

Notes to the Financial Statements

Year ended 31 December 2000

1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

In preparing the financial statements the directors have given careful consideration to current and future liquidity of the Group in light of the outstanding capital commitments of approximately HK\$90,579,000 and its ability to repay bank borrowings as and when they fall due.

On 8 May 2000, the Group successfully obtained an agreement with its bankers to restructure payments of outstanding bank loans and related interest payable for a standstill until 31 January 2002 (“the Debt Restructure Agreement”) under which certain principal bankers of the Group would also agree to grant additional new banking facilities in the sum of HK\$122,500,000, which would be used to finance 70% of the capital expenditure of two property development projects, whilst the Group has to satisfy certain conditions as set out in the Debt Restructure Agreement and to dispose of its non-core properties in an orderly manner in order to reduce the borrowings of the Group. Details of the Debt Restructure Agreement are set out in note 24 to the financial statements.

In the opinion of the directors, the Group will continue to be able to satisfy the conditions of the Debt Restructure Agreement and will have sufficient working capital to enable it to continue its operations as a going concern in the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis which assumes, amongst other things, the realisation of its assets and satisfaction of its liabilities in the normal course of business.

2. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with the Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. A summary of the principal accounting policies adopted by the Group is set out below.

(a) Basis of accounting

The measurement basis used in the preparation of the financial statements is historical cost modified by the revaluation of investment properties and leasehold land and buildings as explained in accounting policies set out below.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year together with the Group’s interests in associates on the basis set out in (c) below. All significant inter-company transactions have been eliminated on consolidation.

The results of subsidiaries and associates acquired or disposed of during the year are included in the consolidated income statement from or up to the effective dates of acquisition or disposal respectively.

Notes to the Financial Statements

Year ended 31 December 2000

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(c) Goodwill

Goodwill arising on acquisition of a subsidiary or an associate represents the excess or shortfall of the purchase consideration over the Group's share of the fair value ascribed to the separable net assets of the subsidiary or associate at the date of acquisition. Negative or positive goodwill on consolidation is amortised on a straight-line basis over a period of five to twenty years from the date of acquisition according to its estimated useful economic life.

At each balance sheet date, the recoverable amount of the goodwill is reviewed to determine whether there is any indication that such asset has been impaired. When the recoverable amount of such asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. Impairment loss is recognised as an expense in the period in which the impairment occurs.

(d) Subsidiaries

A subsidiary is an enterprise, in which the Company, directly or indirectly, controls more than half of the voting power or issued capital or controls the composition of the boards of directors or equivalent governing body. Investments in subsidiaries in the Company's balance sheet are stated at cost less provision, if necessary, for any permanent diminution in value.

On disposal of a subsidiary, any attributable amount of purchased goodwill not previously amortised through the consolidated income statement is included in the calculation of the profit or loss on disposal.

(e) Associates

An associate is an enterprise, in which the Group has significant influence but not control or joint control over its management, including participation in the financial and operating policy decisions, and which is neither a subsidiary nor a joint venture of the Group.

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the period. In the consolidated balance sheet, interest in associates includes the Group's share of the net assets of the associates and non-current receivable from associates.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the consolidated income statement.

On disposal of an associate during the year, any attributable amount of purchased goodwill not previously amortised through the consolidated income statement is included in the calculation of the profit and loss on disposal.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(f) Other investments

Other investments held for an identified long-term purpose are stated at cost and subject to impairment review at each reporting date to reflect any diminution in their value, which is expected to be other than temporary. The amount of provisions is recognised as an expense in the period in which the decline occurs.

The profit or loss on disposal of other investments is accounted for in the period in which the disposal occurs as the difference between net sales proceeds and the carrying amount of the securities.

(g) Valuation of properties

(i) *Investment properties*

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long-term basis for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market values based on professional valuations at the balance sheet date. Such properties are valued on an open market value basis by independent professionally qualified valuers at intervals of not more than three years or, in the case of each of the intervening years, by the directors in consultation with professionally qualified personnel or independent valuers. Any surplus or deficit arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on the reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance on the investment property revaluation reserve is charged to the income statement and when a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property is transferred to the consolidated income statement.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.

(ii) *Properties held for or under development*

Properties held for or under development are stated at cost less provision for anticipated losses determined by reference to management estimates based on prevailing market conditions. Cost comprises the cost of acquisition of such properties, together with development expenditure, other relevant direct costs and borrowing costs capitalised in accordance with the Group's accounting policy.

No depreciation is provided on properties which are held for or under development.

Notes to the Financial Statements

Year ended 31 December 2000

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(g) Valuation of properties (continued)

(iii) *Properties for sale*

Properties for sale are stated at the lower of cost and net realisable value. Cost includes land cost, development cost and other direct costs attributable to the properties concerned until they reach a marketable state. Net realisable value represents the estimated selling price less all estimated costs of completion and the estimated costs necessary to make the sale.

(iv) *Leasehold land and buildings*

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. Revaluations are performed with sufficient regularity such that the carrying value 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 revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case, this surplus is credited to the income statement to the extent of the deficit previously charged. A decrease in net carrying amount arising on revaluation of an asset is charged to the income statement to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revaluated asset, the attributable surplus is transferred to retained profits.

(h) Leasehold land and buildings, plant and equipment

Leasehold land and buildings, plant and equipment are stated at cost or valuation less accumulated depreciation.

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 recognised as an expense 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.

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.

When assets are sold or retired, their cost or valuation and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the income statement.

Notes to the Financial Statements

Year ended 31 December 2000

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(h) Leasehold land and buildings, plant and equipment (continued)

Depreciation is provided to write off the cost or valuation of fixed assets over their estimated useful lives from the date on which they become fully operational and after taking into account of their estimated residual values, using the straight-line method, at the following rates per annum:

Leasehold land	Over the relevant lease terms
Buildings	2% or over the relevant lease terms, if shorter
Leasehold improvement	30%
Furniture, fixtures and equipment	15%
Motor vehicles	15%

(i) 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 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.

(j) Revenue recognition

- (i) Income arising from sale of properties is recognised upon completion of sale and title passing to purchaser.
- (ii) Income from properties under development for sale is recognised upon completion of sale or when the relevant occupation permit is issued by the building authority, whichever is the later. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in current liabilities.
- (iii) Rental income under operating leases is recognised in the period in which the properties are let out and on the straight-line basis over the terms of the relevant leases.
- (iv) Interest income is recognised on a time proportion basis on the principal outstanding and at the interest rate applicable.
- (v) Dividend income from investments is recognised when the Group's rights to receive payment have been established.
- (vi) Income from management services, property repair and maintenance services are recognised in the period when respective services are rendered.

Notes to the Financial Statements

Year ended 31 December 2000

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(k) Foreign currencies

The Company maintains its accounting records in Hong Kong Dollars and transactions involving foreign currencies are translated at the rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the rates of exchange ruling at that date. Translation differences are dealt with in the income statement.

(l) 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 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 asset will crystallise in the foreseeable future. A deferred tax asset is not recognised unless its realisation is assured beyond reasonable doubt.

(m) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals receivable under operating leases are recognised as revenue on the straight-line basis over the lease terms.

(n) Capitalisation of borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, that is, assets 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.

(o) 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.

(p) Retirement costs

The Group operates a defined contribution pension scheme. Contributions are charged to the consolidated income statement as they become payable in accordance with the rules of the scheme.

The Group's contributions to the mandatory provident fund scheme are expenses as incurred.

The assets of the schemes are held separately from those of the Group in independently administered funds.

Notes to the Financial Statements

Year ended 31 December 2000

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(q) Provision for long services payment

Provision for long services payment is made for employees who have completed the required period of services and meet the required circumstances under the Hong Kong Employment Ordinance. Annual provisions are calculated according to the formula set out in the Employment Ordinance and are charged to the income statement. When an employee leaves the scheme prior to his/her interest in the Group's employer contributions vesting fully, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions.

(r) Related party

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.

3. TURNOVER AND REVENUE

The principal activities of the Group are property development, investment, trading and management in Hong Kong.

	2000 HK\$'000	1999 HK\$'000
Turnover and other revenue recognised by category are as follows:		
Proceeds from sale of properties:		
Under development	—	40,615
Held for development	2,980	28,250
Investment properties	—	110,880
Held for sale	136,730	2,650
Rental income	67,489	86,184
Building management service income	3,641	4,455
Interest income	5,971	3,428
Turnover	216,811	276,462
Property repair and maintenance services income	3,362	3,043
Income from signage rental	7,116	1,009
Office facilities and service income	540	427
Other revenue	11,018	4,479
	227,829	280,941

Notes to the Financial Statements

Year ended 31 December 2000

3. TURNOVER AND REVENUE (continued)

The analysis of the principal activities and the operating results of the Group during the financial year are set out as follows:

	Group turnover		Contribution to operating results (before operating and interest expenses)	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Sale of properties	139,710	182,395	(10,436)	(58,258)
Rental income	67,489	86,184	64,768	76,546
Building management service income	3,641	4,455	3,641	4,455
Interest income	5,971	3,428	5,971	3,428
	216,811	276,462	63,944	26,171

All the Group's turnover and operating results were derived in Hong Kong.

4. OTHER NET INCOME

	2000 HK\$'000	1999 HK\$'000
Compensation refund	520	378
Gain from cancellation of property sale and deposit forfeited	1,052	1,506
Miscellaneous income	3,529	1,769
Write back of provision for construction costs	—	28,620
	5,101	32,273

Notes to the Financial Statements

Year ended 31 December 2000

5. OTHER OPERATING EXPENSES

	2000 HK\$'000	1999 HK\$'000
Amortisation of goodwill	12,329	—
Debt restructuring expenses	7,718	—
Provision for diminution in value of properties for sales, held for and under development	71,206	488,268
Provision for diminution in value of other investment	6,650	—
Provision for inventories	1,500	—
Provision for doubtful debts	5,768	16,226
Provision for deposit on acquisition of properties	41,003	—
Loss on disposal of leasehold land and buildings, plant and equipment	—	8,976
Loss on disposal of subsidiaries	16,252	37,406
Loss on disposal of associates	6,354	—
	168,780	550,876

6. LOSS FROM ORDINARY ACTIVITIES

	2000 HK\$'000	1999 HK\$'000
Loss from ordinary activities is arrived at after charging/(crediting):		
(a) Finance costs:		
Interest on bank loans and overdrafts wholly repayable within five years	158,266	201,490
Interest on other borrowings wholly repayable within five years	38,832	41,013
	197,098	242,503
Total borrowing costs	197,098	242,503
Less: Amount capitalised into properties under development (<i>note</i>)	(50,578)	(83,200)
	146,520	159,303

Note: The borrowing costs have been capitalised at a rate of 9.7% – 10.7% per annum (1999: 11.3% – 12.3%) for properties under development.

Notes to the Financial Statements

Year ended 31 December 2000

6. LOSS FROM ORDINARY ACTIVITIES (continued)

	2000 HK\$'000	1999 HK\$'000
(b) Other items:		
Cost of properties sold (other than leasehold land and buildings)	149,195	233,362
Auditors' remuneration	851	706
Depreciation	2,156	3,685
Loss on disposal of investment properties	—	52,293
Loss on disposal of leasehold land and buildings, plant and equipment	115	—
Loss on disposal of properties held for development	2,501	28,288
Staff costs (other than directors' emoluments)	14,573	9,913
and after crediting:		
Gross rental from investment properties	(58,473)	(86,184)
Less: Outgoings	2,721	9,638
	(55,752)	(76,546)
Other rental income from other properties less outgoings	(9,016)	—
	(64,768)	(76,546)

7. EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT

(a) Details of the emoluments paid to the directors are as follows:

	2000 HK\$'000	1999 HK\$'000
Fees		
Executive directors	—	—
Non-executive directors	60	51
	60	51
Other emoluments		
Salaries and other benefits	2,936	3,241
	2,996	3,292

Notes to the Financial Statements

Year ended 31 December 2000

7. EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT (continued)

The emoluments of the directors were within the following bands:

	2000	1999
	Number of directors	Number of directors
HK\$0 – HK\$1,000,000	9	8
HK\$1,000,001 – HK\$1,500,000	2	2

- (b) Details of the emoluments paid to the five highest paid employees of the Group, excluding two (1999: three) who were directors are as follows:

	2000	1999
	HK\$'000	HK\$'000
Salaries and other benefits	2,612	1,739

The emoluments to these employees fall within the following bands:

	2000	1999
	Number of employees	Number of employees
HK\$0 – HK\$1,000,000	2	1
HK\$1,000,001 – HK\$1,500,000	1	1

- (c) The only employee's retirement scheme operated by one of the subsidiary companies within the Group is a defined contribution scheme. Contributions are made by both the employer and the employees respectively at a rate of 5% on the employees' salaries.

The Group's costs on employee's retirement scheme for the year amounted to HK\$12,000 (1999: HK\$33,000) and there were no forfeited contribution during the year (1999: Nil).

Notes to the Financial Statements

Year ended 31 December 2000

8. TAXATION

	2000	1999
	HK\$'000	HK\$'000
(a) Taxation in the consolidated income statement represents:		
Hong Kong Profits Tax:		
Under provision in prior years	—	117
Share of taxation attributable to associates	1,200	—
	1,200	117

Hong Kong Profits Tax has not been provided as the Group incurred losses for taxation purposes for the year (1999: Nil).

(b) The major components of deferred taxation not credited/(provided) for the year are as follows:

	2000	1999
	HK\$'000	HK\$'000
Tax losses arising (utilised)	45,607	(7,816)
Increase in excess of depreciation over tax allowances	74	—
Decrease in excess of tax allowances over depreciation	82	84
	45,763	(7,732)

(c) At the balance sheet date, the major components of the potential deferred taxation assets/(liabilities) of the Group not provided for are as follows:

	The Group	
	2000	1999
	HK\$'000	HK\$'000
Timing differences in respect of:		
Tax losses carried forward	55,634	10,027
Excess of depreciation over allowance	74	—
Excess of tax allowances over depreciation	(22)	(104)
	55,686	9,923

Notes to the Financial Statements

Year ended 31 December 2000

8. TAXATION (continued)

Deferred tax has not been provided on the revaluation surplus of investment properties and leasehold land and buildings as profits arising on the disposal of these assets would not be subject to taxation. Accordingly, the valuation does not constitute a timing difference for deferred tax purposes.

9. NET LOSS FOR THE YEAR

The net loss for the year is dealt with in the financial statements of the Company to the extent of profit of HK\$10,815,000 (1999: loss of HK\$26,585,000).

10. LOSS PER SHARE

The calculation of basic loss per share is based on current year's loss of HK\$274,719,000 (1999: loss of HK\$685,906,000) and on the weighted average number of 2,725,594,224 shares (1999: 1,553,187,591 shares) in issue during the year.

No diluted loss per share has been presented for the two years ended 31 December 2000 because the conversion/exercise of the outstanding potential ordinary shares would have been anti-dilutive for the two financial years.

11. INVESTMENT PROPERTIES

	The Group	
	2000 HK\$'000	1999 HK\$'000
At beginning of year	1,450,100	1,740,480
Additions	—	259
Disposals	—	(127,730)
Attributable to disposal of subsidiaries	—	(6,150)
Transfer to completed properties for sale	—	(36,500)
Surplus (Deficit) on revaluation (<i>note 29</i>)	20,000	(120,259)
At balance sheet date	1,470,100	1,450,100

All investment properties are situated in Hong Kong and held under long leases.

At the balance sheet date, the investment properties were revalued at their open market value by FPD Savills (Hong Kong) Limited, Chartered Surveyors, on an open market existing use basis. The surplus/(deficit) arising on revaluation has been credited/(debited) to the investment property revaluation reserve.

Notes to the Financial Statements

Year ended 31 December 2000

12. LEASEHOLD LAND AND BUILDINGS, PLANT AND EQUIPMENT

The Group

	Leasehold land and buildings HK\$'000	Leasehold improvement HK\$'000	Furniture, fixtures & equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost or valuation					
At beginning of year	—	6,585	3,739	1,375	11,699
Additions	—	2,699	3,281	495	6,475
Through acquisition of subsidiaries	4,910	—	1,748	—	6,658
Through disposal of subsidiaries	—	—	(206)	—	(206)
Disposals	—	(265)	(14)	—	(279)
At balance sheet date	4,910	9,019	8,548	1,870	24,347
Accumulated depreciation					
At beginning of year	—	5,427	1,955	257	7,639
Through acquisition of subsidiaries	—	—	211	—	211
Charge for the year	109	831	1,010	206	2,156
Eliminated on disposal of subsidiaries	—	—	(94)	—	(94)
Eliminated on disposals	—	(160)	(4)	—	(164)
At balance sheet date	109	6,098	3,078	463	9,748
Net book value					
At balance sheet date	4,801	2,921	5,470	1,407	14,599
At beginning of year	—	1,158	1,784	1,118	4,060

Leasehold land and buildings are situated in the People's Republic of China and held under medium-term leases.

Notes to the Financial Statements

Year ended 31 December 2000

13. PROPERTIES HELD FOR DEVELOPMENT

	The Group	
	2000 HK\$'000	1999 HK\$'000
At beginning of year	73,261	429,547
Attributable to disposal of subsidiaries	—	(13,688)
Disposals	(5,481)	(50,208)
Transfer to properties held for development for sales	(30,510)	(127,000)
Provision for diminution in value	(7,549)	(165,390)
	<hr/>	<hr/>
At balance sheet date	29,721	73,261

The properties held for development are situated in Hong Kong and held under long leases.

14. PROPERTIES UNDER DEVELOPMENT

	The Group	
	2000 HK\$'000	1999 HK\$'000
At beginning of year	771,097	1,392,244
Additions	126,919	1,277
Interest capitalised	50,578	83,200
Attributable to disposal of subsidiaries	—	(107,874)
Transfer to properties under development for sales	—	(300,000)
Provision for diminution in value	—	(297,750)
	<hr/>	<hr/>
	948,594	771,097

The properties under development are situated in Hong Kong and held under long leases.

Notes to the Financial Statements

Year ended 31 December 2000

15. INTERESTS IN SUBSIDIARIES

	The Company	
	2000 HK\$'000	1999 HK\$'000
Unlisted shares, at cost	2,318,856	2,318,856
Provision for diminution in value	(28,000)	(28,000)
	2,290,856	2,290,856
Amount due from subsidiaries	1,582,143	974,396
Provision for doubtful debts	(902,222)	—
	679,921	974,396
	2,970,777	3,265,252

Particulars of the principal subsidiaries are shown in note 41(a).

16. GOODWILL

	The Group	
	2000 HK\$'000	1999 HK\$'000
Cost		
Addition during the year and at balance sheet date	298,422	—
Accumulated amortisation		
Provided during the year and at balance sheet date	12,329	—
	286,093	—

Notes to the Financial Statements

Year ended 31 December 2000

17. INTERESTS IN ASSOCIATES

	The Group	
	2000 HK\$'000	1999 HK\$'000
Share of net liabilities	(12,609)	(10,890)
Amounts due from associates	15,573	72,249
Premium on acquisition	8	8
	2,972	61,367

Particulars of the principal associates are shown in note 41(b).

18. OTHER INVESTMENT

	The Group	
	2000 HK\$'000	1999 HK\$'000
Equity securities, unlisted	6,650	—
Provision for diminution in value	(6,650)	—
	—	—

19. INSTALMENTS RECEIVABLE

Instalments receivable represents the principal amounts of proceeds from sale of properties receivable by instalments less any provision for doubtful debts. The amounts receivable within twelve months from the balance sheet date have been included in current assets.

20. PROPERTIES FOR SALE

	The Group	
	2000 HK\$'000	1999 HK\$'000
Under development	340,987	390,985
Held for development	30,510	127,000
Completed properties	26,244	38,139
	397,741	556,124

At the balance sheet date, the carrying amount of properties for sale that were stated at net realisable value amounted to approximately HK\$397,741,000 (1999: HK\$556,124,000).

Notes to the Financial Statements

Year ended 31 December 2000

21. INVENTORIES

	The Group	
	2000 HK\$'000	1999 HK\$'000
Raw materials	4,511	—
Work in progress	15,201	—
	19,712	—

At the balance sheet date, the carrying amount of inventories that were stated at net realisable value amounted to approximately HK\$1,513,000 (1999: Nil).

22. AGEING ANALYSIS OF THE TRADE RECEIVABLES

The Group maintains a controlled credit policy. The ageing analysis of the trade receivables as at the balance sheet date is as follows:

	The Group	
	2000 HK\$'000	1999 HK\$'000
0–30 days	1,104	1,133
31–90 days	516	1,652
After 90 days but within one year	289	1,228
	1,909	4,013

23. AGEING ANALYSIS OF THE TRADE PAYABLES

All the trade payables of HK\$16,232,000 (1999: HK\$9,885,000) were within 30 days at the balance sheet date.

Notes to the Financial Statements

Year ended 31 December 2000

24. INTEREST-BEARING BORROWINGS

	The Group		The Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Wholly repayable within five years:				
Bank loans — secured	1,804,992	1,696,381	—	—
Bank overdrafts — secured	11,316	36,543	—	—
Trust receipt loans — secured	—	4,977	—	—
Convertible bonds (<i>note 25</i>)	—	200,000	—	200,000
Other loans	75,611	113,149	—	—
Amount due to ultimate holding company (<i>note b</i>)	217,470	—	217,470	—
Interest payable — secured	—	201,648	—	—
	2,109,389	2,252,698	217,470	200,000
Portion classified as current liabilities	(132,716)	(622,094)	—	—
Long-term portion	1,976,673	1,630,604	217,470	200,000

At 31 December 2000, interest-bearing borrowings were repayable as follows:

	The Group		The Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Within 1 year or on demand	132,716	622,094	—	—
After 1 year but within 2 years	1,859,220	30,000	217,470	—
After 2 years but within 5 years	117,453	1,600,604	—	200,000
	1,976,673	1,630,604	217,470	200,000
	2,109,389	2,252,698	217,470	200,000

On 8 May 2000, the Group (other than Golden Dragon Land Development Limited which is in liquidation), the Hongkong and Shanghai Banking Corporation Limited (“HSBC”) as agent, and the Group’s banks entered into an agreement to restructure the indebtedness of the Group (“the Debt Restructure Agreement”).

Notes to the Financial Statements

Year ended 31 December 2000

24. INTEREST-BEARING BORROWINGS (continued)

- (a) The Debt Restructure Agreement involves, amongst other things, the following:
- a standstill arrangement until 31 January 2002 (pursuant to which the Group's banks agreed not to, amongst other things, take any steps to seek repayment of or take any action or legal proceedings in respect of any of the bank indebtedness) unless HSBC as the agent and the security agent ("the Agent") (acting on the instructions of a two third majority in number and value of the banks determined by the bank indebtedness owing to the Group's banks at the relevant time) give at least 7 banking days notice in writing to the Group;
 - new funding of up to HK\$70,000,000 and HK\$52,500,000 will be provided by HSBC and Sin Hua Bank Limited respectively to finance 70% of the remaining construction costs of the Group's two property development projects;
 - new funding of up to HK\$86,400,000 has been provided by HSBC for refinancing purposes; and
 - the issue of unlisted warrants to each of the Group's banks in consideration of which each of Group's banks shall release the Group from all default interest which has accrued but remains unpaid as at 9 June 2000 (the completion date of the Debt Restructure Agreement) (note 28(b)).
- (b) Pursuant to the Debt Restructure Agreement, the amount due to ultimate holding company is subordinated to bank borrowings during the standstill period ending on 31 January 2002. Save as disclosed herein, the amount is unsecured, interest bearing at Hong Kong dollars prime lending rate plus 1.75% per annum and repayable no later than 31 January 2002.

25. CONVERTIBLE BONDS

On 25 March 1998, the Company issued 40 convertible bonds at a subscription price of HK\$5,000,000 per bond ("the Bonds"), amounted to an aggregate subscription price of HK\$200,000,000, to Madam Foo Kam Chu, Grace ("Mrs. Chan"). The Bonds bear interest at Hong Kong dollar prime rate plus 1.75% per annum and have a term of 30 months from the date of issue and carry a right which entitles the bondholders to convert the whole or any part of the principal amount of the bonds into ordinary shares of HK\$0.10 each in the share capital of the Company at an initial conversion price of HK\$0.75 per share, subject to adjustment, at any time and from time to time during the period from 25 December 1998 to 25 September 2000.

Conversion of the Bonds is subject, inter alia, to the number of shares held by the public of at least 25% of the issued share capital of the Company as enlarged by issue of ordinary shares pursuant to such conversion being maintained. As to repayment under the terms of the Bond Instrument, the Company shall redeem each Bond on its maturity date and pay such principal outstanding under such Bonds then not converted into ordinary shares of the Company together with interest accrued thereon. The Company may, at its option and upon giving at least one month notice in writing to the bondholders, redeem all or some of the Bonds at their principal amount with interest accrued thereon. The bondholders do not have any right to require redemption of any of the Bonds before the maturity date.

Notes to the Financial Statements

Year ended 31 December 2000

25. CONVERTIBLE BONDS (continued)

Pursuant to the Debt Restructure Agreement, these convertible bonds payable to Mrs. Chan were subordinated to bank borrowings of the Group as referred to note 24 to the financial statements. Since the issuance of the Bonds and until their expiration on 25 September 2000, Mrs. Chan had not exercised the conversion right associated with the Bonds. The principal amount of the Bonds together with the interest accrued thereon were substituted by a new interest bearing unsecured loan granted by Ko Bee Limited (“KBL”), a company wholly owned by Mrs. Chan, to the Company on 21 November 2000 (note 24(b)).

26. SHARE CAPITAL

	2000		1999	
	<i>Number of shares</i>	<i>Nominal value HK\$'000</i>	<i>Number of shares</i>	<i>Nominal value HK\$'000</i>
Authorised:				
Ordinary share of HK\$0.1 each	5,000,000,000	500,000	5,000,000,000	500,000
			Number of shares of HK\$0.1 each	Nominal value HK\$'000
Issued and fully paid:				
At 1 January 1999			1,346,998,910	134,700
Private placings			512,500,000	51,250
Exercise of warrants			2,402	—
At 31 December 1999 and 1 January 2000			1,859,501,312	185,950
Private placings			1,083,750,500	108,375
Exercise of warrants (note 28(a))			173,150,339	17,315
At 31 December 2000			3,116,402,151	311,640

The following changes in the issued share capital of the Company took place during the year:

- (a) On 2 February 2000, 41,562,500 new shares of HK\$0.10 each of the Company were issued to iNet Solutions Limited at the price of HK\$0.16 per share in satisfaction of part of the consideration for the acquisition by Soundwill Technology Company Limited (“Soundwill Technology”), the wholly-owned subsidiary of the Company of 7,000,000 shares of Netwalk Technology Company Limited.

Notes to the Financial Statements

Year ended 31 December 2000

26. SHARE CAPITAL (continued)

- (b) On 3 February 2000, 168,000,000 and 168,000,000 new shares of HK\$0.10 each of the Company were issued to independent third party investors through a private placement arrangement involving KBL, and KBL itself at the price of HK\$0.168 per share respectively. The aggregate subscription consideration for the 336,000,000 new shares was satisfied as to 168,000,000 new shares by way of cash amounted to approximately HK\$27,324,000 (after deducting expenses of approximately HK\$900,000) and as to 168,000,000 new shares by way of a set-off of part of the principal amount of an interest-bearing loan extended by KBL to the Company of HK\$28,224,000. The net cash proceeds from the issue were used as general working capital.
- (c) On 18 April 2000, 135,000,000 new shares of HK\$0.1 each of the Company were issued to independent third party investors through a private placement arrangement involving KBL at the price of HK\$0.63 per share. The net cash proceeds of approximately HK\$82,114,000 from the issue were mainly used by Soundwill Technology to subscribe for 200,000 shares of Vision Telecommunications Holdings Limited ("Vision") in which Mrs. Chan has beneficial interests.
- (d) On 7 June 2000, 456,188,000 new shares of HK\$0.10 each of the Company were issued to KBL at the price of HK\$0.63 per share as consideration shares to satisfy the total consideration of approximately HK\$287,398,000 for the acquisition by Soundwill Technology of additional 700,000 shares of Vision.
- (e) On 20 September 2000, 115,000,000 new shares of HK\$0.10 each of the Company were issued to independent third party investors through a private placement arrangement involving KBL at the price of HK\$0.128 per share. The net cash proceeds of approximately HK\$14,220,000 from the issue were used as general working capital.
- (f) During the year, an aggregate 173,150,339 new shares of HK\$0.1 each of the Company were issued to certain warrant holders upon exercise of warrants at the cash subscription price HK\$0.22 per share.

These shares issued during the year rank pari passu in all respects with the then existing shares.

Notes to the Financial Statements

Year ended 31 December 2000

27. SHARE OPTION SCHEME

The share option scheme of the Company provides that the directors may offer to any employee (including the executive directors) of the Company and any of its subsidiaries options to subscribe for shares in the Company in accordance with the terms of the share option scheme. The maximum number of shares on which options may be granted may not exceed 10% of the issued share capital of the Company excluding any shares issued on the exercise of option from time to time.

- (a) Details of outstanding share options previously granted to various directors and employees of the Group as at 31 December 2000 are as follows:

Date of grant	Number of outstanding options as at 31 December 2000	Exercise price	Period within which options can be exercised
7 February 1998	9,000,000 <i>Note (1)</i>	HK\$0.66	From 1 January 1999 to 31 December 2002
8 February 2000	11,000,000 <i>Note (2)</i>	HK\$0.164	From 8 August 2000 to 31 December 2004
1 June 2000	2,700,000	HK\$0.248	From 1 December 2000 to 24 February 2007
	22,700,000		

Notes:

- (1) Originally 19,000,000 options had been granted, 10,000,000 options were subsequently cancelled.
- (2) Originally 16,500,000 options had been granted, 5,500,000 were subsequently cancelled.
- (3) Originally 20,000,000 options granted on 8 March 2000 with an exercise price of HK\$0.452 and exercise period from 28 February 2001 to 24 February 2007 were subsequently cancelled.

No options was exercised during the year ended 31 December 2000.

- (b) After 31 December 2000, 57,800,000 options which can be exercised during the period from 2 July 2001 to 24 February 2007 at the exercise price of HK\$0.1 each have been granted to various directors and employees of the Group.

Notes to the Financial Statements

Year ended 31 December 2000

28. SHARE WARRANTS

- (a) Pursuant to a resolution passed at the special general meeting of the Company held on 23 June 1999, warrants in the amount of HK\$65,867,952 were issued as bonus on 30 June 1999 to the shareholders of the Company (“2000 Warrants”). Each of the 2000 Warrants entitles the warrant-holder to subscribe for a new share of the Company at a subscription price of HK\$0.22 per share (subject to adjustment). During the year, 173,150,339 units of the 2000 Warrants were exercised by the warrant-holders whereby 173,150,339 new shares (note 26(f)) of the Company were issued at a price of HK\$0.22 per share. The outstanding warrants not exercised in the amount of HK\$27,774,877 were lapsed and cancelled upon expiry on 3 July 2000.
- (b) On 15 November 2000, a total 184,381,339 units of unlisted warrants (the “Unlisted Warrants”) were granted by the Company to the Group’s bankers pursuant to the Debt Restructure Agreement. Each of the Unlisted Warrants entitles the warrant-holder to subscribe for one share of the Company of HK\$0.10 each at the following price within the period of one year from 31 January 2002:

the lower of:

- (i) HK\$0.249; or
- (ii) 80% of the average closing price of the shares of the Company quoted by The Stock Exchange of Hong Kong Limited for the ten trading days immediately prior to 31 January 2002.

But in any event not less than HK\$0.1.

Notes to the Financial Statements

Year ended 31 December 2000

29. RESERVES

The Group

	Share premium	Investment property revaluation reserve	Other property revaluation reserve	Accumulated losses	Special Reserve (note)	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 1999	671,781	728,806	1,631	(117,743)	10,030	1,294,505
Premium on shares issued	30,551	—	—	—	—	30,551
Deficit on revaluation	—	(120,259)	—	—	—	(120,259)
Deficit realised upon disposals	—	35,443	—	—	—	35,443
Transfer upon disposals of leasehold land and buildings	—	—	(1,631)	1,631	—	—
Loss for the year	—	—	—	(685,906)	—	(685,906)
At 31 December 1999	702,332	643,990	—	(802,018)	10,030	554,334
Premium on shares issued	359,005	—	—	—	—	359,005
Surplus on revaluation (note 11)	—	20,000	—	—	—	20,000
Loss for the year	—	—	—	(274,719)	—	(274,719)
At 31 December 2000	1,061,337	663,990	—	(1,076,737)	10,030	658,620

The accumulated losses of the Group include losses of HK\$12,612,000 (1999: HK\$10,893,000) accumulated by associates of the Group.

Note: The special reserve of the Group represents the difference between the nominal value of the share capital issued by the Company in exchange for the nominal value of the share capital of the subsidiary companies pursuant to the Group's re-organisation in 1997.

Notes to the Financial Statements

Year ended 31 December 2000

29. RESERVES (continued)

The Company

	Share premium HK\$'000	Contributed surplus <i>(note)</i> HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 1999	671,781	2,228,856	(31,981)	2,868,656
Premium on shares issued	30,551	—	—	30,551
Loss for the year	—	—	(26,585)	(26,585)
At 31 December 1999	702,332	2,228,856	(58,566)	2,872,622
Premium on shares issued	359,005	—	—	359,005
Loss for the year	—	—	(891,407)	(891,407)
At 31 December 2000	1,061,337	2,228,856	(949,973)	2,340,220

Note: The balance of contributed surplus represents the difference between the nominal value of the Company's shares issued in exchange for all the issued ordinary shares of Lucky Spark Limited (a subsidiary) and the value of the net underlying assets of the subsidiaries acquired. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus of the Company is available for distribution to the shareholders under certain circumstances. However, the Company cannot declare or pay a dividend or make a distribution out of contribution 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.

Notes to the Financial Statements

Year ended 31 December 2000

30. RECONCILIATION OF LOSS FROM ORDINARY ACTIVITIES TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2000 HK\$'000	1999 HK\$'000
Loss from ordinary activities	(289,740)	(694,691)
Interest income	(5,971)	(3,428)
Interest expenses	146,520	159,303
Depreciation	2,156	3,685
Amortisation of goodwill	12,329	—
Loss on disposal of leasehold land and buildings, plant and equipment	115	8,976
Loss on disposal of investment properties	—	52,293
Loss on disposal of properties held for development	2,501	21,958
Loss on disposal of subsidiaries	16,252	37,406
Loss on disposal of associates	6,354	—
Provision for diminution in value of properties	71,206	488,268
Provision for diminution in value of other investment	6,650	—
Provision for inventories	1,500	—
Provision for deposit on acquisition of properties	41,003	—
Provision for doubtful debts	5,768	16,226
Decrease in properties for sale	125,237	26,851
Increase in inventories	(14,700)	—
Increase in debtors, prepayments and deposits and instalments receivable	(5,352)	(14,096)
Increase/(Decrease) in creditors, accruals and deposits received	49,554	(49,976)
Net cash inflow from operating activities	171,382	52,775

Notes to the Financial Statements

Year ended 31 December 2000

31. ACQUISITION OF SUBSIDIARIES

	2000 HK\$'000	1999 HK\$'000
Net assets acquired:		
Leasehold land and buildings, plant and equipment	6,447	—
Inventories	6,512	—
Debtors, prepayments and deposits	2,743	—
Bank balances and cash	82,039	—
Creditors, accruals and deposits received	(18,785)	—
Minority interests	(7,866)	—
	<hr/>	<hr/>
Net assets acquired	71,090	—
Goodwill on acquisition	298,422	—
	<hr/>	<hr/>
Consideration	369,512	—
	<hr/>	<hr/>
Satisfied by:		
Cash	82,114	—
Shares issued (<i>note 33</i>)	287,398	—
	<hr/>	<hr/>
	369,512	—
	<hr/>	<hr/>

The subsidiaries acquired during the year contributed HK\$17,048,000 (1999: Nil) to the Group's net operating cash flows, received HK\$1,472,000 (1999: Nil) in respect of the net returns on investments and servicing of finance, utilised HK\$5,014,000 (1999: Nil) for investing activities and repaid HK\$338,000 (1999: Nil) for financing activities.

Analysis of net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries:

	2000 HK\$'000	1999 HK\$'000
Cash consideration paid	(82,114)	—
Cash and bank balances acquired	82,039	—
	<hr/>	<hr/>
	(75)	—
	<hr/>	<hr/>

Notes to the Financial Statements

Year ended 31 December 2000

32. DISPOSAL OF SUBSIDIARIES

	2000	1999
	HK\$'000	HK\$'000
Net assets disposed of:		
Investment properties	—	6,150
Leasehold land and buildings, plant and equipment	112	—
Properties held for development	—	13,688
Properties under development	—	107,874
Unlisted investment in club debenture	—	645
Debtors, prepayments and deposits	21,670	4,511
Bank balances and cash	33	57
Bank loans — secured	—	(43,950)
Bank overdrafts — secured	—	(33,564)
Interest payable — secured	—	(4,583)
Creditors and accruals	(5,558)	(622)
	16,257	50,206
Loss on disposal of subsidiaries	(16,252)	(37,406)
Consideration	5	12,800
Satisfied by:		
Cash	5	12,800

The subsidiaries disposed had no significant contributions to the Group's net operating cash flows in respect of operating activities (1999: Nil), returns on investments and servicing of finance (1999: Nil), taxation (1999: Nil), investing activities (1999: Nil) or financing (1999: Nil) during the year.

Analysis of the net cash (outflow)/inflow of cash and cash equivalents in respect of the disposals of subsidiaries is as follows:

	2000	1999
	HK\$'000	HK\$'000
Cash and cash equivalents disposed of:		
Bank balances and cash	(33)	(57)
Bank overdrafts — secured	—	33,564
Cash consideration received	5	12,800
	(28)	46,307

Notes to the Financial Statements

Year ended 31 December 2000

33. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Convertible bonds	Bank and other loans	Trust receipt loans	Amount due to ultimate holding company	Pledged bank deposits	Share capital and premium	Amounts due to minority shareholders
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 1999	200,000	1,970,503	14,496	—	(380)	806,481	30,843
Net proceeds from issues of shares	—	—	—	—	—	36,224	—
Issue of shares for non-cash transactions:							
Repayment of other loans	—	(44,592)*	—	—	—	44,592*	—
Repayment of interest	—	—	—	—	—	985*	—
Repayments during the year	—	(72,431)	(9,519)	—	—	—	—
Increase in amounts due to minority shareholders	—	—	—	—	—	—	1,645
Decrease attributable to liquidation of a subsidiary	—	(43,950)*	—	—	—	—	—
Increase in pledged bank deposits	—	—	—	—	(2,954)	—	—
At 31 December 1999 and 1 January 2000	200,000	1,809,530	4,977	—	(3,334)	888,282	32,488
Interest accrued	14,756*	—	—	2,714*	—	—	—
New loan raised	—	61,500	—	—	—	—	—
Repayments during the year	—	(160,191)	—	—	—	—	—
Consolidation of bank loans upon debt restructuring:							
— trust receipt loans	—	4,977*	(4,977)*	—	—	—	—
— interest payable	—	193,011*	—	—	—	—	—
Substituted by amount due to ultimate holding company	(214,756)*	—	—	214,756*	—	—	—
Net proceeds from issues of shares	—	—	—	—	—	162,423	—
Issue of shares for non-cash transaction:							
Acquisition of subsidiaries (note 31)	—	—	—	—	—	287,398*	—
Acquisition of other investment	—	—	—	—	—	6,650*	—
Repayment of other loan	—	(28,224)*	—	—	—	28,224*	—
Decrease in amounts due to minority shareholders	—	—	—	—	—	—	(2,496)
Decrease in pledged bank deposits	—	—	—	—	3,334	—	—
At 31 December 2000	—	1,880,603	—	217,470	—	1,372,977	29,992

* These are the major non-cash transactions of the Group during the respective year.

Notes to the Financial Statements

Year ended 31 December 2000

34. ANALYSIS OF CASH AND CASH EQUIVALENTS

	2000 HK\$'000	1999 HK\$'000
Bank balances and cash	29,004	39,742
Bank overdrafts — secured	(11,316)	(36,543)
	17,688	3,199

35. RELATED PARTY TRANSACTIONS

The following material transactions with related parties were, in the opinion of the directors, carried out in the ordinary course of business during the year in addition to those disclosed elsewhere in the financial statements.

- (a) On 18 April 2000, the Group subscribed for 20% of the new shares of Vision for a cash consideration of approximately HK\$82,114,000. The subscription money was financed by the proceeds from the issue of 135,000,000 new shares of HK\$0.1 each of the Company at HK\$0.63 per share. The principal asset of Vision is a 70% interest in Optilink Technologies Company Limited, a sino-foreign equity joint venture enterprise established in the PRC and engaged principally in the design, manufacturing and sale of dense wavelength division multiplexing (“DWDM”) systems in the PRC. DWDM system is deployed in optical fabric networks to increase the capability of the networks. Prior to the issue of these new shares, Vision was 100% owned by Mrs. Chan.
- (b) On 7 June 2000, the Group further acquired 70% shares of Vision held by Mrs. Chan at a total consideration of approximately HK\$287,398,000. The consideration was satisfied by the issue of 456,188,000 new shares of HK\$0.1 each of the Company to KBL at HK\$0.63 per share. Upon completion of this acquisition, the Group owns 90% of Vision.
- (c) On 21 November 2000, KBL advanced to the Company an unsecured term loan of approximately HK\$214,756,000 at the interest rate of 1.75% over the prime lending rate for loans in Hong Kong dollars quoted by The Hongkong and Shanghai Banking Corporation Limited from time to time per annum for enabling the Company to substitute the outstanding principal and interests payable by the Company to Mrs. Chan pursuant to the Convertible Bonds dated 25 March 1998 issued by the Company in favour of Mrs. Chan. This unsecured interest bearing term loan shall be repaid by the Company not later than 31 January 2002.

36. PLEDGE OF ASSETS

At the balance sheet date, properties of the Group with an aggregate net book value of HK\$2,741,460,000 (1999: HK\$2,757,618,000) and fixed deposits of HK\$Nil (1999: HK\$3,334,000) were pledged to secure general banking facilities to the extent of HK\$1,907,230,000 (1999: HK\$2,464,750,000), of which HK\$1,816,308,000 (1999: HK\$1,744,214,000) were utilised.

Notes to the Financial Statements

Year ended 31 December 2000

37. LONG SERVICE PAYMENTS

At 31 December 2000, the Group had a number of employees who had completed the required number of years of service under Hong Kong 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 31 December 2000 under the circumstances specified by the Ordinance, the maximum potential exposure would have been approximately HK\$915,000 (1999: HK\$730,000). No provision has been made in the financial statements in respect of such long service payments.

38. CAPITAL COMMITMENTS

At the balance sheet date, the Group had outstanding capital commitments, so far as not provided for in the financial statements, as follows:

	2000 HK\$'000	1999 HK\$'000
Property development and renovation expenditure:		
— contracted for	59,064	11,684
— authorised but not contracted for	31,515	163,316
	90,579	175,000
Contracted commitments in respect of acquisition:		
— unlisted investment	—	13,300
	90,579	188,300

39. CONTINGENT LIABILITIES

- (a) The two property related proceedings involving two wholly owned subsidiaries (the “Subsidiaries”) of the Company respectively are still on-going. According to the latest legal advice taken by the Company, there is higher than reasonable chance in one of the proceedings that the Subsidiary would be able to seek rescission of the relevant agreement and obtain refund of deposit of HK\$33,000,000 already paid. In any event, the Subsidiaries and their respective shareholders would not incur any further liability towards the sellers other than the deposits of HK\$65,000,000 and HK\$33,000,000 and/or security for costs already paid.
- (b) According to the Debt Restructure Agreement, the Company has issued to its bankers 184,381,339 units of unlisted warrants, pursuant to which the Company has guaranteed the bankers a minimum return on the exercise of each warrant. The maximum liability of the Company in this regard is approximately HK\$18,000,000.
- (c) At the balance sheet date, the Company had contingent liabilities not provided for in the financial statements in respect of guarantee for banking facilities utilised by subsidiaries amounting to HK\$1,816,308,000 (1999: HK\$1,939,549,000).

Notes to the Financial Statements

Year ended 31 December 2000

40. ULTIMATE HOLDING COMPANY

The directors consider the Company's ultimate holding company is Ko Bee Limited, a company incorporated in the British Virgin Islands with limited liability.

41. PRINCIPAL SUBSIDIARIES AND ASSOCIATES

In the opinion of the directors, a complete list of the particulars of all subsidiaries and associates will be of excessive length and therefore the table below list the principal subsidiaries and associates which materially affect the result or assets of the Group.

All the below principal subsidiaries and associates, other than Soundwill (BVI) Limited, which is a direct subsidiary of the Company, are indirectly held by the Company.

(a) Details of principal subsidiaries

Unless otherwise stated, all principal subsidiaries are wholly owned by the Company and have their place of incorporation and operation in Hong Kong. Details of principal subsidiaries at the balance sheet date are as follows:

Name of subsidiaries	Particulars of issued shares (unless otherwise stated below)		Principal activities
	Number of Ordinary shares (unless otherwise stated below)	Par value HK\$ (unless otherwise stated below)	
Asia View Holdings Limited (note 2)	10,000	1	Property development
Champion Fund Limited (note 2)	10,000	1	Property development
Digital World Limited	2	1	Property development
Eternal Bright Construction Engineering Limited	2	1	Building contracting
First Link Holdings Limited	2	1	Property development
Fortune Regent Limited	100	1	Property development
Future Base Limited (note 2)	2	1	Property development
Gold Smart (Asia) Limited	2	1	Subletting

Notes to the Financial Statements

Year ended 31 December 2000

41. PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

(a) Details of principal subsidiaries (continued)

Name of subsidiaries	Particulars of issued shares (unless otherwise stated below)		Principal activities
	Number of Ordinary shares (unless otherwise stated below)	Par value HK\$ (unless otherwise stated below)	
Gold Step (Asia) Limited	9,998 2 non-voting deferred	1 1	Property development
Golden Relay Company Limited	99,998 2 non-voting deferred	1 1	Property development and property investment
Goldwell Property Management Limited	10,000	1	Provision of building management service
Grainview Investment Limited	99 1 non-voting deferred	1 1	Property development
Keen Grace Development Limited (note 2)	10,000	1	Property development
Modern Gain Development Limited (note 2)	1,000	1	Property development
Optilink Technologies Company Limited (notes 5 and 7)	Registered capital of RMB10,000,000		Design, manufacturing and sales of dense wavelength division multiplexing system
Pacific Well Realty Limited (note 2)	2	1	Property investment
Rich Concord Holdings Limited (notes 1 and 2)	50	1	Property development

Notes to the Financial Statements

Year ended 31 December 2000

41. PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

(a) Details of principal subsidiaries (continued)

Name of subsidiaries	Particulars of issued shares (unless otherwise stated below)		Principal activities
	Number of Ordinary shares (unless otherwise stated below)	Par value HK\$ (unless otherwise stated below)	
Sino Winner Limited (notes 2 and 3)	1	US\$1	Property development
Sound Bright Development Limited (notes 2 and 3)	1	US\$1	Investment holding
Soundwill (BVI) Limited (note 4)	100,001,000	1	Investment holding
Soundwill Finance Company Limited	2	1	Loan financing
Soundwill (Hong Kong) Limited (note 2)	100,000	1	Provision of accountancy and administration services
Soundwill Real Estate Agency Limited (note 2)	2	1	Provision of real estate agency services
Soundwill Technology Company Limited (note 2)	100	1	Investment holding
Soundwill Treasury Limited (note 2)	2	1	Central fund management
Super Keep Investment Limited (note 2)	9,998 2 non-voting deferred	1 1	Property development
Top Hill Holdings Limited (notes 1 and 2)	1,000	1	Property development

Notes to the Financial Statements

Year ended 31 December 2000

41. PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

(a) Details of principal subsidiaries (continued)

Name of subsidiaries	Particulars of issued shares (unless otherwise stated below)		Principal activities
	Number of Ordinary shares (unless otherwise stated below)	Par value HK\$ (unless otherwise stated below)	
Top Overseas Limited (note 2)	9,999 2 non-voting deferred	1 1	Property development
Vision Telecommunications Limited (note 6)	10,000	1	Investment holding
Vision Telecommunications Holdings Limited (notes 3 and 6)	1,000,000	US\$1	Investment holding
Wales Limited	2	1	Property development
Well Pacific Development Limited	9,998 2 non-voting deferred	1 1	Property development
Well Youth Investment Limited (note 2)	9,998 2 non-voting deferred	1 1	Property development
Winland Investment Limited	100	1	Property development
Winsford Enterprises Limited (note 2)	10,000	1	Property development
Wonder Mark Limited (note 2)	1,000,000	1	Property development
Yield Success Development Limited (note 2)	10,000	1	Property development

Notes to the Financial Statements

Year ended 31 December 2000

41. PRINCIPAL SUBSIDIARIES AND ASSOCIATES (continued)

(a) Details of principal subsidiaries (continued)

Notes:

- (1) The Group has 70% equity interest in the subsidiaries;
- (2) Subsidiaries not audited by Moores Rowland;
- (3) Subsidiaries which were incorporated in the British Virgin Islands and operate in Hong Kong;
- (4) Subsidiary which is a direct subsidiary of the Company and was incorporated in the British Virgin Islands and operates in Hong Kong;
- (5) Subsidiary which was incorporated and operates in the People's Republic of China;
- (6) The Group has 90% equity interest in these subsidiaries; and
- (7) The Group has 63% equity interest in the subsidiary.

(b) Details of principal associates at the balance sheet date are as follows:

Name of associates	Place of incorporation and operation	% of issued ordinary shares held	Principal activities
Happy Wealth Industries Limited	Hong Kong	30%	Property investment
Wellway Estates Limited	Hong Kong	30%	Investment holding and property investment

42. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation because management believe that current year's presentation is more appropriate to reflect the Group's financial position and operating results.