

Notes to the Financial Statements

For the Year Ended 31st December, 2000

1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on the Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company acts as an investment holding company and provides corporate management services. Details of the activities of its principal subsidiaries are set out in note 16.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of investments in securities, and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year.

The results of subsidiaries and associates which are acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant inter-company transactions and balances within the Group have been eliminated on consolidation.

Goodwill

Goodwill represents the excess of the purchase consideration over the fair value ascribed to the Group’s share of the separable net assets at the date of acquisition of a subsidiary and is eliminated against reserves immediately on acquisition. Negative goodwill, which represents the excess of the fair value ascribed to the Group’s share of the separable net assets at the date of acquisition of a subsidiary over the purchase consideration is credited to reserves.

Any premium or discount arising on the acquisition of interests in associates, representing the excess or shortfall respectively of the purchase consideration over the fair value ascribed to the Group’s share of the separable net assets of the associate at the date of acquisition, is dealt with in the same manner as that described above for goodwill.

On disposal of investment in a subsidiary or an associate, the attributable amount of goodwill eliminated against or credited to reserves is included in the determination of the profit or loss on disposal.

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Service income is recognised when services are provided.

Notes to the Financial Statements

For the Year Ended 31st December, 2000

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Guaranteed return is accrued on a time basis and is recognised when the guaranteed return becomes due and recoverability is reasonably assured.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Rental income under operating leases is recognised on a straight line basis over the term of the relevant lease.

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and amortisation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the asset has 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 asset, the expenditure is capitalised as an additional cost of the asset.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Where the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are not discounted to their present values.

The cost of leasehold land is amortised over the period of the lease using the straight line method.

Depreciation is provided to write off the cost of other property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight line method, at the following rates per annum:

Buildings	2%
Plant and machinery	5%–20%
Furniture, fixtures and equipment	20%
Motor vehicles	20%

Notes to the Financial Statements

For the Year Ended 31st December, 2000

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Interests in subsidiaries

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital or registered capital, or controls more than half of the voting power, or where the Company controls the composition of its board of directors or equivalent governing body.

Interests in subsidiaries are included in the Company's balance sheet at cost less any impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Interests in associates

An associate is an enterprise over which the Group is in a position to exercise significant influence, through participation in the financial and operating policy decisions of the investee.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. The carrying amount of such interests is reduced to recognise any decline, other than a temporary decline, in the value of individual investments.

Where a group enterprise transacts with an associate of the Group, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associate, except where unrealised losses provided evidence of an impairment of the asset transferred.

Investments

Guaranteed income investments are accounted for as investments where the return therefrom is fixed. Such investments are initially recorded at cost less amortisation and impairment losses recognised. Where the estimated recoverable amount of these investments falls below their carrying value, the carrying value is written down to the recoverable amount.

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains or losses included in net income or loss for the year.

Notes to the Financial Statements

For the Year Ended 31st December, 2000

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchases and, where applicable, other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and estimated costs necessary to make the sale.

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed under the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

Foreign currencies

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates ruling on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and are recognised as income or as expenses in the period in which the operation is disposed of.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight line basis over the period of the respective leases.

Cash equivalents

Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash and which are within three months of maturity when acquired, less advances from banks which are repayable within three months from the dates of the advances.

Notes to the Financial Statements

For the Year Ended 31st December, 2000

3. SEGMENTAL INFORMATION

An analysis of the Group's turnover and contribution to (loss) profit from operations by principal activity is as follows:

	2000		1999	
	Turnover	(Loss) profit from operations	Turnover	Profit from operations
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Manufacture and sale of coke, coal gas, coal tar and benzene	99,618	3,940	88,398	510
Automobile repair and maintenance services	37,260	4,646	36,476	3,513
Return from a power plant in the PRC	3,738	(2,388)	20,609	14,325
Internet software services	1,272	382	—	—
Return from an investment of motor spare parts business in the PRC	234	(47)	701	421
	<u>142,122</u>	<u>6,533</u>	<u>146,184</u>	18,769
Other revenue		1,031		40,205
Distribution costs		(2,797)		(1,671)
Administrative expenses		<u>(82,899)</u>		<u>(39,369)</u>
(Loss) profit from operations		<u>(78,132)</u>		<u>17,934</u>

All the turnover of the Group arose from the Peoples' Republic of China ("PRC") excluding the Hong Kong and Macau Special Administrative Regions.

4. OTHER REVENUE

	2000	1999
	HK\$'000	HK\$'000
Guaranteed profit (note 40)	—	39,825
Sundry income	<u>1,031</u>	<u>380</u>
	<u>1,031</u>	<u>40,205</u>

Notes to the Financial Statements

For the Year Ended 31st December, 2000

5. (LOSS) PROFIT FROM OPERATIONS

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
(Loss) profit from operations has been arrived at after charging:		
Amortisation of guaranteed income investments	6,407	6,564
Auditors' remuneration	1,940	1,500
Depreciation and amortisation of property, plant and equipment	17,992	17,319
Loss on disposal of property, plant and equipment	1,305	1,948
Operating lease rentals in respect of land and buildings	2,412	4,164
Provision for:		
— amounts due from related companies	7,683	—
— trade and other receivables	5,915	—
— amounts due from associates	274	—
Staff costs, including directors' remuneration	<u>42,338</u>	<u>11,597</u>

6. DIRECTORS' AND EMPLOYEES' REMUNERATION

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Directors' remuneration:		
Fees paid to independent non-executive directors	2,130	140
Salaries and other benefits paid to executive directors	15,930	4,770
Non-contractual payments for loss of offices paid to executive directors	<u>9,000</u>	<u>—</u>
	<u>27,060</u>	<u>4,910</u>

The emoluments of the directors were within the following bands:

	2000 Number of director	1999 Number of director
Up to HK\$1,000,000	14	7
HK\$1,000,001 to HK\$1,500,000	2	1
HK\$2,000,001 to HK\$2,500,000	1	1
HK\$3,000,001 to HK\$3,500,000	1	—
HK\$3,500,001 to HK\$4,000,000	1	—
HK\$12,500,001 to HK\$13,000,000	<u>1</u>	<u>—</u>

Notes to the Financial Statements

For the Year Ended 31st December, 2000

6. DIRECTORS' AND EMPLOYEES' REMUNERATION (continued)

Employees' remuneration:

During the year, the five highest paid individuals of the Group included four directors (1999: three directors) of the Company. The emoluments of the remaining one (1999: two) highest paid individual(s) were as follows:

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Salaries and other benefits paid to employees	1,196	1,920
Compensation for loss of office paid	132	—
	<u>1,328</u>	<u>1,920</u>

The emoluments of the employees were within the following bands:

	2000 Number of employees	1999 Number of employees
Up to HK\$1,000,000	—	2
HK\$1,000,001 to HK\$1,500,000	1	—
	<u>1</u>	<u>—</u>

7. FINANCE COSTS

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Interest on bank borrowings wholly repayable within five years	(7,846)	(3,151)
Interest paid to a related company	—	(4,801)
Loan arrangement fee	(697)	—
	<u>(8,543)</u>	<u>(7,952)</u>

8. NET INVESTMENT LOSS

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Unrealised holding loss on other investments	(7,350)	(3,812)
(Loss) gain on disposal of other investments	(1,626)	304
Interest earned on bank deposits	5,622	1,874
	<u>(3,354)</u>	<u>(1,634)</u>

Notes to the Financial Statements

For the Year Ended 31st December, 2000

8. NET INVESTMENT LOSS (continued)

The unrealised holding loss on other investments has been calculated by reference to the market prices of the listed shares at the balance sheet date.

In 2000, the loss on disposal of other investments included a loss of HK\$1,100,000 which was due to the exercise of a put option by the Group on 7th November, 2000, details of which are set out in note 22.

9. IMPAIRMENT LOSSES

	2000 HK\$'000	1999 HK\$'000
Impairment losses recognised in respect of:		
— property, plant and equipment (note 15c)	(127,000)	—
— goodwill on acquisition of subsidiaries	(98,169)	—
— guaranteed income investments (note 18f)	(93,063)	—
— investment securities (note 19)	(4,000)	—
	<u>(322,232)</u>	<u>—</u>

The directors considered that there had been an impairment loss on goodwill arising on acquisition of subsidiaries as the estimated future cash flows to be generated from these subsidiaries were expected to be negligible.

10. WRITE BACK OF PLEDGED BANK DEPOSITS

In 1999, a portion of pledged deposits, which had been fully provided in 1998, was released after the disposal of the Group's interest in Oriental Union Holdings Limited, a company listed on the Stock Exchange. The amount of pledged deposits released, less incidental costs incurred, was HK\$2,145,000.

11. GAIN FROM DISCONTINUED OPERATIONS

The gain on disposal of the Group's video cassette business in 1999 amounted to approximately HK\$168,000.

12. TAXATION

The charge represents PRC income tax on estimated assessable income calculated at the prevailing rates.

No provision for Hong Kong Profits Tax has been made in the financial statements as the companies operating in Hong Kong did not have any assessable profit in both years.

Details of the Group's potential deferred taxation are set out in note 31.

Notes to the Financial Statements

For the Year Ended 31st December, 2000

13. NET LOSS FOR THE YEAR

Of the Group's net loss for the year, a loss of approximately HK\$399,254,000 (1999: HK\$15,834,000) has been dealt with in the financial statements of the Company.

14. LOSS PER SHARE

The calculation of loss per share is based on the loss for the year of approximately HK\$425,420,000 (1999: HK\$290,000) and a weighted average of 2,178,479,003 shares (1999: 1,583,112,808 shares) in issue during the year.

No diluted loss per share has been calculated as the exercise of the share options would result in a decrease in loss per share for both years.

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
THE GROUP					
COST LESS IMPAIRMENT LOSS					
At 1st January, 2000	169,917	80,669	2,721	9,657	262,964
On acquisition of a subsidiary	—	421	—	—	421
Additions	2,252	2,606	1,663	5,931	12,452
Disposals	—	—	(59)	(1,950)	(2,009)
Impairment loss	(87,000)	(40,000)	—	—	(127,000)
At 31st December, 2000	<u>85,169</u>	<u>43,696</u>	<u>4,325</u>	<u>13,638</u>	<u>146,828</u>
DEPRECIATION AND AMORTISATION					
At 1st January, 2000	10,528	11,285	966	3,676	26,455
Provided for the year	4,337	10,524	556	2,575	17,992
Eliminated on disposals	—	—	(30)	(190)	(220)
At 31st December, 2000	<u>14,865</u>	<u>21,809</u>	<u>1,492</u>	<u>6,061</u>	<u>44,227</u>
NET BOOK VALUES					
At 31st December, 2000	<u><u>70,304</u></u>	<u><u>21,887</u></u>	<u><u>2,833</u></u>	<u><u>7,577</u></u>	<u><u>102,601</u></u>
At 31st December, 1999	<u><u>159,389</u></u>	<u><u>69,384</u></u>	<u><u>1,755</u></u>	<u><u>5,981</u></u>	<u><u>236,509</u></u>

Notes to the Financial Statements

For the Year Ended 31st December, 2000

15. PROPERTY, PLANT AND EQUIPMENT (continued)

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
(a) The net book value of the Group's leasehold land and buildings comprises:		
Situated in Hong Kong		
Properties held under medium-term leases	835	—
Situated in the PRC		
Properties held under medium-term leases	41,564	130,158
Properties held under short-term leases	27,905	29,231
	<u>70,304</u>	<u>159,389</u>
(b) During the year, the Group has pledged leasehold land and buildings with a net book value of HK\$9,281,000 to secure banking facilities granted to the Group, details of which are set out in note 27c.		
(c) After reviewing the carrying value of the leasehold land and buildings and plant and machinery belonging to Henan Hongkong (Jiyuan) Coking Company Limited 豫港(濟源)焦化有限公司 ("HH Coking"), the directors considered that there had been a decline in the recoverable amount in the above-mentioned assets. An impairment loss of HK\$127,000,000 has been recognised in the financial statements by reference to the excess of the carrying value of these assets over the estimated undiscounted future cash flows expected to be generated from them.		

	Furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE COMPANY			
COST			
At 1st January, 2000	769	1,348	2,117
Additions	1,314	576	1,890
Disposals	(59)	(576)	(635)
	<u>2,024</u>	<u>1,348</u>	<u>3,372</u>
At 31st December, 2000			
DEPRECIATION			
At 1st January, 2000	388	536	924
Provided for the year	414	337	751
Eliminated on disposals	(30)	—	(30)
	<u>772</u>	<u>873</u>	<u>1,645</u>
At 31st December, 2000			
NET BOOK VALUES			
At 31st December, 2000	<u>1,252</u>	<u>475</u>	<u>1,727</u>
At 31st December, 1999	<u>381</u>	<u>812</u>	<u>1,193</u>

Notes to the Financial Statements

For the Year Ended 31st December, 2000

16. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2000	1999
	HK\$'000	HK\$'000
Unlisted shares/investments, at cost	35,515	35,515
Amounts due from subsidiaries	<u>575,197</u>	<u>368,373</u>
	610,712	403,888
Impairment loss recognised in respect of unlisted shares/investments	(22,000)	(20,000)
Provision for amounts due from subsidiaries	<u>(371,324)</u>	<u>(129,324)</u>
	<u>217,388</u>	<u>254,564</u>

The amounts due from subsidiaries are unsecured, interest free and have no fixed repayment terms. In the opinion of the directors, no part of the balances will be repayable within twelve months from the balance sheet date and the balances are therefore shown as non-current.

None of the subsidiaries had any loan capital outstanding at the end of the year or at any time during the year.

The Company's shareholding in a wholly own subsidiary, Grace Melody Enterprises Limited, has been pledged to a bank to secure banking facilities granted to the Company, details of which are set out in note 27a.

Notes to the Financial Statements

For the Year Ended 31st December, 2000

16. INTERESTS IN SUBSIDIARIES (continued)

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

Name of subsidiary	Place of incorporation or establishment/ operations	Issued and fully paid registered capital/share capital	Attributable equity interest held by the Company		Principal activities
			Directly	Indirectly	
Henan Hongkong (Jiyuan) Coking Company Limited 豫港（濟源）焦化有限公司	PRC	RMB132,000,000	—	100%	Manufacture and sale of coke, coal gas, coal tar and benzene
Henan Motor-Car Repairing Co., Ltd. 河南小汽車修理有限公司	PRC	RMB7,251,000	80%	—	Automobile repair and maintenance services
Milrosa Limited	British Virgin Islands/ Hong Kong	US\$10	100%	—	Investment in securities
Miracle Luck Limited	Hong Kong	HK\$20	—	100%	Investment in securities
Originsoft (Zhengzhou) Co., Ltd. ("Originsoft") 思源（鄭州）軟件有限公司	PRC	RMB5,000,000	—	100%	Provision of internet software services

At 31st December, 2000, the Group was committed to contribute an additional sum of HK\$1,869,000 into Originsoft.

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

Notes to the Financial Statements

For the Year Ended 31st December, 2000

17. INTERESTS IN ASSOCIATES

	THE GROUP		THE COMPANY	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Share of net assets	91,118	64,452	—	—
Unlisted shares/investments, at cost	—	—	1	—
Amounts due from associates	7,012	13,617	274	—
Provision for amounts due from associates	(274)	—	(274)	—
	<u>97,856</u>	<u>78,069</u>	<u>1</u>	<u>—</u>

Included in the Group's amounts due from associates at 31st December, 2000 is a balance of HK\$1,521,000 (1999: Nil) which carries interest at prevailing market rate, has no fixed repayment terms and is secured by the associate's investments in securities with a market value at the balance sheet date of approximately HK\$1,376,000. The remaining balances are unsecured, interest free and have no fixed repayment terms. In the opinion of the directors, no part of the amounts are repayable within twelve months from the balance sheet date and the amounts are therefore shown as non-current.

Particulars of the Group's principal associates at 31st December, 2000 are as follows:

Name of Company	Place of incorporation and operation	Issued and fully paid registered capital/share capital	Proportion of ownership interest	Principal activities
Henan Zhongzhou Radio & TV Information Network Co., Ltd. 河南中洲廣電信息網絡有限公司	PRC	RMB165,000,000	49%	Construction, maintenance enhancement and running of cable broadcasting and television network in Henan Province, the PRC.
Sharp Capital Investments Limited	Hong Kong	HK\$80,000,100	49%	Property investment in Hong Kong

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

Notes to the Financial Statements

For the Year Ended 31st December, 2000

17. INTERESTS IN ASSOCIATES (continued)

The following financial information has been extracted from the unaudited management accounts of Henan Zhongzhou Radio & TV Information Network Co., Ltd. 河南中洲廣電信息網絡有限公司 and Sharp Capital Investments Limited as at 31st December, 2000:

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
<i>Income statement</i>		
Turnover	<u>7,095</u>	<u>1,538</u>
Depreciation and amortisation	<u>15,574</u>	<u>14,776</u>
Loss before taxation	<u>25,582</u>	<u>21,335</u>
Loss before taxation attributable to the Group	<u>12,535</u>	<u>10,454</u>
<i>Balance sheet</i>		
Non-current assets	236,517	177,205
Current assets	96,720	89,218
Current liabilities	118,943	99,512
Non-current liabilities	<u>28,338</u>	<u>35,377</u>
Net assets	<u>185,956</u>	<u>131,534</u>
Share of net assets	<u>91,118</u>	<u>64,452</u>

18. GUARANTEED INCOME INVESTMENTS

	THE GROUP		THE COMPANY	
	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Unlisted investments in the PRC, at cost	124,299	124,299	121,495	121,495
Accumulated amortisation	<u>(21,236)</u>	<u>(14,829)</u>	<u>(20,674)</u>	<u>(14,548)</u>
	103,063	109,470	100,821	106,947
Impairment loss recognised	<u>(93,063)</u>	<u>—</u>	<u>(90,821)</u>	<u>—</u>
	<u>10,000</u>	<u>109,470</u>	<u>10,000</u>	<u>106,947</u>

Notes to the Financial Statements

For the Year Ended 31st December, 2000

18. GUARANTEED INCOME INVESTMENTS (continued)

The unlisted investments in the PRC represents the Group's investment in Henan Taiwu Electric Power Co., Ltd. 河南太屋電力有限公司 ("Taiwu") and Kaifeng Hongya Machinery Co., Ltd. 開封宏亞機械有限公司 ("Kaifeng").

- (a) Taiwu, a wholly own subsidiary of the Company, had obtained consents from relevant PRC authorities to construct and operate a 25,000KW power generating unit (the "Unit") in Henan Province, the PRC and to produce and distribute electricity to Jiyuan Shi, Henan Province, the PRC, for the period from 25th June, 1996 to 24th June, 2017. The development and construction of the Unit was sub-contracted to Jiyuan Power Plant Company 河南省濟源電廠 ("Jiyuan") on a turnkey basis at a fixed cost of RMB130,000,000 (approximately HK\$121,495,000). Commencing from 15th August, 1997, the operation and management of the Unit has been sub-contracted to Jiyuan pursuant to an operating agreement signed between Taiwu and Jiyuan (the "Operating Agreement"). The directors of the Company do not anticipate that any additional investment into the Unit will be required in the foreseeable future. Under the Operating Agreement, Jiyuan is responsible for the management and operation of the Unit, and all the profits and losses generated from the operation as well as taxes payable will be taken up by Jiyuan. Jiyuan will pay a guaranteed return to Taiwu, which is equivalent to 17% per annum on the total investment of Taiwu. Upon the expiry of the Operating Agreement, the Unit will revert to Jiyuan at no cost.

The Group's guaranteed return in Taiwu was pledged to a bank to secure banking facilities granted to the Group, details of which are set out in note 27a. The related pledged documents were on the process of being registered as at 31st December, 2000.

- (b) In 1999, the Group acquired a 37.5% interest in Kaifeng, a company which is engaged in the manufacture and sales of spare parts for automobiles in Henan Province, the PRC. The Group entered into an operating agreement (the "Agreement") with an independent third party 開封宏達撥叉(集團)有限公司 ("宏達") for the operation and management of Kaifeng for a period of ten years. The directors of the Company do not anticipate that any additional investment in Kaifeng will be required in the foreseeable future. Under the Agreement, 宏達 is responsible for the management and operation of Kaifeng, and all the profits and losses generated from the operation as well as taxes payable will be taken up by 宏達. 宏達 will pay to the Group a guaranteed return of RMB750,000 per annum for the first four years and RMB700,000 per annum for the remaining six years.
- (c) Since the Group has no control over the assets or management or operations of Taiwu and Kaifeng, and only receives passive income from Jiyuan and 宏達, respectively, the directors of the Company consider that it is more appropriate to classify the investments as guaranteed income investments and state at cost less impairment loss and amortisation on a straight line basis over the operating tenure of twenty years and ten years, respectively. The Group does not have any further commitment to invest in Taiwu and Kaifeng.
- (d) Jiyuan and 宏達 honoured the guaranteed income agreements up to the year end 31st December, 1999 and the income was recognised by the Group as revenue in the financial statements up to that date.

Notes to the Financial Statements

For the Year Ended 31st December, 2000

18. GUARANTEED INCOME INVESTMENTS (continued)

- (e) During the year, the Group experienced difficulties in collecting the guaranteed returns in respect of its investments in Taiwu, principally because of the restriction in operation imposed by the PRC government on smaller power generating units, and Kaifeng. An aggregate amount of RMB4,250,000 (approximately HK\$3,972,000) has been received by the Group up to the date of this report. The Group has issued demand letters through solicitors to Jiyuan and 宏達 and is considering to take further actions to collect the outstanding guaranteed income amounts. As the recoverability of the outstanding guaranteed income of RMB18,600,000 (approximately HK\$17,383,000) was considered by the directors to be uncertain, it has not been recognised by the Group as revenue in the financial statements.
- (f) Taking into the account of the restriction in operation of Taiwu and the inability to collect on the guaranteed return arrangements, the directors consider that there has been a decline during the year in the recoverable amount of these guaranteed income investments and an impairment loss of HK\$93,063,000 has been recognised in the financial statements, thus reducing the carrying value of the guaranteed income investments to HK\$10,000,000, being the estimated sale proceeds of these investments.

19. INVESTMENTS IN SECURITIES

	THE GROUP		THE COMPANY	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
<i>Investment securities:</i>				
Unlisted overseas investment, at cost less impairment loss	3,812	—	3,812	—
Unlisted investments in the PRC, at cost	421	421	—	—
Club membership in Hong Kong, at cost	220	220	—	—
Club membership in the PRC, at cost	630	—	630	—
	<u>5,083</u>	<u>641</u>	<u>4,442</u>	<u>—</u>
<i>Other investments:</i>				
Listed shares in Hong Kong, at market value	23,525	2,528	15,386	—
Unlisted convertible bonds, at fair value	2,908	—	2,908	—
	<u>26,433</u>	<u>2,528</u>	<u>18,294</u>	<u>—</u>
	<u>31,516</u>	<u>3,169</u>	<u>22,736</u>	<u>—</u>
<i>Carrying amount analysed for reporting purposes as:</i>				
Current	26,433	—	18,294	—
Non-current	5,083	3,169	4,442	—
	<u>31,516</u>	<u>3,169</u>	<u>22,736</u>	<u>—</u>

Notes to the Financial Statements

For the Year Ended 31st December, 2000

19. INVESTMENTS IN SECURITIES (continued)

Investment securities:

The unlisted overseas investment represents the Group's and the Company's 1.66% interests in StemCyte, Inc., a company incorporated in the United States of America specialising in stem cell banking. The consideration of US\$1,000,000 was paid by the Company in August 2000. The directors considered that there had been a decline in the recoverable amount and an impairment loss of HK\$4,000,000 has been recognised in the financial statements. StemCyte, Inc. is not related to the Group, the Company's directors or substantial shareholders.

Other investments:

The unlisted convertible bonds were realised after the year end for an amount approximating to their carrying amount at 31st December, 2000.

20. DEPOSIT FOR ACQUISITION OF AN INVESTMENT

THE GROUP AND THE COMPANY

In October 2000, the Group paid a net sum of HK\$48,000,000 as a deposit to acquire the entire share capital of Excellent Idea Group Limited. Subsequent to the balance sheet date, the purchase was completed and the deposit is therefore classified as a non-current asset. Excellent Idea Group Limited is an investment holding company incorporated in British Virgin Islands, holding a 12.6% interest in Zhong Guang Xin Da Data Broadcasting Technology Co., Ltd. 中廣信達數據廣播技術有限公司, which is an integrator and provider of information and data for broadcasting in the PRC.

Excellent Idea Group Limited and Zhong Guang Xin Da Data Broadcasting Technology Co., Ltd. are not related to the Group, the Company's directors or substantial shareholders.

21. INVENTORIES

	THE GROUP	
	2000	1999
	HK\$'000	HK\$'000
Raw materials	22,512	16,589
Work in progress	236	408
Finished goods	1,118	2,735
	<u>23,866</u>	<u>19,732</u>

Included above are raw materials of HK\$5,527,000 (1999: HK\$7,201,000) which are carried at net realisable value.

Notes to the Financial Statements

For the Year Ended 31st December, 2000

22. TRADE AND OTHER RECEIVABLES

The Group and the Company allows an average credit period of 30 days (1999: 30 days) to its trade customers. The aged analysis of trade receivables is as follows:

	THE GROUP		THE COMPANY	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Up to 30 days	23,333	29,782	2,803	16,000
31 to 60 days	3,276	16,663	—	—
61 to 90 days	1,624	706	—	—
91 days or above	5,157	13,759	—	11,423
Total trade receivables	33,390	60,910	2,803	27,423
Other receivables (Note)	41,136	18,973	14,524	295
	<u>74,526</u>	<u>79,883</u>	<u>17,327</u>	<u>27,718</u>

Note:

On 15th September, 2000, the Company purchased from Super Offshore Limited 11,000,000 shares in Yuxing Info Tech Holdings Limited, a company listed on the Stock Exchange, at HK\$2.1 per share.

On the same date, 2 option agreements were entered between the Company and Super Offshore Limited such that the Company could exercise a put option to sell these shares to Super Offshore Limited at HK\$2 per share or Super Offshore Limited could exercise a call option to repurchase these shares at HK\$2.5 per share within a specified period.

On 7th November, 2000, the Company exercised the put option to sell all the 11,000,000 shares to Super Offshore Limited at HK\$2 per share. Total proceeds from disposal of these shares were HK\$22,000,000 and the resulting loss of HK\$1,100,000 has been recognised as investment loss in the financial statements (note 8). In November and December 2000, an aggregate amount of HK\$7,870,000 was received from Super Offshore Limited. The remaining balance of HK\$14,130,000 at 31st December, 2000 was included in other receivables and was subsequently fully repaid.

Super Offshore Limited and Yuxing Info Tech Holdings Limited are not related to the Group, the Company's directors or substantial shareholders.

23. REFUNDABLE DEPOSITS

	THE GROUP		THE COMPANY	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Winston Group Limited	5,000	—	5,000	—
Hetton Investments Limited	5,000	—	5,000	—
New Faith Multi-Media Network Development Limited ("New Faith")	2,000	—	—	—
	<u>12,000</u>	<u>—</u>	<u>10,000</u>	<u>—</u>

Notes to the Financial Statements

For the Year Ended 31st December, 2000

23. REFUNDABLE DEPOSITS (continued)

- (a) In September 2000, the Group entered into conditional sale and purchase agreements with the sole shareholder of Winston Group Limited and Hetton Investments Limited to acquire the entire share capital of these 2 companies for a total consideration of HK\$70 million. Deposits of HK\$10 million were made to the vendor in November 2000. The sale and purchase agreements were cancelled and the deposits were fully refunded to the Group subsequent to 31st December, 2000.

Winston Group Limited and Hetton Investments Limited are not related to the Group, the Company's directors or substantial shareholders.

- (b) In October 2000, a subsidiary of the Group entered into a preliminary sale and purchase agreement for the existing and new shares of International Multi-Media Technology Limited ("IMT"). The consideration of acquiring 20% of the existing shares of IMT was HK\$10,000,000 and a deposit of HK\$2,000,000 was paid to New Faith, the holding company of IMT. The directors decided to withdraw from this transaction and the deposit was fully refunded to the Group subsequent to 31st December, 2000.

New Faith is not related to the Group, the Company's directors or substantial shareholders.

24. AMOUNTS DUE FROM RELATED COMPANIES

Particulars of the amounts due from related companies are as follows:

Name of related company	THE GROUP		Maximum balance outstanding during the year the year HK\$'000	THE COMPANY		Maximum balance outstanding during the year the year HK\$'000
	2000 HK\$'000	1999 HK\$'000		2000 HK\$'000	1999 HK\$'000	
Henan Hongkong Enterprises Limited ("HHE") and its subsidiaries	—	429	7,889	—	—	2,742

The amounts were unsecured, interest-free and were fully provided during the year.

Notes to the Financial Statements

For the Year Ended 31st December, 2000

25. TRADE AND OTHER PAYABLES

The aged analysis of trade payables is stated as follows:

	THE GROUP		THE COMPANY	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Up to 30 days	9,716	6,662	—	—
31 to 60 days	5,546	10,083	—	—
61 to 90 days	887	1,406	—	—
91 days or above	16,042	9,545	—	—
Total trade payables	32,191	27,696	—	—
Other payables	57,168	44,650	5,738	1,789
	<u>89,359</u>	<u>72,346</u>	<u>5,738</u>	<u>1,789</u>

26. AMOUNTS DUE TO RELATED COMPANIES

	THE GROUP		THE COMPANY	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Unsettled purchase consideration of HH Coking	—	68,000	—	—
Guarantee profits receivable	—	(39,825)	—	—
Other balances	1,175	(2,511)	—	2,206
	<u>1,175</u>	<u>25,664</u>	<u>—</u>	<u>2,206</u>

The balance with Henan Hongkong Finance Limited (“HHF”) at 31st December, 2000 is unsecured, interest free and has no fixed repayment terms.

The balances with HHF at 31st December, 1999 were unsecured and had no fixed repayment terms. The unsettled purchase consideration of HH Coking of HK\$68,000,000 carried interest at Hong Kong Interbank Borrowing Rate plus 1% per annum and the remaining balance was interest free.

Notes to the Financial Statements

For the Year Ended 31st December, 2000

27. BANK LOANS

	THE GROUP		THE COMPANY	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
The maturity of the bank loans is as follows:				
Within one year	94,104	36,341	46,440	—
More than one year but not exceeding two years	9,346	22,430	—	—
More than two years but not exceeding five years	—	4,672	—	—
	103,450	63,443	46,440	—
Less: Amount due within one year shown under current liabilities	94,104	36,341	46,440	—
Amount due after one year	9,346	27,102	—	—

Notes:

- (a) Bank loan of the Group and the Company of HK\$46,440,000 (1999: nil) was secured by HH Coking's property, plant and equipment of approximately HK\$61 million and the Company's shareholding in a wholly own subsidiary, Grace Melody Enterprises Limited, and was guaranteed by a subsidiary of HHE without charge. Grace Melody Enterprises Limited is the holding company of HH Coking.

In addition, the Group's guaranteed return in Taiwu was also pledged to the bank but the related pledge documents were being registered as at 31st December, 2000.

- (b) Bank loans of HK\$28,037,000 (1999: HK\$43,070,000) were guaranteed by independent third parties without charge.
- (c) Bank loans of HK\$15,888,000 (1999: nil) were secured by the Group's property, plant and equipment with a net book value of HK\$9,281,000.
- (d) Bank loans of HK\$9,346,000 (1999: HK\$11,215,000) were guaranteed by a subsidiary of HHE without charge.
- (e) Included in the Group's bank loans at 31st December, 1999 was HK\$4,672,000 borrowed by the Group (the "Loans") on behalf of its employees for the purpose of constructing employees' quarters. In 1999, the Group made payments to sub-contractors amounting to HK\$1,270,000, purchased construction materials amounting to HK\$1,512,000 related to constructing employees' quarters and received contributions of HK\$819,000 from employees. The unutilised amount as at 31st December, 1999 of HK\$2,709,000 was included in the balance sheet as part of bank balances and cash. In 1999, the Group paid interest of HK\$169,000 on the Loans and was not reimbursed by the employees. During 2000, the Group terminated such arrangement and no bank loan was borrowed by the Group on behalf of its employees as at 31st December, 2000.
- (f) The remaining bank loans are unsecured.

Notes to the Financial Statements

For the Year Ended 31st December, 2000

28. SHARE CAPITAL

Movements during the year in the share capital of the Company were as follows:

	Number of shares	Value HK\$'000
<i>Authorised:</i>		
Ordinary shares of HK\$0.2 each		
— balance at 1st January, 1999 and 1st January, 2000	3,000,000,000	600,000
— increase in authorised ordinary share capital (<i>note iii</i>)	<u>3,000,000,000</u>	<u>600,000</u>
— balance at 31st December, 2000	<u><u>6,000,000,000</u></u>	<u><u>1,200,000</u></u>
<i>Issued and fully paid:</i>		
Ordinary shares of HK\$0.2 each		
— balance at 1st January, 1999	1,579,656,000	315,931
— issue of shares up on exercise of share options	<u>17,850,000</u>	<u>3,570</u>
— balance at 31st December, 1999 and 1st January, 2000	1,597,506,000	319,501
— issue of shares upon placements and subscriptions (<i>notes i, iv and v</i>)	853,000,000	170,600
— issue of shares to acquire a subsidiary (<i>note ii</i>)	140,864,147	28,173
— issue of shares upon exercise of share options	<u>72,000,000</u>	<u>14,400</u>
— balance at 31st December, 2000	<u><u>2,663,370,147</u></u>	<u><u>532,674</u></u>

Notes:

- (i) On 17th January, 2000, Fulham Associates Limited (“Fulham”), a substantial shareholder of the Company which was beneficially interested in approximately 22.9% of the issued share capital of the Company, agreed to sell 170,000,000 shares in the Company to independent professional investors at HK\$0.41 per share. Fulham also agreed on same day to subscribe for 170,000,000 new shares at HK\$0.41 per share less all costs and expenses incurred for the placing. The 170,000,000 new shares were allotted to Fulham on 31st January, 2000. The net proceeds of the placement of approximately HK\$68 million were used to expand the Group’s cable broadcasting and television network as well as for general working capital.
- (ii) On 21st March, 2000, the Company issued 140,864,147 ordinary shares of HK\$0.2 each to acquire the entire interest in Originsoft. The market price of the Company’s shares at date of issue was HK\$0.53 per share.
- (iii) At the extraordinary general meeting held on 23rd May, 2000, the shareholders of the Company approved the increase in the authorised share capital of the Company from HK\$600,000,000 comprising 3,000,000,000 shares of HK\$0.2 each to HK\$1,200,000,000 comprising 6,000,000,000 shares of HK\$0.2 each by creating an additional 3,000,000,000 shares of HK\$0.2 each.

Notes to the Financial Statements

For the Year Ended 31st December, 2000

28. SHARE CAPITAL (continued)

Notes: (continued)

- (iv) On 31st May, 2000, pursuant to two agreements dated 29th March, 2000 as approved by shareholders of the Company on 23rd May, 2000, the Company issued a total of 300,000,000 ordinary shares of HK\$0.2 each at a cash price of HK\$0.2 per share to Chamber Spirit Limited (“CSL”), a company beneficially owned by Messrs. Zhao Bing and Che Fung, former executive directors of the Company and to Joint Tech Properties Limited (“JTPL”), a company beneficially owned by the China Sciences Industries Limited. The net proceeds of approximately HK\$56 million was used to diversify the Group’s business into the field of telecommunication and high technology projects. Pursuant to the agreements, the Company also granted options to CSL and JTPL to subscribe for another 260,000,000 new shares and 140,000,000 new shares respectively at a cash subscription price of HK\$0.22 per share within one year from 31st May, 2000. Each of CSL and JTPL had the right to nominate one person to the board of directors of the Company so long as each of CSL and JTPL was interested in not less than 5% of the issued share capital of the Company from time to time. The options have not been exercised as at the date of this report.
- (v) On 12th October, 2000, the Company further issued 383,000,000 ordinary shares of HK\$0.2 each at a price of HK\$0.26 per share to independent third parties pursuant to a placement agreement dated 19th September, 2000. The net proceeds of approximately HK\$97 million from the placing of shares were being used by the Group to acquire high technology projects.

All the new shares issued rank pari passu with the existing shares in all respects.

29. SHARE OPTIONS

- (i) As stated in note 28 (iv) to the financial statements, the Company granted options to CSL and JTPL to subscribe for another 260,000,000 new shares and 140,000,000 new shares respectively in the Company at a cash subscription price of HK\$0.22 per share within one year from 31st May, 2000.
- (ii) Pursuant to the Company’s share option scheme adopted on 27th July, 1992 (the “Scheme”), the Company may grant options to executive directors and employees of the Company or its subsidiaries to subscribe for shares in the Company. The subscription price is the higher of the nominal value of the shares and an amount which is based on 80% of the average of the last dealt prices of the shares of the Company on the five trading days immediately before the option was offered. Options granted are exercisable not earlier than one year nor later than ten years after the date the options are granted. The maximum number of shares in respect of which options may be granted shall not exceed 10% of the issued share capital of the Company from time to time.

Notes to the Financial Statements

For the Year Ended 31st December, 2000

29. SHARE OPTIONS (continued)

Movements of the share options granted to certain directors and employees of the Company and its subsidiaries pursuant to the Scheme are as follows:

Exercisable period	Exercise price per share HK\$	Number of share options				Outstanding at 31.12.2000
		Outstanding at 1.1.2000	Granted during the year	Exercised during the year	Cancelled during the year	
19.6.1998 to 18.6.2007	0.6160	5,000,000	—	(5,000,000)	—	—
25.8.1998 to 24.8.2007	1.5168	9,000,000	—	—	(9,000,000)	—
11.10.1999 to 10.10.2008	0.2000	17,000,000	—	(17,000,000)	—	—
4.11.1999 to 3.11.2008	0.2000	5,000,000	—	(5,000,000)	—	—
4.5.2000 to 3.5.2009	0.2000	45,000,000	—	(45,000,000)	—	—
26.1.2001 to 25.1.2010	0.3300	—	29,500,000	—	(10,000,000)	19,500,000
3.2.2001 to 2.2.2010	0.3648	—	10,000,000	—	—	10,000,000
2.3.2001 to 1.3.2010	0.5250	—	5,000,000	—	(5,000,000)	—
20.3.2001 to 19.3.2010	0.4544	—	10,000,000	—	(10,000,000)	—
27.3.2001 to 26.3.2010	0.4656	—	10,000,000	—	(10,000,000)	—
6.4.2001 to 5.4.2010	0.4968	—	5,000,000	—	—	5,000,000
19.6.2001 to 18.6.2010	0.3152	—	4,000,000	—	—	4,000,000
28.7.2001 to 27.7.2010	0.2784	—	9,000,000	—	—	9,000,000
31.7.2001 to 30.7.2010	0.2784	—	22,000,000	—	—	22,000,000
		<u>81,000,000</u>	<u>104,500,000</u>	<u>(72,000,000)</u>	<u>(44,000,000)</u>	<u>69,500,000</u>

The exercise in full of the share options outstanding as at 31st December, 2000 would, under the present capital structure of the Company, result in the issue of 69,500,000 additional shares for a total consideration of approximately HK\$22,458,000.

Notes to the Financial Statements

For the Year Ended 31st December, 2000

30. RESERVES

	Share premium <i>HK\$' 000</i>	Translation reserve <i>HK\$' 000</i>	Goodwill <i>HK\$' 000</i>	Deficit <i>HK\$' 000</i>	Total <i>HK\$' 000</i>
THE GROUP					
At 1st January, 1999	393,154	118	(10,187)	(280,593)	102,492
Realised on winding up of an associate	—	(134)	—	—	(134)
Arising on acquisition of a subsidiary	—	—	(16,340)	—	(16,340)
Net loss for the year	—	—	—	(290)	(290)
Balance at 31st December, 1999 and 1st January, 2000	393,154	(16)	(26,527)	(280,883)	85,728
Issue of shares upon placements and subscriptions	58,680	—	—	—	58,680
Issue of shares to acquire a subsidiary	46,485	—	—	—	46,485
Issue of shares upon exercise of share options	2,080	—	—	—	2,080
Share issue expenses	(9,323)	—	—	—	(9,323)
Arising on acquisition of a subsidiary	—	—	(71,642)	—	(71,642)
Impairment loss in goodwill of subsidiaries	—	—	98,169	—	98,169
Net loss for the year	—	—	—	(425,420)	(425,420)
At 31st December, 2000	<u>491,076</u>	<u>(16)</u>	<u>—</u>	<u>(706,303)</u>	<u>(215,243)</u>
Attributable to:					
— the Company and subsidiaries	491,076	(16)	—	(681,980)	(190,920)
— associates	—	—	—	(24,323)	(24,323)
	<u>491,076</u>	<u>(16)</u>	<u>—</u>	<u>(706,303)</u>	<u>(215,243)</u>

Included in the above are the Group's share of post acquisition deficit of associates as follows:

	<i>HK\$' 000</i>
At 1st January, 1999	(1,334)
Share of losses for the year	<u>(10,454)</u>
At 31st December, 1999 and 1st January, 2000	(11,788)
Share of losses for the year	<u>(12,535)</u>
At 31st December, 2000	<u>(24,323)</u>

Notes to the Financial Statements

For the Year Ended 31st December, 2000

30. RESERVES (continued)

	Share premium HK\$'000	Deficit HK\$'000	Total HK\$'000
THE COMPANY			
At 1st January, 1999	393,154	(294,173)	98,981
Net loss for the year (note 13)	—	(15,834)	(15,834)
At 31st December, 1999 and 1st January, 2000	393,154	(310,007)	83,147
Issue of shares upon placements and subscriptions	58,680	—	58,680
Issue of shares to acquire a subsidiary	46,485	—	46,485
Issue of shares upon exercise of share options	2,080	—	2,080
Share issue expenses	(9,323)	—	(9,323)
Net loss for the year (note 13)	—	(399,254)	(399,254)
At 31st December, 2000	<u>491,076</u>	<u>(709,261)</u>	<u>(218,185)</u>

The Company did not have any reserves available for distribution at 31st December, 2000 and 1999.

31. POTENTIAL DEFERRED TAXATION

At the balance sheet date, the major components of the potential deferred taxation assets are as follows:

	THE GROUP AND THE COMPANY	
	2000 HK\$'000	1999 HK\$'000
Tax effect of timing differences attributable to:		
Tax losses available to set off future profits	9,729	1,639
Shortfall (excess) of depreciation allowance claimed for tax purpose over depreciation charged in the financial statements	<u>10</u>	<u>(55)</u>
	<u>9,739</u>	<u>1,584</u>

A potential deferred taxation asset has not been recognised in the financial statements as it is not certain that the tax benefits will be utilised in the foreseeable future.

Notes to the Financial Statements

For the Year Ended 31st December, 2000

31. POTENTIAL DEFERRED TAXATION (continued)

The amount of unrecognised deferred tax credit of the Group for the year is as follows:

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Tax losses incurred	8,090	463
Shortfall of depreciation allowances claimed for tax purposes over depreciation charged in the financial statements	<u>65</u>	<u>133</u>
	<u>8,155</u>	<u>596</u>

32. RECONCILIATION OF (LOSS) PROFIT BEFORE TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
(Loss) profit before taxation	(424,796)	207
Impairment losses	322,232	—
Share of losses of associates	12,535	10,454
Unrealised holding loss of other investments	7,350	3,812
Gain arising from investment in Oriental Union Holdings Limited	—	(2,145)
Gain on disposal of the video cassette business	—	(168)
Interest income	(5,622)	(1,874)
Interest expense	7,846	7,952
Amortisation of guaranteed income investments	6,407	6,564
Depreciation and amortisation of property, plant and equipment	17,992	17,319
Loss on disposal of property, plant and equipment	1,305	1,948
Provision for amounts due from associates	274	—
Loss (gain) on disposal of other investments	1,626	(304)
(Increase) decrease in inventories	(4,134)	5,830
Decrease in amounts due from related companies	429	1,109
Decrease in trade and other receivables	10,028	14,658
Increase (decrease) in trade and other payables	16,599	(9,375)
Increase (decrease) in amounts due to related companies	<u>43,511</u>	<u>(44,660)</u>
Net cash inflow from operating activities	<u>13,582</u>	<u>11,327</u>

Notes to the Financial Statements

For the Year Ended 31st December, 2000

33. ACQUISITION OF A SUBSIDIARY

The Group acquired the entire equity interest in Originsoft in March 2000 and the entire equity interest in HH Coking in January 1999. These transactions were accounted for by the acquisition method of accounting.

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Net assets acquired:		
Property, plant and equipment	421	231,797
Inventories	—	17,155
Trade and other receivables	4,671	26,560
Bank balances and cash	15	15,787
Trade and other payables	(414)	(70,294)
Bank loans	—	(46,168)
	<u>4,693</u>	<u>174,837</u>
Expenses incurred on acquisition	(1,677)	(1,177)
Goodwill arising on acquisition	71,642	16,340
	<u>74,658</u>	<u>190,000</u>
Satisfied by:		
Issue of ordinary shares	74,658	—
Deposit paid in 1998	—	19,000
Cash consideration paid in 1999	—	103,000
Amount due to a related company	—	68,000
	<u>74,658</u>	<u>190,000</u>
Analysis of net outflow of cash and cash equivalents on acquisition of a subsidiary:		
Cash consideration paid	—	(103,000)
Expenses incurred on acquisition	(1,677)	(1,177)
Bank balances and cash acquired	15	15,787
	<u>(1,662)</u>	<u>(88,390)</u>
Net outflow of cash and cash equivalents on acquisition of a subsidiary	<u>(1,662)</u>	<u>(88,390)</u>

Originsoft contributed approximately HK\$1,272,000 to the Group's turnover and approximately HK\$5,473,000 to the Group's loss for the period between date of acquisition and the balance sheet date.

The contribution of Originsoft to the Group's cash flows during the year was insignificant.

Notes to the Financial Statements

For the Year Ended 31st December, 2000

33. ACQUISITION OF A SUBSIDIARY (continued)

HH Coking contributed approximately HK\$88,398,000 to the Group's turnover and approximately HK\$7,825,000 to the Group's loss for the period between date of acquisition and 31st December, 1999. Taking into account the guaranteed profit arrangement as detailed in note 40, the net profit of HH Coking attributable to the Group for the year ended 31st December, 1999 was HK\$32,000,000.

During the period between date of acquisition and 31st December, 1999, HH Coking has contributed approximately HK\$20,002,000 to the Group's net operating cash flows, paid approximately HK\$24,030,000 in respect of returns on investments and servicing of finance, and utilised approximately HK\$8,507,000 in investing activities.

34. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital and premium <i>HK\$'000</i>	Bank loans <i>HK\$'000</i>	Minority interests <i>HK\$'000</i>
At 1st January, 1999	709,085	9,346	5,092
Issue of shares for cash on exercise of share options	3,570	—	—
Repayment of bank loans during the year	—	(9,346)	—
Bank loans raised during the year	—	17,275	—
On acquisition of a subsidiary	—	46,168	—
Share of losses for the year	—	—	(411)
Dividend paid to minority shareholders	—	—	(542)
	<hr/>	<hr/>	<hr/>
At 31st December, 1999 and 1st January, 2000	712,655	63,443	4,139
Issue of shares for cash on exercise of share options	16,480	—	—
Issue of shares upon placements and subscriptions	229,280	—	—
Share issue expenses	(9,323)	—	—
Issue of shares to acquire a subsidiary	74,658	—	—
Repayment of bank loans during the year	—	(41,013)	—
Bank loans raised during the year	—	81,020	—
Advance from minority shareholders	—	—	24
Share of losses for the year	—	—	(259)
Dividend paid to minority shareholders	—	—	(329)
	<hr/>	<hr/>	<hr/>
At 31st December, 2000	<u>1,023,750</u>	<u>103,450</u>	<u>3,575</u>

Notes to the Financial Statements

For the Year Ended 31st December, 2000

35. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had annual commitments payable in the following year under non-cancellable operating leases in respect of rented premises as follows:

	THE GROUP	
	2000	1999
	HK\$'000	HK\$'000
Operating leases which expire:		
Within one year	591	1,547
In the second to fifth year inclusive	109	614
After five years	145	84
	<u>845</u>	<u>2,245</u>

At 31st December, 2000 and 1999, the Company had no significant operating lease commitments.

36. COMMITMENTS

	THE GROUP	
	2000	1999
	HK\$'000	HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of the acquisition of:		
— property, plant and equipment	1,392	—
— subsidiary	<u>—</u>	<u>48,598</u>
	<u>1,392</u>	<u>48,598</u>

At 31st December, 2000 and 1999, the Company had no significant capital commitments.

37. PROVIDENT FUND SCHEME

After the introduction of the Mandatory Provident Fund (“MPF”) scheme in Hong Kong, the Group has participated in an approved MPF scheme effective from 1st December, 2000 to provide MPF scheme to all eligible employees. The contributions borne by the Group are calculated at 5% of the salaries and wages (monthly contribution limited to 5% of HK\$20,000 for each eligible employee) as calculated under the MPF legislation.

Notes to the Financial Statements

For the Year Ended 31st December, 2000

38. SUBSEQUENT EVENTS

- (i) Pursuant to agreements dated on 15th January, 2001, CSL agreed to dispose of its entire shareholding of 180,000,000 shares in the Company to Smart House Investments Limited (“SHIL”) at HK\$0.2 per share and JTPL agreed to dispose of its entire shareholding of 120,000,000 shares in the Company to Web Palace Limited (“WPL”) at HK\$0.2 per share.

CSL and JTPL were also holders of options to subscribe for 260,000,000 and 140,000,000 shares in the Company respectively at HK\$0.22 per share, exercisable within one year from 31st May, 2000. Such options were personal to CSL and JTPL respectively and were not assignable by them.

The sole beneficial shareholder of CSL, Worthope Technology Group Co. Ltd., entered into an agreement with SHIL on the same day for the sales of all the issued shares of CSL to SHIL at a consideration of HK\$1. In addition, the sole beneficial shareholder of JTPL, China Sciences Industries Limited, entered into an agreement with WPL on the same day for the sales of all the issued shares of JTPL to WPL at a consideration of HK\$1.

Simultaneous completion of the above agreements was scheduled to take place on or before 28th February, 2001 and was subsequently postponed to not later than 15th May, 2001.

SHIL is owned as to approximately 70% by Mr. Chan Chi Keung, Victor and as to approximately 30% by Mr. Chung Chi Shing, both being directors of the Company. WPL is wholly own by Mr. Lee Tony Yu Tung, an independent third party.

- (ii) On 20th January, 2001, Central China I.T. Limited, a wholly own subsidiary of the Company, entered into a sale and purchase agreement in respect of the acquisition of 45% of the issued share capital of Sharpo Holdings Limited, a company incorporated in the British Virgin Islands, at a cash consideration of HK\$46,350,000. Sharpo Holdings Limited is engaged in e-commerce consultancy, software development, system integration, web design and sales of software.
- (iii) On 19th April, 2001, Express Journey Limited, a wholly own subsidiary of the Company, entered into an unconditional sale and purchase agreement in respect of the acquisition of the entire issued share capital of Excellent Idea Group Limited, a company incorporated in the British Virgin Islands, at a cash consideration of HK\$64,800,000. Excellent Idea Group Limited has a 12.6% interest in Zhong Guang Xin Da Data Broadcasting Technology Co., Ltd. 中廣信達數據廣播技術有限公司, which is an integrator and provider of information and data for broadcasting in the PRC. A deposit of HK\$48,000,000 has been paid as at the balance sheet date and the Group is committed to pay \$16,800,000 as the remaining consideration of this purchase.

39. RELATED PARTY TRANSACTIONS

- (a) The Group did not recognise any guaranteed profit receivable from HHF for the year ended 31st December, 2000 (1999: HK\$39,825,000). Details of the guarantee profit arrangement with HHF are set out in note 40.
- (b) At 31st December, 2000, bank loans of HK\$46,440,000 and HK\$9,346,000 were guaranteed by HHF and 豫港（河南）藍夢家具有限公司, a wholly own subsidiary of HHE, without charge, respectively.

Notes to the Financial Statements

For the Year Ended 31st December, 2000

39. RELATED PARTY TRANSACTIONS (continued)

- (c) During the year, an advance of HK\$7,683,000 was made to HHE and its subsidiaries. The advance was unsecured, interest free and was fully provided during the year.
- (d) During the year, the Group received rental income of HK\$112,000 (1999: nil) from 豫港 (河南) 藍夢家具有限公司. Rentals were negotiated by reference to the market rate.
- (e) During the year, the Group provided automobile repair and maintenance services to HHE and its subsidiary amounting to HK\$42,000 (1999: HK\$44,000). The charge was determined by the directors with reference to market prices for similar transactions.
- (f) At 31st December, 1999, bank loans of the Group amounting to HK\$11,215,000 were guaranteed by 豫港 (河南) 開發有限公司, a wholly own subsidiary of HHE, without charge.
- (g) In 1999, the Group paid interest to HHF amounting to HK\$4,801,000. Interest was calculated at the then prevailing commercial rates.
- (h) Details of balances with related companies are set out in notes 24 and 26.

40. CONTINGENCIES

- (a) In 1999, the Group acquired the entire equity interest in HH Coking from HHF. HHF is a wholly own subsidiary of HHE, a substantial shareholder of the Company.

HHF guaranteed the profit available for distribution of HH Coking, calculated in accordance with accounting principles generally accepted in Hong Kong, to be not less than an equivalent of HK\$32,000,000 for the year ended 31st December, 1999 and HK\$36,000,000 for the year ended 31st December, 2000. During the year ended 31st December, 2000, HH Coking incurred an operating loss of HK\$9,872,000.

- (b) During the year, the Group acquired the entire equity interest in Originsoft from its two shareholders, Zhengzhou Shang Yuan Network Information Company Limited 鄭州商源網絡信息有限公司 (“Shang Yuan”) and Mr. Yang Sheng Zhong. Originsoft is an internet software service provider based in the Henan Province, the PRC.

Shang Yuan and Mr. Yang Sheng Zhong jointly guaranteed the profit after taxation of Originsoft, calculated in accordance with accounting principles generally accepted in the PRC, to be not less than an equivalent of HK\$1,869,000 for the year ended 31st December, 2000 and HK\$9,346,000 for the year ending 31st December, 2001.

For the year ended 31st December, 2000, Originsoft incurred a loss of HK\$952,000 and the Group claimed for the equivalent of HK\$2,821,000 by exercising its rights under the guaranteed profit arrangement.

- (c) The Group experienced difficulties in collecting the guaranteed profit amounts for the year ended 31st December, 2000 under both the HH Coking and the Originsoft guaranteed profit arrangements. The Group has issued demand letters through solicitors to the respective guarantors and is considering to take further actions in order to collect the guaranteed profit amounts. As the recoverability of the guaranteed profits for the year ended 31st December, 2000 was considered by the directors to be uncertain, they had not been recognised in the financial statements.