

1. ORGANIZATION AND OPERATION

The Company was incorporated in Bermuda on March 24, 1997 under the Companies Act 1981 of Bermuda, as amended, as an exempted company limited by shares. Its shares have been listed on The Stock Exchange of Hong Kong Limited on June 26, 1997.

The directors consider China Convergent Corporation Limited, a company incorporated in Bermuda, with its shares listed on the Australian Stock Exchange and NASDAQ National Market in the United States of America in the form of American Depositary Receipts, and Best Fortune Capital Ltd., a company incorporated in the British Virgin Islands, to be the intermediate holding company and ultimate holding company respectively.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in Note 14 to the financial statements.

2. PRINCIPAL ACCOUNTING POLICIES

(a) Basis of presentation

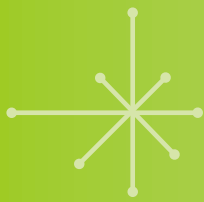
The financial statements are prepared under the historical cost convention and in accordance with Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited.

(b) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to December 31, 2000 and the Group's share of post acquisition profit/loss, and reserves of its associates and a joint venture. The results of the subsidiaries are consolidated from their effective dates of acquisition. Significant intra-group transactions and balances have been eliminated on consolidation.

(c) Turnover

Turnover represents revenue generated from construction contracts and sale of television programs.



Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(d) Revenue recognition

Provided it is probable that the economic benefits associated with a transaction will flow to the Group and the revenue and costs, if applicable, can be measured reliably, turnover and other revenue are recognized on the following bases:

i. Contract revenue

Contract revenue comprises the initial amount of revenue agreed in the contract and claims made on clients, including those relating to variation orders, which can be estimated reliably and are likely to be collectible.

When the outcome of the construction contract can be estimated reliably, revenue from a fixed price contract is recognized using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to estimated total contract costs for the contract.

When the outcome of the construction contract cannot be estimated reliably, revenue is recognized only to the extent of contract costs incurred that it is probable will be recoverable.

ii. Sale of television programs

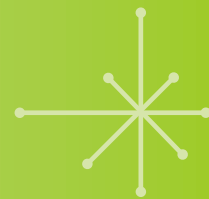
Revenue from sale of television programs is recognized when the television programs are delivered to the customers. Revenue is arrived at after deduction of any discounts and sales tax.

iii. Rental income

Rental income is recognized when the rentals become due and receivable.

iv. Interest income

Interest income is recognized on a time proportion basis that takes into account the effective yield on the assets.



2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(e) Property, plant and equipment

Property, plant and equipment are stated at cost 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 property, plant and equipment have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement 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 property, plant and equipment, the expenditure is capitalized as an additional cost of the property, plant and equipment.

Depreciation is calculated on the straight-line basis at annual rates estimated to write off the cost of each asset over its expected useful life. The annual rates are as follows:

Leasehold land and buildings	over unexpired lease term
Leasehold improvements	over unexpired lease term or 5 years, whichever is shorter
Machinery and equipment	10%
Furniture, fixtures and equipment	20%
Motor vehicles	8% to 20%

Assets held under finance leases are depreciated over their expected useful lives (or, where shorter, the terms of the lease) on the same basis as owned assets.

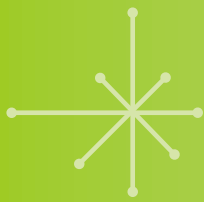
When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the income statement.

(f) Construction-in-progress

Construction-in-progress represents plant and properties under construction and is stated at cost. This includes cost of construction, plant and equipment and other direct costs. Construction-in-progress is not depreciated until such time as the assets are completed and put into operational use.

(g) Subsidiaries

A company is a subsidiary company if more than 50% of the issued voting capital is held long-term, directly or indirectly. In the Company's financial statements, investment in subsidiaries is carried at cost less provision for impairment in value where considered necessary by the directors. The results of the subsidiaries are included in the income statement to the extent of dividends declared by the subsidiaries.



Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(h) Associates

An associate is an enterprise in which the Group has significant influence, but not control or joint control, and thereby has the ability to participate in its financial and operating policy decisions.

In the consolidated financial statements, investment in associates is accounted for under the equity method of accounting, whereby the investment is initially recorded at cost and the carrying amount is adjusted to recognize the Group's share of the post-acquisition profits or losses of the associates, distributions received from the associates and other necessary alterations in the Group's proportionate interest in the associates arising from changes in the equity of the associates that have not been included in the income statement.

Where, in the opinion of the directors, there is an impairment in value of an associate, or the market value has fallen below the carrying value over a sustained period, a provision is made for such impairment in value.

(i) Joint venture

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

In the consolidated financial statements, the Group's interests in jointly controlled entities are initially recorded at cost and adjusted thereafter for the post-acquisition change in the Group's share of the net assets of the jointly controlled entities. The Group's share of post-acquisition results of jointly controlled entities is included in the consolidated income statement.

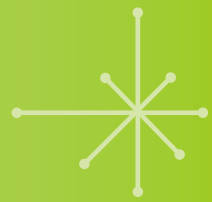
Where, in the opinion of the directors, there is an impairment in value of a joint venture, or the market value has fallen below the carrying value over a sustained period, a provision is made for such impairment in value.

(j) Related parties

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

(k) Film copyright and licenses

Film copyright and licences are stated at purchased cost less accumulated amortization and impairment losses. Amortization is recognized as an expense based on the proportion that actual income earned during the period bear to the total estimated income from the usage of the copyright and licences. Where there is an impairment of the carrying value of the film copyright and licenses, the unamortized balance is written down to their estimated recoverable amounts.



2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(l) Cash and cash equivalents

Cash represents cash in hand and deposits with banks which are repayable on demand.

Cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash with original maturities of three months or less and are subject to an insignificant risk of change in value.

(m) Investments in club debentures

Investments in club debentures held for the long term are stated at cost less any impairment in value. An assessment of the investments is performed when there is an indication that the asset has been impaired or the impairment losses recognized in prior years no longer exist.

Upon disposals of the investments, the difference between net disposal proceeds and the carrying amount is charged or credited to the income statement.

(n) Construction contract

The accounting policy for contract revenue is set out at Note d(i) above. When the outcome of a construction contract can be estimated reliably, contract costs are recognized as expenses by reference to the stage of completion of the contract activity at the balance sheet date. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately. When the outcome of a construction contract cannot be estimated reliably, contract costs are recognized as an expense in the period in which they are incurred.

Construction contracts in progress at the balance sheet date are recorded at the net amount of costs incurred plus recognized profits less recognized losses and progress billings, and are presented in the balance sheet as the "Gross amount due from customers for contract work" (as an asset) or the "Gross amount due to customers for contract work" (as a liability), as applicable. Amounts billed, but not yet paid by customers, for work performed on a contract are included in the balance sheet under "Accounts receivable".

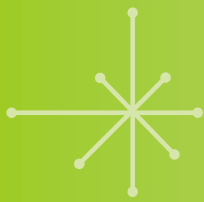
(o) Leases

i. Finance leases

Leases that transfer to the Group substantially all the rewards and risks of ownership of the assets, other than legal title, are accounted for as finance leases.

Fixed assets held under finance leases are initially recorded at the present value of the minimum lease payments at the inception of the leases, with the equivalent liabilities recorded as appropriate under current or non-current liabilities.

Finance charges, which represent the difference between the minimum lease payments at the inception of the leases and the fair value of the assets, are allocated to accounting periods over the period of the relevant leases so as to produce a constant periodic rate of charge on the outstanding balances.



Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(o) Leases (Continued)

ii. Operating leases

Leases where substantially all the rewards and risks of ownership remain with the leasing company are accounted for as operating leases. Rental payments under operating leases are charged to the income statement on a straight-line basis over the period of the relevant leases.

(p) Deferred taxation

Deferred taxation is provided under the liability method, at the current tax rate, in respect of timing differences between profit as computed for taxation purposes and profit as stated in the financial statements, except where it is considered that no liability will arise in the foreseeable future.

A deferred tax asset is not recognized unless the related benefits are expected to crystallize in the foreseeable future.

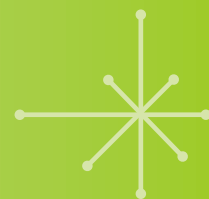
(q) Foreign currencies

Individual companies within the Group maintain their books and records in the primary currencies of their respective countries of domicile or principal operation if different (“functional currency”). In the financial statements of the individual companies, monetary assets and liabilities denominated in currencies other than the functional currency are translated into the functional currency at the applicable rates of exchange in effect at the balance sheet date; non-monetary assets and liabilities denominated in currencies other than the functional currency are translated into the functional currency at historical rates of exchange; transactions denominated in currencies other than the functional currency are translated at exchange rates prevailing at the time of the transactions. All such exchange differences are recognized as income or expenses of the individual companies.

The Group prepares consolidated financial statements in Hong Kong dollars. For the purpose of consolidation, all the assets and liabilities of the subsidiaries with functional currencies other than Hong Kong dollars are translated into Hong Kong dollars at the applicable rates of exchange in effect at the balance sheet date; all their income and expense items are translated into Hong Kong dollars at the average applicable exchange rates during the year. Exchange differences arising from such translation are taken directly to reserves.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)



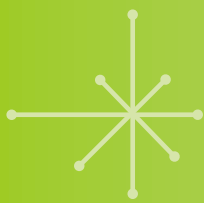
3. TURNOVER AND OTHER REVENUE

	2000 <i>HK\$'000</i>	Group 1999 <i>HK\$'000</i> <i>(Note 32)</i>
Construction contracts	58,416	50,680
Sale of electricity, heat and steam	–	32,216
Sale of television programs	25,510	2,468
Turnover	83,926	85,364
Interest income	18,052	1,942
Others	6,310	2,790
Other revenue	24,362	4,732
	108,288	90,096

4. LOSS FROM ORDINARY ACTIVITIES BEFORE TAXATION

Loss from ordinary activities before taxation is determined at after charging and crediting the following:

	2000 <i>HK\$'000</i>	Group 1999 <i>HK\$'000</i> <i>(Note 32)</i>
Charging:		
Staff costs (including directors' emoluments, see Note 5)	21,607	19,363
Auditors' remuneration	1,500	1,035
Depreciation on assets:		
– owned by the Group	12,277	18,850
– held under finance leases	928	52
Interest expenses on:		
– bank loans, overdrafts and other loans wholly repayable within five years	1,118	555
– convertible loan notes wholly repayable within five years	162	548
Exchange loss, net	–	551
Operating lease rentals in respect of land and buildings	2,520	4,107
Loss on disposal of property, plant and equipment	1,179	185



Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

4. LOSS FROM ORDINARY ACTIVITIES BEFORE TAXATION (Continued)

	2000 HK\$'000	Group 1999 HK\$'000 (Note 32)
Crediting:		
Gain on disposal of a subsidiary (Note 25(d))	26,954	–
Interest income on:		
– bank deposits	661	1,942
– loans receivable	14,441	–
– advances to related parties (Note 30)	2,950	–
Exchange gain, net	96	–

5. DIRECTORS' AND FIVE HIGHEST PAID EMPLOYEES' EMOLUMENTS

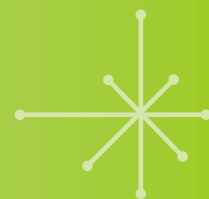
Directors' remuneration, disclosed pursuant to Section 161(1) of the Companies Ordinance and the Listing Rules of The Stock Exchange of Hong Kong Limited, was as follows:

	Group			
	Executive directors		Non-executive directors	
	2000 HK\$'000	1999 HK\$'000 (Note 32)	2000 HK\$'000	1999 HK\$'000 (Note 32)
Fees	360	–	362	319
Other emoluments:				
Basic salaries	2,971	2,853	–	–
Bonuses	153	–	–	–
Other allowances	488	–	–	–
	3,972	2,853	362	319

During the year, no emoluments were paid to independent non-executive directors of the Company.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)



5. DIRECTORS' AND FIVE HIGHEST PAID EMPLOYEES' EMOLUMENTS (Continued)

The number of directors whose emoluments fell within the following bands are as follows:

	2000	Group 1999 (Note 32)
HK\$Nil – HK\$1,000,000	7	8
HK\$1,000,001 – HK\$1,500,000	1	1
HK\$1,500,001 – HK\$2,000,000	1	–

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

Options to acquire shares in the Company were granted to certain directors on October 27, 1997 and July 13, 1999 as set out in Note 23 to the financial statements. In the absence of a readily available market value for the options on the Company's shares, the directors are unable to arrive at an accurate assessment of the value of these options.

Particulars of emoluments paid to the five highest paid employees (including two executive directors in 2000 and one executive director in 1999) disclosed pursuant to the Listing Rules of the Stock Exchange of Hong Kong Limited was as follows:

	2000 <i>HK\$'000</i>	Group 1999 <i>HK\$'000</i> (Note 32)
Basic salaries	5,619	5,419
Bonuses	245	–
Other allowances	782	–
	6,646	5,419



Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

5. DIRECTORS' AND FIVE HIGHEST PAID EMPLOYEES' EMOLUMENTS (Continued)

The number of employees (including two executive directors in 2000 and one executive director in 1999) whose emoluments fell within the following bands are as follows:

	2000	Group 1999 (Note 32)
HK\$Nil – HK\$1,000,000	1	2
HK\$1,000,001 – HK\$1,500,000	1	1
HK\$1,500,001 – HK\$2,000,000	3	2

6. TAXATION

	2000 HK\$'000	Group 1999 HK\$'000 (Note 32)
Company and subsidiaries		
– Hong Kong profits tax (expenses) refund	(172)	833
– People's Republic of China income taxes	–	(242)
– Taiwan income tax	(53)	–
– Deferred taxation	–	668
Share of taxation attributable of associates	–	–
Share of taxation attributable to a joint venture	–	–
	(225)	1,259

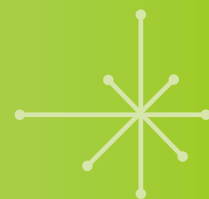
Provision for Hong Kong profits tax has been calculated at the current profits tax rate of 16% (1999: 16%) on the estimated profits arising in or derived from Hong Kong for the year. Income taxes in Taiwan have been calculated at the prevailing rate of 25% (1999: N/A).

7. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The net loss of the Company dealt with in the consolidated income statement amounted to approximately HK\$7,745,000 (1999: HK\$7,107,000).

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)



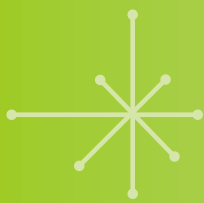
8. LOSS PER SHARE

The calculation of basic loss per share is based on the consolidated net loss attributable to shareholders for the year of HK\$42,260,000 (1999: HK\$138,589,000) and on the weighted average number of 565,899,940 (1999: 439,660,274) ordinary shares in issue throughout the year ended December 31, 2000.

The diluted loss per share for both years ended December 31, 1999 and 2000 are not shown as the ordinary shares issuable under outstanding share options and convertible loan notes were anti-dilutive.

9. PROPERTY, PLANT AND EQUIPMENT

	2000						1999	
	Construction- in-progress <i>HK\$'000</i>	Leasehold land and buildings <i>HK\$'000</i>	Leasehold improve- ments <i>HK\$'000</i>	Machinery and equipment <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost								
Beginning of year	1,447	74,793	3,504	216,678	545	10,208	307,175	222,454
Additions	–	1,350	5,492	5,197	2,057	458	14,554	4,766
Acquisitions of subsidiaries	–	–	–	–	–	–	–	80,740
Disposal of a subsidiary	(1,447)	(68,439)	–	(142,487)	(318)	(3,109)	(215,800)	–
Disposals	–	–	(1,194)	–	(490)	(399)	(2,083)	(785)
Currency translation differences	–	–	(42)	(1,548)	–	(65)	(1,655)	–
End of year	–	7,704	7,760	77,840	1,794	7,093	102,191	307,175
Accumulated depreciation								
Beginning of year	–	1,571	280	16,033	102	4,507	22,493	3,924
Charges for the year	–	128	1,888	10,033	381	775	13,205	18,902
Write back on disposals of a subsidiary	–	(1,437)	–	(15,213)	–	(237)	(16,887)	–
Write back on disposals	–	–	(318)	–	(187)	(399)	(904)	(333)
Currency translation differences	–	–	(3)	(305)	–	(29)	(337)	–
End of year	–	262	1,847	10,548	296	4,617	17,570	22,493
Net book value								
End of year	–	7,442	5,913	67,292	1,498	2,476	84,621	284,682
Beginning of year	1,447	73,222	3,224	200,645	443	5,701	284,682	218,530



Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

9. PROPERTY, PLANT AND EQUIPMENT (Continued)

The net book value of the Group's leasehold land and buildings comprised:

	2000 <i>HK\$'000</i>	Group 1999 <i>HK\$'000</i> <i>(Note 32)</i>
Situated in Hong Kong and held under medium term leases	2,383	2,441
Situated in the People's Republic of China and held under:		
Medium term leases	5,059	67,002
Long term leases	–	3,779
	7,442	73,222

The net book value of the Group's machinery and equipment and motor vehicles held under finance leases amounted to approximately HK\$7,867,000 and HK\$204,000 respectively as at December 31, 2000 (1999: HK\$7,929,000 and HK\$207,000).

The carrying value of leasehold land and buildings as of December 31, 2000 mortgaged as collateral for the banking facilities of the Group amounted to approximately HK\$2,383,000 (1999: HK\$2,441,000) (see Notes 18(b) and 28(c)).

10. FILM COPYRIGHT AND LICENCES

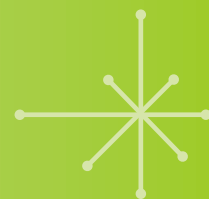
	2000 <i>HK\$'000</i>	Group 1999 <i>HK\$'000</i> <i>(Note 32)</i>
At cost	100,000	100,000

Film copyright and licences comprised of motion picture films owned by or licensed to the Group which were acquired in December 1999. There was no amortization of the film rights and licences as the Group has not yet commenced the utilization of the films for its broadband interactive multimedia business.

The Company's directors are of the opinion that the underlying values of the film copyright and licences were not less than their carrying values as at December 31, 2000.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)



11. INVESTMENTS IN CLUB DEBENTURES

	2000 HK\$'000	Group 1999 HK\$'000 (Note 32)
At cost	1,763	1,763

12. INVESTMENTS IN ASSOCIATES

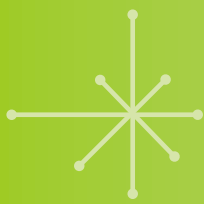
	2000 HK\$'000	Group 1999 HK\$'000 (Note 32)
Share of net assets	31,660	–
Amounts due from associates	46,834	18,176
	78,494	18,176

The amounts due from associates are unsecured, interest-free and have no fixed repayment terms.

The directors are of the opinion that the underlying value of the associates were not less than the carrying amounts of the associates as at December 31, 2000.

Particulars of the associates as at December 31, 2000 are as follows:

Company name	Place of incorporation	Issued and paid up ordinary share capital	Equity interest attributable to the Group		Principal activities
			Directly	Indirectly	
CVN Group Inc.	Cayman Islands	US\$25,000	33%	–	Investment holding
CVN (HK) Limited	Hong Kong	HK\$10,000	–	33%	Development of broadband multimedia businesses
Century Action Co., Ltd.	British Virgin Islands	US\$10,000	–	33%	Investment holding
Universal Sign Limited (a)	Hong Kong	HK\$2	–	33%	Investment holding



Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

12. INVESTMENTS IN ASSOCIATES (Continued)

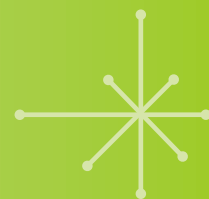
- (a) Universal Sign Limited owns a 97.3% interest in New Blue Digital Network Limited (“New Blue”), a cooperative joint venture which in turns holds interests of 44% to 49% in certain cooperative joint ventures in the People’s Republic of China (the “PRC”). These cooperative joint ventures have not commenced any business activities. Management’s intention is to develop broadband interactive multimedia business through these joint ventures in the future.

Details of the joint ventures as at December 31, 2000 were as follows:

Name	Duration of joint venture	Joint venture partner(s)	Registered capital	Group’s committed capital contribution	Principal activity	Percentage of ownership attributable to the Group
New Blue Digital Network Limited	35 years	南京奧特薩網絡系統責任有限公司	US\$18,325,000	US\$17,829,000	Development of a broadband multimedia project	32.1%
Fujian Ying Sheng Broadcasting and Television Network Development Co., Ltd	35 years	Fujian Province Broadcasting and Television Information Network Centre	RMB43,800,000	RMB21,462,000	Development of a broadband multimedia project	15.7%
Wuxi Broadcasting & Television Network Development Co., Ltd.	30 years	Wuxi Tai Lake Pearl Broadcasting and Television Network Company Ltd.; and Jiangsu Broadcasting and TV Information Network Centre	RMB140,000,000	RMB26,400,000	Development of a broadband multimedia project	14.1%

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

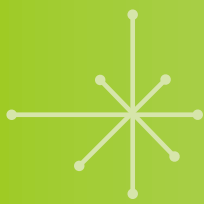


12. INVESTMENTS IN ASSOCIATES (Continued)

The associates are involved in the development of a broadband interactive multimedia project (the “CVN project”) which has not commenced commercial operation. The successful launch of the CVN project requires, amongst other things, a substantial amount of financing. Should such financing be unavailable, then there is substantial doubt about the future of the CVN project. In which case, the carrying value of the Group’s investment in associates should be adjusted to recognize an impairment in value.

Supplementary financial information of the associate and its subsidiaries for the year ended December 31, 2000 is as follows:

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i> <i>(Note 32)</i>
Consolidated balance sheet:		
Goodwill	62,791	–
Intangible assets	54,550	54,550
Property, plant and equipment, net	21,821	1,612
Total current assets	72,316	1,108
Total current liabilities	(9,064)	(1,039)
Non-current liabilities	(107,771)	(59,923)
Shareholders’ equity (deficit)	94,643	(3,692)
Consolidated income statement		
Total revenue	8,187	–
Total expenses	(29,247)	(3,770)
Loss before taxation	(21,060)	(3,770)
Taxation	–	–
Consolidated loss for the year and attributable to shareholders	(21,060)	(3,770)



Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

13. INVESTMENT IN A JOINT VENTURE

	2000 HK\$'000	Group 1999 HK\$'000 (Note 32)
Share of net assets	6,897	–

The directors are of the opinion that the underlying value of the joint venture were not less than the carrying amount of the joint venture as at December 31, 2000.

Particulars of the joint venture as at December 31, 2000 were as follows:

Name	Duration of joint venture	Joint venture partner(s)	Registered capital	Group's committed capital contribution	Principal activity	Percentage of ownership attributable to the Group
Hunan South China Prosperity Digital Network Decoder Co., Ltd.	10 years	湖南華南光電儀器廠 and 北京宏遠 通訊諮詢有限公司	US\$11,920,000	US\$11,920,000	Production of network decoders	80%

As at December 31, 2000, the cooperative joint venture has not commenced any business activities.

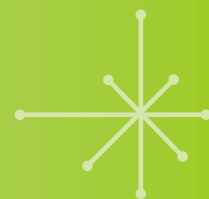
14. INVESTMENTS IN SUBSIDIARIES

	2000 HK\$'000	Company 1999 HK\$'000 (Note 32)
Unlisted shares, at cost	155,540	155,540
Amounts due from subsidiaries	497,338	439,124
Amounts due to subsidiaries	(23,466)	(4,467)
	629,412	590,197

Amounts due from (to) subsidiaries are unsecured, interest-free and have no fixed repayment terms.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

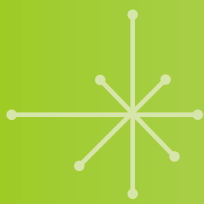


14. INVESTMENTS IN SUBSIDIARIES (Continued)

The directors' are of the opinion that the underlying value of the subsidiaries were not less than the carrying amounts of the subsidiaries as at December 31, 2000.

Particulars of the Company's principal subsidiaries as at December 31, 2000 are as follows:

Company name	Place of incorporation and principal operation	Issued and paid up share capital	Equity interest attributable to the Group	Principal activities
Prosperity Construction and Decoration Limited (formerly Prosperity Decoration Limited, OLS International Limited)	Hong Kong	HK\$5,000,000	100%	Construction contractor
Prosperity Construction and Decoration (HK) Limited (formerly OLS International (HK) Limited)	Hong Kong	HK\$2	100%	Construction contractor
Prosperity Construction (Hong Kong) Limited (formerly OLS Construction (Hong Kong) Limited)	Hong Kong	HK\$2	100%	Construction contractor
Prosper eVision Cyber Entertainment Group Limited (formerly Prosper eContent Group Inc., Win's Group Limited)	Cayman Islands	US\$1,000	100%	Investment holding
Win's Movie Production Limited	Hong Kong	HK\$1,000,000	100%	Movie production



Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

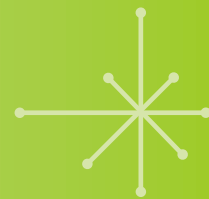
14. INVESTMENTS IN SUBSIDIARIES (Continued)

Company name	Place of incorporation and principal operation	Issued and paid up share capital	Equity interest attributable to the Group	Principal activities
Prosper eVision Finance Limited (formerly OLS Finance Limited)	Hong Kong	HK\$2	100%	Provision of money lending services
瑞智廣告事業有限公司 (“Reach Video Production Co. Ltd.”)	Taiwan	NT\$245,000,000	100%	Television program and advertising production
Bravo Bravo Decorative Products Limited	Hong Kong	HK\$10,000	100%	Trading of decorative products
Prosper eVision Management Limited (formerly China Prosperity Management Limited)	Hong Kong	HK\$2	100%	Provision of management services
Pearlink Enterprises Limited	Hong Kong	HK\$100	100%	Property holding
Miramar Development Limited	Hong Kong	HK\$1,000,000	100%	Property holding

All of the above principal subsidiaries are indirectly held by the Company. The above table sets out the subsidiaries which, in the opinion of the directors, materially affected the amounts of the results for the year or 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.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)



15. GROSS AMOUNT DUE FROM CUSTOMERS FOR CONTRACT WORK

	2000 <i>HK\$'000</i>	Group 1999 <i>HK\$'000</i> <i>(Note 32)</i>
Costs incurred plus recognized profit less recognized losses	8,352	6,826
Less: Progress billings	(8,164)	(5,089)
	188	1,737

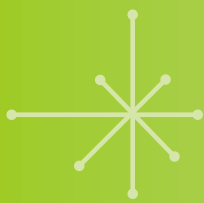
16. ACCOUNTS RECEIVABLE

	2000 <i>HK\$'000</i>	Group 1999 <i>HK\$'000</i> <i>(Note 32)</i>
Not over 3 months	14,328	12,592
Over 3 months to 6 months	–	–
Over 6 months to 1 year	1,287	118
Over 1 year	2,483	60,560
Less: Provision for bad debt	–	(39,697)
	18,098	33,573

Accounts receivable of approximately HK\$3,895,000 and HK\$2,845,000 were pledged as collateral for certain bank loans and short term loans of the Group respectively (see Notes 18(b) and (c)).

17. LOANS RECEIVABLE

The loans receivable represented loans made to various unrelated third parties. These loans are secured by convertible loan notes of an unrelated company whose shares are listed on The Stock Exchange of Hong Kong Limited and unlisted shares of certain unrelated companies. These loans bear interest at rates ranging from 4% above prime rate to 18% per annum and are repayable within the next twelve months.



Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

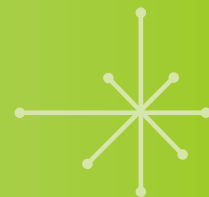
18. BANK AND OTHER BORROWINGS

	2000 HK\$'000	Group 1999 HK\$'000 (Note 32)
Secured:		
Bank overdrafts (a)	2,475	499
Bank loans repayable (b)		
– within one year	3,372	6,132
– in the second year	285	681
– in the third to fifth years, inclusive	507	658
– after five years	–	94
Short term loans (c)	2,276	–
	8,915	8,064
Unsecured:		
Bank overdrafts	10	–
Other loans (d)	5,142	8,244
	5,152	8,244
	14,067	16,308
Amount classified as current liabilities	(8,133)	(6,631)
Amount classified as non-current liabilities	5,934	9,677

- (a) The bank overdrafts are secured by fixed deposits amounting to HK\$4,000,000 (see Note 28(a)) or other equivalent acceptable currencies placed with the bank together with accrued interest, leasehold land and buildings owned by certain unrelated third parties and a joint and several guarantee granted by certain unrelated third parties. These bank overdrafts bear interest ranging from bank's best lending rate plus 1.00% per annum to 11.50% per annum.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

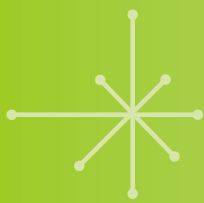


18. BANK AND OTHER BORROWINGS (Continued)

- (b) The bank loans are secured by certain leasehold land and buildings of the Group with a carrying value of approximately HK\$2,383,000 as at December 31, 2000 (1999: HK\$2,441,000) (see Notes 9 and 28(c)), accounts receivable of the Group of approximately HK\$3,895,000 (see Notes 16 and 28(d)), leasehold land and buildings owned by certain unrelated third parties and a joint and several guarantee granted by certain unrelated third parties.
- (c) The short term loans are interest-free, secured by certain accounts receivable of the Group of approximately HK\$2,845,000 and are repayable within the next twelve months (see Note 16).
- (d) The other unsecured loans are interest-free and not repayable within the next twelve months.

19. FINANCE LEASE LIABILITIES

	2000 <i>HK\$'000</i>	Group 1999 <i>HK\$'000</i> <i>(Note 32)</i>
Finance lease payments are repayable:		
Within one year	3,956	3,889
In the second year	1,638	4,150
In the third to fifth years, inclusive	33	78
	5,627	8,117
Future finance charges on the finance leases	(571)	(1,540)
Present value of the minimum lease payments	5,056	6,577
Amount classified as:		
Current liabilities	3,495	2,998
Non-current liabilities	1,561	3,579
	5,056	6,577



Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

20. ACCOUNTS PAYABLE

	2000 HK\$'000	Group 1999 HK\$'000 (Note 32)
Not over 3 months	13,261	53,871
Over 3 months to 6 months	79	746
Over 6 months to 1 year	89	5,183
Over 1 year	27,340	–
	40,769	59,800

21. CONVERTIBLE LOAN NOTES

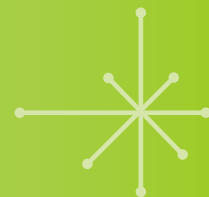
- (a) On December 10, 1999, the Company issued convertible loan notes in the aggregate amount of HK\$181,897,000 as consideration of acquisition of certain subsidiaries. These convertible loan notes bear interest at 5% per annum and are repayable in one lump sum after three years from the date of issuance or convertible into shares of the Company at the conversion price of HK\$1 at any time after the date of issuance. If the convertible loan notes are redeemed or converted in whole or in part within one year from the date of issuance, no interest will be payable on the part that are so redeemed or converted.

During the year, a total of 171,896,776 ordinary shares of par value of HK\$0.10 each of the Company were issued in connection with the conversion of the convertible loan notes issued on December 10, 1999 (see Note 23(a)(i)). The aggregate amount of the convertible loan notes outstanding as at December 31, 2000 was HK\$10,000,000.

- (b) On April 13, 2000, the Company issued convertible debentures in the aggregate amount of US\$5,000,000. These convertible loan notes bear interest at 1.5% per annum and are repayable in one lump sum after three years from the date of issuance or convertible into shares of the Company at the time after the date of issuance at the conversion price determined as follows:
- (i) For the period from day 1 to 45 after the completion date of the subscription agreement for the convertible debentures (“Completion Date”), the conversion price will be HK\$3.41;
 - (ii) For the period from day 46 after the Completion Date to the maturity date, the conversion price will be the lower of (1) HK\$3.41 and (2) the greater of (a) 95% of the average closing price of the lowest two trading days in the 20 consecutive trading day period prior to the date of conversion and (b) HK\$1.50.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)



21. CONVERTIBLE LOAN NOTES (Continued)

If the convertible debentures are redeemed or converted in whole or in part within one year from the date of issuance, no interest will be payable on the part that are so redeemed or converted.

As at December 31, 2000, all the convertible debentures issued on April 13, 2000 had been converted into a total of 21,107,778 ordinary shares of par value of HK\$0.10 each of the Company (see Note 23(a)(ii)).

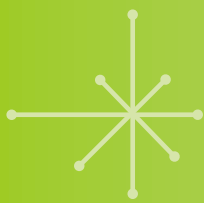
22. DEFERRED TAXATION

	2000 HK\$'000	Group 1999 HK\$'000 (Note 32)
Beginning of year	–	668
Transfer to income statement	–	(668)
End of year	–	–
Balance representing tax effect of the timing differences on excess of depreciation allowances over depreciation charges	–	–

The major components of the potential deferred taxation assets unprovided are as follows:

	2000 HK\$'000	Group 1999 HK\$'000 (Note 32)
Tax effect of timing differences on:		
Excess of depreciation charges over depreciation allowances	99	35
Unutilized tax losses carried forward	25,141	33,922
	25,240	33,957

As at December 31, 2000, there was no significant unprovided deferred taxation.



Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

23. SHARE CAPITAL

(a) Share capital

	Group and Company			
	2000		1999	
	Number of shares '000	Par value HK\$'000	Number of shares '000 (Note 32)	Par value HK\$'000 (Note 32)
Authorized:				
Ordinary shares of HK\$0.10 each	800,000	80,000	800,000	80,000
Issued and fully paid:				
Beginning of year	523,000	52,300	400,000	40,000
Shares issued for conversion of convertible loan notes	193,005	19,300	106,000	10,600
Shares issued under share option scheme	–	–	17,000	1,700
End of year	716,005	71,600	523,000	52,300

The following changes in the Company's issued share capital took place during the year:

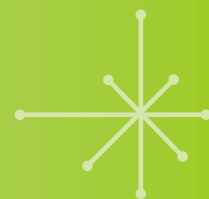
- (i) During the year, a total of 171,896,776 ordinary shares of par value of HK\$0.10 each of the Company were issued in connection with the conversion of the convertible loan notes issued on December 10, 1999 as consideration of acquisition of certain subsidiaries (see Note 21(a)).
- (ii) As at December 31, 2000, all the convertible debentures issued on April 13, 2000 had been converted into a total of 21,107,778 ordinary shares of par value of HK\$0.10 each of the Company (see Note 21(b)).

(b) Share option scheme

On June 11, 1997, the Company in general meeting adopted a share option scheme under which the directors may, at their discretion and at any time during the ten years from the date of adoption, invite any full-time employee or executive director of the Group to take up options to subscribe for shares of the Company. The subscription price may not be less than the greater of 80% of the average closing price of the Company's shares as quoted on The Stock Exchange of Hong Kong Limited for the five trading days immediately preceding the date of offer of the option or the nominal value of the Company's shares. The maximum number of shares in respect of which options may be granted may not exceed 10% of the issued share capital of the Company excluding any shares issued on the exercise of option from time to time. The scheme became effective upon the listing of the Company's shares on the Stock Exchange on June 26, 1997.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)



23. SHARE CAPITAL (Continued)

(b) Share option scheme (Continued)

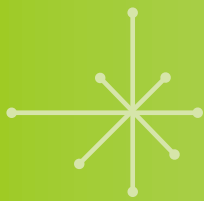
Movements in the number of share options granted pursuant to the scheme during the year were as follows:

Exercise price per share	Exercise period	Outstanding at January 1, 2000	Number of options		Exercised during the year	Outstanding at December 31, 2000
			Granted during the year	Lapsed during the year		
HK\$0.77	October 27, 1997 to October 26, 2002	7,500,000	-	(7,500,000)	-	-
HK\$0.16	July 13, 1999 to July 12, 2004	10,000,000	-	-	-	10,000,000
		17,500,000	-	(7,500,000)	-	10,000,000

24. RESERVES

Movements in reserves were as follows:

Group	Share premium HK\$'000	Capital reserve HK\$'000	Contributed surplus HK\$'000	Exchange reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Balance as at January 1, 1999	169,529	11,126	22,130	-	32,156	234,941
Premium arising on issue of shares, net of issuing expenses	75,419	-	-	-	-	75,419
Net loss for the year	-	-	-	-	(138,589)	(138,589)
Balance as at December 31, 1999 (Note 32)	244,948	11,126	22,130	-	(106,433)	171,771
Net loss for the year	-	-	-	-	(42,260)	(42,260)
Realization of capital reserve on disposal of a subsidiary (Note 25(d))	-	(11,126)	-	-	-	(11,126)
Premium arising on conversion of convertible loan notes	191,575	-	-	-	-	191,575
Exchange differences arising on consolidation	-	-	-	(1,085)	-	(1,085)
Balance as at December 31, 2000	436,523	-	22,130	(1,085)	(148,693)	308,875



Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

24. RESERVES (Continued)

The contributed surplus of the Group represents the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the Group's reorganization scheme completed on June 11, 1997 over the nominal value of the Company's shares issued in exchange therefor.

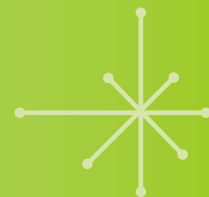
Company

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance as at January 1, 1999	169,529	127,536	(1,468)	295,597
Premium arising on issue of shares, net of issuing expenses	75,419	–	–	75,419
Net loss for the year	–	–	(7,107)	(7,107)
Balance as at December 31, 1999 (<i>Note 32</i>)	244,948	127,536	(8,575)	363,909
Net loss for the year	–	–	(7,745)	(7,745)
Premium arising on conversion of convertible loan notes	191,575	–	–	191,575
Balance as at December 31, 2000	436,523	127,536	(16,320)	547,739

The contributed surplus of the Company represents the difference between the nominal value of the Company's shares issued in exchange for the issued share capital of the subsidiaries and the net asset value of the subsidiaries acquired pursuant to the Group's reorganization scheme completed on June 11, 1997. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to shareholders under certain circumstances.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)



25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i> <i>(Note 32)</i>
Loss from ordinary activities before taxation	(42,035)	(141,267)
Share of results of associates	6,950	57
Share of result of a joint venture	59	–
Interest income (excluding interest income on loans receivable and amount due from a related party)	(661)	(1,942)
Finance costs	1,280	1,103
Depreciation	13,205	18,902
Loss on disposal of property, plant and equipment	1,179	185
Gain on disposal of a subsidiary	(26,954)	–
Decrease in gross amount due from customers for contract work	1,549	667
Decrease in accounts receivable	13,090	115,334
Decrease in retentions receivable	6,142	32,570
Increase in loans receivable	(124,517)	–
(Increase) Decrease in prepayments, deposits and other receivables	(9,527)	3,238
Increase in amount due from a related party	(34,450)	–
Decrease in accounts payable	(13,576)	(42,868)
Increase in gross amount due to customers for contract work	2,211	–
Increase in accruals and other payables	1,878	5,690
Increase in amount due to related companies	3,597	–
Increase in amount due to intermediate holding company	2,083	–
Increase in amounts due to immediate holding company	4,001	–
Net cash outflow from operating activities	(194,496)	(8,331)

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Analysis of changes in financing during the year:

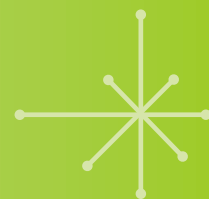
	1999		2000		1999	
	Share capital and share premium	Convertible loan notes	Bank loans and other loans	Finance lease liabilities	Total	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Beginning of year	297,248	181,897	15,809	6,577	501,531	209,529
Proceeds from issues of share capital	-	-	-	-	-	87,719
Proceeds from issuance of convertible loan notes	-	38,978	-	-	38,978	-
Net (repayment of) proceeds from banks loans and other loans	-	-	(1,769)	-	(1,769)	9,981
Payment of finance lease liabilities	-	-	-	(4,520)	(4,520)	(572)
Conversion of convertible loan notes (Notes 25(c)(i) and (ii))	210,875	(210,875)	-	-	-	-
Inception of finance lease contracts (Note 25(c)(iii))	-	-	-	2,999	2,999	200
Acquisition of subsidiaries	-	-	-	-	-	194,674
Disposal of a subsidiary (Note 25(d))	-	-	(2,458)	-	(2,458)	-
End of year	508,123	10,000	11,582	5,056	534,761	501,531

(c) Major non-cash transactions:

- (i) During the year, a total of 171,896,776 ordinary shares of par value of HK\$0.10 each of the Company were issued in connection with the conversion of the convertible loan notes issued on December 10, 1999 (see Note 23) at a conversion price of HK\$1, resulting in an increase in share capital and share premium of approximately HK\$17,190,000 and HK\$154,707,000 respectively.
- (ii) During the year, a total of 21,107,778 ordinary shares of par value of HK\$0.10 each of the Company were issued in connection with the conversion of the convertible loan notes on April 13, 2000 (see Note 23) at a conversion price ranging from HK\$1.50 to HK\$3.41, resulting in an increase in share capital and share premium of approximately HK\$2,111,000 and HK\$36,867,000 respectively.
- (iii) During the year, the Group entered into certain finance lease contracts in respect of property, plant and equipment with a total capital value of approximately HK\$2,999,000 at the inception of the contracts.

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)



25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(d) Disposal of a subsidiary:

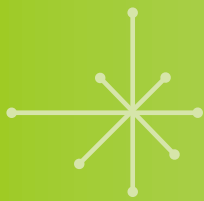
	2000 HK\$'000
Net assets disposed	
Property, plant and equipment	198,913
Cash and bank balances	94
Accounts receivable	2,385
Prepayments, deposits and other receivables	2,088
Bank loans and other loans (<i>Note 25(b)</i>)	(2,458)
Accounts payable	(5,455)
Accruals and other payables	(3,544)
Amounts due to related companies	(3,597)
Provision for taxation	(1,747)
Minority interest	(2,507)
	184,172
Gain on disposal of the subsidiary	26,954
Realization of capital reserve (<i>Note 24</i>)	(11,126)
	200,000
Total cash proceeds	200,000
Less: Cash and bank balances disposed	(94)
	199,906

26. COMMITMENTS

Operating lease commitments in respect of leasehold land and buildings as at December 31, 1999 amounted to approximately HK\$9,742,000 (1999: HK\$3,631,000). The amount payable in the next twelve months, analyzed according to the period in which the lease expires, is as follows:

	2000 HK\$'000	Group 1999 HK\$'000 (<i>Note 32</i>)
Leases expiring:		
Within one year	339	2,273
In the second to fifth years, inclusive	4,232	859
	4,571	3,132

The Group had no significant capital commitments as at December 31, 2000.



Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

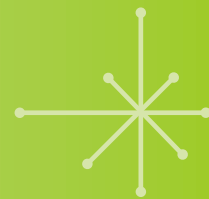
27. DISCONTINUED OPERATION

On January 28, 2000, the Company entered into a conditional sale and purchase agreement with an independent third party to dispose of the Company's 100% interest in Mehboob Assets Limited, which holds a 95% interest in a thermal power plant in Heilongjiang province, the PRC. The disposal was completed during the year and a gain of approximately HK\$26,954,000 was recognized. As a result, the power plant's operation as a business segment was considered as a discontinued operation.

Included in the loss from ordinary activities after taxation were the operating results of the discontinued power plant operation as follows:

	2000 HK\$'000	1999 HK\$'000 (Note 32)
Revenue	–	30,408
Operating expenses	–	(52,517)
Loss from operating activities	–	(22,109)
Interest expense	–	(4,349)
Loss before income tax	–	(26,458)
Taxation	–	–
Loss after taxation	–	(26,458)

The Company did not account for any of the operating results of the power plant during the period from January 1, 2000 to the date of completion of the sale and purchase agreement as the Company ceased to exercise any control or influence over the power plant effective January 1, 2000.



28. BANKING FACILITIES

As at December 31, 2000, the Group had aggregate banking facilities of approximately HK\$16,471,000 (1999: HK\$7,647,000) for overdrafts, loans and trade financing. Unused facilities as of the same date amounted to approximately HK\$4,086,000 (1999: HK\$2,039,000).

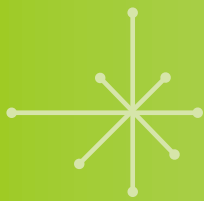
These facilities are secured by:

- (a) a fixed deposit amounting to approximately HK\$4,000,000 (see Note 18(a));
- (b) a joint and several guarantee by certain unrelated third parties;
- (c) certain leasehold land and buildings of the Group with a carrying value of approximately HK\$2,383,000 as at December 31, 2000 (see Notes 9 and 18(b)); and
- (d) certain accounts receivable of the Group of approximately HK\$3,895,000 (see Notes 16 and 18(b)).

29. CONTINGENT LIABILITIES

As at December 31, 2000, the Group had the following contingent liabilities:

- (i) The Group gave letters of indemnity amounting to approximately HK\$24,514,000 to certain insurance companies for their issuance of surety bonds which are inherent in the nature of the Group's construction business.
- (ii) A subsidiary of the Company is undergoing arbitration with one of its customers in relation to certain disputes over the value of the construction work performed by various sub-contractors during the year. The amount of claim by the customer is approximately HK\$11,211,000. As the outcome of the arbitration cannot be reliably estimated, no provision for contingent losses has been made in the financial statements as of December 31, 2000.
- (iii) A former employee of the Group has filed a claim against the Company in respect of its failure to allot and issue to the former employee certain shares pursuant to the 1997 Share Option Scheme of the Company. The outcome of the claim is uncertain and cannot be reliably estimated. No provision has been made in respect of this claim in the financial statements.
- (iv) During the year, a subsidiary of the Company was sued by China Top Consultants Limited, a legal consultancy firm, for a disputed legal charge of approximately HK\$4,357,000. The directors are currently considering to file a counter-claim against China Top Consultants Limited for breach of professional code. The outcome of the claim and potential counter-claim is uncertain and cannot be reliably estimated. No provision has been made in respect of this claim in the financial statements.



Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

30. RELATED PARTY TRANSACTIONS

- (a) On November 15, 1999, the Company entered into an administrative services agreement with China Convergent Corporation Limited (“China Convergent”) (formerly China Broadband Corporation Limited and, before that, China Prosperity International Holdings Limited), the Company’s intermediate holding company, to provide administrative services and office space, facilities and utilities to China Convergent over a three-year period commencing from June 26, 1999 and ending on June 25, 2002. The agreement was in effect to renew the administrative and licence agreements both dated July 7, 1998 regarding the provision by the Company of similar services to China Convergent for the year ended June 25, 1999.

During the year, the Company received approximately HK\$862,000 (1999: HK\$1,083,000) in total for the administrative services and office space, facilities and utilities provided to China Convergent.

- (b) The amount due from a related party is secured against unlisted shares of an unrelated company, bears interest at 4% above prime rate per annum and is repayable within the next twelve months. During the year, the Group earned interest income of approximately HK\$2,950,000 (1999: Nil) from the amount due from a related party.
- (c) The amounts with immediate holding company and intermediate holding company are unsecured, interest-free and have no fixed repayment terms.
- (d) During the year, the Group paid legal and professional fees amounting to approximately HK\$696,000 to a legal consultant who is also an executive director of the Company for legal consultancy services rendered to the Group.

31. SUBSEQUENT EVENT

Pursuant to a conditional agreement entered into on December 18, 2000 between China Convergent Corporation Limited (“China Convergent”), an intermediate holding company, and an institutional investment firm (the “Agreement”), China Convergent had an obligation to issue convertible exchangeable notes for US\$100,000,000 which were convertible into shares of China Convergent at the exercise price of US\$10 per American Depositary Share subject to certain terms and conditions contained in the Agreement. A condition of the Agreement required that the 33% interest in CVN Group Inc. owned by the Company be disposed of by the Company either to China Convergent or to an unrelated third party. On April 12, 2001, China Convergent announced that the Agreement had lapsed and no agreement was reached by the Company in relation to the disposal of its 33% shares in CVN Group Inc. Neither China Convergent nor the Company has any further obligation to the institutional investment firm with respect to the Agreement.

32. COMPARATIVE FIGURES

The financial statements as at and for the year ended December 31, 1999 were audited and reported on by certified public accountants other than Arthur Andersen & Co, whose report dated April 25, 2000 expressed an unqualified opinion on those statements.