

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

I. ORGANISATION AND OPERATIONS

China Bio-medical Group Limited ("the Company") was incorporated in Hong Kong. On 30 June 2000, the Company changed its name from Kong Tai International Holdings Company Limited to Global Link Cyber International Limited. On 23 April 2001, the Company changed its name from Global Link Cyber International Limited to China Bio-medical Group Limited, the present one. Its shares are listed on The Stock Exchange of Hong Kong Limited.

The Company is an investment holding company. Its subsidiaries are principally engaged in property investment, financial services, vessel transportation and trading of sand and gravel for construction use.

2. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong, and the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Principal accounting policies are summarised below:

a. Basis of presentation

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

For the year ended 31 December 2000, the Group reported a net loss of approximately \$447,387,000. In addition, as at 31 December 2000, the Group had a net current liabilities of approximately \$201,274,000, in part because a substantial portion of the Group's non-current assets were financed by short-term bank borrowings which were overdue or repayable within twelve months. During the year, the Group was unable to repay principal and interest of certain bank borrowings amounting to approximately \$46,171,000 when they fell due. As a consequence, the banks are entitled to demand immediate repayment of the related borrowings and interest which have been classified as current liabilities in the financial statements as at 31 December 2000.

The Group is negotiating with the relevant banks to reschedule the repayment terms of existing loans and to continue providing credit facilities to the Group. In addition, on 16 March 2001 and 15 May 2001, the Company entered into convertible note agreements with two independent purchasers, under which the Company has agreed to issue upto US\$30,000,000 and \$80,000,000 convertible notes upon satisfaction of certain conditions (see Notes 34.a and 34.d). The Group believes the proceeds from the issuance of the convertible notes can provide it with additional working capital after paying off its financial obligations. Also, the Directors believe that future operations of the Group will be successful. Accordingly the financial statements have been prepared on the going concern basis which assumes that the rescheduling of repayment terms of the bank borrowings will be agreed by the relevant banks, the issuance of convertible notes will be successfully completed, and the future operations will be successful.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (continued)

b. Basis of measurement

The financial statements have been prepared on the historical cost basis modified by stating investment properties and land and buildings at open market value as explained in Note 2.f and 2.g and stating investment in securities at fair value as explained in Note 2.j.

c. Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries ("the Group"). The results of subsidiaries acquired or disposed of during the year are recorded from or to their effective dates of acquisition or disposal. Significant intra-group transactions and balances have been eliminated on consolidation.

d. Goodwill and acquisition of subsidiaries

Goodwill arising on acquisition of subsidiaries represents the excess of the cost of acquisition over the Group's share of the fair value of the separable net assets of the subsidiaries acquired less accumulated amortisation and accumulated impairment losses. When the terms of an acquisition provide for a subsequent adjustment of the purchase consideration (for instance, the purchase consideration may be subject to adjustment if the operating results of subsidiaries acquired exceed or fall short of an agreed level after acquisition), such adjustment will be treated as addition to or reduction in the cost of acquisition when it become probable and a reliable estimate can be made. This represents a change from prior year when such adjustment in consideration was accounted for as income or loss of the Group once it became receivable or payable. The Directors of the Company estimated that such change in accounting policy would reduce the accumulated deficit as at 1 January 1999 and increase the net loss for the year ended 31 December 1999 by approximately 14 million, which in their opinion do not have material impact on the financial statements as at and for the year ended 31 December 2000. Accordingly, no prior year adjustment was made in the financial statements.

Goodwill is amortised on a straight-line basis over the estimated economic useful life of five years.

e. Subsidiaries

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

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (continued)

f. Properties, machinery and equipment and depreciation

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

Leasehold improvements	5% (Over lease terms)
Machinery and equipment	6.7% to 20%
Motor vehicles and vessels	10% to 20%
Furniture and fixtures	10% to 25%

Land and buildings are stated at their open market value, on the basis of an annual valuation by independent qualified valuers. Any increase in land and buildings valuation is credited to the property revaluation reserve; any decrease is first offset against an increase on earlier valuation in respect of the same property and is thereafter charged to the income statement.

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

g. Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential and for the long-term. Investment properties are included in the balance sheet at their open market value, on the basis of an annual valuation by independent qualified valuers. Changes in the value of investment properties are dealt with as movements in the investment properties revaluation reserve. If the total of this reserve is insufficient to cover a reduction in the open market value on a portfolio basis, the excess is charged to the income statement. Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the investment properties revaluation reserve to the income statement as part of the profit or loss on disposal of the investment property.

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

h. Long-term investment

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

Income from long-term investment is accounted for to the extent of dividends received or receivable.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (continued)

i. Intangible asset

Intangible asset represents acquisition costs to obtain rights to operate a voice-over-internet system. Intangible asset is stated at cost less provision for any impairment in value, and is amortised on a straight-line basis over a period of three years starting from the commencement of operation.

j. Investment in securities

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

k. Impairment of assets

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

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

l. Turnover and revenue recognition

Turnover comprises (i) transportation service income, (ii) the net sales of merchandise, (iii) rental income, and (iv) interest income from loans receivable.

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

- (i) Transportation service and management fee income are recognised when the related services are rendered;
- (ii) Sales of merchandise is recognised when goods are delivered and title has passed;

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (continued)

I. Turnover and revenue recognition (continued)

- (iii) Rental income is recognised on a straight line basis over the terms of the leases;
- (iv) Interest income is recognised on a time proportion basis on the principal outstanding and at the rate applicable; and
- (v) Dividend income is recognised when the right to receive payment is established.

m. Taxation

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

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

n. Employee retirement benefits

The costs of employee retirement and insurance schemes are expensed in the period in which they are incurred.

o. Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial period of time to prepare for its intended use or sales are capitalised as part of the cost of that asset. All other borrowing costs are recognised as an expense in the period in which they are incurred.

p. Operating leases

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

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (continued)

q. Foreign currency translation

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

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

3. RELATED PARTY TRANSACTIONS

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

a. Particulars of significant transactions between the Group and related parties were as follows:

	2000	1999
	\$'000	\$'000
Loss on disposal of subsidiaries to Singapore Hong Kong Properties Investment Limited ("SHKP") ((i) & (v))	65,211	—
Acquisition of intangible asset from Global Link Cyber Corporation Limited ((ii) & Note 17)	54,000	—
Profit guarantee paid to Wellstech International Limited ((iv) & (vi))	710	—
Interest charged to SHKP and its subsidiaries (i)	7,668	—
Management fee charged to SHKP and its subsidiaries (i)	2,232	30,585
(Reversal of) Profit guarantee charged to		
— Mr. Wong Wai Chi, David	—	110
— David Resources Company Limited ("DRCL") ((iii) & (vii))	(8,234)	20,946
Income arising from waiver of payables to SHKP (i)	—	8,150

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

3. RELATED PARTY TRANSACTIONS (continued)

a. Particulars of significant transactions between the Group and related parties were as follows: (continued)

Notes:

- (i) Singapore Hong Kong Properties Investment Limited ("SHKP") is a company incorporated in Hong Kong and listed on The Hong Kong Stock Exchange Limited, which Mr. Wong Wai Chi, David and Mr. Lui Ming, directors of the Company, are directors of SHKP.
- (ii) Global Link Cyber Corporation Limited is beneficially owned by Mr. Wong Wai Kin, a brother of Mr. Wong Wai Chi, David.
- (iii) David Resources Company Limited ("DRCL") is a company incorporated in Hong Kong in which Mr. Wong Wai Chi, David has beneficial interests.
- (iv) These companies are subsidiaries of SHKP in which Mr. Wong Wai Chi, David and Mr. Lui Ming (directors of the Company) are directors.
- (v) During the year, the Group disposed of nine subsidiaries (all being property holding companies) to SHKP ("the Disposal"). Under the sale and purchase agreement, the total consideration amounted to approximately \$92,400,000 and as a result, the Group recognised a loss on disposal of approximately \$65,211,000 (1999: Nil).

The Group's bank loans amounting to approximately \$62,437,000 as at 31 December 2000 were secured by mortgages over the properties which held by five out of the nine subsidiaries. Those bank loans had not been transferred to SHKP pursuant to the Disposal. The Group is in the process of negotiating with SHKP and the relevant banks for transfer of those loans to SHKP. Should the negotiation be successful, the loss on disposal of the nine subsidiaries would be reduced by approximately \$62,437,000.

- (vi) Pursuant to the terms of disposal of the entire equity interests of Wellstech International Limited ("WIL") to SHKP in June 1999, the Group guaranteed that the total rental income to be earned by WIL for the year ended 28 September 2000 would not be less than \$3,600,000. The total rental income recorded by WIL for the year then ended amounted to approximately \$2,890,000. As a result, profit guarantee of approximately \$710,000 was paid to WIL during the year ended 31 December 2000.
- (vii) Pursuant to two purchase agreements dated 2 December 1996 and 28 February 1997, the Group acquired 20% and 80% of the equity interest in Pacific Engineering Limited ("PEL") from DRCL, respectively. According to the terms of the agreement dated 28 February 1997 ("the Agreement"), DRCL guaranteed that the net profit of PEL would not be less than \$13,000,000 for each of the years ended 31 March 1998 and 1999. The net loss for 31 March 1998 and 1999 amounted to approximately \$7,229,000 and \$7,946,000, respectively. In this accordance, profit guarantee income of approximately \$20,229,000 and \$20,946,000 were recorded in the Group's financial statements for the years ended 31 December 1998 and 1999, respectively. During the year ended 31 December 2000, DRCL claimed that it was only liable to pay 80% of the profit guarantee to the Group under the terms of the Agreement. As a result, 20% of the profit guarantee income amounting to approximately \$8,234,000 were reversed during the year.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

3. RELATED PARTY TRANSACTIONS (continued)

b. Particular of balances with related parties were as follows:

	Consolidated			Company		
	Balance at 31 December 2000 \$'000	Balance at 31 December 1999 \$'000	Maximum balance outstanding during 2000 \$'000	Balance at 31 December 2000 \$'000	Balance at 31 December 1999 \$'000	Maximum balance outstanding during 2000 \$'000
Amount due from a related company						
David Resources Company Limited (a. (iii))	—	6,685	6,685	—	6,685	6,685
Amount due from a director						
Mr. Wong Wai Chi, David	6,966	—	14,364	6,966	—	14,364
Amounts due to related companies						
Wisehall Star Limited (a. (iv))	19,694	44,199	—	—	—	—
David Resources Company Limited (a. (iii))	1,546	—	1,546	—	—	—
Day Success Company Limited (a. (iv))	1,093	—	—	—	—	—
Marson Development Limited (a. (iv))	1,100	—	—	—	—	—
SHKP (a. (i))	558	—	—	—	—	—
	23,991	44,199		1,546		

Outstanding balances with related companies and directors were unsecured, non-interest bearing and without pre-determined repayment terms.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

3. RELATED PARTY TRANSACTIONS *(continued)*

- c. As at 31 December 2000, the Group's banking facilities of approximately \$65,752,000 (1999: Nil) were secured by mortgages over certain properties owned by Marson Development Limited, Day Success Company Limited, Solar Regent Investments Limited, Fairsheen Limited and Bright Wick Limited (see Note 3.a (iv)).
- d. As at 31 December 2000, the Company provided guarantees of approximately \$155,432,000 (1999: \$45,000,000) to banks in respect of banking facilities extended to Wellstech International Limited, Wholesome Investments Limited, Kong Tai Properties Development Company Limited and Pak Fook Company Limited (see Note 3.a (iv)).
- e. During the year ended 31 December 2000, the Group paid professional fees totalling approximately \$5,825,000 (1999: \$30,000) to Messrs. John Ku, Tam & Ho under normal commercial terms. Messrs. John Ku, Tam & Ho is a firm of solicitors where Tam Tai Wai, a non-executive director of the Company, is a partner.

4. TURNOVER AND REVENUE

Analysis of turnover and revenue by major category was as follows:

	2000	1999
	\$'000	\$'000
Transportation service income (a)	23,826	—
Rental income	9,233	8,741
Net sales of merchandise	6,608	18,062
Interest income from loans receivable	2,831	—
Income from construction contracts	—	10,696
Total turnover	42,498	37,499
Management fee income (Note 3.a)	2,232	30,585
Interest income		
— bank deposits	1,723	1,096
— amount due from related companies (Note 3.a)	7,668	—
Rental income from operating lease, other than those relating to investment properties	—	550
Dividend income	—	143
Total other revenue	11,623	32,374
Total revenue	54,121	69,873

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

4. TURNOVER AND REVENUE (continued)

All turnover and revenue are generated from activities conducted in Hong Kong.

Note:

- a. The largest customer of the Group's transportation business accounted for approximately 99% of the Group's transportation service income.

5. LOSS FROM OPERATIONS

Loss from operations in the consolidated income statement was determined after charging and crediting the following items:

	2000	1999
	\$'000	\$'000

After charging:

Holding losses on and loss on disposal of investment in securities (Note 18)		
— Singapore Hong Kong Properties Investment Limited	26,017	55,450
— Others	285	20,017
Loss on disposal of properties, machinery and equipment	471	92
Amortisation of goodwill	4,894	2,135
Depreciation		
— owned assets	3,152	2,312
— assets held under finance leases	—	331
Operating lease rentals in respect of		
— rented premises	1,375	1,547
— machinery and equipment	48	582
Staff costs (including directors' emoluments)	22,531	28,701
Auditors' remuneration	1,280	1,232

After crediting:

Rental income less outgoings	9,233	9,291
Interest income	12,222	1,096
Income arising from waiver of payable to a related company	—	8,150

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

6. INTEREST EXPENSE

	2000	1999
	\$'000	\$'000
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Interest expense on		
— short-term bank borrowings	24,887	36,252
— other short-term borrowings	4,081	7,307
— long-term bank loans		
— wholly repayable within five years	11,571	27,381
— not wholly repayable within five years	23,578	23,594
— finance lease obligations	—	101
	<hr/>	<hr/>
	64,117	94,635

7. DIRECTORS' AND SENIOR EXECUTIVE EMOLUMENTS

a. Details of directors' emoluments were:

	2000	1999
	\$'000	\$'000
<hr/>		
Fees for executive directors	302	867
Fees for non-executive director	124	—
Fees for independent non-executive directors	300	1,633
Other emoluments for executive directors		
— Basic salaries, allowances and benefits in kind (i)	18,474	17,960
— Bonuses (ii)	5,000	—
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	24,200	20,460

Notes:

- (i) Benefits in kind includes the difference between the market price of the Company's shares and the exercise price of share options granted to the directors at the date of exercise of the share options by the directors irrespective of whether the resulting shares were sold or retained by the directors. For the year ended 31 December 2000, the difference amounted to approximately \$4,245,000 and does not have impact on the results of operations of the Group.
- (ii) The Company's executive directors were entitled to discretionary bonuses.
- (iii) No directors waived any emoluments during the year. No incentive payment for joining the Group or compensation for loss of office was paid or payable to any director during the year.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

7. DIRECTORS' AND SENIOR EXECUTIVE EMOLUMENTS (continued)

- a. Details of directors' emoluments were: (continued)

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

	2000	1999
Executive directors		
— Nil to \$1,000,000	4	1
— \$1,000,001 to \$1,500,000	—	—
— \$2,500,001 to \$3,000,000	—	1
— \$16,000,001 to \$16,500,000	—	1
— \$17,500,001 to \$18,000,000	1	—
	5	3
Non-executive directors/independent non-executive directors		
— Nil to \$1,000,000	4	4

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

	2000	1999
	\$'000	\$'000
Directors' fees	326	1,300
Basic salaries, allowances and benefits in kind (i)	20,053	19,085
Bonuses (ii)	5,000	—
	25,379	20,385

Notes:

- (i) Benefits in kind includes the difference between the market price of the Company's shares and the exercise price of share options granted to the individuals at the date of exercise of the share options by the individuals irrespective of whether the resulting shares were sold or retained by the individuals. For the year ended 31 December 2000, the difference amounted to approximately \$4,955,000 and does not have impact on the results of operations of the Group.
- (ii) The employees were entitled to discretionary bonuses.
- (iii) Four (1999: Three) of the highest paid individuals were directors of the Company, whose emoluments had been included in Note 7.a.
- (iv) During the year, no emoluments of the five highest paid individual (including directors and other employees) was incurred as inducement to join or upon joining the Group or as compensation for loss of office.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

7. DIRECTORS' AND SENIOR EXECUTIVE EMOLUMENTS *(continued)*

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

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

	2000	1999
Nil to \$1,000,000	3	2
\$1,000,001 to \$1,500,000	1	1
\$2,500,001 to \$3,000,000	—	1
\$16,000,001 to \$16,500,000	—	1
\$17,500,001 to \$18,000,000	1	—
	5	5

8. TAXATION

Taxation consisted of:

	2000	1999
	\$'000	\$'000
Current taxation		
— Provision for Hong Kong profits tax	—	5

No Hong Kong profits tax was provided as there was no assessable profit arising in or derived from Hong Kong.

For the year ended 31 December 2000, unprovided deferred tax assets, primarily representing the tax effect of current year tax losses amounted to approximately \$9,246,000 (1999: \$1,655,000).

9. NET LOSS

The net loss includes a loss of \$449,444,000 (1999: \$178,478,000) dealt with in the financial statements of the Company.

10. LOSS PER SHARE

The calculation of basic loss per share for the year ended 31 December 2000 is based on the net loss of \$447,387,000 (1999: \$163,911,000) and weighted average of 5,454,463,000 ordinary shares (1999: weighted average of 4,396,826,925 shares) in issue during the year.

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

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

II. PROPERTIES, MACHINERY AND EQUIPMENT

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

	2000				1999	
	Land and buildings	Machinery and equipment	Motor vehicles and vessels	Leasehold improvements, furniture and fixtures	Total	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cost or valuation						
Beginning of year	63,620	—	1,901	870	66,391	65,314
Additions	—	—	1,055	644	1,699	420
Attributable to acquisition of a subsidiary	—	10,227	2,767	741	13,735	—
Disposal	—	—	(1,656)	(703)	(2,359)	(4,345)
Attributable to disposal of subsidiaries	—	—	—	—	—	(818)
(Deficit) Surplus on revaluation	(15,620)	—	—	—	(15,620)	5,820
End of year	48,000	10,227	4,067	1,552	63,846	66,391
Representing:						
At cost	—	10,227	4,067	1,552	15,846	2,771
Valuation	48,000	—	—	—	48,000	63,620
	48,000	10,227	4,067	1,552	63,846	66,391
Accumulated depreciation						
Beginning of year	—	—	(1,585)	(240)	(1,825)	(3,766)
Charge for the year	(1,272)	(1,259)	(491)	(130)	(3,152)	(2,643)
Written-back on disposal	—	—	1,491	147	1,638	3,034
Attributable to disposal of subsidiaries	—	—	—	—	—	394
Written back on revaluation	1,272	—	—	—	1,272	1,156
End of year	—	(1,259)	(585)	(223)	(2,067)	(1,825)
Net book value						
End of year	48,000	8,968	3,482	1,329	61,779	64,566
Beginning of year	63,620	—	316	630	64,566	61,548

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

II. PROPERTIES, MACHINERY AND EQUIPMENT *(continued)*

b. Movements in properties, machinery and equipment (company) were:

	2000		1999	
	Motor vehicles \$'000	Furniture and fixtures \$'000	Total \$'000	Total \$'000
Cost				
Beginning of year	1,901	566	2,467	3,780
Additions	1,000	265	1,265	87
Disposal	(1,656)	(425)	(2,081)	(1,400)
End of year	<u>1,245</u>	<u>406</u>	<u>1,651</u>	<u>2,467</u>
Accumulated depreciation				
Beginning of year	(1,585)	(216)	(1,801)	(1,875)
Charge for the year	(149)	(24)	(173)	(707)
Written back on disposal	1,491	126	1,617	781
End of year	<u>(243)</u>	<u>(114)</u>	<u>(357)</u>	<u>(1,801)</u>
Net book value				
End of year	<u>1,002</u>	<u>292</u>	<u>1,294</u>	<u>666</u>
Beginning of year	<u>316</u>	<u>350</u>	<u>666</u>	<u>1,905</u>

c. Land and buildings were stated at open market value as at 31 December 2000 as determined by RHL Appraisal Ltd., independent qualified valuers. All of the Group's land and buildings are located in Hong Kong, held under long-term leases and mortgaged as collateral for the Group banking facilities (see Note 32).

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(Amounts expressed in Hong Kong dollars unless otherwise stated)

12. INVESTMENT PROPERTIES

Movement of investment properties (consolidated) were:

	2000	1999
	\$'000	\$'000
Beginning of year	662,645	687,770
Additions	329	92
Disposals	(905)	—
Attributable to disposal of subsidiaries	(239,250)	(84,400)
(Deficit) Surplus on revaluation	(121,057)	59,183
End of year	301,762	662,645

Investment properties were stated at open market value as at 31 December 2000 as determined by RHL Appraisal Ltd., independent qualified valuers. Certain of the Group's investment properties were mortgaged as collateral for the Group's banking facilities (see Note 32).

The geographical locations and tenure of investment properties were as follows:

	2000	1999
	\$'000	\$'000
Hong Kong		
— medium-term leases	64,382	127,720
— long-term leases	237,380	534,925
	301,762	662,645

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

13. LONG-TERM INVESTMENT

	Consolidated		Company	
	2000	1999	2000	1999
	\$'000	\$'000	\$'000	\$'000
HKI28.com Limited	60,000	—	60,000	—
Less: Provision for impairment in value	(59,999)	—	(59,999)	—
	1	—	1	—

Note: In February 2000, the Company acquired 15% equity interests in HKI28.com Limited, a company incorporated in the British Virgin Islands by issuance of 300,000,000 ordinary shares of the Company of \$0.2 each at par. HKI28.com Limited is principally engaged in the operation of a financial information website in Hong Kong. The Directors assessed the recoverability of the long-term investment taking into account of its value in use and the net selling price. In their opinion, the value of such long-term investment is not less than its carrying value.

14. DEPOSIT PAID FOR ACQUISITION OF AN ASSOCIATE

In November 2000, the Group paid a deposit of \$5,000,000, representing 100% of the consideration, to acquire the entire equity interests of China Bio-medical Company Limited ("CBMCL"), an investment holding company incorporated in Hong Kong. The acquisition was completed on 3 January 2001.

In December 2000, the Group advanced \$24,500,000 to CBMCL. Such advance was placed in escrow with a PRC legal firm as at 31 December 2000 and was intended to be used as capital contribution to a 49% sino-foreign equity joint venture of CBMCL in the PRC. The entire set up process of the joint venture is expected to be completed before 30 June 2001.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

15. GOODWILL

	Consolidated	
	2000	1999
	\$'000	\$'000
Goodwill on acquisition of:		
a. Global Link Shipping Limited ("GLSL")	41,527	—
Less: Accumulated amortisation	(4,894)	—
Provision for impairment in value	(25,433)	—
	11,200	—
b. Pacific Engineering Limited	—	64,777
Less: Accumulated amortisation	—	(21,595)
Provision for impairment in value	—	(43,182)
	—	—
	11,200	—

Note: During the year ended 31 December 2000, the Group acquired from an independent third party ("the Vendor") a 70% equity interests in Global Link Shipping Limited ("GLSL") at consideration of approximately \$56,000,000. Under the sales and purchase agreement, the Vendor guaranteed that the net profit of GLSL will not be less than \$16,000,000 during the period from 27 May 2000 (date of completion of the acquisition) to 26 May 2002. As at the date of approval of this financial statements, the amount of profit guarantee to be recovered from the Vendor is yet to be determined.

16. INVESTMENT IN SUBSIDIARIES

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

	2000	1999
	\$'000	\$'000
Unlisted shares, at cost	83,528	83,805
Loans to subsidiaries	826,436	905,846
	909,964	989,651
Less: Provision for impairment in value and doubtful loan receivables	(764,620)	(702,422)
	145,344	287,229

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

16. INVESTMENT IN SUBSIDIARIES (continued)

Loans to subsidiaries of approximately \$61,000,000 (1999: Nil) were unsecured and bore interest at 0.7% per annum (1999: Nil). Other loans to subsidiaries were unsecured and non-interest bearing. The Company has agreed not to demand repayment from the subsidiaries before 1 January 2002.

Other outstanding balances with subsidiaries were unsecured, non-interest bearing and had no pre-determined repayment terms.

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

Details of the principal subsidiaries as at 31 December 2000 were as follows:

Name of company	Place of incorporation/ operation	Issued and fully paid capital	Percentage of equity interest held	Principal activity
Better Express Limited*	Hong Kong	\$2	100%	Property investment
Brilliant Team Investment Limited	Hong Kong	\$2	100%	Investment holding
China Forum Investments Limited	Hong Kong	\$2	100%	Property investment
Citifine (H.K.) Limited*	Hong Kong	\$2	100%	Construction
Deluxe Gold International Limited	Hong Kong	\$2	100%	Property investment
Digital Future Limited	Hong Kong	\$10,000	100%	Investment holding
Excelink Industries Limited*	Hong Kong	\$2	100%	Property investment
Global Link Digital Electronic Company Limited*	Hong Kong	\$10,000	60%	Investment holding
Global Link Finance Limited	Hong Kong	\$2	100%	Financial services
Global Link Shipping Limited*	Hong Kong	\$100,000	70%	Vessel transportation
Gold Choice Enterprise Limited	Hong Kong	\$2	100%	Administration services
Goldeagle Investments Limited*	Hong Kong	\$2	100%	Property investment
Golden Head Limited	Hong Kong	\$2	100%	Property investment

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

16. INVESTMENT IN SUBSIDIARIES (continued)

Name of company	Place of incorporation/ operation	Issued and fully paid capital	Percentage of equity interest held	Principal activity
Goodfaith Finance Limited	Hong Kong	\$10,000,000	100%	Financial services
Grace Concord Investment Limited	Hong Kong	\$2	100%	Property investment
Grand Inn Limited*	Hong Kong	\$2	100%	Property investment
Infinity Properties Limited*	Hong Kong	\$2	100%	Property investment
Jet Quarter Limited*	Hong Kong	\$2	100%	Property investment
Jumbo Gold International Limited	Hong Kong	\$2	100%	Property investment
Karsen Investment Limited	Hong Kong	\$2	100%	Property investment
Kimpo Investment Limited	Hong Kong	\$2	100%	Investment holding
King Regent Investments Limited	Hong Kong	\$2	100%	Property investment
New Quarter Limited*	Hong Kong	\$2	100%	Property investment
Nicehome Limited*	Hong Kong	\$2	100%	Property investment
Nice Palace Limited*	Hong Kong	\$2	100%	Property investment
Ontex Investment Limited	Hong Kong	\$2	100%	Investment holding
Pacific Engineering Limited	Hong Kong	\$10,000	100%	Trading of sea sand
Propland Limited*	Hong Kong	\$2	100%	Property investment
Right Talent Investment Limited	Hong Kong	\$2	100%	Property investment
Sheen Win Investment Limited	Hong Kong	\$2	100%	Property investment
Sky Rich Investment Limited	Hong Kong	\$2	100%	Property investment
Silver Luck Investment Limited	Hong Kong	\$2	100%	Property investment
Stand Company Limited*	Hong Kong	\$2	100%	Property investment

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

16. INVESTMENT IN SUBSIDIARIES (continued)

Name of company	Place of incorporation/ operation	Issued and fully paid capital	Percentage of equity interest held	Principal activity
Talent Power Technology Limited	Hong Kong	\$2	100%	Investment holding
T & A Investments Limited*	Hong Kong	\$2	100%	Property investment
U & F Company Limited*	Hong Kong	\$2	100%	Property investment
V & O Company Limited*	Hong Kong	\$2	100%	Property investment

* These subsidiaries are indirectly owned by the Company.

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

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

17. INTANGIBLE ASSET

	Consolidated	
	2000	1999
	\$'000	\$'000
Rights to operate a voice-over-internet system	54,000	—
Less: Provision for impairment in value	(26,000)	—
	28,000	—

On 29 May 2000, the Group acquired rights to operate a voice-over-internet system for a period of ten years from Global Link Cyber Corporation Limited (which is beneficially owned by Mr. Wong Wai Kin, brother of Mr. Wong Wai Chi, David, a director of the Company) at a cash consideration of \$54,000,000. The Directors assessed the recoverability of the intangible asset taking into account the advice from independent qualified valuers and considered that the value of such intangible asset is not less than its carrying value.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

18. INVESTMENT IN SECURITIES

	Consolidated and Company	
	2000	1999
	\$'000	\$'000
Hong Kong listed shares		
— Singapore Hong Kong Properties Investment Limited, at cost	63,434	63,350
— Others	2,446	2,446
	65,880	65,796
Less: Accumulated holding losses	(53,960)	(27,658)
Listed shares, at market value	11,920	38,138

19. TRADE RECEIVABLES

The Group provides terms credit to customers in accordance with the Group's established credit policies ranging from 30 to 180 days. The aging analysis of trade receivables (consolidated) as at 31 December 2000 was as follows:

	2000	1999
	\$'000	\$'000
Within 1 month	6,985	2,470
1–2 months	3,408	246
2–3 months	787	552
3–6 months	622	1,232
6–12 months	583	784
Over 1 year	1,834	3,842
	14,219	9,126
Less: Provision for doubtful trade receivables	(6,220)	(1,246)
	7,999	7,880

The largest trade receivable accounted for approximately 57% of the gross trade receivables of the Group.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

20. LOANS RECEIVABLE

	2000	1999
	\$'000	\$'000
Loans receivable	29,773	7,848
Less: Provision for doubtful loans receivable	(7,295)	(7,000)
	22,478	848

Loans receivable were unsecured, bore interest at rate of 9.6% per annum (1999: Hong Kong prime leading rate plus 2% per annum) and were repayable within one year.

21. SHORT-TERM BORROWINGS

Short-term borrowings comprised:

	Consolidated		Company	
	2000	1999	2000	1999
	\$'000	\$'000	\$'000	\$'000
Bank overdrafts	101,942	233,736	54,064	91,813
Trust receipts bank loans	27,041	39,626	—	—
Current portion of long-term bank loans	79,825	111,335	—	—
Other borrowings	6,952	21,427	6,952	21,426
	215,760	406,124	61,016	113,239

Short-term bank borrowings bore interest at rates ranging from the Hong Kong prime lending rate plus 0.25% to 3.5% per annum (1999: Hong Kong prime lending rate plus 0.25% to 3.5% per annum). Refer to Note 32 for details of the Group's banking facilities.

Other borrowings, representing advances from securities brokers, bore interest at rates ranging from 21% to 24% per annum (1999: 21% to 24% per annum) and were secured by the Group's investment in securities with a net book value of \$11,672,000 (1999: \$37,350,000).

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

22. TRADE PAYABLES

The aging analysis of trade payables (consolidated) as at 31 December 2000 was as follows:

	2000	1999
	\$'000	\$'000
Within 1 month	2,312	909
1-2 months	740	1,333
2-3 months	440	412
3-6 months	3,868	2,703
6-12 months	3,584	468
Over 1 year	3,338	1,659
	14,282	7,484

23. LONG-TERM BANK LOANS

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

	2000	1999
	\$'000	\$'000
Amounts repayable within a period		
— not exceeding one year	79,825	111,335
— more than one year but not exceeding two years	19,300	29,692
— more than two years but not exceeding five years	58,006	78,266
— more than five years	83,681	116,825
	240,812	336,118
Less: Amounts repayable within one year included under current liabilities	(39,505)	(111,335)
Amounts included under current liabilities as a result of default payment during the year	(40,320)	—
	160,987	224,783

Long-term bank loans bore interest ranging from the Hong Kong prime lending rate plus 0.25% to 2.5% per annum.

Owing to the liquidity situation as described in Note 2.a, the Group was unable to repay principal and interest of certain bank borrowings totalling approximately \$46,171,000 when they fell due. As a result, the relevant banks are entitled to immediate repayment of the entire amount of relevant borrowings, which have been classified as current liabilities in the financial statements.

Please refer to Note 32 for details of the Group's bank facilities.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

24. DEFERRED TAXATION

Deferred taxation represented the taxation effect of the following timing difference:

	2000	1999
	\$'000	\$'000
Accelerated depreciation allowance of properties, machinery and equipment for taxation purposes	1,334	—

Deferred tax assets totalling approximately \$29,562,000 (1999: \$20,316,000) in respect of tax losses of the Group were not recognised as the related tax benefits are not expected to crystallise in the foreseeable future.

25. SHARE CAPITAL

	2000		1999	
	Number of shares '000	Nominal value \$'000	Number of shares '000	Nominal value \$'000
Authorised (ordinary shares of \$0.2 each)	10,000,000	2,000,000	10,000,000	2,000,000
Issued and fully paid (ordinary shares of \$0.2 each)				
Beginning of year	4,396,827	879,365	4,396,827	879,365
Issued under private placements (a)	1,300,000	260,000	—	—
Issued for acquisition of long-term investment (b)	300,000	60,000	—	—
Issued upon exercise of employee share options (c)	204,600	40,920	—	—
End of year	6,201,427	1,240,285	4,396,827	879,365

Notes:

- a. During the year ended 31 December 2000, the Company issued 1,300,000,000 shares of \$0.2 each at price ranging from \$0.2 to \$0.215 via two private placements, resulting in net proceed of approximately \$257,881,000.
- b. During the year ended 31 December 2000, 300,000,000 shares of the Company of \$0.2 each were issued at par for acquisition of a long-term investment (see Note 13).
- c. Pursuant to the Company's employee share option scheme, the Company issued 204,600,000 shares of \$0.2 each at price ranging from \$0.2 to \$0.3 per share, resulting in net proceed of approximately \$42,720,000.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

26. EMPLOYEE SHARE OPTIONS

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

Movements in employee share options were as follows:

Date of grant	Exercise period	Subscription price per share HK\$'	Number of employee share options				End of year '000
			Beginning of year '000	Granted during the year '000	Exercised during the year '000	Lapsed during the year '000	
20 June 1997	20 June 1997 to 19 June 2000	0.297	48,355	—	—	(48,355)	—
29 October 1997	29 October 1997 to 28 October 2000	0.355	118,100	—	—	(118,100)	—
20 December 1997	20 December 1997 to 19 December 2000	0.300	30,000	—	(18,000)	(12,000)	—
31 March 2000	31 March 2000 to 29 March 2003	0.200	—	170,000	(170,000)	—	—
31 July 2000	31 July 2000 to 29 July 2003	0.200	—	16,600	(16,600)	—	—
5 October 2000	5 October 2000 to 4 October 2003	0.206	—	41,000	—	—	41,000
			196,455	227,600	(204,600)	(178,455)	41,000

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

27. RESERVES

Movements of reserves were:

	2000			1999	
	Share premium	Capital reserve	General reserve	Total	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Consolidated					
Beginning of year	475,827	3,478	200	479,505	478,442
Premium arising from issue of shares upon					
— private placements	4,500	—	—	4,500	—
— exercise of employee share options	1,800	—	—	1,800	—
Expenditure on share placements	(6,619)	—	—	(6,619)	—
Realised upon disposal of subsidiaries	—	93	—	93	1,063
End of year	475,508	3,571	200	479,279	479,505
Company					
Beginning of year	475,827	—	200	476,027	476,027
Premium arising from issue of shares upon					
— private placements	4,500	—	—	4,500	—
— exercise of employee share options	1,800	—	—	1,800	—
Expenditure on share placements	(6,619)	—	—	(6,619)	—
End of year	475,508	—	200	475,708	476,027

The Company had no reserves available for distribution to shareholders at 31 December 2000 (1999: Nil).

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

28. NOTES TO THE STATEMENT OF CASH FLOWS

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

	2000	1999
	\$'000	\$'000
		(Note 33)
Loss before taxation	(447,892)	(180,052)
Interest income	(12,222)	(1,096)
Interest expense	64,117	94,635
Depreciation and amortisation	8,046	4,778
Loss on disposal of properties, machinery and equipment	471	92
Holding losses on and loss on disposal of investment in securities	26,302	75,833
Impairment in value of long-term investment	59,999	—
Net loss (gain) on disposal of subsidiaries	64,872	(1,324)
Impairment in value of goodwill	25,433	—
Impairment in value of intangible asset	26,000	—
Net deficit (surplus) on revaluation of investment properties	121,057	(59,183)
Deficit (surplus) on revaluation of land and buildings	14,348	(6,976)
Net provision for doubtful loans receivable	295	—
Provision for doubtful trade receivable	4,974	—
Income guarantee in respect of a subsidiary	—	(20,946)
Provision for impairment in value of properties under development	—	69,500
Gain arising from waiver of payables to a related company	—	(8,150)
Share of losses of associates	—	14,108
Decrease in trade receivables	20,695	22,994
(Increase) decrease in prepayments, deposits and other assets	(2,120)	575
Decrease in trade payables	(12,786)	—
(Decrease) increase in accrued liabilities and other payables	(14,662)	36,113
Increase in amounts due to related companies	2,751	43,308
Decrease in amounts due from related companies	961	—
Decrease in amount due from directors	13,673	498
Net cash (outflow) inflow from operating activities	(35,688)	84,707

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

28. NOTES TO THE STATEMENT OF CASH FLOWS *(continued)*

b. Disposal of subsidiaries

Details of the assets and liabilities of the subsidiaries disposed at the date of disposal were as follows:

	2000
	\$'000
<hr/>	
Net assets disposed of:	
Investment properties	239,250
Properties under development	70,210
Trade receivables	975
Prepayments, deposits and other receivables	635
Cash and bank deposits	57
Trade payables	(3,739)
Bank overdrafts	(91,759)
Taxation payable	(66)
Long-term borrowings	(14,791)
	<hr/>
	200,772
Less: Net loss on disposal of subsidiaries	(64,872)
	<hr/>
	135,900

Satisfied by:

Cash consideration	135,900
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Analysis of net inflow of cash and cash equivalents in respect of the disposal of subsidiaries was as follows:

	2000
	\$'000
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Cash received	135,900
Cash and bank deposits disposed	(57)
Bank overdraft disposed	91,759
	<hr/>
Net inflow of cash and cash equivalents in respect of disposal of subsidiaries	227,602

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

28. NOTES TO THE STATEMENT OF CASH FLOWS (continued)

c. Acquisition of a subsidiary

Details of the assets and liabilities of the subsidiary acquired at the date of acquisition were as follows:

	2000
	\$'000
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Net assets acquired:	
Properties, machinery and equipment	13,735
Prepayments, deposits and other assets	3,000
Trade receivables	26,763
Cash and bank deposits	2,326
Trade payables	(23,323)
Taxation payable	(491)
Deferred taxation	(1,334)
	<hr/>
	20,676
Less: Minority interests	(6,203)
	<hr/>
The Group's share of net assets	14,473
Goodwill	41,527
	<hr/>
	56,000
<hr/>	
Satisfied by:	
Cash consideration	56,000
	<hr/>
Analysis of net outflow of cash and cash equivalents in respect of the acquisition of the subsidiary was as follows:	
	2000
	\$'000
<hr/>	
Cash consideration	56,000
Cash and bank deposits acquired	(2,326)
	<hr/>
Net outflow of cash and cash equivalents in respect of acquisition of the subsidiary	53,674
	<hr/>

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

28. NOTES TO THE STATEMENT OF CASH FLOWS (continued)

d. Analysis of changes in financing during the year was as follows:

	Share capital and share premium \$'000	Short-term borrowings (excluding bank overdrafts) \$'000	Long-term bank loans \$'000	Minority interests \$'000	Obligations under finance leases \$'000	Note payable \$'000
At 1 January 1999	1,355,192	231,113	387,448	—	321	9,393
Advances during the year	—	21,427	—	—	—	—
Repayments during the year	—	(80,152)	(19,466)	—	(321)	(9,393)
Disposal of subsidiaries	—	—	(143,199)	—	—	—
At 31 December 1999						
(Note 33)	1,355,192	172,388	224,783	—	—	—
Issue for acquisition of long-term investment (Note e)	60,000	—	—	—	—	—
Proceeds from share issuance	307,220	—	—	—	—	—
Share issuance expenditure	(6,619)	—	—	—	—	—
Repayments during the year	—	(58,570)	(49,005)	—	—	—
Attributable to disposal of subsidiaries (b)	—	—	(14,791)	—	—	—
Share of loss	—	—	—	(505)	—	—
Loans from a minority shareholder of a subsidiary	—	—	—	2,499	—	—
Attributable to acquisition of a subsidiary (c)	—	—	—	6,203	—	—
At 31 December 2000	1,715,793	113,818	160,987	8,197	—	—

e. Major non-cash transaction:

During the year, 300,000,000 shares of the Company of \$0.2 each were issued at par for acquisition of a long-term investment (see Note 13).

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

28. NOTES TO THE STATEMENT OF CASH FLOWS (continued)

f. Analysis of cash and cash equivalents:

	2000	1999
	\$'000	\$'000
Cash and bank deposits	1,733	3,662
Bank overdrafts	(101,942)	(233,736)
	(100,209)	(230,074)

29. PENSION SCHEME

The group companies operating in Hong Kong have participated in the defined contribution Mandatory Provident Fund in Hong Kong since 1 December 2000. Monthly contributions are made to the scheme based on 5% of the employees' basic salaries with the maximum amount of contribution by each of the Group and the employees limited to \$12,000 per annum. During the year ended 31 December 2000, the Group's (employer's) contributions amounted to approximately \$17,000 (1999: Nil).

30. COMMITMENTS

a. Capital commitments

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

	2000	1999
	\$'000	\$'000
Capital contribution to a pharmaceutical factory in Nanjing, Mainland China	30,000	—

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

30. COMMITMENTS (continued)

b. Operating lease commitments

The Group had lease commitments amounting to approximately \$3,961,000 (1999: \$636,000) in respect of rented premises under various non-cancellable operating lease agreements extending to October 2003. The total commitments payable is analysed as follows:

	2000	1999
	\$'000	\$'000
Amounts payable		
— within one year	1,908	636
— within two to five years	2,053	—
	3,961	636

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

	2000	1999
	\$'000	\$'000
Lease expiring		
— within one year	1,458	636
— within two to five years	450	—
	1,908	636

31. CONTINGENT LIABILITIES

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

- a. Guarantees given to banks by the Company in respect of banking facilities extended to certain related companies amounting to \$155,432,000 (1999: \$45,000,000). These banking facilities were secured by certain investment properties owned by the related companies (see Note 3.d). As at 31 December 2000, the open market value of these investment properties were approximately \$220,430,000 as determined by RHL Appraisal Ltd., independent qualified valuers (see Note 3.d).

- b. In February 1998, Luen Wing Shipping Agency Limited issued a writ against the Group for breach of its obligation under a transportation agreement. The total claim involved is approximately \$7,000,000. Based on the advice provided by the Group's legal advisors, the Directors of the Company believe that the claim is without merit and the Company has instructed its legal advisors to defend the action. No provision for the claims has been made in the financial statements as at 31 December 2000.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

31. CONTINGENT LIABILITIES (continued)

- c. On 5 February 1999, the Company issued a writ against Core Pacific-Yamaichi International (H.K.) Ltd. ("Core Pacific") for (i) damages for breaches of a loan facility agreement dated 7 August 1998 of approximately \$120,000,000 (the "Facility"); (ii) damages for breaches of fiduciary duties as arranger and joint financial advisor under an agreement dated 6 August 1998; and (iii) an indemnity against all loss in relation to a purported supplemental deed dated 13 November 1998 (the "Supplemental Deed"). On 23 March 1999, Core Pacific issued a writ against the Company for an overdue interest of approximately \$5,000,000 under the Facility and the Supplemental Deed. Of the \$5,000,000 claimed, the Directors consider that the \$1,000,000 claim is without merit. The remaining \$4,000,000 is still in dispute and has been provided for in the financial statements as at 31 December 2000.
- d. Pursuant to the terms of disposal of a former subsidiary to SHKP in 1998, the Company undertook that all unprovided tax liabilities of the former subsidiary relating to the period prior to the date of disposal would be assumed by the Company. Potential Hong Kong profits tax liabilities of approximately \$3,200,000 relating to certain capital profits claim of the former subsidiary for the years of assessment from 1994/95 to 1996/97 were not provided for in the financial statements as at 31 December 2000, as the Directors consider that the former subsidiary has strong argument to support the capital profits claim. No provision has been made for this potential liability in the financial statements.
- e. In May 2001, China Energy Promotion Limited issued a writ against the Group for breach of its obligation under an agency agreement. The total claim involved is approximately \$8,500,000. The Directors of the Company believe that the claim is without merit and the Company has instructed its legal advisors to defend the action. No provision for the claims has been made in the financial statements as at 31 December 2000.

32. BANKING FACILITIES AND PLEDGE OF ASSETS

As at 31 December 2000, the Group had aggregate banking facilities of approximately \$131,970,000 (1999: \$159,368,000) for overdrafts, loans and trade financing. Unused facilities as at the same date amounted to approximately \$2,987,000 (1999: \$38,000). These facilities were secured by:

- a. The Group's investment properties and land and buildings with a net book value of approximately \$347,862,000; and
- b. Investment properties owned by certain related companies (see Note 3.c).

Due to the liquidity situation as described in Note 2.a. The Group was unable to repay principal and interest of certain bank borrowings totalling approximately \$46,171,000 when they fall due. As at the date of approval of these financial statements, the Group is still in negotiation with the banks to reschedule the repayment terms of the existing borrowings and to continue providing credit facilities to the Group.

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

33. COMPARATIVE FIGURES

The financial statements as at and for the year ended 31 December 1999 were audited and reported on by certified public accountants other than Messrs. Arthur Andersen & Co, whose report dated 30 May 2000 expressed an unqualified opinion on those statements.

34. SUBSEQUENT EVENTS

The following significant transactions took place subsequent to 31 December 2000 and up to the date of this report:

- a. On 16 March 2001, the Company entered into an agreement ("the Agreement") with an independent third party ("Purchaser I") under which Purchaser I agreed to purchase from the Company up to US\$30,000,000 convertible notes during the period from 27 April 2001 to 26 October 2002. The issue and conversion of such convertible notes is dependent on, among others, the weighted average market share price of the Company not being less than \$0.22 per share.

Assuming full exercise and conversion of the US\$30,000,000 convertible notes, the Company will issue 1,162,640,100 shares, representing approximately 15.79% of the enlarged share capital, to Purchaser I.

- b. On 7 April 2001, the Company received letters from a bank which demanded the Company, as a guarantor to the banking facilities extended to certain related companies (see Note 3.d), to repay overdue loans and interest of approximately \$95,826,000 owed to the bank by those related companies. The Directors of the Company are of the opinion that the underlying open market value of investment properties mortgaged to the bank are adequate to cover the loans and interest overdue. No provision for the liabilities was recorded in the financial statement as at 31 December 2000.
- c. In March and April 2001, the Group disposed of two investment properties at consideration of \$7,270,000, representing the net book value of those properties as at 31 December 2000, to two independent third parties.
- d. On 15 May 2001, the Company entered into another agreement with an independent third party ("Purchaser II") under which the Company will issue convertible note of \$80,000,000 to Purchaser II on or before 30 June 2001. Such convertible note is unsecured, bears interest at 3% per annum and convertible (at the discretion of the Company) into ordinary shares of the Company at conversion price of \$0.22 per share.

Assuming full conversion of the \$80,000,000 convertible note, the Company will issue 363,636,363 shares, representing approximately 5.54% of the enlarged share capital, to Purchaser II.