

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### I. ORGANISATION AND OPERATIONS

South China Information and Technology Limited ("the Company") was incorporated in the Cayman Islands with limited liability. Its shares are listed on The Stock Exchange of Hong Kong Limited.

The Company is an investment holding company. Its subsidiaries are principally engaged in information and technology related businesses, implementation and marketing of software applications, property development and investment.

### 2. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Principal accounting policies are summarised below:

#### a. Basis of measurement

The financial statements have been prepared on historical cost basis, except for investment properties, which are carried at revalued amounts.

#### b. Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries ("the Group"), together with the Group's share of post-acquisition profits/losses and reserves of its associates under the equity method of accounting. The results of subsidiaries and associates acquired or disposed of during the year are recorded from or to their effective dates of acquisition or disposal. Significant intra-group transactions and balances have been eliminated on consolidation.

#### c. Goodwill

Goodwill arising on acquisition of subsidiaries and associates represents the excess of cost of acquisition over the fair value of the Group's share of the separable net assets of subsidiaries and associates acquired. Discount on acquisition arises where the Group's share of the fair value of the separable net assets of subsidiaries and associates acquired exceeds the cost of acquisition. Both goodwill and discount on acquisition are recognised in reserves in the year of acquisition. Upon disposal of interests in subsidiaries and associates, the underlying goodwill or discount previously recognised is reversed and included as investment cost in determining the gain or loss on disposal.

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

#### d. Subsidiaries

A subsidiary is a company in which the Company holds, directly or indirectly, more than 50% of its issued voting share capital as a long-term investment. In the Company's financial statements, investment in subsidiaries is stated at cost less provision for impairment in value, while income from subsidiaries is accounted for in the income statement to the extent of dividends received and receivable.

#### e. Associates

An associate is a company, not being a subsidiary, in which the Group holds 20% or more of its issued voting share capital as a long-term investment and can exercise significant influence over its management. In the consolidated financial statements, investment in associates is stated at the Group's share of net assets of the associates at the time of acquisition, plus the Group's share of undistributed post-acquisition profits/losses and reserves of the associates. In the Company's financial statements, investment in associates is stated at cost less provision for impairment in value, while income from associates is accounted for to the extent of dividends received and receivable.

#### f. Equity joint ventures

An equity joint venture is a joint venture in which the partners' capital contributions and profit sharing ratios are defined in the joint venture agreement. The Group's investments in equity joint ventures are accounted for as subsidiaries if the Group owns more than a 50% interest therein and governs and controls the financial and operating policies and the board of directors of the joint ventures.

#### g. Long-term investments

Long-term investments, intended to be held on a continuing basis, are stated at cost less provision for impairment in value where considered necessary by the Directors. Income from long-term investments is accounted for to the extent of dividends received or receivable.

#### h. Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation. Major expenditures on modifications and betterments of fixed assets which will result in future economic benefits are capitalised, while expenditures on maintenance and repairs are expensed when incurred. Depreciation is provided on a straight-line basis to write off the cost less estimated residual value of each asset over its estimated useful life. The annual rates of depreciation are as follows:

Leasehold improvements	20%
Furniture and fixtures, office equipment and motor vehicles	20% to 25%

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

#### h. Fixed assets and depreciation (Continued)

The carrying amount of fixed assets is assessed annually and when factors indicating an impairment are present. Expected future cash flows are not discounted in determining the recoverable amount. If an impairment is present, the fixed assets are reported at the lower of carrying amount or recoverable amount.

Gains and losses on disposals of fixed assets are recognised in the income statement based on the net disposal proceeds less the carrying amount of the assets.

#### i. Investment properties

Investment properties are leasehold interests in land and buildings in respect of which construction and development work have been completed and which are held for their long-term investment potential. These properties are included in the balance sheet at their open market value on the basis of an annual valuation by independent qualified valuers. All changes in the value of investment properties are dealt with in the investment property revaluation reserve unless the total reserve is insufficient to cover a deficit on a portfolio basis, in which case the net deficit is charged to the income statement. When an investment property is disposed of, previously recognised revaluation surpluses are reversed and the gain or loss on disposal reported in the income statement is determined based on the net disposal proceeds less the original cost.

No depreciation is provided for investment properties unless the unexpired lease term is 20 years or less, in which case depreciation is provided on the then carrying value over the unexpired lease term.

#### j. Properties under development

Properties under development include interests in land and buildings under development which are intended for sale upon completion. Properties under development are stated at the lower of cost and net realisable value. Costs include land cost, development expenditure, professional fees, interest capitalised and other expenses incurred in connection with the development, net of incidental rental income.

#### k. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is computed using the weighted average method of costing. Net realisable value is calculated based on estimated selling prices, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

#### k. Inventories (Continued)

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

#### l. Properties held for sale

Properties held for sale are included in current assets and are stated at the lower of cost and net realisable value. Cost includes land and building cost and other expenses incurred to bring the properties to their existing state. Net realisable value is the estimated price at which a property can be realised less related expenses.

#### m. Turnover and revenue recognition

Turnover represents (i) sales of software and hardware and provision of system integration services; (ii) income from sales of properties; and (iii) rental income from leasing of properties.

Revenue is recognised when the outcome of a transaction can be measured reliably and when it is probable that the economic benefits associated with the transaction will flow to the Group. Revenue is recognised on the following bases:

- (i) Income from sales of software and hardware and provision of system integration services is recognised when the merchandise is delivered and the related integration services are rendered.
- (ii) Income from sales of properties — revenue and profit from the sale of properties are recognised when a legally binding contract of sale has been executed. If the development of the relevant properties has not been completed, revenue and profit are recognised based on the stage of completion of the properties. The stage of completion of the properties is established by reference to the percentage of the costs incurred to date as compared to the estimated total costs on completion (with due allowance for contingencies). Costs include land cost, development expenditure, professional fees, interest capitalised and other expenses incurred in connection with the development. The profits so recognised are restricted to the amount of instalments received.

If purchasers fail to pay the balance of the purchase price on completion and the Group exercises its entitlement to resell the property, sales deposits received in advance of completion are forfeited and credited to the income statement. Any profits already recognised are reversed.

- (iii) Rental income — rental income is recognised on a straight-line basis over the lease period.

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

#### m. Turnover and revenue recognition (Continued)

(iv) Interest income — interest income is recognised on a time proportion basis on the principal outstanding and at the rate applicable.

#### n. Taxation

Individual companies within the Group provide for profits tax on the basis of their profit for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for profits tax purposes.

Deferred taxation is provided under the liability method in respect of significant timing differences between profit as computed for taxation purposes and profit as stated in the financial statements, except when it is considered that no liability will arise in the foreseeable future. Deferred tax assets are not recognised unless the related benefits are expected to crystallise in the foreseeable future.

#### o. Operating leases

Operating leases represent those leases under which substantially all the risks and rewards of ownership of the leased assets remain with the lessors. Rental payments under operating leases are charged to the income statement on a straight-line basis over the period of the relevant leases.

#### p. Employee retirement benefits

The costs of employee retirement benefits are recognised as an expense in the period in which they are incurred.

#### q. Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial period of time to bring to its intended use or sale are capitalised as part of the cost of the asset at rate based on actual cost of specific borrowings. All other borrowing costs are recognised as an expense in the period in which they are incurred.

#### r. Foreign currency translation

Individual companies within the Group maintain their books and records in the primary currencies of their respective operations ("the functional currencies"). In the accounts of the individual companies, transactions in other currencies during the year are translated into the respective functional currencies at the applicable rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in other currencies are translated into the respective functional currencies at the applicable rates of exchange in effect at the balance sheet date. Exchange gains or losses are dealt with in the income statements of the individual companies.

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

#### r. Foreign currency translation (Continued)

The Group prepares consolidated financial statements in Hong Kong dollars. For the purpose of consolidation, assets and liabilities of subsidiaries with functional currencies other than Hong Kong dollars are translated into Hong Kong dollars at the applicable rates of exchange in effect at the balance sheet date; income and expense items are translated into Hong Kong dollars at the applicable average exchange rates during the year. Exchange differences arising from such translation are dealt with as movements in cumulative translation adjustments.

### 3. RELATED PARTY TRANSACTIONS

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.

#### a. Significant transactions with related parties are summarised below:

	2000	1999
	<b>\$'000</b>	<b>\$'000</b>
Interest expense on amount due to an intermediate holding company	<b>23,731</b>	14,215
Interest income from advances to associates	<b>8,116</b>	15,380
Management fee charged by an intermediate holding company	<b>4,000</b>	4,000
Management fee income from an associate	<b>2,000</b>	2,000
Disposal of fixed assets at net book value to a fellow subsidiary	<b>2,138</b>	—
Rental charged by a fellow subsidiary	<b>1,771</b>	1,443

In the opinion of the Directors, the above related party transactions were carried out in the usual course of business of the Group and on normal commercial terms.

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 3. RELATED PARTY TRANSACTIONS (Continued)

b. Outstanding balances with related parties are summarised below:

	2000	1999
	\$'000	\$'000
Due from a fellow subsidiary	—	858
Due to an intermediate holding company	<b>293,223</b>	200,398

The balance due from a fellow subsidiary is unsecured, non-interest bearing and has no pre-determined repayment terms.

The balance due to an intermediate holding company represents advances made to the Group in order to finance its operations. The balance is unsecured and non-interest bearing except for approximately \$252,043,000 (1999: \$200,398,000) which bears interest at 1% above Hong Kong prime lending rate and which is not repayable within the next twelve months.

- c. An intermediate holding company has provided a corporate guarantee of approximately \$10,000,000 (1999: \$10,000,000) to secure the banking facilities granted to the Group.
- d. The Group has provided a corporate guarantee of approximately \$165,989,000 (1999: \$165,989,000) to secure the banking facilities granted to an associate (Note 29).

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 4. TURNOVER AND REVENUE

Analysis of turnover and revenue by principal activity is as follows:

	2000	1999
	\$'000	\$'000
Sales revenue from information and technology related businesses:		
— sales of software and hardware	42,838	—
— service income from system integration services	16,127	—
— others	949	392
Proceeds from sale of properties	3,014	4,372
Rental income	675	981
<b>Total turnover</b>	<b>63,603</b>	<b>5,745</b>
Interest income ( <i>Note 3.a</i> )	8,116	15,641
Management fee income ( <i>Note 3.a</i> )	2,000	2,000
Other income	1,580	593
<b>Total revenue</b>	<b>75,299</b>	<b>23,979</b>

Analysis of turnover by geographical location is as follows:

	2000	1999
	\$'000	\$'000
Hong Kong	979	1,373
The People's Republic of China excluding Hong Kong ("Mainland China")	62,624	4,372
<b>Total</b>	<b>63,603</b>	<b>5,745</b>



## NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 5. LOSS BEFORE TAXATION

Loss before taxation in the consolidated income statement was determined after charging or crediting the following items:

	2000	1999
	\$'000	\$'000
<b>After charging:</b>		
Interest on		
— bank overdrafts and loans wholly repayable within five years	2,185	2,155
— advance from an intermediate holding company (Note 3.a)	23,731	14,215
— finance leases	—	156
— others	67	137
Operating lease rental of premises		
— to third parties	521	42
— to a fellow subsidiary (Note 3.a)	1,771	1,443
Depreciation of fixed assets	1,153	284
Less: amount capitalised as properties under development	(110)	(118)
	<b>1,043</b>	<b>166</b>
Loss on disposal of fixed assets	189	4,177
Net exchange loss	88	—
Management fee charged by an intermediate holding company (Note 3.a)	4,000	4,000
Staff costs (including directors' emoluments)	13,071	6,425
Deficit on revaluation of investment properties	8,850	1,550
Provision for impairment in value of long-term investment	4,000	1,000
Provision for impairment in value of properties under development	462	4,000
Auditors' remuneration	400	356
<b>After crediting:</b>		
Interest income from		
— bank deposits	—	261
— advances to associates (Note 3.a)	8,116	15,380
Management fee income (Note 3.a)	2,000	2,000
Gain on disposal/dilution of interest in an associate (a)	31,099	8,546
Gain on disposal of a subsidiary (b)	4,000	—

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 5. LOSS BEFORE TAXATION (Continued)

Notes:

- a. During the year ended 31 December 2000, the Group disposed of certain interest in Fourseas.com Limited, an associate, and recognised a gain on disposal of approximately \$26,690,000 (1999: \$5,900,000). In addition, during the year ended 31 December 2000, certain warrant holders of Fourseas.com Limited exercised their rights to acquire shares in the associate. As a result, the Group recognised a dilution gain of approximately \$4,409,000 (1999: \$2,646,000).
- b. During the year ended 31 December 1996, the Group disposed of a 100% interest in Cawah Holdings Limited and its subsidiaries ("CHL") to an independent third party. According to the sales and purchase agreement dated 31 December 1996, the Group was entitled to cash consideration of \$2,000,000, which was received and recognised in 1996, and \$4,000,000 which was due on 30 June 2000. In this connection, the Group recognised a gain of \$4,000,000 during the year ended 31 December 2000. Approximately \$1,750,000 of this amount was received before 31 December 2000, while the remaining balance (included in deposits and other assets in the balance sheet) was fully settled subsequent to 31 December 2000.

The segmental analysis of the Group's contribution to operating loss before other provisions and gains and losses by principal activity is as follows:

	2000	1999
	\$'000	\$'000
Information and technology related businesses	(6,528)	(8,090)
Property development	(336)	(2,264)
Property letting	(8,465)	(1,612)
Investment holdings and others	(9,281)	(1,122)
	<b>(24,610)</b>	<b>(13,088)</b>

The segmental analysis of the Group's contribution to operating loss before other provisions and gains and losses by geographical location is as follows:

	2000	1999
	\$'000	\$'000
Hong Kong	(19,146)	(10,996)
Mainland China	(5,464)	(2,092)
	<b>(24,610)</b>	<b>(13,088)</b>

## NOTES TO THE FINANCIAL STATEMENTS

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### 6. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

a. Details of directors' emoluments are:

	2000 \$'000	1999 \$'000
Fees for executive directors	40	30
Fees for non-executive directors	20	20
Other emoluments for executive directors		
— Basic salaries and allowances	—	—
— Contribution to pension scheme	—	—
	<b>60</b>	<b>50</b>

Analysis of directors' emoluments by number of directors and emolument range is as follows:

	2000 \$'000	1999 \$'000
Executive directors		
— Nil to \$1,000,000	6	3
Non-executive directors		
— Nil to \$1,000,000	2	2

During the year, no directors waived any emoluments and no emolument of the directors was incurred as inducement to join or upon joining the Group or as compensation for loss of office.

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 6. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS (Continued)

b. The details of the emoluments payable to the five (1999: five) highest-paid employees are as follows:

	2000	1999
	\$'000	\$'000
Basic salaries and allowances	1,817	2,307
Contributions to pension scheme	22	60
	<b>1,839</b>	<b>2,367</b>

Analysis of emoluments paid to the aforementioned five (1999: five) non-director employees, by number of individuals and emolument range is as follows:

	2000	1999
	\$'000	\$'000
Nil to \$1,000,000	5	5

During the year, no emolument of the five highest-paid employees was incurred as inducement to join or upon joining the Group or as compensation for loss of office.

### 7. TAXATION

#### a. Hong Kong profits tax

No Hong Kong profits tax has been provided as companies within the Group have no estimated assessable profit during the year.

#### b. Enterprise income tax ("EIT")

The Group's sino-foreign equity joint ventures established in Mainland China are all subject to Mainland China EIT at a rate of 33% on assessable profit. No EIT has been provided as all these sino-foreign equity joint ventures have no assessable profit during the year.

#### c. Value-added tax ("VAT")

The Group's sino-foreign equity joint ventures are subject to VAT in Mainland China levied at the rate of 17% on the amount of sales of its products in Mainland China. VAT paid on the Group's purchases may be used to offset VAT on the sales amount to arrive at the net VAT payable.

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 7. TAXATION (Continued)

#### d. Business tax

The Group's sino-foreign equity joint ventures are subject to Mainland China business tax on the provision of services in Mainland China at a rate of 5% on the related revenue.

There was no significant unprovided deferred taxation for the year ended 31 December 2000.

### 8. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The consolidated loss attributable to shareholders included a loss of approximately \$1,694,000 (1999: \$1,694,000) dealt with in the financial statements of the Company.

### 9. ACCUMULATED DEFICIT

Accumulated deficit:

	2000 \$'000	1999 \$'000
Company	(85,543)	(83,849)
Subsidiaries	(289,707)	(272,493)
Associates	(46,214)	(27,181)
	<b>(421,464)</b>	<b>(383,523)</b>

### 10. LOSS PER SHARE

The calculation of basic loss per share is based on the consolidated loss attributable to shareholders of approximately \$37,941,000 (1999: \$51,788,000) and on the weighted average number of approximately 680,529,273 shares (1999: 680,527,568 shares) in issue during the year. No diluted loss per share is presented as the effect on exercise of the outstanding options and warrants is anti-dilutive.

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### II. FIXED ASSETS

Movements of fixed assets (consolidated) are:

	2000			1999
	Leasehold improvements	Furniture, fixture, office equipment and motor vehicles	Total	Total
	\$'000	\$'000	\$'000	\$'000
<b>Cost</b>				
Beginning of year	121	3,574	3,695	10,522
Additions	951	5,484	6,435	2,542
Attributable to acquisition of a subsidiary	47	390	437	—
Disposals	—	(2,503)	(2,503)	(9,369)
End of year	1,119	6,945	8,064	3,695
<b>Accumulated depreciation</b>				
Beginning of year	121	848	969	5,616
Provision for the year	45	1,108	1,153	284
Disposals	—	(335)	(335)	(4,931)
End of year	166	1,621	1,787	969
<b>Net book value</b>				
End of year	953	5,324	6,277	2,726
Beginning of year	—	2,726	2,726	4,906

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 12. INVESTMENT PROPERTIES

Movements of investment properties (consolidated) are:

	2000 \$'000	1999 \$'000
Beginning of year	42,780	60,630
Additions during the year	270	—
Reclassification to properties under development	—	(16,300)
Deficit on revaluation	(8,850)	(1,550)
End of year	<b>34,200</b>	42,780

Investment properties are stated at open market value as at 31 December 2000 as determined by Messrs. Sallmanns (Far East) Limited, independent qualified valuers. All of the Group's investment properties are mortgaged as collateral for the Group's banking facilities (see Note 31).

The geographical locations and tenure of investment properties are as follows:

	2000 \$'000	1999 \$'000
Hong Kong		
— medium-term leases	30,200	38,180
— long-term leases	4,000	4,600
	<b>34,200</b>	42,780

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 12. INVESTMENT PROPERTIES (Continued)

Details of the investment properties as at 31 December 2000 are as follows:

Location	Group's interest	Existing use
Units J and L on 2nd Floor Private Car Parking Space Nos. G20 and G22 and Lorry Parking Space Nos. L3 and L4 on Ground Floor Kaiser Estate 2nd Phase Nos. 47-53 Man Yue Street Nos. 20-28 Man Lok Street Hungghom Kowloon Hong Kong	100%	Industrial and carparking
1st Floor of Block G Kimberley Mansion No. 15 Austin Avenue Tsimshatsui Kowloon Hong Kong	100%	Commercial and residential
Unit 14 on 6th Floor Nan Fung Commercial Centre No. 19 Lam Lok Street Kowloon Bay Kowloon Hong Kong	100%	Commercial
Flats A, B, C and D on 1st Floor Fu Fung Building Nos. 5-7 Tsing Fung Street North Point Hong Kong	100%	Commercial
Unit A on Ground Floor Mai Luen Industrial Building Nos. 23-31 Kung Yip Street Kwai Chung New Territories	100%	Industrial



## NOTES TO THE FINANCIAL STATEMENTS

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### 13. INVESTMENT IN SUBSIDIARIES

In the Company's balance sheet, investment in subsidiaries comprised:

	2000	1999
	\$'000	\$'000
Unlisted shares, at cost	94,499	94,499
Advances to subsidiaries	251,034	256,153
	<b>345,533</b>	350,652
Less: Provision for doubtful debts	<b>(80,259)</b>	(80,259)
	<b>265,274</b>	270,393

All of the balances to subsidiaries are unsecured, non-interest bearing and have no pre-determined repayment terms.

The underlying value of investment in subsidiaries is, in the opinion of the Company's directors, not less than the carrying value as at 31 December 2000.

As at 31 December 2000, the Company has given corporate guarantees of approximately \$12,645,000 (1999: \$15,595,000) to secure banking facilities of certain subsidiaries.

Details of the principal subsidiaries as at 31 December 2000, all held indirectly by the Company, are as follows:

Name of company	Place of incorporation and operations	Issued and fully paid share capital/paid up capital	Percentage of equity interest held	Principal activities
Canada Oily Investment Limited	Hong Kong	\$10,000	51%	Investment holding
Dongguan Taihe Garden Construction Co Ltd.*	Mainland China	Rmb59,955,699	60%	Property development
Eastand Investments Limited	Hong Kong	\$2	100%	Investment holding
Free Speed Limited	Hong Kong	\$2	100%	Investment holding

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 13. INVESTMENT IN SUBSIDIARIES (Continued)

Name of company	Place of incorporation and operations	Issued and fully paid share capital/paid up capital	Percentage of equity interest held	Principal activities
Lion City Real Estate Limited	Hong Kong	\$10,000	60%	Investment holding
Mount Properties Limited	Hong Kong	\$2	100%	Property holding
Newbase Investments Limited	Hong Kong	\$2	100%	Property holding
Qing Dao Dong Jian Real Estate Co. Ltd.*	Mainland China	Rmb5,046,880	60%	Property development
Qing Dao Mandarin Dragon Real Estate Development Co. Ltd.*	Mainland China	Rmb11,336,835	100%	Property development
Sino Leader Technology Ltd.	Hong Kong	\$100	100%	Investment holding
South China Strategic Limited	Hong Kong	\$308,593,789	100%	Investment holding
South China Strategic Property Development Limited	Hong Kong	\$5,000,000	100%	Investment holding
Super Bellax Limited	British Virgin Islands	US\$1	100%	Investment holding
Swell Sounds Investments Limited	British Virgin Islands	US\$1	100%	Investment holding
Tsuen Wan Shing On Estate Company Limited	Hong Kong	\$400,000	100%	Property holding
Universal Yield Ltd.	British Virgin Islands	US\$1	100%	Investment holding
Wellscope Investments Limited	Hong Kong	\$10,000	60%	Investment holding

**NOTES TO THE FINANCIAL STATEMENTS***(Amounts expressed in Hong Kong dollars unless otherwise stated)***13. INVESTMENT IN SUBSIDIARIES (Continued)**

<b>Name of company</b>	<b>Place of incorporation and operations</b>	<b>Issued and fully paid share capital/paid up capital</b>	<b>Percentage of equity interest held</b>	<b>Principal activities</b>
Beijing JTP Software Technology Co. Ltd.*	Mainland China	Rmb2,000,000	70%	Information and Technology related business
Beijing Galaxy Information System Co. Ltd.*	Mainland China	Rmb2,000,000	70%	Information and Technology related business
Shanghai Zhongteng Information Network Co. Ltd.*	Mainland China	Rmb4,600,000	60%	Information and Technology related business
Shanghai Hitti Information Technology Co. Ltd.*	Mainland China	Rmb3,100,000	60%	Information and Technology related business
South China Skytech Co. Ltd.*	Mainland China	Rmb6,000,000	66.7%	Information and Technology related business
Chongqing Incyber Opt. Inf. Sci. & Tech. Co. Ltd.*	Mainland China	Rmb3,500,000	65%	Information and Technology related business
South China Zenith Information Technology Co. Ltd.*	Mainland China	Rmb7,000,000	60%	Information and Technology related business
Chongqing Fortuna Information Technology Co. Ltd.*	Mainland China	Rmb3,300,000	70%	Information and Technology related business
LCT Ltd.*	Mainland China	Rmb6,000,000	60%	Information and Technology related business

**NOTES TO THE FINANCIAL STATEMENTS***(Amounts expressed in Hong Kong dollars unless otherwise stated)***13. INVESTMENT IN SUBSIDIARIES** (Continued)

<b>Name of company</b>	<b>Place of incorporation and operations</b>	<b>Issued and fully paid share capital/paid up capital</b>	<b>Percentage of equity interest held</b>	<b>Principal activities</b>
Shenyang Shenglian Electronics Science & Technology Ltd.*	Mainland China	Rmb4,000,000	70%	Information and Technology related business
Shenyang Ruixin Information Technology Co. Ltd.*	Mainland China	Rmb600,000	67%	Information and Technology related business

\* The Company's subsidiaries in Mainland China are sino-foreign equity joint ventures established for periods of 15 to 50 years expiring from 2007 to 2050.

The above summary lists only the principal subsidiaries of the Company which, in the opinion of the Directors, principally affected the results or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

None of the subsidiaries has any loan capital in issue at any time during the year ended 31 December 2000.

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 14. INVESTMENT IN ASSOCIATES

Investment in associates (consolidated) comprised:

	2000 \$'000	1999 \$'000
Unlisted shares, at cost	26,783	26,783
Shares listed in Hong Kong, at cost	44,629	24,775
Goodwill on acquisition, eliminated against reserves	(11,554)	(8,905)
	<b>59,858</b>	42,653
Share of undistributed post-acquisition losses/reserves	<b>(29,959)</b>	(24,391)
	<b>29,899</b>	18,262
Advances to associates	<b>294,396</b>	279,653
	<b>324,295</b>	297,915
Quoted market value of shares listed in Hong Kong	<b>32,183</b>	279,845

The underlying value of investment in associates is, in the opinion of the Company's directors, not less than the carrying value as at 31 December 2000.

Details of advances to associates as at 31 December 2000 are as follows:

	2000 \$'000	1999 \$'000
Firm Wise Investment Limited	235,694	222,799
Fourseas.com Limited	51,807	49,959
Shanghai Qiao Ning Real Estate Development Co. Limited	6,895	6,895
	<b>294,396</b>	279,653

The amounts advanced to Firm Wise Investment Limited are used to finance its property development project in Hong Kong. The advances are unsecured, bear interest at 0.5% per annum and have no pre-determined repayment terms.

The amounts advanced to other associates are used to finance their respective operations. The advances are unsecured, non-interest bearing and have no pre-determined repayment terms, except for the advances to Fourseas.com Limited which bear interest at rates ranging from Hong Kong prime lending rate to Hong Kong prime lending rate plus 2%.

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 14. INVESTMENT IN ASSOCIATES (Continued)

Details of the principal associates as at 31 December 2000, all held indirectly by the Company, are:

Name of company	Place of incorporation and operations	Percentage of equity interest held	Principal activities
Firm Wise Investment Limited ("FWIL") (a)	Hong Kong	30%	Property development
Fourseas.com Limited (listed on The Stock Exchange of Hong Kong Limited)	Bermuda/Hong Kong	44.5%	Sale of air tickets and provision of travel-related services
Shanghai Qiao Ning Real Estate Development Co. Limited ("SQNREDCL") (b)	Mainland China	20.4%	Property development

The above summary lists only the principal associates of the Company which, in the opinion of the Directors, principally affected the results or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the Directors, result in particulars of excessive length.

Notes:

- a. FWIL is principally engaged in development of a commercial building complex ("the Property") in Central, Hong Kong. The Property is expected to be completed in June 2001. As at 31 December 2000, the total cost of the Property, as reflected in its unaudited accounts, amounted to approximately \$1,281,000,000 (see Note 29). The Directors have assessed the realisable value of the Property, by reference to the market price of comparable buildings and advice from independent qualified valuers, and considered that the net realisable value of the Property should not be less than its cost. As a result, no provision for the investment in or the advances to the associate is considered necessary.
- b. SQNREDCL is a sino-foreign equity joint venture incorporated in Mainland China for a period of 10 years expiring in 2003. As at 31 December 2000, the sole asset of SQNREDCL comprised a property under development located in Shanghai, Mainland China, of which the construction work has been suspended, pending the resolution of certain disputes between the joint venture partners. The Directors have assessed the realisability of the property under development by reference to advice from independent qualified valuers, and consider that the net realisable value of the property under development should not be less than its cost. As a result, no provision for such investment in associate is considered necessary.

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 15. LONG-TERM INVESTMENT

Long-term investment (consolidated) comprised:

	2000	1999
	\$'000	\$'000
Unlisted investment, at cost	9,023	9,023
Less: Provision for impairment in value	(5,000)	(1,000)
	<b>4,023</b>	<b>8,023</b>

Details of long-term investment as at 31 December 2000, all held indirectly by the Company, are:

Name of company	Place of incorporation	Percentage of equity interest indirectly held	Principal activity
Multiplier Investment Limited	Hong Kong	41%*	Investment holding

\* The Directors are of the view that the Group has no significant influence in the management of Multiplier Investment Limited. The Group has no representation in the Board of Directors of Multiplier Investment Limited.

The underlying value of long-term investment is, in the opinion of the Company's directors, not less than the carrying value as at 31 December 2000.

### 16. PROPERTIES UNDER DEVELOPMENT

The geographical locations and tenure of properties under development are:

	2000	1999
	\$'000	\$'000
Hong Kong — medium-term leases	17,874	17,887
Mainland China	59,826	69,606
	<b>77,700</b>	<b>87,493</b>

Properties under development located in Mainland China are held under land use rights for periods from 50 to 70 years expiring in 2043 to 2063.

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 16. PROPERTIES UNDER DEVELOPMENT (Continued)

Details of properties under development as at 31 December 2000 are as follows:

Location	Group's interest	Stage of construction	Expected completion date	Expected use	Approximate gross floor area
Nos. 18–20 Ming Fung Street Wong Tai Sin Kowloon Hong Kong	100%	Planning	N/A	Residential/ commercial	Site area is 1,800 sq.ft.
Qingdao National Shilaoren Tourist Area (known as Land Plot No. 1-3-3) Qingdao Shandong Province Mainland China	60%	Site formation	N/A	Residential/ commercial	Site area is 537,973 sq.ft.
South of Zhanjiangan Lu and west of Xujiamaidao Hotel Qingdao Shandong Province Mainland China	100%	Bare site	N/A	Residential/ commercial	Site area is 124,007 sq.ft.
Dongguan Lion City Liaobu Zhen Dongguan Guangdong Province Mainland China	60%	Bare site	N/A	Residential/ commercial	2,123,351 sq.ft.

The properties under development in Hong Kong are mortgaged as collateral for the Group's banking facilities (see Note 31).



## NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 17. INVENTORIES

Inventories (consolidated) comprised:

	2000	1999
	\$'000	\$'000
Raw materials	729	879
Work-in-progress	866	—
Finished goods	4,252	—
	<b>5,847</b>	<b>879</b>

### 18. TRADE RECEIVABLES

As at 31 December 2000, an aging analysis of trade receivables (consolidated) is as follows:

	2000	1999
	\$'000	\$'000
Current	6,574	5
1 month to 3 months overdue	1,343	—
4 months to 6 months overdue	124	—
	<b>8,041</b>	<b>5</b>

Sale of goods are largely on credit except for new customers. Trade deposits are normally required. The credit terms of trade debtors are defined in the respective sales agreements, usually from cash before delivery to 90 days after delivery.

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 19. PROPERTIES HELD FOR SALE

Properties held for sale located in Mainland China are held under land use rights of 70 years expiring in 2063. Details of properties held for sale as at 31 December 2000 are as follows:

Location	Group's effective interest	Classification
Developed portion of Dongguan Lion City, Liaobu Zhen, Dongguan, Guangdong Province, Mainland China	60%	Residential/ commercial

### 20. BANK OVERDRAFTS

Details of the bank overdrafts are:

	Consolidated		Company	
	2000 \$'000	1999 \$'000	2000 \$'000	1999 \$'000
Secured	3,994	3,178	—	—
Unsecured	—	688	—	38
	<b>3,994</b>	<b>3,866</b>	<b>—</b>	<b>38</b>

Refer to Note 31 for details of the Group's banking facilities.

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 21. LONG-TERM BANK LOANS

Details of long-term bank loans (secured) are:

	Consolidated		Company	
	2000	1999	2000	1999
	\$'000	\$'000	\$'000	\$'000
Amounts repayable with a period				
— not exceeding one year	7,871	9,442	3,333	3,333
— more than one year but not exceeding two years	4,472	7,634	2,500	3,333
— more than two years but not exceeding five years	1,793	6,251	—	2,500
	<b>14,136</b>	23,327	<b>5,833</b>	9,166
Less: Amounts repayable within one year included under current liabilities	<b>(7,871)</b>	(9,442)	<b>(3,333)</b>	(3,333)
	<b>6,265</b>	13,885	<b>2,500</b>	5,833

Refer to Note 31 for details of the Group's banking facilities.

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 22. TRADE PAYABLES

As at 31 December 2000, an aging analysis of trade payables (consolidated) is as follows:

	2000 \$'000	1999 \$'000
Current	2,400	16
1 month to 3 months overdue	183	—
4 months to 6 months overdue	—	—
Over 6 months overdue	944	933
	<b>3,527</b>	<b>949</b>

### 23. SHARE CAPITAL

	2000		1999	
	Number of shares	Nominal value \$'000	Number of shares	Nominal value \$'000
Authorised (Ordinary shares of \$0.1 each)	1,000,000,000	100,000	1,000,000,000	100,000
Issued and fully paid (Ordinary shares of \$0.1 each)				
Beginning of the year	680,527,568	68,053	680,527,568	68,053
Issue during the year	2,237	—	—	—
End of year	<b>680,529,805</b>	<b>68,053</b>	680,527,568	68,053

During the year, the issued share capital of the Company was increased by \$224 arising from the exercise of 2,237 warrants at \$1.24 per share. These new shares rank pari passu with the existing shares (see Note 25).

## NOTES TO THE FINANCIAL STATEMENTS

*(Amounts expressed in Hong Kong dollars unless otherwise stated)*

### 24. SHARE OPTIONS

The Company has a share option scheme under which it may grant options to executive directors and employees of the Group to subscribe for shares in the Company on or before 12 October 2007 at initial subscription prices of \$0.51 to \$1.28 per share (subject to adjustments), subject to a maximum of 10% of the issued share capital of the Company, from time to time excluding for this purpose shares issued on exercise of options. The subscription price will be determined by the Company's directors, and will not be less than the higher of the nominal value of the shares and 80% of the average closing prices of the shares quoted on The Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the date of granting of the options.

During the year, a total of 42,070,000 share options were granted to the executive directors and employees of the Group. 4,850,000 of these share options lapsed in connection with the cessation of employment of certain employees. No options have been exercised since the date of grant and up to the date when the board of directors approved these financial statements.

### 25. WARRANTS

At an Extraordinary General Meeting held on 24 March 2000, the shareholders of the Company approved a bonus issue of warrants on the basis of one warrant for every five existing shares held. Each warrant entitles the holder to subscribe for one share at an initial subscription price of \$1.24 per share (subject to adjustments) from 28 March 2000 to 27 March 2002.

In this connection, a total of 136,105,510 warrants were issued on 28 March 2000. During the year, 2,237 warrants were exercised and 2,237 new ordinary shares of \$0.10 each were issued.

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

## 26. RESERVES

Movements of reserves are:

	2000			1999	
	Share premium \$'000	Special reserve \$'000	Cumulative translation adjustments \$'000	Total \$'000	Total \$'000
<b>Consolidated</b>					
Beginning of year	276,739	209,116	1,456	487,311	492,305
Expenses of issuance of bonus warrants	(18)	—	—	(18)	—
New shares issued on exercise of bonus warrants	3	—	—	3	—
Elimination of goodwill from acquisition of interest in an associate	—	(5,214)	—	(5,214)	(5,041)
Elimination of goodwill from acquisition of interest in subsidiaries	—	(10,150)	—	(10,150)	—
Release of goodwill upon disposal of interest in an associate	—	2,565	—	2,565	62
Translation adjustments	—	—	161	161	(15)
End of year	<b>276,724</b>	<b>196,317</b>	<b>1,617</b>	<b>474,658</b>	<b>487,311</b>
<b>Company</b>					
Beginning of year	276,739	—	—	276,739	276,739
Expenses of issuance of bonus warrants	(18)	—	—	(18)	—
New shares issued on exercise of bonus warrants	3	—	—	3	—
End of year	<b>276,724</b>	<b>—</b>	<b>—</b>	<b>276,724</b>	<b>276,739</b>

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 26. RESERVES (Continued)

The special reserve of the Group represents the balance of excess of issued share capital of a subsidiary acquired over the fair value of the shares issued by the Company pursuant to the group reorganisation in 1997 and elimination and realisation of goodwill on acquisition and disposal of subsidiaries and associates.

### 27. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

a. Reconciliation of loss before taxation to net cash outflow from operating activities:

	2000	1999
	\$'000	\$'000
Loss before taxation	(38,989)	(53,705)
Interest income	(8,116)	(15,641)
Interest expense	25,983	16,663
Gain on disposal of a subsidiary	(4,000)	—
Gain on disposal of interest in an associate	(31,099)	(8,546)
Deficit on revaluation of investment properties	8,850	1,550
Provision for impairment in value of long-term investment	4,000	1,000
Provision for impairment in value of properties under development	462	4,000
Share of losses of associates	19,033	27,500
Depreciation of fixed assets	1,043	166
Net loss on disposal of fixed assets	189	4,177
Decrease in properties under development	9,441	29,228
Increase in inventories	(4,278)	—
Increase in trade receivables	(6,193)	(5)
Increase in properties held for sale	(5,537)	(23,068)
(Increase) Decrease in prepayments, deposits and other assets	(12,632)	1,313
Decrease (Increase) in amount due from a fellow subsidiary	858	(858)
Increase in trade payables	1,652	949
Increase (Decrease) in accruals	4,143	(23,595)
Net cash outflow from operating activities	<b>(35,190)</b>	<b>(38,872)</b>

**NOTES TO THE FINANCIAL STATEMENTS***(Amounts expressed in Hong Kong dollars unless otherwise stated)***27. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)**

b. Details of net assets of subsidiaries acquired are as follows:

	\$'000
Fixed assets	437
Inventories	690
Trade receivables	1,843
Prepayment and deposits	1,187
Cash and bank deposits	2,251
Trade payables	(926)
Accruals	(1,658)
	3,824
Less: minority interests	(1,147)
	2,677
Goodwill on acquisition	10,150
	12,827
Consideration paid	12,827
	12,827
Net cash outflow from acquisition of subsidiaries is as follows:	
Cash and bank deposits acquired	2,251
Cash consideration paid	(12,827)
	(10,576)
Net cash outflow from acquisition of subsidiaries	(10,576)



## NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 27. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

c. Analysis of changes in financing:

	Share capital (including share premium) \$'000	Long-term bank loans \$'000	Obligations under finance leases (included in accruals) \$'000	Due to an intermediate holding company \$'000	Minority interests \$'000	Total \$'000
As at 1 January 1999	344,792	22,914	59	65,089	55,547	488,401
Capital contribution from minority shareholders of subsidiaries	—	—	—	—	414	414
Share of losses for the year	—	—	—	—	(883)	(883)
New long-term bank loans	—	10,000	—	—	—	10,000
Advance from an intermediate holding company	—	—	—	135,309	—	135,309
Repayment of capital element of finance lease obligations	—	—	(8)	—	—	(8)
Repayment of long-term bank loans	—	(9,587)	—	—	—	(9,587)
Translation adjustments	—	—	—	—	(9)	(9)
As at 1 January 2000	344,792	23,327	51	200,398	55,069	623,637
Expenses of issuance of bonus warrants	(18)	—	—	—	—	(18)
New shares issued on exercise of bonus warrants	3	—	—	—	—	3
Capital contribution from minority shareholders of subsidiaries	—	—	—	—	8,207	8,207
Attributable to acquisition of subsidiaries	—	—	—	—	1,147	1,147
Share of losses for the year	—	—	—	—	(1,048)	(1,048)
Advance from an intermediate holding company	—	—	—	92,825	—	92,825
Repayment of capital element of finance lease obligations	—	—	(51)	—	—	(51)
Repayment of long-term bank loans	—	(9,191)	—	—	—	(9,191)
Translation adjustments	—	—	—	—	166	166
As at 31 December 2000	344,777	14,136	—	293,223	63,541	715,677

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 27. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

- d. Analysis of cash and cash equivalents:

	2000	1999
	\$'000	\$'000
Cash and bank deposits	17,930	7,007
Bank overdrafts	(3,994)	(3,866)
	<b>13,936</b>	<b>3,141</b>

### 28. COMMITMENTS

- a. Capital commitments (consolidated):

As at 31 December 2000, the Group has the following capital commitments in respect of its property development projects in Hong Kong and Mainland China:

	2000	1999
	\$'000	\$'000
Authorised by the directors but not contracted for	76,519	75,947

- b. Operating lease commitments (consolidated):

Lease commitments in respect of rented premises under various non-cancellable operating lease agreements extending to December 2003 amounted to approximately \$1,738,000 (1999: Nil), of which the commitments payable within the next twelve months are as follows:

	2000	1999
	\$'000	\$'000
Leases expiring		
— within one year	80	—
— within two to five years	772	—
	<b>852</b>	<b>—</b>

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 29. CONTINGENT LIABILITIES

Contingent liabilities not provided in the financial statements comprised:

	Consolidated		Company	
	2000	1999	2000	1999
	\$'000	\$'000	\$'000	\$'000
Guarantees given to banks for banking facilities granted to				
— Firm Wise Investment Limited (“FWIL”), an associate (see Note 3)	165,989	165,989	165,989	165,989
— Subsidiaries (see Note 13)	—	—	12,645	15,595
	<b>165,989</b>	<b>165,989</b>	<b>178,634</b>	<b>181,584</b>

A summary of the balance sheet as at 31 December 2000 of FWIL based on its unaudited accounts and the Group's attributable interest in FWIL is as follows:

	Balance sheet	Group's attributable interest
	\$'000	\$'000
Property under development	1,281,548	384,464
Debtors, prepayments and deposits	490	147
Cash and bank deposits	234	70
Trade payables and accruals	(3,476)	(1,043)
Short-term bank borrowings	(439,508)	(131,852)
Due to shareholders	(251,232)	(75,369)
Due to a related company	(588,110)	(176,433)
	(54)	(16)

### 30. PENSION SCHEME

Following the introduction of the Mandatory Provident Fund legislation in Hong Kong, the Group companies in Hong Kong participate in two pension schemes, one registered under the Occupational Retirement Scheme Ordinance (“the ORSO Scheme”) and one registered under the Mandatory Provident Fund legislation (“the MPF Scheme”).

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 30. PENSION SCHEME (Continued)

Under the ORSO Scheme, the Group has arranged for its employees (including certain executive directors) provident funds under several defined contribution schemes managed by independent trustees. The employees make monthly contributions to the schemes at 5% of their basic salaries, while the Group makes monthly contributions to these schemes at 5% to 7.5% of the employees' basic salaries. The employees are entitled to receive their entire contribution and the accrued interest thereon, and 100% of the employer's contribution and the accrued interest thereon upon retirement or leaving the Group after completing 10 years of service or at a reduced scale of between 30% to 90% after completing 3 to 9 years of service. The forfeited contributions made by the Group and related accrued interest are used to reduce the employer's contribution. This scheme is not available to new employees effective 1 December 2000.

The MPF Scheme was set up on 1 December 2000 and is a defined contribution scheme managed by independent trustees. Members of the ORSO Scheme were given a one-time option to choose to transfer to the MPF Scheme or remain in the ORSO Scheme. Under the MPF Scheme, each of the Company and its employees makes monthly contribution to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation. The contributions from employees and employer are subject to cap of monthly earnings of \$20,000.

As stipulated by Mainland China regulations, all retired employees of the Group's Mainland China subsidiaries are entitled to an annual pension equal to their basic annual salary upon retirement. The Group's Mainland China subsidiaries contribute to a State-sponsored retirement plan approximately 12% to 30% of the basic salary of its employees, and have no further obligations for the actual pension payments or post-retirement benefits beyond the annual contributions. The State-sponsored retirement plan is responsible for the entire pension obligation payable to retired employees.

During the year, the aggregate employer's contributions made by the Group were approximately \$552,000 (1999: \$55,000) after deduction of forfeited contributions of approximately \$82,000 (1999: \$103,000).

### 31. BANKING FACILITIES AND PLEDGES OF ASSETS

As at 31 December 2000, the Group's banking facilities for overdrafts and loans are secured by:

- a. mortgages over the Group's investment properties with an aggregate net book value of approximately \$34,200,000 (1999: \$42,780,000) (see Note 12);
- b. mortgage over the Group's properties under development with a net book value of approximately \$17,874,000 (1999: \$17,887,000) (see note 16); and
- c. corporate guarantee by South China Industries Limited, an intermediate holding company, of approximately \$10,000,000 (1999: \$10,000,000) (see Note 3).

The interest rates for the Group's banking facilities are ranging from 0.5% to 1.75% over Hong Kong Prime Lending Rate, and 2% over Hong Kong Inter Bank Offer Rate.

## NOTES TO THE FINANCIAL STATEMENTS

*(Amounts expressed in Hong Kong dollars unless otherwise stated)*

### 32. ULTIMATE HOLDING COMPANY

The Company's directors consider South China Holdings Limited, a company incorporated in the Cayman Islands and whose shares are listed on The Stock Exchange of Hong Kong Limited, to be the ultimate holding company.

### 33. COMPARATIVE FIGURES

The financial statements of the Group and the Company as at and for the year ended 31 December 1999 which are presented for comparative purposes, were audited by certified public accountants other than Arthur Andersen & Co, whose report dated 29 May 2000 expressed an unqualified opinion on those statements.

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