

# 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 (“Hong Kong Stock Exchange”).

The Company is an investment holding company. The Company and its subsidiaries are principally engaged in property and other investments. Details of the principal activities of the Company’s subsidiaries and Group’s associates are set out in note 44 to the financial statements.

## 2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the valuation of properties and certain investments in securities.

The financial statements have been prepared 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 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 respectively, as appropriate.

All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

### **Investments in subsidiaries**

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share 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.

Investments 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.

# Notes to the Financial Statements

For the year ended 31st December, 2000

## 2. SIGNIFICANT ACCOUNTING POLICIES — *continued*

### **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 net assets of associates are incorporated in the consolidated 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 provide evidence of an impairment of the asset transferred.

The results of associates are accounted for by the Company on the basis of dividend received and receivable during the year. In the Company's balance sheet, investments in associates are stated at cost, as reduced by any decline in the value of the associate that is other than temporary.

### **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, or where appropriate, is capitalised and amortised over its estimated useful life of not more than twenty years. Negative goodwill, which represents the excess over the purchase consideration of the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a subsidiary, 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 the disposal of an investment in a subsidiary or an associate, the attributable amount of goodwill previously eliminated against or credited to reserves and any unamortised goodwill is included in the determination of the profit or loss on disposal.

### **Investment properties**

Investment properties are properties which are held for their investment potential, any rental income being negotiated at arm's length.

# Notes to the Financial Statements

For the year ended 31st December, 2000

## 2. SIGNIFICANT ACCOUNTING POLICIES — *continued*

### **Investment properties**— *continued*

Investment properties are stated at their open market value based on independent professional valuations at each balance sheet date. Any surplus or deficit arising on the revaluation of investment properties is credited or charged to the investment properties revaluation reserve unless the balance on this reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance on the investment properties revaluation reserve is charged to the income statement.

On disposal of an investment property, the balance on the investment properties revaluation reserve attributable to that property is transferred to the income statement.

No depreciation is provided in respect of investment properties which are held under leases with unexpired terms of more than twenty years.

### **Property, plant and equipment**

Property, plant and equipment are stated at cost or valuation less depreciation. 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 assets have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the 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.

Land and buildings are stated in the balance sheet at their revalued amount, being the fair value on the basis of their existing use at the date of revaluation less any subsequent accumulated depreciation. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any surplus arising on revaluation of land and buildings is credited to the asset revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case this surplus is credited to the income statement to the extent of the deficit previously charged. A decrease in net carrying amount arising on revaluation of an asset is charged to the income statement to the extent that it exceeds the balance, if any, on the asset revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to accumulated profits.

# Notes to the Financial Statements

For the year ended 31st December, 2000

## 2. SIGNIFICANT ACCOUNTING POLICIES — *continued*

### **Property, plant and equipment** — *continued*

Depreciation is provided to write off the depreciable amount of the assets, using the straight line method, over their estimated useful lives as follows:

Leasehold land	50 years or over the term of the relevant lease, whichever is shorter
Leasehold buildings	25 years or over the term of the relevant lease, whichever is shorter
Leasehold improvements	3 years
Furniture and fixtures	10 years
Office equipment	5 years
Motor vehicles	10 years

### **Investments in securities**

Investments in securities are recognised on a trade-date basis and are initially measured at cost. At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

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 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 and losses included in the income statement for the year.

### **Convertible bonds**

Convertible bonds are separately disclosed and regarded as liabilities unless conversion actually occurs. The finance cost, including the premium payable upon the final redemption of the convertible bonds, is recognised in the income statement so as to produce a constant periodic rate of charge on the remaining balances of the convertible bonds for each accounting period.

The cost incurred in connection with the issue of convertible bonds are deferred and amortised on a straight line basis over the lives of the convertible bonds from the date of issue of the bonds to their final redemption date. If any of the bonds are purchased and cancelled, redeemed or converted prior to the final redemption date, an appropriate portion of any remaining unamortised costs will be charged immediately to the income statement.

# Notes to the Financial Statements

For the year ended 31st December, 2000

## 2. SIGNIFICANT ACCOUNTING POLICIES — *continued*

### **Turnover**

Turnover represents the aggregate of rental income from leasing of properties, dividend income earned from investments in securities and the gross proceeds received and receivable from trading of securities during the year.

### **Revenue recognition**

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

Rental income under guaranteed return is recognised when the Group's right to receive the guaranteed rental has been established according to the terms of the relevant agreement.

Dividends from investments are recognised when the Group's right to receive the dividend payment has been established.

Income from the trading of securities is recognised upon the exercise of a legally binding and irrevocable contract of sale.

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

### **Taxation**

The charge for taxation is based on the results for the year after adjusting for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purpose 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 the resulting 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 an asset will crystallise in the foreseeable future.

### **Operating leases**

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

### **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 financial statements of overseas operations maintained in foreign currencies are translated at rates ruling on the balance sheet date. Exchange differences arising on consolidation are dealt with in the exchange reserve.

# Notes to the Financial Statements

For the year ended 31st December, 2000

## 2. SIGNIFICANT ACCOUNTING POLICIES — *continued*

### Cash equivalents

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

## 3. TURNOVER

	2000 HK\$'000	1999 HK\$'000
Turnover is analysed as follows:		
Rental income	72,600	76,088
Dividend income from listed securities	4,785	4,682
Proceeds from trading of securities	2,522	262
	<u>79,907</u>	<u>81,032</u>

## 4. OTHER REVENUE

	2000 HK\$'000	1999 HK\$'000
Other revenue includes the following income:		
Interest income	15,338	7,860
Realised gain on other investments	8,533	35,449
Reversal of deficit on revaluation of leasehold land and buildings	1,117	2,510
Unrealised gain on other investments	758	—
Profit on disposal of investment securities	—	7,537
Others	1,321	661
	<u>27,067</u>	<u>54,017</u>

# Notes to the Financial Statements

For the year ended 31st December, 2000

## 5. OTHER OPERATING EXPENSES

	2000 HK\$'000	1999 HK\$'000
Other operating expenses comprise:		
Deficit on revaluation of leasehold land and buildings	(780)	(600)
Provision for other receivables	(6,102)	(5,576)
Unrealised loss on other investments	—	(20,394)
Loss on disposal of an investment property	—	(97,712)
	<u>(6,882)</u>	<u>(124,282)</u>

## 6. PROFIT (LOSS) FROM OPERATIONS

	2000 HK\$'000	1999 HK\$'000
Profit (loss) from operations has been arrived at after charging:		
Auditors' remuneration	514	450
Depreciation	2,833	3,044
Repair and maintenance fund relating to the Group's investment properties in the People's Republic of China ("PRC") expensed	1,371	1,370
Operating lease rentals in respect of land and buildings	266	—
Staff cost (including directors' remuneration)	9,576	8,550
and after crediting:		
Realised gain on trading of securities	690	50
Rental income under operating leases, less outgoings of HK\$22,212,000 (1999: HK\$17,948,000)	6,978	9,884
Rental income under guaranteed return	<u>43,410</u>	<u>48,256</u>

# Notes to the Financial Statements

For the year ended 31st December, 2000

## 7. FINANCE COSTS

	2000 HK\$'000	1999 HK\$'000
Interest on bank loans and overdrafts wholly repayable		
- within five years	6,817	13,865
- over five years	2,445	2,408
Interest on convertible bonds	43,171	44,279
Interest on advance from an associate	3,200	—
Amortisation of direct issuance costs of convertible bonds	2,752	3,002
	<u>58,385</u>	<u>63,554</u>

No interest was capitalised during the year.

## 8. OTHER INCOME (EXPENSES)

	2000 HK\$'000	1999 HK\$'000
Other income (expenses) comprise:		
Profit on repurchase of convertible bonds	11,683	72,344
Provision for amount due from a shareholder of an associate	—	(76,537)
	<u>11,683</u>	<u>(4,193)</u>

## 9. GAIN ON DEEMED DISPOSAL OF INTEREST IN AN ASSOCIATE

The amount represents profit on deemed disposal of interest in SilverNet Group Limited, one of the Group's associates, as a result of the issuance of new shares by SilverNet Group Limited to other investors.



# Notes to the Financial Statements

For the year ended 31st December, 2000

## 10. DIRECTORS' REMUNERATION

	2000 HK\$'000	1999 HK\$'000
Directors' fees:		
Executive	1,100	1,200
Independent non-executive	200	200
	<u>1,300</u>	<u>1,400</u>
Other emoluments (executive directors):		
Salaries and other benefits	1,749	1,785
Performance related incentive payments	150	95
	<u>1,899</u>	<u>1,880</u>
	<u><u>3,199</u></u>	<u><u>3,280</u></u>

The directors' remuneration shown above includes the estimated monetary value of quarters provided rent free during the year to one of the executive directors. The estimated rental value of such accommodation was HK\$514,000 (1999: HK\$550,000).

Remuneration of the directors were within the following bands:

	Number of directors	
	2000	1999
Nil to HK\$1,000,000	13	14
HK\$1,500,001 to HK\$2,000,000	1	1
	<u>14</u>	<u>15</u>

# Notes to the Financial Statements

For the year ended 31st December, 2000

## 11. EMPLOYEES' REMUNERATION

The five highest paid individuals of the Group included 1 (1999: 1) director, details of whose emoluments are set out in note 10 above. The emoluments of the remaining 4 (1999: 4) individuals are as follows:

	2000 HK\$'000	1999 HK\$'000
Salaries and other benefits	2,239	2,239
Performance related incentive payments	380	126
	<u>2,619</u>	<u>2,365</u>

Their emoluments are within the following bands:

	Number of employees	
	2000	1999
Nil to HK\$1,000,000	<u>4</u>	<u>4</u>

The Group does not operate any retirement scheme for its employees.

## 12. TAXATION (CHARGE) CREDIT

	2000 HK\$'000	1999 HK\$'000
The (charge) credit comprises:		
Hong Kong Profits Tax		
- overprovision in prior years	—	42,178
- tax refund of a prior year	—	209
	<u>—</u>	<u>42,387</u>
Share of taxation of associates		
- Hong Kong Profits Tax	(226)	26
- Income tax in the PRC, excluding Hong Kong	(2,066)	3,573
	<u>(2,292)</u>	<u>3,599</u>
	<u>(2,292)</u>	<u>45,986</u>

# Notes to the Financial Statements

For the year ended 31st December, 2000

## 12. TAXATION (CHARGE) CREDIT — *continued*

No provision for Hong Kong Profits Tax has been made as the Group has no assessable profit for the year.

The write back of overprovision for Hong Kong Profits Tax in 1999 was made as a result of an agreement with the Inland Revenue Department on the non-assessability of certain capital gains.

The taxation charge of associates for the year comprises Hong Kong Profits Tax calculated at 16% of the estimated assessable profit for the year and income tax in the PRC, other than those in Hong Kong, calculated at rates prevailing in the respective jurisdictions.

The taxation credit attributable to share of taxation of associates in 1999 represented principally refund of PRC income tax of an associate during that year.

## 13. NET PROFIT (LOSS) FOR THE YEAR

Of the net profit for the year of HK\$32,702,000 (1999: net loss of HK\$120,621,000), a loss of HK\$58,529,000 (1999: a profit of HK\$135,418,000) has been dealt with in the financial statements of the Company.

## 14. DIVIDEND

	2000	1999
	HK\$'000	HK\$'000
Final dividend of 1 cent (1999: nil) per share, proposed	<u>12,847</u>	<u>—</u>

The final dividend of 1 cent per share has been proposed by the directors and is subject to the approval by the shareholders at the annual general meeting to be held on 23rd May, 2001.

## 15. EARNINGS (LOSS) PER SHARE

The calculation of the basic and diluted earnings (loss) per share is based on the following data:

	2000	1999
	HK\$'000	HK\$'000
Earnings (loss) for the purpose of basic and diluted earnings (loss) per share	<u>32,702</u>	<u>(120,621)</u>
<b>Number of shares</b> <i>(in thousand)</i>		
Weighted average number of ordinary shares for the purpose of basis earnings (loss) per share	<u>1,236,859</u>	<u>892,348</u>
Effect of dilutive potential ordinary shares from warrants	<u>1,707</u>	
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>1,238,566</u>	

# Notes to the Financial Statements

For the year ended 31st December, 2000

## 15. EARNINGS (LOSS) PER SHARE — *continued*

The employee share options and convertible bonds have no dilutive effect on the earnings per share for the year.

No diluted loss per share had been presented for 1999 as the employee share options, warrants and convertible bonds had no dilutive effect on the loss per share for 1999.

## 16. INVESTMENT PROPERTIES

	<b>THE GROUP</b>	<b>THE COMPANY</b>
	HK\$'000	HK\$'000
AT VALUATION		
At 1st January, 2000	571,000	101,600
Additions	37,481	37,481
Surplus on revaluation	5,200	2,100
	<u>613,681</u>	<u>141,181</u>
At 31st December, 2000	<u><u>613,681</u></u>	<u><u>141,181</u></u>

The net book value of the investment properties comprises:

	<b>THE GROUP</b>		<b>THE COMPANY</b>	
	<b>2000</b>	1999	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
Held under long term leases:				
- situated in Hong Kong	<b>108,200</b>	106,800	<b>103,700</b>	101,600
- situated in the PRC, other than in Hong Kong	<b>505,481</b>	464,200	<b>37,481</b>	—
	<u><b>613,681</b></u>	<u>571,000</u>	<u><b>141,181</b></u>	<u>101,600</u>

All the investment properties are held for rental income under operating leases.

The professional valuations of the investment properties of the Group and the Company at 31st December, 2000 were carried out by Vigers Hong Kong Limited and DTZ Debenham Tie Leung Limited, firms of independent professional valuers, on an open market value basis.

# Notes to the Financial Statements

For the year ended 31st December, 2000

## 17. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK\$'000	Leasehold improvements HK\$'000	Furniture and fixtures HK\$'000	Office equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
<b>THE GROUP</b>						
<b>COST OR VALUATION</b>						
At 1st January, 2000	56,850	2,236	2,121	1,296	3,642	66,145
Additions	36,491	—	—	46	—	36,537
Deficit on revaluation	(300)	—	—	—	—	(300)
<b>At 31st December, 2000</b>	<b>93,041</b>	<b>2,236</b>	<b>2,121</b>	<b>1,342</b>	<b>3,642</b>	<b>102,382</b>
Comprising:						
At cost	—	2,236	2,121	1,342	3,642	9,341
At professional valuation - 2000	93,041	—	—	—	—	93,041
	93,041	2,236	2,121	1,342	3,642	102,382
<b>DEPRECIATION</b>						
At 1st January, 2000	—	1,730	985	995	1,713	5,423
Provided for the year	1,757	280	283	149	364	2,833
Eliminated on revaluation	(1,757)	—	—	—	—	(1,757)
<b>At 31st December, 2000</b>	<b>—</b>	<b>2,010</b>	<b>1,268</b>	<b>1,144</b>	<b>2,077</b>	<b>6,499</b>
<b>NET BOOK VALUES</b>						
<b>At 31st December, 2000</b>	<b>93,041</b>	<b>226</b>	<b>853</b>	<b>198</b>	<b>1,565</b>	<b>95,883</b>
At 31st December, 1999	56,850	506	1,136	301	1,929	60,722

# Notes to the Financial Statements

For the year ended 31st December, 2000

## 17. PROPERTY, PLANT AND EQUIPMENT — *continued*

	Leasehold land and buildings HK\$'000	Leasehold improvements HK\$'000	Furniture and fixtures HK\$'000	Office equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
<b>THE COMPANY</b>						
<b>COST OR VALUATION</b>						
At 1st January, 2000	14,000	1,717	2,121	1,183	3,642	22,663
Additions	36,271	—	—	46	—	36,317
Surplus on revaluation	700	—	—	—	—	700
<b>At 31st December, 2000</b>	<b>50,971</b>	<b>1,717</b>	<b>2,121</b>	<b>1,229</b>	<b>3,642</b>	<b>59,680</b>
Comprising:						
At cost	—	1,717	2,121	1,229	3,642	8,709
At professional valuation - 2000	50,971	—	—	—	—	50,971
	50,971	1,717	2,121	1,229	3,642	59,680
<b>DEPRECIATION</b>						
At 1st January, 2000	—	1,557	985	889	1,713	5,144
Provided for the year	420	107	283	146	364	1,320
Eliminated on revaluation	(420)	—	—	—	—	(420)
<b>At 31st December, 2000</b>	<b>—</b>	<b>1,664</b>	<b>1,268</b>	<b>1,035</b>	<b>2,077</b>	<b>6,044</b>
<b>NET BOOK VALUES</b>						
<b>At 31st December, 2000</b>	<b>50,971</b>	<b>53</b>	<b>853</b>	<b>194</b>	<b>1,565</b>	<b>53,636</b>
At 31st December, 1999	14,000	160	1,136	294	1,929	17,519

# Notes to the Financial Statements

For the year ended 31st December, 2000

## 17. PROPERTY, PLANT AND EQUIPMENT — *continued*

The net book value of the leasehold land and buildings comprises:

	THE GROUP		THE COMPANY	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Long term leasehold properties				
in Hong Kong	52,100	52,400	14,700	14,000
Medium term leasehold properties				
in the PRC, other than				
in Hong Kong	40,941	4,450	36,271	—
	<u>93,041</u>	<u>56,850</u>	<u>50,971</u>	<u>14,000</u>

The professional valuations of the leasehold properties of the Group and the Company at 31st December, 2000 were carried out by Vigers Hong Kong Limited and Mansion Surveyors Ltd., firms of independent professional valuers, on an open market value basis.

If leasehold land and buildings had not been revalued, they would have been included on a historical cost basis at the following amounts:

	THE GROUP HK\$'000	THE COMPANY HK\$'000
Cost	115,545	51,271
Accumulated depreciation	(11,754)	(2,250)
Net book value at 31st December, 2000	<u>103,791</u>	<u>49,021</u>
Net book value at 31st December, 1999	<u>69,759</u>	<u>13,200</u>

## 18. DEPOSITS ON ACQUISITIONS

	THE GROUP AND THE COMPANY	
	2000 HK\$'000	1999 HK\$'000
Deposit for the acquisition of leasehold properties in the PRC	26,555	26,555
Other deposit	56,000	—
	<u>82,555</u>	<u>26,555</u>

Other deposit represents deposit paid for the acquisition of a 100% interest in an investment holding company which holds a 90% interest in a foreign investment enterprise in the PRC which is engaged in the business of property management.

# Notes to the Financial Statements

For the year ended 31st December, 2000

## 19. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2000 HK\$'000	1999 HK\$'000
Unlisted shares, at cost	1	1
Amounts due from subsidiaries	1,447,837	1,321,412
	<u>1,447,838</u>	<u>1,321,413</u>

Amounts due from subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment.

Particulars of the Company's subsidiaries as at 31st December, 2000 are set out in note 44.

## 20. INTERESTS IN ASSOCIATES

	THE GROUP		THE COMPANY	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Unlisted shares, at cost	—	—	44,643	44,643
Share of net assets ( <i>Note</i> )	648,665	525,349	—	—
Amounts due from associates	777,204	711,408	144,601	139,976
	<u>1,425,869</u>	<u>1,236,757</u>	<u>189,244</u>	<u>184,619</u>
Market value of shares of an associate listed on Hong Kong Stock Exchange	267,300	—	—	—

*Note:* The amount includes the Group's share of unamortised goodwill and premium on acquisition of associates of HK\$19,401,000 (1999: Nil).

Particulars of the associates of the Group and the Company as at 31st December, 2000 are set out in note 44.

The amounts due from associates are unsecured and have no fixed repayment terms. The amounts are non-interest bearing except for an amount of HK\$63,442,000 (1999: HK\$50,400,000) due from an associate which is interest bearing at Hong Kong prime interest rate.



# Notes to the Financial Statements

For the year ended 31st December, 2000

## 20. INTERESTS IN ASSOCIATES — *continued*

The following information relates to the Group's significant associates, namely CII Limited (formerly known as China Infra-Structure Investment Limited) ("CII"), International Copper Industry (China) Investment Limited ("ICC"), Beijing Wangfujing Retail Management Co. Ltd. ("WFJ"), Crabec Holdings (BVI) Limited ("Crabec"), and SilverNet Group Limited ("SilverNet") for the year ended 31st December, 2000.

	CII		ICC		WFJ		Crabec		SilverNet
	2000	1999	2000	1999	2000	1999	2000	1999	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
									<i>(Note)</i>
<b>Operating result</b>									
Turnover/Income	<u>158,280</u>	<u>105,517</u>	<u>—</u>	<u>—</u>	<u>196,156</u>	<u>125,340</u>	<u>392,408</u>	<u>600,661</u>	<u>107,385</u>
Profit (loss) for the year	<u>54,986</u>	<u>49,099</u>	<u>(15,259)</u>	<u>(29,217)</u>	<u>(23,256)</u>	<u>(73,963)</u>	<u>(166,314)</u>	<u>(87,263)</u>	<u>(98,188)</u>
Profit (loss) for the year attributable to the Group	<u>27,493</u>	<u>19,640</u>	<u>(7,630)</u>	<u>(14,609)</u>	<u>(11,628)</u>	<u>(36,982)</u>	<u>(49,894)</u>	<u>(26,179)</u>	<u>(22,930)</u>
<b>Financial position</b>									
Fixed assets	382	752	—	—	331,251	340,282	66,515	102,478	81,301
Investments	2,010,611	1,841,546	753,016	732,155	—	—	101,174	182,090	330,327
Other assets	102,000	102,000	—	—	1,852	28,036	11,650	18,362	15,600
Current assets	352,583	206,144	2	87	246,127	239,894	297,165	394,615	133,158
Current liabilities	(511,706)	(220,293)	(367,018)	(335,589)	(241,462)	(247,189)	(158,992)	(330,812)	(10,725)
Non-current liabilities	(1,773,785)	(1,803,333)	(238,339)	(233,713)	—	—	(172,097)	(55,003)	(50,509)
Net assets	<u>180,085</u>	<u>126,816</u>	<u>147,661</u>	<u>162,940</u>	<u>337,768</u>	<u>361,023</u>	<u>145,415</u>	<u>311,730</u>	<u>499,152</u>
Net assets attributable to the Group	<u>90,043</u>	<u>50,726</u>	<u>73,831</u>	<u>81,470</u>	<u>168,884</u>	<u>180,512</u>	<u>43,625</u>	<u>93,519</u>	<u>151,079</u>

# Notes to the Financial Statements

For the year ended 31st December, 2000

## 20. INTERESTS IN ASSOCIATES — *continued*

SilverNet was acquired by the Group during the year and accordingly no comparative figures are presented.

Capital commitments contracted but not provided for in the financial statements of CII as at 31st December, 2000 in respect of capital contribution and investments in its investee companies amounted to approximately HK\$183 million (1999: HK\$322 million).

SilverNet has given an unlimited corporate guarantee to a bank for general bank facilities granted to certain of its former subsidiaries engaged in retailing business. The banking facilities utilised by those former subsidiaries at 31st December, 2000 were approximately HK\$9,637,000. Subsequent to the balance sheet date, the unlimited corporate guarantee was terminated.

Crabec has given corporate guarantees in respect of general banking facilities granted to its fellow subsidiaries, associates and other parties which are utilised to the extent of approximately HK\$105,099,000 (1999: HK\$115,062,000) as at 31st December, 2000.

A joint venture of CII is granted a construction loan of RMB450 million (1999: RMB450 million) from a bank. The ultimate holding company of a shareholder of CII (the "Guarantor") has provided a guarantee to the bank. CII had signed an agreement with the Guarantor that CII provides counter-indemnity to the Guarantor in relation to the above loan facility. The amount of the loan utilised by the joint venture as at 31st December, 2000 is approximately HK\$320,561,000 (1999: HK\$383,862,000).

# Notes to the Financial Statements

For the year ended 31st December, 2000

## 21. INVESTMENTS IN SECURITIES

	THE GROUP		THE COMPANY	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Investment securities, carried at cost:				
Unlisted shares	2,070	—	2,070	—
Club debentures	450	450	450	450
Other debentures	280	280	280	280
	<u>2,800</u>	<u>730</u>	<u>2,800</u>	<u>730</u>
Other investments, carried at market value:				
Shares listed in Hong Kong	32,797	49,678	5	5
Convertible bonds listed overseas	994	1,041	—	—
	<u>33,791</u>	<u>50,719</u>	<u>5</u>	<u>5</u>
	<u>36,591</u>	<u>51,449</u>	<u>2,805</u>	<u>735</u>
Carrying amount analysed for reporting purposes as:				
Current	2,902	3,613	—	—
Non-current	33,689	47,836	2,805	735
	<u>36,591</u>	<u>51,449</u>	<u>2,805</u>	<u>735</u>

The directors are of the opinion that the investment securities are worth at least their cost.

# Notes to the Financial Statements

For the year ended 31st December, 2000

## 22. OTHER ASSETS

	THE GROUP		THE COMPANY	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Prepaid expenditure	10,969	12,340	—	—
Loan to a potential investee company	3,193	2,804	3,193	2,804
	<u>14,162</u>	<u>15,144</u>	<u>3,193</u>	<u>2,804</u>

The prepaid expenditure is a lump sum payment for repair and maintenance fund made to the property developer for the future repair and maintenance of the general areas of the Group's investment properties in the PRC, as required by the regulations in the PRC. The amount is amortised over its estimated useful life of 10 years.

## 23. LOANS RECEIVABLE

### THE GROUP AND THE COMPANY

The amount comprises a loan of HK\$135,000,000 which is guaranteed by two directors of the Company, bears interest at 1% above Hong Kong prime interest rate and is repayable in September 2001. The other loan of HK\$23,364,000 is unsecured, non-interest bearing and was settled subsequent to the balance sheet date.

## 24. AMOUNTS DUE TO ASSOCIATES

### THE GROUP

Included in the balance as at 31st December, 2000 is an amount of HK\$50,000,000 due to an associate which bears interest at Hong Kong prime interest rate. The remaining amounts are non-interest bearing.

The amounts are unsecured and repayable on demand.

### THE COMPANY

The amount are unsecured, non-interest bearing and repayable on demand.

# Notes to the Financial Statements

For the year ended 31st December, 2000

## 25. SHARE CAPITAL

	Number of shares	Share capital HK\$'000
<i>Authorised:</i>		
Balance at 1st January, 1999, 31st December, 1999 and 31st December, 2000, ordinary shares of HK\$0.20 each	<u>2,000,000,000</u>	<u>400,000</u>
<i>Issued and fully paid:</i>		
Balance at 1st January, 1999	892,343,500	178,469
Issue of shares upon exercise of warrants	<u>19,400</u>	<u>4</u>
Balance at 31st December, 1999	892,362,900	178,473
Subscription of shares	178,468,000	35,694
Placement of shares	213,800,000	42,760
Issue of shares upon exercise of warrants	<u>53,200</u>	<u>10</u>
<b>Balance at 31st December, 2000</b>	<u><b>1,284,684,100</b></u>	<u><b>256,937</b></u>

Pursuant to a subscription agreement dated 4th January, 2000 entered into between the Company and Catic Limited, a wholly-owned subsidiary of China Cinda Asset Management Corporation, 178,468,000 new ordinary shares in the Company were issued to Catic Limited for cash at a price of HK\$0.85 per share. The shares were issued pursuant to the general mandate granted to the directors at the Company's annual general meeting held on 28th June, 1999.

According to the placing agreement dated 23rd February, 2000 entered into between the Company and Tai Fook Securities Company Limited, 213,800,000 new ordinary shares in the Company were issued to independent third parties for cash at a placing price of HK\$0.88 per share in March 2000. The shares were issued pursuant to the general mandate granted to the directors at the Company's extraordinary general meeting held on 19th February, 2000.

During the year ended 31st December, 2000 and 31st December, 1999, 53,200 and 19,400 shares were issued respectively as a result of the exercise of warrants to subscribe for the Company's shares at HK\$0.88 per share.

# Notes to the Financial Statements

For the year ended 31st December, 2000

## 26. SHARE OPTIONS

Pursuant to an ordinary resolution of the Company passed at the annual general meeting held on 26th June, 1995, the Company adopted a share option scheme (the "Scheme") on that date. According to the Scheme, the board of directors of the Company are authorised, at any time within 10 years after the adoption date, to grant options to any directors or employees of the Company or any of its subsidiaries to subscribe for shares in the Company at a price not less than 80 per cent. of the average of closing prices of the Company's shares on the five trading days immediately preceding the offer date of the options or the nominal value of the Company's shares, whichever is higher. The maximum number of shares in respect of which options may be granted under the Scheme cannot exceed 10 per cent. of the aggregate nominal amount of the issued share capital of the Company from time to time.

As at 31st December, 2000, options in respect of 54,000,000 shares in the Company were outstanding.

The options in respect of 30,000,000 shares of the Company entitle the holders to subscribe in cash at a subscription price of HK\$0.967 per share in the share capital of the Company at any time from 9th January, 1997 up to and including 8th January, 2007.

The options in respect of the remaining 24,000,000 shares in the Company entitle the holders to subscribe in cash at a subscription price of HK\$0.90 per share in the share capital of the Company at any time from 27th July, 1999 up to and including 26th July, 2009.

Options in respect of 4,000,000 shares in the Company lapsed during the year following the resignation of the respective directors.

No option were granted or exercised during the year.

## 27. WARRANTS

Pursuant to the resolution passed at the extraordinary general meeting of the Company on 28th June, 1999, a bonus issue of 89,234,350 warrants with subscription rights of HK\$78,526,228 was granted to the shareholders of the Company on the basis of one bonus warrant for every 10 shares then held by them. Each bonus warrant entitles the holder to subscribe in cash at an initial subscription price of HK\$0.88 per share, subject to adjustment, at any time up to and including 30th June, 2001. As a result of the placement of shares in the Company which was completed on 7th March, 2000, the subscription price of the warrant was adjusted to HK\$0.84 per share.

At 1st January, 2000, warrants with subscription rights of HK\$78,509,156 were outstanding. During the year, warrants with subscription rights of HK\$46,816 were exercised and 53,200 new ordinary shares were issued.

At 31st December, 2000, warrants with subscription rights of HK\$78,462,340 were outstanding.

# Notes to the Financial Statements

For the year ended 31st December, 2000

## 28. RESERVES

	Share premium HK\$'000	Investment properties revaluation reserve HK\$'000	Asset revaluation reserve HK\$'000	(Goodwill) capital reserve HK\$'000	Other reserve HK\$'000	Exchange reserve HK\$'000	Accumulated profits (losses) HK\$'000	Total HK\$'000
<b>THE GROUP</b>								
At 1st January, 1999	944,546	24,547	12,156	—	15,548	(1,408)	508,630	1,504,019
Premium on issue of shares	13	—	—	—	—	—	—	13
Revaluation reserve realised upon disposal of an investment property	—	101,212	—	—	—	—	—	101,212
Deficit arising on revaluation of investment properties	—	(51,245)	—	—	—	—	—	(51,245)
Surplus arising on revaluation of leasehold properties	—	—	1,390	—	—	—	—	1,390
Reversal of deferred taxation on revaluation surplus of properties situated in the PRC	—	16,243	—	—	—	—	—	16,243
Exchange reserve arising on translation of foreign operations	—	—	—	—	—	(216)	—	(216)
Share of exchange reserve of associates	—	—	—	—	—	2,280	—	2,280
Share of other reserves of an associate	—	—	—	—	(348)	—	—	(348)
Transfer of accumulated profits to other reserve in associates	—	—	—	—	2,886	—	(2,886)	—
Net loss for the year	—	—	—	—	—	—	(120,621)	(120,621)
At 31st December, 1999	944,559	90,757	13,546	—	18,086	656	385,123	1,452,727
Premium on issue of shares	261,424	—	—	—	—	—	—	261,424
Issue costs	(3,823)	—	—	—	—	—	—	(3,823)
Surplus arising on revaluation of investment properties	—	5,200	—	—	—	—	—	5,200
Surplus arising on revaluation of leasehold properties	—	—	1,120	—	—	—	—	1,120
Deferred taxation on revaluation surplus of properties situated in the PRC	—	(1,170)	—	—	—	—	—	(1,170)
Share of exchange reserve of associates	—	—	—	—	—	(3,661)	—	(3,661)
Goodwill arising on acquisition of an associate	—	—	—	(41,912)	—	—	—	(41,912)
Goodwill arising on acquisition of an associate realised upon dilution of interest in an associate	—	—	—	13,610	—	—	—	13,610
Capital reserve arising on acquisition of additional interest in an associate	—	—	—	12,233	—	—	—	12,233
Share of other reserve of an associate	—	—	—	—	(48)	—	—	(48)
Transfer of accumulated profits to other reserve in associates	—	—	—	—	5,377	—	(5,377)	—
Net profit for the year	—	—	—	—	—	—	32,702	32,702
Proposed dividend	—	—	—	—	—	—	(12,847)	(12,847)
At 31st December, 2000	<u>1,202,160</u>	<u>94,787</u>	<u>14,666</u>	<u>(16,069)</u>	<u>23,415</u>	<u>(3,005)</u>	<u>399,601</u>	<u>1,715,555</u>

# Notes to the Financial Statements

For the year ended 31st December, 2000

## 28. RESERVES — *continued*

	Share premium	Investment properties revaluation reserve	Asset revaluation reserve	(Goodwill) capital reserve	Other reserve	Exchange reserve	Accumulated profits (losses)	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>THE GROUP — <i>continued</i></b>								
Included in the above are the following Group's share of post-acquisition reserves of the associates:								
At 1st January, 1999	—	—	—	—	15,548	(191)	39,599	54,956
Share of reserves during the year	—	—	—	—	(348)	2,280	—	1,932
Share of loss for the year	—	—	—	—	—	—	(54,799)	(54,799)
Transfer of accumulated profits to other reserve	—	—	—	—	2,886	—	(2,886)	—
At 31st December, 1999	—	—	—	—	18,086	2,089	(18,086)	2,089
Share of reserves during the year	—	—	—	—	(48)	(3,661)	—	(3,709)
Share of loss for the year	—	—	—	—	—	—	(62,119)	(62,119)
Transfer of accumulated profits to other reserve	—	—	—	—	5,377	—	(5,377)	—
At 31st December, 2000	—	—	—	—	23,415	(1,572)	(85,582)	(63,739)



# Notes to the Financial Statements

For the year ended 31st December, 2000

## 28. RESERVES — continued

	Share premium HK\$'000	Investment properties revaluation reserve HK\$'000	Asset revaluation reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
<b>THE COMPANY</b>					
At 1st January, 1999	944,546	—	12,156	88,312	1,045,014
Premium on issue of shares	13	—	—	—	13
Revaluation reserve realised upon disposal of an investment property	—	82,401	—	—	82,401
Surplus arising on revaluation of investment properties	—	2,600	—	—	2,600
Surplus arising on revaluation of leasehold properties	—	—	1,390	—	1,390
Net profit for the year	—	—	—	135,418	135,418
At 31st December, 1999	944,559	85,001	13,546	223,730	1,266,836
Premium on issue of shares	261,424	—	—	—	261,424
Issue costs	(3,823)	—	—	—	(3,823)
Surplus arising on revaluation of investment properties	—	2,100	—	—	2,100
Surplus arising on revaluation of leasehold properties	—	—	1,120	—	1,120
Net loss for the year	—	—	—	(58,529)	(58,529)
Proposed dividend	—	—	—	(12,847)	(12,847)
<b>At 31st December, 2000</b>	<b>1,202,160</b>	<b>87,101</b>	<b>14,666</b>	<b>152,354</b>	<b>1,456,281</b>

The Company's reserves available for distribution to shareholders as at 31st December, 2000 represented the accumulated profits of HK\$152,354,000 (1999: HK\$223,730,000).

# Notes to the Financial Statements

For the year ended 31st December, 2000

## 29. SECURED BANK LOANS

The bank loans bear interest at commercial rates and are secured by certain investment properties, leasehold properties and listed securities of the Group (see note 39). The balance is repayable within the following periods:

	<b>THE GROUP AND THE COMPANY</b>	
	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Within 1 year	1,460	55,320
Between 1-2 years	1,612	1,448
Between 2-5 years	5,831	5,263
Over 5 years	15,022	17,176
	<u>23,925</u>	<u>79,207</u>
Less: Amount due within one year included under current liabilities	<u>(1,460)</u>	<u>(55,320)</u>
Amount due after one year	<u><u>22,465</u></u>	<u><u>23,887</u></u>

## 30. CONVERTIBLE BONDS

	<b>THE GROUP</b>	
	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Convertible bonds due in 2004	448,305	484,985
Less: Direct issuance cost ( <i>note 31</i> )	<u>(4,128)</u>	<u>(7,505)</u>
	<u><u>444,177</u></u>	<u><u>477,480</u></u>

# Notes to the Financial Statements

For the year ended 31st December, 2000

## 30. CONVERTIBLE BONDS — *continued*

The Group issued US\$100,000,000 and US\$15,000,000 one per cent. convertible guaranteed bonds due 2004 (the “Bonds”) on 19th August, 1997 and 25th September, 1997 respectively. Unless previously redeemed or purchased and cancelled, each holder of the Bonds has the option to convert the Bonds into fully-paid shares with a par value of HK\$0.20 each in the Company at an initial conversion price of HK\$5.52 per share, subject to adjustments, at any time upto, and including 5th August, 2004 and with a fixed rate of exchange on conversion of HK\$7.7414 = US\$1.00. The conversion price of the Bonds was adjusted to HK\$5.29 per share on 7th March, 2000 as a result of the placement of shares in the Company. The Bonds may be redeemed at the option of the holder of the Bonds on 19th August, 2002 at 142.025 per cent. of the principal amount of the Bonds plus accrued interest. Subject to certain conditions, the Bonds are redeemable at the option of the Group at any time on or after 23rd August, 2000 and prior to 19th August, 2004 at the principal amount of the Bonds plus accrued interest and a premium calculated in accordance with the number of days the Bonds have been outstanding at an annual interest rate of approximately 7 per cent.. If not previously converted, redeemed or purchased and cancelled, the Bonds will be redeemed at the principal amount plus accrued interest on 19th August, 2004.

The Bonds are listed on the Luxembourg Stock Exchange. The Bonds bear interest at 1 per cent. per annum, payable annually in arrears.

During the year, the Group repurchased certain Bonds with total principal amount of US\$5,225,000 at an aggregate consideration of US\$4,598,000. The relevant Bonds were cancelled upon repurchase. The total principal amount of the Bonds in issue as at 31st December, 2000 amounted to US\$57,475,000 (1999: US\$62,700,000).

## 31. DIRECT ISSUANCE COSTS OF CONVERTIBLE BONDS

	THE GROUP	
	2000	1999
	HK\$'000	HK\$'000
Balance at 1st January	7,505	13,738
Less: Amortisation for the year	(2,752)	(3,002)
Written off upon repurchase of convertible bonds	(625)	(3,231)
Balance at 31st December	<u>4,128</u>	<u>7,505</u>

The amount represents direct issuance costs incurred in relation to the Bonds as explained in note 30, as reduced by subsequent amortisation and write off upon conversion or repurchase.

# Notes to the Financial Statements

For the year ended 31st December, 2000

## 32. DEFERRED TAXATION

	THE GROUP		THE COMPANY	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance brought forward	2,669	18,912	—	—
Deferred taxation on revaluation surplus of properties situated in the PRC	1,170	—	—	—
Reversal of deferred taxation on surplus of properties situated in the PRC	—	(16,243)	—	—
Balance carried forward	<u>3,839</u>	<u>2,669</u>	<u>—</u>	<u>—</u>

At the balance sheet date, the major component of the deferred taxation liability provided for in the financial statements is attributable to the surplus arising on revaluation of properties situated in the PRC.

The surpluses arising on revaluation of land and buildings situated in Hong Kong and on revaluation of investments in securities other than those trading securities do not constitute a timing difference for taxation purposes as any profit arising on their subsequent disposal would not be subject to taxation.

At the balance sheet date, the major components of the deferred taxation asset (liability) not recognised in the financial statements are as follows:

	THE GROUP		THE COMPANY	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Tax effect of timing differences attributable to:				
Excess of depreciation allowance claimed for tax purposes over depreciation charged in the financial statements	(326)	(371)	(325)	(370)
Unutilised tax losses	<u>10,167</u>	<u>6,806</u>	<u>9,894</u>	<u>6,482</u>
	<u>9,841</u>	<u>6,435</u>	<u>9,569</u>	<u>6,112</u>

No deferred taxation asset is recognised in the financial statements as it is uncertain that the benefits of the tax losses will crystallise in the foreseeable future.

# Notes to the Financial Statements

For the year ended 31st December, 2000

## 32. DEFERRED TAXATION — *continued*

The major components of the deferred taxation (charge) credit not recognised during the year are as follows:

	THE GROUP		THE COMPANY	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Tax effect of timing differences attributable to:				
Difference of depreciation allowances claimed for tax purposes and depreciation charged in the financial statements	45	127	45	126
Tax losses arising during the year	3,412	1,533	3,412	1,533
Tax losses utilised	(51)	(14)	—	—
	<u>3,406</u>	<u>1,646</u>	<u>3,457</u>	<u>1,659</u>

# Notes to the Financial Statements

For the year ended 31st December, 2000

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

	2000 HK\$'000	1999 HK\$'000
Profit (loss) before taxation	34,994	(166,607)
Share of results of associates	59,827	58,398
Amortisation of direct issuance costs of convertible bonds	2,752	3,002
Repair and maintenance fund expensed	1,371	1,370
Depreciation	2,833	3,044
Exchange loss arising from translation of convertible bonds	4,076	—
Interest income	(15,338)	(7,860)
Interest expense	55,633	60,552
Profit on repurchase of convertible bonds	(11,683)	(72,344)
Profit on disposal of investment securities	—	(7,537)
Gain on deemed disposal of interests in an associate	(94,163)	—
Unrealised (gain) loss on other investments		
other than trading securities	(1,173)	20,716
Deficit on revaluation of leasehold land and buildings	780	600
Reversal of deficit on revaluation of leasehold land and buildings	(1,117)	(2,510)
Realised gain on other investments	(8,533)	(35,449)
Loss on disposal of an investment property	—	97,712
Provision on amount due from a shareholder of an associate	—	76,537
Provision for other receivables	6,102	5,576
Decrease in deposits, prepayments and other receivables	22,291	1,543
Decrease in guaranteed rental receivable	16,010	41,468
Decrease (increase) in marketable securities	711	(1,143)
Decrease in accrued charges, rental deposits and other payables	(25,135)	(39,683)
	<hr/>	<hr/>
Net cash inflow from operating activities	<u>50,238</u>	<u>37,385</u>

# Notes to the Financial Statements

For the year ended 31st December, 2000

## 34. SALE OF A SUBSIDIARY

	2000 HK\$'000	1999 HK\$'000
Net assets disposed of:		
Investments in securities	—	57,667
Other receivables	—	2,493
Accrued charges	—	(183)
Amount due to ultimate holding company	—	(44,104)
	<u>—</u>	<u>—</u>
Total consideration	—	15,873
	<u>—</u>	<u>—</u>
Satisfied by:		
Cash	—	15,873
	<u>—</u>	<u>—</u>

The subsidiary disposed of in 1999 utilised HK\$160,000 of the Group's net operating cash flows and contributed HK\$41,628,000 to the cash flows for investing activities for that year.

The subsidiary disposed of in 1999 had no turnover but contributed HK\$35,289,000 to the Group's profit from operations for that year.

## 35. ANALYSIS OF CHANGES IN FINANCING ACTIVITIES DURING THE YEAR

	Amounts due to associates HK\$'000	Convertible bonds HK\$'000	Secured bank loans HK\$'000	Share capital and premium HK\$'000
At 1st January, 1999	26,356	634,100	104,425	1,123,015
Issue of shares	—	—	—	17
Convertible bonds repurchased	—	(149,115)	—	—
Repayments	—	—	(25,218)	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
At 31st December, 1999	26,356	484,985	79,207	1,123,032
Issue of shares	—	—	—	339,888
Issue costs	—	—	—	(3,823)
Exchange loss arising from translation of convertible bonds	—	4,076	—	—
Convertible bonds repurchased	—	(40,756)	—	—
Advances	50,000	—	—	—
Repayments	—	—	(55,282)	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
<b>At 31st December, 2000</b>	<b><u>76,356</u></b>	<b><u>448,305</u></b>	<b><u>23,925</u></b>	<b><u>1,459,097</u></b>

# Notes to the Financial Statements

For the year ended 31st December, 2000

## 36. ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS

	2000 HK\$'000	1999 HK\$'000
Bank balances and cash	263,512	357,623
Secured bank overdrafts	(52,219)	(90,225)
	<u>211,293</u>	<u>267,398</u>

## 37. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group and the Company had outstanding commitments under non-cancellable operating leases in respect of land and buildings. The portion of these commitments which is payable in the following year is as follows:

	THE GROUP		THE COMPANY	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Operating leases which expire:				
Within one year	—	—	3,000	3,000
In the second to fifth year inclusive	456	—	456	—
	<u>456</u>	<u>—</u>	<u>3,456</u>	<u>3,000</u>

## 38. CAPITAL COMMITMENTS

At the balance sheet date, the Group and the Company had no significant capital commitments.

## 39. PLEDGE OF ASSETS

The Group has pledged its investment properties and leasehold properties which have an aggregate carrying value at the balance sheet date of approximately HK\$108.2 million (1999: HK\$106.9 million) and HK\$45.7 million (1999: HK\$52.4 million) respectively, and investments in securities with an aggregate carrying value at 31st December, 2000 of HK\$29.9 million (1999: HK\$46.1 million) to secure general banking facilities granted to the Group.

The Group has also pledged its investment in ICC and also subordinated a receivable from ICC amounting to approximately HK\$144,601,000 and interest receivable of HK\$12,578,000 as at 31st December, 2000 (1999: HK\$139,976,000 and interest receivable of HK\$7,391,000), in favour of a bank to secure a bank loan granted to ICC (See also note 40). The Group has also executed a second mortgage over certain investment properties and leasehold properties pledged to a bank with carrying value at the balance sheet date of approximately HK\$83.7 million and HK\$14.7 million (1999: Nil) respectively to secure the bank loan granted to ICC.

In 1999, the Group had pledged its bank deposits of HK\$58 million to secure general banking facilities granted to the Group.



# Notes to the Financial Statements

For the year ended 31st December, 2000

## 40. CONTINGENT LIABILITIES

### THE GROUP AND THE COMPANY

- (a) The Company has executed a joint and several guarantee, together with China Nonferrous Metals Holdings (Hong Kong) Limited (“CNM Holdings”), the other shareholder of ICC, in respect of a bank loan granted to ICC of HK\$330 million (1999: HK\$330 million). ICC is holding a 20.542% interest in Jiangxi Copper Company Limited (“JCC”), a company which is listed on Hong Kong Stock Exchange and is an integrated copper producer in the PRC. The loan was originally due in December 1999. The repayment term of the loan had been extended to end of June 2000 and the loan is now overdue. The bank has agreed not to take any action against ICC or the guarantors or to enforce its rights in respect of the pledge of the ICC shares and the JCC shares held by ICC until 30th June, 2001 pending agreement by the Company and CNM Holdings of the ultimate disposal of the JCC shares held by ICC. Up to the date of this report, the Company and CNM Holdings are still in negotiation as to the ultimate disposal of the JCC shares held by ICC. The bank has agreed in principle that it will refinance the bank loan now owed by ICC should the Company decide to take up all the interest in the JCC shares now held by ICC.
- (b) The Group has executed a joint and several guarantee together with other shareholders of an associate, in respect of a bank loan granted to that associate of HK\$232,200,000 (1999: HK\$232,200,000). The amount of bank loan outstanding as at 31st December, 2000 amounted to HK\$58,050,000 (1999: HK\$135,450,000).
- (c) The Company has provided a guarantee, in respect of a bank loan granted to a wholly-owned subsidiary of an associate amounting to approximately HK\$233,645,000 (1999: HK\$233,645,000), to the extent of 52% of the loan balance. The amount of the bank loan outstanding as at 31st December, 2000 amounted to approximately HK\$154,206,000 (1999: HK\$88,785,000).
- (d) The Company, together with one of the Group’s associates, SilverNet, have provided certain warranties in relation to the accounts, assets and liabilities of SilverNet to certain new investors who subscribed for an equity interest in SilverNet. The maximum potential liabilities of the Company towards the new investors in respect of all claims under such warranties will not exceed the amount of the subscription consideration of the new investors amounting to HK\$220 million. A relevant investor will, prior to bringing any claims against the Company under such warranties, claim against SilverNet in respect of such warranties. The Company will only be required to pay to such investor the shortfall in the compensation or damages by reason of SilverNet’s failure to make such full payment or by reason of that investor’s attributable contribution to such compensation or damages.
- No claim has been received by the Company under such warranties.
- (e) In 1999, the Company has also entered into a subordination agreement, together with three other shareholders of a company in which the Group has indirect interest through one of the Group’s associate, in favour of a bank to secure a term loan of US\$10 million granted to that company. The subordination was released in the current year.

# Notes to the Financial Statements

For the year ended 31st December, 2000

## 40. CONTINGENT LIABILITIES — *continued*

### THE COMPANY

The Company guaranteed the issue of US\$115 million convertible bonds (note 30) by Silver Grant International Industries (Cayman) Limited, the Company's wholly owned subsidiary. At 31st December, 2000, the total convertible bonds outstanding amounted to approximately US\$57 million (1999: US\$63 million). The Bonds may be redeemed at the option of the holders of the Bonds on 19th August, 2002 at 142.025 per cent. of their principal amount plus accrued interest. Unpaid interest and premium on redemption in respect of the bonds accrued up to 31st December, 2000 amounted to HK\$121,800,000 (1999: HK\$90,096,000).

## 41. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following transactions with related parties:

	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Rental income under guaranteed return from the investment property purchased from Beijing Huajian Real Estate Co., Limited ("Huajian")	<b>43,410</b>	48,256
Interest expense paid to an associate	<b>3,200</b>	—

In accordance with the terms set out in the sale and purchase agreement dated 27th November, 1997 between the Company and Huajian, the Group is entitled to a guaranteed return which is equal to an annual yield of 10% on the purchase consideration from the date on which the Group fully settled the purchase consideration until 30th June, 1998 and an annual yield of 15% on the purchase consideration for the period from 1st July, 1998 to the end of the three year period from the date the Group fully settled the purchase consideration.

Details of balances with related companies and other transactions with related parties are set out in the consolidated balance sheet on pages 18 and 19 and in notes 20, 23, 24 and 40 to the financial statements.

# Notes to the Financial Statements

For the year ended 31st December, 2000

## 42. SEGMENTAL INFORMATION

The Group's turnover and contribution to operating profit (loss) after finance costs and other income (expenses) for the year ended 31st December, 2000 by principal activity and geographical market are analysed as follows:

	Turnover		Operating profit (loss) after finance costs and other income (expenses)	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
By principal activity:				
Investments	7,307	4,944	4,075	14,346
Property leasing	72,600	76,088	50,390	(39,573)
	<u>79,907</u>	<u>81,032</u>	<u>54,465</u>	<u>(25,227)</u>
Profit on repurchase of convertible bonds			11,683	72,344
Reversal of deficit/deficit arising on revaluation of leasehold land and building (net)			337	1,910
Provision on amount due from a shareholder of an associate			—	(76,537)
			<u>66,485</u>	<u>(27,510)</u>
Finance cost (net)			(43,047)	(55,694)
Corporate expenses			(22,780)	(25,005)
Operating profit (loss) after finance costs and other income (expenses)			<u>658</u>	<u>(108,209)</u>

# Notes to the Financial Statements

For the year ended 31st December, 2000

## 42. SEGMENTAL INFORMATION — *continued*

	Turnover		Operating profit (loss) after finance costs and other income (expenses)	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
By geographical market:				
Hong Kong	11,177	12,658	20,202	(77,798)
The PRC, excluding Hong Kong	68,730	68,374	46,283	50,288
	<u>79,907</u>	<u>81,032</u>	<u>66,485</u>	<u>(27,510)</u>
Finance cost (net)			(43,047)	(55,694)
Corporate expenses			(22,780)	(25,005)
Operating profit (loss) after finance costs and other income (expenses)			<u>658</u>	<u>(108,209)</u>

## 43. POST BALANCE SHEET EVENT

On 23rd December, 2000, the Group entered into a conditional agreement (“Capital Agreement”) with two existing shareholders of Huajian, namely, Silver Grant International Beijing Investment Limited (“SGIBI”) and 中國北京市東城區華興房地產開發建設經營公司 (the “Existing PRC Party”), and 北京市第五建築工程公司 (the “New PRC Party”) whereby the Group agreed to inject US\$58,743,500, either in the form of cash or in the form of asset being the Company’s investment property located in the 4th to 31st floors of South Tower of East Gate Plaza, Beijing, the People’s Republic of China, as registered capital of Huajian. In pursuance to the Capital Agreement, SGIBI also agreed to transfer its interest in US\$16,668,000 of the registered capital in Huajian to the New PRC Party at a consideration of US\$16,668,000. The above transactions were approved at the extraordinary general meeting of the Company held on 6th February, 2001 and completed on the same date. Upon completion of the Capital Agreement, the Group injected its property at East Gate Plaza as consideration for its contribution to the registered capital of Huajian and the Group, SGIBI, and the Existing PRC Party and the New PRC Party collectively share approximately 58.5%, 16.6% and 24.9% of the profits and losses of Huajian respectively.

Mr. Hui Xiao Bing, Mr. Gao Jian Min and Mr. Xu Shi Quan who are the directors of the Company are interested in 35%, 30% and 30% in the issued share capital of SGIBI respectively. SGIBI is entitled to share 80% of the profits and losses of Huajian prior to the signing of the Capital Agreement mentioned above.

# Notes to the Financial Statements

For the year ended 31st December, 2000

## 44. PARTICULARS OF SUBSIDIARIES AND ASSOCIATES

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

Name of company	Place of incorporation	Nominal value of issued ordinary share capital	Proportion of nominal value of issued ordinary share capital held by the Company		Principal activity
			Directly	Indirectly	
Fantasy Resources Limited	British Virgin Islands	US\$1	100%	—	Investment holding
Greenhill Property Limited	British Virgin Islands	US\$1	100%	—	Investment holding
International Copper Industry Investment (BVI) Limited	British Virgin Islands	US\$1	100%	—	Investment holding
Likesway Limited	Hong Kong	HKS2	100%	—	Property holding
Nonferrous Metals International (BVI) Limited	British Virgin Islands	HKS2	100%	—	Investment holding
Nonferrous Metals International Limited	Hong Kong	HKS2	—	100%	Not yet commenced business
Real China Development Limited	Hong Kong	HKS2	100%	—	Property holding
Silver Grant Department Store (BVI) Limited	British Virgin Islands	US\$1	100%	—	Investment holding
Silver Grant Hainan Investment (BVI) Limited	British Virgin Islands	US\$1	100%	-	Inactive
Silver Grant Industrial Investment (BVI) Limited	British Virgin Islands	US\$1	100%	—	Investment holding
Silver Grant Industrial Investment (Casting) Limited	British Virgin Islands	US\$1	100%	—	Investment holding

# Notes to the Financial Statements

For the year ended 31st December, 2000

## 44. PARTICULARS OF SUBSIDIARIES AND ASSOCIATES — *continued*

(a) Particulars of the Company's subsidiaries at 31st December, 2000 are as follows: — *continued*

Name of company	Place of incorporation	Nominal value of issued ordinary share capital	Proportion of nominal value of issued ordinary share capital held by the Company		Principal activity
			Directly	Indirectly	
Silver Grant Industrial Investment (Forging) Limited	British Virgin Islands	US\$1	100%	—	Investment holding
Silver Grant Infra-Structure Investment (BVI) Limited	British Virgin Islands	US\$1	100%	—	Investment holding
Silver Grant International Department Store Limited	Hong Kong	HK\$10	—	100%	Investment holding
Silver Grant International Industrial Investment (Casting) Limited	Hong Kong	HK\$2	—	100%	Investment holding
Silver Grant International Industrial Investment (Forging) Limited	Hong Kong	HK\$2	—	100%	Investment holding
Silver Grant International Industrial Investment Limited	Hong Kong	HK\$10,000	—	100%	Investment holding
Silver Grant International Industries (Cayman) Limited	Cayman Islands	US\$2	100%	—	Issue of convertible bonds
Silver Grant International Infra-Structure Investment Limited	Hong Kong	HK\$2	—	100%	Investment holding

# Notes to the Financial Statements

For the year ended 31st December, 2000

## 44. PARTICULARS OF SUBSIDIARIES AND ASSOCIATES — *continued*

(a) Particulars of the Company's subsidiaries at 31st December, 2000 are as follows: — *continued*

Name of company	Place of incorporation	Nominal value of issued ordinary share capital	Proportion of nominal value of issued ordinary share capital held by the Company		Principal activity
			Directly	Indirectly	
Silver Grant International Securities Investment Limited	Hong Kong	HKS2	—	100%	Securities trading
Silver Grant Real Estate Company (BVI) Limited	British Virgin Islands	US\$1	100%	—	Investment holding
Silver Grant Securities Investment (BVI) Limited	British Virgin Islands	US\$1	100%	—	Investment holding
Southwind Resources Limited	British Virgin Islands	US\$1	—	100%	Not yet commenced business
Twin Sparkle Limited	Hong Kong	HKS2	—	100%	Property holding
Winner Property Limited	British Virgin Islands	US\$1	—	100%	Property investment

Other than the investment holding companies incorporated in the British Virgin Islands which have no principal place of operation and Winner Property Limited which operates principally in the PRC, all subsidiaries principally operate in Hong Kong.

Other than the convertible bonds issued by Silver Grant International Industries (Cayman) Limited as explained in note 30, no loan capital has been issued by any subsidiaries.

# Notes to the Financial Statements

For the year ended 31st December, 2000

## 44. PARTICULARS OF SUBSIDIARIES AND ASSOCIATES — *continued*

(b) Particulars of the Company's associates at 31st December, 2000 are as follows:

Name of company	Place of incorporation/ registration	Proportion of nominal value of issued ordinary share capital/ registered capital held by		Principal activities
		the Group	the Company	
北京王府井百貨商業物業 管理有限公司 Beijing Wangfujing Retail Management Co. Ltd.	PRC	50%	—	Investment holding and retail management
CII Limited	Hong Kong	50%	—	Investment in infrastructure projects
重慶慶鈴鑄造有限公司 Chongqing Qingling Casting Co. Ltd.	PRC	20.07%	—	Manufacture and sale of automobile parts
Crabec Holdings (BVI) Limited	British Virgin Islands	30%	—	Investment holding, property investment and development and provision of civil engineering and decoration services
International Copper Industry (China) Investment Limited	Hong Kong	50%	—	Investment holding in mining and processing of non-ferrous metals business
Ocean Capital Investment Limited	British Virgin Islands	30%	30%	Investment holding
Sanva Properties Limited	British Virgin Islands	35%	35%	Inactive
SilverNet Group Limited	Bermuda	30.27%	—	Investments holding and e-commerce business