Notes to Financial Statements

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1. CORPORATE INFORMATION

During the year the Group was involved in the operation of bowling recreation centres in major cities within Fujian Province of The People's Republic of China (the "PRC") and commenced business in providing supply chain and logistics technology services.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, 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 remeasurement of investment properties and certain fixed assets 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 the 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 or registered 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fixed assets and depreciation

Fixed assets, other than 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 assets have 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 fixed asset revaluation reserve. If the total of this 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. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the fixed asset revaluation reserve realised in respect of previous valuations is transferred to retained earnings as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land	Over the lease terms
Buildings	2.5% - 4%
Leasehold improvements	10% - 16.7%
Bowling equipment	6.7%
Motor vehicles, computer and office equipment, furniture and fixtures	15% - 25%

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, any rental income being negotiated at arm's length. Such properties are not depreciated, except where the unexpired term of the lease is 20 years or less in which case depreciation is provided on the carrying amount over the remaining term of the lease, and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year. Changes in the values of 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.

Inventories

Inventories, representing bowling accessories, souvenirs, food and drinks, and computer software are stated at the lower of cost and net realisable value. Cost is determined on a first-in, first-out basis and includes all costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is based on the estimated selling prices less any estimated costs necessary to make the sale.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences 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 overseas subsidiaries 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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) for the rendering of services, when the services are performed;

(b) membership fee income, on a time proportion basis over the period of the membership;

(c) on 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;

(d) rental income, on a time proportion basis over the lease terms; and

(e) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or 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.

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 and cash equivalents represent assets which are not restricted as to use.

Leased assets

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.

Notes to Financial Statements

31 December 2000

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Retirement benefits schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance, for 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 into the Scheme.

The subsidiaries in the PRC are members of a defined retirement benefits scheme organised by the relevant local government authorities of Fujian Province in the PRC. The retirement benefits 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 their defined contribution retirement benefits scheme.

3. TURNOVER

Turnover represents the value of services rendered and membership fees earned from the operation of bowling recreation centres in the PRC during the year, and is summarised as follows:

	Group	
	2000	1999
	HK$'000	HK$'000
Bowling facilities income	**8,052**	35,949
Ancillary facilities income	**1,952**	11,279
Membership fee income	**15**	5,132
	10,019	52,360

4. LOSS FROM OPERATING ACTIVITIES

The Group's loss from operating activities is arrived at after charging:

	2000 HK$'000	1999 HK$'000
Cost of inventories sold and services provided	**7,538**	24,418
Depreciation	**5,913**	9,335
Operating lease rentals in respect of land and buildings	**909**	1,137
Auditors' remuneration	**596**	650
Co-operation fee	**372**	930
Staff costs, excluding directors' remuneration (note 6):		
Salaries	**5,686**	5,046
Retirement benefit costs	**403**	562
Mandatory provident fund contributions	**15**	–
Discretionary management bonus	**–**	5,000
	6,104	10,608
and after crediting:		
Bank interest income	**3,198**	573
Other loan interest income	**3,354**	–
Rental income, net of outgoings of HK$251,000 (1999: HK$193,000)	**4,541**	3,174

Cost of inventories sold and services provided includes HK$4,946,000 (1999: HK$13,740,000) relating to staff costs, depreciation, operating lease rentals in respect of land and buildings and co-operation fee, which amount is also included in the respective total amounts disclosed separately above for each of these types of expenses.

Notes to Financial Statements

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5. FINANCE COSTS

	Group	
	2000	1999
	HK$'000	HK$'000
Interest on bank loans wholly repayable within one year	**412**	819
Interest on loan from a director	**97**	602
Total finance costs	**509**	1,421

6. DIRECTORS' REMUNERATION

The remuneration of the Company's directors disclosed pursuant to the Rules Governing the Listing of Securities and Section 161 of the Hong Kong Companies Ordinance is as follows:

	Group	
	2000	1999
	HK$'000	HK$'000
Executive directors:		
Fees	**–**	1,235
Salaries, allowances and benefits in kind	**32**	1,235
Mandatory provident fund contributions	**1**	–
	33	2,470

There were no emoluments payable to the non-executive directors during the year (1999: Nil).

The remuneration of the directors fell within the following bands:

	Number of directors	
	2000	1999
Nil to HK$1,000,000	**15**	11

6. DIRECTORS' REMUNERATION (Continued)

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (1999: Nil).

During the year, the Company granted a total of 230,000,000 share options to four executive directors. In the absence of a readily available market value for options on the Company's shares, the directors are unable to arrive at an accurate assessment of the value of the options granted and, therefore, no value in respect of the share options granted during the year has been attributed to the remuneration set out above. Further details of the share options granted to the directors during the year are set out in the section "Directors' rights to acquire shares" in the Report of the Directors on page 17.

7. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year did not include any directors (1999: four directors), details of whose remuneration are set out in note 6 to the financial statements. The details of the remuneration of the five (1999: one) non-directors, highest paid employees are as follows:

	Group	
	2000	1999
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**2,020**	70
Performance related bonuses	**–**	150
Mandatory provident fund contributions	**4**	–
	2,024	220

The remuneration of the five (1999: one) non-directors, highest paid employees fell within the following bands:

	Number of employees	
	2000	1999
Nil to HK$1,000,000	**5**	1

Notes to Financial Statements

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8. TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (1999: Nil).

Taxes on profits assessable elsewhere 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. Tax recoverable represents tax paid in excess of the estimated tax liability for the year.

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 31 December 2000 (1999: Nil).

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

9. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is HK$39,026,000 (1999: HK$40,500,000).

10. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss attributable to shareholders for the year of HK$19,550,000 (1999: HK$20,775,000), and the weighted average of 2,328,372,542 (1999: 2,000,000,000) ordinary shares in issue during the year.

The diluted loss per share for the year ended 31 December 2000 and 31 December 1999 have not been shown as the share options outstanding during the current year and the warrants outstanding during the prior year had an anti-dilutive effect on the basic loss per share for these years.

Notes to Financial Statements

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11. FIXED ASSETS

Group

	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Bowling equipment HK$'000	Motor vehicles, computer and office equipment, furniture and fixtures HK$'000	Total HK$'000
Cost or valuation:					
At beginning of year	40,175	31,885	44,272	4,295	120,627
Additions	–	3,558	–	253	3,811
Disposals	(5,580)	–	–	–	(5,580)
Written off	–	(3,558)	–	–	(3,558)
Disposal of a subsidiary	(19,994)	(7,875)	(15,955)	(1,270)	(45,094)
Deficit on revaluation	(2,325)	–	–	–	(2,325)
At 31 December 2000	**12,276**	**24,010**	**28,317**	**3,278**	**67,881**
Analysis of cost or valuation:					
At cost	–	24,010	28,317	3,278	55,605
At 31 August 2000 valuation	12,276	–	–	–	12,276
	12,276	24,010	28,317	3,278	67,881
Accumulated depreciation:					
At beginning of year	–	3,897	9,181	3,275	16,353
Provided during the year	618	2,643	2,044	608	5,913
Disposal of a subsidiary	(58)	(2,168)	(3,752)	(1,270)	(7,248)
Written back on revaluation	(420)	–	–	–	(420)
At 31 December 2000	**140**	**4,372**	**7,473**	**2,613**	**14,598**
Net book value:					
At 31 December 2000	**12,136**	**19,638**	**20,844**	**665**	**53,283**
At 31 December 1999	40,175	27,988	35,091	1,020	104,274

11. FIXED ASSETS (Continued)

Company

	Leasehold improvements HK$'000	Computer and office equipment HK$'000	Total HK$'000
Cost:			
Additions	3,558	226	3,784
Written off	(3,558)	–	(3,558)
At 31 December 2000	**–**	**226**	**226**
Accumulated depreciation:			
Provided during the year and at 31 December 2000	–	16	16
Net book value:			
At 31 December 2000	**–**	**210**	**210**

The Group's land and buildings, held outside Hong Kong under medium term leases, were revalued individually at an aggregate open market value of HK$12,276,000 based on their existing use as at 31 August 2000 by LCH (Asia-Pacific) Surveyors Limited ("LCH"), an independent firm of professional valuers. The deficit of HK$1,905,000, representing the shortfall of the revalued amounts over the then carrying values of these properties, has been charged to the profit and loss account. The directors, based on the update from LCH, are of the opinion that the recoverable amounts of the leasehold land and buildings do not materially differ from their carrying values as at 31 December 2000.

Had these land and buildings been carried at historical cost less accumulated depreciation, their carrying values would have been approximately HK$29,642,000 (1999: HK$55,677,000).

Notes to Financial Statements

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12. INVESTMENT PROPERTY

	Group **HK$'000**
Valuation:	
At beginning of year	3,255
Disposal of a subsidiary	(3,255)
At 31 December 2000	–

13. DEPOSITS PAID FOR INVESTMENT PROPERTIES

	Group	
	2000 **HK$'000**	1999 HK$'000
At beginning of year	**27,900**	–
Additions	**–**	27,900
Disposals	**(27,900)**	–
At end of year	**–**	27,900

The balances in prior year represented full payments made for the purchase of investment properties situated in Shishi City in Fujian Province, the PRC, in October 1999. The Group was in the process of obtaining the land use rights certificate in respect of these properties at 31 December 1999. These properties were disposed of by the Group during the year.

Notes to Financial Statements

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13. DEPOSITS PAID FOR INVESTMENT PROPERTIES (Continued)

The details of the properties disposed of during the year are as follows:

Location	Use	Tenure	Attributable interest of the Group
Portion of land and 15 houses and 1 staff building erected thereon, Shishi Homey Hotel, Shishi City, Fujian Province, the PRC	Hotel operation	Medium term lease	100%

These properties were revalued by LCH at HK$27,900,000 on an open market, existing use basis at 31 December 1999.

14. PREPAID CO-OPERATION FEE

The balance represents the amount prepaid by Huayi (Xiamen) Bowling Entertainment Co., Ltd. ("Huayi Xiamen") on behalf of Xiamen City Sports Centre, a co-operative partner of Huayi Xiamen. The co-operative agreement involves the operation of a bowling recreation centre in Xiamen, the PRC, for a duration of 45 years, during which the Group is committed to a maximum annual payment of RMB1,000,000 (equivalent to HK$930,000) of the co-operative's profits to Xiamen City Sports Centre. Pursuant to the co-operative agreement, the prepayment may be used to offset against the profits attributable to Xiamen City Sports Centre and otherwise payable in future years from the operation of the bowling recreation centre.

15. INTERESTS IN SUBSIDIARIES

	Company	
	2000	1999
	HK$'000	HK$'000
Unlisted investments, at cost	**133,010**	133,000
Due from/(to) subsidiaries	**(20,787)**	43,959
	112,223	176,959
Less: Provisions for permanent diminutions in values	**(60,477)**	(32,731)
	51,746	144,228

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

Particulars of the principal subsidiaries are as follows:

Name	**Place of incorporation/ registration and operations**	**Nominal value of issued ordinary share/registered capital**	**Percentage of equity attributable to the Company**	**Principal activities**
Held directly:				
Eastern Gold Holdings Limited ("Eastern Gold")	The British Virgin Islands	Ordinary US$1	100%	Investment holding
Asia Top Investment Limited*	The British Virgin Islands/ Hong Kong	Ordinary US$1	100%	Logistics technology business
Digital Fun Limited*	The British Virgin Islands/ Hong Kong	Ordinary US$1	100%	Logistics technology business

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15. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/registered capital	Percentage of equity attributable to the Company	Principal activities
Held directly (Continued):				
Cyberguide Inc.*	The British Virgin Islands/ Hong Kong	Ordinary US$1	100%	Logistics technology business
Vision On-Line Limited*	The British Virgin Islands/ Hong Kong	Ordinary US$1	100%	Investment holding
Held indirectly:				
Lonshin International Limited	Hong Kong	Ordinary HK$1,000 Deferred HK$10,000	100%	Investment holding
Huayi (Quanzhou) Bowling Recreation Co., Ltd.	The PRC	Registered capital US$1,200,000	100%	Bowling recreation centre
Huayi (Xiamen) Bowling Entertainment Co., Ltd.	The PRC	Registered capital US$1,800,000	100%	Bowling recreation centre
Shishi Asia Bowling Entertainment Co., Ltd.#	The PRC	Registered capital HK$18,000,000	100%	Bowling recreation centre

15. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/registered capital	Percentage of equity attributable to the Company	Principal activities
Held indirectly (Continued):				
Zhangping Jiabao Recreation Co., Ltd.	The PRC	Registered capital RMB8,600,000	100%	Bowling recreation centre

\# subsidiary disposed of during the year.

* subsidiaries incorporated during the year.

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

16. CASH AND CASH EQUIVALENTS

	Group		Company	
	2000	1999	**2000**	1999
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**8,754**	22,388	**319**	1
Time deposits	**188,833**	–	**188,833**	–
	197,587	22,388	**189,152**	1

Notes to Financial Statements

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17. TRADE PAYABLES

The trade payables balances as at 31 December 2000 and 31 December 1999 were aged less than three months.

18. INTEREST-BEARING BANK LOANS

	Group	
	2000	1999
	HK$'000	HK$'000
Interest-bearing bank loans	**5,720**	6,045

The Group's bank loans at 31 December 2000 and 31 December 1999 were unsecured, interest-bearing and repayable within one year from the respective dates of drawdown.

19. LOAN FROM A DIRECTOR

Pursuant to an agreement entered into between the Group and Mr. Hui Mang Mang, a director of the Company, in September 1998, the loan from Mr. Hui Mang Mang was unsecured, repayable on 31 December 2001 and, effective from 1 January 1999, bore interest at the lower of 8% per annum or the prevailing best lending rate. The loan from Mr. Hui Mang Mang was settled in full during the year.

20. SHARE CAPITAL

Shares

	2000	1999
	HK$'000	HK$'000
Authorised:		
10,000,000,000 (1999: 10,000,000,000) ordinary shares of HK$0.01(1999: HK$0.01) each	**100,000**	100,000
Issued and fully paid:		
2,576,588,000 (1999: 2,000,000,000) ordinary shares of HK$0.01 (1999: HK$0.01) each	**25,766**	20,000

During the year, the following movements in the Company's issued share capital took place:

(a) Pursuant to a placing agreement dated 8 June 2000, the Company, through an independent placing agent, placed a total of 400,000,000 new ordinary shares of the Company of HK$0.01 each at a price of HK$0.30 per share to Silver Valley Limited and Golden Tripod Telecom Limited. Silver Valley Limited is incorporated in the British Virgin Islands and is beneficially owned by Mr. Chan Ki, who was appointed as a director of the Company subsequent to the placing, and Golden Tripod Telecom Limited is the foreign investment arm of the Xinhua News Agency in Hong Kong. A sum of approximately HK$117,582,000, net of share issue expenses, was raised to be used as general working capital of the Group. The excess of the proceeds over the nominal value of the shares issued was credited to the share premium account.

(b) During the year ended 31 December 2000, 164,588,000 shares of HK$0.01 each were issued for cash at a subscription price of HK$0.195 per share pursuant to the exercise of the Company's warrants for a total cash consideration, before share issue expenses, of HK$32,094,660.

(c) During the year ended 31 December 2000, the subscription rights attaching to 12,000,000 share options were exercised at a subscription price of HK$0.245 per share, resulting in the issue of 12,000,000 shares of HK$0.01 each for a total cash consideration, before share issue expenses, of HK$2,940,000.

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20. SHARE CAPITAL (Continued)

A summary of the above movements in the Company's issued ordinary share capital during the year is as follows:

		Carrying amount 2000 HK$	No. of shares 2000	Carrying amount 1999 HK$	No. of shares 1999
At beginning of year		20,000,000	2,000,000,000	20,000,000	200,000,000
Placing of new shares	(a)	4,000,000	400,000,000	–	–
Subdivision of 1 ordinary share of HK$0.10 each into 10 ordinary shares of HK$0.01 each		–	–	–	1,800,000,000
Warrants exercised	(b)	1,645,880	164,588,000	–	–
Share options exercised	(c)	120,000	12,000,000	–	–
At end of year		25,765,880	2,576,588,000	20,000,000	2,000,000,000

Share options

Pursuant to a share option scheme (the "Option Scheme") approved by shareholders and adopted by the Company on 11 September 1998, the directors of the Company may, at their absolute discretion, grant options to eligible employees of the Group, including executive directors, to subscribe for shares in the Company at a price not less than 80% of the average closing prices of the shares on the five trading days immediately preceding the offer date of the share option, or the nominal value of the shares, whichever is higher.

The maximum number of shares in respect of which options may be granted under the Option Scheme cannot exceed 10% of the issued share capital of the Company from time to time which has been duly allotted and issued.

During the year, the Company granted 151,000,000 and 124,000,000 share options of the Company for a consideration of HK$1.00 per grantee on 2 June 2000 and 14 August 2000, respectively. The share options granted on 2 June 2000 entitle the holders thereof to subscribe for shares of the Company at any time between 2 June 2000 to 1 June 2003 at an exercise price of HK$0.245 per share, subject to adjustments. The share options granted on 14 August 2000 entitle the holders thereof to subscribe for shares of the Company at any time between 15 August 2000 to 14 August 2003 at an exercise price of HK$0.284 per share, subject to adjustments.

20. SHARE CAPITAL (Continued)

During the year, 12,000,000 share options were exercised and 149,000,000 share options lapsed. At the balance sheet date, the Company had 114,000,000 share options outstanding. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 114,000,000 new ordinary shares of HK$0.01 each.

Warrants

As at 1 January 2000, there were 400,000,000 warrants outstanding which entitled the holders thereof to subscribe in cash for ordinary shares of HK$0.01 each in the share capital of the Company at an initial subscription price of HK$0.195 per share, subject to adjustments, at any time during the period commencing from the date of issue of the warrants until 30 November 2000, both dates inclusive.

During the year, 164,588,000 warrants were exercised for a total cash consideration, before share issue expenses, of HK$32,094,660. The remaining 235,412,000 unexercised warrants expired on 30 November 2000.

21. RESERVES

Group

	Share premium HK$'000	Fixed asset revaluation reserve HK$'000	PRC statutory surplus reserve HK$'000 (note ii)	Discretionary surplus reserve HK$'000 (note iii)	Retained profits HK$'000	Total HK$'000
At 1 January 1999	31,053	20,559	12,923	25,845	62,763	153,143
Deficit on revaluation	–	(17,282)	–	–	–	(17,282)
Disposal of a subsidiary and a branch	–	–	(1,111)	(2,223)	–	(3,334)
Loss for the year	–	–	–	–	(20,775)	(20,775)
Appropriation to surplus reserves	–	–	1,402	2,806	(4,208)	–
At 31 December 1999 and 1 January 2000	31,053	3,277	13,214	26,428	37,780	111,752
Premium on issue of shares	149,269	–	–	–	–	149,269
Share issue expenses	(2,418)	–	–	–	–	(2,418)
Disposal of a subsidiary	–	–	(6,492)	(12,984)	–	(19,476)
Revaluation reserve realised on disposal of a subsidiary	–	(3,277)	–	–	3,277	–
Loss for the year	–	–	–	–	(19,550)	(19,550)
Appropriation to surplus reserves	–	–	467	934	(1,401)	–
At 31 December 2000	**177,904**	**–**	**7,189**	**14,378**	**20,106**	**219,577**

21. RESERVES (Continued)

Company

	Share premium HK$'000 (note i)	Accumulated losses HK$'000	Total HK$'000
At 1 January 1999	164,043	(11,791)	152,252
Loss for the year	–	(40,500)	(40,500)
At 31 December 1999 and 1 January 2000	164,043	(52,291)	111,752
Premium on issue of shares	149,269	–	149,269
Share issue expenses	(2,418)	–	(2,418)
Loss for the year	–	(39,026)	(39,026)
At 31 December 2000	**310,894**	**(91,317)**	**219,577**

Notes:

(i) The share premium account of the Company includes a share premium arising from the share exchange upon the reorganisation of approximately HK$132,990,000, which represents the difference between the nominal value of the shares of the Company issued in exchange for the entire issued share capital of Eastern Gold and the value of the underlying net assets of the subsidiaries at the date they were acquired by the Company on 11 September 1998. Under the Companies Law (2000 Revision) of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

(ii) The relevant PRC laws and financial regulations require all PRC subsidiaries of the Group to transfer 10% of their profit after tax, prepared in accordance with PRC accounting standards, to the PRC statutory surplus reserve until the balance reaches 50% of the paid up registered capital. Such reserve can be used to reduce any losses incurred and to increase capital. Except for the reduction of losses incurred, any other usage should not result in this reserve balance falling below 25% of the registered capital.

(iii) In accordance with the relevant PRC financial regulations and subject to approval by shareholders in general meetings, 20% of the profit after tax of the PRC subsidiaries of the Group, prepared in accordance with PRC accounting standards, is transferred to the discretionary surplus reserve which can be used to reduce any losses incurred, increase registered capital or to pay dividends.

(iv) The Company's reserves available for distribution comprise the share premium account and accumulated losses. At 31 December 2000, in the opinion of the directors, the reserves of the Company available for distribution to shareholders amounted to HK$219,577,000 (1999: HK$111,752,000) subject to the restrictions stated in note 21(i) above.

22. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

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

	Group	
	2000	1999
	HK$'000	HK$'000
Loss from operating activities	**(16,996)**	(14,502)
Interest income	**(6,552)**	(573)
Depreciation	**5,913**	9,335
Co-operation fee	**372**	930
Gain on disposal of leasehold land	**(1,880)**	–
Gain on disposal of deposits paid for investment properties	**(1,880)**	–
Deficit on revaluation of leasehold land and buildings	**1,905**	15,910
Deficit on revaluation of an investment property	**–**	2,913
Loss on disposal of a subsidiary	**5,684**	–
Loss on disposal of a subsidiary and a branch	**–**	6,668
Write off of leasehold improvements	**3,558**	–
Increase in inventories	**(1,922)**	(10)
Decrease/(increase) in prepayments, deposits and other receivables	**(8,623)**	2,453
Decrease in trade payables	**(368)**	(71)
Increase/(decrease) in other payables and accruals	**(8,043)**	10,696
Net cash inflow/(outflow) from operating activities	**(28,832)**	33,749

22. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Analysis of changes in the Group's financing during the years

	Share capital (including share premium) HK$'000	Bank loans HK$'000	Loan from a director HK$'000	Pledged time deposit HK$'000
At 1 January 1999	51,053	9,393	10,809	47,000
Payment of accrued share issue expenses	(4,392)	–	–	–
Reversal of 1998 accrual for share issue expenses	4,392	–	–	–
New bank loans	–	6,045	–	–
Repayment of bank loans	–	(9,393)	–	–
Repayment of loan from a director	–	–	(5,966)	–
Release of pledged time deposit	–	–	–	(47,000)
At 31 December 1999 and 1 January 2000	51,053	6,045	4,843	–
Issue of ordinary shares	155,035	–	–	–
Share issue expenses	(2,418)	–	–	–
Repayment of bank loans	–	(325)	–	–
Repayment of loan from a director	–	–	(4,843)	–
At 31 December 2000	**203,670**	**5,720**	**–**	**–**

22. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (Continued)

(c) Disposal of a subsidiary

	Group	
	2000	1999
	HK$'000	HK$'000
Net assets disposed of:		
Fixed assets	**37,846**	16,933
Investment property	**3,255**	–
Inventories	**26**	332
Prepayments, deposits and other receivables	**132**	217
PRC statutory surplus reserve	**(6,492)**	(1,111)
Discretionary surplus reserve	**(12,984)**	(2,223)
	21,783	14,148
Capital gains tax payable	**1,901**	520
Loss on disposal of a subsidiary	**(5,684)**	–
Loss on disposal of a subsidiary and a branch	**–**	(6,668)
Consideration	**18,000**	8,000
Satisfied by:		
Cash consideration received	**18,000**	8,000

Analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary:

	Group	
	2000	1999
	HK$'000	HK$'000
Cash consideration:		
Disposal of a subsidiary	18,000	–
Disposal of a subsidiary and a branch	–	8,000

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22. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (Continued)

(c) Disposal of a subsidiary (Continued)

The subsidiary disposed of during the year made no significant contribution to the Group in respect of the cash flows, turnover or net loss attributable to shareholders for the year.

The 1999 comparative amounts include the disposals of a subsidiary and a branch. In respect of cash flows for 1999, the subsidiary and the branch disposed of in the prior year contributed HK$6,177,000 to the Group's net operating cash flow but had no significant impact in respect of investing activities, financing activities, net return on investments or servicing of finance and tax.

Turnover and net loss attributable to shareholders for the year ended 31 December 1999 contributed by the subsidiary and the branch disposed of in the prior year amounted to approximately HK$11,752,000 and HK$3,824,000, respectively.

23. COMMITMENTS

(a) Capital commitments

	Group and Company	
	2000	1999
	HK$'000	HK$'000
Contracted for:		
Capital injection to a subsidiary in the PRC	**10,920**	–

(b) Commitments under operating leases

	Group		Company	
	2000	1999	**2000**	1999
	HK$'000	HK$'000	**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:	**–**	49	**–**	–

23. COMMITMENTS (Continued)

(c) Commitments under co-operative agreement

The Group entered into a co-operative agreement with Xiamen City Sports Centre, a co-operative partner of Huayi Xiamen, to operate a bowling recreation centre in Xiamen, the PRC, for a duration of 45 years, during which the Group is committed to a maximum annual payment of RMB1,000,000 (equivalent to HK$930,000) of the profits generated by the recreation centre to Xiamen City Sports Centre.

The Company had no co-operative agreement commitments as at the balance sheet date (1999: Nil).

24. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, the following events took place:

(a) On 3 January 2001, a conditional acquisition agreement ("Acquisition Agreement") was entered into between the Group and an independent third party (the "Vendor"), pursuant to which the Vendor agreed to procure that a company registered in the PRC and owned as to approximately 68% by the Vendor (the "PRC Company"), would as beneficial owner transfer to a wholly foreign owned enterprise ("WFOE") to be established by the Group, and the Group would procure that WFOE would purchase, the consultancy services and sale of software management solutions business (the "Business") and all the assets comprising or used in conjunction with the Business (collectively the "Acquired Business and Assets") from the PRC Company as a going concern free from all encumbrances.

The consideration under the Acquisition Agreement is to be satisfied by a cash payment of RMB5,500,000 (approximately HK$5,093,000) payable to the Vendor, and the issue of 49% of the share capital of a wholly-owned subsidiary of the Group (the "Subsidiary"), to a company whose shareholders will include the Vendor. WFOE will become a wholly-owned subsidiary of the Subsidiary. A further cash payment of RMB5,000,000 (approximately HK$4,630,000) will be payable by WFOE to the PRC Company as a further consideration for the Acquired Business and Assets. Should the audited revenue, prepared under generally accepted accounting principles in Hong Kong, of the WFOE for the period of 12 months from completion of the Acquisition Agreement be RMB150 million (approximately HK$140 million) or greater and the audited profit after tax for the same period be RMB30 million (approximately HK$28 million) or greater, the Group is required to pay an additional consideration of RMB4,500,000 (approximately HK$4,167,000) to the Vendor.

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24. POST BALANCE SHEET EVENTS (Continued)

In addition, 6 months after the completion of the Acquisition Agreement, the Group will subscribe for HK$9,260,000 of 1 year 5% interest-bearing convertible notes in the Subsidiary so as to provide additional capital to the Subsidiary.

Pursuant to a supplementary agreement dated 29 March 2001, the Group and the Vendor mutually agreed to complete the Acquisition Agreement on or before end of June 2001.

(b) On 8 January 2001, pursuant to a subscription agreement entered into between the Group and an independent third party (the "Third Party", a company whose principal activity is investment holding, the businesses of whose subsidiaries include, inter alia, the transportation and logistics business in the PRC), the Group subscribed for an exchangeable note of HK$34,000,000 issued by the Third Party. The exchangeable note is repayable on 8 January 2002, is interest bearing at 5% per annum, is exchangeable into ordinary shares of the Third Party within the period from 8 January 2001 to and including the date 14 days prior to and exclusive of 8 January 2002 and is secured by a pledge of all of the unlisted issued shares of a wholly-owned subsidiary of the Third Party and a personal guarantee executed by a director of the Third Party.

(c) On 20 January 2001 and 25 January 2001, the Group entered into sale and purchase agreements with two independent third parties to dispose of two subsidiaries in the PRC for a total net cash consideration of approximately HK$15 million. These transactions were completed before the date of approval of these financial statements. There is no material gain or loss arising from the disposal of these subsidiaries.

25. RELATED PARTY TRANSACTIONS

The Group had the following transactions with related parties during the year:

	Notes	**2000**	1999
		HK$'000	HK$'000
Rental expense paid to a related company in which certain directors of the Company have interests	(a)	**45**	88
Interest expense paid to a director of the Company	(b)	**97**	602

25. RELATED PARTY TRANSACTIONS (Continued)

(a) A tenancy agreement was entered into between a subsidiary of the Company and Huayi (Hong Kong) Finance Co. Limited on 2 August 1998 for the lease of an office unit in Hong Kong with a gross floor area of approximately 658 square feet at a monthly rental of HK$7,500 (exclusive of management fees and rates) for a term of two years commencing from 15 June 1998. Mr. Hui Mang Mang, a director of the Company, and Mr. Tsai Hung Ching, a former director of the Company, respectively own 40% and 30% interests in Huayi (Hong Kong) Finance Co. Limited. The said property was used as the principal place of business of the Company until June 2000.

(b) The interest expense was paid to Mr. Hui Mang Mang, according to the terms detailed in note 19 to the financial statements.

26. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 6 April 2001.