

Notes to the Accounts

Year ended 31st December 2000

1. Principal accounting policies

The principal accounting policies adopted in the preparation of these consolidated accounts are set out below:–

(a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants. The accounts are prepared under the historical cost convention.

(b) Consolidation

The consolidated accounts include the accounts of the company and all its subsidiaries made up to 31st December 2000. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account 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 are eliminated on consolidation.

The gain or loss on disposal of a subsidiary represents the difference between the proceeds of the sale and the group's share of its net assets together with any goodwill or capital reserve which was not previously charged or recognised in the consolidated profit and loss account.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

A subsidiary is a company in which the company, directly or indirectly, controls more than half of the voting power or issued share capital or the composition of the board of directors. In the company's balance sheet, the investments in subsidiaries are stated at cost less any provision, if necessary, for permanent diminution in value. The results of subsidiaries are accounted for by the company on the basis of dividends received and receivable.

(c) Associated companies

An associated company is a company, not being a subsidiary, in which an equity interest is held for the long term and significant influence is exercised in its management.

The consolidated profit and loss account includes the group's share of the results of the associated companies for the year, and the consolidated balance sheet includes the group's share of the net assets of the associated companies.

(d) Goodwill

Goodwill represents the excess of purchase consideration over the fair values ascribed to the net assets of subsidiaries and associated companies acquired and is taken to reserves in the year of acquisition.

Notes to the Accounts (Continued)

Year ended 31st December 2000

1. Principal accounting policies (Continued)

(e) Fixed assets

Leasehold land and buildings and improvements are stated at cost less subsequent accumulated amortisation or depreciation and any provisions required to reflect recoverable amount. Cost represents the purchase price of the asset and other costs incurred to bring the asset into its existing use.

Depreciation of leasehold improvements is calculated to write off their costs over the unexpired periods of the leases or their expected useful lives to the group whichever is shorter.

Other tangible fixed assets are stated at cost less accumulated depreciation. Depreciation of other fixed assets is calculated to write off their costs on a straight-line basis over their expected useful lives to the group. The principal annual rates used for this purpose are:—

Computer equipment and software	50%
Furniture and fixtures	20%
Machinery, tools and equipment	20%
Motor vehicles and vessels	25%

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the group.

The carrying amounts of fixed assets are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. Recoverable amount is the amount which the group expects to recover from the future use of the asset, including its residual value on disposal. Expected future cash flows have not been discounted in determining the recoverable amount. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The amount of the reduction to recoverable amount is charged to the profit and loss account.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

(f) Assets under leases

(i) Finance leases

Leases that substantially transfer to the group all the risks and rewards of ownership of assets are accounted for as finance leases. Finance leases are capitalised at the inception of the leases at the lower of fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in long-term liabilities. The finance charges are charged to the profit and loss account over the lease periods.

Notes to the Accounts (Continued)

Year ended 31st December 2000

1. Principal accounting policies (Continued)

(f) Assets under leases (Continued)

(ii) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

(g) Inventories

Inventories comprise motor vehicles, spare parts and motor accessories and are stated at the lower of cost and net realisable value. Cost is determined on a first-in, first-out basis and includes invoiced cost plus applicable freight, insurance and handling charges. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(h) Extended warranty and free service

In addition to the normal manufacturers' warranty, the group provides a package comprising free after sales service and an extension of the manufacturers' warranty up to a period of three years from the date of sale of a new motor vehicle. In August 1994, the group changed its procedures such that a separate charge is now made for this package and customers may elect not to purchase the package. Provision is made, in the year the new vehicle is sold, for the expected future revenue associated with providing the package and actual internal service costs are matched against the provision as incurred. The level of provision required is assessed by the directors annually and adjustment made if necessary.

(i) Accounts receivable

Provision is made against accounts receivable to the extent that they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(j) Deferred taxation

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or asset is expected to be payable or recoverable in the foreseeable future.

(k) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. All exchange differences arising are dealt with in the profit and loss account.

Notes to the Accounts (Continued)

Year ended 31st December 2000

1. Principal accounting policies (Continued)

(l) Revenue recognition

Revenue in respect of motor vehicle sales is recognised in the accounts when the risks and rewards associated with ownership of the motor vehicles are transferred from the group to customers. This generally takes place at the time when the title documents to the motor vehicles are passed to customers.

After sales service represents maintenance and repair services and the sale of spare parts. Revenue in respect of after sales service rendered is recognised when the service provided to customers is completed.

Advertising revenues are recognised ratably over the period in which the advertisements are displayed on the website operated by the group, provided that no significant obligations remain and collection of the resulting receivable is reasonably assured.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Commission income is recognised when the relevant services are rendered.

Rental income is recognised on an accrual basis.

(m) Retirement benefit costs

Before 1st December 2000, the group contributed to a defined contribution retirement scheme as defined in the Occupational Retirement Schemes Ordinance (the "ORSO Scheme") available to all employees. Under the ORSO Scheme, both the group and employees were required to contribute each month an amount equal to 5% - 10% and nil - 5% of the basic salary respectively. The assets of the ORSO Scheme were held separately from those of the group in an independently administered fund. The group's contributions to the ORSO Scheme were expensed as incurred and were reduced by contributions forfeited by those employees who left the scheme prior to vesting fully in the contributions.

Starting from 1st December 2000, the group contributes to the Mandatory Provident Fund ("MPF"). Under the MPF scheme, contributions by the group and employees are calculated at 5% of employee's monthly income and subject to a maximum of HK\$1,000 per employee. The group's contributions to the MPF are expensed as incurred.

Notes to the Accounts (Continued)

Year ended 31st December 2000

2. Revenue and turnover

The group is principally engaged in the operation of the website “renren.com” and the provision of Internet products and services. The group is also engaged in the distribution and sale of motor vehicles and the provision of after sales services, including repair and maintenance services and the sale of spare parts. Revenues recognised during the year are as follows:–

<i>(in HK\$ thousands)</i>	<i>Group</i>	
	2000	1999
<i>Turnover</i>		
Sale of motor vehicles	40,932	76,518
Rendering of after sales service	39,989	62,295
Advertising income	1,395	—
	82,316	138,813
<i>Other revenues</i>		
Interest income	5,248	195
Commission income	322	462
Rental income	15	344
	5,585	1,001
Total revenues	87,901	139,814

An analysis of the group’s turnover and contribution to loss attributable to shareholders for the year by principal activities and markets is as follows:–

<i>(in HK\$ thousands)</i>	<i>Turnover</i>		<i>Loss attributable to shareholders</i>	
	2000	1999	2000	1999
<i>Principal activities:</i>				
Distribution and sale of motor vehicles	40,932	76,517	(5,323)	(97,269)
Motor vehicle after sales service	39,989	62,296	3,813	4,578
Internet business	1,395	—	(188,914)	—
	82,316	138,813	(190,424)	(92,691)
<i>Principal markets:</i>				
Hong Kong and Macau	59,661	102,815	(75,122)	(86,948)
Mainland China	22,389	35,998	(113,820)	(5,743)
United States	266	—	(1,482)	—
	82,316	138,813	(190,424)	(92,691)

Notes to the Accounts (Continued)

Year ended 31st December 2000

3. Operating loss

(a) Operating loss is stated after crediting and charging the following:—

<i>(in HK\$ thousands)</i>	<i>Group</i>	
	<u>2000</u>	<u>1999</u>
Crediting		
Net exchange gains	—	639
Reversal of overprovision of minority interests (<i>note 22</i>)	<u>3,000</u>	<u>—</u>
Charging		
Write off of investment in websites (<i>note b</i>)	72,462	—
Loss on sale of business	—	2,433
Write off of fixed assets	3,604	—
Loss on sale of properties	—	53,926
Loss on sale of fixed assets (other than properties)	35	2,495
Net exchange losses	92	—
Depreciation		
Owned fixed assets	6,200	4,965
Leased fixed assets	4,849	—
Staff costs	62,120	47,843
Cost of inventories sold	36,210	74,819
Operating lease rental in respect of land and buildings	8,364	17,580
Retirement benefit costs	850	446
Auditors' remuneration	<u>583</u>	<u>720</u>

(b) Write off of investment in websites

The group acquired several websites in the People's Republic of China (the "PRC") by issue of new shares of the company at a price reflecting the share price prevailing at the time of negotiation of the acquisitions. Total consideration of HK\$72,462,000 was paid up to 31st December 2000. The directors have assessed the value of the investment at the year end and considered that it is prudent to write off the investment in the PRC websites.

4. Finance costs

Finance costs represent interest on bank loans, overdrafts and leasing loans which are wholly repayable within five years.

<i>(in HK\$ thousands)</i>	<i>Group</i>	
	<u>2000</u>	<u>1999</u>
Interest on bank loans and overdrafts	177	6,342
Interest element of finance lease payments	<u>396</u>	<u>—</u>
	<u>573</u>	<u>6,342</u>

Notes to the Accounts (Continued)

Year ended 31st December 2000

5. Taxation

No provision for Hong Kong profits tax has been made in the accounts as there were no taxable profits. Deferred tax of HK\$1.1 million was written back in 1999. The companies within the group have available tax losses of approximately HK\$423 million carried forward as at 31st December 2000 (1999: HK\$287 million).

6. Loss attributable to shareholders

The loss attributable to shareholders is dealt with in the accounts of the company to the extent of HK\$240,667,000 (1999: profit HK\$93,000).

7. Loss per share

Loss per share is based on the group's loss attributable to shareholders of HK\$190,424,000 (1999: HK\$92,691,000) and on the weighted average number of shares in issue of 5,038,650,433 shares (1999: 782,000,000 shares) in issue throughout the year. The exercise of options would have an anti-dilutive effect on the basis loss per share and accordingly no diluted loss per share for the year is presented.

8. Retirement benefit costs

Before 1st December 2000, the group contributed to an ORSO Scheme which was available to all employees.

Starting from 1st December 2000, the group contributes to the MPF.

Under the ORSO Scheme, employees may, if they so wish, elect to contribute to the scheme sums up to 5% of their salary while the group contributed as follows:—

Completed Years of Service	% of Monthly Salary
Less than 5	5.0%
Between 5 and 9	7.5%
10 or more	10.0%

Under the MPF scheme, contributions by the group and employees are calculated at 5% of employees' monthly income and subject to a maximum limit of HK\$1,000 per employee.

The group's contributions were reduced by the contributions forfeited by those employees who left the ORSO Scheme prior to vesting fully in the contributions. Forfeited contributions totalling HK\$633,000 (1999: HK\$1,869,000) were utilised during the year, leaving HK\$202,000 (1999: HK\$268,000) at the year end.

MPF contributions totalling HK\$75,000 (1999: ORSO Scheme contributions totalling HK\$225,000) payable at the year end are included in accounts payable. The assets of the schemes are held separately from those of the group in an independently administered fund.

The retirement benefit costs charged to the profit and loss account represents contributions payable by the group to the fund.

Notes to the Accounts (Continued)

Year ended 31st December 2000

9. Directors' remuneration

The aggregate amounts of emoluments payable to directors of the company during the year were as follows:—

<i>(in HK\$ thousands)</i>	2000	1999
<i>Executive directors:</i>		
Basic salaries and other emoluments	5,684	8,574
Retirement scheme contributions	—	212
	<u>5,684</u>	<u>8,786</u>

The number of directors whose remuneration fell within the following bands:—

<i>(in HK\$)</i>	2000	1999
<i>Emolument bands</i>		
Nil to 1,000,000	11	6
1,500,001 to 2,000,000	1	1
2,500,001 to 3,000,000	1	1
4,000,001 to 4,500,000	—	1

There was no arrangement under which a director has waived or agreed to waive any emoluments for the year ended 31st December 2000.

Five highest paid employees

The five individuals whose emoluments were the highest in the group during the year include four (1999: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (1999: two) individual during the year are as follows:—

<i>(in HK\$ thousands)</i>	2000	1999
Basic salaries and other emoluments	1,426	1,346
Bonuses paid and payable	80	54
Retirement scheme contributions	64	80
	<u>1,570</u>	<u>1,480</u>

The remuneration fell within the following band:—

<i>(in HK\$)</i>	2000	1999
<i>Emolument band</i>		
Nil to 1,000,000	—	2
1,500,001 to 2,000,000	1	—

Notes to the Accounts (Continued)

Year ended 31st December 2000

10. Fixed assets

<i>(in HK\$ thousands)</i>	<i>Group</i>					Total
	Computer equipment and software	Leasehold improve- ments	Furniture and fixtures	Machinery, tools and equipment	Motor vehicles and vessels	
Cost						
At 1st January 2000	—	8,035	10,613	3,524	8,021	30,193
Additions	17,469	2,225	2,394	216	940	23,244
Written off	(3,189)	(1,373)	(1,401)	—	—	(5,963)
Disposals	—	(1,090)	(10,460)	(2,484)	(3,658)	(17,692)
At 31st December 2000	<u>14,280</u>	<u>7,797</u>	<u>1,146</u>	<u>1,256</u>	<u>5,303</u>	<u>29,782</u>
Aggregate depreciation						
At 1st January 2000	—	7,651	10,150	3,167	6,093	27,061
Charge for the year	8,734	1,059	447	72	737	11,049
Written off	(1,594)	(632)	(133)	—	—	(2,359)
Disposals	—	(1,076)	(9,828)	(2,457)	(2,458)	(15,819)
At 31st December 2000	<u>7,140</u>	<u>7,002</u>	<u>636</u>	<u>782</u>	<u>4,372</u>	<u>19,932</u>
Net book value						
At 31st December 2000	<u><u>7,140</u></u>	<u><u>795</u></u>	<u><u>510</u></u>	<u><u>474</u></u>	<u><u>931</u></u>	<u><u>9,850</u></u>
Net book value						
At 31st December 1999	<u><u>—</u></u>	<u><u>384</u></u>	<u><u>463</u></u>	<u><u>357</u></u>	<u><u>1,928</u></u>	<u><u>3,132</u></u>

As at 31st December 2000, computer equipment and software with cost and aggregate depreciation of HK\$9,698,000 (1999: Nil) and HK\$4,849,000 (1999: Nil) respectively were held under finance leases.

Notes to the Accounts (Continued)

Year ended 31st December 2000

11. Investments in subsidiaries

<i>(in HK\$ thousands)</i>	<i>Company</i>	
	2000	1999
Unlisted shares, at cost	101,510	101,510
Loans to subsidiaries	415,167	174,500
Provision for permanent diminution in value	(101,510)	(101,510)
Provision against loans to subsidiaries	(415,167)	(174,500)
	<u>—</u>	<u>—</u>

The loans to subsidiaries are interest-free and have no fixed terms for repayment.

Details of the company's subsidiaries at 31st December 2000 are set out in note 31 to the accounts.

12. Investment in an associated company

<i>(in HK\$ thousands)</i>	<i>Group</i>	
	2000	1999
Balance brought forward	—	(1,267)
Share of profit for the year	—	1,267
	<u>—</u>	<u>—</u>
Share of net liabilities other than goodwill	<u>—</u>	<u>—</u>

On 17th April 2000, the group disposed of its entire 50% interest in an associated company, Way Bo Finance Limited, which is engaged in providing hire purchase and lease financing, for a consideration of HK\$1.

13. Inventories

<i>(in HK\$ thousands)</i>	<i>Group</i>	
	2000	1999
Cars	271	2,058
Trucks and buses	—	362
Spare parts and accessories	2,385	3,139
Workshop supplies	190	142
	<u>2,846</u>	<u>5,701</u>

At 31st December 2000, the carrying amount of inventories that are carried at net realisable value amounted to HK\$2,331,000 (1999: HK\$4,822,000).

Notes to the Accounts (Continued)

Year ended 31st December 2000

14. Trade and other receivables

<i>(in HK\$ thousands)</i>	<i>Group</i>		<i>Company</i>	
	2000	1999	2000	1999
Trade receivables (<i>Note</i>)	1,586	4,416	—	—
Prepayments and deposits	1,398	561	632	145
Other receivables	2,997	401	107	—
	<u>5,981</u>	<u>5,378</u>	<u>739</u>	<u>145</u>

Note: At 31st December 2000, the ageing analysis of the trade receivables were as follows:—

<i>(in HK\$ thousands)</i>	<i>Group</i>		<i>Company</i>	
	2000	1999	2000	1999
1-30 days	909	3,633	—	—
31-60 days	188	165	—	—
61-90 days	282	64	—	—
Over 90 days	207	554	—	—
	<u>1,586</u>	<u>4,416</u>	<u>—</u>	<u>—</u>

Other than cash and credit card sales, the group usually allows an average credit period of 45 days to its trade customers.

15. Cash and bank balances

Included in the balance is an amount equivalent to HK\$8,273,000 (1999:HK\$Nil) which is kept in the PRC, and is not freely transferred out from the PRC.

Notes to the Accounts (Continued)

Year ended 31st December 2000

16. Trade and other payables

<i>(in HK\$ thousands)</i>	<i>Group</i>		<i>Company</i>	
	2000	1999	2000	1999
Trade payables (<i>note</i>)	3,273	9,137	—	—
Other accounts payables	4,878	12,893	140	—
Accruals	11,568	12,175	298	—
	19,719	34,205	438	—

Note: At 31st December 2000, the ageing analysis of the trade payables were as follows:—

<i>(in HK\$ thousands)</i>	<i>Group</i>		<i>Company</i>	
	2000	1999	2000	1999
1-30 days	619	4,489	—	—
31-60 days	1,064	1,787	—	—
61-90 days	364	613	—	—
Over 90 days	1,226	2,248	—	—
	3,273	9,137	—	—

17. Provision for extended warranty and free service

<i>(in HK\$ thousands)</i>	<i>Group</i>	
	2000	1999
Balance brought forward	17,462	28,052
Provision for the year	1,690	4,559
Utilised during the year	(8,905)	(13,508)
Transfer to a business purchaser (<i>note 24(b)</i>)	—	(1,641)
Balance carried forward	10,247	17,462

The costs are expected to be incurred in the following periods:—

Within one year	7,835	14,793
After one year	2,412	2,669
	10,247	17,462

Notes to the Accounts (Continued)

Year ended 31st December 2000

18. Obligations under finance leases

<i>(in HK\$ thousands)</i>	<i>Group</i>	
	2000	1999
Within one year	2,703	—
In the second year	3,136	—
In the third year	1,005	—
	4,141	—
	6,844	—

19. Bank loans and overdrafts

<i>(in HK\$ thousands)</i>	<i>Group</i>	
	2000	1999
Trust receipt loans	—	6,628
Overdrafts	—	9,918
	—	16,546

20. Share capital

(a) Authorised:

<i>(in HK\$ thousands)</i>	<i>Company</i>	
	No. of shares	
At 31st December 1999		
Ordinary shares of HK\$0.1 each	1,500,000,000	150,000
Sub-division of ordinary shares of HK\$0.10 each into shares of HK\$0.01 each	13,500,000,000	—
Cancellation of authorised ordinary share capital	(10,000,000,000)	(100,000)
Increase of authorised ordinary share capital	25,000,000,000	250,000
At 31st December 2000		
Ordinary shares of HK\$0.01 each	30,000,000,000	300,000

Notes to the Accounts (Continued)

Year ended 31st December 2000

20. Share capital (Continued)

(b) Issued and fully paid:

<i>(in HK\$ thousands)</i>	<i>Company</i>	
	No. of shares	
At 31st December 1999		
Ordinary shares of HK\$0.1 each	782,000,000	78,200
Reduction of issued and paid-up ordinary share capital from HK\$0.10 each to HK\$0.01 each and transferred to accumulated losses (<i>note 21</i>)	—	(70,380)
Issue of ordinary shares of HK\$0.01 each	6,818,396,465	68,184
At 31st December 2000		
Ordinary shares of HK\$0.01 each	7,600,396,465	76,004

(c) During the year, the following transactions in respect of the share capital of the company took place:—

On 21st December 1999, the company entered into a subscription agreement for a private placement of 350,000,000 shares and 196,000,000 shares in the company at a price of HK\$0.0528 per share to Mr Lee Fook Kiong and an independent third party respectively. These shares rank *pari passu* in all respects with shares in issue at that time. The shares were issued on 15th February 2000 after the resolutions were passed on 10th February 2000.

On 10th February 2000, the following special resolutions were passed at a special general meeting:—

- i. The issued share capital of the company was reduced from the amount of HK\$78,200,000 by HK\$70,380,000 to HK\$7,820,000 by cancelling paid up capital to the extent of HK\$0.09 on each share of HK\$0.10 in issue;
- ii. Each of the shares of nominal value of HK\$0.10 each in the authorised but unissued share capital of the company be and is hereby sub-divided into ten shares of HK\$0.01 each; and
- iii. 10,000,000,000 of the shares of nominal value of HK\$0.01 each in the authorised but unissued share capital of the company were cancelled.

On 14th March 2000, the company entered into a conditional agreement in relation to the subscription of 5,872,000,000 new shares by an independent third party at an issue price of HK\$0.039 per share. Approval of shareholders of the company was obtained at the special general meeting on 12th May 2000 and the shares were issued on 22nd May 2000. These shares rank *pari passu* in all respects with shares in issue at that time.

Notes to the Accounts (Continued)

Year ended 31st December 2000

20. Share capital (Continued)

On 12th May 2000, an ordinary resolution was duly passed at a special general meeting under which the authorised capital of the company was increased from HK\$50,000,000 to HK\$300,000,000 by the creation of an additional 25,000,000,000 shares of HK\$0.01 each. These shares rank pari passu in all respects with shares in issue at that time.

During the period between 22nd June 2000 and 2nd November 2000, the company issued 388,260,543 and 12,135,922 ordinary shares at prices of HK\$0.185 and HK\$0.068 respectively as considerations for acquiring a number of PRC-based websites. These shares rank pari passu in all respects with shares in issue at that time.

- (d) Pursuant to the share option scheme adopted on 26th June 2000 by the shareholders of the company, the directors may, at their discretion, invite employees and directors of the group to take up options to subscribe for shares in the company, subject to the terms and conditions stipulated therein. Particulars and movements of share options during the year are as follows:—

Date of grant	Exercise price HK\$	Balance outstanding as at 1st January 2000	Options granted during the year	Options cancelled during the year	Balance outstanding as at 31st December 2000
1st September 2000	0.13	—	29,500,000	—	29,500,000
1st November 2000	0.063	—	38,500,000	—	38,500,000
1st December 2000	0.063	—	294,737,750	—	294,737,750
14th December 2000	0.063	—	20,000,000	—	20,000,000
18th December 2000	0.13	—	20,000,000	—	20,000,000
		—	402,737,750	—	402,737,750

Notes to the Accounts (Continued)

Year ended 31st December 2000

21. Reserves

(in HK\$ thousands)	Group		Company	
	2000	1999	2000	1999
Accumulated losses				
Balance brought forward	(316,957)	(224,266)	(264,245)	(264,338)
Cancelled paid-up ordinary share capital (note 20(b))	70,380	—	70,380	—
Loss for the year	(190,424)	(92,691)	(240,667)	93
Balance carried forward	<u>(437,001)</u>	<u>(316,957)</u>	<u>(434,532)</u>	<u>(264,245)</u>
Share premium				
Balance brought forward	186,191	186,191	186,191	186,191
Issue of shares	262,306	—	262,306	—
Issue expenses	(18,627)	—	(18,627)	—
Balance carried forward	<u>429,870</u>	<u>186,191</u>	<u>429,870</u>	<u>186,191</u>
Total reserves	<u>(7,131)</u>	<u>(130,766)</u>	<u>(4,662)</u>	<u>(78,054)</u>
Representing:				
Company and its subsidiaries				
Share premium	429,870	186,191		
Accumulated losses	(437,001)	(316,985)		
	<u>(7,131)</u>	<u>(130,794)</u>		
Associated companies				
Accumulated profits	—	28		
	<u>(7,131)</u>	<u>(130,766)</u>		

22. Minority interests

Minority interests represent the interests of outside deferred non-voting shareholders in paid-up share capital of a subsidiary. The deferred non-voting shares are not entitled to participate in any profit distribution and do not confer upon the holders thereof any right to attend or vote at any general meeting of the company. On dissolution, holders of deferred shares are entitled to a maximum return equivalent to the amount paid up thereon of HK\$3 million. During the year, minority interests amounting to HK\$3 million were written back as the possibility of returning such paid-up share capital of HK\$3 million is remote.

23. Deferred taxation

- Deferred taxation represents the tax effect of timing differences arising from accelerated depreciation allowances. At 31st December 2000, the group and the company had no significant deferred tax liabilities which had not been provided for.
- Future tax benefits of HK\$67,707,000 (1999: HK\$45,438,000) relating to taxation losses carried forward for offset against future profits, have not been recognised in the accounts as the realisation of these benefits is not assured beyond reasonable doubt.

Notes to the Accounts (Continued)

Year ended 31st December 2000

24. Notes to the consolidated cash flow statement

(a) Reconciliation of operating loss to net cash (outflow)/inflow from operating activities

<i>(in HK\$ thousands)</i>	<i>Group</i>	
	<u>2000</u>	<u>1999</u>
Operating loss	(189,851)	(88,716)
Interest income	(5,248)	(195)
Write off of investment in websites	72,462	—
Write off of fixed assets	3,604	—
Overprovision for minority interests	(3,000)	—
Depreciation of fixed assets	11,049	4,965
Loss on sale of properties	—	53,926
Loss on sale of business	—	2,433
Loss on sale of fixed assets (other than properties)	35	2,495
Decrease in inventories	2,855	35,077
(Increase)/decrease in rental and utility deposits, trade and other receivables	(130)	14,987
Decrease in trade and other payables, and provision for extended warranty and free service	(21,228)	(24,385)
Net cash (outflow)/inflow from operating activities	<u>(129,452)</u>	<u>587</u>

(b) Sales of business

<i>(in HK\$ thousands)</i>	<i>Group</i>	
	<u>2000</u>	<u>1999</u>
Net assets disposed of:		
Inventories	—	9,659
Fixed assets	—	802
Provision for extended warranty and free service	—	(1,641)
	—	8,820
Loss on sales	—	(2,433)
	<u>—</u>	<u>6,387</u>
Satisfied by cash	<u>—</u>	<u>6,387</u>

Notes to the Accounts (Continued)

Year ended 31st December 2000

24. Notes to the consolidated cash flow statement (Continued)

(c) Analysis of changes in financing during the year

	<i>Group</i>		
	2000		1999
<i>(in HK\$ thousands)</i>	Share capital (including Premium)	Obligations under finance lease	Mortgage loan
Balance brought forward	264,391	—	1,095
Cancelled paid-up ordinary share capital (<i>note 21</i>)	(70,380)	—	—
Ordinary shares paid up other than cash (<i>note 25</i>)	72,653	—	—
Obligations under finance leases	—	9,698	—
Cash inflow/(outflow) from financing	239,210	(2,854)	(1,095)
Balance carried forward	<u>505,874</u>	<u>6,844</u>	<u>—</u>

25. Major non-cash transaction

The considerations for acquiring the PRC-based websites, 360china.com, hirechina.com, dazhela.com and do1do.com, and the fees for the technology services agreements were satisfied by the issuance of the company's new ordinary shares in the manner as stipulated in the respective agreements. During the year, the company issued 388,260,543 and 12,135,922 ordinary shares at HK\$0.185 and HK\$0.068 respectively, giving rise to the total considerations of HK\$72,653,000. Among the balance, HK\$191,000 was the consideration for the purchase of fixed assets from one of the websites.

During the year, the company, by finance leases, acquired fixed assets at a total cost of HK\$9,698,000.

26. Commitments under operating leases

As at 31st December 2000, the group had commitments to make payments in the next twelve months under operating leases in respect of staff accommodation, workshops, showrooms and office premises which expire as follows:—

	<i>Group</i>	
	2000	1999
<i>(in HK\$ thousands)</i>		
within one year	33	6,504
in the second to fifth years inclusive	1,979	1,190
	<u>2,012</u>	<u>7,694</u>

Notes to the Accounts (Continued)

Year ended 31st December 2000

27. Related party transactions and connected transactions

Significant related party transactions carried out in the normal course of the group's business were as follows:—

<i>(in HK\$ thousands)</i>	<i>Group</i>	
	2000	1999
Payments to renren.com Limited (<i>Note</i>):		
Licence fee	6,238	—
Technical consultation services	7,920	—
Secondment of employees	11,691	—
	25,849	—

Note:—

During the year, a co-operation agreement was entered into between the company and renren.com Holdings Limited, a fellow subsidiary of the company, under which renren.com Holdings Limited agreed to license its tradename of "renren.com" to the group in return for a licence fee equal to the higher of US\$100,000 or 5% of the gross receipts for each calendar month arising from the use of the tradename; and to provide technical consultation services and second employees to the group in return for consideration based on cost plus 5 per cent.

28. Contingent liabilities

As at 31st December 2000, the group and the company had contingent liabilities not provided in the books as follows:—

<i>(in HK\$ thousands)</i>	<i>Group</i>		<i>Company</i>	
	2000	1999	2000	1999
Guarantees of bank loans and overdrafts of subsidiaries	—	—	—	16,546
Guarantees of hire purchase financing facilities granted by a finance company to a subsidiary's customers	—	—	2,680	2,680
	—	—	2,680	19,226

Notes to the Accounts (Continued)

Year ended 31st December 2000

29. Post balance sheet date events

On 2nd January 2001, the group disposed of its entire 100% interest in a subsidiary, Ankor Service Limited ("ASL") to iFocus Company Inc. ("iFocus") for a consideration of HK\$2. The loan owed by ASL to its immediate holding company was also assigned to iFocus for a consideration of HK\$6,663,000 subject to the conditions stipulated in the sales and purchase agreement. ASL is engaged in servicing of motor vehicles and its contribution to the group's turnover and the profit attributable to shareholders for the year ended 31st December 2000 amounted to HK\$39,295,000 and HK\$3,960,000 respectively.

With the termination of all the car distribution agreements of the group and the disposal of ASL, Ankor Investments Limited ("AIL") and its subsidiaries together (the "AIL Group"), which operated the group's motor vehicles business, became dormant. On 23rd January 2001, the group disposed of its entire 100% interest in AIL to Investglobal Limited for a consideration of HK\$10,000. The contribution of AIL Group to the group's turnover and loss attributable to shareholders for the year ended 31st December 2000 amounted to HK\$41,626,000 and HK\$5,470,000 respectively.

As at 31st December 2000, the contribution of ASL and AIL Group to the group's assets and liabilities are as follows:-

(in HK\$ thousands)

Fixed assets	2,327
Inventories	2,846
Deposits, trade and other receivables	6,284
Cash and bank balances	3,155
Trade and other payables	(11,576)
Provision for extended warranty and free services	(10,247)
	<u>(7,211)</u>

ASL and AIL Group have available tax losses of approximately HK\$296 million carried forward as at 31st December 2000.

Following the disposal of ASL and AIL Group, the group recorded a gain on disposal of subsidiaries of HK\$10,405,000 which is arrived at after taking into account the net liabilities of HK\$7,211,000 (see above table), the amount due to the group of HK\$3,184,000 and the consideration of HK\$10,000.

On 20th February 2001, the group terminated the agreements in relation with the acquisitions of the assets of HireChina, Dazhela and Shanghai Xing Chuan as described in the circular and announcement of the company dated 26th June 2000 and 5th October 2000 respectively. The group did not invest any cash in any of the projects relating to the above agreements and did not make any commitment to any third party with respect to any of such projects. There is no impact on the group's performance upon termination.

Other than those disclosed above, there were no events occurring subsequent to the balance sheet date that would require disclosure in or adjustment to the accounts.

Notes to the Accounts (Continued)

Year ended 31st December 2000

30. Ultimate holding company

The directors regard renren Media Holdings Limited, a company incorporated in Cayman Islands, as being the ultimate holding company.

31. Investments in subsidiaries

As at 31st December 2000, the company had the following direct and indirect subsidiaries, all of which are private companies:-

Company	Place and date of incorporation	Particulars of issued share capital	Percentage of equity interest attributable to the group		Principal activities
			2000	1999	
Shares held directly:-					
<i>Subsidiaries</i>					
renren Internet Limited	Cayman Islands, 27th March 2000	US\$2	100	—	Investment holding
Ankor Investments Limited	British Virgin Islands, 23rd April 1993	\$10,000	100	100	Investment holding
Shares held indirectly:-					
renren Limited	Hong Kong, 8th December 1999	\$2	100	100	Operating website and providing Internet products and services
renren Network Service Corporation Limited (registered as a wholly owned foreign enterprise)	PRC, 23rd September 2000	US\$1,000,000	100	—	Providing Internet products and services
Redlion Enterprises Limited	British Virgin Islands, 18th August 1992	\$100	100	100	Investment holding
Swedish Motors Limited	Hong Kong, 9th January 1981	\$100 \$3,000,000*	100	100	Sale of motor vehicles
Ankor Service Limited	Hong Kong, 25th September 1987	\$20	100	100	Servicing of motor vehicles
EuroMotors Limited	Hong Kong, 21st October 1986	\$2	100	100	Dormant
EuroTruck Limited	Hong Kong, 19th September 1991	\$2	100	100	Dormant

Notes to the Accounts (Continued)

Year ended 31st December 2000

31. Investments in subsidiaries (Continued)

Company	Place and date of incorporation	Particulars of issued share capital	Percentage of equity interest attributable to the group		Principal activities
			2000	1999	
Europarts Limited	Hong Kong, 28th April 1994	\$20	100	100	Dormant
Viking Finance Limited	Hong Kong, 2nd February 1989	\$10 \$5,000,000*	100	100	Investment holding
Guangdong Swedish Motors Limited	Hong Kong, 23rd August 1988	\$2	100	100	Dormant
Motores Suecos Limitada	Macau, 10th December 1986	MP2	100	100	Dormant
Swedish Motors (Far East) Limited	British Virgin Islands, 8th June 1993	\$100	100	100	Dormant
Swedish Motors (Singapore) Pte Limited	Republic of Singapore, 9th September 1988	S\$2	100	100	Dormant
Cadillac Cars Limited	Hong Kong, 28th April 1994	\$20	100	100	Dormant
Charter Arrow Limited	Hong Kong, 10th October 1995	\$2	100	100	Dormant
Swedish Motors (China) Limited	Hong Kong, 23rd August 1988	\$1,500,000	100	100	Dormant
Ankor Motors Limited	Hong Kong, 25th June 1997	\$2	100	100	Dormant
Rui Hua CAIEC Limited #	Hong Kong, 12th March 1996	\$2	60	60	Dormant
Swedish Motors Far East Limited	Hong Kong, 1st December 1999	\$2	100	100	Dormant

* *deferred non-voting*

9,999,998 shares of Rui Hua CAIEC Limited were allotted nil paid at par

All holdings are ordinary shares unless otherwise stated. All companies operate principally in their place of incorporation except for the British Virgin Island and Cayman Island companies which operate in Hong Kong.