

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2000

1. CORPORATE INFORMATION

During the year, the Group was involved in the following principal activities:

- marketing and distribution of left-hand-drive motor vehicles
- property holding for rental income purposes

2. BASIS OF PRESENTATION

During the year, the trading conditions for the Group's principal business of the trading of motor vehicles were adversely affected by certain government regulations regarding the import of motor vehicles into the PRC.

The Group experienced pressure from its bankers with regard to its facilities. As at the balance sheet date, the total consolidated trust receipt and bank loan balances amounted to approximately HK\$46,743,000. Of this amount, approximately HK\$23,909,000 was overdue as at the balance sheet date.

For the year ended 31st December, 2000, the Group incurred a consolidated net loss from ordinary activities attributable to shareholders of approximately HK\$38,315,000. As at 31st December 2000, the Group had consolidated net current liabilities of approximately HK\$40,727,000 and net liabilities of approximately HK\$15,561,000.

During the year, one of the Group's principal bankers withdrew its banking facilities granted to the Group and demanded the immediate repayment of approximately HK\$35,464,000 at that time which included overdue interest. In addition, it demanded the immediate repayment of an aggregate amount of approximately HK\$23,867,000 owed by Winsley Investment Limited, a company controlled by Mr. Chan Chun Choi and Madam Lam Mo Kuen, Anna, both of whom are Directors of the Company, which was guaranteed by the Group. At the balance sheet date, HK\$23,909,000 and HK\$23,570,000 were still due to the mentioned banker from the Group and the related company.

Having regard to this situation, in order to improve the Group's financial position, immediate liquidity, cash flows, profitability and operations, the Directors adopted the following measures:

- (a) the Directors are in active negotiations with the Group's bankers to secure new facilities to meet the immediate repayments of amounts demanded by its principal banker;
- (b) the Directors are considering to increase the capital base of the Group through various fund-raising exercises, including, but not limited to, private placements of the Company's new shares;
- (c) the Directors have taken action to reduce costs; and

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2000

2. BASIS OF PRESENTATION *(continued)*

- (d) the Directors are exploring new business opportunities in e-commerce to diversify the Group's business and improve profitability.

In the opinion of the Directors, if the above measures accomplish the expected results, the Group will have sufficient working capital for its current requirements and it is reasonable to expect the Group to return to a commercially viable concern. Therefore, the Directors considered that it is appropriate to prepare the financial statements on a going concern basis, notwithstanding the Group's financial position and tight cash flows as at 31st December 2000.

Should the Group be unable to continue as a going concern, adjustments would have to be made to restate the value of all assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. The effects of these adjustments have not been reflected in the financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation

These financial statements have been prepared in accordance with all applicable Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the remeasurement of investment properties and certain fixed assets as further explained below.

b) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31st December 2000. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

c) Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital, or controls the composition of its board of directors.

Interests in subsidiaries are stated at cost unless, in the opinion of the Directors, there have been permanent diminution in values, when they are written down to values determined by the Directors.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2000

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

d) Fixed assets and depreciation

Fixed assets, other than investment properties, are stated at cost less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an asset, the expenditure is capitalised as an additional cost of that asset.

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

Medium term lease land	Over the remaining term of the lease
Medium term leasehold buildings	Over the unexpired lease term of the land
Leasehold improvements	Over their expected useful lives or the term of the relevant lease whichever shorter
Furniture and fixtures	30%
Office equipment	30%
Motor vehicles	30%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Where, in the opinion of the Directors, the recoverable amounts of fixed assets have declined below their carrying amounts, provisions are made against cost to write down the carrying amounts of such assets to their recoverable amounts. Recoverable amounts are not determined using discounted cash flows. Reductions of recoverable amounts are charged to the profit and loss account, except to the extent that they reverse previous revaluation surpluses in respect of the same items, when they are charged to the revaluation reserve.

e) Associates

An associate is defined as an entity, other than a subsidiary, in which the Group has a long term interest and over which it has the ability to exercise significant influence but not control, including participation in financial and operating policy decisions.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2000

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

e) **Associates** *(continued)*

Investments in associates are stated in the consolidated balance sheet at the Group's share of net assets other than goodwill less provision and in the balance sheet of the Company at cost less provision. Provision is only made when the Directors consider that there has been a permanent diminution in underlying value of the investment. Any such provision is recognized as an expense in the profit and loss account.

The consolidated profit and loss account reflects, the Group's share of the post acquisition results of the associates.

f) **Investment properties**

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long-term basis for its investment potential. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year. Changes in the value of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

On disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

g) **Leased assets**

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on the straight line basis over the lease terms.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2000

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

h) Inventories

Inventories, comprising entirely finished goods, are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and includes all costs of purchase and other cost incurred in bringing the inventories to their present location and condition. Net realisable value is based on estimated selling price less any estimated cost necessary to make the sale.

i) Deferred taxation

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that a liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

j) Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in profit and loss account.

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

k) Revenue recognition

Revenue is recognised when it is probable that the economics benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) on the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) on the rendering of services, when services are rendered;

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2000

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

k) Revenue recognition *(continued)*

- (c) rental income, on the straight-line basis over the lease terms; and
- (d) interest income, on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable.

l) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

m) 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 advance.

n) Goodwill

Goodwill arising on consolidation of subsidiary companies and on acquisition of associated companies represents the excess purchase consideration paid for such companies over the fair values ascribed to the net underlying assets at the date of acquisition and its written off to profit and loss account in the year of acquisition.

On disposal of an investment in a subsidiary or associated company, the attributable amount of goodwill is included in calculating the profit and loss on disposal.

o) Borrowing costs

Borrowing costs are expensed in the profit and loss account in the period in which they are incurred, except to the extent that they are capitalized as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2000

4. TURNOVER AND REVENUE

Turnover represents the invoiced value of inventories sold, net of discounts and returns, and rental income.

The analysis of the principal activities and geographical locations of the operations of the Company and its subsidiaries during the financial year are as follows:

	Group Turnover		Contribution to loss from operating activities	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Principal activities				
Trading of motor vehicles	26,734	43,541	(6,166)	(28,068)
Rental income	1,220	801	(4,858)	(10,663)
Other revenue	—	—	1,763	3,044
Goodwill written off	—	—	(21,000)	—
Other Group expenses	—	—	(3,116)	(2,037)
	<u>27,954</u>	<u>44,342</u>	<u>(33,377)</u>	<u>(37,724)</u>
Less: Interest expenses			<u>(5,384)</u>	<u>(12,539)</u>
			<u>(38,761)</u>	<u>(50,263)</u>

Geographical locations of operations:

	Group Turnover		Contribution to loss from operating activities	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Hong Kong	24,468	36,308	(37,973)	(47,095)
China	3,486	8,034	(788)	(3,168)
	<u>27,954</u>	<u>44,342</u>	<u>(38,761)</u>	<u>(50,263)</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2000

5. OTHER REVENUE

	Group	
	2000	1999
	HK\$'000	HK\$'000
Interest income	659	3,033
Foreign exchange gain	702	—
Others	402	11
	1,763	3,044

6. LOSS FROM OPERATING ACTIVITIES

Loss from operating activities is arrived at after charging/(crediting) the following:

	Group	
	2000	1999
	HK\$'000	HK\$'000
Auditors' remuneration		
— underprovision in respect of previous year	1	—
— current year	278	565
Depreciation	414	859
Foreign exchange losses, net	—	3,686
Provision for impairment in value of land and buildings (Note 13)	2,480	6,833
Deficit arising from revaluation of investment properties (Note 14)	3,700	4,647
Compensation for breach of contracts	—	4,971
Provision for bad and doubtful debts	380	908
Staff costs (including Directors' remuneration) (Note 8)	3,923	8,872
Goodwill written off (Note 16)	21,000	—
Cost of inventories	25,338	44,664
Interest income	(659)	(3,033)
Gross and net rental income	(1,220)	(801)
Foreign exchange gains, net	(702)	—

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2000

7. FINANCE COSTS

	Group	
	2000	1999
	HK\$'000	HK\$'000
Interest on:		
Bank loans, overdrafts and trust receipt loans	5,384	12,413
Finance leases	—	126
	5,384	12,539

8. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance is as follows:

	Group	
	2000	1999
	HK\$'000	HK\$'000
Fees:		
Executive directors	—	—
Non-executive directors	95	100
Independent non-executive directors	180	188
	275	288
Other emoluments — executive directors:		
Salaries and allowances	1,516	5,145
	1,791	5,433

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2000

8. DIRECTORS' REMUNERATION *(continued)*

The emoluments of the Directors fell within the following bands:

	Group	
	2000	1999
	HK\$'000	HK\$'000
	Number of	Number of
	Directors	Directors
Nil – HK\$1,000,000	8	6
HK\$4,500,001 – HK\$5,000,000	–	1
	8	7
	8	7

There were no arrangements under which a Director waived or agreed to waive any remuneration during the year.

The Group does not operate any pension or retirement schemes for its Directors or employees until the implementation of Mandatory Provident Fund.

9. SENIOR EXECUTIVES' EMOLUMENTS

The five highest paid employees during the year included two (1999: two) directors, details of whose remuneration are set out in note 8 to the financial statements. The three (1999: three) non-director, highest paid employees' received remuneration as follows:

	Group	
	2000	1999
	HK\$'000	HK\$'000
Salaries and allowances	881	894
	881	894

The remuneration of the above non-director, highest paid employees fell within the band of Nil to HK\$1,000,000 in both years.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2000

10. TAXATION

- a) No provision for Hong Kong profits tax has been provided as there were no assessable profits earned in, or derived from, Hong Kong during the year (1999: Nil).

Taxation in the consolidated profit and loss account represents:

	Group	
	2000	1999
	HK\$'000	HK\$'000
Hong Kong:		
Over/(under) provision in prior years	446	(275)
Tax rebate in respect of prior year's tax paid	—	1,084
Tax penalty in respect of prior years	—	(5,800)
	446	(4,991)
Tax penalty indemnified by shareholder (see below)	—	5,800
Tax credit for the year	446	809

At the balance sheet date, the Group had an unprovided deferred tax asset in respect of accumulated tax losses of approximately HK\$15,619,000 (1999: HK\$14,982,000).

The revaluation of the Group's land and buildings and investment properties does not constitute a timing difference and, consequently, the amount of potential deferred tax thereon has not been quantified.

During the year, the Inland Revenue Department of the Hong Kong Special Administrative Region ("IRD") imposed a tax penalty of HK\$5,800,000, relating to prior years' tax issues, on one of the Group's subsidiary companies. Under a deed of indemnity dated 3rd February 1998 given by Mr. Chan Chun Choi and Madam Lam Mo Kuen, Anna ("Mr. and Mrs. Chan"), both are Directors of the Company, this penalty was fully borne by these two Directors. Accordingly, a full provision of HK\$5,800,000 had been made in trade payables, other payables and accruals, and, as this amount had been indemnified by Mr. and Mrs. Chan, an amount of HK\$5,800,000 had been included in prepayments, deposits and other receivables as at 31st December 1999. At the balance sheet date, Mr. and Mrs. Chan have paid HK\$5,800,000 to the IRD in respect of such liabilities.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2000

10. TAXATION (continued)

b) Taxation in the balance sheet represents:

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Balance of profits tax provision in respect of prior years	<u>6,017</u>	<u>8,672</u>	<u>—</u>	<u>—</u>

11. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is HK\$22,553,000 (1999: HK\$49,791,000).

12. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss attributable to shareholders for the year of HK\$38,315,000 (1999: HK\$49,454,000) and the weighted average of 1,229,005,000 (1999: 1,150,230,000 after adjusting for the share subdivision on 22nd February 2000 and warrants exercised during the year) ordinary shares in issue during the year.

The warrants of the Company do not result in a dilution effect on the loss per share in respect of the years ended 31st December 2000 and 1999.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2000

13. FIXED ASSETS

Group

	Medium term leasehold land and buildings in Hong Kong	Leasehold improvement	Furniture and fixtures	Office equipment	Motor vehicles	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost or deemed cost:						
At beginning of year	13,000	69	567	1,163	4,654	19,453
Provision for impairment – note 6	(2,750)	–	–	–	–	(2,750)
	<u>10,250</u>	<u>69</u>	<u>567</u>	<u>1,163</u>	<u>4,654</u>	<u>16,703</u>
At 31st December 2000	<u>10,250</u>	<u>69</u>	<u>567</u>	<u>1,163</u>	<u>4,654</u>	<u>16,703</u>
Accumulated depreciation:						
At beginning of year	–	69	526	944	4,654	6,193
Provided during the year	270	–	31	113	–	414
Write back related to provision for impairment – note 6	(270)	–	–	–	–	(270)
	<u>–</u>	<u>69</u>	<u>557</u>	<u>1,057</u>	<u>4,654</u>	<u>6,337</u>
At 31st December 2000	<u>–</u>	<u>69</u>	<u>557</u>	<u>1,057</u>	<u>4,654</u>	<u>6,337</u>
Net book value:						
At 31st December 2000	<u>10,250</u>	<u>–</u>	<u>10</u>	<u>106</u>	<u>–</u>	<u>10,366</u>
At 31st December 1999	<u>13,000</u>	<u>–</u>	<u>41</u>	<u>219</u>	<u>–</u>	<u>13,260</u>

The Group's medium term leasehold land and buildings carried at a net book value of HK\$10,250,000 (1999: HK\$13,000,000) have been pledged to secure banking facilities as set out in note 21.

The Group's land and buildings as at 31st December 2000 were written down to HK\$10,250,000, being the open market value of the property based on a valuation report prepared by Vigers Hong Kong Limited, an independent professional valuer.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2000

14. INVESTMENT PROPERTIES

	Group	
	2000	1999
	HK\$'000	HK\$'000
At beginning of year	18,500	3,600
Transfer from fixed assets	—	19,547
Revaluation deficit, net — note 6	(3,700)	(4,647)
Balance at 31st December	<u>14,800</u>	<u>18,500</u>

At 31st December 2000, the Group's investment properties were revalued by Vigers Hong Kong Limited, an independent professional valuer, at HK\$14,800,000 on an open market, existing use basis.

The Group's investment properties have been pledged to secure banking facilities as set out in note 21.

Details of the investment properties which are situated in Hong Kong are as follows:

Location	Lease term	Use	Saleable floor area <i>(sq. ft.)</i>	Group's interest
Flat A on 13th Floor Champion Building, Nos. 301-309 Nathan Road, Yau Ma Tei, Kowloon	Long lease	Commercial	1,350	100%
Room 1607, New East Ocean Centre, No. 9 Science Museum Road, Tsimshatsui East, Kowloon	Medium lease	Commercial	2,235	100%

15. INTERESTS IN SUBSIDIARIES

	Company	
	2000	1999
	HK\$'000	HK\$'000
Unlisted shares, at cost	76,309	76,309
Due from subsidiaries	48,604	28,103
	124,913	104,412
Provision for diminution in value	(124,913)	(104,412)
	<u>—</u>	<u>—</u>

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2000

15. INTERESTS IN SUBSIDIARIES (continued)

Details of the principal subsidiaries are as follows:

Name of company	Place of incorporation/ registration and operations	Nominal value of issued/ registered share capital	Attributable equity interest		Principal activities
			Direct	Indirect	
Victory Group (BVI) Limited	British Virgin Islands	Ordinary HK\$100,000	100%	—	Investment holding
Victory Motors Centre Limited	Hong Kong	Ordinary HK\$1,000 Non-voting deferred HK\$3,000,000	—	100%	Trading of motor vehicles
Victory Realty Limited	Hong Kong	Ordinary HK\$10,000	—	100%	Property holding
Hong Kong Waho Development Limited	Hong Kong	Ordinary HK\$1,000,000	—	100%	Property holding
Waret Investment Limited	Hong Kong	Ordinary HK\$2	—	100%	Property holding
華多利(天津)國際貿易 有限公司 (Victory (Tianjian) International Trading Limited)*	People's Republic of China	US\$1,000,000	—	100%	Trading of motor vehicles
Victory H-Tech Company Limited	Hong Kong	Ordinary HK\$100,000	—	100%	Investment holding

* not audited by Fan, Mitchell & Co.

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affect the results for 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

16. INTERESTS IN ASSOCIATE

	Group	
	2000	1999
	HK\$'000	HK\$'000
Unlisted shares, at cost	21,000	—
Share of net assets other than goodwill	—	—
Goodwill written off to profit and loss account	(21,000)	—
	<hr/>	<hr/>
Carrying amount	—	—
	<hr/> <hr/>	<hr/> <hr/>

The Group's share of loss of the associate exceeds the carrying amount of the investment which is reported at nil value and therefore, the Group has not included its share of loss of the associate, which is in accordance with paragraph 20 of Statement of Standard Accounting Practice 10. The Group has no commitment to provide financial support to the associate. Up to the balance sheet date, the Group's share of net liabilities of HK\$141,000 and share of post acquisition loss of HK\$67,000 of the associate are not included in the consolidated financial statements.

Details of the Group's interest in the associate are as follows:

Name of the associate	Place of incorporation & operation	Particulars of issued & paid up capital	Proportion of ownership interest			Principal activity
			Group's effective interest	held by the company	held by subsidiary	
eSolutions Holding Limited	Hong Kong	100 ordinary shares of HK\$1 each	48%	—	48%	Provision of internet and intranet network design and maintains a website which provides content on car news and products, and also vendor services such as on-line car auctions

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2000

17. INVENTORIES

	Group	
	2000	1999
	HK\$'000	HK\$'000
Finished goods	<u>6,636</u>	<u>14,451</u>

The carrying amount of inventories included in the above that are carried at net realisable value was HK\$1,686,000 (1999: HK\$7,050,000). The amount of reversal of a write-down of inventories to estimated net realisable value, recognised in the consolidated profit and loss account as a reduction in amount of inventories recognised as an expense during the year, is HK\$1,563,000 (1999: Nil). This reversal arose due to an increase in the estimated net realisable value of certain motor vehicles as a result of a change in consumer preferences.

18. TRADE RECEIVABLES, PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade receivables, prepayments, deposits and other receivables	<u>921</u>	<u>20,571</u>	<u>242</u>	<u>171</u>

All of the trade receivables, prepayments, deposits and other receivables are expected to be recovered within one year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2000

18. TRADE RECEIVABLES, PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

(continued)

Included in trade and other receivables are trade receivables (net of specific provisions for bad and doubtful debts) with the following ageing analysis:

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Current	497	946	—	—
1 to 3 months overdue	—	—	—	—
More than 3 months overdue but less than 12 months overdue	—	12,751	—	—
More than 1 year	27	—	—	—
	<u>524</u>	<u>13,697</u>	<u>—</u>	<u>—</u>
Prepayments, deposits and other receivables	397	6,874	242	171
	<u>921</u>	<u>20,571</u>	<u>242</u>	<u>171</u>

Debts are due within 28 days from the date of billing. Debtors with balances that are more than 3 months overdue are requested to settle all outstanding balances before any further credit is granted.

19. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Trade payables, other payables and accruals	6,436	12,550	443	526
	<u>6,436</u>	<u>12,550</u>	<u>443</u>	<u>526</u>

All of the trade payables, other payables and accruals are expected to be settled within one year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2000

19. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS *(continued)*

Included in trade payables, other payables and accruals are trade payables with the following aging analysis:

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
More than 1 year	<u>203</u>	<u>203</u>	<u>—</u>	<u>—</u>
	203	203	—	—
Other payable and accruals	<u>6,233</u>	<u>12,347</u>	<u>443</u>	<u>526</u>
	6,436	<u>12,550</u>	443	<u>526</u>

20. DUE TO DIRECTORS

The amounts due to Directors are unsecured, interest free and have no fixed terms of repayment.

21. INTEREST-BEARING BANK BORROWINGS AND TRUST RECEIPT LOANS, SECURED

	Group	
	2000 HK\$'000	1999 HK\$'000
Trust receipt loans, secured	7,320	8,152
Bank overdrafts, secured	20,079	19,971
Bank loans, secured	19,344	30,476
	46,743	<u>58,599</u>
Bank overdrafts repayable within one year, or on demand	20,079	19,971
Bank loans repayable within one year	19,344	30,476
Trust receipt loans repayable within one year	7,320	8,152
	46,743	58,599
Portion classified as current liabilities	(46,743)	(58,599)
Long term portion	<u>—</u>	<u>—</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2000

21. INTEREST-BEARING BANK BORROWINGS AND TRUST RECEIPT LOANS, SECURED *(continued)*

The Group's banking facilities as at 31st December 2000 were secured by the following:

- (i) time deposits of HK\$10,517,000 (1999: HK\$10,002,000);
- (ii) leasehold land and buildings and investment properties of the Group; and
- (iii) certain leasehold land and buildings owned by Mr. Chan Chun Choi and Madam Lam Mo Kuen, Anna, both of whom are Directors of the Company.

22. SHARE CAPITAL

	Company	
	2000	1999
	HK\$'000	HK\$'000
Authorised:		
2,500,000,000 (1999: 500,000,000) ordinary shares of HK\$0.02 (1999: HK\$0.10) each	<u>50,000</u>	<u>50,000</u>
Issued and fully paid:		
1,230,744,000 (1999: 230,000,000) ordinary shares of HK\$0.02 (1999: HK\$0.10) each	<u>24,615</u>	<u>23,000</u>

Details of the changes in the Company's share capital which occurred between 1st January 2000 and 31st December 2000 are as follows:

Share subdivision

On 22nd February 2000, the Company's shares of HK\$0.10 each were divided into five shares of HK\$0.02 each. As a result of the share subdivision, the authorised share capital of the Company of HK\$50,000,000 became 2,500,000,000 subdivided shares of HK\$0.02 each and the issued share capital of HK\$23,000,000 became 1,150,000,000 subdivided shares of HK\$0.02 each.

For the year ended 31st December 2000

22. SHARE CAPITAL *(continued)*

New issue

On 29th February 2000, a total of 75,000,000 ordinary shares of HK\$0.02 each were issued credited as fully paid in consideration for the acquisition of a 48% interest in eSolutions Holding Limited from an independent party.

Warrants

On 17th March 2000, a bonus issue of warrants was made on the basis of one warrant for every five shares held by shareholders on the register of members on 15th March 2000. 245,000,000 warrants were issued pursuant to this bonus issue. Each warrant entitles the holder thereof to subscribe for one ordinary share of HK\$0.02 at a subscription price of HK\$0.30 per share, payable in cash and subject to adjustment in certain events, at any time from the date of issue to 16th March 2001, both dates inclusive. Full exercise of these warrants will result in the issue of 245,000,000 new shares of HK\$0.02 each and gross receipts by the Company of HK\$73,500,000. During the year, 5,744,000 warrants were exercised to subscribe for 5,744,000 ordinary shares of HK\$0.02 each. The remaining 239,256,000 warrants expired on 16th March 2001 unexercised.

Share options

On 22nd January 1998, under the terms of the Company's share option scheme approved by the shareholders, the Board of Directors was empowered, at its discretion, to invite any full time employee of the Company or any of its subsidiaries, including any Executive Directors of the Company or of any subsidiaries, to take up options to subscribe for shares of the Company. The maximum number of shares in respect of which options may be granted under the share option scheme may not exceed, in nominal amount, 10% of the issued share capital of the Company from time-to-time, excluding for this purpose, shares issued upon the exercise of any options granted under the share option scheme. No share options were granted during the current or prior years.

Placing

Subsequent to the balance sheet date, pursuant to a resolution passed in the Board meeting of the Company on 8th January 2001, and by means of placing, the Company issued a total of 240,000,000 new ordinary shares of HK\$0.02 each at a price of HK\$0.023 per share.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2000

23. RESERVES

Group

	Share premium account HK\$'000	Contributed surplus HK\$'000	Enterprise expansion fund* HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits/ (Accumulated losses) HK\$'000	Total HK\$'000
At 1st January 1999	8,258	710	429	(56)	17,132	26,473
Loss for the year	—	—	—	—	(49,454)	(49,454)
At 31st December 1999 and 1st January 2000	8,258	710	429	(56)	(32,322)	(22,981)
Arising on issue of shares	21,108	—	—	—	—	21,108
Share issue expenses	(17)	—	—	—	—	(17)
Exchange realignments	—	—	—	29	—	29
Loss for the year	—	—	—	—	(38,315)	(38,315)
At 31st December 2000	<u>29,349</u>	<u>710</u>	<u>429</u>	<u>(27)</u>	<u>(70,637)</u>	<u>(40,176)</u>

The contributed surplus of the Group represents the excess of the nominal value of the shares of the subsidiaries acquired pursuant to the reorganisation on 22nd January 1998, over the nominal value of the Company's shares issued in exchange.

* The enterprise expansion fund is maintained, and annual allocations to the fund are made, in accordance with the Joint Venture Law of the PRC.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2000

23. RESERVES (continued)

Company

	Share premium account <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January 1999	8,258	64,809	(46,594)	26,473
Loss for the year	—	—	(49,791)	(49,791)
At 31st December 1999 and 1st January 2000	8,258	64,809	(96,385)	(23,318)
Arising on issue of shares for the acquisition of an associated company	19,500	—	—	19,500
Arising on issue of shares	1,608	—	—	1,608
Share issue expenses	(17)	—	—	(17)
Loss for the year	—	—	(22,553)	(22,553)
At 31st December 2000	<u>29,349</u>	<u>64,809</u>	<u>(118,938)</u>	<u>(24,780)</u>

The Company's contributed surplus represents the excess of the fair value of the subsidiary's shares acquired pursuant to the reorganisation on 22nd January 1998, over the nominal value of the Company's shares issued in exchange. Under the Companies Act 1981 of Bermuda, a distribution may be made out of the contributed surplus in certain circumstances.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2000

24. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2000	1999
	HK\$'000	HK\$'000
Loss before taxation	(38,761)	(50,263)
Interest expenses	5,384	12,539
Interest income	(659)	(3,033)
Depreciation	414	859
Goodwill written off	21,000	—
Provision for impairment in value of land and buildings	2,480	6,833
Deficit arising from revaluation of investment properties	3,700	4,647
Decrease in inventories	7,815	875
Decrease/(increase) in prepayments, deposits and other receivables	6,477	(4,508)
Decrease in trade and bills receivables	13,173	83,808
(Decrease)/increase in trade payables, other payables and accruals	(6,439)	2,460
Decrease in deposits received	(42)	(582)
Exchange realignments	29	—
	<hr/>	<hr/>
Net cash inflow from operating activities	<u>14,571</u>	<u>53,635</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2000

24. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

b) Analysis of changes in financing:

	Share capital (including share premium) HK\$'000	Trust receipt loans, bank loans and overdrafts HK\$'000	(Repayment to)/ Advances from Directors HK\$'000	
			Finance lease payables HK\$'000	
Balance at 1st January 1999	31,258	224,395	420	—
Net cash inflow/(outflow) from financing	—	5,659	(420)	3,000
Decrease in short term trust receipt loans, bank loans and overdraft classified in cash equivalents	—	(171,455)	—	—
Balance at 31st December 1999 and 1st January 2000	31,258	58,599	—	3,000
Net cash inflow/(outflow) from financing	1,706	(11,132)	—	(487)
Arising on acquisition of an associated company	21,000	—	—	—
Decrease in short term trust receipt loans, bank loans and overdraft classified in cash equivalents	—	(724)	—	—
Balance at 31st December 2000	<u>53,964</u>	<u>46,743</u>	<u>—</u>	<u>2,513</u>

- c) Included in other operating expenses, disclosed in note 6 to the financial statements in accordance with SSAP 2, are provision for impairment in value of land and buildings of HK\$2,480,000 (1999: HK\$6,833,000), a revaluation deficit on investment properties of HK\$3,700,000 (1999: HK\$4,647,000) and a provision for bad and doubtful debts of HK\$380,000 (1999: 908,000), respectively, which had no cash flow impact on the Group.

The realised portion of net foreign exchange gains of HK\$899,000 (1999: HK\$2,760,000) has been included in net cash outflow from operating activities. The unrealised portion of foreign exchange losses of HK\$197,000 (1999: HK\$926,000) had no cash flow impact on the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2000

25. COMMITMENTS

	Group	
	2000 HK\$'000	1999 <i>HK\$'000</i>
Capital commitments contracted for in respect of capital contributions to certain subsidiaries established in the PRC	<u>3,500</u>	<u>9,100</u>
Foreign exchange forward contracts	<u>—</u>	<u>6,618</u>

Save as disclosed above, the Company and the Group had no other significant commitments at the balance sheet date (1999: Nil).

26. CONTINGENT LIABILITIES

- a) At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2000 HK\$'000	1999 <i>HK\$'000</i>	2000 HK\$'000	1999 <i>HK\$'000</i>
Banking facilities guaranteed by the Company which were utilized by				
— subsidiaries	—	—	46,743	58,599
— a related company	<u>23,570</u>	<u>23,867</u>	<u>23,570</u>	<u>23,867</u>
	<u>23,570</u>	<u>23,867</u>	<u>70,313</u>	<u>82,466</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2000

26. CONTINGENT LIABILITIES *(continued)*

- b) In the prior year, the Group failed to honour a number of purchase contracts signed with two vendors for the purchase of motor vehicles due to an unanticipated contraction in demand. The aggregate contracted amount was approximately HK\$125 million.

The vendors took legal action to enforce the contracts and to seek compensation. The Group agreed to pay compensation totalling HK\$4,971,000. HK\$2,321,000 was paid in the year ended 31st December 1999 and a provision for the remaining balance of HK\$2,650,000 had been included in trade payables, other payables and accruals as at 31st December 2000. However, one of the vendors is seeking further additional compensation of approximately HK\$7.6 million.

Following consultation with the Group's legal advisor, the Directors are of the opinion that the Group has a valid defence against this additional claim and, accordingly, consider no further provision to be necessary. In addition, the Group had made a counter-claim against the vendor for not delivering motor vehicles to satisfy the purchase orders placed by the Group.

27. RELATED PARTY TRANSACTIONS

During the year, the Group provided counter-indemnity in favour of a bank for an outstanding mortgage loan of approximately HK\$23,570,000 borrowed by Winsley Investment Limited ("Winsley"), a company controlled by Mr. Chan Chun Choi and Madam Lam Mo Kuen, Anna, both of whom are Directors of the Company. Winsley is involved in property investment and is also jointly and severally liable for banking facilities granted to the Group by a bank.

Subsequent to the balance sheet date, the mortgage loan was repaid by Winsley on 2nd April 2001.

28. RETIREMENT SCHEME

With the implementation of Mandatory Provident Fund ("MPF") Schemes Ordinance on 1st December 2000 in Hong Kong, the Group also participates in master trust MPF schemes operated by independent service providers. Mandatory contributions to these MPF schemes are made by both the employers and employees at 5% of the employees' monthly relevant income capped at HK\$20,000.

29. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were reviewed by the audit committee and subsequently approved by the Board of Directors on 26th April 2001.