

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

1. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared 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 on The Stock Exchange of Hong Kong Limited. Principal accounting policies are summarised below:

a. Basis of presentation

The financial statements have been prepared on the going concern basis.

For the year ended 31st December, 2000, the Group reported a loss attributable to shareholders of approximately \$1,111,205,000, which included provision for impairment in value and deficit on revaluation in respect of certain properties, provision against property based loans receivable and provision for impairment of property based long-term investment totalling approximately \$877,299,000. As at 31st December, 2000, the Group had a net working capital deficiency of approximately \$263,567,000, primarily because a substantial portion of the Group's non-current assets were financed by bank borrowings which were overdue or repayable within twelve months. During the year, the Group was unable to repay interest and principal on certain bank borrowings amounting to approximately \$1,043,893,000 when they fell due. As a consequence, the banks are entitled to demand immediate repayment of the entire related borrowings totalling approximately \$1,496,769,000, which have been classified as current liabilities in the financial statements as at 31st December, 2000.

The Group is negotiating with the relevant banks to reschedule the repayment terms of certain existing borrowings and to continue providing credit facilities to the Group. In addition, the Group is in the process of negotiation with potential buyers to sell certain properties with a carrying value of approximately \$1,360,000,000 as at 31st December, 2000, and believes the disposal will provide the Group with surplus cash after paying off the related mortgage financing. Also, the Company's Directors believe that future operations of the Group will be successful. Accordingly, the financial statements have been prepared on the going concern basis which assumes that the rescheduling of the repayment terms of certain of the Group's bank borrowings will be agreed by the relevant banks, the intended disposal of certain of the Group's properties will be successfully completed, and the Group's future operations will be successful. The validity of these assumptions, however, is entirely dependent upon the occurrence of future events, which remains uncertain as of the date of approval of these financial statements.

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

b. Basis of measurement

The financial statements have been prepared on the historical cost basis as modified by stating hotel property and investment properties at open market value as explained in Notes 1.m and 1.n, and stating investment in securities at fair value as explained in Note 1.q.

c. Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries (together “the Group”), together with the Group’s share of post-acquisition profits/losses and reserves of its associates under the equity method of accounting. The results of subsidiaries and associates acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal. Significant intra-group transactions and balances have been eliminated on consolidation.

d. Goodwill

Goodwill represents the difference between the fair value of the consideration given and the Group’s share of the aggregate fair values of the identifiable net assets acquired. Positive goodwill arises where the consideration given exceeds the Group’s share of the aggregate fair values of the identifiable net assets acquired and is eliminated immediately against available reserves. Negative goodwill arises where the Group’s share of the aggregate fair values of the identifiable net assets acquired exceeds the consideration given and is credited directly to reserves.

e. Subsidiaries

A subsidiary is a company in which the Company holds, directly or indirectly, more than 50% of its issued voting share capital as a long-term investment. In the Company’s financial statements, investment in subsidiaries is stated at cost less provision for any impairment in value, while income from subsidiaries is recorded to the extent of dividends received and receivable.

f. Associates

An associate is a company, not being a subsidiary, in which the Group holds 20% or more of its issued voting share capital as a long-term investment and can exercise significant influence over its management. In the consolidated financial statements, investment in associates is stated at the Group’s share of the fair value of the separable net assets of the associates at the time of acquisition, plus/less the Group’s share of undistributed post-acquisition profits/losses and reserves of the associates, distributions received from the associates and other 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.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

g. Turnover and revenue recognition

Turnover represents (i) the contracted value for sale of properties net of costs of the disposal; (ii) rental income from leasing of investment properties; (iii) revenue from hotel operations; (iv) fees for the provision of telecommunication services and internet related services; and (v) interest income from loans receivable.

Revenue is recognised when the outcome of a transaction can be measured reliably and when it is probable that the economic benefits associated with the transaction will flow to the Group. Revenue is recognised on the following basis:

- (i) Sale of properties is recognised upon completion of the sales contract. Payments received from purchasers prior to completion are recorded as deposits from customers .
- (ii) Rental income from investment properties is recognised on a straight-line basis over the terms of the leases.
- (iii) Revenue from hotel operations is recognised when the related services are rendered.
- (iv) Provision of telecommunication services and internet related services is recognised when the related services are rendered. Deposits or advance payments from customers prior to the provision of services are recorded as deferred income.
- (v) Interest income is recognised on a time proportion basis on the principal outstanding and at the rate applicable.
- (vi) Gain or loss from sale of investment in securities is recognised on the trade date.

h. Taxation

Individual companies within the Group provide for profits tax on the basis of their profit for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for profits tax purposes.

Deferred taxation is provided under the liability method in respect of significant timing differences between profit as computed for taxation purposes and profit as stated in the financial statements, except when it is considered that no liability will arise in the foreseeable future. Deferred tax assets are not recognised unless the related benefits are expected to crystallise in the foreseeable future.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

i. Advertising and promotion expenses

Costs for advertising and promotion are charged to the income statement as incurred.

j. Staff retirement benefits

Costs of staff retirement benefits are charged to the income statement as incurred.

k. Borrowing costs

Borrowing costs that are directly attributed to the acquisition, construction or production of an asset that takes a substantial period of time to prepare for its intended use or sale are capitalised as part of the cost of that asset at rates based on the actual cost of the specific borrowings. All other borrowing costs are charged to the income statement as incurred.

l. Properties and equipment and depreciation

Properties and equipment, other than hotel property, are stated at cost less accumulated depreciation. Major expenditures on modifications and betterments of properties and equipment which will result in future economic benefits are capitalised, while expenditures on maintenance and repairs are expensed as incurred. Depreciation is provided on a straight-line basis to write off the cost less estimated residual value of each asset over its estimated useful life. The annual rates of depreciation are as follows:

Leasehold land	2%
Buildings	4%
Operating equipment	33% to 50%
Furniture and office equipment	15% to 30%
Motor vehicles and vessels	20% to 30%

Gains and losses on disposal of properties and equipment are recognised in the income statement based on the net disposal proceeds less the carrying amount of the assets.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

m. Hotel property

Hotel property (classified under properties and equipment) comprises leasehold land, a building and leasehold improvements which are collectively used in the operations of the hotel. It is included in the balance sheet at its open market value on the basis of an annual valuation by independent qualified valuers. Any increase in valuation is credited to the properties and equipment revaluation reserve; any decrease in valuation is firstly offset against increases in earlier valuations and is thereafter recognised as an expense in the income statement. No depreciation is provided on the hotel property. When the hotel property is disposed of, previously recognised revaluation surpluses are reversed and the gain or loss on disposal reported in the income statement is determined based on the net disposal proceeds less the original cost.

n. Investment properties

Investment properties are interests in leasehold land and buildings in respect of which construction and development work have been completed and which are held for their long-term investment potential. These properties are included in the balance sheet at their open market value on the basis of an annual valuation by independent qualified valuers. All changes in value of investment properties are dealt with in the investment properties revaluation reserve unless the total of this reserve is insufficient to cover a deficit on a portfolio basis, in which case the net deficit is recognised as an expense in the income statement. When an investment property is disposed of, previously recognised revaluation surpluses are reversed and the gain or loss on disposal reported in the income statement is determined based on the net disposal proceeds less the original cost.

No depreciation is provided on investment properties unless the unexpired lease term is 20 years or less, in which case depreciation is provided on the then carrying value over the unexpired lease term.

o. Development properties

Development properties include interests in leasehold land and buildings under development, and are stated at cost less provision for any impairment in value. Cost includes the original costs of leasehold land and buildings, development and construction expenditures incurred, and interest and other direct costs attributable to such properties. No depreciation is provided for development properties.

p. Long-term investment

Long-term investment is stated at cost less provision for any impairment in value.

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

q. Investment in securities

Securities that are held for the purpose of generating a profit from short-term fluctuations in price are classified as investment in securities, and are included in the balance sheet at their fair values. All changes in the fair values of investment in securities and gains and losses on disposal are recognised in the income statement as they arise.

r. Loans receivable

Loans to customers together with accrued interest are stated in the balance sheet after deducting specific and general provisions for possible loan losses. Specific provisions are made against the outstanding balance of loans where, in the opinion of management, recovery is doubtful. General provisions relate to exposures not specifically identified but known from experience to exist in the current portfolio. The provisions made are based on estimates made by management and are reviewed periodically. Adjustments are made when considered necessary.

s. Completed properties for sale

Completed properties for sale are stated at the lower of cost and net realisable value. Net realisable value is based on estimated selling prices in the ordinary course of business as determined by management with reference to the prevailing market conditions.

t. Inventories

Inventories, primarily consisting of telecommunication equipment, are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method of costing and includes costs incurred in bringing the goods to their present location and condition. Net realisable value is based on estimated selling prices in the ordinary course of business, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period when the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

1. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

u. Impairment of assets

Properties and equipment (other than hotel property), development properties and long-term investment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of one of these assets may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss representing the difference between the carrying amount and the recoverable amount of an asset, is recognised in the income statement. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of the disposal, while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

Reversal of impairment losses recognised in a prior year is recorded when there is an indication that the losses recognised for the asset no longer exist or have decreased. The reversal is recorded in the income statement.

v. Operating leases

Operating leases represent those leases under which substantially all the rewards and risks of ownership of the leased assets remain with the lessors. Rental payments under operating leases are charged to the income statement on a straight-line basis over the period of the relevant leases.

w. Foreign currency translation

Individual companies within the Group maintain their books and records in the primary currencies of their respective operations ("functional currencies"). In the accounts of the individual companies, transactions in other currencies during the year are translated into the respective functional currencies at the applicable rates of exchange prevailing at the time of the transactions; monetary assets and liabilities denominated in other currencies are translated into the respective functional currencies at the applicable rates of exchange in effect at the balance sheet date. Exchange gains or losses are dealt with in the income statements of the individual companies.

The Group prepares consolidated financial statements in Hong Kong dollars. For the purpose of consolidation, assets and liabilities of 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; while 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 dealt with as movements in cumulative translation adjustments.

2. RELATED PARTY TRANSACTIONS

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.

Significant transactions and balances with related parties are summarised as follows:

- a. During the year ended 31st December, 2000, the Group paid professional fees totalling approximately \$1,567,000 (1999 - \$203,000) to Messrs. Siao, Wen and Leung under normal commercial terms. Messrs. Siao, Wen and Leung is a firm of solicitors where Mr. Carson Wen, a non-executive director of the Company, is a partner.
- b. The amounts due to a director represent short-term advances from Mr. Wong Kwan, a director of the Company, and are unsecured, bear interest at Hong Kong prime lending rate and are without pre-determined repayment terms. During the year ended 31st December, 2000, interest on these advances amounted to approximately \$4,066,000 (1999 - \$1,196,000).
- c. The amounts due to related companies are unsecured, non-interest bearing and without pre-determined repayment terms.

3. DISCONTINUING OPERATIONS

In October 2000, the Group entered into an agreement to dispose its 100% equity interest in Aniwell Investments Limited, which is engaged in hotel operations, for a consideration of \$100,000,000. Completion of the transaction took place on 29th January, 2001. Thereafter, the Group ceased its hotel operations business. The results of Aniwell Investments Limited are presented as discontinuing operations in the consolidated income statement for the year ended 31st December, 2000. The consolidated income statement for the year ended 31st December, 1999 has been restated to present the results of Aniwell Investments Limited as discontinuing operations.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

4. TURNOVER AND REVENUE

Analysis of turnover and revenue in the consolidated income statement is as follows:

	2000	1999
	\$'000	\$'000
Continuing operations —		
Property investment and development	215,287	28,559
Financial services, including money lending	564	3,612
Telecommunication services	65,847	6,028
Internet related services	32,858	14,681
	314,556	52,880
Discontinuing operations —		
Hotel operations	13,525	11,720
Total turnover	328,081	64,600
Continuing operations —		
Gain on disposal of investment in securities	11,199	—
Write-back of provision for doubtful receivables	10,000	—
Interest income from bank deposits	1,261	2,986
Others	463	454
	22,923	3,440
Discontinuing operations —		
Interest income from bank deposits	27	5
Others	119	—
	146	5
Total other revenue	23,069	3,445
Total revenue	351,150	68,045

4. TURNOVER AND REVENUE *(Continued)*

Analysis of turnover by geographical location is as follows:

	2000	1999
	\$'000	\$'000
Hong Kong	260,404	59,146
United States of America	35,739	822
Canada	23,965	—
Mainland China	7,973	4,632
	<u>328,081</u>	<u>64,600</u>

5. OTHER OPERATING EXPENSES

Other operating expenses consisted of:

	2000	1999
	\$'000	\$'000
Continuing operations —		
Loss on revaluation of investment properties, net of write-back of related deferred taxation	(49,320)	(133,481)
Provision for impairment in value of development properties and completed properties for sale	(507,771)	(317,643)
Provision for/write-off of bad and doubtful loans receivable, with reference to the valuation of the underlying collateral	(211,794)	(57,012)
Provision for impairment in value of long-term investment, with reference to the valuation of the underlying assets of the investee	(8,400)	(4,452)
Provision for impairment in value of equipment	(26,564)	—
Unrealised holding loss on investment in securities	(2,362)	(7,819)
Loss on disposal of investment in securities	—	(1,245)
Provision for losses on advances to an associate	(7,012)	(440)
	<u>(813,223)</u>	<u>(522,092)</u>
Discontinuing operations —		
Loss on revaluation of hotel property	(100,014)	(48,804)
	<u>(913,237)</u>	<u>(570,896)</u>

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6. LOSS BEFORE TAXATION

Loss before taxation in the consolidated income statement was determined after charging or crediting the following items, other than other revenue analysed in Note 4 and other operating expenses analysed in Note 5:

	2000	1999
	\$'000	\$'000
After charging —		
Interest on		
— bank overdrafts and loans wholly repayable within five years	181,044	148,996
— bank overdrafts and loans wholly repayable after five years	—	26,314
— short-term advances from a director (Note 2.b)	4,066	1,196
	185,110	176,506
Less: Amounts included in cost of sales	(62,438)	(70,052)
Amounts capitalised in relation to development properties	(85,556)	(73,786)
	37,116	32,668
Staff costs (including directors' emoluments)	50,565	30,925
Costs of inventories sold	1,159	549
Advertising and promotion expenses	4,106	1,544
Operating lease rentals in respect of premises	6,463	7,655
Provision for bad and doubtful receivables	3,234	2,219
Depreciation of properties and equipment	18,563	15,251
Net loss on disposal of properties and equipment	800	336
Net exchange loss	2,063	241
Auditors' remuneration	1,388	1,388
After crediting —		
Interest income from bank deposits	1,288	2,991

7. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

a. Details of directors' emoluments are:

	2000	1999
	\$'000	\$'000
Fees for executive directors	—	—
Fees for non-executive director	100	100
Fees for independent non-executive directors	200	200
Other emoluments for executive directors		
— Basic salaries and allowances	4,391	5,009
— Bonuses*	980	835
	<u>5,671</u>	<u>6,144</u>

* The Company's executive directors were entitled to discretionary bonuses.

No directors waived any emoluments during the year. No incentive payment for joining the Group or compensation for loss of office was paid or payable to any director during the year.

Analysis of directors' emoluments by number of directors and emolument ranges is as follows:

	2000	1999
Executive directors		
— Nil to \$1,000,000	1	—
— \$1,000,001 to \$1,500,000	1	2
— \$3,000,001 to \$3,500,000	—	1
— \$3,500,001 to \$4,000,000	1	—
	<u>3</u>	<u>3</u>
Non-executive director / Independent non-executive directors		
— Nil to \$1,000,000	<u>4</u>	<u>4</u>

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

7. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS (Continued)

b. Details of emoluments of the five highest individuals (including directors and other employees) are:

	2000	1999
	\$'000	\$'000
Basic salaries and allowances	6,685	6,730
Bonuses	980	835
	<u>7,665</u>	<u>7,565</u>

Two (1999 - three) of the highest paid individuals were directors of the Company, whose emoluments are included in Note 7.a.

During the year, no emolument of the five highest paid individuals (including directors and other employees) was incurred as inducement to join or upon joining the Group or as compensation for loss of office.

Analysis of emoluments of the five highest paid individuals (including directors and other employees) by number of individuals and emolument ranges is as follows:

	2000	1999
Nil to \$1,000,000	3	2
\$1,000,001 to \$1,500,000	1	2
\$3,000,001 to \$3,500,000	—	1
\$3,500,001 to \$4,000,000	1	—
	<u>5</u>	<u>5</u>

8. TAXATION

Taxation consisted of:

	2000	1999
	\$'000	\$'000
Current taxation —		
Provision for Hong Kong profits tax	—	1
Refund of Hong Kong profits tax	(3,705)	(7,115)
Write-back of over-provision in prior years	(7,527)	—
	<u>(11,232)</u>	<u>(7,114)</u>

The Company is exempt from taxation in Bermuda until 2016. No Hong Kong profits tax was provided as there was no assessable profit arising in or derived from Hong Kong. No overseas taxation was provided as the subsidiaries operating overseas had no taxable income during the year.

For the year ended 31st December, 2000, unprovided deferred taxation, primarily representing the tax effect of current year tax losses amounted to approximately \$77,988,000.

9. LOSS ATTRIBUTABLE TO SHAREHOLDERS

During the year ended 31st December, 2000, the consolidated loss attributable to shareholders included a loss of approximately \$1,201,127,000 (1999 - \$748,546,000) dealt with in the financial statements of the Company.

10. LOSS PER SHARE

The calculation of basic loss per share for the year ended 31st December, 2000 was based on the consolidated loss attributable to shareholders of approximately \$1,111,205,000 (1999 - \$747,536,000) and on the weighted average number of approximately 13,402,917,000 shares (1999 - 10,880,097,000 shares) in issue during the year.

No diluted loss per share is presented as the outstanding share options were anti-dilutive.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

11. PROPERTIES AND EQUIPMENT

a. Movements of properties and equipment (consolidated) were:

	2000					Total \$'000	1999 Total \$'000
	Hotel property \$'000	Leasehold land and buildings \$'000	Operating equipment \$'000	Motor vehicles and vessels \$'000	Furniture and office equipment \$'000		
Cost or Valuation							
Beginning of year	200,000	80,729	34,226	28,599	8,733	352,287	372,671
Rebate of purchase price	—	—	—	—	—	—	(1,240)
Attributable to acquisition of subsidiaries	—	—	23,053	—	—	23,053	17,071
Additions	14	—	14,867	323	2,035	17,239	16,457
Disposals	—	—	—	(671)	(2,164)	(2,835)	(3,868)
Deficit on revaluation	(100,014)	—	—	—	—	(100,014)	(48,804)
End of year	100,000	80,729	72,146	28,251	8,604	289,730	352,287
Representing:							
At cost	—	80,729	72,146	28,251	8,604	189,730	152,287
At valuation	100,000	—	—	—	—	100,000	200,000
	100,000	80,729	72,146	28,251	8,604	289,730	352,287
Accumulated depreciation							
Beginning of year	—	4,241	11,838	28,038	3,504	47,621	35,902
Provision for the year	—	958	15,266	466	1,873	18,563	15,251
Disposals	—	—	—	(671)	(1,334)	(2,005)	(3,532)
Provision for impairment in value	—	—	26,564	—	—	26,564	—
End of year	—	5,199	53,668	27,833	4,043	90,743	47,621
Net book value							
End of year	100,000	75,530	18,478	418	4,561	198,987	304,666
Beginning of year	200,000	76,488	22,388	561	5,229	304,666	336,769

11. PROPERTIES AND EQUIPMENT *(Continued)*

b. Hotel property:

The hotel property is located in Hong Kong and is held under a medium-term lease. It was stated at open market value at 31st December, 2000 as determined by Vigers Hong Kong Limited, independent qualified valuers. It is mortgaged as collateral for the Group's banking facilities (see Note 33).

c. Leasehold land and buildings:

The geographical location and tenure of title of land and buildings are analysed as follows:

	2000	1999
	\$'000	\$'000
Hong Kong		
— medium-term leases	233	238
— long-term leases	75,297	76,250
	<u>75,530</u>	<u>76,488</u>

All of the leasehold land and buildings are mortgaged as collateral for the Group's banking facilities (see Note 33).

12. INVESTMENT PROPERTIES

Movements of investment properties (consolidated) were :

	2000	1999
	\$'000	\$'000
Beginning of year	658,100	809,700
Attributable to acquisition of subsidiaries	—	21,800
Disposals	(139,812)	—
Deficit on revaluation	(51,138)	(173,400)
End of year	<u>467,150</u>	<u>658,100</u>

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(Amounts expressed in Hong Kong dollars unless otherwise stated)

12. INVESTMENT PROPERTIES (Continued)

The geographical location and tenure of title of investment properties are analysed as follows:

	2000	1999
	\$'000	\$'000
Hong Kong		
— medium-term leases	80,000	123,000
— long-term leases	387,150	535,100
	<u>467,150</u>	<u>658,100</u>

Investment properties were stated at open market value at 31st December, 2000 as determined by Vigers Hong Kong Limited, independent qualified valuers. Investment properties of approximately \$465,250,000 (1999 — \$656,200,000) are mortgaged as collateral for the Group's banking facilities (see Note 33).

Details of the investment properties as at 31st December, 2000 are as follows:

Location	Group's interest	Existing use
Shop 1 & 2 on Ground Floor, Car Parking Spaces No. 1 & 2 on Ground Floor, 8, 9, 11, 13 & 15 on 1st Floor, 28, 29, 30, 31, 32, 33, 35, 36, 37 & 38 on 2nd Floor, 39, 40, 41, 43, 45, 46, 47, 48, & 49 on 3rd Floor, 60, 61, 62 & 63 on 4th Floor, 9th, 10th, 13th, 16th, Unit 1702 on 17th, 22nd, 23rd, 26th and 27th Floor of Pearl Oriental Centre, No. 200 Gloucester Road, Wanchai, Hong Kong	100%	Commercial
2nd, 3rd, 8th, 9th, 10th, 11th, 13th, 14th, 17th and 18th Floor, Pearl Oriental Tower, Nos. 1A to 1B Bowring Street/ Nos. 225-225A Nathan Road/ No. 36 Pilkim Street, Jordan, Kowloon	100%	Commercial
15th Floor, Pearl Oriental House, Nos. 58 to 64 Stanley Street, Central, Hong Kong	100%	Commercial
15th Floor, Flat J, City Centre Building, Nos. 144-149 Gloucester Road and Nos. 14-16 Steward Road, Wanchai, Hong Kong	100%	Residential

13. DEVELOPMENT PROPERTIES

Movements of development properties (consolidated) were:

	2000	1999
	\$'000	\$'000
Beginning of year	1,950,000	2,100,948
Additions	154,352	140,870
Provision for impairment in value	(504,352)	(291,818)
End of year	<u>1,600,000</u>	<u>1,950,000</u>
Classified under —		
Non-current assets	320,000	1,950,000
Current assets *	<u>1,280,000</u>	<u>—</u>
	<u>1,600,000</u>	<u>1,950,000</u>

* Development properties are classified as current assets in cases the Group intends and has concrete plans to dispose of the properties.

The geographical location and tenure of development properties are analysed as follows:

	2000	1999
	\$'000	\$'000
Hong Kong		
— medium-term leases	320,000	390,000
— long-term leases	<u>1,280,000</u>	<u>1,560,000</u>
	<u>1,600,000</u>	<u>1,950,000</u>

All of the development properties are mortgaged as collateral for the Group's banking facilities (see Note 33).

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

13. DEVELOPMENT PROPERTIES (Continued)

Details of the development properties as at 31st December, 2000 are as follows:

Location	Group's interest	Stage of construction	Expected completion date	Expected use	Gross floor area (square meters)
Pearl Grand Parc & Hotel, Nos. 304-314 Des Voeux Road West, Sai Ying Pun, Hong Kong	65%	In process of conversion into hotel property	End of 2001	Hotel	14,405
Genesis, 23 Severn Road, The Peak, Hong Kong	100%	In the process of preparing development plan	Mid 2003	Residential	2,620
Skyhigh, 10 Pollock Path, The Peak, Hong Kong	100%	In process of site formation and foundation work	End of 2002	Residential	2,034

14. INVESTMENT IN SUBSIDIARIES

In the Company's balance sheet, investment in subsidiaries consisted of:

	2000 \$'000	1999 \$'000
Unlisted shares	295,570	295,570
Due from subsidiaries	2,881,715	2,816,894
Due to subsidiaries	(8,470)	(8,350)
	3,168,815	3,104,114
Less: Provision for impairment in value	(2,437,697)	(1,245,000)
	731,118	1,859,114

All outstanding balances with subsidiaries are unsecured, non-interest bearing and without pre-determined repayment terms.

14. INVESTMENT IN SUBSIDIARIES *(Continued)*

The underlying value of the investment in subsidiaries is, in the opinion of the Company's Directors, not less than the carrying value as at 31st December, 2000.

Details of the principal subsidiaries as at 31st December, 2000, all held indirectly by the Company except Pearl Enterprises (B.V.I.) Limited, are:

Name	Place of incorporation/ operations	Issued and fully paid share capital	Percentage of equity interest held	Principal activities
AIC Asia International Services Corp.	Canada	CAD567,500	49% (a)	Telecommunication services and investment holding
AIC Asia International Services (Alberta) Corp.	Canada	CAD10,000	49%	Telecommunication services
AIC Asia International Services (Ontario) Corp.	Canada	CAD1,000	49%	Telecommunication services
AIC (Asia Pacific) Limited	British Virgin Islands	US\$92	51%	Investment holding
AIC Canada (Hong Kong) Limited	Hong Kong	\$ 100	51%	Telecommunication services
AIC Telecom (UK) Limited	The United Kingdom	£10,000	51%	Telecommunication services
AICOM Data Services Inc.	Canada	CAD100	49%	Provision of internet access services
Asia Business Communications, Inc.	The United States of America	US\$8,000,000	65%	Telecommunication services
Aniwell Investments Limited	Hong Kong	\$10,000	100%	Hotel operations

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

14. INVESTMENT IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ operations	Issued and fully paid share capital	Percentage of equity interest held	Principal activities
Bartech (Int'l) Information Network Limited	Hong Kong	\$3,000,000	55%	Provision of securities trading information
Best Chance Industries Limited	Hong Kong	\$2	100%	Investment holding
Best Source Computer Communication Corporation	Taiwan	NT\$30,000,000	55%	Financial data and information supplier
Champking Investment Limited	Hong Kong	\$2	100%	Property investment
Charter Enterprises (B.V.I.) Limited	British Virgin Islands	US\$1	100%	Investment holding
Cosine Systems Limited	British Virgin Islands	US\$1	100%	Investment holding
Crown Score Investment Limited	Hong Kong	\$10,000	100%	Investment holding
Cybertimes Network Hong Kong Limited	Hong Kong	\$1,000,000	70%	Internet portal
网络时代信息有限公司	Mainland China	US\$400,000	70%	Network solution and technology
E-Link Technology Limited	British Virgin Islands	US\$1	100%	Investment holding
E-Tech Canada Limited	Canada	Common CAD 1,000 Preference CAD 201,559	70% 70%	Chinese medicine health portal

14. INVESTMENT IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ operations	Issued and fully paid share capital	Percentage of equity interest held	Principal activities
Ebid International Limited	Hong Kong	\$21,600,000	60%	Internet auction & e-commerce
上海网盛电子商务股份有限公司	Mainland China	US\$140,000	60%	Network solution and technology
Elffa Limited	Hong Kong	\$10,000	100%	Investment holding
Fair Capital Properties Limited	Hong Kong	\$10,000	100%	Property investment
Goldkey Industries Limited	Hong Kong	\$10,000	100%	Property investment
Grandcyber Corporation Limited (Formerly known as Cyberbank Corporation Limited)	Hong Kong	\$10,000	100%	Investment holding
Grandcyber Corporation Limited (Formerly known as Cyberbank Corporation Limited)	Cayman Islands	\$0.1	100%	Investment holding
Halmaro Enterprises Limited	Hong Kong	'A' Share \$200	100%	Property investment
Healthforce Inc.	British Virgin Islands	US\$1	100%	Investment holding
Healthphone Corporation	British Virgin Islands	US\$1,000,000	70%	Investment holding
Hong Kong Data Communication (Macau) Limited	Macau	MOP300,000	55%	Provision of securities trading information
Jade Capital Industrial Limited	Hong Kong	\$30,000,000	100%	Investment holding

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

14. INVESTMENT IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ operations	Issued and fully paid share capital	Percentage of equity interest held	Principal activities
Lucky Ocean International Limited	Hong Kong	\$2	100%	Property investment
Lucky Rainbow Limited	Hong Kong	\$2	100%	Property development
Margaux Capital Asia Limited	Hong Kong	\$6,000,000	100%	Investment advisory
Margaux Capital Limited	Hong Kong	\$2	100%	Investment holding
Margaux Finance Limited	Hong Kong	\$100,000,000	100%	Money lending and financial advisory services
Mobile One Limited	Hong Kong	\$10,000,000	100%	Telecommunication services
Pearl Capital & Marketing (B.V.I.) Limited	British Virgin Islands	US\$1	100%	Investment holding
Pearl Century Limited	Hong Kong	\$2	100%	Property investment and development
Pearl Development (B.V.I.) Limited	British Virgin Islands	US\$1	100%	Investment holding
Pearl Enterprises (B.V.I.) Limited	British Virgin Islands	US\$10,000	100%	Investment holding
Pearl Fame Development Limited	Hong Kong	\$2	100%	Property investment and development

14. INVESTMENT IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ operations	Issued and fully paid share capital	Percentage of equity interest held	Principal activities
Pearl Glorious Investment Limited	Hong Kong	Ordinary \$10,000 Non-voting Deferred \$20,000,000 (b)	100% —	Investment holding, property investment, project management and consultancy
Pearl Hospitality Investment (B.V.I.) Limited	British Virgin Islands	US\$1	100%	Investment holding
Pearl International Hotels Limited	Hong Kong	\$1,000,000	100%	Hotel management and consultancy services and investment holding
Pearl International Hotels (B.V.I.) Limited	British Virgin Islands	US\$1	100%	Investment holding
Pearl Jiu Information Technology Limited (c)	Mainland China	RMB 6,000,000	60%	Development of hospital management information systems
Pearl Oriental (B.V.I.) Limited	British Virgin Islands	US\$1	100%	Investment holding
Pearl Oriental Telecom & Technology (B.V.I.) Limited	British Virgin Islands	US\$1	100%	Investment holding
Pearl Oriental Telecom and Technology Limited	Hong Kong	\$2	100%	Telecommunications services
Pearl Property Management Limited	Hong Kong	\$2	100%	Property management services
Rossmore Profits Limited	British Virgin Islands	US\$1	100%	Investment holding

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

14. INVESTMENT IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ operations	Issued and fully paid share capital	Percentage of equity interest held	Principal activities
Rowell Services Limited	British Virgin Islands	US\$1,300,000	65%	Investment holding
Shanghai Bartech Data Information Co., Ltd. (d)	Mainland China	US\$423,000	39% (a)	Financial data and information supplier
Silver Industries Limited	Hong Kong	\$10,000	100%	Property investment
Sinobase Services Limited	Hong Kong	\$2	100%	Motor vehicle rental
Starboom Corporation Limited	Hong Kong	\$2	65%	Internet portal
上海巴特奇数据信息有限公司 (d)	Mainland China	US\$400,000	65%	Network solution and technology
StockOnLine Corporation Ltd.	Hong Kong	\$100,000,000	55%	Investment holding
Super Delight Enterprises Limited	British Virgin Islands/ Hong Kong	US\$100	65%	Property investment and development
Terrific Hit Holdings Limited	British Virgin Islands/ Hong Kong	US\$1	100%	Property investment
Tonmore Industrial Limited	Hong Kong	\$10,000	100%	Investment holding
Wise Tech Overseas Limited	British Virgin Islands	US\$1	100%	Investment holding

14. INVESTMENT IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ operations	Issued and fully paid share capital	Percentage of equity interest held	Principal activities
Well Team Development Limited	Hong Kong	\$10,000	100%	Motor vessel rental
Win Chance Limited	British Virgin Islands/ Hong Kong	US\$2	100%	Property Investment
Win Oriental Investment Limited	Hong Kong	\$2	100%	Property Investment
Y2K Investment Group Limited	British Virgin Islands	US\$150	51%	Investment holding

Notes —

- a. The Group's interests in these companies are held through subsidiaries in which the Group holds more than 50% of their issued voting share capital.
- b. The non-voting deferred shares are not owned by the Group. These shares have no voting rights, are not entitled to dividends unless the net profit of the company exceeds \$1,000,000,000, and are not entitled to any distributions upon winding up unless a sum of \$100,000,000,000 has been distributed by the company to the holders of its ordinary shares.
- c. Pearl Jiu Information Technology Limited is an equity joint venture established in Mainland China to be operated for 50 years to 2049.
- d. Shanghai Bartech Data Information Co., Ltd. is an equity joint venture established in Mainland China to be operated for 15 years to 2014.
- e. ' ¥±-°' ;]/ / ¼ f±>/ ¼q ¥_□` <ffi " - " , < § f±>/ ¼q ¥_□` ¼H ¼q § f±>/ ¼q are wholly foreign owned enterprises established in Mainland China to be operated for 30 years to 2030.

The above summary lists only the principal subsidiaries of the Company which, in the opinion of the Company's Directors, principally affected the results or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the Company's Directors, result in particulars of excessive length.

None of the subsidiaries had any loan capital in issue at any time during the year ended 31st December, 2000.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

15. INVESTMENT IN ASSOCIATES

Investment in associates (consolidated) consisted of:

	2000	1999
	\$'000	\$'000
Unlisted shares, at cost	65,713	84,817
Goodwill on acquisition, eliminated	(48,103)	(72,346)
Share of net assets at the time of acquisition	17,610	12,471
Share of undistributed post-acquisition profits less losses	(48,038)	(26,887)
	(30,428)	(14,416)
Advances to associates	182,201	178,707
Advances from associates	(51)	(51)
	151,722	164,240
Less: Provision for impairment in value	(150,875)	(143,863)
	847	20,377

All outstanding balances with associates are unsecured, non-interest bearing and without pre-determined repayment terms.

The underlying value of the investment in associates is, in the opinion of the Company's Directors, not less than the carrying value as at 31st December, 2000.

15. INVESTMENT IN ASSOCIATES *(Continued)*

Details of the principal associates as at 31st December, 2000, all held indirectly by the Company, are:

Name	Place of incorporation/ operations	Percentage of equity interest held	Principal activities
CariPAC. Com International Limited	Hong Kong	25%	Provision of internet access platform and technology
HK Stock Limited	Hong Kong	28%	Provision of internet securities trading platform and information
Lancelot Holdings Limited	Hong Kong	50%	Trading of telecommunication equipment
Rich Lord International Limited (a)	Hong Kong	25%	Hotel operations

Note —

- a. Rich Lord International Limited has been in receivership since September 1997 and the Group has recorded full provision for its investment in and advances to this associate. Refer to Note 18.a for details of loan receivable from this associate.

The above summary lists only the principal associates of the Company which, in the opinion of the Company's Directors, principally affected the results or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the Company's Directors, result in particulars of excessive length.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

16. LONG-TERM INVESTMENT

Long-term investment (consolidated) consisted of:

	2000	1999
	\$'000	\$'000
Unlisted investment, at cost	35,025	35,025
Due from the investee company	71,298	71,298
	106,323	106,323
Less: Accumulated unrealised holding losses	(88,323)	(79,923)
	18,000	26,400

Long-term investment represents a 15% equity interest in Firstrate Development Limited, a company incorporated in Hong Kong, which is principally engaged in property investment.

The amount due from the investee company is unsecured, non-interest bearing and without pre-determined repayment terms.

17. INVESTMENT IN SECURITIES

Investment in securities (consolidated) consisted of:

	2000	1999
	\$'000	\$'000
Listed shares, at cost		
— listed on The Stock Exchange of Hong Kong Limited	—	15,920
— listed on Nasdaq, United States of America	2,455	—
Less: Accumulated unrealised holding losses	(2,362)	(8,156)
Quoted market value of listed shares	93	7,764

18. LOANS AND OTHER RECEIVABLES

Details of loans and other receivables (consolidated) are:

	2000			1999		
	Due within one year \$'000	Due within two to five years \$'000	Total \$'000	Due within one year \$'000	Due within two to five years \$'000	Total \$'000
Money lending activities						
Loans receivable						
— Secured (a)	560,400	—	560,400	627,839	—	627,839
— Unsecured	260,174	—	260,174	192,922	343	193,265
	820,574	—	820,574	820,761	343	821,104
Less: Provision for doubtful loans receivable	(541,727)	—	(541,727)	(334,722)	(211)	(334,933)
	278,847	—	278,847	486,039	132	486,171
Other receivable (b)	34,834	—	34,834	50,856	—	50,856
	313,681	—	313,681	536,895	132	537,027

Notes —

- Approximately \$238,000,000 (1999 - \$400,000,000) of the secured loans receivable due within one year were advanced to Rich Lord International Limited, the associate in receivership referred to in Note 15. Refer to Note 34.b for subsequent recovery.
- The balance represents a receivable from a minority shareholder of a subsidiary.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

19. COMPLETED PROPERTIES FOR SALE

Movements of completed properties for sale (consolidated) were :

	2000	1999
	\$'000	\$'000
Beginning of year	75,518	125,000
Disposal during the year	(59,099)	(23,657)
Loss on revaluation	(3,419)	(25,825)
End of year	<u>13,000</u>	<u>75,518</u>

All completed properties for sale are located in Hong Kong, held under medium-term leases and mortgaged as collateral for the Group's banking facilities (see Note 33).

Details of the completed properties for sale as at 31st December, 2000, are as follows:

Location	Group's interest	Expected use	Gross floor area <i>(square feet)</i>
Pearl Vista 9 San Lok Street, Sheung Shui, New Territories	100%	Residential	4,711

20. TRADE RECEIVABLES

Consideration in respect of sold properties is payable by purchasers pursuant to the terms of the sale and purchase agreements. Rental income in respect of leased properties is payable in advance by the tenants on a monthly basis. Interest income from loans receivable is payable by borrowers pursuant to the terms of the loan agreements. The Group provides credit terms to customers of its hotel, telecommunication and internet business in accordance with the Group's credit policies ranging from cash sales to a credit period of 30 to 60 days.

The aging analysis of trade receivables (consolidated) is as follows:

	2000	1999
	\$'000	\$'000
0 to 1 month	11,885	2,992
1 to 2 months	2,273	1,826
2 to 3 months	506	816
Over 3 months	5,097	3,178
	19,761	8,812
Less: Provision for bad and doubtful debts	(3,234)	(2,219)
	<u>16,527</u>	<u>6,593</u>

21. SHORT-TERM BANK BORROWINGS

Details of short-term bank borrowings are:

	Consolidated		Company	
	2000	1999	2000	1999
	\$'000	\$'000	\$'000	\$'000
Overdrafts	20,677	27,950	41	—
Short-term loans	146,174	77,000	—	—
Long-term loans, current portion (Note 23)	<u>1,369,102</u>	<u>1,287,790</u>	<u>—</u>	<u>—</u>
	<u>1,535,953</u>	<u>1,392,740</u>	<u>41</u>	<u>—</u>

Short-term bank borrowings (excluding the current portion of long-term loans) bear interest at rates ranging from 9% to 13% per annum (1999 - 9% to 13% per annum). Refer to Note 33 for details of the Group's banking facilities.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

22. TRADE PAYABLES

The aging analysis of trade payables is as follows:

	Consolidated		Company	
	2000 \$'000	1999 \$'000	2000 \$'000	1999 \$'000
0 to 1 month	10,386	18,586	57	136
1 to 2 months	12,032	13,952	84	191
2 to 3 months	11,488	7,449	74	7
Over 3 months	57,525	6,433	780	20
	91,431	46,420	995	354

23. LONG-TERM BANK LOANS

Details of long-term bank loans (consolidated) are:

	2000 \$'000	1999 \$'000
Amounts repayable within a period		
— not exceeding one year	1,235,567	1,287,790
— more than one year but not exceeding two years	26,765	115,724
— more than two years but not exceeding five years	55,373	108,226
— more than five years	51,397	88,839
	1,369,102	1,600,579
Less: Amounts repayable within one year included under short-term bank borrowings (Note 21)	(1,235,567)	(1,287,790)
Amounts included under short-term bank borrowings as a result of default in repayment (Notes 1.a and 21)	(133,535)	—
	—	312,789

Long-term bank loans bear interest at rates ranging from 9% to 13% per annum (1999 - 9% to 13% per annum). Refer to Note 33 for details of the Group's banking facilities.

24. DEFERRED TAXATION

Movements of deferred taxation (consolidated) were:

	2000	1999
	\$'000	\$'000
Beginning of year	1,818	7,787
Write-back on revaluation of investment properties	(1,818)	(5,969)
End of year	<u><u>—</u></u>	<u><u>1,818</u></u>

As at 31st December, 2000, unprovided deferred taxation primarily represented the tax effect of the cumulative tax losses amounting to approximately \$152,645,000.

25. MINORITY INTERESTS

Minority interests consisted of:

	2000	1999
	\$'000	\$'000
Share of subsidiaries' net assets	9,727	20,586
Advances from minority interests of a subsidiary	<u>126</u>	<u>126</u>
	<u><u>9,853</u></u>	<u><u>20,712</u></u>

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

26. SHARE CAPITAL

Movement in share capital is:

	2000		1999	
	Number of shares '000	Nominal value \$'000	Number of shares '000	Nominal value \$'000
Authorised (ordinary shares of \$0.1 each) —				
Beginning of year	15,000,000	1,500,000	15,000,000	1,500,000
Increase in authorised share capital (a)	5,000,000	500,000	—	—
End of year	<u>20,000,000</u>	<u>2,000,000</u>	<u>15,000,000</u>	<u>1,500,000</u>
Issued and fully paid (ordinary shares of \$0.1 each) —				
Beginning of year	13,250,540	1,325,054	10,232,502	1,023,250
Private placements	—	—	2,310,000	231,000
Issue for acquisition of subsidiaries (b)	167,500	16,750	708,038	70,804
End of year	<u>13,418,040</u>	<u>1,341,804</u>	<u>13,250,540</u>	<u>1,325,054</u>

Notes —

- On 23rd June, 2000, the Company's authorised share capital was increased from \$1,500,000,000 to \$2,000,000,000, by the creation of 5,000,000,000 shares of \$0.1 each ranking pari passu with the then existing shares in all respects.
- In January 2000 and February 2000, the Company issued a total of 167,500,000 shares of \$0.1 each at approximately \$0.22 per share, totalling approximately \$36,180,000, for acquisition of certain subsidiaries.

27. SHARE OPTION SCHEME

The Company has a share option scheme, under which it may grant options to employees of the Group (including executive directors of the Company) to subscribe for shares in the Company, subject to a maximum of 10% of the nominal value of the issued share capital of the Company from time to time, excluding for this purpose shares issued on the exercise of options. The subscription price will be determined by the Company's Board of Directors, and will not be less than the higher of the nominal value of the shares and 80% of the average of the closing prices of the shares quoted on The Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the date of offer of the options.

Movements of share options during the year ended 31st December, 2000 were:

Date of grant	Exercise period	Subscription price per share	Beginning of year	Granted during the year	Lapsed during the year	Exercised during the year	End of year
31st December, 1999	1st July, 2000 to 30th June, 2002	\$0.234	<u>100,000,000</u>	—	—	—	<u>100,000,000</u>

28. RESERVES

Movements of reserves were:

	2000				1999
	Share premium \$'000	Contributed surplus \$'000	Capital reserve \$'000	Total \$'000	Total \$'000
Consolidated					
Beginning of year	946,444	—	5,840	952,284	631,909
Premium arising from issuance of shares	19,430	—	—	19,430	316,875
Expenditure on issuance of shares	—	—	—	—	(2,340)
Negative goodwill on acquisition of a subsidiary	—	—	—	—	890
Contribution from minority shareholder of a subsidiary	—	—	—	—	4,950
End of year	<u>965,874</u>	<u>—</u>	<u>5,840</u>	<u>971,714</u>	<u>952,284</u>

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

28. RESERVES (Continued)

	2000				1999
	Share premium \$'000	Contributed surplus \$'000	Capital reserve \$'000	Total \$'000	Total \$'000
Company					
Beginning of year	946,444	160,670	—	1,107,114	792,579
Premium arising from issuance of shares	19,430	—	—	19,430	316,875
Expenditure on issuance of shares	—	—	—	—	(2,340)
End of year	<u>965,874</u>	<u>160,670</u>	<u>—</u>	<u>1,126,544</u>	<u>1,107,114</u>

Under the Companies Act 1981 of Bermuda, contributed surplus is distributable to shareholders, subject to the condition that the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if (i) it is, or would after the payment be, unable to pay its liabilities as they become due, or (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

As at 31st December, 2000, the Company has no distributable reserve.

29. ACCUMULATED DEFICIT

Accumulated deficit consisted of:

	2000 \$'000	1999 \$'000
Company	(1,738,323)	(537,196)
Subsidiaries	204,329	144,516
Associates	(48,038)	(26,887)
	<u>(1,582,032)</u>	<u>(419,567)</u>

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2000	1999
	\$'000	\$'000
Loss before taxation	(1,152,417)	(755,765)
Interest income	(1,288)	(2,991)
Interest expense less amount capitalised	99,554	102,720
Share of loss of associates	25,077	4,842
Depreciation of properties and equipment	18,563	15,251
Net loss on disposal of equipment	800	336
Loss on revaluation of investment properties and provision for impairment in value of development properties, hotel property, completed properties for sale and long-term investment	665,505	504,380
Provision of impairment in value of equipment	26,564	—
Provision for unrealised holding loss on investment in securities and loss on disposal of investment in securities	2,362	9,064
Provision for / write-off of bad and doubtful loans receivable	211,794	57,012
Provision for losses on advances to associates	7,012	440
Loss on disposal of investment properties	2,527	—
Gain on disposal of investment in securities	(11,199)	—
Write-back of provision for doubtful receivables	(10,000)	—
Write-back of provision for receivables from minority interests of a subsidiary	(2,700)	—
Proceeds from disposal of completed properties for sale	52,882	20,609
Loss on disposal of completed properties for sale	6,217	3,048
Decrease (Increase) in loans and other receivables	11,552	(20,442)
Decrease in inventories	216	108
Decrease (increase) in trade receivables, prepayments and deposits	12,709	(3,237)
Increase in trade payables, accrued liabilities and other payables	38,381	6,900
Increase in deferred income and deposits from customers	70,451	5,333
Increase in amounts due to related companies	—	4,272
	<hr/>	<hr/>
Net cash inflow(outflow) from operating activities	<u>74,562</u>	<u>(48,120)</u>

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

b. Details of acquisition of subsidiaries are as follows:

	2000
	\$'000
Net assets acquired/liabilities assumed —	
Equipment	1,323
Inventories	716
Trade receivables, prepayments and deposits	7,733
Due from related companies	8,142
Cash and bank balances	573
Trade payables, accrued liabilities and other payables	(1,949)
Short-term bank borrowings	(342)
	16,196
Less: Minority interests	(6,186)
The Group's share of net assets	10,010
Goodwill on acquisition	28,604
Purchase consideration	38,614
The purchase consideration was satisfied by —	
Cash	2,434
Issuance of shares of the Company (e)	36,180
	38,614
Net cash outflow in respect of the acquisition is analysed as follows —	
Cash	2,434
Cash and bank deposits acquired	(573)
	1,861

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

- c. Details of acquisition of additional interest in an entity and, as a consequence, the entity has changed from an associate to a subsidiary:

	2000
	\$'000
Net assets acquired/liabilities assumed —	
Equipment	21,730
Inventories	815
Trade receivables, prepayments and deposits	12,545
Cash and bank balances	3,884
Trade payables, accrued liabilities and other payables	(15,240)
Short-term bank borrowings	(2,683)
	<u>21,051</u>
Additional 21% interest acquired by the Group	4,421
Goodwill on acquisition	<u>29,882</u>
Cash consideration paid	<u>34,303</u>
Net cash outflow in respect of the acquisition is analysed as follows —	
Cash paid	34,303
Cash and bank deposits acquired	<u>(3,884)</u>
	<u>30,419</u>

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

d. Analysis of changes in financing is as follows:

	Share capital and share premium	Bank loans	Due to a director	Minority interests
	\$'000	\$'000	\$'000	\$'000
1st January, 1999	1,655,159	1,806,216	—	34,161
Issuance of shares				
— for cash	458,960	—	—	—
— for acquisition of subsidiaries and associates	159,719	—	—	—
Expenditure on issuance of shares	(2,340)	—	—	—
New bank loans	—	40,000	—	—
Repayment of bank loans	—	(168,637)	—	—
Increase in amounts due to a director	—	—	23,500	—
Settlements of amounts due to a director	—	—	(23,500)	—
Increase in advances from minority interests of subsidiaries	—	—	—	26,566
Capitalisation of advances from minority interests of subsidiaries	—	—	—	(38,900)
Share of loss for the year	—	—	—	(1,115)
	<hr/>	<hr/>	<hr/>	<hr/>
1st January, 2000	2,271,498	1,677,579	—	20,712
Issuance of shares for acquisition of subsidiaries	36,180	—	—	—
Attributable to acquisition of subsidiaries	—	3,025	—	16,501
New bank loans	—	80,000	—	—
Repayment of bank loans	—	(245,328)	—	—
Increase in amounts due to a director	—	—	91,882	—
Issuance of shares to minority interests of subsidiaries	—	—	—	2,620
Share of loss for the year	—	—	—	(29,980)
Contribution from minority interests of a subsidiary	—	—	—	6,000
Write-back of provision for receivables from minority interests of a subsidiary	—	—	—	(2,700)
Contribution from minority interests of a subsidiary shared by the Group	—	—	—	(3,300)
	<hr/>	<hr/>	<hr/>	<hr/>
31st December, 2000	<u>2,307,678</u>	<u>1,515,276</u>	<u>91,882</u>	<u>9,853</u>

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

e. Major non-cash transactions:

During the year ended 31st December, 2000, the Company issued a total of 167,500,000 shares for approximately \$36,180,000 to settle the purchase consideration of certain subsidiaries.

f. Analysis of cash and cash equivalents:

	2000	1999
	\$'000	\$'000
Cash and bank deposits	18,343	82,325
Bank overdrafts	(20,677)	(27,950)
	<u>(2,334)</u>	<u>54,375</u>

31. COMMITMENTS AND CONTINGENT LIABILITIES

a. **Capital commitments**

Capital commitments not provided for in the financial statements, which were authorised and contracted for, are analysed as follows:

	Consolidated		Company	
	2000	1999	2000	1999
	\$'000	\$'000	\$'000	\$'000
Construction of development properties	<u>123,150</u>	<u>188,224</u>	<u>—</u>	<u>—</u>

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

31. COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

b. Operating lease commitments

As at 31st December, 2000, the Group had operating lease commitments in respect of rented premises under various non-cancellable operating lease agreements extending to December 2002 amounting to approximately \$2,467,000 (1999 - \$5,292,000). The total commitments are analysed as follows:

	Consolidated		Company	
	2000 \$'000	1999 \$'000	2000 \$'000	1999 \$'000
Amounts payable				
— within one year	1,603	3,656	—	—
— within two to five years	864	1,636	—	—
	<u>2,467</u>	<u>5,292</u>	<u>—</u>	<u>—</u>

The commitments payable within the next twelve months are analysed as follows:

	Consolidated		Company	
	2000 \$'000	1999 \$'000	2000 \$'000	1999 \$'000
Leases expiring				
— within one year	547	2,562	—	—
— within two to five years	1,056	1,094	—	—
	<u>1,603</u>	<u>3,656</u>	<u>—</u>	<u>—</u>

c. Contingent liabilities

Contingent liabilities not provided for in the financial statements are:

	Consolidated		Company	
	2000 \$'000	1999 \$'000	2000 \$'000	1999 \$'000
Corporate guarantees given by the Company in respect of banking facilities of its subsidiaries	<u>—</u>	<u>—</u>	<u>1,534,232</u>	<u>1,768,310</u>

32. RETIREMENT SCHEMES

The Group maintains various retirement schemes for its employees.

The group companies operating in Hong Kong have participated in the defined contribution Mandatory Provident Fund in Hong Kong since 1st December, 2000 and make monthly contributions to the scheme based on 5% of the employees' basic salaries with the maximum contribution by each of the Group and the employees limited to \$12,000 per annum. The assets of the fund are held separately from those of the Group and are managed by an independent professional fund manager.

As stipulated by the rules and regulations in Mainland China, Shanghai Bartech Data Information Co, Ltd. ("SBD"), a subsidiary of the Group, maintains a defined contribution retirement plan for all its employees. SBD contributes to a state sponsored retirement plan approximately 25.5% of the basic salary of its employees, and has no further obligations for the actual pension payments or post-retirement benefits. The state sponsored retirement plan is responsible for the entire pension obligations payable to retired employees.

The other group companies did not maintain any pension scheme for their employees.

During the year, the aggregate contributions made by the Group to the retirement schemes were approximately \$251,000 (1999 - \$142,000).

33. BANKING FACILITIES AND PLEDGE OF ASSETS

As at 31st December, 2000, the Group had aggregate banking facilities of approximately \$1,537,023,000 (1999 - \$1,706,192,000) from several banks for overdrafts and loans. Unused facilities as at the same date amounted to approximately \$1,070,000 (1999 - \$663,000).

These facilities were secured by:

- (i) mortgages of the Group's leasehold land and buildings, hotel property, investment properties, development properties and completed properties for sale with an aggregate net book value of approximately \$2,253,780,000 (1999 - \$2,958,206,000);
- (ii) assignment of rental income generated by certain of the Group's investment properties;
- (iii) assignment of sales proceeds received from sale of completed properties for sale;
- (iv) sub-mortgage over a hotel property owned by an associate, which was mortgaged to the Group as collateral for loans granted to the associate;

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

33. BANKING FACILITIES AND PLEDGE OF ASSETS *(Continued)*

- (v) sub-mortgages over properties of the Group's customers, which were mortgaged to the Group as collateral for loans granted to the customers; and
- (vi) corporate guarantees provided by the Company.

Due to the liquidity situation described in Note 1.a the Group was unable to repay interest and principal on certain bank borrowings amounting to approximately \$1,043,893,000 when they fell due. As at the date of approval of these financial statements, the Group is still in negotiation with the relevant banks to reschedule the repayment terms of the certain existing borrowings and to continue providing credit facilities to the Group.

34. SUBSEQUENT EVENTS

Subsequent to 31st December, 2000, the following major transactions took place:

- a. On 29th January, 2001, the Group completed the disposal of its entire interest in Aniwell Investments Limited, a wholly owned subsidiary engaged in hotel operations, for a consideration of \$100,000,000, which approximated the net asset value of the subsidiary as at 31st December, 2000.
- b. On 29th January, 2001, the Group completed the disposal of a hotel property, which was mortgaged to the Group as collateral for loans granted, for \$238,000,000, which approximated the carrying value of the underlying loans receivable as at 31st December, 2000.
- c. On 28th March, 2001, the Group entered into a provisional agreement to dispose of certain properties, which were mortgaged to the Group as collateral for loans granted, for \$36,800,000, which approximated the carrying value of the underlying loans receivable as at 31st December, 2000.