
Cash consideration received	27,452	—
Bank balances and cash disposed of	(11,226)	—
	<u>16,226</u>	<u>—</u>

The subsidiaries disposed of during the year contributed approximately HK\$3,738,000 to the Group's net operating cash inflow, paid approximately HK\$3,697,000 in respect of the net returns on investment and servicing of finance and received approximately HK\$5,190,000 from investing activities.

Notes to the Financial Statements (Continued)

26. PURCHASE OF A SUBSIDIARY

	2000 HK\$'000	1999 HK\$'000
Net assets acquired comprise:		
Property, plant and equipment	—	14,345
Other receivables	—	131
Taxation payable	—	(476)
Shareholders' loans	—	(13,500)
	<u>—</u>	<u>—</u>
	<u>—</u>	<u>500</u>
Satisfied by:		
Cash	—	14,000
Assignment of shareholders' loans	—	(13,500)
	<u>—</u>	<u>—</u>
	<u>—</u>	<u>500</u>

Notes to the Financial Statements (Continued)

27. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital and premium HK\$'000	Short term loans HK\$'000	Obligations under finance leases HK\$'000	Bank loans HK\$'000
Balance at 1 January 1999	94,193	—	169	136,635
Proceeds from issue of shares	73,670	—	—	—
Expenses incurred on issue of shares	(1,949)	—	—	—
New loans raised	—	17,500	—	—
Repayment during the year	—	(10,009)	(60)	(78,260)
Other movements not involving cash flows	13,104	40,796	—	—
	<u>179,018</u>	<u>48,287</u>	<u>109</u>	<u>58,375</u>
Balance at 31 December 1999	179,018	48,287	109	58,375
Proceeds from issue of shares	381,229	—	—	—
Expenses incurred on issue of shares	(8,422)	—	—	—
New loans raised	—	95,000	—	—
Repayment during the year	—	(48,287)	(109)	—
Disposal of subsidiaries	—	—	—	(58,375)
	<u>551,825</u>	<u>95,000</u>	<u>—</u>	<u>—</u>
Balance at 31 December 2000	<u>551,825</u>	<u>95,000</u>	<u>—</u>	<u>—</u>

28. MAJOR NON-CASH TRANSACTIONS

Major non-cash transactions for the year ended 31 December 1999 were as follows:

- Included in the consideration for the acquisition of 34% interest of Chinachem Industries Limited was 100,800,000 ordinary shares in the Company at an issue price of HK\$0.13 each, and interest bearing loan of approximately HK\$27,296,000.
- Trade and other receivables of approximately HK\$15,199,000 were offset with the amount due to a related company.
- Included in the consideration for the purchase of a subsidiary was an assignment of loan of approximately HK\$13,500,000.

Notes to the Financial Statements (Continued)

29. PLEDGE OF ASSETS

At 31 December 2000, the Group pledged its interest in an associate with a carrying value of approximately HK\$218,839,000 (1999: nil) to secure credit facilities granted to the Group.

At 31 December 1999, the Group pledged its deposits of HK\$4,533,000 to secure banking facilities granted to the Group.

30. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group and the Company had annual commitments payable in the following year under non-cancellable operating leases which expire as follows:

	THE GROUP		THE COMPANY	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
In respect of land and buildings:				
Within one year	—	671	—	—
In the second to fifth year inclusive	<u>2,203</u>	<u>997</u>	<u>1,027</u>	<u>—</u>
	<u><u>2,203</u></u>	<u><u>1,668</u></u>	<u><u>1,027</u></u>	<u><u>—</u></u>
In respect of other assets:				
Within one year	131	64	131	—
In the second to fifth year inclusive	<u>—</u>	<u>22</u>	<u>—</u>	<u>—</u>
	<u><u>131</u></u>	<u><u>86</u></u>	<u><u>131</u></u>	<u><u>—</u></u>

Notes to the Financial Statements (Continued)

31. CONTINGENT LIABILITIES

	THE GROUP	
	2000	1999
	HK\$'000	HK\$'000
Discounted bills with recourse	—	935
	<u> </u>	<u> </u>

The Company have given unlimited corporate guarantee to a bank for the general banking facilities granted to a subsidiary. At the balance sheet date, none of the credit facilities were utilised.

32. RELATED PARTY TRANSACTIONS

The Group paid rentals of approximately HK\$460,000 (1999: HK\$580,000) for hiring motor vehicles from Very Nice Development Limited and Bonnie International Development Limited. Mr. Chiu Tao and Mr. Yeung Kwok Yu are directors of the Company and have beneficial interests in Very Nice Development Limited and Bonnie International Development Limited.

In 1999, the Group also paid office rentals of approximately HK\$1,002,000 to Wonson Investment Limited. Mr. Chiu Tao and Mr. Yeung Kwok Yu are directors of the Company and have beneficial interests in Wonson Investment Limited.

The above transactions were carried out after negotiations between the Group and the related parties with reference to the estimated market value.

33. POST BALANCE SHEET EVENT

On 9 February 2001, the Company announced that the Company proposed to implement a capital reorganisation by cancelling the paid up capital to the extent of HK\$0.09 on each issued shares in the Company and by reducing the nominal amount of the authorised but unissued shares of the Company from HK\$0.10 each to HK\$0.01 each and increase of authorised share capital of the Company to HK\$500,000,000 (the "Reorganisation"). The Reorganisation was approved at a special general meeting held on 8 March 2001.

Notes to the Financial Statements (Continued)

34. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2000 are as follows:

Name of subsidiary	Place of incorporation/ operations	Issued share capital	Proportion of nominal value of issued share capital held by the Company		Principal activities
			Directly	Indirectly	
Northlink Holdings Limited	British Virgin Islands*	200 ordinary shares of US\$1 each	100%	—	Investment holding
Target Millennium Limited	British Virgin Islands*	1 ordinary share of US\$1 each	100%	—	Investment holding
Vaford Investments Limited	Hong Kong	2 ordinary shares of HK\$1 each	—	100%	Investment holding
Calculation Assets Limited	British Virgin Islands*	1 ordinary share of US\$1 each	—	100%	Investment holding
China Digital Communication Limited	Hong Kong	2 ordinary shares of HK\$1 each	—	100%	Trading of communication products
E-Tech Pacific Limited	British Virgin Islands*	1 ordinary shares of US\$1 each	100%	—	Investment holding
Profit Linkage Enterprises Limited	Hong Kong	2 ordinary shares of HK\$1 each	—	100%	Inactive
Gold East Limited	British Virgin Islands*	1 ordinary shares of US\$1 each	—	100%	Inactive
Swanpak Limited	Hong Kong	2 ordinary shares of HK\$1 each	—	100%	Inactive

Notes to the Financial Statements (Continued)

34. PARTICULARS OF SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ operations	Issued share capital	Proportion of nominal value of issued share capital held by the Company		Principal activities
			Directly	Indirectly	
Woodbridge Enterprises Limited	Hong Kong	2 ordinary shares of HK\$1 each	—	100%	Inactive
MetalsTrack Holdings Limited	Hong Kong	2 ordinary shares of HK\$1 each	—	100%	Investment holding
Winford Investments Limited	British Virgin Islands*	1 ordinary shares of US\$1 each	—	100%	Investment holding
MetalsTrack International Limited	Hong Kong	2 ordinary shares of HK\$1 each	—	100%	Metal trading
MetalsTrack Investments Limited	Hong Kong	2 ordinary shares of HK\$1 each	—	100%	Metal trading

* *These companies have no specific principal place of operations.*

None of the subsidiaries had any loan capital at 31 December 2000 or at any time during the year.

Notes to the Financial Statements (Continued)

35. PARTICULARS OF ASSOCIATES

Particulars of the Group's associates as at 31 December 2000 are as follows:

Name of associate	Place of incorporation/ operations	Issued share capital/ registered capital	Nominal value of issued share capital/ registered capital held by the Group	Principal activities
Beauforte Finance (International) Limited	Cayman Islands*	500 ordinary shares of US\$1 each	34.87%	Investment holding
Beauforte Holdings Limited	Hong Kong	45,000,000 ordinary shares of HK\$1 each	34.87%	Inactive
Beauforte Investors Corporation Limited	Hong Kong	29,282,000 ordinary shares of HK\$4 each	34.87%	Investment holding
Chinachem Industries Limited	Hong Kong	10,000 ordinary shares of HK\$1 each	49%	Investment holding
I-Active Investments Limited	British Virgin Islands*	1 ordinary share of US\$1 each	34.87%	Investment holding
Lambda Company Limited	Hong Kong	2 ordinary shares of HK\$1 each	34.87%	Investment holding
Qinyang Chinachem Aluminium Co Limited	The People's Republic of China	Registered capital RMB154,000,000	29.40%	Metals manufacture
Splendid Rewards Limited	British Virgin Islands*	500 ordinary shares of US\$1 each	34.87%	Investment holding

Notes to the Financial Statements (Continued)

35. PARTICULARS OF ASSOCIATES (Continued)

Name of associate	Place of incorporation/ operations	Issued share capital/ registered capital	Nominal value of issued share capital/ registered capital held by the Group	Principal activities
United Crown Enterprises Limited	Hong Kong	2 ordinary shares of HK\$1 each	34.87%	Investment holding
Vason Enterprises Limited	Hong Kong	2 ordinary shares of HK\$1 each	34.87%	Investment holding
Willthorn Investments Limited	British Virgin Islands*	500 ordinary shares of US\$1 each	34.87%	Investment holding
Workshop Holdings Limited	British Virgin Islands*	500 ordinary shares of US\$1 each	34.87%	Investment holding

* These companies have no specific principal place of operations.

36. PARTICULARS OF JOINT VENTURES

Particulars of the Group's joint ventures as at 31 December 2000 are as follows:

Name of joint venture	Place of incorporation/ operations	Issued share capital/ registered capital	Nominal value of issued share capital/ registered capital held by the Group	Principal activities
PTAC Cyber E-Biz Limited	Hong Kong	4 ordinary shares of HK\$1 each	50%	Investment holding
PTAC Cyber E-Biz (Tianjin) Limited	The People's Republic of China	Registered capital HK\$2,000,000	50%	Trading of communication products

Notes to the Financial Statements (Continued)

37. SEGMENTAL INFORMATION

An analysis of the Group's turnover and loss from operations by principal activities and geographical areas is as follows:

	Turnover		(Loss) profit from operations	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
By principal activities:				
Metal trading	113,351	263,468	16,460	(51,930)
Securities trading	—	—	(126,504)	—
Others	7,899	745	(22,090)	(1,703)
	<u>121,250</u>	<u>264,213</u>	<u>(132,134)</u>	<u>(53,633)</u>
By geographical area:				
The People's Republic of China, other than Hong Kong	74,714	171,055	(3,727)	4,348
Korea	20,553	67,059	(1,025)	(41,737)
Hong Kong	7,123	16,290	(126,440)	(10,139)
Other	18,860	9,809	(942)	(6,105)
	<u>121,250</u>	<u>264,213</u>	<u>(132,134)</u>	<u>(53,633)</u>

38. COMPARATIVE FIGURES

The presentation of the consolidated income statements for the year ended 31 December 1999 has been modified to conform with the requirement of Statement of Standard Accounting Practice No. 1 "Presentation of financial statements" issued by the Hong Kong Society of Accountants.

A summary of the reclassification is as follows:

- (a) Administrative expenses of approximately HK\$2,851,000 has been reclassified to distribution costs.
- (b) Provision for loans and receivable due from a joint venture of approximately HK\$110,812,000 has been reclassified to loss before taxation but after loss from operations.