

Notes to the Financial Statements

For The Year Ended 31st December, 2000

1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited.

The Group is principally engaged in investment holding, property investment, development of internet portal sites, provision of management services and treasury operation.

Pursuant to a special resolution passed at an extraordinary general meeting of the Company held on 26th April, 2000 and with the approval of the Registrar of Companies, the name of the Company was changed from Shun Ho Construction (Holdings) Limited 順豪建築(集團)有限公司 to Shun Ho Technology Holdings Limited 順豪科技控股有限公司 with effect from 12th May, 2000.

2. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year.

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

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

Goodwill

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

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

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

Investments in subsidiaries

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

Investments in subsidiaries are included in the Company's balance sheet at cost, as reduced by any decline in the value of the subsidiary that is other than temporary. The results of subsidiaries are accounted for by the Company on the basis of dividends received or receivable during the year.

Notes to the Financial Statements *(Continued)*

For The Year Ended 31st December, 2000

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Interests in associates

An associate is an enterprise over which the Group is in a position to exercise significant influence, including participation in financial and operating policy decisions. The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets or deficits of the associates.

With the exception of Magnificent Estates Limited, the calculation of the Group's share of the post-acquisition results and reserves of the associates is based on their audited financial statements made up to the balance sheet date. The accounting date of Magnificent Estates Limited, which is a company listed in Hong Kong, is 31st March. Accordingly the Group's share of the post-acquisition results and reserves of Magnificent Estates Limited is based on its published audited financial statements for the year ended 31st March, 2000 and its unaudited interim report for the six months ended 30th September, 2000, after making such adjustments as are appropriate.

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

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

Investment properties

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

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

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property is transferred to the income statement to form part of the gain or loss on disposal.

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

Property, plant and equipment

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

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

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

Notes to the Financial Statements *(Continued)*

For The Year Ended 31st December, 2000

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives from the date on which they become fully operational and after taking into account their estimated residual value, using the straight line method, at a rate of 20% per annum.

Revenue recognition

Rentals receivable under operating leases, where substantially all the risks and rewards of ownership of the assets remain with the lessors, are recognised and credited to the income statement on a straight line basis over the relevant lease term.

Service income is recognised when services are provided.

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

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.

Internet infrastructure development

All costs in connection with the development of new websites/portals and enhancement of existing websites/portals are charged to the income statement in the period in which they are incurred.

Borrowing costs

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

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

Foreign currencies

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

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

Cash equivalents

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

Notes to the Financial Statements (Continued)

For The Year Ended 31st December, 2000

3. TURNOVER AND CONTRIBUTION

Turnover comprises property rentals, management service fees and interest income.

The following is an analysis of the Group's turnover and contribution from ordinary activities:

	Turnover		Contribution	
	2000 HK\$	1999 HK\$	2000 HK\$	1999 HK\$
By activities:				
Property letting	6,563,282	6,895,888	6,254,477	5,868,727
Treasury operations — interest income	10,894,564	10,591,119	10,894,564	10,591,119
Development of internet portal sites	—	—	(3,477,212)	—
Management services	—	163,243	—	163,243
Others	—	—	370,000	—
	<u>17,457,846</u>	<u>17,650,250</u>	<u>14,041,829</u>	<u>16,623,089</u>
Less: Unallocated administrative and operating expenses			<u>(3,804,301)</u>	<u>(3,287,510)</u>
Profit from operations			<u>10,237,528</u>	<u>13,335,579</u>

	Turnover		Contribution	
	2000 HK\$	1999 HK\$	2000 HK\$	1999 HK\$
By locations:				
Hong Kong	15,669,753	12,118,486	12,253,736	11,091,325
Other Asian countries*	<u>1,788,093</u>	<u>5,531,764</u>	<u>1,788,093</u>	<u>5,531,764</u>
	<u>17,457,846</u>	<u>17,650,250</u>	<u>14,041,829</u>	<u>16,623,089</u>
Less: Unallocated administrative and operating expenses			<u>(3,804,301)</u>	<u>(3,287,510)</u>
Profit from operations			<u>10,237,528</u>	<u>13,335,579</u>

* mainly derived from treasury operations.

4. PROFIT FROM OPERATIONS

	2000 HK\$	1999 HK\$
Profit from operations has been arrived at after charging (crediting):		
Auditors' remuneration	254,000	260,000
Staff costs including directors' emoluments	2,462,452	2,124,989
Repairs and maintenance	150,588	568,693
Depreciation of property, plant and equipment	149,334	52,813
Construction fees written off (Note below)	150,000	—
Rentals from investment properties, less outgoings of HK\$308,805 (1999: HK\$251,150)	<u>(6,254,477)</u>	<u>(6,644,738)</u>

Notes to the Financial Statements (Continued)

For The Year Ended 31st December, 2000

4. PROFIT FROM OPERATIONS (Continued)

Note: As disclosed in the financial statements for the year ended 31st December, 1999, certain construction contracts undertaken by a subsidiary were not completed on schedule which might result in liquidated damages payable to the employers. The Group had provisions for construction fees of HK\$5,138,084 payable to subcontractors and corresponding construction income of HK\$5,288,084 receivable from the employers outstanding as at that date. As the rights of the contracting parties to claim for damages or payments under the contracts had lapsed, the directors consider it appropriate to write off these amounts to the income statement for the year which resulted in a net loss of HK\$150,000 to the Group.

5. FINANCE COSTS

	2000 HK\$	1999 HK\$
Interests on:		
Bank loans and overdrafts	147,623	709,490
Other borrowings wholly repayable within five years	3,610,809	3,202,133
Exchange gains, net	<u>(1,523,213)</u>	<u>(487,798)</u>
	<u>2,235,219</u>	<u>3,423,825</u>

6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

	2000 HK\$	1999 HK\$
(a) Directors' emoluments		
Directors' fees to independent non-executive directors	10,000	7,500
Salaries and other benefits to executive directors	<u>596,431</u>	<u>597,001</u>
Total emoluments	<u>606,431</u>	<u>604,501</u>

In addition to the amounts disclosed above, the executive directors and the independent non-executive directors respectively received management remunerations totalling HK\$5,180,878 (1999: HK\$5,183,011) and directors' fees totalling HK\$80,000 (1999: HK\$60,000) from an associate.

(b) Employees' emoluments

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

	2000 HK\$	1999 HK\$
Salaries and other benefits	<u>254,000</u>	<u>—</u>

Substantially all administrative services were provided by associates on a cost reimbursement basis. Reimbursement of administrative expenses for the year included staff costs of HK\$1,300,130 (1999: HK\$1,520,488).

Notes to the Financial Statements (Continued)

For The Year Ended 31st December, 2000

7. TAXATION

	2000 HK\$	1999 HK\$
Hong Kong Profits Tax charge (credit)		
Company and subsidiaries	1,771,199	430,783
Associates	<u>(285,338)</u>	<u>480,647</u>
	<u>1,485,861</u>	<u>911,430</u>

Hong Kong Profits Tax is calculated at 16% (1999: 16%) of the estimated assessable profit for the year.

Details of the potential deferred taxation not provided for in the year are set out in note 18.

8. NET PROFIT FOR THE YEAR

Of the Group's net profit for the year of HK\$9,965,420 (1999: HK\$15,360,923), a profit of HK\$12,131,989 (1999: HK\$15,108,551) has been dealt with in the financial statements of the Company.

9. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the net profit for the year of HK\$9,965,420 (1999: HK\$15,360,923) and on 537,076,602 (1999: 537,076,602) shares in issue during the year. The basic earnings per share for the year ended 31st December, 1999 has been restated as a result of the adoption of SSAP 24 by an associate (note 17(a)).

Diluted earnings per share is not presented as the exercise prices of the outstanding share options of the Company and the associate were higher than the average market price per share of the respective issuing companies for both years presented.

10. INVESTMENT PROPERTIES

	THE GROUP	
	2000 HK\$	1999 HK\$
VALUATION		
At 1st January	266,500,000	236,500,000
Increase on valuation	<u>—</u>	<u>30,000,000</u>
At 31st December	<u>266,500,000</u>	<u>266,500,000</u>

An analysis of the investment properties is as follows:

	THE GROUP	
	2000 HK\$	1999 HK\$
Land and buildings in Hong Kong on land held on:		
Long lease	66,500,000	66,500,000
Medium-term lease	<u>200,000,000</u>	<u>200,000,000</u>
	<u>266,500,000</u>	<u>266,500,000</u>

The investment properties of the Group were revalued on 31st December, 2000 on an open market value basis in their existing state by Dudley Surveyors Limited, an independent firm of property valuers.

Substantially all of the investment properties are rented out under operating leases.

Notes to the Financial Statements (Continued)

For The Year Ended 31st December, 2000

11. PROPERTY, PLANT AND EQUIPMENT

	Furniture, fixtures, equipment and motor vehicles HK\$
THE GROUP	
COST	
At 1st January, 2000	912,223
Additions	<u>587,561</u>
At 31st December, 2000	<u>1,499,784</u>
DEPRECIATION	
At 1st January, 2000	735,375
Provided for the year	<u>149,334</u>
At 31st December, 2000	<u>884,709</u>
NET BOOK VALUE	
At 31st December, 2000	<u><u>615,075</u></u>
At 31st December, 1999	<u><u>176,848</u></u>

12. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2000	1999
	HK\$	HK\$
Unlisted shares, at cost	2,250,884	2,250,884
Amounts due from subsidiaries less provision	<u>151,282,022</u>	<u>149,453,910</u>
	<u><u>153,532,906</u></u>	<u><u>151,704,794</u></u>

Particulars regarding the subsidiaries at 31st December, 2000 are set out in note 23.

13. INTERESTS IN ASSOCIATES

	THE GROUP	
	2000	1999
	HK\$	HK\$
Share of net assets (deficits) of associates		
Listed	559,295,360	565,552,978
Unlisted	<u>(103,035)</u>	<u>(95,938)</u>
	559,192,325	565,457,040
Amounts due from associates	<u>48,181,748</u>	<u>181,748</u>
	<u><u>607,374,073</u></u>	<u><u>565,638,788</u></u>
Market value of listed shares	<u><u>79,031,481</u></u>	<u><u>124,869,740</u></u>

Notes to the Financial Statements (Continued)

For The Year Ended 31st December, 2000

13. INTERESTS IN ASSOCIATES (Continued)

	THE COMPANY	
	2000 HK\$	1999 HK\$
At cost		
Shares listed in Hong Kong	302,246,042	302,246,042
Unlisted shares	4	4
	<u>302,246,046</u>	<u>302,246,046</u>
Amounts due from associates	48,181,748	181,748
	<u>350,427,794</u>	<u>302,427,794</u>
Market value of listed shares	62,694,883	99,057,915

The listed investments of the Group and the Company respectively represent approximately 49% (1999: 49%) and 38.9% (1999: 38.9%) interest in the issued ordinary share capital of Magnificent Estates Limited (“Magnificent”).

Included in amounts due from associates are advances made by the Company to Magnificent amounting to HK\$48,000,000 (1999: Nil). Details of the terms of these advances are set out in note 22(d).

Particulars regarding the associates at 31st December, 2000 are set out in note 24.

The following information has been prepared from the audited financial statements of Magnificent Estates Limited, the Group’s principal associate, for the year ended 31st March, 2000 and its unaudited interim report for the six months period ended 30th September, 2000.

(a) Consolidated results

	Six months ended 30th September,		Year ended 31st March,	
	2000 HK\$’000 (unaudited)	1999 HK\$’000 (unaudited)	2000 HK\$’000 (audited)	1999 HK\$’000 (audited)
Turnover	<u>150,581</u>	<u>28,977</u>	<u>103,697</u>	<u>117,473</u>
Profit from ordinary activities before taxation	5,947	2,986	4,088	15,504
Taxation	<u>41</u>	<u>(253)</u>	<u>288</u>	<u>(1,057)</u>
Profit for the period/year	<u>5,988</u>	<u>2,733</u>	<u>4,376</u>	<u>14,447</u>

(b) Consolidated financial position

	As at 30th September,		As at 31st March,	
	2000 HK\$’000 (unaudited)	1999 HK\$’000 (audited)	2000 HK\$’000 (audited)	1999 HK\$’000 (audited)
Non-current assets	1,340,204	1,339,009	1,339,009	1,226,615
Current assets	134,127	109,774	109,774	44,599
Current liabilities	(325,591)	(275,381)	(275,381)	(129,930)
Non-current liabilities	<u>(76)</u>	<u>(76)</u>	<u>(76)</u>	<u>(920)</u>
Net assets	<u>1,148,664</u>	<u>1,173,326</u>	<u>1,173,326</u>	<u>1,140,364</u>

Notes to the Financial Statements (Continued)

For The Year Ended 31st December, 2000

13. INTERESTS IN ASSOCIATES (Continued)

(b) Consolidated financial position (Continued)

At 30th September, 2000, Magnificent Estates Limited group of companies had contingent liabilities amounting to approximately HK\$2,620,000 (31.3.2000: HK\$2,181,000) in respect of long service payments not provided for in the financial statements which were only payable if the termination of employment of its employees meets certain circumstances specified in the Employment Ordinance.

14. TRADE AND OTHER RECEIVABLES

The Group generally allows an average credit period of not more than 30 days to its customers.

The following is an ageing analysis of trade and other receivables at the balance sheet date:

	THE GROUP	
	2000 HK\$	1999 HK\$
0–30 days	192,380	181,272
31–60 days	39,726	—
Over 60 days	10,819	5,388,959
	<u>242,925</u>	<u>5,570,231</u>

15. TRADE AND OTHER PAYABLES

The following is an ageing analysis of trade and other payables at the balance sheet date:

	THE GROUP	
	2000 HK\$	1999 HK\$
0–30 days	272,388	340,400
Over 60 days	1,185,157	6,154,362
	<u>1,457,545</u>	<u>6,494,762</u>

16. SHARE CAPITAL

	Number of shares	Nominal value
	2000 & 1999	2000 & 1999 HK\$
Ordinary shares of HK\$0.5 each		
Authorised		
At the beginning and end of the year	<u>640,000,000</u>	<u>320,000,000</u>
Issued and fully paid		
At the beginning and end of the year	<u>537,076,602</u>	<u>268,538,301</u>

There was no change in the share capital of the Company for both years presented.

At 31st December, 2000, 79,427,510 (1999: 55,055,010) issued ordinary shares of the Company were held by the Group's associates.

Notes to the Financial Statements (Continued)

For The Year Ended 31st December, 2000

16. SHARE CAPITAL (Continued)

Share options

Under the terms of the share option scheme adopted by the Company on 30th June, 1990, the Company may offer to any director or employee of the Company or its subsidiaries options at any time up to 30th June, 2000 to subscribe for shares in the Company at a price equal to the higher of the nominal value of the shares and 80% of the average closing price of the shares quoted on The Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the date of the grant of the options, subject to a maximum of 10% of the issued share capital of the Company from time to time.

During the year, no options were granted or exercised under the scheme. The share options previously granted to a director to subscribe for 5,374,691 shares of the Company at a subscription price of HK\$1.11 per share exercisable during the period from 20th October, 1993 to 19th October, 2003 remained outstanding at the end of the year.

17. RESERVES

	Share premium HK\$	Capital reserve HK\$	Investment property revaluation reserve HK\$	Other property revaluation reserve HK\$	Securities revaluation reserve HK\$	General reserve HK\$	Retained profits (note (a)) HK\$	Total HK\$
THE GROUP								
At 1st January, 1999								
— as previously reported	118,799,739	15,006,519	182,622,512	129,311,705	(26,089,274)	263,000	254,283,486	674,197,687
— prior period adjustment	—	—	—	—	—	—	(4,127,247)	(4,127,247)
— as restated	118,799,739	15,006,519	182,622,512	129,311,705	(26,089,274)	263,000	250,156,239	670,070,440
Share of reserve movements of associates	—	—	(707,041)	(41,185,201)	13,017,702	—	—	(28,874,540)
Increase on revaluation	—	—	30,000,000	—	—	—	—	30,000,000
Profit for the year	—	—	—	—	—	—	15,360,923	15,360,923
At 31st December, 1999	118,799,739	15,006,519	211,915,471	88,126,504	(13,071,572)	263,000	265,517,162	686,556,823
Share of reserve movements of associates	—	—	—	(1,168,557)	(5,808,535)	—	—	(6,977,092)
Profit for the year	—	—	—	—	—	—	9,965,420	9,965,420
At 31st December, 2000	<u>118,799,739</u>	<u>15,006,519</u>	<u>211,915,471</u>	<u>86,957,947</u>	<u>(18,880,107)</u>	<u>263,000</u>	<u>275,482,582</u>	<u>689,545,151</u>

The Group's share of post-acquisition reserves of the associates included in reserves is analysed below:

At 31st December, 2000	<u>—</u>	<u>(392,598)</u>	<u>38,726,541</u>	<u>86,957,947</u>	<u>(18,880,107)</u>	<u>—</u>	<u>105,812,457</u>	<u>212,224,240</u>
At 31st December, 1999	<u>—</u>	<u>(392,598)</u>	<u>38,726,541</u>	<u>88,126,504</u>	<u>(13,071,572)</u>	<u>—</u>	<u>102,078,147</u>	<u>215,467,022</u>

THE COMPANY

At 1st January, 1999	118,799,739	4,180,781	—	—	—	—	176,656,810	299,637,330
Profit for the year	—	—	—	—	—	—	15,108,551	15,108,551
At 31st December, 1999	118,799,739	4,180,781	—	—	—	—	191,765,361	314,745,881
Profit for the year	—	—	—	—	—	—	12,131,989	12,131,989
At 31st December, 2000	<u>118,799,739</u>	<u>4,180,781</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>203,897,350</u>	<u>326,877,870</u>

Notes to the Financial Statements (Continued)

For The Year Ended 31st December, 2000

17. RESERVES (Continued)

Notes:

- (a) During the period, an associate adopted Statement of Standard Accounting Practice No. 24 "Accounting for investments in securities" ("SSAP 24") issued by the Hong Kong Society of Accountants with retrospective effect. The adoption of this standard by the associate has resulted in prior period adjustments being made to its financial statements. The effects of such adjustments are to decrease the retained profits of the Group at 1st January, 1999 by HK\$4,127,247 and increase the profit of the Group for the year ended 31st December, 1999 by HK\$1,670,355. The results for the year ended 31st December, 1999 and the carrying value of interests in associates as at that date have been restated accordingly.
- (b) The Company's reserves available for distribution to shareholders at 31st December, 2000 represent retained profits of HK\$203,897,350 (1999: HK\$191,765,361).

18. UNPROVIDED DEFERRED TAXATION

At the balance sheet date, the major components of unprovided deferred tax liabilities (assets) are as follows:

	THE GROUP	
	2000	1999
	HK\$	HK\$
Tax effect of timing differences because of:		
Excess of tax allowances over depreciation	676,863	339,778
Unutilised tax losses	<u>(811,545)</u>	<u>(164,315)</u>
	<u><u>(134,682)</u></u>	<u><u>175,463</u></u>

Deferred tax liabilities (assets) have not been recognised in the financial statements as it is not certain that such taxation will crystallise in the foreseeable future.

The amount of the unprovided deferred tax charge (credit) for the year is as follows:

	THE GROUP	
	2000	1999
	HK\$	HK\$
Tax effect of timing differences because of:		
Excess of tax allowances over depreciation	337,085	339,286
Tax losses (generated) utilised	<u>(647,230)</u>	<u>668,282</u>
	<u><u>(310,145)</u></u>	<u><u>1,007,568</u></u>

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

Notes to the Financial Statements (Continued)

For The Year Ended 31st December, 2000

19. RECONCILIATION OF PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2000 HK\$	1999 HK\$
Profit from ordinary activities before taxation	11,451,281	16,272,353
Share of results of associates	(3,448,972)	(6,360,599)
Interest expenses	3,758,432	3,911,623
Construction fees written off (Note 4)	150,000	—
Depreciation of property, plant and equipment	149,334	52,813
Interest receivable from an associate not recognised	3,021,933	862,903
Movements in assets/liabilities held for operating activities:		
(Increase) decrease in trade and other receivables, deposits and prepayments	(17,173)	5,365,674
Increase (decrease) in trade and other payables and rental deposits received	253,005	(1,196,311)
Increase in other payable to an associate	1,749,872	1,079,394
	<u>17,067,712</u>	<u>19,987,850</u>
NET CASH INFLOW FROM OPERATING ACTIVITIES	<u>17,067,712</u>	<u>19,987,850</u>

20. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Advances from a director and a shareholder HK\$	Bank loans HK\$
Balance at 1st January, 1999	45,079,809	15,000,000
Net cash inflow (outflow) from financing	<u>2,627,133</u>	<u>(15,000,000)</u>
Balance at 31st December, 1999	47,706,942	—
Net cash inflow from financing	<u>2,432,725</u>	<u>—</u>
Balance at 31st December, 2000	<u>50,139,667</u>	<u>—</u>

21. PLEDGE OF ASSETS

At 31st December, 2000, the Group has pledged its bank deposit of approximately HK\$9 million (1999: HK\$29 million) in favour of a bank to secure the credit facilities granted to the Group by the bank.

22. RELATED PARTY TRANSACTIONS

The Group had the following transactions with related parties:

- (a) A property owned by a subsidiary of the Company, Noblesse International Limited, was let to Magnificent Estates Limited (“Magnificent”) at the mutually agreed rental of HK\$100,000 per month. Net rental received from Magnificent for the year amounted to HK\$1,080,000 (1999: HK\$1,080,000).
- (b) During the year, a substantial shareholder, Shun Ho Resources Holdings Limited (“Shun Ho Resources”), made unsecured short-term advances to the Company which carry interest chargeable at Hong Kong Inter-bank Offer Rate (“HIBOR”) plus 1% per annum. The advances are repayable on demand. Interest payable by the Company on such advances amounted to HK\$2,250,157 (1999: HK\$2,012,311) in respect of the year. At the balance sheet date, such advances amounted to HK\$32,085,189 (1999: HK\$30,930,032) remained outstanding.

Notes to the Financial Statements *(Continued)*

For The Year Ended 31st December, 2000

22. RELATED PARTY TRANSACTIONS *(Continued)*

- (c) During the year, a director of the Company, Mr. William Cheng Kai Man, made unsecured short-term advances to the Group which carry interest chargeable at HIBOR plus 1% to 2% per annum. The advances are repayable on demand. Interest payable by the Group on such advances amounted to HK\$1,360,652 (1999: HK\$1,189,822) in respect of the year. At the balance sheet date, such advances amounted to HK\$18,054,478 (1999: HK\$16,776,910) remained outstanding.
- (d) During the year, the Company made advances to an associate, Magnificent, and its subsidiary, which are unsecured and carry interest chargeable at HIBOR plus 1% per annum. At the balance sheet date, such advances amounted to HK\$179,740,352 (1999: HK\$145,564,150) remained outstanding. Such advances to the extent of HK\$48,000,000 (1999: Nil) are classified as non-current assets. Interest receivable by the Company on such advances amounted to a total of HK\$12,128,277 (1999: HK\$5,848,356) in respect of the year, of which HK\$3,021,933 (1999: HK\$862,903), representing the Group's attributable share of interest capitalised by Magnificent, was not recognised in the income statement.
- (e) During the year, administrative expenses amounted to HK\$2,055,184 (1999: HK\$2,229,393) were payable by the Group to Magnificent and its subsidiary for services provided by these companies on a cost reimbursement basis.
- (f) At the balance sheet date, the Group had payables to an associate amounted to HK\$5,199,145 (1999: HK\$3,449,273) which is unsecured, interest free and repayable on demand.

Notes to the Financial Statements (Continued)

For The Year Ended 31st December, 2000

23. PARTICULARS OF SUBSIDIARIES

All the subsidiaries of the Company are incorporated and operating in Hong Kong except as otherwise indicated.

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

Name of subsidiary	No. of ordinary shares	Paid up issued/registered ordinary capital Par value	Proportion of nominal value of issued/registered ordinary capital held by the Company		Principal activities
			Directly %	Indirectly %	
Duplexway Limited	2	HK\$1	100	—	Property investment
Fastgrow Engineering & Construction Company Limited	2	HK\$1	100	—	Inactive
Good Taylor Limited	2	HK\$1	100	—	Investment holding
Lucky Bongo Limited	2	HK\$10	—	100	Inactive
Miluda Limited	2	HK\$1	100	—	Provision of secretarial services
Noblesse International Limited (i)	1	US\$1	100	—	Property investment
Ontrade Investment Limited	2	HK\$10	100	—	Inactive
Ontrade Nominees Limited	2	HK\$10	100	—	Provision of nominee services
Ontrade Property & Development Limited	2	HK\$10	100	—	Inactive
Shun Ho Construction Company Limited	2	HK\$1	100	—	Inactive
Shun Ho Contractor Limited	2	HK\$1	100	—	Inactive
Shun Ho Engineering Company Limited	2	HK\$1	100	—	Inactive
Shun Ho (Lands Development) Limited (i)	10	US\$1	100	—	Investment holding
Shun Ho Property Development Limited	2	HK\$1	100	—	Inactive
Shun Ho Technology Developments Limited (formerly known as Starland Company Limited)	2	HK\$10	100	—	Internet and e-commerce business
South Point Investments Limited (i)	1	US\$1	100	—	Investment holding
Tianjin First Pacific Shun Ho Real Estates Co., Ltd. (ii)		RMB4,542,339	—	100	Inactive

(i) Incorporated in the British Virgin Islands

(ii) Wholly foreign owned enterprise established and operating in the People's Republic of China

Notes to the Financial Statements (Continued)

For The Year Ended 31st December, 2000

24. PARTICULARS OF ASSOCIATES

All the associates are incorporated and operating in Hong Kong except as otherwise indicated.

Name of company	Proportion of nominal value of issued/registered ordinary capital held by the Group		Principal activities
	Directly %	Indirectly %	
Ascot Apartment Hotel Limited	—	49.0	Inactive
Ascot House Limited	—	49.0	Inactive
Ascot Lodge Limited	—	49.0	Inactive
Ascot Villas Limited	—	49.0	Inactive
Babenna Limited	—	49.0	Investment holding
Brunker Trading Limited (i)	—	49.0	Investment holding
Claymont Services Limited (i)	—	49.0	Investment holding
Gainwell Holdings Limited	—	49.0	Property investment
Harbour Rich Industrial Limited	—	49.0	Property development
Hotel Royale International Limited	—	49.0	Inactive
Houston Venture Limited (i)	—	49.0	Investment holding
Joes River Limited	—	49.0	Property investment
Joligance Limited	—	49.0	Investment holding
Longham Investment Limited (i)	—	49.0	Investment holding
Lucky Country Development Limited	—	24.5	Property investment
Lynista Services Limited (i)	—	49.0	Investment holding
Magnificent Estates Limited	38.9	10.1	Investment holding and provision of management services
Mercury Fast Limited	—	49.0	Securities trading and investment holding
Mulbinga Limited (i)	—	49.0	Investment holding
New Champion Developments Limited (i)	—	49.0	Vessel leasing
On Sea Limited	—	49.0	Vessel leasing
Perfect View Investment Limited	—	49.0	Inactive
Royle Corporation Limited	50	—	Property investment
Shanghai Shun Ho (Lands Development) Limited (i)	—	49.0	Investment holding
Shanghai Shun Ho Property Development Co., Ltd. (ii)	—	49.0	Property development
Shun Ho Building Limited	—	49.0	Inactive
Shun Ho Capital Properties Limited (i)	—	49.0	Investment holding
Shun Ho Construction (Holdings) Limited (formerly known as Arboga Limited)	—	49.0	Inactive
Shun Ho Real Estate Limited	50	24.5	Provision of hospitality services
Silver Courage Company Limited	—	49.0	Property investment
Sungalia Enterprises Limited (i)	—	49.0	Investment holding
Trans-Profit Limited	—	49.0	Property investment
United Assets Company Limited	—	49.0	Hotel ownership and investment holding
Wah Leung Finance Limited	—	49.0	Securities trading

(i) Incorporated in the British Virgin Islands

(ii) Established and operating in the People's Republic of China

Notes to the Financial Statements *(Continued)*

For The Year Ended 31st December, 2000

25. POST BALANCE SHEET EVENT

Subsequent to the balance sheet date, Magnificent proposed a rights issue of 5% mandatorily convertible bonds (the "Bonds") together with warrants at an aggregate subscription price of approximately HK\$96,707,000. Each unit of the Bonds will entitle the holder to convert the Bonds into one share of Magnificent at the conversion price of HK\$0.06 per share. The Company has agreed to subscribe for the Bonds which would be provisionally allotted to the Group at the aggregate subscription price of approximately HK\$47,420,000 and to underwrite the remaining balance of the Bonds. The rights issue is subject to, inter alia, the approval of the shareholders of Magnificent.