

1. Summary of Significant Accounting Policies

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice ("SSAPs"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of investment properties, leasehold land and buildings and other investments, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2000. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Subsidiaries

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

Interests in subsidiaries are stated at cost unless, in the opinion of the directors, there have been permanent diminutions in values, when they are written down to values determined by the directors.

Associates

An associate is a company, not being a subsidiary or a joint venture, in which the Group has a long term equity interest and over which it is in a position to exercise significant influence in its management.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any provisions for diminutions in values other than those considered to be temporary in nature, deemed necessary by the directors.

1. Summary of Significant Accounting Policies (continued)

Joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and where none of the participating parties has unilateral control over the economic activity.

Joint venture arrangements which involve the use of the assets and other reserves of the Group and other parties, without the establishment of a separate entity, are referred to as jointly-controlled operations. Under this arrangement, assets remain under the ownership and control of each joint venture party. Revenue and expenses incurred in common are shared by the parties according to the contractual arrangement.

Assets that the Group controls and liabilities that it incurs in relation to jointly-controlled operations are recognised in the Group's consolidated balance sheet on an accrual basis and classified according to the nature of the item. The Group's share of the income that it earns from jointly-controlled operations, together with expenses that it incurs, are included in the Group's consolidated profit and loss account when it is probable that the economic benefits associated with the transactions will flow to/from the Group.

Joint venture arrangements which involve the establishment of a separate entity in which the Group and other parties have an interest are referred to as jointly-controlled entities.

The Group's share of the post acquisition results and reserves of jointly-controlled entities is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any provisions for diminutions in values other than those considered to be temporary in nature, deemed necessary by the directors.

1. Summary of Significant Accounting Policies (continued)

Goodwill and capital reserve

Goodwill arising on the consolidation of subsidiaries and on the acquisition of associates and jointly-controlled entities represents the excess purchase consideration paid for subsidiaries, associates or jointly-controlled entities over the fair values ascribed to the underlying net assets acquired, and is eliminated against reserves in the year of acquisition.

The capital reserve arising on the consolidation of subsidiaries and on the acquisition of associates and jointly-controlled entities represents the excess of the fair values ascribed to the acquired subsidiaries', associates' or jointly-controlled entities' underlying net assets at the date of acquisition over the purchase consideration paid for such subsidiaries, associates or jointly-controlled entities.

Upon the disposal of subsidiaries, associates or jointly-controlled entities, the attributable amount of purchased goodwill relating to the subsidiaries, associates or jointly-controlled entities, which was previously eliminated against reserves on consolidation, is included in the calculation of the gain or loss on disposal of the subsidiaries, associates or jointly-controlled entities and is reflected in the profit and loss account.

Fixed assets and depreciation

Fixed assets, other than construction in progress and investment properties, are stated at cost or valuation less accumulated depreciation.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the fixed asset has been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Changes in the values of fixed assets, other than investment properties, are dealt with as movements in the asset revaluation reserve. If the reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. A subsequent revaluation increase is recognised as income to the extent that it reverses a revaluation deficit of the same asset previously charged to the profit and loss account.

1. Summary of Significant Accounting Policies (continued)

Fixed assets and depreciation (continued)

Depreciation is provided on a straight-line basis to write off the cost or valuation of each asset over the following estimated useful lives:

Leasehold land	Over the terms of the leases
Buildings	15 – 50 years or over the terms of the leases, whichever is shorter
Leasehold improvements	4 years or over the terms of the leases, whichever is shorter
Plant and machinery	3 – 10 years
Motor vehicles	3 – 5 years
Furniture, fixtures and equipment	3 – 8 years

Construction in progress represents the costs incurred in connection with the construction of fixed assets. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and put into use.

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the sales proceeds and the carrying amount of the relevant asset. On the disposal or retirement of a fixed asset that has previously been revalued, the attributable revaluation surplus not previously dealt with in retained profits is transferred directly to retained profits.

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations. Changes in the values of the investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

Upon the disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

1. Summary of Significant Accounting Policies (continued)

Leased assets

Leases that transfer substantially all of the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and is recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and are depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Investment securities

Investment securities in listed and unlisted equity securities, intended to be held for a continuing strategic or long term purpose, are stated at cost less any provisions for impairments in values deemed necessary by the directors, other than those considered to be temporary in nature, on an individual basis.

When such impairments in values have occurred, the carrying amounts of the securities are reduced to their fair values, as estimated by the directors, and the amounts of the impairments are charged to the profit and loss account for the period in which they arise. When the circumstances and events which led to the impairments in values cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amounts of the impairments previously charged are credited to the profit and loss account, to the extent of the amounts previously charged.

Investments other than investment securities are classified as other investments and are stated at their fair values on an individual investment basis. The gains or losses arising from changes in their respective fair values are credited or charged to the profit and loss account for the period in which they arise.

1. Summary of Significant Accounting Policies (continued)

Intangible assets

Expenditure in respect of the acquisition of vehicle licences is stated at cost less accumulated amortisation. Amortisation is provided on a straight-line basis to write off the cost of intangible assets over the contracted terms of the companies owning the licences or the terms of the licences, whichever is the shorter.

Pre-operating expenses

Pre-operating expenses, which represent expenses incurred prior to the commencement of commercial operations, are charged to the profit and loss account as incurred.

Properties under development for sale

Properties under development for sale are stated at cost less provisions for diminutions in values, other than those considered to be temporary in nature, deemed necessary by the directors.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset which takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. The capitalisation rate for the year is based on the weighted average cost of the related borrowings.

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less further costs expected to be incurred to completion and disposal.

Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Cost includes the cost of land, development expenditure, interest capitalised up to the date of completion and other direct expenses capitalised. Net realisable value is determined by the directors based on prevailing market conditions.

1. Summary of Significant Accounting Policies (continued)

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences in the recognition of revenue and expenses for tax and for financial reporting purposes, to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of subsidiaries outside Hong Kong and the Group's share of the net assets of associates and joint ventures outside Hong Kong are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) from the provision of services, when such services are rendered;
- (c) from the sale of properties held for sale, on the execution of a binding sales agreement;
- (d) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;
- (e) rental income under operating leases, on the straight-line basis over the terms of the rental agreements;

1. Summary of Significant Accounting Policies (continued)

Revenue recognition (continued)

- (f) dividend and investment income, when the shareholders' right to receive payment is established;
- (g) vehicle rental income from drivers, on a straight-line basis over the terms of the contracts; and
- (h) revenue from the sale of properties under development, on the percentage of completion basis, when legally binding unconditional sales contracts are signed and exchanged, provided that the construction work has progressed to a stage that the ultimate realisation of profit can be reasonably determined. The percentage of completion basis is calculated by reference to the proportion of construction costs incurred up to the accounting date to the estimated total construction costs to completion of the development. The revenue recognised is limited to the extent of the non-refundable sales proceeds received, after taking into account due allowance for contingencies.

Pension costs

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all those employees who are eligible to participate in the Scheme. The Scheme became effective from 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in an independently-administered fund. The Group's employer contributions vest fully with the employees when contributed to the Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the Scheme.

Prior to the Scheme became effective, the Group operated a defined contribution retirement benefits scheme for those employees who were eligible to participate in the scheme. This scheme operated in a similar way as the Scheme, except that when an employee left the Scheme prior to his/her interest in the Group's employee contributions vesting fully, the ongoing contributions payable by the Group were reduced by the relevant amount of forfeited contributions. With effect from 1 December 2000, this scheme was terminated.

1. Summary of Significant Accounting Policies (continued)

Pension costs (continued)

The Company's subsidiaries in the People's Republic of China except Hong Kong (the "PRC") are members of the state-managed retirement benefits scheme operated by the PRC government. The retirement scheme contributions, which are based on a certain percentage of the salaries of the PRC subsidiaries' employees, are charged to the profit and loss account in the period to which they relate and represent the amount of contributions payable by these subsidiaries to the scheme.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or to exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Trade receivables

Trade receivables, which generally have credit terms of 30 to 90 days, are recognised and carried at original invoice amount. An estimate for doubtful debts is made and deducted when collection of the full amount is no longer probable. Bad debts are written off as incurred.

Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash equivalents represent cash, bank balances and deposits, which are not restricted as to use.

2. Corporate Information, Corporate Affiliation, Connected and Related Party Transactions

During the year, the Group was involved in the following principal activities:

- transportation business
- logistics business
- property investment and sale
- investment holding

During the year, the Group discontinued the operations in manufacturing, optometry and trading businesses.

As at 31 December 2000, Ultrarich International Limited (“Ultrarich”) and Shenzhen Building Materials Group Company Limited (“SBM”) were the owners of approximately 4,836 million and 1,204 million shares of the Company, respectively, representing an aggregate of 54.42% equity interest in the Company. Both Ultrarich and SBM are wholly-owned subsidiaries of Shenzhen Investment Holding Corporation (“SIHC”). SIHC, Ultrarich and SBM are considered to be substantial shareholders of the Company as set out in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), and SIHC is considered to be the Company’s ultimate holding company as at the balance sheet date.

During the year, the Group entered into the following related party transactions, in addition to those disclosed elsewhere in the financial statements:

(A) Disposal of a group of subsidiaries to Shenzhen High-Tech Holdings Limited

On 9 March 2000, a conditional agreement was entered into between (i) Great View Technology Limited (“Great View”), a wholly-owned subsidiary of Shenzhen High-Tech Holdings Limited (“Shenzhen High-Tech”), an associate of the Group; and (ii) New Vision Limited (“New Vision”), a wholly-owned subsidiary of the Company, pursuant to which New Vision agreed to sell a 100% equity interest in a group of subsidiaries which mainly comprised Mings Vision Medical Development (Shenzhen) Company Limited (“Mings Vision”), to Shenzhen High-Tech for a consideration of approximately HK\$129 million. The consideration was determined with reference to a valuation performed by Sallmanns (Far East) Limited, an independent firm of professional valuers, on the market value of 100% equity interest in Mings Vision based on the discounted cash flow model. Mings Vision is principally engaged in the provision of optometry services. The consideration was satisfied by the issuance of approximately 462 million shares of Shenzhen High-Tech at HK\$0.28 per share.

Further details of the disposal of Mings Vision are set out in a press announcement dated 10 March 2000 released by Shenzhen High-Tech. The transaction was completed on 31 May 2000.

2. Corporate Information, Corporate Affiliation, Connected and Related Party Transactions (continued)

(B) *Guaranteed Income from Maoming Yingda Fine Chemical Co., Ltd. ("Maoming Yingda Guaranteed Income")*

As a result of the disposal of 75% equity interest in Maoming Yingda to SIHC as set out in (L) below, no Maoming Yingda Guaranteed Income was recognised in the Group's consolidated financial statements for the year ended 31 December 2000 (1999: Nil). Further details of the Maoming Yingda Guaranteed Income were disclosed in the Group's consolidated financial statements for the year ended 31 December 1999.

(C) *Guarantee from SBM*

During the year, SBM guaranteed certain bank borrowings and an other loan from an independent third party granted to Shenzhen Deco Tiles Co., Ltd. ("Deco"), a former subsidiary of the Group.

(D) *Rentals paid to SBM*

During the year, the Group paid rentals amounting to RMB983,000 (approximately HK\$927,000) to SBM for the use of office premises owned by SBM in the PRC.

(E) *Repayment of advance from SIHC*

During the year, the Group repaid an aggregate amount of HK\$1,650,000 in respect of the advance from SIHC.

(F) *Guarantee of bank borrowings of Deco*

At the balance sheet date, the Group had executed corporate guarantees for certain bank borrowings drawn by Deco to the extent of HK\$5,838,000. The amount was fully provided for by the Group as current liabilities. Subsequent to the year end, the Group honoured the corporate guarantee fully and made repayment to the relevant bank.

2. Corporate Information, Corporate Affiliation, Connected and Related Party Transactions (continued)

(G) *Summary of related party transactions entered into by Shenzhen Shentou Transportation Group Co. Ltd. and its subsidiaries (the "SSTG Group")*

Following the acquisition of 60% equity interest in Shenzhen Shentou Transportation Group Co. Ltd. ("SSTG") from SIHC as set out in (I) below, the SSTG Group had the following related party transactions:

- (i) The SSTG Group received rental income from Shenzhen Zungfu Xihu Vehicle Service Co. Ltd., a jointly-controlled entity, for the factory premises occupied at a monthly rental of approximately RMB154,000.
- (ii) Certain land and buildings held by a fellow subsidiary of SSTG were pledged to banks to secure bank loans of the SSTG Group.
- (iii) At 31 December 2000, certain bank borrowings were guaranteed by certain fellow subsidiaries of the SSTG Group.

The following related party transactions also constitute connected transactions as defined under the Listing Rules:-

(H) *Management fees paid to 深圳市華佳宏物業管理有限公司 ("華佳宏")*

Pursuant to the conditional agreement for the acquisition of an investment property of the Group from SBM in 1997, the Group agreed to appoint 華佳宏, a wholly-owned subsidiary of SBM, to manage the captioned property at a monthly management fee of RMB100,356 for the period from 1 June 1997 to 31 May 2001. Further details of the management contract with 華佳宏 are set out in a press announcement dated 1 June 1999.

(I) *Acquisition of 60% equity interest in SSTG from SIHC*

On 2 December 1999, a conditional agreement (the "Agreement") was entered into between (i) SIHC; and (ii) the Company, pursuant to which the Company agreed to acquire a 60% equity interest in SSTG for a consideration of approximately HK\$600 million (the "Acquisition"), which gave rise to an acquisition goodwill of approximately HK\$35 million. The SSTG Group is principally engaged in the provision of transportation services within Shenzhen City and its neighbouring cities in the PRC. The consideration was determined based on the adjusted net asset value of the SSTG Group as at 30 September 1999. Part of the consideration of approximately HK\$68 million was settled in cash upon the signing of the Agreement and the remaining balance of approximately HK\$532 million was settled by the issuance of approximately 4,836 million shares of the Company at HK\$0.11 per share on the completion of the Acquisition on 16 March 2000 as further explained in note 31 to the financial statements. Further details of the Acquisition are set out in a circular to shareholders of the Company dated 3 February 2000. The Acquisition was approved by independent shareholders of the Company at a special general meeting on 29 February 2000.

2. Corporate Information, Corporate Affiliation, Connected and Related Party Transactions (continued)

(I) Acquisition of 60% equity interest in SSTG from SIHC (continued)

As part of the acquisition of SSTG by the Company, SIHC has agreed to:

- (a) take up the land costs payable for certain land (the "Assigned Land") owned by the SSTG Group. The Assigned Land represents land use rights owned by the SSTG Group obtained by way of assignment from the PRC Government at nil or nominal consideration. The Assigned Land is only freely transferable upon the payment of a certain amount of additional land costs. SIHC has applied to the Shenzhen Land Bureau to take up the liabilities to pay up such additional land costs by the end of September 2000. Accordingly, the responsibility of paying the additional land costs is that of SIHC. SIHC further agreed that if the SSTG Group wished to transfer any piece of the Assigned Land prior to the end of September 2000, SIHC would pay up the additional land costs for that piece of Assigned Land immediately. Pursuant to a document issued by the Shenzhen Land Bureau, the Shenzhen Land Bureau has agreed to such arrangements. Furthermore, as an additional assurance to the SSTG Group, SIHC has agreed to provide the SSTG Group with an option to exchange appropriate properties of SIHC with a carrying value of approximately RMB 247,194,000 (approximately HK\$233,114,000) which is equivalent to the independent valuation of the Assigned Land and the properties built thereon as at 30 September 1999;
- (b) grant an option to the Company in which, at the sole discretion of the Company, the Company could request SIHC to solicit buyers for the SSTG Group's whole portfolio of assets held for disposal before 30 September 2000. SIHC also agreed to compensate the Company for any shortfall between the independent valuation of assets held for disposal of approximately RMB216,480,000 (approximately HK\$204,149,000) at 30 September 1999 and the actual consideration realised from these assets. Furthermore, the Company could request SIHC to acquire any unsold properties held for disposal as at 30 September 2000 using the independent valuation as at 30 September 1999; and
- (c) take up the Land Appreciation Tax ("LAT") in respect of the SSTG Group's assets held for disposal.

2. Corporate Information, Corporate Affiliation, Connected and Related Party Transactions (continued)

(I) Acquisition of 60% equity interest in SSTG from SIHC (continued)

As at the balance sheet date, there were certain administrative procedures to be fulfilled to complete the payment process in relation to the land costs for the Assigned Land as stated in (a) above. Accordingly, SIHC has executed a new undertaking to the Company to the same effect up to 31 December 2001.

After careful consideration and evaluation, the directors considered that the whole portfolio of assets held for disposal is essential for the SSTG Group's existing and continuing operations. Accordingly, the Company has not exercised the option granted by SIHC prior to its expiry on 30 September 2000 and the whole portfolio of assets held for disposal was transferred to the fixed assets category.

(J) Establishment of Total Logistics Networks (Shenzhen) Co., Ltd.

On 27 June 2000, the Company entered into a conditional joint venture contract with Shenzhen SIHC Networks Investment and Development Co., Ltd. ("SIHC Networks"), a joint venture 98% owned by SIHC, for the establishment of a joint venture namely Total Logistics Networks (Shenzhen) Co., Ltd. ("Total Logistics") for a period of 30 years in the PRC.

The total investment of Total Logistics is RMB100 million, of which the Group contributed RMB70 million in cash with the remaining RMB30 million contributed by SIHC Networks in accordance with their respective equity interests in Total Logistics.

Total Logistics is engaged in the provision of total logistics and transportation ancillary services as well as the provision of e-commerce enabling services. The establishment of Total Logistics was approved by independent shareholders of the Company at a special general meeting on 31 July 2000. Further details of the establishment of Total Logistics are set out in a circular to shareholders dated 13 July 2000.

2. Corporate Information, Corporate Affiliation, Connected and Related Party Transactions (continued)

(K) Ongoing connected transactions of Total Logistics

Since its establishment, Total Logistics entered into the following ongoing connected transactions. The Stock Exchange of Hong Kong Limited (the "Exchange"), on application by the Company, granted waiver from strict compliance with the connected transaction requirements as set out in the Listing Rules. Details of the waiver are set out in the circular to the shareholders dated 13 July 2000.

- (a) On 28 September 2000, Total Logistics and Shenzhen E-seg Online Co. Ltd. ("E-seg Online"), a company in which SIHC has a 78.58% indirect equity interest, entered into an agreement pursuant to which Total Logistics has been granted a pre-emptive right to provide certain services to E-seg Online. Under the agreement, Total Logistics has priority for the provision of (i) Internet-related technical and software development services; (ii) website operation management services; (iii) cargo examination services; (iv) cargo distribution and delivery services; and (v) value-added services including warehousing, packaging and any other services that can be provided by Total Logistics.

The service fee is to be determined at the time the actual service is provided, but shall not be less than the service fee charged to independent third parties requesting the same or similar services from Total Logistics. During the year, service fee income of approximately HK\$712,000 has been received from E-seg Online for the provision of the above services.

- (b) On 28 September 2000, Total Logistics and Huanguo Transportation Freight Transport Co. ("Huanguo Transportation"), a company in which SIHC has a 72.5% indirect equity interest, entered into an agreement for the provision of highway loose cargo delivery and distribution services referred by Total Logistics to Huanguo Transportation. Pursuant to the agreement, Huanguo Transportation shall give priority to Total Logistics in the performance of services, on which a service fee is to be charged by Total Logistics at 10% of the actual transaction value. During the year, service fee income of approximately HK\$600,000 was received from Huanguo Transportation for the provision of the above services.

2. Corporate Information, Corporate Affiliation, Connected and Related Party Transactions (continued)

(K) Ongoing connected transactions of Total Logistics (continued)

- (c) On 28 September 2000, Total Logistics and Shenzhen Zhongnan Industrial Co. Ltd. (“Zhongnan Industrial”), a company in which SIHC has a 62.5% direct equity interest, entered into an agreement for the provision of cargo distribution and delivery services within Shenzhen, the PRC, referred by Total Logistics to Zhongnan Industrial. Pursuant to the agreement, Zhongnan Industrial shall give priority to Total Logistics in the performance of services, on which a service fee is to be charged by Total Logistics at 10% of the actual transaction value. During the year, Total Logistics did not engage in any of the above distribution and delivery services and therefore no service fee income was received from Zhongnan Industrial.
- (d) On 19 October 2000, Total Logistics and Shenzhen Xihu Huayu Trailer Transportation Co., Ltd. (“Xihu Trailer”), a company in which SIHC has a 43.5% indirect equity interest, entered into an agreement pursuant to which Xihu Trailer has undertaken to lease a guaranteed number of trucks to Total Logistics at a fee to be determined at the time the truck is leased, but which shall not exceed the prevailing market rate at that time. Under the agreement, Total Logistics is not obliged to rent any trucks from Xihu Trailer. During the year, Total Logistics did not engage in any of the truck leasing services with Xihu Trailer and therefore no rental expenses were paid to Xihu Trailer in this respect.
- (e) On 19 October 2000, Total Logistics and Shenzhen Shenhua Transportation Industrial General Co. (“Shenhua Transportation”), a company in which SIHC has a 72.5% indirect equity interest, entered into an agreement pursuant to which Shenhua Transportation has undertaken to lease a guaranteed number of trucks to Total Logistics at a fee to be determined at the time the truck is leased, but which shall not exceed the prevailing market rate at that time. Under the agreement, Total Logistics is not obliged to rent any trucks from Shenhua Transportation. During the year, Total Logistics did not engage in any of the truck leasing services with Shenhua Transportation and no rental expenses were paid to Shenhua Transportation in this respect.

2. Corporate Information, Corporate Affiliation, Connected and Related Party Transactions (continued)

(K) Ongoing connected transactions of Total Logistics (continued)

- (f) On 19 October 2000, Total Logistics and Shenzhen Traffic and Transportation Co. ("Shenzhen Transportation"), a wholly-owned subsidiary of SIHC, entered into an agreement pursuant to which Shenzhen Transportation has undertaken to lease a guaranteed number of trucks to Total Logistics at a fee to be determined at the time the truck is leased, but which shall not exceed the prevailing market rate at that time. Under the agreement, Total Logistics is not obliged to rent any trucks from Shenzhen Transportation. During the year, Total Logistics did not engage in any of the truck leasing services with Shenzhen Transportation and therefore no rental expenses were paid to Shenzhen Transportation in this respect.
- (g) On 10 November 2000, Total Logistics entered into an agreement with Shenzhen SIHC Network Technology Co. Ltd. ("Network Technology") for the provision of comprehensive Internet technical support services, website management and operation services, and certain facilities and domain names by Total Logistics to Network Technology. Network Technology is 90% owned by SIHC Networks and 94.2% directly and indirectly held by SIHC.

In relation to the provision of Internet technical support services, the service fee comprises a fixed fee of RMB300,000 for the first year, RMB600,000 for the second year and RMB1 million for the third year of the agreement and an annual variable fee of 60% of the total operating revenue of Network Technology for each of the three years.

In relation to the provision of management services, the service fee comprises a fixed fee of RMB300,000 for the first year, RMB600,000 for the second year and RMB1 million for the third year of the agreement and an annual variable fee of 20% of the total operating revenue of Network Technology for each of the three years.

In relation to the provision of facilities, the fee is charged at 25% of the original value of the facilities actually used by Network Technology.

In relation to the use of domain names by Network Technology, the fee comprises a fixed fee of RMB50,000 for the first year of the agreement, RMB200,000 for the second year of the agreement and RMB500,000 for the third year of the agreement. During the year, Total Logistics was not engaged in the provision of the above services and therefore no service income was received from Network Technology.

2. Corporate Information, Corporate Affiliation, Connected and Related Party Transactions (continued)

(K) Ongoing connected transactions of Total Logistics (continued)

Further details of the ongoing connected transactions in (a) to (g) above are set out in a circular to the shareholders of the Company dated 13 July 2000. The agreements in relation to these ongoing connected transactions were approved by independent shareholders of the Company at a special general meeting on 31 July 2000.

(L) Disposal of a group of subsidiaries and unlisted equity investment securities, and assignment of certain contractual interests to SIHC

On 11 September 2000, the Company entered into disposal agreements with SIHC for the disposal of a group of subsidiaries and unlisted equity investment securities, and the assignment of certain contractual interests (the "Sale Assets") to SIHC.

The subsidiaries and the unlisted equity investment securities disposed of comprised a 55% equity interest in Deco, a 30% equity interest in 深圳市華快散裝水泥有限公司, a 75% equity interest in Maoming Yingda and an 80% equity interest in Shenzhen Shenjian Property Development Co., Ltd.

The contractual interests assigned comprised (i) a sale and purchase agreement dated 11 April 1997 between Zhuhai Yong He Realty Development Company ("Zhuhai Yong He"), an independent third party, Landscape Elite Limited ("Landscape"), a wholly-owned subsidiary of the Company, and the Company; (ii) an agency agreement dated 31 July 1997 between Zhuhai Yong He and Landscape; and (iii) two real property sale and purchase contracts both dated 11 April 1997 in respect of the sale and purchase of Yong He Garden located in Zhuhai.

The total consideration to be paid by SIHC was HK\$193,361,000 to be satisfied fully in cash. For the disposal of subsidiaries and unlisted equity investment securities, the considerations were determined based on the percentage of the respective net asset values and cost of investment attributable to the Group, respectively. For the assignment of contractual interests, the consideration was determined based on the valuation performed by Francis Lau & Co., (Surveyors) Ltd., an independent firm of professional valuers. Further details of the disposal transactions are set out in a circular dated 3 October 2000. The disposal transactions were approved by independent shareholders of the Company on 23 October 2000.

The legal formalities for the completion of the above disposal transactions were completed subsequent to the year end date and the cash was settled by SIHC in March 2001.

2. Corporate Information, Corporate Affiliation, Connected and Related Party Transactions (continued)

(M) Acquisition of a 19.3% equity interest in Shenzhen Freeway Development Company Limited

On 11 September 2000, the Company entered into an acquisition agreement with SIHC for the purchase of a 16.5% equity interest in Shenzhen Freeway Development Company Limited ("Shenzhen Freeway"), a wholly-owned subsidiary of SIHC, for a total cash consideration of HK\$209,249,000. The consideration was determined based on the net asset value of Shenzhen Freeway attributable to the percentage of interest acquired by the Group. Shenzhen Freeway is an investment holding company and its principal asset is a 37% equity interest in Shenzhen Expressway Company Limited ("Shenzhen Expressway"), a joint stock limited company whose H shares are listed on the Exchange. Pursuant to a supplemental agreement dated 23 November 2000, the equity interest in Shenzhen Freeway to be acquired by the Company was adjusted to 19.3% at the same consideration of HK\$209,249,000 following a reduction in the equity interest in Shenzhen Expressway held by Shenzhen Freeway from 37% to 32.49%.

Further details of the acquisition of the 19.3% equity interest in Shenzhen Freeway are set out in the circulars dated 3 October 2000 and 1 December 2000, respectively. The underlying transaction was approved by independent shareholders of the Company on 19 December 2000.

The completion of this transaction is conditional upon the finalisation of certain conditions as set out in the acquisition agreement. These conditions had not been fulfilled as at 31 December 2000.

Subsequent to the year end date in March 2001, the conditions as set out in the acquisition agreement were fulfilled and the acquisition of the 19.3% equity interest in Shenzhen Freeway was completed.

2. Corporate Information, Corporate Affiliation, Connected and Related Party Transactions (continued)

(N) Establishment of Shenzhen Airport International Express Supervision Center Co., Ltd.

On 15 November 2000, Total Logistics entered into a joint venture contract with Shenzhen Airport Co., Ltd. ("SZ Airport"), a subsidiary of SIHC, to form a sino-foreign equity joint venture namely Shenzhen Airport International Express Supervision Center Co., Ltd. ("Express Center") for a period of 30 years in the PRC. The total investment and registered capital of Express Center is RMB50 million (approximately HK\$47.2 million). Each of Total Logistics and SZ Airport contributed RMB25 million (approximately HK\$23.6 million) in cash to the registered capital of Express Center in accordance with their respective shareholdings. Express Center is engaged in the provision of ground transportation services, goods storage, packaging and distribution services and office rental and property management services in the PRC. Further details of the establishment of Express Center are set out in a press announcement dated 15 November 2000. The necessary approval for the establishment of Express Center was obtained from the relevant PRC authorities on 18 December 2000.

(O) Connected transaction subsequent to the year end

The Group has entered into a connected transaction subsequent to the year end. Further details of this transaction are set out in note 36 to the financial statements.

Notes to Financial Statements

31 December 2000

3. Turnover

Turnover represents income generated from transportation services and logistics services, rental income from investment properties, sales in respect of the Group's properties and optometry business, manufacture and sale of building materials and chemical products, net of returns, discounts and value-added tax.

The Group's turnover by principal activities and by geographical areas disclosed pursuant to the requirements of the Listing Rules are as follows:

		Group	
		2000	1999
		HK\$'000	<i>HK\$'000</i>
(i)	By principal activities:		
	Continuing operations		
	Transportation business	541,687	–
	Logistics business	2,078	–
	Property investment and sale	33,917	39,649
	Investment holding	15	50
		577,697	39,699
	Discontinued operations		
	Manufacturing business	65,265	69,165
	Optometry business	11,542	30,734
	Trading business	–	16
		76,807	99,915
		654,504	139,614
(ii)	By geographical areas:		
	Continuing operations		
	Hong Kong	15	88
	PRC	577,682	39,611
		577,697	39,699
	Discontinued operations		
	Hong Kong	10,883	28,224
	PRC	65,924	71,691
		76,807	99,915
		654,504	139,614

4. Profit/(Loss) from Operating Activities

The Group's profit/(loss) from operating activities is arrived at after charging:

	Group	
	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Cost of goods sold	90,644	98,166
Cost of services provided	448,383	1,632
Provisions for obsolete and slow-moving inventories	6,601	56,994
Depreciation:		
Owned fixed assets	133,269	12,840
Leased fixed assets	2,510	352
Loss on disposal of fixed assets	6,265	302
Write off of deferred expenditure	–	3,583
Amortisation of deferred expenditure	–	1,211
Amortisation of intangible assets	10,327	–
Operating lease rentals in respect of land and buildings	5,258	11,120
Auditors' remuneration	1,450	1,320
Revaluation deficit on leasehold land and buildings	6,935	45,282
Provisions for bad and doubtful debts	5,053	13,747
Provisions for diminutions in values of properties held for sale	4,620	347
Provision for diminution in value of a jointly-controlled entity	–	35,620
Provisions for diminutions in values of unlisted equity investment securities	3,065	8,687
Provisions for diminutions in values of listed equity investment securities	530	–
Provisions for diminutions in values of properties under development for sale	472	–
Write off of goodwill	200	–
Loss on disposal of a discontinued operation	967	–
Staff costs (including directors' remuneration – note 6):		
Wages and salaries	84,405	18,978
Pension contributions	11,947	1,053
	96,352	20,031

Notes to Financial Statements

31 December 2000

4. Profit/(Loss) from Operating Activities (continued)

The Group's profit/(loss) from operating activities is arrived at after crediting:

	Group	
	2000 HK\$'000	1999 <i>HK\$'000</i>
Interest income on cash and cash equivalents	(27,286)	(3,613)
Interest income on other loan receivables	(597)	(7,647)
Interest income on other investments	(820)	–
Dividend income from listed equity		
investment securities	(15)	(16)
Gain on disposal of interest in an associate	(19,850)	(1,049)
Gain on dilution of interest in an associate	(37,856)	(10,169)
Gain on disposal of unlisted equity		
investment securities	(6,466)	–
Gain on disposal of properties held for sale	(31,055)	–
Gain on disposal of subsidiaries	(53,368)	–
Gain on disposal of other investments	(394)	–
Write back of provision for diminution in value of a jointly-controlled entity	(2,824)	–
Recovery of bad and doubtful debts provided for in prior years	(9,190)	–
Net unrealised gain on other investments	(160)	(118)
Gross rental income	(18,907)	(14,973)
Less: Outgoings	1,416	1,131
Net rental income	(17,491)	(13,842)
Exchange gains, net	(990)	(1,325)
Warrant reserve realised on expiration of warrants	–	(134,276)

4. Profit/(Loss) from Operating Activities (continued)

The Group's profit/(loss) from operating activities by principal activities and by geographical areas disclosed pursuant to the requirements of the Listing Rules are as follows:

		Group	
		2000	1999
<i>Notes</i>		HK\$'000	<i>HK\$'000</i>
(i) By principal activities:			
Continuing operations			
Transportation business		17,301	–
Logistics business		(3,157)	–
Property investment and sale		3,464	6,271
Investment holding		91,624	(67,719)
		109,232	(61,448)
Warrant reserve realised on			
expiration of warrants		–	134,276
Other revenue		35,967	12,585
Other general and administrative expenses		(22,812)	(16,846)
		122,387	68,567
Discontinued operations			
Manufacturing business	<i>(a)</i>	(12,049)	(23,509)
Optometry business	<i>(b)</i>	(3,809)	(9,215)
Trading business		–	(49,452)
		(15,858)	(82,176)
Gain on disposal of discontinued operations			
		52,564	–
		36,706	(82,176)
		159,093	(13,609)

4. Profit/(Loss) from Operating Activities (continued)

Notes:

(a) Manufacturing business

During the year, the Group discontinued its manufacturing operations, the principal market of which was located in the PRC. The discontinuance was accomplished by the disposal of the Group's 55% equity interest in Deco and 75% equity interest in Maoming Yingda. The effective date of discontinuance for accounting purposes was 23 October 2000. The resulting loss on disposal of Deco and Maoming Yingda, in the amount of approximately HK\$15,159,000, has been included in arriving at the operating profit from discontinued operations for the current year.

(b) Optometry business

During the year, the Group discontinued its optometry operations, the principal market of which was located in the PRC. The discontinuance was accomplished by the disposal of the Group's entire investments in Mings Vision, certain subsidiaries and business operations. The effective date of discontinuance for accounting purposes was 31 May 2000. The resulting gain on disposal of Mings Vision, the subsidiaries and the business operations, in the amount of approximately HK\$67,723,000, has been included in arriving at the operating profit from discontinued operations for the current year.

4. Profit/(Loss) from Operating Activities (continued)

		Group	
		2000	1999
		HK\$'000	<i>HK\$'000</i>
(ii)	By geographical areas:		
	Continuing operations		
	Hong Kong	58,656	10,974
	PRC	50,576	(72,422)
		109,232	(61,448)
	Warrant reserve realised on expiration of warrants	–	134,276
	Other revenue	35,967	12,585
	Other general and administrative expenses	(22,812)	(16,846)
		122,387	68,567
	Discontinued operations		
	Hong Kong	(631)	(4,423)
	PRC	(15,227)	(77,753)
		(15,858)	(82,176)
	Gain on disposal of discontinued operations	52,564	–
		36,706	(82,176)
		159,093	(13,609)

Notes to Financial Statements

31 December 2000

5. Finance Costs

	Group	
	2000	1999
	HK\$'000	HK\$'000
Interest on bank loans	24,533	15,658
Interest on other loans wholly repayable		
within five years	535	8,685
Interest on finance leases	2,188	383
Interest on convertible bond	16,592	–
	43,848	24,726

6. Directors' Remuneration and Five Highest Paid Employees

Directors' remuneration disclosed pursuant to the Listing Rules and section 161 of the Companies Ordinance is as follows:

	Group	
	2000	1999
	HK\$'000	HK\$'000
Fees:		
Executive directors	–	–
Non-executive directors	–	–
Independent non-executive directors	250	–
Other emoluments:		
Basic salaries, other allowances and benefits		
in kind for executive directors	3,606	1,200
	3,856	1,200

In addition to the directors' remuneration above, a total of 170,000,000 (1999: 85,000,000) share options to subscribe for ordinary shares in the Company were granted to certain directors of the Company during the year. In the absence of a readily available market value for share options on the ordinary shares of the Company, the directors were unable to arrive at an accurate assessment of the value of these share options. Accordingly, no value has been included in the directors' remuneration in respect thereof.

6. Directors' Remuneration and Five Highest Paid Employees (continued)

The remuneration of the directors fell within the following bands:

	Number of directors	
	2000	1999
Nil – HK\$1,000,000	16	8
HK\$1,000,001 – HK\$1,500,000	1	1
	17	9

There was no arrangement under which a director waived or agreed to waive any emoluments during the year.

The five highest paid employees during the year included three (1999: One) directors, details of whose remuneration are set out above. The details of the remuneration of the remaining two (1999: Four) non-director, highest paid employees are set out below.

	2000	1999
	HK\$'000	<i>HK\$'000</i>
Salaries and other emoluments	1,215	2,821

The remuneration of the non-director, highest paid employees fell within the following band:

	Number of individuals	
	2000	1999
Nil – HK\$1,000,000	2	4

In addition to the remuneration above, a total of 25,000,000 share options to subscribe for ordinary shares in the Company were granted to the non-director, highest paid employees during the year. In the absence of a readily available market value for share options on the ordinary shares of the Company, the directors were unable to arrive at an accurate assessment of the value of these share options. Accordingly, no value has been included in the remuneration of the non-director, highest paid employees in respect thereof.

Notes to Financial Statements

31 December 2000

7. Tax

Hong Kong profits tax has been provided at the rate of 16% on the assessable profits arising in Hong Kong during the year ended 31 December 2000 (1999: Nil). Taxes on profits assessable outside Hong Kong have been calculated at the rates of tax prevailing in the countries in which the Group operates based on existing legislation, interpretations and practices in respect thereof.

Under the Provisional Regulations on LAT in the PRC, implemented on 27 January 1995, all gains from the transfer of real estate in the PRC from 1 January 1994 are subject to LAT at progressive rates of up to 60%. An exemption to LAT is applicable for property development contracts which were signed before 1 January 1994 and where the sales contracts were signed on or before 31 December 1998.

Accordingly, LAT was not provided for real estate disposals on or before 31 December 1998. The Group has been subject to LAT from 1 January 1999 onwards.

	2000	1999
	HK\$'000	HK\$'000
Group:		
Current year provision:		
Hong Kong	6,028	–
Outside Hong Kong	8,963	2,965
Overprovision of prior years:		
Outside Hong Kong	(3,260)	–
	11,731	2,965
Associates:		
Hong Kong	–	36
Outside Hong Kong	2,485	145
	2,485	181
Jointly-controlled entities:		
Outside Hong Kong	1,172	92
Tax charge for the year	15,388	3,238

7. Tax (continued)

The principal components of the Group's deferred tax assets/(liabilities) not recognised at 31 December 2000 were as follows:

	2000	1999
	HK\$'000	HK\$'000
Tax losses carried forward	6,141	12,084
Accelerated capital allowances	(1,144)	1,593
	4,997	13,677

The Company had no significant deferred tax assets at the balance sheet date. Deferred tax has not been provided for the Group and the Company as there were no significant timing differences giving rise to deferred tax liabilities at the balance sheet date (1999: Nil).

The revaluations of the Group's fixed assets and investment properties do not constitute timing differences and, consequently, the amounts of potential deferred tax thereon have not been quantified.

8. Net Profit from Ordinary Activities Attributable to Shareholders

The net profit from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is HK\$81,685,000 (1999: Net loss from ordinary activities attributable to shareholders of HK\$134,677,000).

9. Earnings/(Loss) per Share

The calculation of basic earnings/(loss) per share is based on the Group's net profit from ordinary activities attributable to shareholders for the year of HK\$112,221,000 (1999: Net loss from ordinary activities attributable to shareholders of HK\$100,777,000) and the weighted average of 10,002,379,186 (1999: 5,402,587,000) shares in issue during the year.

The calculation of diluted earnings per share for the year ended 31 December 2000 is based on the Group's net profit from ordinary activities attributable to shareholders for the year of HK\$112,221,000. The weighted average number of ordinary shares used in the calculation is the weighted average of 10,002,379,186 ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average of 161,369,389 ordinary shares assumed to have been issued at no consideration in the deemed exercise of all share options and warrants in existence during the year.

The diluted loss per share for the year ended 1999 has not been shown as the potential ordinary shares outstanding had an anti-dilutive effect on the basic loss per share for that year.

Notes to Financial Statements

31 December 2000

10. Fixed Assets

Group

	Leasehold land and buildings <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Leasehold improve- ments <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost or valuation:							
At beginning of year	77,320	-	5,538	82,109	6,084	12,799	183,850
Additions	4,665	8,150	837	131	219,873	6,700	240,356
Acquisition of subsidiaries	266,609	33,925	3,219	3,331	425,635	6,942	739,661
Disposals	-	-	(368)	-	(58,847)	(4,579)	(63,794)
Disposal of subsidiaries	(44,702)	-	(2,548)	(82,583)	(1,341)	(6,830)	(138,004)
Transfer from assets held for disposal	179,770	-	-	-	-	-	179,770
Revaluation	(7,852)	-	-	-	-	-	(7,852)
Exchange adjustments	1,394	147	41	368	3,246	109	5,305
At 31 December 2000	477,204	42,222	6,719	3,356	594,650	15,141	1,139,292
At 31 December 2000:							
At cost	-	42,222	6,719	3,356	594,650	15,141	662,088
At professional valuation in 2000	171,945	-	-	-	-	-	171,945
At professional valuation in 1999	305,259	-	-	-	-	-	305,259
	477,204	42,222	6,719	3,356	594,650	15,141	1,139,292
At 31 December 1999:							
At cost	-	-	5,538	82,109	6,084	12,799	106,530
At professional valuation in 1999	77,320	-	-	-	-	-	77,320
	77,320	-	5,538	82,109	6,084	12,799	183,850
Accumulated depreciation:							
At beginning of year	-	-	1,687	24,328	3,543	7,308	36,866
Charged for the year	11,207	-	2,493	7,285	110,188	4,606	135,779
Disposals	-	-	(203)	-	(50,934)	(3,134)	(54,271)
Disposal of subsidiaries	(1,564)	-	(895)	(31,338)	(865)	(4,638)	(39,300)
Revaluation	(917)	-	-	-	-	-	(917)
Exchange adjustments	27	-	18	123	1,389	70	1,627
At 31 December 2000	8,753	-	3,100	398	63,321	4,212	79,784
Net book value:							
At 31 December 2000	468,451	42,222	3,619	2,958	531,329	10,929	1,059,508
At 31 December 1999	77,320	-	3,851	57,781	2,541	5,491	146,984

10. Fixed Assets (continued)

The net book value of the leasehold land and buildings of the Group are analysed as follows:

	Group	
	2000	1999
	HK\$'000	<i>HK\$'000</i>
Situating in Hong Kong:		
Medium term leases	49,873	33,320
Long term leases	7,363	–
	57,236	33,320
Situating outside Hong Kong:		
Short term leases	873	–
Medium term leases	400,986	44,000
Long term leases	8,310	–
Unspecified	1,046	–
	411,215	44,000
	468,451	77,320

At the balance sheet date, certain leasehold land and buildings in Hong Kong were carried at their valuations as at 31 December 1999 performed by Francis Lau & Co., (Surveyors) Ltd., an independent firm of professional valuers, using open market, existing use basis, and after accounting for the annual depreciation charge for the year, at HK\$32,648,000.

At the balance sheet date, certain leasehold land and buildings in Hong Kong in relation to the acquisition of 60% equity interest in the SSTG Group were carried at their valuations as at 30 November 1999, performed by Francis Lau & Co., (Surveyors) Ltd., an independent firm of professional valuers, using an open market, existing use basis, and after accounting for the annual depreciation charge for the year, at HK\$24,588,000.

At the balance sheet date, certain leasehold land and buildings in the PRC in relation to the acquisition of 60% equity interest in the SSTG Group were carried at their valuations as at 30 November 1999 performed by Francis Lau & Co., (Surveyors) Ltd., an independent firm of professional valuers, using an open market, existing use basis and after accounting for the annual depreciation charge for the year, at HK\$239,270,000.

At the balance sheet date, certain leasehold land and buildings in the PRC were revalued on an open market value, existing use basis by RHL Appraisal Ltd., an independent firm of professional valuers, at HK\$171,945,000. A revaluation deficit of HK\$6,935,000 resulting from the above valuations has been charged to the profit and loss account.

10. Fixed Assets (continued)

In the opinion of the directors, the leasehold land and buildings stated at 1999 valuation and after accounting for the annual depreciation charge for the year, approximate to their fair values as at 31 December 2000.

As at the balance sheet date, SIHC undertook to take up the liabilities to pay up the land costs of certain Assigned Land payable to the Shenzhen Land Bureau by 31 December 2001, as set out in note 2 to the financial statements.

At the balance sheet date, the Group had certain land and buildings and construction in progress in the PRC with carrying values of approximately RMB71,179,000 (approximately HK\$67,125,000) which are not freely transferrable ("Non-Transferrable Land"). This Non-Transferrable Land, which the Group has no intention to dispose of, is carried at valuation which approximates to its historical construction costs.

Had the Group's revalued leasehold land and buildings been carried at cost less accumulated depreciation, they would have been included in the financial statements at approximately HK\$510,617,000 (1999: HK\$115,643,000).

The net book value of the Group's assets held under finance leases included in the total amount of fixed assets at 31 December 2000 amounted to HK\$24,197,000 (1999: HK\$7,623,000). The depreciation charge for the year in respect of such assets amounted to HK\$2,510,000 (1999: HK\$352,000).

Land and buildings with a net book value of HK\$202,866,000 (1999: HK\$35,200,000) were pledged to banks to secure bank borrowings as set out in note 26 to the financial statements.

11. Investment Properties

	Group	
	2000	1999
	HK\$'000	HK\$'000
At valuation:		
At beginning of year	232,000	232,000
Arising from acquisition of subsidiaries	39,626	–
At 31 December	271,626	232,000

At the balance sheet date, the investment properties were revalued on an open market value, income capitalisation basis by RHL Appraisal Ltd., an independent firm of professional valuers, at HK\$271,626,000 (1999: HK\$232,000,000).

Investment properties with a valuation of HK\$118,000,000 (1999: HK\$59,000,000) were pledged to banks to secure bank borrowings as set out in note 26 to the financial statements.

Further particulars of the Group's investment properties are included on page 116.

12. Interests in Subsidiaries

	Company	
	2000	1999
	HK\$'000	<i>HK\$'000</i>
Unlisted investments, at cost	98,515	98,515
Due from subsidiaries	2,280,310	1,589,915
Due to a subsidiary	(200)	(6,021)
	2,378,625	1,682,409
Provisions for diminutions in values	(904,316)	(904,316)
	1,474,309	778,093

The amount due from a subsidiary of HK\$65 million is unsecured, bears interest at prevailing interest rates in Hong Kong and has no fixed terms of repayment. Save as disclosed above, the balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the principal subsidiaries are included on pages 118 to 120.

The turnover and net profit attributable to shareholders contributed by subsidiaries acquired during the year ended 31 December 2000 were HK\$558,032,000 and HK\$3,117,000, respectively.

The turnover and net loss attributable to shareholders contributed by subsidiaries disposed of during the year ended 31 December 2000 were HK\$76,261,000 and HK\$11,546,000, respectively.

13. Interests in Associates

	Group	
	2000	1999
	HK\$'000	<i>HK\$'000</i>
Share of net assets other than goodwill	520,057	452,262
Due from associates	5,061	–
Provisions for diminutions in values	(49,425)	(48,716)
	475,693	403,546

Notes to Financial Statements

31 December 2000

13. Interests in Associates (continued)

The balances with associates are unsecured, interest-free and have no fixed terms of repayment.

At 31 December 2000, the Group had executed corporate guarantees to an associate in respect of its bank loan amounting to RMB5,000,000 (approximately HK\$4,715,000).

The share of net assets and market values of the Group's listed equities were as follows:

	Group	
	2000	1999
	HK\$'000	HK\$'000
Share of net assets:		
Listed equities in Hong Kong	57,065	60,242
Listed equities outside Hong Kong	17,294	15,452
Provisions for diminutions in values	(48,716)	(48,716)
	25,643	26,978
	Group	
	2000	1999
	HK\$'000	HK\$'000
Market values:		
Listed equities in Hong Kong	290,032	171,313
Listed equities outside Hong Kong	21,521	26,726
	311,553	198,039

The market values of the listed equities in Hong Kong and outside Hong Kong at the date of approval of these financial statements were approximately HK\$292,645,000 and HK\$57,656,000, respectively.

The Group's share of net loss retained by the associates for the year after transfers to and from reserves amounted to HK\$10,759,000 (1999: HK\$56,636,000).

The Group's share of the post-acquisition accumulated deficits of associates at the balance sheet date was HK\$65,414,000 (1999: HK\$58,550,000).

13. Interests in Associates (continued)

Particulars of the principal associates are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Percentage of ownership interest attributable to the Group		Principal activities
			2000	1999	
China Southern Glass Holding Co., Ltd. ("China SG") @*	Corporate	PRC	25.0	25.0	Design, production, processing and sale of glass products; design and manufacture of glass cutting and other related processing machines; and property development and investment
Shenzhen High-Tech Holdings Limited (Formerly Grand Orient Holdings Limited)	Corporate	Bermuda/ Hong Kong	26.6	27.0	Optometry development; property investment, development and trading; securities trading; investment holding; and the provision of financial services

@ Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

* The Group's holding in China SG comprises 163,379,998 unlisted founder shares and 6,704,237 listed "B" shares. The listed "B" shares are listed on the Shenzhen Stock Exchange. Both listed and unlisted shares rank pari passu in all respects including, in particular, dividends, voting rights and capital.

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

Notes to Financial Statements

31 December 2000

13. Interests in Associates (continued)

Extracts of the operating results and financial position of China SG, which are based on the published audited financial statements prepared in accordance with International Accounting Standards, are as follows:

	2000	1999
	HK\$'000	HK\$'000
Operating results for the year ended 31 December		
Turnover	1,097,339	906,930
Operating profit/(loss) before tax and after minority interests	184,861	(132,767)
Tax	(6,287)	(576)
Profit/(loss) after tax	178,574	(133,343)
Financial position as at 31 December		
Non-current assets	1,732,896	1,774,133
Current assets	828,340	817,963
Total assets	2,561,236	2,592,096
Non-current liabilities	154	10,585
Current liabilities	760,189	969,992
Total liabilities	760,343	980,577
Minority interests	54,989	51,166
	815,332	1,031,743
Net assets	1,745,904	1,560,353
Contingent liabilities	-	9,391

13. Interests in Associates (continued)

Extracts of the operating results and financial position of Shenzhen High-Tech, a company listed on the Exchange, which are based on the published audited financial statements prepared in accordance with generally accepted accounting principles in Hong Kong, are as follows:

	2000	1999
	HK\$'000	HK\$'000
Operating results for the year ended 31 December		
Turnover	27,147	107,219
Operating loss before tax and after minority interests	(209,612)	(114,204)
Tax	(47)	(124)
Loss after tax	(209,659)	(114,328)
Financial position as at 31 December		
Non-current assets	37,356	263,316
Current assets	290,025	292,716
Total assets	327,381	556,032
Non-current liabilities	3,844	3,929
Current liabilities	46,883	333,483
Total liabilities	50,727	337,412
Net assets	276,654	218,620
Contingent liabilities	23,679	23,679

Notes to Financial Statements

31 December 2000

14. Interests in Joint Ventures

Jointly-controlled entities

	Group	
	2000	1999
	HK\$'000	HK\$'000
Share of net assets other than goodwill	59,700	10,371
Due from jointly-controlled entities	14,418	–
Deposit paid for acquisition of a proposed jointly-controlled entity	28,272	4,696
Loan to a proposed jointly-controlled entity	28,100	30,924
Due to jointly-controlled entities	(2,075)	–
Provisions for diminutions in values	(32,796)	(35,620)
	95,619	10,371

The Group's share of net profits retained by jointly-controlled entities for the year after transfers to and from reserves amounted to HK\$7,168,000 (1999: HK\$1,132,000).

The Group's share of the post-acquisition accumulated reserves of the jointly-controlled entities at the balance sheet date was HK\$12,999,000 (1999: HK\$5,789,000).

The loan to a proposed jointly-controlled entity of HK\$28,100,000 (1999: HK\$30,924,000) is unsecured, bears interest at 12% per annum and is repayable on demand. Save as disclosed above, the balances with jointly-controlled entities are unsecured, interest-free and have no fixed terms of repayment.

The management intended to fulfil the capital injection of the proposed jointly-controlled entity of HK\$16 million through the repayment of the above loan. In the opinion of the directors, the Group would not have any additional resources outflow regarding the proposed jointly-controlled entity.

At 31 December 2000, the Group executed corporate guarantees to a jointly-controlled entity in respect of its bank loan amounting to RMB10,000,000 (approximately HK\$9,430,000).

14. Interests in Joint Ventures (continued)

Particulars of the principal jointly-controlled entities are as follows:

Name	Business structure	Place of registration and operations	Percentage of			Principal activities
			Ownership interest	Voting power	Profit sharing	
Shenzhen Xin Li Xin Concrete Industry Company Limited @	Corporate	PRC	26.0	26.0	26.0	Production of concrete
Shenzhen New Kumbo Automobile Transportation Co., Ltd. @#	Corporate	PRC	30.0	30.0	30.0	Provision of transportation services
Shenzhen Zungfu Xihu Vehicle Service Co., Ltd. @#	Corporate	PRC	30.0	30.0	30.0	Provision of vehicle repair and maintenance services
Shenzhen Suntong Vehicle Test Service Limited @#	Corporate	PRC	16.8	16.8	16.8	Testing of vehicles and training of vehicle maintenance technicians

@ Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

All of these jointly-controlled entities were newly acquired during the year and were held through SSTG, a 60% owned subsidiary.

The above table lists the jointly-controlled entities of the Group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other jointly-controlled entities would, in the opinion of the directors, result in particulars of excessive length.

Notes to Financial Statements

31 December 2000

15. Investment Securities

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Unlisted equities outside Hong Kong, at cost	182,957	178,968	-	-
Provisions for diminutions in values	(172,391)	(172,395)	-	-
	10,566	6,573	-	-
Listed equities in Hong Kong, at cost	867	867	-	-
Provisions for diminutions in values	(530)	-	-	-
	337	867	-	-
Deposits for acquisition of unlisted equities outside Hong Kong, at cost	-	117,058	-	68,256
	10,903	124,498	-	68,256
Market value of listed equities in Hong Kong	334	345	-	-

The unlisted equities included equity interests in certain joint venture companies established in the PRC in which the Group has equity interests ranging from 25% to 40%, and a 22% investment in the equity of a company incorporated in the British Virgin Islands. The Group does not participate in the financial and operating policy decisions of the above companies and is, therefore, not in a position to exercise significant influence. Accordingly, these investments are accounted for as unlisted equity investment securities.

16. Intangible Assets

	Group	
	2000	1999
	HK\$'000	<i>HK\$'000</i>
Cost:		
At beginning of year	-	-
Arising from acquisition of subsidiaries	533,709	-
Exchange adjustments	2,315	-
At 31 December	536,024	-
Accumulated amortisation:		
At beginning of year	-	-
Amortisation for the year	10,327	-
At 31 December	10,327	-
Net book value:		
At 31 December	525,697	-

The intangible assets represent taxi licences in Shenzhen, the PRC. As at 31 December 2000, taxi licences with a net book value of approximately HK\$58,022,000 were pledged to banks to secure bank borrowings as set out in note 26 to the financial statements.

17. Properties Under Development for Sale

	Group	
	2000	1999
	HK\$'000	<i>HK\$'000</i>
Properties under development for sale in the PRC are held under the following lease terms:		
Long term leases	61,840	-
Medium term leases	12,871	-
Provisions for diminutions in values	(943)	-
	73,768	-

Particulars of the Group's properties under development for sale are included on page 117.

Notes to Financial Statements

31 December 2000

18. Other Investments

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Outside Hong Kong				
Listed debt securities, at market value	37,722	-	-	-
Listed equity securities, at market value	467	741	-	-
	38,189	741	-	-

The market values of the Group's listed debt securities and listed equity securities at the date of approval of these financial statements were approximately HK\$38,422,000 and HK\$1,102,000, respectively.

19. Inventories

	Group	
	2000 HK\$'000	1999 HK\$'000
Raw materials	-	5,726
Work in progress	-	2,173
Finished goods	-	9,498
Vehicle spare parts held for resale	5,750	-
	5,750	17,397

20. Properties Held for Sale

Particulars of the Group's properties held for sale are included on pages 116 and 117.

At the balance sheet date, the Group had no properties held for sale carried at their net realisable value (1999: HK\$51,400,000).

Certain of the Group's properties held for sale with a carrying value of HK\$15,881,000 (1999: Nil) were pledged to banks to secure bank borrowings as set out in note 26 to the financial statements.

As a result of the disposal of Yong He Garden located in Zhuhai, the PRC, to SIHC as detailed in note 2 to the financial statements, no guaranteed income from Zhuhai Yong He Realty Development Limited ("Yong He Guaranteed Income") was recognised in the Group's consolidated financial statements during the year ended 31 December 2000 (1999: Nil). Details of the Yong He Guaranteed Income were disclosed in the Group's consolidated financial statements for the year ended 31 December 1999.

21. Trade Receivables

The ageing analysis of the Group's trade receivables is as follows:

	2000		Group	
	Balance <i>HK\$'000</i>	Percentage	Balance <i>HK\$'000</i>	1999 Percentage
1 – 3 months	19,959	58	6,944	16
3 – 6 months	5,173	15	1,816	4
6 – 12 months	1,220	4	7,407	17
1 – 2 years	7,917	23	27,491	63
	34,269	100	43,658	100
Provision	(8,356)		(22,272)	
Total after provision	25,913		21,386	

22. Balances with Ultimate Holding Company, Related Companies and a Minority Shareholder

The amount due from ultimate holding company of HK\$193,361,000 represented the amount receivable from SIHC for the disposal of the Sale Assets as detailed in note 2 to the financial statements. The amount was settled in cash by SIHC subsequent to the year end.

The balance with SIHC was unsecured, interest-free and has no fixed terms of repayment.

The balances with related companies and a minority shareholder were unsecured, interest-free and have no fixed terms of repayment.

23. Cash and Cash Equivalents

	Group		Company	
	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Cash and bank balances	142,993	43,836	58	2,809
Bank deposits	467,381	2,543	370,805	–
	610,374	46,379	370,863	2,809

Notes to Financial Statements

31 December 2000

24. Trade Payables

The ageing analysis of the Group's trade payables is as follows:

	2000		Group	
	Balance HK\$'000	Percentage	Balance HK\$'000	1999 Percentage
1 – 3 months	17,554	86	5,322	29
3 – 6 months	1,251	6	1,802	10
6 – 12 months	18	–	1,340	7
1 – 2 years	1,505	8	9,972	54
	20,328	100	18,436	100

25. Convertible Bond

On 16 March 2000, an agreement was entered into between (i) Hutchison International Limited, a wholly-owned subsidiary of Hutchison Whampoa Limited, which is listed on the Exchange, (ii) SIHC, and (iii) the Company, pursuant to which the Company agreed to issue a convertible bond of approximately HK\$514 million (the "Convertible Bond") to Hutchison International Limited. The Convertible Bond bears interest at a rate of 4.5% per annum. Interest is payable once every six months in arrears.

The outstanding principal amount of the Convertible Bond may be converted into the Company's shares at HK\$0.43 per share (subject to adjustment) at any time prior to the maturity of the Convertible Bond, which is 18 months after the date of issue. The conversion in full of the entire principal of the Convertible Bond will, under the present capital structure of the Company, result in the issue of approximately 1,195 million additional shares of the Company, representing approximately 9.72% of the issued share capital of the Company as enlarged by such issue. The net proceeds received for the Convertible Bond are being used by the Company to develop its logistics and e-commerce businesses. Any outstanding Convertible Bond will be repaid by the Company at par as at the maturity date on 13 October 2001. Further details of the transaction are set in a press announcement dated 18 March 2000.

26. Interest-Bearing Borrowings

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Bank loans:				
Secured	240,007	141,443	-	66,490
Unsecured	106,448	77,571	-	-
	346,455	219,014	-	66,490
Bank loans payable:				
Within one year	262,028	145,394	-	66,490
In the second year	84,244	56,237	-	-
In the third to fifth years, inclusive	183	16,840	-	-
Beyond five years	-	543	-	-
	346,455	219,014	-	66,490
Other loans wholly repayable within one year:				
Secured	-	3,527	-	-
Unsecured	34,492	8,474	-	-
	34,492	12,001	-	-
	380,947	231,015	-	66,490
Portion classified as current liabilities	(296,520)	(157,395)	-	(66,490)
Non-current portion	84,427	73,620	-	-

Notes to Financial Statements

31 December 2000

26. Interest-Bearing Borrowings (continued)

At the balance sheet date, the Group's interest-bearing borrowings were supported by the following:

- (a) pledges of certain land and buildings of the Group (note 10);
- (b) pledges of certain investment properties of the Group (note 11);
- (c) pledges of certain taxi licences (note 16);
- (d) pledges of certain properties held for sale (note 20);
- (e) pledges of bank deposits of the Group totalling HK\$65,000,000 (1999: HK\$10,000,000).
- (f) pledges of certain land and buildings held by a fellow subsidiary of the Group (note 2).
- (g) guarantees executed by certain fellow subsidiaries (note 2) and by a minority shareholder of the Group.

The other loans represent loans from independent third parties and are unsecured and repayable within one year. Except for the amount of HK\$5,206,000 which bears interest ranging from 3.5% to 10% per annum, the remaining balances are interest-free.

27. Lease Payables

The commitments under finance leases at the balance sheet date were as follows:

	Group	
	2000	1999
	HK\$'000	HK\$'000
Amounts payable:		
Within one year	9,309	1,791
In the second year	18,618	1,791
In the third to fifth years, inclusive	-	4,246
Total minimum lease payments	27,927	7,828
Future finance charges	(5,877)	(1,194)
Total net lease payables	22,050	6,634
Portion classified as current liabilities	(6,456)	(1,283)
Non-current portion	15,594	5,351

28. Refundable Deposits Received

Refundable deposits received represent deposits from drivers which are refundable upon termination of rental agreements with individual drivers.

29. Deferred Income

Deferred income in respect of advance payments received from drivers for the hire of vehicles is amortised as income to the consolidated profit and loss account over the periods contracted with the drivers.

30. Other Deposits Received and Other Payables

Other deposits represent deposits received from staff for the acquisition of dormitories from the Group, and other payables represent the balances payable for the acquisition of fixed assets by the Group.

31. Share Capital

Shares

	2000	1999
	HK\$'000	HK\$'000
<i>Authorised:</i>		
20,000,000,000 shares of HK\$0.10 each		
(1999: 10,000,000,000 shares of HK\$0.10 each)	2,000,000	1,000,000
<i>Issued and fully paid:</i>		
11,100,838,261 shares of HK\$0.10 each		
(1999: 5,402,755,956 shares of HK\$0.10 each)	1,110,084	540,276

By an ordinary resolution passed on 29 February 2000, the authorised share capital of the Company was increased from HK\$1,000,000,000 to HK\$2,000,000,000 by the creation of an additional 10,000,000,000 shares of HK\$0.10 each in the capital of the Company, ranking pari passu with the existing shares of the Company in all respects.

Notes to Financial Statements

31 December 2000

31. Share Capital (continued)

Shares (continued)

Details of the movements in the issued share capital of the Company during the year were as follows:

	Notes	HK\$'000	Number of shares
At 1 January 1999		540,259	5,402,585,956
Warrants exercised	(a)	17	170,000
At 31 December 1999 and 1 January 2000		540,276	5,402,755,956
New shares issued on 19 January 2000	(b)	30,000	300,000,000
New shares issued for acquisition of subsidiaries	(c)	483,636	4,836,363,636
Share options exercised	(d)	13,144	131,444,000
Warrants exercised	(e)	43,028	430,274,669
At 31 December 2000		1,110,084	11,100,838,261

- (a) During the year ended 31 December 1999, 170,000 shares of HK\$0.10 each were issued for cash at a subscription price of HK\$0.118 per share pursuant to the exercise of the Company's warrants for a total consideration of approximately HK\$20,000.
- (b) On 29 December 1999, the Company entered into a subscription agreement with Jiang Nan Holdings Limited ("Jiang Nan"), an independent third party, under which Jiang Nan agreed to subscribe for 300 million shares of the Company for a consideration of approximately HK\$60 million. The subscription was completed on 19 January 2000.
- (c) On 16 March 2000, 4,836,363,636 shares were issued at HK\$0.11 per share to Ultrarich, as partial consideration for the acquisition of a 60% equity interest in the SSTG Group from SIHC. Further details of the acquisition of the SSTG Group are set out in note 2 to the financial statements and in a circular to shareholders of the Company dated 3 February 2000.

31. Share Capital (continued)

Shares (continued)

- (d) During the year, 131,444,000 shares were issued, pursuant to the exercise of share options, for a total consideration of approximately HK\$21,659,000.
- (e) During the year, 430,274,669 warrants were exercised for a total consideration of approximately HK\$50,773,000.

The excess of the proceeds over the par value of the shares issued was credited to the share premium account.

Share options

On 16 April 1994, shareholders of the Company approved a share option scheme (the "Scheme") under which the directors may, at their discretion, grant options to directors and employees of the Company and its subsidiaries to subscribe for shares in the Company. The maximum number of shares in respect of which options may be granted may not exceed 10% of the share capital of the Company in issue from time to time. The Scheme will remain in force for a period of ten years from 16 April 1994.

At the balance sheet date, the Company had 243,700,000 (1999: 139,500,000) outstanding share options entitling the holders to subscribe in cash at any time commencing on the expiry of one month from the date the options were accepted by the grantees for a period of 60 months or up to 15 April 2004, whichever is shorter. The subscription prices per share payable upon the exercise of the options are HK\$0.165 and HK\$0.272 and the share options are exercisable from 4 March 1998 to 3 March 2003 and 22 January 2001 to 15 April 2004 (both dates inclusive), respectively. The exercise in full of such share options would, under the present capital structure of the Company, result in the issue of 243,700,000 (1999: 139,500,000) additional shares.

Warrants

- (a) On 2 September 1997, 290,000,000 warrants (the "Year 1999 Warrants") were placed to independent third parties, and were exercisable at an issue price of HK\$0.48 each on or before 31 March 1999. The proceeds of the warrant placement of HK\$139,200,000 before issue expenses were credited to the warrant subscription reserve.

No Year 1999 Warrants were exercised and all such unexercised warrants expired on 31 March 1999. The balance of the warrant subscription reserve was therefore credited to the profit and loss account for the year ended 31 December 1999 (notes 4 and 32).

31. Share Capital (continued)

Warrants (continued)

- (b) On 8 September 1998, as part of a rights issue, a bonus issue of warrants (the "Year 2001 Warrants") was made in the proportion of one warrant for every five rights shares taken up. 540,258,595 Year 2001 Warrants were issued pursuant to the bonus issue. Each Year 2001 Warrant entitles the registered holder to subscribe for one share of the Company at a subscription price of HK\$0.118 per share, from the date of issue up to and including 14 September 2001.

At the balance sheet date, the Company had 109,813,926 (1999: 540,088,595) Year 2001 Warrants outstanding. The exercise in full of such warrants would, under the present capital structure of the Company, result in the issue of 109,813,926 (1999: 540,088,595) additional shares.

32. Reserves

Group

	Share premium HK\$'000	Exchange fluctuation reserve HK\$'000	Capital reserve HK\$'000	Contributed surplus HK\$'000 (note i)	Warrant subscription reserve HK\$'000	Investment			Statutory reserve fund HK\$'000 (note ii)	Staff welfare reserve HK\$'000 (note iii)	Goodwill reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
						Asset revaluation reserve HK\$'000	Property revaluation reserve HK\$'000	Enterprise expansion fund HK\$'000 (note ii)					
At 1 January 1999:													
As previously reported	955,454	1,079	2,919	13,005	134,276	-	5,172	29	10,125	2,831	(189,583)	(453,080)	482,227
Prior year adjustment *	-	-	-	-	-	-	-	-	-	-	(23,081)	(3,957)	(27,038)
As restated	955,454	1,079	2,919	13,005	134,276	-	5,172	29	10,125	2,831	(212,664)	(457,037)	455,189
Transfer from statutory reserve fund	-	-	-	-	-	-	-	-	(9,803)	-	-	9,803	-
Arising on exercise of warrants	3	-	-	-	-	-	-	-	-	-	-	-	3
Warrant reserve realised on expiration of warrants	-	-	-	-	(134,276)	-	-	-	-	-	-	-	(134,276)
Capital reserve arising on acquisition of additional equity interest in a subsidiary	-	-	3,148	-	-	-	-	-	-	-	-	-	3,148
Share of additional capital reserve of an associate	-	-	4,260	-	-	-	-	-	-	-	-	-	4,260
Revaluation surplus on leasehold land and buildings	-	-	-	-	-	6,955	-	-	-	-	-	-	6,955
Exchange difference arising on consolidation of subsidiaries, associates and jointly-controlled entities outside Hong Kong	-	565	-	-	-	-	-	-	-	-	-	-	565
Net loss for the year	-	-	-	-	-	-	-	-	-	-	-	(100,777)	(100,777)
At 31 December 1999	955,457	1,644	10,327	13,005	-	6,955	5,172	29	322	2,831	(212,664)	(548,011)	235,067

* In prior year, the Group changed its accounting policies in relation to the accounting treatment for pre-operating expenditure and investments in securities. The changes were made as a result of the Group's adoption of the revised SSAP 1 and SSAP 24. Further details of the financial impact resulting from these prior year adjustments were set out in the Group's consolidated financial statements for the year ended 31 December 1999.

Notes to Financial Statements

31 December 2000

32. Reserves (continued)

Group

	Share premium HK\$'000	Exchange fluctuation reserve HK\$'000	Capital reserve HK\$'000	Contributed surplus HK\$'000	Investment			Statutory reserve fund HK\$'000	Staff welfare reserve HK\$'000	Goodwill reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
					Asset revaluation reserve HK\$'000	property revaluation reserve HK\$'000	Enterprise expansion fund HK\$'000					
At 1 January 2000	955,457	1,644	10,327	13,005	6,955	5,172	29	322	2,831	(212,664)	(548,011)	235,067
Transfer to statutory reserve fund	-	-	-	-	-	-	-	4,770	-	-	(4,770)	-
Transfer to staff welfare reserve	-	-	-	-	-	-	-	-	2,669	-	(2,669)	-
Arising on:												
Exercise of share options	8,515	-	-	-	-	-	-	-	-	-	-	8,515
Subscription of shares	30,000	-	-	-	-	-	-	-	-	-	-	30,000
Exercise of warrants	7,745	-	-	-	-	-	-	-	-	-	-	7,745
Acquisition of subsidiaries	48,364	-	-	-	-	-	-	-	-	(34,531)	-	13,833
Write off of goodwill of a subsidiary	-	-	-	-	-	-	-	-	-	200	-	200
Disposal of subsidiaries	-	(936)	(3,148)	-	(5,390)	-	-	-	(93)	38,554	5,390	34,437
Acquisition of additional interest in an associate	-	162	666	-	-	-	-	-	-	(62,525)	-	(61,697)
Dilution of interest in an associate	-	(46)	(873)	-	-	-	-	-	-	-	-	(919)
Disposal of interest in an associate	-	(21)	(437)	-	-	-	-	-	-	-	-	(458)
Share of reserve movements of an associate	-	-	-	-	-	-	-	3,892	1,946	-	(5,838)	-
Exchange difference arising on consolidation of subsidiaries, associates and jointly-controlled entities outside Hong Kong	-	4,356	-	-	-	-	-	-	-	-	-	4,356
Net profit for the year	-	-	-	-	-	-	-	-	-	-	112,221	112,221
At 31 December 2000	1,050,081	5,159	6,535	13,005	1,565	5,172	29	8,984	7,413	(270,966)	(443,677)	383,300

32. Reserves (continued)

Group

	Share premium HK\$'000	Exchange fluctuation reserve HK\$'000	Capital reserve HK\$'000	Contributed surplus HK\$'000	Asset revaluation reserve HK\$'000	Investment property revaluation reserve HK\$'000	Enterprise expansion fund HK\$'000	Statutory reserve fund HK\$'000	Staff welfare reserve HK\$'000	Goodwill reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Reserves retained by:												
Company and subsidiaries	1,050,081	214	2,919	13,005	1,565	5,172	-	5,092	2,636	(270,966)	(374,003)	435,715
Associates	-	4,827	3,616	-	-	-	29	3,892	4,777	-	(82,555)	(65,414)
Jointly-controlled entities	-	118	-	-	-	-	-	-	-	-	12,881	12,999
At 31 December 2000	1,050,081	5,159	6,535	13,005	1,565	5,172	29	8,984	7,413	(270,966)	(443,677)	383,300
Reserves retained by:												
Company and subsidiaries	955,457	(979)	6,067	13,005	6,955	5,172	-	322	-	(212,664)	(485,507)	287,828
Associates	-	2,547	4,260	-	-	-	29	-	2,831	-	(68,217)	(58,550)
Jointly-controlled entities	-	76	-	-	-	-	-	-	-	-	5,713	5,789
At 31 December 1999	955,457	1,644	10,327	13,005	6,955	5,172	29	322	2,831	(212,664)	(548,011)	235,067

Notes to Financial Statements

31 December 2000

32. Reserves (continued)

Company

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i> <i>(note i)</i>	Warrant subscription reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 1999	955,454	58,515	134,276	(644,296)	503,949
Arising on exercise of warrants	3	-	-	-	3
Warrant reserve realised on expiration of warrants	-	-	(134,276)	-	(134,276)
Net loss for the year	-	-	-	(134,677)	(134,677)
At 31 December 1999 and 1 January 2000	955,457	58,515	-	(778,973)	234,999
Arising on:					
Exercise of share options	8,515	-	-	-	8,515
Subscription of shares	30,000	-	-	-	30,000
Exercise of warrants	7,745	-	-	-	7,745
Acquisition of subsidiaries	48,364	-	-	-	48,364
Net profit for the year	-	-	-	81,685	81,685
	1,050,081	58,515	-	(697,288)	411,308

Notes:

- (i) The contributed surplus of the Group represents the difference between the nominal value of the shares of the former group holding company acquired pursuant to the group reorganisation on 9 January 1990, over the nominal value of the Company's shares issued in exchange therefor.

The contributed surplus of the Company represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the same group reorganisation, over the nominal value of the Company's shares issued in exchange therefor.

- (ii) In accordance with the PRC regulations, certain companies in the PRC are required to transfer part of their profits after tax to the enterprise expansion fund and the statutory reserve fund, which are non-distributable, before profit distributions are made. The amounts of the transfers are subject to the approval of the boards of directors of these companies, in accordance with their joint venture agreements and/or articles of association.

- (iii) In accordance with the PRC regulations, certain companies in the PRC are required to transfer part of their profits after tax to the staff welfare reserve, which is non-distributable, before profit distributions are made. The amounts of the transfers are subject to the approval of the boards of directors of these companies in accordance with their articles of association. The staff welfare reserve can only be used for the collective benefit of these companies' employees.

33. Notes to Consolidated Cash Flow Statement

(a) Reconciliation of the Group's profit/(loss) from operating activities to net cash inflow/(outflow) from operating activities

	Group	
	2000	1999
	HK\$'000	HK\$'000
Profit/(loss) from operating activities	159,093	(13,609)
Interest income	(28,703)	(11,260)
Provisions for obsolete and slow-moving inventories	6,601	56,994
Depreciation	135,779	13,192
Write off of goodwill	200	–
Amortisation of intangible assets	10,327	–
Loss on disposal of fixed assets	6,265	302
Write off of deferred expenditure	–	3,583
Amortisation of deferred expenditure	–	1,211
Revaluation deficit on leasehold land and buildings	6,935	45,282
Provisions for bad and doubtful debts	5,053	13,747
Provisions for diminutions in values of properties held for sale	4,620	347
Provisions for diminutions in value of properties under development for sale	472	–
Provision for diminution in value of a jointly-controlled entity	–	35,620
Provisions for diminutions in values of unlisted equity investment securities	3,065	8,687
Loss on disposal of a discontinued operation	967	–
Provisions for diminutions in values of listed equity investment securities	530	–
Gain on disposal of other investments	(394)	–
Dividend income from listed equity investment securities	(15)	(16)
Gain on disposal of interest in an associate	(19,850)	(1,049)
Gain on dilution of interest in an associate	(37,856)	(10,169)
Net unrealised gain on other investments	(160)	(118)
Write back of provision for diminution in value of a jointly-controlled entity	(2,824)	–
Gain on disposal of properties held for sale	(31,055)	–
Gain on disposal of unlisted equity investment securities	(6,466)	–
Gain on disposal of subsidiaries	(53,368)	–
Warrant reserve realised on expiration of warrants	–	(134,276)
Net cash inflow before changes in working capital	159,216	8,468

**33. Notes to Consolidated Cash Flow Statement
(continued)**

(a) Reconciliation of the Group's profit/(loss) from operating activities to net cash inflow/(outflow) from operating activities (continued)

	Group	
	2000 HK\$'000	1999 <i>HK\$'000</i>
Net cash inflow before changes in working capital	159,216	8,468
Decrease in an amount due from a jointly-controlled entity	2,483	–
Increase in properties under development for sale	(320)	–
Decrease/(increase) in balances with related companies	12,561	(12,478)
Increase in inventories	(8,207)	(3,245)
Decrease/(increase) in properties held for sale	(3,837)	21,098
Decrease/(increase) in trade receivables, deposits, prepayments and other receivables	(30,827)	20,815
Increase/(decrease) in trade payables, accrued liabilities, customers' deposits and other payables	(22,701)	8,317
Decrease in bills payable	–	(48,429)
Increase in refundable deposits received	56,976	–
Increase in receipts in advances for sale of properties	12,283	–
Increase in deferred income	14,916	–
Decrease in other deposits received and other payables	(309)	–
Exchange differences arising on consolidation of subsidiaries, associates and jointly-controlled entities outside Hong Kong	(1,529)	(1,498)
Net cash inflow/(outflow) from operating activities	190,705	(6,952)

33. Notes to Consolidated Cash Flow Statement (continued)

(b) Acquisition of subsidiaries

Details of the acquisition of subsidiaries during the year:

	Group 2000 HK\$'000
Net assets acquired:	
Fixed assets	739,661
Investment properties	39,626
Interests in associates	24,844
Interests in joint ventures	58,838
Properties under development for sale	73,920
Assets held for disposal	179,770
Intangible assets	533,709
Deposits for acquisition of fixed assets	14,716
Inventories	5,813
Properties held for sale	199,198
Trade receivables	37,375
Deposits, prepayments and other receivables	106,580
Cash and cash equivalents	105,341
Trade payables	(55,248)
Accrued liabilities, customers' deposits and other payables	(245,010)
Tax payable	(27,708)
Interest-bearing borrowings	(253,148)
Lease payables	(5,116)
Refundable deposits received	(127,144)
Receipts in advance for sales of properties	(93,380)
Deferred income	(336,301)
Other deposits received and other payables	(4,318)
Minority interests	(402,922)
Total net assets acquired	569,096
Capitalised expenditure incurred in respect of the acquisition	(3,627)
Goodwill	34,531
Total consideration	600,000
Satisfied by:	
Cash deposit for the acquisition paid in prior year as consideration	68,000
Shares in the Company issued as consideration	532,000
	600,000

Notes to Financial Statements

31 December 2000

33. Notes to Consolidated Cash Flow Statement (continued)

(b) Acquisition of subsidiaries (continued)

Net inflow of cash and cash equivalents in respect of the purchase of the above subsidiaries:

	Group 2000 HK\$'000
Cash and cash equivalents acquired	105,341

The subsidiaries acquired during the year ended 31 December 2000 contributed HK\$208,547,000 to the Group's net operating cash inflows, paid HK\$11,991,000 in respect of net returns on investments and servicing of finance, utilised HK\$95,433,000 in respect of investing activities and contributed HK\$16,066,000 for financing activities.

(c) Disposals of subsidiaries

	Group 2000 HK\$'000
Net assets disposed of:	
Fixed assets	98,704
Due from related companies	1,699
Inventories	18,342
Properties held for sale	1,653
Trade receivables	11,726
Deposits, prepayments and other receivables	8,118
Cash and cash equivalents	13,839
Trade payables	(13,892)
Accrued liabilities, customers' deposits and other payables	(35,658)
Due to related companies	(2,070)
Interest-bearing borrowings	(50,249)
Tax payable	(1,452)
Minority interests	(2,878)
	47,882
Goodwill reserve released on disposal	38,554
Capital reserve released on disposal	(3,148)
Staff welfare reserve released on disposal	(54)
Exchange fluctuation reserve released on disposal	(936)
Expenditure incurred in respect of the disposal of subsidiaries	259
Gain on disposals of subsidiaries	53,368
	135,925

33. Notes to Consolidated Cash Flow Statement (continued)

(c) Disposals of subsidiaries (continued)

	Group 2000 HK\$'000
Represented by:	
Cash consideration	115
Consideration discharged by amounts due from the holding company	47,757
Unlisted equity investment securities	10,566
Interest in an associate	21,628
Reserves arising on additional interest in an associate:	
– Capital reserve	(666)
– Exchange fluctuation reserve	(162)
– Goodwill reserve	62,525
Accrued liabilities, customers' deposits and other payables	(5,838)
	135,925

Analysis of the net outflow of cash and cash equivalents in respect of the disposal of subsidiaries:

	Group 2000 HK\$'000
Cash consideration received	115
Cash and bank balances of disposed subsidiaries	(13,839)
	(13,724)

The subsidiaries disposed of during the year ended 31 December 2000 contributed HK\$7,512,000 to the Group's net operating cash inflow, paid HK\$2,407,000 in respect of net returns on investments and servicing of finance, utilised HK\$1,332,000 in respect of investing activities and contributed HK\$1,053,000 for financing activities.

Notes to Financial Statements

31 December 2000

33. Notes to Consolidated Cash Flow Statement (continued)

(d) Analysis of changes in financing of the Group during the year

	Share capital (including share premium) HK\$'000	Warrant reserve HK\$'000	Bank loans and other loans HK\$'000	Convertible bond HK\$'000	Minority interests HK\$'000	Finance lease payables HK\$'000	Advances from the holding company HK\$'000
Balance as at 1 January 1999	1,495,713	134,276	126,018	-	16,082	2,362	1,849
Cash inflow/(outflow) from financing, net	20	-	26,280	-	-	(580)	-
Warrant reserve realised on expiration of warrants	-	(134,276)	-	-	-	-	-
Minority interests' share in loss for the year	-	-	-	-	(5,830)	-	-
Disposal of net assets shared by minority interests	-	-	-	-	(3,210)	-	-
Inception of finance leases	-	-	-	-	-	4,852	-
Exchange differences	-	-	-	-	59	-	-
Balance as at 31 December 1999 and 1 January 2000	1,495,733	-	152,298	-	7,101	6,634	1,849
Cash inflow/(outflow) from financing, net	132,432	-	(36,842)	513,661	28,259	(8,818)	(1,650)
Acquisition of subsidiaries	532,000	-	253,148	-	402,922	5,116	-
Minority interests' share of loss for the year	-	-	-	-	(6,460)	-	-
Disposal of subsidiaries	-	-	(50,249)	-	(2,878)	-	-
Inception of finance leases	-	-	-	-	-	19,096	-
Minority interests' share of staff welfare reserve movement for the year	-	-	-	-	(21)	-	-
Exchange differences	-	-	1,294	-	1,443	22	-
Balance as at 31 December 2000	2,160,165	-	319,649	513,661	430,366	22,050	199

33. Notes to Consolidated Cash Flow Statement (continued)

(e) Major non-cash transactions

- (i) During the year, the Group entered into finance lease arrangements in respect of fixed assets with a total capital value at the inception of the leases of HK\$21,059,000 (1999: HK\$4,852,000).
- (ii) During the year, the Company disposed of its entire interest in a group of companies to Shenzhen High-Tech for a consideration of approximately HK\$129 million. The consideration was satisfied by the issuance of approximately 462 million shares of Shenzhen High-Tech at HK\$0.28 per share, as further detailed in note 2.
- (iii) During the year, the Company acquired a 60% equity interest in the SSTG Group for a consideration of approximately HK\$600 million. Part of the consideration of approximately HK\$68 million was settled in cash with the remaining balance of approximately HK\$532 million settled by the Company through the issuance of approximately 4,836 million shares of the Company at HK\$0.11 per share, as further detailed in notes 2 and 31.

34. Commitments

Capital commitments

	Group		Company	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Contracted for	348,137	7,716	-	-
Conditionally contracted for	-	552,148	-	532,000
Authorised, but not contracted for	-	108,633	-	-
	348,137	668,497	-	532,000

Notes to Financial Statements

31 December 2000

34. Commitments (continued)

Capital commitments contracted for

	Group	
	2000	1999
	HK\$'000	HK\$'000
(i) Acquisition of fixed assets	77,874	–
(ii) Investments in unlisted equity investment securities and subsidiaries in the PRC	61,014	7,716
(iii) Acquisition of a 19.3% equity interest in Shenzhen Freeway	209,249	–
	348,137	7,716

Operating lease commitments

	Group	
	2000	1999
	HK\$'000	HK\$'000
Annual commitments payable in the following year under non-cancellable operating leases in respect of land and buildings expiring:		
Within one year	578	1,363
In the second to fifth years, inclusive	264	6,715
Beyond five years	–	1,444
	842	9,522

The Company had no operating lease commitments at the balance sheet date (1999: Nil).

35. Contingent Liabilities

Group

- (i) At the balance sheet date, the Group had provided guarantees for mortgage loans granted by banks to certain purchasers of the Group's properties held for sale, amounting to approximately HK\$53,556,000 (1999: Nil).
- (ii) At the balance sheet date, the Group had executed corporate guarantees to an associate and a jointly-controlled entity of the Group and an independent third party in respect of their bank loans, amounting to approximately HK\$33,006,000.

Company

	Company	
	2000	1999
	HK\$'000	HK\$'000
Corporate guarantees for banking facilities utilised by subsidiaries	-	70,305

36. Post Balance Sheet Events

- (i) On 5 January 2001, Total Logistics entered into a shareholder's agreement with Shenzhen Freeway, Shenzhen State-owned Duty Free Commodity (Group) Co. Ltd., SIHC Networks and Shenzhen Capital and Investment Co. Ltd. (collectively "VC Shareholders"), for the establishment of an investment company namely, Shenzhen SIHC Venture Capital Co., Ltd. ("SIHC Venture Capital") in the PRC. All of the VC Shareholders are subsidiaries of SIHC.

Pursuant to the agreement, Total Logistics and each of VC Shareholders own 20% equity interest in SIHC Venture Capital and contributed RMB20 million (approximately HK\$18.7 million) in cash to the registered capital of SIHC Venture Capital in accordance with their respective shareholdings.

The businesses of SIHC Venture Capital are direct investment in the new and high technology industry, management and operation of venture capital of other venture capital company and investment consultancy business. Further details of the establishment of SIHC Venture Capital are set out in the press announcement dated 5 January 2001.

- (ii) Subsequent to the balance sheet date in March 2001, the conditions for the acquisition of the 19.3% equity interest in Shenzhen Freeway as set out in note 2 were fulfilled and the acquisition was completed.

37. Approval of the Financial Statements

The financial statements were approved by the board of directors on 9 April 2001.