NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st July, 2000

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares and warrants are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate holding company is Everbest Holdings Group Limited, a company incorporated in the British Virgin Islands.

The Company is an investment holding company. Its subsidiaries are principally engaged in the repairs and maintenance of civil engineering establishment and buildings under construction contracts in Hong Kong, property development and the provision of medical and health services in the PRC, and investment holding.

2. ADOPTION OF REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted the following revised Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants:

SSAP 1	Presentation of financial statements
SSAP 2	Net profit or loss for the period, fundamental errors and changes in accounting policies
SSAP 10	Accounting for investments in associates

SSAP 1 and SSAP 2 are concerned with the presentation and disclosure of financial information. The presentation in the current year'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;

– item of expense that was separately identified in the prior year as exceptional has been reclassified within an approximate expense classification; and

– amount owing by associates which had previously been presented together with the investment in such enterprises has been reclassified as a current asset according to the nature of the transactions giving rise to the balance.

In addition, the description of various components in the financial statements and the terminology used has 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.

SSAP 10 has not resulted in any significant changes to the accounting treatment adopted for investments in associates. The effect of the adoption of this accounting treatment is not significant and accordingly, no prior period adjustment has been made. Disclosures presented have been modified to meet the requirements of the new standard.

3. SIGNIFICANT ACCOUNTING POLICIES

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 31st July 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 between group enterprises have been eliminated on consolidation.

Goodwill

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

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

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. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Associates

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

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.

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.

In the Company's balance sheet, investments in associates are stated at cost, as reduced by any decline in the value of the associate that is other than temporary. The results of associates are accounted for the Company on the basis of dividends received and receivable during the year.

Finance leases and hire purchase contracts

Leases are classified as finance leases when the terms of the lease 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 value at the dates of acquisition. The principal portion of the corresponding leasing commitments is shown as an obligation of the Group. Finance costs, which represent the difference between the total leasing commitments and the original principal amounts 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 balances of the obligations for each accounting period.

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

Assets held under hire purchase contracts are accounted for on the same basis as finance leases.

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation or amortisation. 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 asset has 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 asset, the expenditure is capitalised as an additional cost of the asset.

Properties in the course of construction are carried at cost. Cost includes professional fees and borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

When 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.

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 the asset and is recognised in the income statement.

Depreciation and amortisation is provided to write off the cost of item of property, plant and equipment over their estimated useful lives, using the straight line method, at the following rates per annum:

Leasehold land	Over the unexpired remaining term of the lease
Buildings	Over the shorter of the term of the lease, or 20 years
Furniture, fixtures and equipment	10-20%
Motor vehicles	20-33$^{1}/_{3}$%
Plant and machinery	10%

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

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

Golf resort under construction

The golf resort under construction is stated at cost. Cost includes acquisition cost, construction cost and borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation on the golf resort under construction will be provided when it is ready for its intended use.

Properties under development

Properties under development for rent are stated at cost less provision, if necessary, for permanent diminution in value.

Properties under development for sale, in respect of which no pre-sales have been made, are stated at lower of cost and net realised value.

Properties under development for sale, in respect of which pre-sales have been made prior to completion, comprise land cost, construction costs, net interest and other finance charges incurred to date, net of costs transferred to cost of sales matched with revenue recognised to date, less provision for foreseeable losses and deposits received, if any.

Revenue from pre-sales of properties under development is recognised based on the construction costs of a development project incurred up to the end of a financial period as a proportion of the estimated total construction costs. Income recognised is limited to the amount of pre-sale deposits received and receivable. In any case, income is only recognised when it is reasonably certain. Where purchasers fail to pay the balance of the purchase price on completion and the Group exercises its entitlement to resell the property, sale deposits received in advance of completion are forfeited. The excess of the sales deposits forfeited over the profits recognised up to the date of forfeiture is credited to the income statement.

Completed properties for sale

Completed properties remaining unsold at year end are stated at the lower of cost and net realisable value. Cost is determined by apportionment of the total land and development costs attributable to the unsold properties. Net realisable value is determined by reference to sale proceeds of properties sold in the ordinary course of business less all estimated selling expenses after the balance sheet date, or by directors' estimates based on prevailing market conditions.

Website development costs

The costs incurred in acquiring website database, website application and infrastructure are capitalised and amortised over a period of three years. Other website development costs are charged to the income statement in the period in which they are incurred. Where the recoverable amount of website development costs has declined below their carrying amount, the carrying amount is reduced to reflect the decline in value.

Capitalisation of 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 borrowing costs are recognised as an expense in the period in which they are incurred.

Construction contracts

When the outcome of a construction contract can be estimated reliably, contract costs are charged to the income statement by reference to the stage of completion of the contract activity at the balance sheet date, as measured by the proportion that costs incurred to date bear to estimated total contract costs.

When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

When a contract covers a number of assets, the construction of each asset is treated as a separate contract when separate proposals have been submitted for each asset, each asset has been separately negotiated and the costs and revenues of each asset can be separately identified. A group of contracts, performed concurrently or in a continuous sequence, is treated as a single construction contract when they were negotiated as a single package and are so closely inter-related that they constitute a single project with an overall profit margin.

Revenue recognition

When the outcome of a construction contract can be estimated reliably, revenue from fixed price construction contracts is recognised on the percentage of completion method, measured by reference to the proportion that costs incurred to date bear to estimated total costs for each contract. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customers. When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

Income from properties pre-sold prior to completion of development is recognised over the period from the execution of a binding sales agreement to the completion of development on the basis of development costs to date as a proportion of estimated total development costs subject to the limit that income recognised at any time does not exceed the amount of deposits already received.

Revenue from the sale of completed properties is recognised upon the execution of a binding sale and purchase agreement.

Medical and health services fee income is recognised when services are provided.

Interest income from advances to subcontractors and bank deposits is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable, except for doubtful advances on which no interest income is accrued.

Foreign currencies

Transactions in foreign currencies are translated at the 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. Profits and losses arising on exchange are dealt with in the income statement.

On consolidation, the financial statements of operations outside Hong Kong which are denominated in currencies other than Hong Kong dollars are translated at the rates ruling on the balance sheet date. All exchange differences arising on consolidation, if any, are dealt with in reserves.

Taxation

The charge for taxation is based on the results for the year 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 under 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.

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 advances.

4. TURNOVER

Turnover represents the amounts received and receivable from repairs and maintenance of civil engineering establishments and buildings under construction contracts, medical and health service fees earned during the year and proceeds from sale of properties, net of business tax, adjusted to reflect the percentage of completion of construction to the extent these were not previously recognised.

The analysis is as follows:

	2000 *HK$'000*	**1999** *HK$'000*
Repairs and maintenance of civil engineering establishments and buildings under construction contracts	283,830	334,928
Sales of properties	14,682	17,031
Provision of medical and health services	13,339	14,398
	311,851	366,357

Repairs and maintenance of civil engineering establishments and buildings under construction contracts for both years included works performed on behalf of and charged to subcontractors.

5. OTHER REVENUE

	2000 *HK$'000*	1999 *HK$'000*
Interest income	18,490	17,060
Less: Amounts capitalised	(2,793)	(2,852)
	15,697	14,208
Net foreign exchange gains	420	353
Sundry income	2,960	3,243
	19,077	17,804

6. FINANCE COSTS

	2000 *HK$'000*	1999 *HK$'000*
Finance charges in respect of finance leases and hire purchase contracts	337	229
Interest on bank borrowings wholly repayable within five years	25,138	28,242
Interest on bank borrowings with instalments repayable after five years	1,142	–
	26,617	28,471
Less: Interest capitalised in properties under development	(6,285)	(17,934)
Interest capitalised in golf resort under construction	(360)	–
	19,972	10,537

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 10% (1999: 10%) to expenditure on qualifying assets.

7. GAIN ON DISPOSAL OF GREATERCHINA

	2000 *HK$'000*	1999 *HK$'000*
Gain on deemed disposal arising from capital injection in GreaterChina by strategic investors and management	59,098	–
Gain arising on distribution of shares in GreaterChina by the Company *(note 34)*	97,443	–
Gain on deemed disposal arising from placing of shares by GreaterChina	71,313	–
	227,854	–

8. PROFIT BEFORE TAXATION

	2000	1999
	HK$'000	*HK$'000*
Profit before taxation has been arrived at after charging:		
Auditors' remuneration	714	799
Depreciation and amortisation on:		
Owned assets	6,579	5,203
Assets held under finance leases and hire purchase contracts	3,772	1,375
Loss on disposal of property, plant and equipment	38	1,347
Operating lease rentals paid in respect of land and buildings	756	2,384
Preliminary expenses written off	–	35
Provision for bad and doubtful debts	19,437	3,473
Staff costs	48,605	29,550

9. DIRECTORS' REMUNERATION

	2000	1999
	HK$'000	*HK$'000*
Directors' fees:		
Executive directors	–	–
Independent non-executive directors	211	120
	211	120
Other emoluments to executive directors:		
Salaries and other benefits	6,960	5,149
Compensation for loss of office	–	486
Total remuneration	7,171	5,755

Emoluments of the directors were within the following bands:

	Number of director(s)	
	2000	**1999**
Nil – HK$1,000,000	5	4
HK$1,000,001 – HK$1,500,000	–	2
HK$1,500,001 – HK$2,000,000	1	1
HK$2,000,001 – HK$2,500,000	1	–
HK$3,000,001 – HK$3,500,000	1	–

No directors of the Company waived any emoluments during the year and in last year.

10. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (1999: three) were directors of the Company whose emoluments are included in the disclosures in note 9 above. The emoluments of the remaining two (1999: two) individuals were as follows:

	2000	**1999**
	HK$'000	*HK$'000*
Salaries and other benefits	1,914	2,555

Their emoluments were within the following bands:

	Number of employees	
	2000	**1999**
Nil – HK$1,000,000	2	–
HK$1,000,001 – HK$1,500,000	–	2

11. TAXATION

	2000	1999
	HK$'000	*HK$'000*
The charge (credit) comprises:		
Profit for the year		
Hong Kong	35,049	–
Other regions in the PRC	1	1,214
	35,050	1,214
Overprovision of profits tax in prior years		
Hong Kong	(280)	–
Other regions in the PRC	(1,402)	–
	(1,682)	–
Deferred taxation *(note 31)*	(20,544)	(231)
	12,824	983

Hong Kong Profits Tax is calculated at 16% of the estimated assessable profit for the year.

Taxation arising in other regions in the PRC is calculated at the rates prevailing in the respective regions.

12. NET PROFIT FOR THE YEAR

Of the Group's net profit for the year of HK$216,320,000 (1999: HK$15,781,000), a profit of HK$150,377,000 (1999: HK$36,000) has been dealt with in the financial statements of the Company.

13. DISTRIBUTIONS

	2000	1999
	HK$'000	*HK$'000*
Distribution of a 15.86 per cent. interest in GreaterChina by way of distribution in specie	108,482	–
Interim dividend paid:		
1 cent (1999: Nil) per share	20,721	–
Final dividend proposed:		
1 cent (1999: Nil) per share	20,724	–
	149,927	–

Particulars of the distribution in specie of shares in GreaterChina were set out in the Company's circular dated 3rd February, 2000.

The final dividend of 1 cent (1999: Nil) per share has been proposed by the directors and is subject to approval by the shareholders in general meeting.

14. EARNINGS PER SHARE

Earnings

	2000	**1999**
	HK$'000	*HK$'000*
Earnings for the purposes of basic and diluted earnings per share	216,320	15,781

Number of shares

	2000	**1999**
Weighted average number of shares for the purposes of basic earnings per share	1,796,325,382	1,381,935,000
Effect of dilutive potential shares:		
Share options	3,712,412	
Warrants	45,103,776	
Weighted average number of shares for the purposes of diluted earnings per share	1,845,141,570	

No diluted earnings per share were presented in the previous year as the exercise price of share options outstanding during that year was greater than the average market price of the Company's shares.

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings	Properties under construction	Furniture, fixtures and equipment	Motor vehicles	Plant and machinery	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
THE GROUP						
COST						
At 1st August, 1999	34,360	–	10,911	9,432	2,293	56,996
Acquired on acquisition of a subsidiary	–	–	221	–	495	716
Additions	31,259	556	6,935	6,501	2,267	47,518
Disposals	–	–	(217)	(100)	–	(317)
Eliminated of on disposal of GreaterChina	–	–	(2,019)	–	–	(2,019)
At 31st July, 2000	65,619	556	15,831	15,833	5,055	102,894
DEPRECIATION AND AMORTISATION						
At 1st August, 1999	4,471	–	6,242	7,192	1,027	18,932
Acquired on acquisition of a subsidiary	–	–	36	–	26	62
Provided for the year	2,482	–	2,991	3,884	994	10,351
Eliminated on disposals	–	–	(181)	(71)	–	(252)
At 31st July, 2000	6,953	–	9,088	11,005	2,047	29,093
NET BOOK VALUES						
At 31st July, 2000	58,666	556	6,743	4,828	3,008	73,801
At 31st July, 1999	29,889	–	4,669	2,240	1,266	38,064

The net book value of properties shown above comprises:

	2000	**1999**
	HK$'000	*HK$'000*
Land in Hong Kong:		
Long leases	42,646	12,724
Land outside Hong Kong:		
Medium term leases	16,576	17,165
	59,222	29,889

At 31st July, 2000, the net book value of motor vehicles included an amount of approximately HK$4,418,000 (1999: HK$2,017,000) in respect of assets held under finance leases and hire purchase contracts.

16. GOLF RESORT UNDER CONSTRUCTION

	2000	**1999**
	HK$'000	*HK$'000*
THE GROUP		
Cost		
Acquired on acquisition of a subsidiary	83,050	–
Additions	973	–
	84,023	–
Prepayment for golf resort under construction	56,950	–
	140,973	–

The golf resort under construction is situated in the PRC under a long lease.

Included in golf resort under construction is net interest capitalised of HK$360,000 (1999: Nil).

Pursuant to the agreement entered into between the Group and Ms. Yeung Pak Wa and Mr. Yip Siu Sang, the former owners of Tammerworth Development Limited ("Tammerworth"), Ms. Yeung Pak Wa and Mr. Yip Siu Sang are responsible for all costs and expenses to be incurred in the construction of the golf resort. Pursuant to the valuation report issued by Chesterton Petty Limited dated 14th February, 2000, the estimated costs to complete the golf resort amounted to approximately HK$56,950,000.

The amount of HK$56,950,000 is classified as prepayment for golf resort under construction and will be transferred to the cost of golf resort under construction on a percentage of completion basis.

17. PROPERTIES UNDER DEVELOPMENT

THE GROUP

During the year, a total amount of HK$210,936,000 was transferred from properties under development for sale to properties under development for rent. Properties under development for rent and for sale are situated in the PRC. These properties are held under long leases.

At 31st July, 2000, properties under development for rent and for sale included net interest capitalised of approximately HK$16,894,000 (1999: Nil) and HK$5,426,000 (1999: HK$37,262,000) respectively.

18. WEBSITE DEVELOPMENT COSTS

	2000	**1999**
	HK$'000	*HK$'000*
THE GROUP		
Additions during the year	8,551	–
Eliminated on disposal of GreaterChina	(8,551)	–
	–	–

19. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2000	**1999**
	HK$'000	*HK$'000*
Unlisted shares, at carrying value	178,506	178,506
Unlisted shares, at cost	140,000	–
Amounts due from subsidiaries	552,695	531,183
	871,201	709,689
Less: Provision	(238,183)	(238,183)
	633,018	471,506

The carrying value of the Company's investment in the subsidiaries is based on the book values of the underlying net assets of the subsidiaries attributable to the Group as at the date on which the Company became the holding company of the Group under the group reorganisation in 1994, less provision made as considered to be necessary by the directors.

Details of the Company's subsidiaries as at 31st July, 2000 are set out in note 43.

None of the subsidiaries had any loan capital outstanding at the balance sheet date or at any time during the year.

The amounts due from subsidiaries are unsecured, non-interest bearing and in the opinion of the directors, the amounts will not be repaid within the next twelve months.

20. INTERESTS IN ASSOCIATES

	THE GROUP		**THE COMPANY**	
	2000	**1999**	**2000**	**1999**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Listed shares, at cost	–	–	8,840	–
Share of net assets (liabilities)	139,151	(3,338)	–	–
	139,151	(3,338)	8,840	–
Market value of listed securities	61,482	–	61,482	–

Details of the Group's associates at 31st July, 2000 are as follows:

Name of associate	**Place of incorporation**	**Place of operation**	**Proportion of ownership interest**	**Proportion of voting power held**	**Principal activity**
GreaterChina	Cayman Islands	Hong Kong	37%	37%	Provision of online health content and general content for Asian women
廣州通富工程顧問有限公司 GZTF Engineering Consulting Co., Ltd.	PRC	PRC	33%	33%	Consultancy service on construction projects but did not commence operation up to 31st July, 2000

Financial information of GreaterChina as extracted from its audited financial statements as of 31st July, 2000, is as follows:

	HK$'000
Non-current assets	22,323
Current assets	435,232
Non-current liabilities	181
Current liabilities	112,284
Minority interests	4,260
Net loss for the period	27,016

21. COMPLETED PROPERTIES FOR SALE

THE GROUP

Completed properties for sale are situated in the PRC.

During the year, a total amount of HK$115,081,000 was transferred from properties under development for sale to completed properties for sale. At 31st July, 2000, completed properties for sale included net interest capitalised of approximately HK$7,170,000 (1999: Nil).

22. AMOUNTS DUE FROM (TO) CONTRACT CUSTOMERS

	THE GROUP	
	2000	**1999**
	HK$'000	*HK$'000*
Contract costs incurred plus recognised profits less recognised losses to date	13,343	32,125
Progress billings	(6,827)	–
	6,516	32,125
Represented by:		
Due from contract customers included in current assets	13,343	32,125
Due to contract customers included in current liabilities	(6,827)	–
	6,516	32,125

23. TRADE AND OTHER DEBTORS

The credit terms of the Group range from 30 to 90 days. The aging analysis of trade and other debtors is stated as follows:

	THE GROUP	
	2000	**1999**
	HK$'000	*HK$'000*
Aged:		
0 to 30 days	23,721	22,490
31 to 60 days	2,101	2,069
61 to 90 days	53,463	2,000
91 to 180 days	1,861	–
181 to 365 days	5,687	33,259
	86,833	59,818