

1. Principal accounting policies

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

(a) Basis of preparation

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

(b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December. 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.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision, if necessary, for any diminution in value other than temporary in nature. 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 associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies.

In the Company's balance sheet the investments in associated companies are stated at cost less provision, if necessary, for any diminution in value other than temporary in nature. The results of associated companies are accounted for by the Company on the basis of dividends received and receivable.

1. Principal accounting policies *(continued)*

(d) Fixed assets

Fixed assets are stated at cost less accumulated depreciation.

Leasehold improvements are depreciated over the period of the lease while other tangible fixed assets are depreciated at rates sufficient to write off their cost over their estimated useful lives on a straight-line basis. The principal annual rate used is 20%.

The carrying amounts of fixed assets are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. Expected future cash flows have not been discounted in determining the recoverable amount.

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.

(e) 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. Rentals made under operating leases are charged to the profit and loss account on a straight-line basis over the lease term.

(f) Investments in securities

(i) *Investment securities*

Investment securities are stated at cost less any provision for diminution in value.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The amount of the reduction is recognised as an expense in the profit and loss account.

(ii) *Other investments*

Other investments are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of other investments are recognised in the profit and loss account. Profits or losses on disposal of other investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

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1. Principal accounting policies *(continued)*

(g) Accounts receivable

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

(h) Deferred taxation

Deferred taxation is accounted for at the current tax 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 an asset is expected to be payable or recoverable in the foreseeable future.

(i) 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. Exchange differences arising in these cases are dealt with in the profit and loss account.

(j) Revenue recognition

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

Dividend income is recognised when the right to receive payment is established.

Commission from underwriting services is accounted for in the period when receivable.

Gains or losses on sale of investment securities and other investments are recognised on the transfer of risks and rewards of ownership which generally coincides with the time when investments are delivered and title has passed.

(k) Retirement benefit costs

The Group's contributions to the defined contribution retirement scheme were expensed as incurred and were reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

The scheme was terminated on 30th November, 2000. Participants of this scheme together with new entrants joined the Mandatory Provident Fund on 1st December, 2000. The Group's contributions to the Mandatory Provident Fund are charged to the profit and loss account.

The assets of the Mandatory Provident Fund are held separately from those of the Group in independently administered funds.

2. Revenues and turnover

The Group principally invests in securities listed on The Stock Exchange of Hong Kong Limited and unlisted securities, including equity securities, convertible note and bonds, issued by corporate entities. Revenues recognised during the year are as follows:

	2000 HK\$	1999 HK\$
Turnover		
Interest income from		
– bank deposits	1,011,054	792,119
– investment securities	4,015,802	3,193,920
– other sources	497,981	7,234
Dividend income from		
– listed investments	795,082	1,597,946
– unlisted investments	256,000	–
	6,575,919	5,591,219
Other revenues		
Gain on sale of		
– other investments	13,148,846	4,098,181
– investment securities	1,400,000	–
Commission from underwriting services	187,500	351,790
	14,736,346	4,449,971
Total revenues	21,312,265	10,041,190

No geographical analysis is provided as less than 10% of the consolidated turnover and less than 10% of the consolidated trading results of the Group are attributable to markets outside Hong Kong.

3. Unrealised (loss)/gain on other investments

The amounts represent net unrealised (loss)/gain arising from changes in fair values of other investments during the year.

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4. Operating (loss)/profit

Operating (loss)/profit is stated after charging the following:

	2000 HK\$	1999 HK\$
Auditors' remuneration	218,100	151,000
Management fees	2,765,355	2,362,074
Incentive fees	–	1,432,335
Retirement benefit costs	47,872	59,460
Operating lease in respect of land and buildings	326,640	252,000
Net exchange losses	11,548	–
Other operating expenses	<u>5,020,946</u>	<u>2,125,516</u>

5. Finance costs

Amount represents interest on convertible bonds issued by the Group which will be wholly repayable or converted into shares of a subsidiary within five years. Details of the convertible bonds are set out in Note 20 to the accounts.

6. Directors' and senior management's emoluments

(a) Directors' remuneration

The aggregate amounts of emoluments payable to directors of the Company during the year are as follows:

	2000 HK\$	1999 HK\$
Fees	<u>60,000</u>	<u>100,000</u>

Directors' fees disclosed above include HK\$40,000 (1999: HK\$60,000) paid to independent non-executive directors.

In addition to the directors' remuneration disclosed above, one director of the Company received remuneration from a related company, namely Harmony Asset Management Limited, which amounted to HK\$1,560,000 (1999: HK\$1,560,000), in respect of his services to the Company and its subsidiaries.

Except for this director whose emolument fell within the band from "HK\$1,500,001 to HK\$2,000,000", all other director's emoluments fell within the band "from Nil to HK\$1,000,000".

6. Directors' and senior management's emoluments (continued)

(a) Directors' remuneration (continued)

During the year 36,000,000 options were granted to the directors under the Share Option Scheme approved by the shareholders at an annual general meeting on 22nd May, 2000. Each of the options entitles the holder to subscribe for one ordinary share of HK\$0.01 each in the Company at a price of HK\$0.24 each during the period from 1st August, 2000 to 31st July, 2003. During the year no options had been exercised by the directors.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group during the year are presented in the analysis below:

	2000 HK\$	1999 HK\$
Basic salaries, other allowances and benefits in kind	1,321,287	947,668
Fees to a director of a subsidiary	455,000	–
Pensions	38,280	59,460
	<u>1,814,567</u>	<u>1,007,128</u>

The individual emoluments payable to the five individuals are within the band "from Nil to HK\$1 million". One (1999: None) of these five individuals is a director of a subsidiary within the Group. This individual is not a director of the Company whose emoluments are therefore not reflected in the analysis presented in part (a).

7. Taxation charge

Hong Kong profits tax has been provided at the rate of 16% (1999: 16%) on the estimated assessable profit for the year. The amount of taxation charged to the consolidated profit and loss account represents:

	2000 HK\$	1999 HK\$
Hong Kong profits tax	1,166,639	1,127,164
10% 1997/98 Hong Kong profits tax rebate	–	(2,635)
Overprovision in prior years	(236,000)	–
	<u>930,639</u>	<u>1,124,529</u>

There was no material unprovided deferred taxation for the year (1999: Nil).

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8. (Loss)/Profit attributable to shareholders

The (loss)/profit attributable to shareholders is dealt with in the accounts of the Company to the extent of a loss of HK\$18,576,889 (1999: profit of HK\$14,670,146).

9. Dividends

	2000 HK\$	1999 HK\$
Final, proposed, of HK\$ Nil (1999: HK0.5 cents) per ordinary share	–	3,840,391
Final of 1999, paid, of HK0.5 cents per ordinary share (Note)	569,913	–
	<u>569,913</u>	<u>3,840,391</u>

Note: The current balance represents 1999 dividend paid for the additional 113,982,600 ordinary shares issued as 113,982,600 warrants were exercised before the closing date of the members register.

10. (Loss)/Earnings per share

The calculation of basic and diluted (loss)/earnings per share are based on the Group's loss attributable to shareholders of HK\$37,788,713 (1999: profit of HK\$14,794,247).

The basic (loss)/earnings per share is based on the weighted average of 883,579,994 (1999: 768,021,407) ordinary shares in issue during the year. The diluted loss per share for the financial year is based on 883,579,994 ordinary shares which has not been adjusted to account for the effect of deemed issue of ordinary shares at no consideration if all outstanding warrants had been exercised as the effect of such issue would be anti-dilutive. The diluted earnings per share for 1999 was based on 774,102,608 ordinary shares which was the weighted average number of ordinary shares in issue during the year plus the weighted average of 6,081,201 ordinary shares deemed to be issued at no consideration if all outstanding warrants had been exercised.

11. Retirement benefit costs

The Group contributed to a defined contribution retirement scheme which was available to all employees before 1st December, 2000. Contributions to the scheme by the Group were calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to the profit and loss account represented contributions paid by the Company to the scheme.

The Group's contributions were reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. No forfeited contributions were utilised during the year (1999: Nil). No contributions to the scheme remain outstanding at the year-end (1999: HK\$59,460).

11. Retirement benefit costs *(continued)*

The Group adopted the Mandatory Provident Fund on 1st December, 2000. Contributions to the fund are calculated as a percentage of employees' basic salaries and no material contributions to the fund remained outstanding at the year end. The assets of the fund are held separately from those of the Group in an independently administered fund.

12. Fixed assets

	Group				Total HK\$
	Leasehold improve- ments HK\$	Office equipment HK\$	Furniture and fixtures HK\$	Motor vehicle HK\$	
Cost					
At 1st January, 2000	459,125	227,797	298,029	650,000	1,634,951
Additions	–	126,717	–	–	126,717
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At 31st December, 2000	459,125	354,514	298,029	650,000	1,761,668
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Accumulated depreciation					
At 1st January, 2000	145,390	58,239	97,194	227,500	528,323
Charge for the year	91,825	66,926	59,606	130,000	348,357
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At 31st December, 2000	237,215	125,165	156,800	357,500	876,680
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Net book value					
At 31st December, 2000	<u>221,910</u>	<u>229,349</u>	<u>141,229</u>	<u>292,500</u>	<u>884,988</u>
<hr/>					
At 31st December, 1999	<u>313,735</u>	<u>169,558</u>	<u>200,835</u>	<u>422,500</u>	<u>1,106,628</u>

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12. Fixed assets (continued)

	Company				Total HK\$
	Leasehold improve- ments HK\$	Office equipment HK\$	Furniture and fixtures HK\$	Motor vehicle HK\$	
Cost					
At 1st January, 2000	459,125	227,797	298,029	650,000	1,634,951
Additions	–	93,312	–	–	93,312
<hr/>					
At 31st December, 2000	459,125	321,109	298,029	650,000	1,728,263
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Accumulated depreciation					
At 1st January, 2000	145,390	58,239	97,194	227,500	528,323
Charge for the year	91,825	60,935	59,606	130,000	342,366
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At 31st December, 2000	237,215	119,174	156,800	357,500	870,689
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Net book value					
At 31st December, 2000	<u>221,910</u>	<u>201,935</u>	<u>141,229</u>	<u>292,500</u>	<u>857,574</u>
<hr/>					
At 31st December, 1999	<u>313,735</u>	<u>169,558</u>	<u>200,835</u>	<u>422,500</u>	<u>1,106,628</u>

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13. Investments in subsidiaries

	Company	
	2000 HK\$	1999 HK\$
Investment at cost:		
Unlisted shares	16,718,598	16,718,606
Amount due from subsidiaries	58,720,266	–
Amount due to subsidiaries	(295,654)	(220,505)
	<u>75,143,210</u>	<u>16,498,101</u>

The amounts due from and to subsidiaries are unsecured, interest free and have no fixed terms for repayment.

The following is a list of subsidiaries at 31st December, 2000:

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Interest held
Plowright Investments Limited ("PIL")	British Virgin Islands	Investment holding in Hong Kong	1 Ordinary share of US\$1 each	*100%
Waltin (HK) Limited ("WL")	Hong Kong	Investment holding in Hong Kong	2 Ordinary shares of HK\$1 each	100%
Powercell Limited ("PCL")	British Virgin Islands	Investment holding in Hong Kong	1 Ordinary share of US\$1 each	100%
Gwynneth Gold Limited ("GGL")	British Virgin Islands	Investment holding in Hong Kong	1 Ordinary share of US\$1 each	*100%
Multiple Asset Limited ("MAL")	Hong Kong	Dormant	2 Ordinary shares of HK\$2 each	*100%

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13. Investments in subsidiaries (continued)

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Interest held
IT Star Holdings Limited ("ITSH")	Cayman Islands	Investment holding in Hong Kong	1 Ordinary share of HK\$0.1 each	*100%
IT Star Limited ("ITL")	British Virgin Islands	Investment holding in Hong Kong	1 Ordinary share of US\$1 each	100%
Wintech Limited ("WTL")	British Virgin Islands	Investment holding in Hong Kong	1 Ordinary share of US\$1 each	100%
Marrick Investments Limited ("MIL")	British Virgin Islands	Investment holding in Hong Kong	1 Ordinary share of US\$1 each	100%
Noble Way Development Limited ("NWD")	British Virgin Islands	Investment holding in Hong Kong	1 Ordinary share of US\$1 each	100%
Wayfairer Investments Limited ("WIL")	British Virgin Islands	Investment holding in Hong Kong	1 Ordinary share of US\$1 each	100%
IT Development Limited ("ITD")	Hong Kong	Dormant	2 Ordinary shares of HK\$1 each	100%
Profit Success Limited ("PSL")	British Virgin Islands	Investment holding in Hong Kong	10 Ordinary shares of US\$1 each	100%
Datacom Venture Limited ("DVL")	British Virgin Islands	Investment holding in Hong Kong	1 Ordinary share of US\$1 each	100%

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13. Investments in subsidiaries (continued)

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Interest held
Batan Cyberbase Inc. ("BCI")	British Virgin Islands	Investment holding in Hong Kong	1,300 Ordinary shares of HK\$500 each	100%

* Shares held directly by the Company.

There was a group restructuring during the year. ITL and its subsidiaries were transferred from the Company to ITSH. The transfers were made at the net book values on the date of transfer.

14. Investments in associated companies

	Group	
	2000 HK\$	1999 HK\$
Shares of net assets other than goodwill	6,511,538	–
Loan to an associated company	6,000,000	–
	<u>12,511,538</u>	<u>–</u>
Investments in unlisted shares, at cost	<u>9,276,000</u>	<u>–</u>

The amount due by the associated company is unsecured, interest free and has no fixed terms for repayment.

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14. Investments in associated companies (continued)

The following is a list of the associated companies at 31st December, 2000:

Name	Place of incorporation and business	Principal activities	Particulars of issued shares held	Interests held indirectly
Eclipse Investment Holdings Limited ("EIH")	British Virgin Islands	Investment holding	2,730,000 ordinary shares of HK\$1 each	35%
iBrandDirect.com (Holdings) Limited ("IBD")	Cayman Islands	Investment holding	30,000 ordinary shares of US\$1 each	33%

15. Investment securities

	Group		Company	
	2000 HK\$	1999 HK\$	2000 HK\$	1999 HK\$
Investment securities, at cost:				
Convertible note and bonds, unlisted (Note a)	36,350,000	32,950,000	22,100,000	23,500,000
Equity securities, unlisted (Note b)	50,338,083	35,431,405	–	10,000,000
	86,688,083	68,381,405	22,100,000	33,500,000
Provision for diminution in investment securities (Note c)	(10,800,000)	–	–	–
	75,888,083	68,381,405	22,100,000	33,500,000
Equity securities, listed in Hong Kong (Note d)	10,000,000	–	10,000,000	–
	85,888,083	68,381,405	32,100,000	33,500,000
Market value of listed equity securities	9,300,000	–	9,300,000	–

15. Investment securities (continued)

Investments securities comprise listed and unlisted equity securities and convertible note and bonds held for long term strategic purposes to maintain good relationships with business counterparts and generate regular dividends in future years.

(a) Convertible note and bonds

Convertible note and bonds are dated debt securities which permit the holder the right to convert the debt securities into shares of the issuers at the specified dates. The directors have the intention to take up the option to convert. Upon conversion of the convertible note and bonds, they will be stated at the cost of acquiring the underlying shares.

The convertible note and bonds bear interest which are either fixed or linked to prime rate. The rates of return derived from interest income provided by individual convertible note and bonds range from 6% to 13% per annum.

Details of the convertible note and bonds are as follows:

Name of issuer	Security	Nature of business	Principal amount		Maturity date	% of total asset of the Group	% of total asset of the Group
			2000 HK\$'000	1999 HK\$'000		2000	1999
Yelverton Profits Limited*#	Unsecured	Investment holdings	22,100	22,100	8th August, 2001	10.35%	12.98%
Technology City Limited	Secured	Provision of multi-media financial information	1,000	1,000	20th October, 2001	0.47%	0.59%
SuperWeb Express Inc.	Secured	Website designs & production	3,000	1,000	29th November, 2001	1.41%	0.59%
FortuneAdvice.com Limited	Secured	Provision of astrology global overview	1,000	-	10th July, 2002	0.47%	-
Huge City (H.K.) Limited	Secured	Trading of office furniture	550	550	4th August, 2001	0.26%	0.32%
Fujita Glass Limited	Secured	Trading of glass	1,000	-	11th October, 2001	0.47%	-

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15. Investment securities (continued)

(a) Convertible note and bonds (continued)

Name of issuer	Security	Nature of business	Principal amount		Maturity date	% of total asset of the Group	% of total asset of the Group
			2000 HK\$'000	1999 HK\$'000		2000	1999
Talent Information Management Limited	Secured	Internet and intranet service provider	2,900	2,900	19th July, 2001	1.36%	1.70%
TECO Technology (Holdings) Company Limited	Secured	Internet networking solution	1,100	-	17th May, 2002	0.52%	-
Bestline Engineer Limited	Secured	Engineering consultant & contracting services	1,700	-	15th March, 2002	0.80%	-
Others	Secured	Interior architects & consultation	2,000	-	16th March, 2002	0.94%	-
iD Innovation Limited	Secured	Production of multi-media, CD-ROM products	-	2,000	10th September, 2001	-	1.17%
Multimedians Limited	Secured	Software development for the education market	-	2,000	30th June, 2002	-	1.17%
Powernet Company Limited*	Unsecured	Internet service provider	-	1,400	16th March, 2001	-	0.82%
			36,350	32,950			

* Convertible note and bonds held directly by the Company.

This convertible note was assigned to Yelverton Profits Limited during the year.

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15. Investment securities (continued)

(b) Unlisted equity securities

At 31st December, 2000, the carrying amount of equity interest in Goodwill Forever Limited exceeded 10% of total assets of the Company and the Group.

Details of the unlisted equity securities are as follows:

Name of investee company	Place of incorporation	Nature of business	Particulars of issued shares held	Interest in shares held	Cost HK\$'000	% of total assets of the Group	Net assets attributable to the Group HK\$'000
As at 31st December, 2000							
Multimedians Limited	Hong Kong	Software development for the education market	1,133,333 of ordinary shares of HK\$0.10 each	32%	2,663	1.25%	329
ChineseWorldNet.com Inc.	Cayman Islands	Provision of financial information service	250,000 of ordinary shares of US\$0.001 each	4.17%	780	0.37%	N/A**
Mypet.com Limited	Hong Kong	Provision of pet care products and related services on internet	350 of ordinary shares of HK\$1.00 each	35%	175	0.08%	N/A**
Expertise Holdings Limited	British Virgin Islands	Investment holdings	35 of ordinary shares of US\$1.00 each	35%	3,438	1.61%	1,473
Cyber Infotech Holdings Limited	British Virgin Islands	Investment holdings	1,000,000 of ordinary shares of US\$0.10 each	2.5%	2,330	1.09%	N/A**
Goodwill China Business Information Limited	Hong Kong	Sale of information products	134,554 of ordinary shares of HK\$1.00 each	2%	1,000	0.47%	89
Allways Internet Limited	Hong Kong	Provision of travel agency services and information on internet	1,050,000 of ordinary shares of HK\$1.00 each	35%	1,500	0.70%	988

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15. Investment securities (continued)

(b) Unlisted equity securities (continued)

Name of investee company	Place of incorporation	Nature of business	Particulars of issued shares held	Interest in shares held	Cost HK\$'000	% of total assets of the Group	Net assets attributable to the Group HK\$'000
Hoss Virtualab Limited	Hong Kong	Provision of software products for education	1,250 of ordinary shares of HK\$1.00 each	12.5%	300	0.14%	68
iD Innovation Limited	Hong Kong	Production of multi-media, CD-ROM products	6,711 of ordinary shares of HK\$1.00 each	33.29%	7,962	3.73%	3,630
Fujita Glass Limited	Hong Kong	Trading of glass	3,750 of ordinary shares of HK\$1.00 each	15%	250	0.12%	153
Enviro Technology International Limited	Hong Kong	Development of battery regenerators	500 of ordinary shares of HK\$1.00 each	16.67%	390	0.18%	N/A**
Chief Finance Limited	Hong Kong	Provision of commercial financing services	2,600,000 of ordinary shares of HK\$1.00 each	26%	4,680	2.19%	N/A**
eZ-Financial Services Limited	Hong Kong	Provision of electronic trading facilities	1,250,000 of ordinary shares of HK\$1.00 each	12.5%	1,250	0.59%	993
Goodwill Forever Limited	British Virgin Islands	Investment holdings	13,870 of ordinary shares of US\$1.00 each	34.68%	23,620	11.067%	9,587
					50,338		

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15. Investment securities (continued)

(b) Unlisted equity securities (continued)

Name of investee company	Place of incorporation	Nature of business	Particulars of issued shares held	Interest in shares held	Cost HK\$'000	% of total assets of the Group	Net assets attributable to the Group HK\$'000
As at 31st December, 1999							
Goodwill Forever Limited	British Virgin Islands	Investment holdings	13,870 of ordinary shares of US\$1.00 each	34.68%	23,620	13.87%	6,242
eZ-Financial Services Limited	Hong Kong	Provision of electronic trading facilities	1,250,000 of ordinary shares of HK\$1.00 each	12.5%	1,250	0.73%	N/A**
Multimedians Limited	Hong Kong	Software development for the education market	300,000 of ordinary shares of HK\$0.10 each	12%	561	0.33%	154
Everest International Investments Limited*	Cayman Islands	Investment holdings	30,000,000 of ordinary shares of HK\$0.01 each	16.99%	10,000	5.87%	9,772
					35,431		

* Shares held directly by the Company.

** The figures are not available as the first sets of audited accounts of the investee companies concerned have not yet been prepared since incorporation.

The equity investments in the above companies with interest held exceeding 20% are recorded as investment securities at cost. These investments are not classified as investments in associated companies as the Group does not participate in their operations and has no influence over their management.

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15. Investment securities (continued)

(c) Provision for diminution in investment securities

The amount was set aside as a provision for the Group's investments in unlisted equity and debt securities issued by advanced technology companies in response to unfavorable changes in the local economy which may adversely affect the advanced technology industry. The provision relates to market and credit risk exposures not separately identified but known from experience to exist when adverse economic conditions arise. The investments were directly held by the Company's subsidiaries whereas the provision was borne by the Company on behalf of its subsidiaries.

(d) Listed equity securities

The securities represent 30,000,000 ordinary shares of Everest International Investments Limited recorded at cost which represents 14.52% of the issued share capital of the Company and became listed on The Stock Exchange of Hong Kong on 12th December, 2000. The Company was incorporated in the Cayman Islands and engages in investment in listed and unlisted securities for medium to long term. At 31 December, 2000, the total market value of the securities amounted to HK\$9,300,000.

16. Accounts receivable and prepayments

	Group		Company	
	2000 HK\$	1999 HK\$	2000 HK\$	1999 HK\$
Accounts receivable	22,398,002	4,607,286	13,000,000	4,607,286
Deposits	63,000	63,000	63,000	63,000
Prepayments	684,915	1,331,027	238,563	221,900
Other receivables	151,704	261,887	151,703	261,887
	<u>23,297,621</u>	<u>6,263,200</u>	<u>13,453,266</u>	<u>5,154,073</u>

Accounts receivable of the Group comprises unsecured short term loans of HK\$9,398,002 extended to investee companies in which the Group has not exerted any influence over their management and a sum of HK\$13 million placed with a company which will help the Group to identify appropriate investment opportunities for the aforesaid sum. At 31st December, 2000, all accounts receivable of the Group were current.

17. Other investments

	Group		Company	
	2000 HK\$	1999 HK\$	2000 HK\$	1999 HK\$
Equity securities, at fair value				
– Listed in Hong Kong	62,105,381	85,209,934	43,195,220	85,209,934
– Listed outside Hong Kong	2,340,000	–	–	–
	<u>64,445,381</u>	<u>85,209,934</u>	<u>43,195,220</u>	<u>85,209,934</u>
Market value of listed securities	<u>64,445,381</u>	<u>85,209,934</u>	<u>43,195,220</u>	<u>85,209,934</u>

Under an agreement entered into between the Group and a bank, the Group can pledge its listed securities to the bank for a loan equal to 20% of the market value of the pledged shares. During the year, the Group has not utilized this facility.

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17. Other investments (continued)

Details of the other investments are as follows:

Name of investee company	Place of incorporation	Number of shares/warrants held	Carrying value as at 1st January 2000 HK\$'000	Market value as at 31st December 2000 HK\$'000	Unrealised gain/(loss) arising on revaluation HK\$'000	% of total assets of the Group	Net assets attributable to the Group
At 31st December, 2000							
<i>Listed in Hong Kong</i>							
Shares							
Allied Properties (H.K.) Limited	Hong Kong	24,608,000	13,821	9,105	(4,716)	4.26%	47,193
Allied Group Limited	Hong Kong	7,506,000	4,841	3,378	(1,463)	1.58%	8,701
Chun Wo Holdings Limited	Bermuda	4,625,000	2,294	1,318	(976)	0.62%	3,547
EganaGoldpfeil (Holdings) Limited	Cayman Islands	31,000,000	5,681	5,301	(380)	2.48%	3,126
Excel Technology International Holdings Limited	Bermuda	600,000	529	378	(151)	0.18%	2
Haywood Investments Limited	Cayman Islands	9,975,000	10,972	10,274	(698)	4.81%	10,134
Hua Lien International (Holding) Company Limited	Cayman Islands	1,500,000	1,515	600	(915)	0.28%	1,041
Lamex Holdings Limited	Bermuda	373,290,200	24,965	16,798	(8,167)	7.87%	46,093
Mansion House Group Limited	Hong Kong	308,000	316	114	(202)	0.05%	49
Millennium Group Limited	Hong Kong	1,654,000	483	179	(304)	0.08%	237
Prime Success International Group Limited	Cayman Islands	30,500,000	7,320	3,506	(3,814)	1.64%	9,162
Quality Food International Limited	Bermuda	5,000,000	790	475	(315)	0.22%	489
Tonic Industries Holdings Limited	Cayman Islands	8,173,200	8,827	3,351	(5,476)	1.57%	4,343
Tysan Holdings Limited	Bermuda	10,000,000	4,200	2,190	(2,010)	1.03%	9,154
Upbest Group limited	Cayman Islands	1,000,000	1,249	1,200	(49)	0.56%	243
Zhu Kuan Development Company Limited	Bermuda	8,656,000	6,145	3,030	(3,115)	1.42%	9,464
36.com Holdings Limited	Bermuda	17,166,000	650	876	226	0.41%	512
			94,598	62,073	(32,525)		
Warrants							
Egana Jewellery & Pearls Limited – W0106	Cayman Islands	1,283,369	90	14	(76)	0.01%	N/A
Quality Food International Limited – W0212	Bermuda	200,000	–	18	18	0.01%	N/A
			90	32	(58)		
<i>Listed outside Hong Kong</i>							
Shares							
Dragon Pharmaceuticals Inc.	Florida	150,000	2,925	2,340	(585)	1.10%	1,048
			97,613	64,445	(33,168)		

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17. Other investments (continued)

Name of investee company	Place of incorporation	Number of shares/warrants held	Carrying value as at 1st January 1999 HK\$'000	Market value as at 31st December 1999 HK\$'000	Unrealised gain/(loss) arising on revaluation HK\$'000	% of total assets of the Group	Net assets attributable to the Group
At 31st December, 1999							
<i>Listed in Hong Kong</i>							
Chun Wo Holdings Limited	Bermuda	3,700,000	2,836	1,850	(986)	1.09%	2,362
Egana International (Holdings) Limited	Cayman Islands	31,334,762	3,500	7,990	4,490	4.69%	3,602
Haywood Investments Limited	Cayman Islands	9,975,000	10,973	10,973	-	6.44%	9,111
Kong Sun Holdings Limited	Hong Kong	4,000,000	1,000	956	(44)	0.56%	1,306
Lamex Holdings Limited	Bermuda	95,964,800	13,830	17,753	3,923	10.42%	21,045
Prime Success International Group Limited	Cayman Islands	30,500,000	14,488	7,320	(7,168)	4.30%	9,276
Quality Food International Limited	Bermuda	1,000,000	1,010	790	(220)	0.46%	149
Sun Hung Kai & Company Limited	Hong Kong	18,630,000	13,165	21,238	8,073	12.47%	56,440
Tonic Industries Holdings Limited	Cayman Islands	8,173,200	4,787	8,827	4,040	5.18%	4,135
Tysan Holdings Limited	Bermuda	10,000,000	3,100	4,200	1,100	2.47%	8,882
Universe International Holdings Limited	Bermuda	2,270,000	2,521	2,633	112	1.55%	770
Wonson International Holdings Limited	Bermuda	606,000	91	82	(9)	0.05%	93
Other			47	-	(47)	0.00%	N/A
			71,348	84,612	13,264		
Warrants							
Egana Jewellery & Pearls Limited - W0106	Cayman Islands	1,283,369	-	90	90	0.05%	N/A
Prime Success International Group Limited - W0006	Cayman Islands	2,100,000	147	38	(109)	0.02%	N/A
Tonic Industries Holdings Limited - W0009	Cayman Islands	714,000	171	457	286	0.27%	N/A
Wonson International Holdings Limited - W0210	Bermuda	240,000	-	13	13	0.01%	N/A
			318	598	280		
			71,666	85,210	13,544		

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18. Share capital

	Authorised	
	Ordinary shares of HK\$0.01 each	
	No. of shares	HK\$
At 31st December, 1998 and 1999	<u>1,400,000,000</u>	<u>14,000,000</u>
At 31st December, 1999	1,400,000,000	14,000,000
Increase in authorised ordinary share capital	<u>8,600,000,000</u>	<u>86,000,000</u>
At 31st December, 2000	<u>10,000,000,000</u>	<u>100,000,000</u>
	Issued and fully paid	
	Ordinary shares of HK\$0.01 each	
	No. of shares	HK\$
At 31st December, 1998	768,016,736	7,680,167
Exercise of warrants	<u>61,498</u>	<u>615</u>
At 31st December, 1999	<u>768,078,234</u>	<u>7,680,782</u>
At 31st December, 1999	768,078,234	7,680,782
Exercise of warrants	143,147,776	1,431,477
Issue of shares	<u>62,000,000</u>	<u>620,000</u>
At 31st December, 2000	<u>973,226,010</u>	<u>9,732,259</u>

By an ordinary resolution passed on 27th March, 2000 the authorised ordinary share capital of the Company was increased from HK\$14,000,000 to HK\$100,000,000 by the creation of 8,600,000,000 shares of HK\$0.01 each.

During the year, 143,134,826 warrants were exercised and 143,134,826 ordinary shares were issued at a cash consideration of HK\$0.17 per ordinary share. In addition, 12,950 warrants were exercised and 12,950 shares were issued at a cash consideration of HK\$0.39 per ordinary share. These new shares issued in 2000 rank pari passu with the existing shares of the Company.

18. Share capital *(continued)*

The Company has warrants outstanding entitling the holders to subscribe HK\$49,168,404 in cash at any time on or after 24th May, 2000 until 31st May, 2002 for ordinary shares of the Company at a price of HK\$0.39 per shares. If the warrants are fully exercised, the Company will be required to issue a further 126,072,831 shares.

On 11th December, 2000, the Company completed a placement of a total of 62,000,000 ordinary shares of HK\$0.01 each to the ITOCHU Corporation of HK\$0.208 per share under the general mandate granted to the directors at the annual general meeting held on 22nd May, 2000. These shares rank pari passu with the existing shares. The net proceeds from the placement are for investment purpose.

At an annual general meeting of the Company held on 22nd May, 2000, the Share Option Scheme was approved and adopted. Options to subscribe for 36,000,000 and 38,500,000 ordinary shares of the Company have been granted to executive directors and all employees respectively during the year. The directors and employees are entitled to exercise their options at a price of HK\$0.24 and HK\$0.22 per share respectively. At 31st December, 2000 all of the options granted remained outstanding which are exercisable at any time prior to 31st July, 2003.

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19. Reserves

Group

	Share premium HK\$	Retained earnings HK\$	Total HK\$
At 1st January, 1999	103,504,552	39,325,681	142,830,233
Premium on issue of shares	9,840	–	9,840
Profit for the year retained	–	14,794,247	14,794,247
Dividends (Note 9)	–	(3,840,391)	(3,840,391)
	<u>103,514,392</u>	<u>50,279,537</u>	<u>153,793,929</u>
At 31st December, 1999	<u>103,514,392</u>	<u>50,279,537</u>	<u>153,793,929</u>
Company and subsidiaries at 31st December, 1999	<u>103,514,392</u>	<u>50,279,537</u>	<u>153,793,929</u>

Group

At 1st January, 2000	103,514,392	50,279,537	153,793,929
Dividends (Note 9)	–	(569,913)	(569,913)
Premium on issue of shares	35,182,493	–	35,182,493
Share issues expenses	(289,324)	–	(289,324)
Loss for the year	–	(37,788,713)	(37,788,713)
	<u>138,407,561</u>	<u>11,920,911</u>	<u>150,328,472</u>
At 31st December, 2000	<u>138,407,561</u>	<u>11,920,911</u>	<u>150,328,472</u>
Company and subsidiaries	138,407,561	14,685,373	153,092,934
Associated companies	–	(2,764,462)	(2,764,462)
	<u>138,407,561</u>	<u>11,920,911</u>	<u>150,328,472</u>
At 31st December, 2000	<u>138,407,561</u>	<u>11,920,911</u>	<u>150,328,472</u>

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19. Reserves (continued)

Company

	Share premium HK\$	Retained earnings HK\$	Total HK\$
At 1st January, 1999	103,504,552	21,039,537	124,544,089
Premium on issue of shares	9,840	–	9,840
Profit for the year	–	14,670,146	14,670,146
Dividends (Note 9)	–	(3,840,391)	(3,840,391)
At 31st December, 1999	103,514,392	31,869,292	135,383,684
Dividends (Note 9)	–	(569,913)	(569,913)
Premium on issue of shares	35,182,493	–	35,182,493
Share issue expenses	(289,324)	–	(289,324)
Loss for the year	–	(18,576,889)	(18,576,889)
At 31st December, 2000	<u>138,407,561</u>	<u>12,722,490</u>	<u>151,130,051</u>

Distributable reserves of the Company at 31st December, 2000, calculated under section 79B of the Companies Law of the Cayman Islands, amounted to HK\$151,130,051 (1999: HK\$135,383,684).

20. CONVERTIBLE BONDS

	2000 HK\$	1999 HK\$
Convertible bonds		
Unsecured and wholly repayable within five years	<u>49,900,000</u>	<u>–</u>

On 12th January, 2000, ITL issued convertible bonds with principal amounts of HK\$9.9 million and of HK\$10 million to Luen Wing Group and Chun Wo Holdings Limited respectively. On 24th October, 2000, ITL and the bondholders agreed to substitute the outstanding convertible bonds by new convertible bonds of the same principal amounts issued by ITSH. The new convertible bonds each bear a fixed interest of 6% per annum and will mature on 8th December, 2002. In addition, each bondholder is entitled to convert the full principal amount of the bond into 13,200,000 ordinary shares of ITSH on occurrence of certain conversion events at any time prior to 8th December, 2002. Upon conversion of all outstanding convertible bonds, the shares allotted to each of the bondholders will represent 6.6% of the enlarged issued share capital of ITSH.

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20. CONVERTIBLE BONDS *(continued)*

The convertible bond held by Chun Wo Holdings Limited is secured by a guarantee of HK\$10 million provided by the Company.

On 8th December, 2000, ITSH issued three convertible bonds with principal amounts of HK\$20 million, HK\$5 million and HK\$5 million to Cyber Wing Hang Limited, Everest International Investment Limited and Dragon Fair Development Limited respectively. The convertible bonds each bear a fixed interest of 5% per annum and will mature on 8th December, 2002. The respective bondholders are entitled to convert the full principal amounts of the bonds into 22,000,000, 5,500,000 and 5,500,000 ordinary shares of ITSH respectively on occurrence of certain conversion events any time prior to 8th December, 2002. Upon conversion of all outstanding convertible bonds, the shares allotted to the bondholders will represent 11%, 2.75% and 2.75% of the enlarged issued share capital of ITSH respectively.

21. Net asset value per share

The calculation of net asset value per share is based on the net assets of HK\$160,060,731 (1999: HK\$161,474,711) and the 973,226,010 ordinary shares in issue as at 31st December, 2000 (1999: 768,078,234 ordinary shares).

22. Management contracts

	2000 HK\$	1999 HK\$
Management fees		
– Harmony Asset Management Limited (Note)	<u>2,765,355</u>	<u>2,362,074</u>
Incentive fees		
– Harmony Asset Management Limited (Note)	<u>–</u>	<u>1,432,335</u>

Note: The Company has entered into an investment management agreement with Harmony Asset Management Limited (“HAML”), a company which is wholly owned by Dr. Chow Pok Yu, Augustine. Under the agreement HAML agreed to assist the board of directors with the day-to-day management of the Group for a period commencing 1st June, 1998 to 1st June, 2001. Pursuant to a supplemental agreement which was approved at an annual general meeting on 22nd May, 2000, the investment management agreement was extended to 5th April, 2006. In accordance with the investment management agreement, HAML is entitled to a monthly fee calculated at 1.5% per annum on the net asset value of the Company of the preceding month and an incentive fee at 10% of the surplus in the net asset value over a financial year. Dr. Chow Pok Yu, Augustine, being a beneficial shareholder, was interested in these contracts in 2000.

23. Related party transactions

In addition to the related party transactions stated in Note 22 to these financial statements, the Group entered into the following significant related party transaction in the normal course of business:

The Group held 9,975,000 shares (1999: 9,975,000 shares) of a related company, Haywood Investments Limited ("HIL"), a company listed on The Stock Exchange of Hong Kong Limited. Dr. Chow Pok Yu, Augustine is a director of HIL. These shares were acquired in 1998 at a cash consideration of HK\$10,421,500 based on the market value at the date of acquisition. At 31st December, 2000, the market value of these shares was HK\$10,274,250.

24. Notes to the consolidated cash flow statement

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

	2000 HK\$	1999 HK\$
Operating activities		
(Loss)/profit before taxation	(36,858,074)	15,918,776
Unrealised loss/(gain) on other investments	33,167,818	(13,544,459)
Realised gain on disposal of other investments	(13,148,846)	(4,098,181)
Realised gain on disposal of investment securities	(1,400,000)	–
Provision for diminution of investment securities	10,800,000	–
Share of losses of associated companies	2,764,462	–
Interest income	(5,524,837)	(3,993,273)
Dividend income from investment securities	(256,000)	–
Finance costs	1,087,794	–
Depreciation	348,357	318,440
Increase in other assets	(2,000,000)	–
Increase in accounts receivable and prepayments	(17,034,421)	(5,993,579)
(Decrease)/increase in creditors and accruals	(2,982,051)	1,723,106
Increase in other investments	(63,510,002)	(25,874,522)
Net cash outflow from operating activities	<u>(94,545,800)</u>	<u>(35,543,692)</u>

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

(b) Analysis of changes in financing during the year

	Share capital including premium	
	2000 HK\$	1999 HK\$
As at 1st January	111,195,174	111,184,719
Net cash inflow from financing	36,944,646	10,455
As at 31st December	<u>148,139,820</u>	<u>111,195,174</u>

	Convertible bonds	
	2000 HK\$	1999 HK\$
As at 1st January	–	–
Net cash inflow from financing	49,900,000	–
As at 31st December	<u>49,900,000</u>	<u>–</u>

(c) Major non-cash transactions

During the year, the Group has exchanged 965 shares of investment securities amounting to HK\$273,526 for 95,700,000 ordinary shares of Lamex Holdings Limited and, subsequently, re-exchanged 620 shares of the investment securities for HK\$5 million and 12,360,000 ordinary shares of Lamex Holdings Limited.

25. Commitments

(a) Commitments under operating leases

At 31st December, the Group had commitments to make payments in the next twelve months under operating leases which expire as follows:

	Land and buildings 2000 HK\$	Land and buildings 1999 HK\$
Within one year	–	126,000
In the second to fifth years inclusive	233,280	–
	<u>233,280</u>	<u>126,000</u>

(b) Commitments under subscription agreements for investment securities

At 31st December, 2000, the Group had outstanding commitments amounting to HK\$3,400,000 (1999: HK\$3,550,000) to subscribe for convertible bonds for investment purposes. The Group had no outstanding commitment to subscribe for equity securities (1999: HK\$2,950,000).

26. Subsequent event

In January 2001, the Group's associated company, IBD, and its subsidiaries ("the IBD group") commenced a business restructuring. As part of this restructuring, the IBD group consolidated its business activities to a related company owned by a major shareholder of the IBD group and remained dormant thereafter. Following the restructuring of the IBD group, the Group received HK\$9.7 million as full repayment of loan and partial distribution of reserves. The directors of the Company consider that the estimated loss attributable to Group as a result of the restructuring and withdrawal of the investment amounts to approximately HK\$600,000. This will be recognised in the financial year 2001 on completion of restructuring and when the amount is fully determinable.

27. Approval of accounts

The accounts were approved by the board of directors on 19th April, 2001.

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