

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2000

(Expressed in Hong Kong Dollars)

1. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

In 1999 and 2000, the Group had not repaid and/or serviced certain of its borrowings in accordance with repayment schedules under various loan agreements. However, subsequent to the balance sheet date of 31 December 2000, the Group has made good a substantial portion of the overdue principal and interest payments, and the banks or finance providers have not instituted any legal actions against the Group; accordingly the directors believe that the banks or finance providers will not request the Group to accelerate repayments of the loans and consider that it is appropriate to classify the loans in accordance with the original repayment schedules of the financing facilities.

The directors have considered the liquidity of the Group in light of the above and the funding requirements of the Group in the coming year. Given the availability of banking and other financing facilities, the balance of \$47 million (US\$6 million) of the tranche 3 convertible debentures, receivables and cash equivalents together with the budgeted proceeds derived from the asset realisation programme, the directors are of the opinion that sufficient working capital are available to fulfil the reducing financial obligations when they fall due and to meet the funding requirements of the Group. Accordingly, the financial statements have been prepared on a going concern basis.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain assets and in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. A summary of the significant accounting policies adopted by the Group is set out below.

(a) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31 December, except for those unconsolidated subsidiaries set out in note 17 to the financial statements. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from or to the date of their acquisition or disposal, as appropriate. All material intercompany transactions and balances are eliminated on consolidation.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2000

(Expressed in Hong Kong Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Basis of consolidation (continued)

Investments in unconsolidated subsidiaries in the consolidated balance sheet are stated at cost less provision for permanent diminution in value as determined by the directors for each subsidiary individually. Any such provisions are recognised as an expense in the profit and loss account.

(b) Subsidiaries

A subsidiary is a company in which the Group or the Company, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors.

Investments in subsidiaries in the Company's balance sheet are stated at cost less provision for permanent diminution in value as determined by the directors for each subsidiary individually. Any such provisions are recognized as an expense in the profit and loss account.

(c) Associates

An associate is a company in which the Group or the Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decision.

Unless the interest in the associate is acquired and held exclusively with a view to subsequent disposal in the near future, an investment in an associate is accounted for in the consolidated financial statements under the equity method and is stated at the Group's share of the net assets of associates less any provisions for diminution in value considered necessary by the directors. The consolidated profit and loss account reflects the Group's share of the post-acquisition results of the associates for the year.

(d) Goodwill and capital reserve

Goodwill or capital reserve arising on consolidation of subsidiaries and on acquisition of associates represents the excess or shortfall of purchase consideration paid over the fair values ascribed to the underlying net assets acquired and is respectively eliminated against or credited to reserves in the year of acquisition. On disposal of subsidiaries or associates, the relevant portion of attributable goodwill or capital reserve previously eliminated against or credited to reserves is included in the determination of the gain or loss on disposal.

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(Expressed in Hong Kong Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Other investments in securities

The Group's accounting policies for investments in securities other than investments in subsidiaries and associates, which are in accordance with the "Benchmark treatment" as set out in Statement of Standard Accounting Practice 24 ("SSAP 24") issued by the Hong Kong Society of Accountants, are as follows:

- (i) Investments held on a continuing basis for an identified long-term purpose are classified as "Investment securities". Investment securities are stated in the balance sheet at cost less any provisions for diminution in value. Provisions are made when the fair values have declined below the carrying amounts, unless there is evidence that the decline is temporary, and are recognized as an expense in the profit and loss account, such provisions being determined for each investment individually.
- (ii) Provisions against the carrying value of investment securities are written back when the circumstances and events that led to the write-down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.
- (iii) All other equity securities (whether held for trading or otherwise) are stated in the balance sheet at fair value. Changes in fair value are recognized in the profit and loss account as they arise. Securities are presented as trading securities when they were acquired principally for the purpose of generating a profit from short term fluctuations in price or dealer's margin.
- (iv) Profits or losses on disposals of investments in securities are determined as the difference between the estimated net disposal proceeds and the carrying amount of the investments and are accounted for in the profit and loss account as they arise.

(f) Fixed assets

- (i) Fixed assets are carried in the balance sheets on the following bases:
 - investment properties with an unexpired lease term of more than 20 years are stated in the balance sheets at their open market value which is assessed annually by external qualified valuers;
 - other fixed assets are stated in the balance sheets at cost less accumulated depreciation.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2000

(Expressed in Hong Kong Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Fixed assets (continued)

- (ii) Changes arising on the revaluation of investment properties are generally dealt with in reserves. The only exceptions are as follows:
- when a deficit arises on revaluation, it will be charged to the profit and loss account, if and to the extent that it exceeds the amounts held in the reserve in respect of the portfolio of investment properties immediately prior to the revaluation; and
 - when a surplus arise on revaluation, it will be credited to the profit and loss account, if and to the extent that a deficit on revaluation in respect of the portfolio of investment properties had previously been charged to the profit and loss account.
- (iii) The carrying amount of fixed assets (other than investment properties with an unexpired lease term of more than 20 years) is reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The amount of the reduction is recognized as an expense in the profit and loss account. In determining the recoverable amount, expected future cash flows generated by the fixed assets are not discounted to their present values.
- When the circumstances and events that led to the write-down or write-off cease to exist, any subsequent increase in the recoverable amount of an asset is written back to the profit and loss account. The amount written back is reduced by the amount that would have been recognized as depreciation had the write-down or write-off not occurred.
- (iv) Subsequent expenditure relating to a fixed asset that has already been recognized is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the enterprise. All other subsequent expenditure is recognized as an expense in the period in which it is incurred.
- (v) Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognized in the profit and loss account on the date of retirement or disposal. On disposal of an investment property, the related portion of surpluses or deficits previously taken to the investment properties revaluation reserve is also transferred to the profit and loss account for the year.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2000

(Expressed in Hong Kong Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Depreciation

- (i) No depreciation is provided on investment properties with an unexpired lease term of over 20 years.
- (ii) No depreciation is provided on properties under development.
- (iii) Depreciation is calculated to write off the cost of other fixed assets on a straight-line basis over their estimated useful lives as follows:

Leasehold improvements	over the lease term
Office equipment	5 years
Motor vehicles	5 years

(h) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the profit and loss account as follows:

- (i) Rental income receivable under operating leases is recognised on a straight-line basis over the term of the lease.
- (ii) System integration services income is recognised on a completion basis.
- (iii) Interest income from bank deposits is accrued on a time-apportioned basis on the principal outstanding and at the effective interest rate applicable.

(i) Operating leases

Rentals payable under operating leases are charged to the profit and loss account on a straight-line basis over the periods of the respective leases.

(j) Properties under development/properties under development for resale

Properties under development/properties under development for resale are stated at specifically identified cost, including borrowing costs capitalised, aggregate cost of development, materials and supplies, wages and other direct expenses, less any provisions considered necessary by the directors.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2000

(Expressed in Hong Kong Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Properties held for sale

Properties held for sale transferred from fixed assets to current assets are stated at the lower of the carrying value of the asset, as stated under its original classification, and net realisable value. Net realisable value is determined by reference to management's estimate of the selling price based on the prevailing market conditions, less any material estimated costs to be incurred on disposal.

Income on property sales is recognised when the legally binding sales contracts are signed.

(l) Deferred taxation

Deferred taxation is provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which are expected with reasonable probability to crystallise in the foreseeable future.

Future deferred tax benefits are not recognised unless their realisation is assured beyond reasonable doubt.

(m) Borrowing costs

Borrowing costs are expensed in the profit and loss account in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

(n) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2000

(Expressed in Hong Kong Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the profit and loss account.

The financial statements of subsidiaries denominated in currencies other than Hong Kong dollars are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. The exchange differences are dealt with as a movement in reserves.

(p) Cash equivalents

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired. For the purposes of the cash flow statement, cash equivalents would also include advances from banks repayable within three months from the date of the advance.

3. TURNOVER

The principal activities of the Company during the year were investment holding. The principal activities of the subsidiaries during the year are set out in note 14 to the financial statements.

The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2000	1999
	\$'000	\$'000
Rental income	12,780	3,495
System integration services income	867	—
	13,647	3,495

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2000

(Expressed in Hong Kong Dollars)

4. SEGMENTAL INFORMATION

An analysis of the Group's turnover and contribution to operating loss for the year by principal activities is as follows:

	Turnover		Contribution to loss from operations	
	2000 \$'000	1999 \$'000	2000 \$'000	1999 \$'000
Property investment	12,780	3,495	(85,608)	(193,945)
System integration services	867	—	(6,700)	(39,611)
Software and networking development	—	—	(1,465)	—
Utility project	—	—	(10,594)	—
Investment holding	—	—	(31,876)	(16,101)
Hotel operation	—	—	(12,407)	—
	13,647	3,495	(148,650)	(249,657)
Interest income			5,419	—
Head office expenses			(65,019)	(96,799)
Operating loss			(208,250)	(346,456)

The above analysis does not include the turnover and contributions from six subsidiaries which have not been consolidated into the Group's financial statements (see note 17).

Analysis of the Group's turnover and contribution by geographical location is not shown as overseas' operation account for less than 10% of the Group's turnover and trading results.

NOTES TO THE FINANCIAL STATEMENTS

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(Expressed in Hong Kong Dollars)

5. LOSS FROM ORDINARY ACTIVITIES

	2000	1999
	\$'000	\$'000
(a) Operating loss before provisions and other losses and gains are arrived at after charging/(crediting):		
Staff costs	6,950	4,438
Auditors' remuneration		
— current year	1,300	1,500
— prior year	—	400
Depreciation	834	308
Operating lease charges on properties	1,331	518
Rentals receivable from investment properties less outgoings of \$1,710,000 (1999: \$765,000)	(11,070)	(2,730)
(b) Finance cost		
Interest on bank overdraft and loans, and other borrowings repayable within five years	26,980	24,247
Interest on other loans	15,004	—
Interest on debentures	1,221	—
Other borrowing costs	—	9,886
Total borrowing costs	43,205	34,133

The Group's management services up to 30 June 2000 were provided by Gold Choice Enterprises Limited, a subsidiary of Global Link Cyber International Limited ("GLC"). Pursuant to a management services agreement mentioned in the section headed "Management services agreement" in the "Report of the Directors". The management fee payable in respect of the management services provided for the period ended 30 June 2000 amounted to \$2,232,000 (note 30(d)).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2000

(Expressed in Hong Kong Dollars)

6. TAXATION

(a) Taxation in the consolidated profit and loss account represents:

	2000	1999
	\$'000	\$'000
Provision for tax in the People's Republic of China ("PRC") for the year	41	—
Provision for Hong Kong Profits Tax for the year	23	—
Underprovision in respect of prior years	552	29
Tax surcharge	7	—
	623	29
PRC tax paid for the year	48	—
	671	29

Hong Kong Profits Tax is calculated at 16% of the estimated assessable profit of each individual company, after making adjustments for taxation purposes and after deducting any available tax relief for losses brought forward. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions. In prior year, no Hong Kong Profits Tax is provided as each individual company sustained losses for taxation purposes.

(b) Taxation in the consolidated balance sheet represents:

	2000	1999
	\$'000	\$'000
PRC tax recoverable for the year	(24)	—
Provision for Hong Kong Profits Tax for the year	56	—
	32	—
Provision in respect of prior year	—	129
	32	129

NOTES TO THE FINANCIAL STATEMENTS

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6. TAXATION (continued)

- (c) No provision for deferred taxation is required as there are net deferred tax debits for both the Group and the Company. The largest component of the unrecognised deferred tax assets of approximately \$14,593,000 (1999: \$11,133,000) and \$8,438,000 (1999: \$8,438,000) is in respect of tax losses of the Group and the Company respectively. The remaining deferred tax debits are not material.

7. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	2000	1999
	\$'000	\$'000
Fees	2,032	2,925
Salaries and other emoluments	13,053	18,702
Benefits in kind	23,940	—
	39,025	21,627

Included in the directors' remuneration were \$1,179,000 (1999: \$1,425,000) and \$3,560,000 (1999: \$400,000) paid to independent non-executive and non-executive directors respectively during the year.

Certain directors were granted share options under the Company's share option scheme. In the absence of a ready market for the options granted on the shares of the Company, the directors are unable to arrive at an accurate assessment of the value of the outstanding options granted to the respective directors. On exercise of the options, the benefits on the exercise of the options are included as benefits in kind in this note.

NOTES TO THE FINANCIAL STATEMENTS

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(Expressed in Hong Kong Dollars)

7. DIRECTORS' REMUNERATION (continued)

The remuneration of the directors is within the following bands:

	Number of directors	
	2000	1999
Nil – 1,000,000	5	6
1,000,001 – 1,500,000	—	1
1,500,001 – 2,000,000	1	2
2,000,001 – 2,500,000	—	1
3,500,001 – 4,000,000	1	—
6,000,001 – 6,500,000	2	—
12,000,001 – 12,500,000	—	1
20,000,001 – 25,000,000	1	—

8. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, 4 (1999: all) are directors whose emoluments are disclosed in note 7. The emolument in respect of the remaining individual is \$860,000.

9. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders includes a loss of \$556,107,000 (1999: \$293,510,000) which has been dealt with in the financial statements of the Company.

10. LOSS PER SHARE

The calculation of basic loss per share is based on the loss attributable to shareholders of \$205,261,000 (1999: loss of \$346,485,000) and the weighted average of 22,692,396,412 (1999: 6,991,535,457) ordinary shares in issue during the year.

There were no dilutive potential ordinary shares in existence during 2000 and no potential ordinary shares in existence during 1999.

NOTES TO THE FINANCIAL STATEMENTS

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(Expressed in Hong Kong Dollars)

11. FIXED ASSETS

(a) The Group

	Investment properties	Leasehold improve- ments	Plant & machinery	Office equipment	Motor vehicles	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cost or valuation:						
At 1 January 2000	154,000	—	—	325	1,747	156,072
Additions	—	1,422	3,822	925	2,349	8,518
Additions through						
acquisition of subsidiaries	251,550	—	—	311	393	252,254
Transfer to properties held						
for resale (note 19)	(81,000)	—	—	—	—	(81,000)
Disposals through sale of						
subsidiaries	(72,953)	—	—	—	—	(72,953)
Disposals	(47)	—	—	(308)	(1,747)	(2,102)
Deficit on revaluation	(7,193)	—	—	—	—	(7,193)
At 31 December 2000	244,357	1,422	3,822	1,253	2,742	253,596
Representing:						
Cost	—	1,422	3,822	1,253	2,742	9,239
Valuation — 2000	244,357	—	—	—	—	244,357
	244,357	1,422	3,822	1,253	2,742	253,596
Accumulated depreciation:						
At 1 January 2000	—	—	—	194	469	663
Charge for the year	—	95	—	251	488	834
Disposals	—	—	—	(193)	(669)	(862)
At 31 December 2000	—	95	—	252	288	635
Net book value:						
At 31 December 2000	244,357	1,327	3,822	1,001	2,454	252,961
At 31 December 1999	154,000	—	—	131	1,278	155,409

NOTES TO THE FINANCIAL STATEMENTS

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11. FIXED ASSETS (continued)

(b) The Company

	Office equipment	Motor vehicles	Total
	\$'000	\$'000	\$'000
Cost:			
At 1 January 2000	295	509	804
Additions	—	1,309	1,309
Disposals	(278)	(509)	(787)
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At 31 December 2000	17	1,309	1,326
	<hr/>	<hr/>	<hr/>
Accumulated depreciation:			
At 1 January 2000	164	314	478
Charge for the year	3	181	184
Disposals	(163)	(390)	(553)
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At 31 December 2000	4	105	109
	<hr/>	<hr/>	<hr/>
Net book value:			
At 31 December 2000	13	1,204	1,217
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At 31 December 1999	131	195	326
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(c) An analysis of the carrying value of investment properties is as follows:

	The Group	
	2000	1999
	\$'000	\$'000
Long leases in Hong Kong	180,030	154,000
Medium term leases in Hong Kong	64,327	—
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	244,357	154,000
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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2000

(Expressed in Hong Kong Dollars)

11. FIXED ASSETS (continued)

- (d) The investment properties of the Group with a carrying value of \$244,357,000 (1999:\$154,000,000) were revalued at 31 December 2000 by an external firm of qualified surveyors, RHL Appraisal Limited on an open market value basis. The revaluation deficit of \$7,193,000 (1999: \$10,497,000) was charged to the profit and loss account during the year.
- (e) At 31 December 2000, investment properties of the Group with a carrying value of \$156,397,000 (1999: \$154,000,000) were pledged to banks and finance providers to secure financing facilities granted to the Group.
- (f) At 31 December 2000, investment properties of the Group with a carrying value of \$76,160,000 (1999: \$NIL) were pledged to secure financing facilities to GLC and a subsidiary of GLC (note 30(b)).

12. PROPERTIES UNDER DEVELOPMENT

	The Group	
	2000	1999
	\$'000	\$'000
At 1 January	165,000	245,300
Additions	—	83,748
Additions through acquisition of subsidiaries	27,740	128,000
Provision for diminution in value	(6,710)	(150,048)
Transfer to properties under development for resale (note 18)	(100,000)	(142,000)
Disposals through sale of subsidiaries	(65,000)	—
At 31 December	21,030	165,000

NOTES TO THE FINANCIAL STATEMENTS

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12. PROPERTIES UNDER DEVELOPMENT (continued)

(a) An analysis of the carrying value of properties under development is as follows:

	2000	1999
	\$'000	\$'000
Long leases in Hong Kong	20,000	—
Medium term leases in Hong Kong	—	100,000
Long leases in the PRC	1,030	65,000
	21,030	165,000

(b) At 31 December 2000, certain properties under development with a carrying value of \$20,000,000 (1999: Nil) were mortgaged to a bank to secure banking facilities granted to GLC (note 30(b)).

13. DEPOSITS PAID

	The Group		The Company	
	2000	1999	2000	1999
	\$'000	\$'000	\$'000	\$'000
Purchase consideration	—	107,500	—	60,000
Related costs	—	21,130	—	8,000
	—	128,630	—	68,000
Provision	—	(72,430)	—	(29,000)
	—	56,200	—	39,000

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14. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2000	1999
	\$'000	\$'000
Unlisted, at cost	208,904	36,012
Related costs	8,000	—
Loans to subsidiaries	978,455	447,048
	1,195,359	483,060
Less: Provision	(918,845)	(210,763)
	276,514	272,297

The amounts due from subsidiaries are unsecured, interest free and with no fixed terms of repayment.

Details of subsidiaries which, in the opinion of the directors, principally affected the results or assets of the Group are set out below. To give full details of subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

Name of company	Place of incorporation	Principal activities and place of operation	Particulars of issued share/registered share capital	Effective interest held
Direct subsidiaries				
Bright Wick Limited	Hong Kong	Property investment in Hong Kong	10,000 ordinary shares of \$1 each	100%
China White Cement Limited	Hong Kong	Investment holding in PRC	20,000 ordinary shares of \$1 each	100%
City Source Investment Limited	Hong Kong	Property investment in Hong Kong	2 ordinary shares of \$1 each	100%
Cyberspring Limited	Hong Kong	Investment holding in PRC	2 ordinary shares of \$1 each	100%
Day Success Company Limited	Hong Kong	Property investment in Hong Kong	2 ordinary shares of \$1 each	100%

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14. INVESTMENTS IN SUBSIDIARIES (continued)

Name of company	Place of incorporation	Principal activities and place of operation	Particulars of issued share/registered share capital	Effective interest held
Deluxe Challenge Limited	Hong Kong	Investment holding in Hong Kong	2 ordinary shares of \$1 each	100%
Diamond Gold Limited	British Virgin Islands	Property development in Hong Kong	1 ordinary share of US\$1 each	100%
Excel Bond Investment Limited	Hong Kong	Property investment in Hong Kong	2 ordinary shares of \$1 each	100%
Excel Wealthy Investment Limited	Hong Kong	Property investment in Hong Kong	2 ordinary shares of \$1 each	100%
Fairsheen Limited	Hong Kong	Property investment in Hong Kong	10,000 ordinary shares of \$1 each	100%
Grand Prestige Limited	British Virgin Islands	Investment holding in Hong Kong	1 bearer share of US\$1 each	100%
Grand Top Investment Limited	Hong Kong	Property investment in Hong Kong	2 ordinary shares of \$1 each	100%
Kailey International Limited	Hong Kong	Investment holding in PRC	2 ordinary shares of \$1 each	100%
King Respect Limited	Hong Kong	Investment holding in PRC	2 ordinary shares of \$1 each	100%
Kong Tai Properties Development Company Limited	Hong Kong	Property investment in Hong Kong	2 ordinary shares of \$1 each	100%
Marson Development Limited	Hong Kong	Property investment in Hong Kong	2 ordinary shares of \$1 each	100%
Pak Fook Company Limited	Hong Kong	Property investment in Hong Kong	2 ordinary shares of \$1 each	100%
Power Giant Limited	Hong Kong	Investment holding in PRC	10,000 ordinary shares of \$1 each	100%

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14. INVESTMENTS IN SUBSIDIARIES (continued)

Name of company	Place of incorporation	Principal activities and place of operation	Particulars of issued share/registered share capital	Effective interest held
Smart Idea Investment Limited	Hong Kong	Investment holding in PRC	2 ordinary shares of \$1 each	100%
Solar Regent Investments Limited	Hong Kong	Property development in Hong Kong	2 ordinary shares of \$1 each	100%
Sunny Giant Limited	Hong Kong	Investment holding in Hong Kong	2 ordinary shares of \$1 each	100%
Teleking Development Limited	Hong Kong	Property investment in Hong Kong	2 ordinary shares of \$1 each	100%
Wellstech International Limited	Hong Kong	Property investment in Hong Kong	10,000 ordinary shares of \$1 each	100%
Wholesome Investments Limited	Hong Kong	Property investment in Hong Kong	2 ordinary shares of \$1 each	100%
Wisehall Star Limited	Hong Kong	Provision of management services in Hong Kong	2 ordinary shares of \$1 each	100%
Worldwide Group Investment Limited	Hong Kong	Property investment in Hong Kong	2 ordinary shares of \$1 each	100%
Indirect subsidiaries				
北京星港環宇網絡系統有限公司 ("BSSN")	PRC	Investment holding in PRC	Registered capital of RMB15,000,000	81%
北京環宇和平衛星應用有限責任公司 ("UPSA")	PRC	Development & installation of computer network in PRC	Registered capital of RMB10,000,000	61%
北京國建華翠燃氣技術有限公司	PRC	Investment holding in PRC	Registered capital of RMB10,000,000	51%
醴陵華翠燃氣有限公司	PRC	Utility project in PRC	Registered capital of RMB5,000,000	41%

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2000

(Expressed in Hong Kong Dollars)

14. INVESTMENTS IN SUBSIDIARIES (continued)

Name of company	Place of incorporation	Principal activities and place of operation	Particulars of issued share/registered share capital	Effective interest held
China Fame International Investment Limited	Hong Kong	Investment holding in PRC	10,000 ordinary shares of \$1 each	100%
Golden Max Holdings Limited	Hong Kong	Property investment in Hong Kong	3 ordinary shares of \$1 each	100%
World Grace Holdings Limited	Hong Kong	Investment holding in PRC	2 ordinary shares of \$1 each	100%
World Structure Limited	Hong Kong	Investment holding in PRC	2 ordinary shares of \$1 each	100%

None of the subsidiaries has issued any debt securities.

15. INTEREST IN ASSOCIATES

	The Group	
	2000	1999
	\$'000	\$'000
Share of net assets/(liabilities) other than goodwill	1,907	(1,923)
Loans to associates	—	3,497
Less: Provision	(1,907)	(1,574)
	—	—

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2000

(Expressed in Hong Kong Dollars)

15. INTEREST IN ASSOCIATES (continued)

Details of the principal associates of the Group are set out below:

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued shares/ registered capital held	Effective interest held
Worldwide 2000 Limited (note (c))	British Virgin Islands	Investment holding in PRC	82,228,000 ordinary shares of nominal value of \$0.1 each	20%
河南大東信息產業有限公司 (note (d))	PRC	Investment holding and software development in PRC	Registered capital of RMB3,000,000	30%
Worldwide IP Communications Limited	British Virgin Islands	Operate a communication software project in Hong Kong	10 shares of US\$1 each	30%

(a) All the associates are held by subsidiaries of the Company.

(b) The share of net assets and results of the associates are based on unaudited financial statements as at 31 December 2000.

(c) Worldwide 2000 Limited holds 100% interests in 北京中農網科技有限公司, a company which principal activities are trading of computers and operating a website in the PRC, through two trustees who are residents in the PRC. Based on the opinion of legal advisors, the directors consider that the Group has beneficial titles to the equity of 北京中農網科技有限公司.

(d) The Group holds 30% interests in 河南大東信息產業有限公司 through a trustee who is a resident in the PRC. Based on the opinion of legal advisors, the directors consider that the Group has beneficial titles to the equity of 河南大東信息產業有限公司.

河南大東信息產業有限公司 holds 60% interests in 河南商都信息發展有限公司, a company which principal activities are software and networking development.

河南商都信息發展有限公司 is the owner and operator of 商都信息港 (www.zz.ha.cn).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2000

(Expressed in Hong Kong Dollars)

16. INVESTMENT SECURITIES

	The Group	
	2000	1999
	\$'000	\$'000
Unlisted equity securities	—	12,410
Provision	—	(410)
	—	12,000
Club debentures	997	997
	997	12,997

17. INVESTMENTS IN UNCONSOLIDATED SUBSIDIARIES

	The Group	
	2000	1999
	\$'000	HK\$'000
Unlisted equity, at cost	160,776	78,000
Related costs	10,400	11,513
Loans to unconsolidated subsidiaries	71,360	—
Less: Provision	(132,536)	(11,013)
	110,000	78,500

- (a) Investments in unconsolidated subsidiaries as at 31 December 1999 were classified as current assets on the basis that the subsidiaries concerned were intended to be held on a temporary basis.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2000

(Expressed in Hong Kong Dollars)

17. INVESTMENTS IN UNCONSOLIDATED SUBSIDIARIES (continued)

(b) Particulars of the unconsolidated subsidiaries related to two investments in the PRC are as follows:

(i) Guangxi Cement Plants

Name of company	Held by the Company %	Held by subsidiary %	Place of incorporation	Principal activity	Investment cost \$ million	Commitment amount \$ million	Carrying value \$ million
China White Cement Limited ("China White Cement")	100	—	Hong Kong	Investment holding — 55% interest in Guangxi Heng County and Heng County Special Cement	52.4	—	—
Guangxi Heng County Special Cement Building Materials Co. Ltd. ("Guangxi Heng County")	—	55%	PRC	Cement plant operation	—	—	—
Heng County Special Cement Co. Ltd. ("Heng County Special Cement")	—	60.5%	PRC	Cement plant operation	—	—	—

- (i) Heng County Special Cement is 55% held by China White Cement and 10% held by Guangxi Heng County. The Group's effective interest in Heng County Special Cement is 60.5%.
- (ii) The financial statements of the above subsidiaries have been excluded from consolidation as, audited financial statements of these subsidiaries prepared under the accounting principles generally accepted in Hong Kong are not yet available. In the opinion of the directors, to complete the audit of the subsidiaries under accounting principles generally accepted in Hong Kong will cause delay in the issue of the Company's annual report.
- (iii) The information required under paragraph 18(4) of the Tenth Schedule to the Hong Kong Companies Ordinance in respect of the subsidiaries has not been disclosed.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2000

(Expressed in Hong Kong Dollars)

17. INVESTMENTS IN UNCONSOLIDATED SUBSIDIARIES (continued)

(II) Luoyang Hotel

Name of company	Held	Held by subsidiary	Place of incorporation	Principal activity	Investment cost	Commitment amount	Carrying value
	by the company						
	%	%			\$ million	\$ million	\$ million
Central Union (Asia) Hotel Management Company Limited ("Central Union Asia")	—	57%	British Virgin Islands	Investment holding — 100% in Henan Central Union	108.3	—	110
Henan Central Union Computer Co. Ltd. ("Henan Central Union")		100%	PRC	Investment holding — 70% in LGGH	—	—	
洛陽金水灣大酒店有限公司 ("LGGH")		70%	PRC	Hotel operation	—	—	

- (i) The financial statements of the above subsidiaries have been excluded from consolidation as audited financial statements of these subsidiaries prepared under the accounting principles generally accepted in Hong Kong are not yet available. In the opinion of the directors, to complete the audit of the subsidiaries under accounting principles generally accepted in Hong Kong will cause delay in the issue of the Company's annual report.
- (ii) The information required under paragraph 18(4) of the Tenth Schedule to the Hong Kong Companies Ordinance in respect of the subsidiaries has not been disclosed.
- (c) The directors have no reason to believe that proper books and records of the subsidiaries referred to in (I) and (II) above have not been kept. Further audit will be conducted and the results of the completed audit will appear, if possible and practicable, in the interim results for the Company for the period ending 30 June 2001.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2000

(Expressed in Hong Kong Dollars)

18. PROPERTIES UNDER DEVELOPMENT FOR RESALE

	The Group	
	2000	1999
	\$'000	\$'000
Transfer from properties under development (note 12)	100,000	142,000
Additions	—	36,576
	100,000	178,576
Provision for diminution in value	—	(7,576)
	100,000	171,000

- (a) An analysis of the carrying value of the properties under development for resale is as follows:

	The Group	
	2000	1999
	\$'000	\$'000
Long leases in Hong Kong	—	142,000
Medium term leases in Hong Kong	100,000	—
Long leases in the PRC	—	29,000
	100,000	171,000

- (b) At 31 December 2000, the whole of the properties under development for resale were pledged to a bank to secure banking facilities granted to the Group.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2000

(Expressed in Hong Kong Dollars)

19. PROPERTIES HELD FOR RESALE

	The Group	
	2000	1999
	\$'000	\$'000
Transfer from fixed assets (note 11(a))	81,000	—
Provision for diminution in value	(6,000)	—
	75,000	—

(a) An analysis of the carrying value of properties held for resale is as follows:

	2000	1999
	\$'000	\$'000
Long leases in Hong Kong	63,400	—
Medium term leases in Hong Kong	11,600	—
	75,000	—

(b) At 31 December 2000, certain properties held for resale with a carrying value of \$11,600,000 were pledged to a finance company for loans advanced to the Group. The loans were guaranteed by a third party.

(c) At 31 December 2000, certain properties held for resale with a carrying value of \$63,400,000 were pledged to a bank for a loan advanced to the Group. The loan was guaranteed by a third party.

(d) Subsequent to the balance sheet date, the Company entered into sale and purchase agreements to dispose the subsidiaries holding the properties referred to (b) above. The completion date was scheduled to be 28 March 2001. It was subsequently postponed to a later date (note 31(a)).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2000

(Expressed in Hong Kong Dollars)

20. AMOUNTS DUE FROM RELATED PARTIES

Details of amounts due from related parties are as follows:

	The Group			The Company		
	2000 \$'000	1999 \$'000	Maximum outstanding during the year \$'000	2000 \$'000	1999 \$'000	Maximum outstanding during the year \$'000
GLC	—	—	—	8,394	—	10,188
Gold Choice Enterprises Limited ("Gold Choice") (note (a))	15,882	44,199	65,038	—	—	—
北京康濟德保健品銷售 有限公司(「康濟德」) (note (b))	282	2,887	2,887	—	—	—
UPSA	—	5,074	5,074	—	—	—
	16,164	52,160	72,999	8,394	—	10,188

(a) Gold Choice is a subsidiary of GLC. The above amount was unsecured, non-interest bearing and had no fixed terms of repayment.

(b) 康濟德 is the minority shareholder of both BSSN and UPSA. BSSN and UPSA are indirect subsidiaries of the Group. The above amount was unsecured, non-interest bearing and had no fixed terms of repayment.

21. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2000 \$'000	1999 \$'000	2000 \$'000	1999 \$'000
Deposits with banks and other financial institutions	38,748	—	37,648	—
Cash at banks	5,955	2,410	788	325
Cash in hand	21	2,333	7	2,309
	44,724	4,743	38,443	2,634

A fixed deposit of \$37.6 million has been pledged to a bank for overdraft facilities (note 22).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2000

(Expressed in Hong Kong Dollars)

22. BANK AND OTHER BORROWINGS, SECURED

	The Group		The Company	
	2000 \$'000	1999 \$'000	2000 \$'000	1999 \$'000
Current portion of interest-bearing borrowings				
— Bank overdraft (note (a))	131,451	—	37,758	—
— Bank loans (note (b))	112,113	131,242	—	—
— Other loans (note (c))	11,000	41,000	—	—
	254,564	172,242	37,758	—

Non-current portion of interest-bearing borrowings				
— Bank loans (note (b))	8,536	137,214	—	—
— Other loans (note (c))	—	22,000	—	22,000
	8,536	159,214	—	22,000

(a) The bank overdraft of \$37.7 million is secured by a fixed deposit of \$37.6 million (note 21). The remaining bank overdraft amount is secured by the investment properties of two subsidiaries (note 11(e)).

(b) Bank loans are repayable as follows:

	The Group	
	2000 \$'000	1999 \$'000
Within 1 year or on demand	112,113	131,242
After 1 year but within 2 years	3,196	8,263
After 2 years but within 5 years	5,340	34,867
After 5 years	—	94,084
	8,536	137,214
	120,649	268,456

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2000

(Expressed in Hong Kong Dollars)

22. BANK AND OTHER BORROWINGS, SECURED (continued)

(c) Other loans are repayable as follows:

	The Group		The Company	
	2000 \$'000	1999 \$'000	2000 \$'000	1999 \$'000
Within 1 year or on demand	11,000	41,000	—	—
After 1 year but within 2 years	—	22,000	—	22,000
	11,000	63,000	—	22,000

Other loans bear interest at prime rate plus 2% per annum. On 30 December 2000, the rate was increased to 27% per annum. (1999: prime rate plus 2% to 4% per annum).

(d) The bank and other loans are secured by certain investment properties and all properties under development held for resale.

23. AMOUNTS DUE TO RELATED PARTIES

	The Group		The Company	
	2000 \$'000	1999 \$'000	2000 \$'000	1999 \$'000
Current portion				
GLC (note (a))	38,562	—	—	—
Sheen Win Investment Limited (note (b))	1,977	—	—	—
Others — Cheung Wing Hung	—	7,573	—	—
Due to director	63	—	51	—
	40,602	7,573	51	—
Non-current portion				
Sheen Win Investment Limited (note(b))	18,079	—	—	—

(a) Included in the amount due to GLC is a sum of \$42,400,000 in connection with overdraft facilities granted to GLC but utilized by three subsidiaries of the Group (note 30(b)). The applicable overdraft interest rate is prime rate plus 2.5% per annum.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2000

(Expressed in Hong Kong Dollars)

23. AMOUNTS DUE TO RELATED PARTIES (continued)

- (b) Included in the amount due to Sheen Win Investment Limited ("Sheen Win") is a sum of \$20,056,000 related to mortgage loans granted to Sheen Win but utilized by two subsidiaries of the Group (note 30(b)). The applicable interest rate is prime rate plus 2% per annum.
- (c) Except for the terms stated in notes (a) and (b) above, other amounts due to related parties were unsecured, non-interest bearing and had no fixed terms of repayment.

24. CONVERTIBLE DEBENTURES

	The Group and the Company	
	2000	1999
	\$'000	\$'000
(I) 4% Convertible Debentures	23,400	32,760

Pursuant to a Subscription Agreement dated 1 September 1999 entered into between the Company and an independent third party, Mohawk LLC (the "Subscriber"), the Company agreed to issue and the Subscriber agreed to subscribe for up to \$156,000,000 (US\$20,000,000) 4% Convertible Debentures due 31 December 2002 (the "Debentures"). The Debentures comprised of three Tranches. By 31 December 2000, all three Tranches had been issued to the extent of HK\$109,200,000 (US\$14,000,000) of which a total amount of HK\$52,072,000 (US\$6,700,000) was converted into ordinary shares of the Company.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2000

(Expressed in Hong Kong Dollars)

24. CONVERTIBLE DEBENTURES (continued)

The movement of the Debenture is summarised as follows:

	Note	2000 \$'000	1999 \$'000
At 1 January 2000		32,760	—
Debenture issued during the year under			
Tranche 1 (US\$Nil)		—	46,728
Tranche 2 (US\$6,000,000)		46,612	—
Tranche 3 (US\$2,000,000)		15,600	—
		94,972	46,728
Less:			
Redemption during the year		(23,400)	—
Conversion of Debentures			
Converted into 1,487,514,418 shares at prices ranging from \$0.025 to \$0.047 per share (1999: 546,794,000 shares at prices ranging from \$0.025 to \$0.026 per share)			
Amount transferred to Share Capital Account	25	(37,187)	(13,670)
Amount transferred to Share Premium Account	26	(14,885)	(298)
		19,500	32,760
20% penalty on principal — see note below		3,900	—
As 31 December 2000		23,400	32,760

Balance of the Debentures was classified as non-current liabilities as at 31 December 1999. During the year, the Company failed to pay interest accrued on the Debentures and therefore committed an event of default as stipulated in the terms and conditions of the Subscription Agreement. Consequently, 120% of the face value of the Debentures are due and payable immediately (see note 24 (II) (d) (ii)).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2000

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24. CONVERTIBLE DEBENTURES (continued)

(II) Principal terms of the Debentures are set out below:

(a) Conversion price

The conversion price for the 4% Debentures is the lesser of:

- (i) 120% of the average closing bid price per share on the Stock Exchange over the 10 trading days prior to the completion date of the respective Tranche; or
- (ii) 85% of the average of the lowest five days closing bid price per share on the Stock Exchange over the 20 consecutive trading days immediately prior to the date of conversion notice.

(b) Limitation to conversion

No shares will be issued below the par value of \$0.025 per share. In the event that the conversion price determined by reference to the formulae referred to above and other terms and conditions of the Debentures shall fall below the par value, the Company is required to redeem the principal amount of the Debentures purported to be converted at face value together with interest accrued on the tenth business day after the service of a conversion notice.

(c) Maturity

On the maturity date, any outstanding Debentures and all interest accrued thereon will be mandatorily converted into the Company's shares provided that the maximum outstanding principal amount of the 4% Debentures that can be mandatorily converted shall be up to the amount which will not trigger the mandatory general offer obligation for the Debenture holder and parties acting in concert with it under the Hong Kong Code of Takeovers and Mergers. Any outstanding Debentures that cannot be so mandatorily converted into shares shall be redeemed by the Company at a redemption amount equal to 120% of such outstanding Debentures together with accrued interest.

NOTES TO THE FINANCIAL STATEMENTS

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24. CONVERTIBLE DEBENTURES (continued)

(d) Redemption

- (i) In the event the closing bid price of the Company's shares falls to a level of \$0.027 per share or less and remain at such level for a period of ten consecutive trading days, the Company may be by notice redeem the 4% Debentures (or such part thereof). If the redemption notice is served during the period from 1 to 120 days after the issue of the relevant Debentures or from 121 to 240 days after such issue date or from 241 days and thereafter, the redemption amount shall be 110%, 120% and 130% respectively of the principal amount of the Debentures to be so redeemed; or
- (ii) Upon the occurrence of an event of default as stipulated in the terms and conditions of the Subscription Agreement, at any time thereafter, the Debenture holders may give notice to the Company requiring the Company to redeem the whole of the outstanding principal amount of the Debentures at 120% of face value plus accrued interest.

(e) Warrants

Each Debenture holder shall be entitled to be issued, by way of bonus, on the relevant completion dates of the issue of the relevant Debentures Warrants carrying rights to purchase in cash an amount equivalent to 8% of the principal amount of the Debentures. The exercise price for the Warrants is 120% of the closing bid price per share on the relevant completion date of each Tranche and the conversion rights under the Warrants expire on the 4th anniversary of the Tranche 1 completion date of each Tranche. At 31 December 2000, a warrant of US\$480,000 was issued to the Debenture holders.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2000

(Expressed in Hong Kong Dollars)

25. SHARE CAPITAL

	2000		1999	
	No. of shares		No. of shares	
	'000	\$'000	'000	\$'000
Authorised:				
Ordinary share of \$0.025 each	32,000,000	800,000	32,000,000	800,000
Issued and fully paid:				
At 1 January	13,916,623	347,916	2,649,829	66,246
Shares issued during the year	11,200,000	280,000	10,720,000	268,000
Issue of consideration shares	1,100,000	27,500	—	—
Conversion of Debentures (note 24)	1,487,514	37,187	546,794	13,670
Exercise of share options	1,210,000	30,250	—	—
At 31 December	28,914,137	722,853	13,916,623	347,916

(a) Issued and fully paid share capital

- (i) During the year, 11,200 million shares were placed at the range of \$0.028 to \$0.054 per share to independent investors not associated with the Company or its directors raising \$431 million after expenses.
- (ii) 1,487.5 million shares were converted by the Debenture holders at \$0.025 to \$0.047 per share during the year.
- (iii) 1,100 million shares were issued at HK\$0.063 to a vender not associated with the Company as partial consideration for the acquisition of interest in a subsidiary.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2000

(Expressed in Hong Kong Dollars)

25. SHARE CAPITAL (continued)

(b) Share option scheme

Pursuant to a share option scheme approved at the annual general meeting of the Company held on 28 August 1999, the directors may at their discretion grant options to purchase ordinary shares in the Company at a nominal consideration to the executive directors and employees of the Company. The exercise price of the option shares shall be at a price equal to the higher of the nominal value of the shares and 80% of the average closing price of the Company's shares on The Stock Exchange of Hong Kong Limited on the five business days immediately preceding the date of grant of such options.

At 31 December 2000, the outstanding options were:

Date of grant	Period during which options exercisable	Exercise price	Number of options outstanding at 31 December 2000
29 December 1999	29 December 1999 to 28 December 2002	\$0.025	90,000,000

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(Expressed in Hong Kong Dollars)

26. RESERVES

(a) The Group

	Share premium	Capital reserve on consolidation	Exchange reserve	Retained profits/ (Accumulated losses)	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 January 1999	13,081	95	—	134,921	148,097
Shares issued	180,421	—	—	—	180,421
Goodwill on consolidation	—	(12,815)	—	—	(12,815)
Conversion of Debentures (note 24)	298	—	—	—	298
Share issue costs	(16,736)	—	—	—	(16,736)
Exchange difference on translation of financial statements of foreign subsidiaries	—	—	(609)	—	(609)
Loss for the year	—	—	—	(346,485)	(346,485)
At 31 December 1999	177,064	(12,720)	(609)	(211,564)	(47,829)
At 1 January 2000	177,064	(12,720)	(609)	(211,564)	(47,829)
Shares issued	99,300	—	—	—	99,300
Issue of consideration shares	41,800	—	—	—	41,800
Goodwill on consolidation	—	(358,427)	—	—	(358,427)
Conversion of Debentures (note 24)	14,885	—	—	—	14,885
Share issue costs	(14,650)	—	—	—	(14,650)
Exchange difference on translation of financial statements of foreign subsidiaries	—	—	1,082	—	1,082
Loss for the year	—	—	—	(205,261)	(205,261)
At 31 December 2000	318,399	(371,147)	473	(416,825)	(469,100)

Included in accumulated losses was an amount of \$4,714,000 (1999: \$4,541,000), being the accumulated loss attributable to the associates.

NOTES TO THE FINANCIAL STATEMENTS

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(Expressed in Hong Kong Dollars)

26. RESERVES (continued)

(a) The Group (continued)

The application of the share premium account is governed by Section 48B of the Hong Kong Companies Ordinance. The capital reserve and exchange reserve have been set up and will be dealt with in accordance with the accounting policies adopted for goodwill arising on acquisition of subsidiaries and associates, translation of the financial statements of subsidiaries denominated in currencies other than Hong Kong dollars.

(b) The Company

	Share premium	Retained profits/ (Accumulated losses)	Total
	\$'000	\$'000	\$'000
At 1 January 1999	13,081	56,883	69,964
Share issued	180,421	—	180,421
Conversion of Debentures	298	—	298
Share issue costs	(16,736)	—	(16,736)
Loss for the year	—	(293,510)	(293,510)
At 31 December 1999	177,064	(236,627)	(59,563)
At 1 January 2000	177,064	(236,627)	(59,563)
Shares issued	99,300	—	99,300
Conversion of Debentures	14,885	—	14,885
Issue on consideration shares	41,800	—	41,800
Share issue costs	(14,650)	—	(14,650)
Loss for the year	—	(556,107)	(556,107)
At 31 December 2000	318,399	(792,734)	(474,335)

At 31 December 2000 the aggregate amount of reserves available for distribution to shareholders of the Company was \$Nil (1999: Nil).

The application of the share premium account is governed by Section 48B of the Hong Kong Companies Ordinance.

NOTES TO THE FINANCIAL STATEMENTS

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(Expressed in Hong Kong Dollars)

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of loss from ordinary activities before taxation to net cash outflow from operating activities

	2000	1999
	\$'000	\$'000
Loss from ordinary activities before taxation	(208,423)	(346,456)
Finance cost	43,205	34,133
Interest income	(5,419)	(22)
Depreciation	834	308
Net loss on disposal of fixed assets	92	788
Other operating expenses	3,900	—
Bad and doubtful debts	8,626	—
Provision for deposits paid	—	72,430
Provision for diminution in value of investments in unconsolidated subsidiaries	43,803	11,013
Provision for diminution in value of investments in associates	1,916	—
Provision for diminution in value of investment securities	—	410
Loss on disposal of subsidiaries	49,412	—
Provision for diminution in value of properties under development	6,710	157,624
Provision for diminution in value of properties held for resale	6,000	—
Deficit on revaluation of investment properties	7,193	10,497
Increase in properties under development for resale	—	(36,576)
Share of results of associates	173	—
Decrease in amounts due from fellow subsidiaries	—	502
Decrease/(increase) in amounts due from related parties	38,406	(52,160)
Increase in inventories	(104)	—
(Increase)/decrease in accounts receivable, deposits and prepayments	(2,205)	35,553
Decrease in accounts payable, accrued charges and rental deposits received	(9,807)	(580)
Increase in amount due to ultimate holding company	75	—
Decrease in amounts due to fellow subsidiaries	(5,469)	(580)
(Decrease)/increase in amounts due to related parties	(13,575)	7,573
Increase in amounts due from minority shareholders upon acquisition	1,143	—
Exchange adjustments	1,082	(609)
Net cash outflow from operating activities	(32,432)	(106,152)

NOTES TO THE FINANCIAL STATEMENTS

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27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Purchase of subsidiaries

	2000	1999
	\$'000	\$'000
Net assets acquired:		
Fixed assets	252,254	73,400
Properties under development	27,740	128,000
Interest in associates	860	—
Investment securities	—	12,410
Accounts receivable, deposits and prepayments	9,873	10
Cash at banks and in hand	199	200
Accounts payable and accrued charges	(10,260)	(7,198)
Rental deposit received	(793)	—
Amounts due to fellow subsidiaries	(5,469)	—
Amounts due to related parties	(64,683)	—
Taxation	(79)	—
Bank overdraft	(91,758)	—
Secured bank loans	(14,790)	(123,751)
Amounts due from minority shareholders	1,143	—
	104,237	83,071
Goodwill	215,158	12,815
	319,395	95,886

Satisfied by:

Shares issued for acquisition of a subsidiary	69,300	—
Transfer from investments in unconsolidated subsidiaries	31,947	—
Transfer from deposits paid	42,630	—
Amounts due from related parties	(2,166)	—
Cash consideration	177,674	95,886
Consideration payable	10	—
	319,395	95,886

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2000

(Expressed in Hong Kong Dollars)

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(c) Analysis of net outflow of cash and cash equivalents in respect of the purchase of subsidiaries

	2000	1999
	\$'000	\$'000
Cash consideration	(177,674)	(95,886)
Cash at banks and in hand acquired	199	200
Bank overdraft acquired	(91,758)	—
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Net outflow of cash and cash equivalents in respect of the purchase of subsidiaries	(269,233)	(95,686)



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2000

(Expressed in Hong Kong Dollars)

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(d) Disposal of subsidiaries

	2000	1999
	\$'000	\$'000
Net assets disposed of:		
Fixed assets	72,953	—
Properties under development	65,000	—
Properties under development for resale	171,000	—
Investment securities	12,000	—
Accounts receivable, deposits and prepayments	19,503	—
Cash at banks and in hand	129	—
Accounts payable and accrued charges	(3,785)	—
Amounts due to related parties	(50)	—
Amount due to ultimate holding company	(75)	—
Secured bank loans	(148,593)	—
	188,082	—
Attributable goodwill	1,315	—
Incidental costs	3,601	—
	192,998	—
Net loss on disposal	(49,298)	—
	143,700	—
Satisfied by:		
Cash consideration	121,700	—
Investments in unconsolidated subsidiaries	22,000	—
	143,700	—

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2000

(Expressed in Hong Kong Dollars)

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(e) Analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries

	2000	1999
	\$'000	\$'000
Cash consideration	121,700	—
Incidental costs	(3,601)	—
Cash and bank balances disposed of	(129)	—
	<hr/>	<hr/>
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	117,970	—



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2000

(Expressed in Hong Kong Dollars)

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(f) Analysis of changes in financing during the year

	Share capital and share premium	Bank loans	Other loans	Convertible Debentures
	\$'000	\$'000	\$'000	\$'000
At 1 January 1999	79,327	90,000	12,000	—
Gross proceeds from issue of shares	448,421	—	—	—
Share issue costs	(16,736)	—	—	—
Proceeds from issue of Debentures	—	—	—	46,728
New loans	—	67,970	74,000	—
Additions through acquisition of subsidiaries	—	123,751	—	—
Repayment of loans	—	(13,265)	(23,000)	—
Conversion of Debentures	13,968	—	—	(13,968)
At 31 December 1999	524,980	268,456	63,000	32,760
At 1 January 2000	524,980	268,456	63,000	32,760
Gross proceeds from issue of shares	379,300	—	—	—
Shares issued for acquisition of a subsidiary	69,300	—	—	—
Exercise of share options	30,250	—	—	—
Share issue costs	(14,650)	—	—	—
Proceeds from issue of Debentures	—	—	—	62,400
Redemption of Debentures	—	—	—	(23,400)
Penalty on default	—	—	—	3,900
Additions through acquisition of subsidiaries	—	14,790	—	—
Discharge of bank loans on disposal of subsidiaries	—	(148,593)	—	—
Repayment of loans	—	(14,004)	(52,000)	—
Conversion of Debentures	52,072	—	—	(52,072)
Effect of foreign exchange rate	—	—	—	(188)
At 31 December 2000	1,041,252	120,649	11,000	23,400

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2000

(Expressed in Hong Kong Dollars)

28. CONTINGENT LIABILITIES

At 31 December 2000, the properties owned by three subsidiaries of the Company were pledged to a bank in return for overdraft facilities granted to GLC to the extent of \$42,400,000. The overdraft facilities were partly utilized by the three subsidiaries and partly utilized by GLC. On 31 December 2000, the amount utilized by GLC amounted to \$3,315,000 (note 30(b)).

29. COMMITMENTS

- (a) Capital commitments outstanding at 31 December 2000 not provided for in the financial statements were as follows:

	The Group		The Company	
	2000	1999	2000	1999
	\$'000	\$'000	\$'000	\$'000
Authorised and contracted for	77,857	24,000	—	8,000
Authorised but not contracted for	—	30,000	—	—
	77,857	54,000	—	8,000

- (b) Commitments

At the balance sheet date, the Group had commitments under operating leases for office and warehouse premises to make payments in the next year as follows:

	2000	1999
	\$'000	\$'000
Leases expiring:		
Within one year	1,946	275
In the second to fifth years inclusive	3,015	—
Over five years	11	—
	4,972	275

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2000

(Expressed in Hong Kong Dollars)

30. MATERIAL RELATED PARTY TRANSACTIONS

- (a) On 27 March 2000, the Company entered into a sale and purchase agreement with GLC whereby the Company agreed to purchase the entire interests of (i) Bright Wick Limited, (ii) Day Success Company Limited, (iii) Fairsheen Limited, (iv) Kong Tai Properties Development Company Limited, (v) Marson Development Limited, (vi) Pak Fook Company Limited, (vii) Solar Regent Investments Limited, (viii) Wholesome Investments Limited and (ix) Teleking Development Limited. The assets of these companies comprise various investment properties and properties under development with a professional valuation of \$265,960,000 at 29 February 2000 as assessed by an external firm of qualified professional surveyors.

The consideration was based on the net asset value after adjustments for the above professional valuation and the balances of the shareholder's and bank loans and various balance sheet items as at 29 February 2000.

- (b) In relation to the sale and purchase agreement mentioned in (a) above, the properties owned by Day Success Company Limited ("Day Success") and Marson Development Limited ("Marson") were pledged to a bank in return for mortgage loans granted to Sheen Win, a subsidiary of GLC. The mortgage loans borrowed by Sheen Win, which were also secured by a corporate guarantee of GLC, were in turn wholly utilized by Day Success and Marson as at 31 December 2000, the amount of bank loans totalled \$20,037,000. The amount of interest expenses paid by Day Success and Marson to Sheen Win during the year in relation to the aforesaid loans totalled \$2,086,000.

In addition, the properties owned by Bright Wick Limited ("Bright Wick"), Fairsheen Limited ("Fairsheen") and Solar Regent Investments Limited ("Solar Regent"), were pledged to another bank in return for overdraft facilities granted to GLC to the extent of \$80,000,000. During the year, the overdraft facilities were partly utilized by Bright Wick, Fairsheen, Solar Regent and the Company (to the extent of \$42,400,000 as at 31 December 2000) and partly utilized by GLC (to extent of \$3,315,000 as at 31 December 2000). On 15 December 2000, the extent of overdraft facilities was reduced by \$37,600,000. The amount of interest expenses paid by Bright Wick, Fairsheen, Solar Regent and the Company to GLC during the year in relation to the aforesaid overdraft facilities totalled \$5,582,000.

At 31 December 2000, Kong Tai Properties Development Company Limited and Wholesome Investments Limited utilized bank overdraft facilities totalled \$93,693,000. Pak Fok Company Limited had an outstanding bank loan of \$11,702,000. The above bank facilities were secured by a corporate guarantee of GLC.

- (c) At 31 December 2000, Wellstech International Limited had an outstanding bank loan of \$40,199,000 which was secured by a corporate guarantee of GLC.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2000

(Expressed in Hong Kong Dollars)

30. MATERIAL RELATED PARTY TRANSACTIONS (continued)

- (d) Pursuant to a management services agreement dated 26 September 1998 as varied by a variation agreement dated 20 October 1999, a subsidiary of the Company was charged by a subsidiary of GLC a management fee of \$2,232,000 (1999: \$42,295,000) for the provision of management and operational services to the Group during the year. The management services arrangement was ceased on 30 June 2000.
- (e) During the year, agency fee totalled \$12,000,000 and consultancy fee of \$100,000 were paid to Mr. Cao Hang Xiang for agency services to be provided by Mr. Cao to identify and negotiate for the procurement of utility projects in various cities the PRC. Mr. Cao is the legal representative and Managing Director of 北京國建華翠燃氣技術有限公司 and 醴陵華翠燃氣有限公司, subsidiaries of the Group.
- (f) During the year, the Company received rental income of \$710,000 from GLC in connection with a rental guarantee executed by GLC regarding the 108 car parking spaces at Lisa House, Mongkok, Kowloon. The car parking spaces were acquired by the Company from GLC in 1999.

31. POST BALANCE SHEET EVENTS

- (a) On 10 January 2001, the Company entered into six agreements for sale and purchase of shares and debts with OTTA Limited whereby the Company agreed to dispose of its six subsidiaries holding 80 car parking spaces at Covent Garden, Yuen Long, New Territories with total carrying value of \$11,600,000 (note 19) for a total consideration of \$11,700,000 less total mortgage loans outstanding of \$11,000,000. The completion date was scheduled to be 28 March 2001. It was subsequently postponed to a later date.
- (b) On 30 March 2001, Golden Max Holdings Limited ("Golden Max"), a subsidiary of the Company, obtained a short term loan of \$4,500,000 from Active Base Limited, a licensed money lender. The loan is secured by:
 - (i) a corporate guarantee from the Company;
 - (ii) first legal charge of the Properties of Golden Max; and
 - (iii) an assignment of all rental income from the existing tenancy of the above mentioned properties.
- (c) On 23 February 2001, Wellstech International Limited, a subsidiary of the Company, renewed its existing bank loan of \$38,000,000 which is secured by a corporate guarantee of the Company.