

1. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS UNDER THE GOING CONCERN BASIS

The Group reported a net loss from ordinary activities attributable to shareholders of HK\$56,373,000 for the year ended 31st December, 2000 (1999: HK\$69,516,000). As at 31st December, 2000, the Group had consolidated net current liabilities of HK\$3,375,000 (1999: HK\$190,843,000).

In preparing these financial statements, the directors have given consideration to the current and anticipated future liquidity of the Group. As part of the measures to improve the Group's immediate liquidity and cash flows, the directors (i) have been in negotiations with financial investors to obtain long term financing and/or to increase the capital base of the Group; (ii) have been in discussions with an interested party to dispose of/realise one of the Group's non-core assets; and (iii) have been taking action to tighten cost controls over various general and administrative expenses. In the opinion of the directors, in light of the above measures taken to date, together with their expected results, the Group will have sufficient working capital for its current financial requirements and future development. Accordingly, the directors are satisfied that it is appropriate to prepare these financial statements on a going concern basis, notwithstanding the Group's financial position and liquidity position as at 31st December, 2000.

If the going concern basis were not to be appropriate, adjustments would have to be made to restate the values of the Group's 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.

2. CORPORATE INFORMATION

During the year, the Group was involved in property development and investment, toll bridge operations, general trading and investment in high technology projects.

In the opinion of the directors, the ultimate holding company is Harrio Assets Limited, which is incorporated in the British Virgin Islands.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong 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.

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

Basis of consolidation

The consolidated financial statements incorporate 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 the effective dates of acquisition or disposal, respectively. All significant intra-group transactions and balances within the Group are eliminated on consolidation.

Goodwill

Goodwill arising on the consolidation of subsidiaries and on the acquisition of associates represents the excess of the purchase consideration paid for such companies over the fair values ascribed to the net underlying assets acquired at the date of acquisition, and is eliminated against reserves in the year of acquisition.

On disposal of subsidiaries/associates, the relevant portion of attributable goodwill previously eliminated against reserves is realised and accounted for in arriving at the gain or loss on disposal.

Subsidiaries

A subsidiary is a company, other than a jointly controlled entity 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 other than temporary diminutions in values, when they are written down to values determined by the directors.

Jointly controlled entity

A jointly controlled entity is a joint venture which involves the establishment of a corporation, partnership or other entity in which each venturer has an interest. The jointly controlled entity operates in the same way as other enterprises, except that a contractual arrangement between the venturers establishes joint control over the economic activity of the entity.

The Group's share of the post-acquisition results and reserves of its jointly controlled entity is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's investment in its jointly controlled entity is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any provision for other than temporary diminution in value deemed necessary by the directors.

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

Jointly controlled operation

A jointly controlled operation is a type of joint venture involving the use of the assets and other resources of the venturers without the establishment of a corporation, partnership or other entity, and without a financial structure that is separate from the venturers. Each venturer uses its own property, plant and equipment and carries its own inventories. Each venturer also incurs its own expenses and liabilities and raises its own finance, which represent its own obligations. The joint venture agreement usually provides a means by which the revenue from the sale of the joint product and any expenses incurred in common are shared among the venturers.

Assets that the Group controls and liabilities that it incurs in relation to its jointly controlled operation are recognised in the Group's consolidated balance sheet and are classified according to the nature of the item. The Group's share of the income that it earns from the jointly controlled operation together with the expenses that it incurs are included in the Group's consolidated profit and loss account when it is probable that economic benefits associated with the transactions will flow to/from the Group.

Associates

An associate is a company, not being a subsidiary or a jointly controlled entity, in which the Group has a long term interest of not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of its associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's investments in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any provisions for other than temporary diminutions in values deemed necessary by the directors.

Fixed assets and depreciation

Fixed assets, other than construction in progress, 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 the asset has been put into operation, such as repairs and maintenance costs, is normally charged to the profit and loss account in the period in which it is incurred. In situations where the expenditure is likely to increase the future economic benefits expected to be obtained from the use of the 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:

Land and buildings under medium term leases	Over the lease terms
Operating rights of a toll bridge	Over the joint venture period
Leasehold improvements	Over the lease terms
Plant and machinery	7% - 10%
Furniture and equipment	7% - 20%
Motor vehicles	10% - 25%

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

Construction in progress

Construction in progress is stated at cost, which includes the costs of construction, interest charges and other direct costs attributable to the construction.

No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and put into use.

Properties under development

Properties under development are held for sale. When pre-sales have not commenced, properties under development are stated at the lower of cost and net realisable value. Cost includes all costs attributable to the development, including finance and interest charges. Net realisable value is based on the estimated net sales proceeds less further costs expected to be incurred to completion and disposal.

When a property under development is pre-sold, the attributable profit recognised on the pre-sold portion of the property is determined by the apportionment of the total estimated profit over the entire period of construction to reflect the progress of the development, which is calculated by reference to the proportion of construction costs incurred up to the accounting date to the estimated total construction costs to completion, but is limited to the amount of sales deposits received and with due allowances for contingencies.

Properties under development which have been pre-sold and in respect of which occupation permits are expected to be granted within one year are classified under current assets.

Deposits received on properties under development pre-sold prior to their completion, in excess of the attributable profit recognised are classified under current liabilities.

Properties held for sale

Properties held for sale are stated in the balance sheet at the lower of cost and net realisable value. Cost is determined by an apportionment of the total land and building costs of the development attributable to the unsold properties. Net realisable value is based on the estimated net sales proceeds by reference to prevailing market conditions less estimated selling expenses.

Long term investments

Long term investments are investments which are intended to be held for a continuing basis, and which are held for an identified long term purpose documented at the time of acquisition or change of purpose and which are clearly identifiable for the documented purpose. Long term investments are stated at cost less any provisions for other than temporary impairment in value deemed necessary by the directors on an individual basis.

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

Long term investments *(continued)*

When such impairment in value has occurred, the carrying amounts of the securities are reduced to their fair values, as estimated by the directors, and the amount of the impairment is charged to the profit and loss account for the period in which it arises. When the circumstances and events which led to an impairment in value cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged is credited to the profit and loss account to the extent of the amount previously charged.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis. Net realisable value is based on estimated selling prices less further costs expected to be incurred to completion and disposal.

Operating leases

Leases in respect of which all of the rewards and risk 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.

Deferred tax

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

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 the profit and loss account.

On consolidation, the financial statements of subsidiaries, a jointly controlled entity and associates operating in the mainland of the People's Republic of China ("Mainland China") or overseas are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences arising on consolidation are included in the exchange equalisation reserve.

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset, being an asset which takes a substantial period of time to get ready for its intended use or sale, are capitalised as part of the cost of the asset. Capitalisation of such borrowing costs ceases when the asset is substantially ready for its intended use or sale. All other borrowing costs are recognised as expenses in the period in which they are incurred. No borrowings costs were capitalised during the year.

Retirement benefits scheme

The Group operates a defined contribution retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees. The Scheme became effective on 1st December, 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in independently administered funds. The Group's employer contributions vest fully with the employees when contributed into the Scheme except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the Scheme.

Contributions to a staff retirement benefit scheme operated by the government in Mainland China are charged to the profit and loss account as incurred. There are no allowances for forfeiture or the refund of contributions by the government.

Revenue recognition

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

- (a) proceeds from the sale of properties (except for the pre-sale of properties under development, the basis of recognition of which is detailed under the accounting policy for "Properties under development" above), investments and 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 properties, investments and goods sold;
- (b) toll bridge income, net of revenue tax, on a receipt basis;
- (c) rental income, on a time proportion 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.

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

Cash equivalents

Cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

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.

4. TURNOVER AND REVENUE

Turnover represents the aggregate of net proceeds from the sale of properties (in the case of the pre-sale of properties, such proceeds are adjusted to reflect the progress of development) and from the sale of goods, toll bridge income and rental income, after elimination of all significant intra-group transactions.

During the year, the Group had revenue arising from the following activities:

	2000 HK\$'000	1999 HK\$'000
Toll bridge operations	7,774	11,524
Sale of properties	106,378	33,203
Sale of goods	5,132	816
Rental income	253	1,080
	<hr/>	<hr/>
Turnover	119,537	46,623
	<hr/>	<hr/>
Exchange gains, net	1,775	1,322
Interest income	6,703	4,598
Gain on disposal of long term investments	16,916	—
Others	4,047	—
	<hr/>	<hr/>
Other revenue	29,441	5,920
	<hr/>	<hr/>
Total revenue	<u>148,978</u>	<u>52,543</u>

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5. LOSS FROM OPERATING ACTIVITIES

The Group's loss from operating activities is arrived at after charging/(crediting):

	2000 HK\$'000	1999 HK\$'000
Cost of services rendered	352	280
Cost of inventories sold	4,302	77
Cost of properties sold	81,033	28,625
Auditors' remuneration	870	620
Depreciation	9,768	9,062
Operating lease rentals in respect of land and buildings	2,098	1,575
Staff costs (excluding directors' remuneration - note 7):		
Wages and salaries	8,189	8,031
Retirement benefits scheme contributions	21	—
Loss on disposal of fixed assets	456	1,065
Bad debts written off	—	2,430
Items included in other operating expenses, net:		
Provisions for/(write back of provisions for) diminutions in values of properties under development	(19,964)	687
Write back of provision for construction costs	(19,775)	—
Release of provision for warranty*	—	(32,600)
Provisions for doubtful debts	2,540	47,591
Provision against long term deposits (note 18)	67,000	—
Provisions for impairment in values of long term investments	25,000	—
Gross rental income from investment properties	—	(1,080)
Less: Outgoings	—	532
Net rental income from investment properties	—	(548)
Other rental income, net	(70)	—

* The amount included was classified as other revenue in the prior year. To accord with the presentation adopted in the current year, which in the opinion of the directors better reflects the underlying nature of the transaction, it has been reclassified to other operating expenses, net.

6. FINANCE COSTS

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Interest on bank loans and other loans wholly repayable within five years	<u>8,516</u>	<u>9,494</u>

7. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Companies Ordinance are as follows:

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Fees	—	150
Other emoluments:		
Salaries, allowances and benefits in kind	1,923	1,923
Retirement scheme contributions	<u>3</u>	<u>—</u>
	<u>1,926</u>	<u>2,073</u>

The remuneration of the directors fell within the following bands:

	Number of directors	
	2000	1999
Nil – HK\$1,000,000	7	6
HK\$1,000,001 – HK\$1,500,000	<u>1</u>	<u>1</u>

The independent non-executive directors received no fees or other emoluments for their services rendered during the year (1999: Nil).

In addition to the above, options to subscribe for an aggregate of 228,996,300 ordinary shares in the Company were granted to certain directors of the Company during the year. In the absence of a readily available market value for options on the Company's shares, the directors are unable to arrive at an accurate assessment of the value of these options and, therefore, no value in respect of such has been included in the remuneration set out above. Details of the options granted to the directors during the year are set out in the section "Directors' rights to acquire shares" in the Report of the Directors.

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

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8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (1999: three) directors, details of whose remuneration are set out in note 7 to the financial statements. The details of the remuneration of the other two (1999: two) non-directors, highest paid employees, are as follows:

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Salaries, allowances and benefits in kind	1,003	1,096
Retirement scheme contributions	<u>2</u>	<u>—</u>
	<u>1,005</u>	<u>1,096</u>

The remuneration of these employees fell within the band of Nil – HK\$1,000,000 (1999: Nil – HK\$1,000,000) for the year.

9. TAX

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Group:		
Overseas	—	252
Mainland China	646	—
Associates:		
Mainland China	<u>—</u>	<u>4</u>
Tax charge for the year	<u>646</u>	<u>256</u>

No provision for Hong Kong profits tax has been made for the year as the Group did not generate any assessable profits arising in Hong Kong during the year (1999: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the respective jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

No provision for tax is required for the jointly controlled entity as no assessable profits were earned by the jointly controlled entity during the year.

There was no material unprovided deferred tax during the year.

10. 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\$34,467,000 (1999: HK\$84,104,000).

Profits retained/(losses accumulated) for the year are as follows:

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
The Company and subsidiaries	(56,244)	(62,139)
Jointly controlled entity	(14)	(7,386)
Associates	(115)	9
	<u>(56,373)</u>	<u>(69,516)</u>

11. LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss attributable to shareholders of HK\$56,373,000 (1999: HK\$69,516,000) and on the weighted average of 1,227,760,517 (1999: 1,018,493,724, as adjusted for the two-for-one bonus share issue on 16th August, 1999) ordinary shares in issue during the year.

The diluted loss per share for the two years ended 31st December, 2000 has not been shown as the warrants and options outstanding during these years had an anti-dilutive effect on the basic loss per share.

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12. FIXED ASSETS

GROUP

	Land and buildings HK\$'000	Operating rights of a toll bridge HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Furniture and equipment HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
Cost:								
At beginning of year	21,703	56,354	1,671	713	66,896	2,244	3,804	153,385
Acquisition of subsidiaries	—	—	—	—	455	—	—	455
Additions	—	—	35	—	488	486	91	1,100
Transfer from properties under development	2,356	—	—	—	—	—	—	2,356
Disposals	—	—	(566)	—	(13)	—	—	(579)
At end of year	<u>24,059</u>	<u>56,354</u>	<u>1,140</u>	<u>713</u>	<u>67,826</u>	<u>2,730</u>	<u>3,895</u>	<u>156,717</u>
Accumulated depreciation:								
At beginning of year	1,095	5,636	761	713	23,826	768	—	32,799
Provided during the year	977	2,246	153	—	6,175	217	—	9,768
Disposals	—	—	(116)	—	(7)	—	—	(123)
At end of year	<u>2,072</u>	<u>7,882</u>	<u>798</u>	<u>713</u>	<u>29,994</u>	<u>985</u>	<u>—</u>	<u>42,444</u>
Net book value:								
At 31st December, 2000	<u>21,987</u>	<u>48,472</u>	<u>342</u>	<u>—</u>	<u>37,832</u>	<u>1,745</u>	<u>3,895</u>	<u>114,273</u>
At 31st December, 1999	<u>20,608</u>	<u>50,718</u>	<u>910</u>	<u>—</u>	<u>43,070</u>	<u>1,476</u>	<u>3,804</u>	<u>120,586</u>

Certain furniture and equipment with a net book value as at 31st December, 2000 of HK\$35,056,000 (1999: HK\$40,950,000) have been pledged to secure other loans granted to the Group (note 24).

Certain land and buildings with a net book value as at 31st December, 2000 of HK\$2,356,000 (1999: Nil) have been pledged to secure banking facilities granted to the Group (note 23).

All land and buildings and properties included under construction in progress are situated in Mainland China and are held under medium term leases.

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13. PROPERTIES UNDER DEVELOPMENT

	GROUP	
	2000 HK\$'000	1999 HK\$'000
At cost:		
Balance at beginning of year	586,734	467,837
Additions	45,884	146,562
Disposals	(65,011)	(28,625)
Transferred to fixed assets	(2,356)	—
Exchange realignment	—	960
	<u>565,251</u>	<u>586,734</u>
Less: Provisions for diminutions in values	<u>(186,699)</u>	<u>(206,663)</u>
Balance at end of year	378,552	380,071
Portion classified under current assets	<u>(81,552)</u>	<u>—</u>
Non-current portion	<u><u>297,000</u></u>	<u><u>380,071</u></u>

All of the properties under development are situated in Mainland China and are held under medium term leases.

Certain properties under development amounting to HK\$99,000,000 (1999: HK\$73,000,000) held by the Group have been pledged to secure banking facilities granted to the Group (note 23).

Certain properties under development amounting to HK\$198,000,000 (1999: HK\$198,000,000) held by the Group have been pledged to secure banking facilities granted to an independent third party.

14. INTERESTS IN SUBSIDIARIES

	COMPANY	
	2000 HK\$'000	1999 HK\$'000
Unlisted investments, at cost	633,131	611,131
Less: Provisions for diminutions in values	<u>(381,794)</u>	<u>(373,967)</u>
	251,337	237,164
Due from subsidiaries	296,035	285,536
Due to subsidiaries	<u>(198,784)</u>	<u>(204,923)</u>
	<u><u>348,588</u></u>	<u><u>317,777</u></u>

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

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14. INTERESTS IN SUBSIDIARIES (continued)

Details of the principal subsidiaries at the balance sheet date were as follows:

Name	Place of incorporation/ registration and operations	Issued and fully paid ordinary share capital/registered capital	Percentage of interest attributable to the Company		Principal activities
			2000	1999	
Acot Company Limited	British Virgin Islands	US\$1	100%	100%	Investment holding
Fairyoung Development Limited	Hong Kong	HK\$4 (note a)	100%	100%	Investment holding
Fairyoung Port Investments (Holdings) Limited	British Virgin Islands	US\$299	100%	100%	Investment holding
Fairyoung Trading Limited	Hong Kong	HK\$2	100%	100%	General trading
Fairyoung (Shanghai) Properties Limited #	People's Republic of China	US\$12,000,000 (note b)	100%	100%	Property development
Fairyoung (Xiamen) Real Estate Development Ltd. #	People's Republic of China	US\$3,000,000 (note b)	100%	100%	Property development
Fairyoung (Xiamen) Trading Co., Ltd.@	People's Republic of China	RMB1,000,000 (note b)	100%	100%	General trading
Great Abundance Company Limited	British Virgin Islands	US\$1	100%	100%	Investment holding
Gover Limited	British Virgin Islands	US\$1	100%	100%	Investment holding
Heilongjiang Industry Co., Ltd. #	People's Republic of China	RMB50,000,000 (note b)	100%	100%	Skiing resort development

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14. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Issued and fully paid ordinary share capital/registered capital	Percentage of interest attributable to the Company		Principal activities
			2000	1999	
Huicheng (Zhang Jia Kou) Development Co., Ltd. # #	People's Republic of China	RMB30,000,000 (note b)	80%	80%	Operation of a toll bridge
Liberal Supply Limited	British Virgin Islands	US\$1	100%	100%	Investment holding
Portfield Inc.	U.S.A	US\$100	100%	100%	Property investment
Praford Limited *	Hong Kong	US\$1	75%	—	Internet content provider
Primefield Limited	British Virgin Islands	US\$1	100%	100%	Investment holding
The Wan Shang Overseas Investment Company, Limited	Hong Kong/ U.S.A.	HK\$2,000,000	100%	100%	Property investment
Upperland Limited	British Virgin Islands	US\$1	100%	100%	Investment holding
Xiamen Jin Bo Er Trading Ltd. @	People's Republic of China	RMB5,000,000 (note b)	100%	100%	General trading
Xiamen Xiangyu F.T.Z. Huigang Imp & Exp Co., Ltd. #	People's Republic of China	US\$200,000 (note b)	100%	100%	General trading

* Acquired during the year

Wholly foreign-owned enterprise registered in the People's Republic of China

Sino-foreign co-operative joint venture registered in the People's Republic of China

@ Limited company established in the People's Republic of China

Notes to Financial Statements

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14. INTERESTS IN SUBSIDIARIES (continued)

Except for Liberal Supply Limited and Upperland Limited, all of the above principal subsidiaries are indirectly held by the Company. Unless otherwise stated, all issued shares are ordinary shares.

Notes:

- (a) The issued share capital of Fairyoung Development Limited comprises 2 voting ordinary shares of HK\$1 each and 2 non-voting deferred shares of HK\$1 each.
- (b) The amount represents the registered capital in the People's Republic of China.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected 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.

The results of the subsidiaries acquired during the year had no significant impact on the Group's turnover and loss after tax for the year ended 31st December, 2000.

15. INTERESTS IN JOINT VENTURES

	2000 HK\$'000	1999 HK\$'000
Share of net assets of a jointly controlled entity	6,613	6,627
Due from/(to) a jointly controlled entity	1,358	(131)
	<u>7,971</u>	<u>6,496</u>

The amount due from/(to) a jointly controlled entity is unsecured, interest-free and has no fixed terms of repayment.

The Group's share of the post-acquisition accumulated exchange reserves of the jointly controlled entity as at 31st December, 2000 was HK\$1,349,000 (1999: HK\$1,349,000).

15. INTERESTS IN JOINT VENTURES (continued)

Particulars of the jointly controlled entity, which is a corporate entity, are as follows:

Name	Issued and paid-up capital/ place of registration and operations	Percentage of attributable equity interest held by the Group		Principal activity
		2000	1999	
Shanghai Huiyang Real Estate Development Co., Ltd.	US\$5,000,000/ People's Republic of China	60%	60%	Property development

Summary extracts of the operating results and financial position of Shanghai Huiyang Real Estate Development Co., Ltd. are as follows:

Operating results:

	2000 HK\$'000	1999 HK\$'000
Turnover	<u>23,089</u>	<u>17,649</u>
Loss after tax	<u>(23)</u>	<u>(12,310)</u>

Financial position:

	2000 HK\$'000	1999 HK\$'000
Long term assets	66	35,750
Current assets	33,905	3,997
Current liabilities	<u>(22,949)</u>	<u>(28,702)</u>
Net asset value	<u>11,022</u>	<u>11,045</u>

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15. INTERESTS IN JOINT VENTURES (continued)

The Group has entered into a jointly controlled operation to develop a property in Mainland China.

At 31st December, 2000, the aggregate amounts of assets, liabilities, income and profit/(loss) recognised in the financial statements in relation to the jointly controlled operation were as follows:

	GROUP	
	2000 HK\$'000	1999 HK\$'000
Share of aggregate amounts of:		
Assets	71,281	102,525
Liabilities	73,237	113,835
Income	89,114	38,704
Profit/(loss)	<u>9,354</u>	<u>(11,310)</u>

16. INTERESTS IN ASSOCIATES

	GROUP	
	2000 HK\$'000	1999 HK\$'000
Share of net assets	3,959	1,782
Due from associates	182	182
Due to an associate	<u>(3,275)</u>	<u>—</u>
	<u>866</u>	<u>1,964</u>

The balances with associates are unsecured, interest-free and have no fixed terms of repayment.

All associates of the Group are corporate entities.

16. INTERESTS IN ASSOCIATES (continued)

Details of the principal associates at the balance sheet date were as follows:

Name	Place of registration and operations	Percentage of interest attributable to the Group		Principal activities
		2000	1999	
Huai Yang (Zhang Jia Kou) Colour Print Co., Ltd.	People's Republic of China	40%	40%	Colour printing
Beijing Sin Hua Hui Yang Network Technology Ltd.	People's Republic of China	49%	—	Internet online bookstore

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

17. LONG TERM INVESTMENTS

	GROUP		COMPANY	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
At cost:				
Investments in founders' shares of a listed company in Mainland China	—	10,098	—	—
Unlisted investments	41,859	31,867	29,500	24,500
	41,859	41,965	29,500	24,500
Less: Provisions for impairment in value	(32,176)	(7,176)	(22,500)	—
	<u>9,683</u>	<u>34,789</u>	<u>7,000</u>	<u>24,500</u>

Notes to Financial Statements

31st December, 2000

18. LONG TERM DEPOSITS

The long term deposits as at 31st December, 1999 represented Group remittances made in 1998, with original aggregate amount of HK\$89 million, via intermediaries to certain companies established in Mainland China (the "PRC Companies"). The amount is refundable and was intended to be used to finance future investment projects of the Group. The former chairman, also a former director of the Company (the "Guarantor"), has provided a personal guarantee on the recoverability of the amount. During the year ended 31st December, 1999, the Group instructed one of the PRC Companies to apply an amount of HK\$22 million towards the partial settlement of the Group's liabilities due to a construction contractor in respect of a construction project. To date, neither the intended investment projects have crystallised, nor have these remaining deposits of HK\$67 million been refunded by either the PRC Companies, or the Guarantor. Accordingly, a full provision of HK\$67 million has been made by the Group against these deposits during the year (note 5).

19. DEBTORS, DEPOSITS AND PREPAYMENTS

Included in the balance is an amount of HK\$1,351,000 (1999: HK\$561,000) representing the trade debtors of the Group. The aged analysis of the such debtors is as follows:

	GROUP	
	2000 HK\$'000	1999 HK\$'000
Within 3 months	584	561
More than 3 months and less than 6 months	580	—
More than 6 months and less than 1 year	187	—
	<hr/>	<hr/>
	1,351	561

Trading terms with customers are largely on credit, except for new customers where payment in advance is normally required. Invoices are normally payable within 30 days of issuance, except for certain well established customers, where the terms are extended to two to three months. Credit limits were set for customers. The Group seeks to maintain tight control over its outstanding receivables in order to minimise credit risk. Overdue balances are regularly reviewed by senior management.

20. CREDITORS, ACCRUALS AND OTHER PAYABLES

Included in the balance is an amount of HK\$16,774,000 (1999: HK\$25,107,000) representing the trade creditors of the Group. The aged analysis of such creditors is as follows:

	GROUP	
	2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 3 months	—	24,850
More than 3 months and less than 6 months	351	—
More than 1 year	<u>16,423</u>	<u>257</u>
	<u>16,774</u>	<u>25,107</u>

21. DUE TO A SHAREHOLDER

The amount was due to the Company's controlling shareholder, Angklong Limited, of which Mr. Chan Boon Ning, John, a former director of the Company, is the sole beneficial owner. The amount was unsecured, interest-free and was fully repaid during the year.

22. DUE TO A MINORITY SHAREHOLDER OF A SUBSIDIARY

The amount due to a minority shareholder of a subsidiary is unsecured, interest-free and has no fixed terms of repayment.

Notes to Financial Statements

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23. BANK LOANS

	GROUP	
	2000 HK\$'000	1999 HK\$'000
Secured	40,067	8,012
Unsecured	40,520	96,951
	<u>80,587</u>	<u>104,963</u>

The maturities of the above amounts are as follows:

	GROUP	
	2000 HK\$'000	1999 HK\$'000
Bank loans repayable:		
Within one year or on demand	35,240	97,030
In the second year	2,938	85
In the third to fifth years, inclusive	41,623	296
Over five years	786	7,552
	<u>80,587</u>	<u>104,963</u>
Portion classified under current liabilities	<u>(35,240)</u>	<u>(97,030)</u>
Non-current portion	<u>45,347</u>	<u>7,933</u>

Certain bank loans are secured by certain of the Group's fixed assets with a net book value of HK\$2,356,000 (1999: Nil) and certain properties under development with a carrying amount of HK\$99,000,000 (1999: HK\$73,000,000) as at 31st December, 2000.

24. OTHER LOANS

	GROUP		COMPANY	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Unsecured	20,000	449	20,000	—
Secured	1,602	6,088	—	—
Other loans repayable within one year or on demand	21,602	6,537	20,000	—
Future finance charges	—	(495)	—	—
	<u>21,602</u>	<u>6,042</u>	<u>20,000</u>	<u>—</u>

The unsecured other loan bears interest at 24% (1999: 12%) per annum and is repayable within one year. The loan was obtained for the purpose of providing general working capital of the Group.

The secured other loan bears interest at 7% (1999: 7%) per annum and was overdue as at 31st December, 2000. This loan is secured by certain of the Group's fixed assets with a net book value of HK\$35,056,000 (1999: HK\$40,950,000) as at 31st December, 2000 and was used for the acquisition of certain fixed assets of the Group.

25. DEFERRED TAX

	GROUP	
	2000 HK\$'000	1999 HK\$'000
Balance at beginning of year	72,396	72,396
Release of deferred tax provision relating to properties under development (note 27)	(38,305)	—
Balance at end of year	<u>34,091</u>	<u>72,396</u>

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26. SHARE CAPITAL

Shares

	COMPANY	
	2000 HK\$'000	1999 HK\$'000
Authorised:		
4,000,000,000 (1999: 2,000,000,000) ordinary shares of HK\$0.10 each	<u>400,000</u>	<u>200,000</u>
Issued and fully paid:		
1,384,460,072 (1999: 1,076,949,203) ordinary shares of HK\$0.10 each	<u>138,446</u>	<u>107,695</u>

A summary of the transactions during the year with reference to the movements in the Company's share capital and share premium accounts is as follows:

	Notes	Number of shares issued	Share capital HK\$'000	Share premium HK\$'000
At beginning of year		1,076,949,203	107,695	24,731
Warrants exercised	(b)	12,264,112	1,226	1,226
Share options exercised	(c)	150,019,485	15,002	10,152
Allotment of new shares for acquisitions of long term investments/subsidiaries:				
On 3rd March, 2000	(d)	12,500,000	1,250	3,750
On 19th May, 2000 and 5th June, 2000	(e)	110,000,000	11,000	16,500
On 3rd October, 2000	(f)	22,727,272	2,273	2,727
		<u>1,384,460,072</u>	<u>138,446</u>	<u>59,086</u>

Notes:

- (a) Pursuant to an ordinary resolution passed at the annual general meeting on 28th June, 2000, the authorised share capital of the Company was increased from HK\$200,000,000 to HK\$400,000,000 by the creation of 2,000,000,000 additional ordinary shares of HK\$0.10 each, ranking pari passu in all respects with the existing share of the Company.
- (b) 12,264,112 ordinary shares were issued at a subscription price of HK\$0.20 each pursuant to the exercise of the Company's warrants for a total consideration, before expenses, of HK\$2,452,822.

26. SHARE CAPITAL (continued)**Shares** (continued)

- (c) The subscription rights attaching to 26,325,605 share options issued under the share option scheme adopted on 28th June, 1990 were exercised at the subscription price of HK\$0.246 per share, resulting in the issue of 26,325,605 ordinary shares of HK\$0.10 each for a total consideration, before expenses, of HK\$6,476,099.

The subscription rights attaching to 123,693,880 share options issued under the share option scheme adopted on 28th June, 2000 were exercised at the subscription price of HK\$0.151 per share, resulting in the issue of an aggregate of 123,693,880 ordinary shares of HK\$0.10 each for a total consideration, before expenses, of HK\$18,677,776.

- (d) Pursuant to an agreement dated 22nd February, 2000 entered into between the Company and iMall123.com Limited ("iMall"), the Company agreed to subscribe for 5,000 shares of US\$0.10 each in iMall, representing 5% of the enlarged issued share capital therein, for a consideration of HK\$5,000,000 (the "iMall Consideration"). On 3rd March, 2000, 12,500,000 new ordinary shares of HK\$0.10 each, credited as fully paid at HK\$0.40 per share, were issued to iMall to satisfy the iMall Consideration.

iMall is a virtual 3-D web-based shopping mall where virtual store spaces are rented out to vendors.

- (e) Pursuant to an agreement dated 10th May, 2000 entered into between the Company and Fitmatch Limited ("Fitmatch"), the Company agreed to acquire one ordinary share of US\$1.00 in Softech Limited ("Softech"), representing the entire issued share capital of Softech, and the shareholder's loan advanced thereto (the "Sale Loan") for an aggregate consideration of HK\$27,500,000 (the "Softech Consideration"). On 19th May, 2000 and 5th June, 2000, 90,000,000 and 20,000,000 new ordinary shares of HK\$0.10 each, respectively, credited as fully paid at HK\$0.25 per share, were issued to Fitmatch to satisfy the Softech Consideration.

Softech is an investment holding company with a 75% equity interest in Praford Limited, which is principally engaged in the provision of a web-based education portal called tinyschool.com.hk.

- (f) Pursuant to an agreement dated 18th September, 2000 entered into between Fairyoung Net Association Limited ("Fairyoung Net"), a wholly-owned subsidiary of the Group, HK Weaver Group Limited (the "First Vendor") and Mr. Wong Chi Keung (the "Second Vendor"), Fairyoung Net agreed to acquire 32,000 and 8,000 ordinary shares of HK\$1.00 each in Victory Tech Investment Limited ("Victory Tech") from the First Vendor and the Second Vendor, respectively, representing an aggregate of 20% of the entire issued share capital therein, for a consideration of HK\$5,000,000 (the "Victory Tech Consideration"). On 3rd October, 2000, 22,727,272 new ordinary shares of HK\$0.10 each, credited as fully paid at HK\$0.22 per share, were issued to satisfy the Victory Tech Consideration, amongst which 18,181,818 ordinary shares and 4,545,454 ordinary shares were issued and allotted to the First Vendor and Second Vendor, respectively.

Victory Tech is principally engaged in the operation of two web-sites. One of which is an online travel agent in Hong Kong engaged in the sale of air tickets, hotel reservations and holiday packages. The other website is an online music studio engaged in the sale of musical products through online auctions, and the organisation of online music classes and musical events.

Notes to Financial Statements

31st December, 2000

26. SHARE CAPITAL (continued)

Shares (continued)

Subsequent to the balance sheet date, the following movements in the issued share capital of the Company were recorded:

- (a) On 17th March, 2001, 200,000,000 new ordinary shares, credited as fully paid at HK\$0.20 per share, were issued (note 31(a)).
- (b) On 21st May, 2001, 125,000,000 new ordinary shares, credited as fully paid at HK\$0.20 per share, were issued (note 31(b)).
- (c) 432 warrants were exercised at a subscription price of HK\$0.20 each, resulting in the issue of 432 new ordinary shares of HK\$0.10 each.

Warrants

Pursuant to an ordinary resolution passed at the special general meeting held on 16th August, 1999, 203,139,840 warrants were issued by way of a bonus issue in the proportion of three bonus warrants for every five shares then held. Each warrant entitles its registered holder to subscribe in cash for one fully paid ordinary share of HK\$0.10 each in the share capital of the Company at any time during the period from 1st March, 2000 to 31st August, 2001 (both dates inclusive) at a subscription price of HK\$0.20 per share, subject to adjustment.

During the year, 12,264,112 of these warrants were exercised.

Subsequent to the balance sheet date and up to the date when these financial statements were approved by the board of directors, 432 warrants were exercised, resulting in the issue of 432 shares of HK\$0.10 each. The remaining unexercised warrants lapsed on 31st August, 2001.

26. SHARE CAPITAL *(continued)*

Share options

On 28th June, 1990, the Company adopted a share option scheme (the "Old Scheme") under which the directors were authorised at their absolute discretion, to invite any employee, including any executive director of the Company or any of its subsidiaries, to take up options to subscribe for shares in the Company. The maximum number of shares in respect of which options could be granted under the Old Scheme could not exceed 10% of the share capital of the Company in issue from time to time. On 28th January, 2000, 105,302,420 share options were granted to certain directors of the Company to subscribe for ordinary shares in the Company at a subscription price of HK\$0.246 per share. 26,325,605 of these share options were exercised on 13th April, 2000 and the remaining 78,976,815 share options were cancelled on 28th June, 2000 upon the expiry of the Old Scheme.

On 28th June, 2000, a new share option scheme was adopted by the Company (the "New Scheme"), under which the directors of the Company are authorised at their absolute discretion, to invite any employee, including any executive director of the Company or any of its subsidiaries, to take up options to subscribe for shares in the Company. The subscription price will be determined by the directors at the higher of the nominal value of the shares or not less than 80% of the average of the closing price per share on the Stock Exchange for the five trading days immediately preceding the date on which the relevant option is granted to the employee.

The maximum number of shares in respect of which options may be granted under the New Scheme may not exceed 10% of the issued shares of the Company from time to time which have been duly allotted and issued.

The New Scheme became effective for a period of 3 years on 28th June, 2000.

On 1st August, 2000, 123,693,880 share options under the New Scheme were granted to certain directors of the Company to subscribe for ordinary shares in the Company. 61,846,940, 30,923,470 and 30,923,470 share options were exercised at a subscription price of HK\$0.151 per share on 25th August, 2000, 26th August, 2000 and 3rd October, 2000, respectively, leaving no share options outstanding at the balance sheet date.

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27. RESERVES

Group

	Share premium account HK\$'000	Capital reserve HK\$'000	Capital redemption reserve HK\$'000	Exchange equalisation reserve HK\$'000	Legal reserve HK\$'000 (note a)	Retained profits/ (accumulated losses) HK\$'000	Total HK\$'000
At 1st January, 1999	74,366	134,294	52	8,896	781	125,351	343,740
Premium on issue of shares	18,375	—	—	—	—	—	18,375
Bonus issue	(67,713)	—	—	—	—	—	(67,713)
Share issue expenses	(297)	—	—	—	—	—	(297)
Exchange adjustment on translation of the financial statements of overseas subsidiaries	—	—	—	1,382	—	—	1,382
Net loss for the year	—	—	—	—	—	(69,516)	(69,516)
Transfers from profit and loss account	—	—	—	—	199	(199)	—
At 31st December, 1999 and 1st January, 2000	24,731	134,294	52	10,278	980	55,636	225,971
Premium on issue of shares	34,355	—	—	—	—	—	34,355
Transfer from deferred tax (note 25)	—	38,305	—	—	—	—	38,305
Net loss for the year	—	—	—	—	—	(56,373)	(56,373)
Goodwill arising on acquisition of subsidiaries	—	(23,137)	—	—	—	—	(23,137)
Goodwill arising on acquisition of an associate	—	(2,386)	—	—	—	—	(2,386)
Transfer from profit and loss account	—	—	—	—	76	(76)	—
At 31st December, 2000	<u>59,086</u>	<u>147,076</u>	<u>52</u>	<u>10,278</u>	<u>1,056</u>	<u>(813)</u>	<u>216,735</u>

27. RESERVES (continued)

COMPANY

	Share premium account HK\$'000	Contributed surplus HK\$'000 (note b)	Capital redemption reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1st January, 1999	74,366	337,613	52	(53,542)	358,489
Premium on issue of shares	18,375	—	—	—	18,375
Bonus issue	(67,713)	—	—	—	(67,713)
Share issue expenses	(297)	—	—	—	(297)
Net loss for the year	—	—	—	(84,104)	(84,104)
At 31st December, 1999 and at 1st January, 2000	24,731	337,613	52	(137,646)	224,750
Premium on issue of shares	34,355	—	—	—	34,355
Net loss for the year	—	—	—	(34,467)	(34,467)
At 31st December, 2000	<u>59,086</u>	<u>337,613</u>	<u>52</u>	<u>(172,113)</u>	<u>224,638</u>

GROUP

	2000 HK\$'000	1999 HK\$'000
Profits retained/(losses accumulated) in:		
Company and subsidiaries	17,237	73,557
Jointly controlled entity	(17,481)	(17,467)
Associates	(569)	(454)
	<u>(813)</u>	<u>55,636</u>

Notes:

- (a) The legal reserve is a statutory reserve of foreign investment enterprises in Mainland China. The transfers to this reserve are governed by the relevant laws and regulations of Mainland China.
- (b) The contributed surplus arose in 1989 as a result of the Group reorganisation and represented the difference between the nominal value of the Company's shares allotted under the reorganisation scheme and the then consolidated net asset value of the acquired subsidiaries. According to the Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to shareholders under certain circumstances.

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28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of loss from operating activities to net cash outflow from operating activities:

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Loss from operating activities	(46,810)	(51,608)
Provisions for/(write back of provisions for) diminutions in values of properties under development	(19,964)	687
Write back of provision for construction costs	(19,775)	—
Provision against long term deposits	67,000	—
Provision for doubtful debts	2,540	47,591
Provisions for impairment in values of long term investments	25,000	—
Gain on disposal of long term investments	(16,916)	—
Interest income	(6,703)	(4,598)
Depreciation	9,768	9,062
Bad debts written off	—	2,430
Loss on disposal of fixed assets	456	1,065
Decrease/(increase) in long term deposits	(10,394)	22,000
Increase in debtors, deposits and prepayments	(5,746)	(20,399)
Decrease/(increase) in properties under development	19,127	(117,937)
Increase in inventories	(169)	(1,023)
Decrease in properties held for sale	16,021	—
Increase/(decrease) in creditors, accruals and other payables	(5,536)	54,914
Increase/(decrease) in deposits received	(19,352)	24,943
Net cash outflow from operating activities	<u>(11,453)</u>	<u>(32,873)</u>

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

(b) Analysis of changes in financing during the year

	Share capital (including share premium account) HK\$'000	Bank loans HK\$'000	Other loans HK\$'000	Due to a shareholder HK\$'000	Due to a minority shareholder of a subsidiary HK\$'000	Minority interests HK\$'000
Balance at 1st January, 1999	108,223	102,616	15,049	13	5,755	5,816
Cash inflow/(outflow) from financing, net	—	2,343	(9,019)	7,826	(145)	—
Issue of new shares for non-cash consideration	24,500	—	—	—	—	—
Share issue expenses	(297)	—	—	—	—	—
Share of profit for the year	—	—	—	—	—	785
Dividends paid to a minority shareholder of a subsidiary	—	—	—	—	—	(533)
Effect of foreign exchange adjustments	—	4	12	—	5	—
Balance at 31st December, 1999 and 1st January, 2000	132,426	104,963	6,042	7,839	5,615	6,068
Cash inflow/(outflow) from financing, net	27,606	31,772	15,560	(7,839)	(231)	—
Issue of new shares for non-cash consideration	37,500	—	—	—	—	—
Transfer of loan to a debtor (note 28(d)(iv))	—	(56,148)	—	—	—	—
Share of profit for the year	—	—	—	—	—	272
Dividends paid to a minority shareholder of a subsidiary	—	—	—	—	—	(272)
Balance at 31st December, 2000	<u>197,532</u>	<u>80,587</u>	<u>21,602</u>	<u>—</u>	<u>5,384</u>	<u>6,068</u>

Notes to Financial Statements

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

(c) Acquisition of subsidiaries

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Net assets acquired:		
Fixed assets	455	—
Cash and bank balances	3,845	—
Debtors, deposits and prepayments	63	—
	<u>4,363</u>	<u>—</u>
Goodwill	23,137	—
	<u>27,500</u>	<u>—</u>
Satisfied by:		
Issue of shares	<u>27,500</u>	<u>—</u>

Analysis of the net inflow of cash and bank balances in respect of the acquisitions of subsidiaries:

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Cash and bank balances acquired	<u>3,845</u>	<u>—</u>

The subsidiaries acquired during the year had no significant impact on the Group's cash flows.

(d) Major non-cash transactions

The Group had the following significant major non-cash transactions during the year:

- (i) On 3rd March, 2000, 12,500,000 new ordinary shares of HK\$0.10 each in the Company were allotted and issued at an issue price of HK\$0.40 per share, credited as fully paid, to satisfy the sum of HK\$5,000,000, being the full consideration payable for the subscription of shares in iMall (note 26(d)).
- (ii) On 19th May, 2000 and 5th June, 2000, 90,000,000 and 20,000,000 new ordinary shares of HK\$0.10 each in the Company were allotted and issued at an issue price of HK\$0.25 per share, credited as fully paid, to satisfy the sum of HK\$27,500,000, being the full consideration payable for the acquisition of shares in Softech (note 26(e)).

28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(d) Major non-cash transactions *(continued)*

- (iii) On 3rd October, 2000, 22,727,272 new ordinary shares of HK\$0.10 each in the Company were allotted and issued at an issue price of HK\$0.22 per share, credited as fully paid, to satisfy the sum of HK\$5,000,000, being the full consideration payable for the acquisition of shares in Victory Tech (note 26(f)).
- (iv) Pursuant to a financing agreement dated 24th November, 2000 entered into between the Group, a debtor and a bank of the Group, the Group's liability in respect of a bank loan of HK\$56,148,000 was transferred to a debtor and the same amount owed by the debtor to the Group was released.
- (v) Interest income of HK\$6,185,000 was settled by the transfer to the Group of properties held for sale of the same amount during the year.

29. CONTINGENT LIABILITIES

	GROUP		COMPANY	
	2000	1999	2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Guarantees given for banking facilities granted to:				
Subsidiaries	—	—	27,632	27,702
Third party	1,601	2,807	—	—
Guarantees given to banks in respect of mortgage loans made to purchasers of the Group's properties under development	50,465	38,929	—	—
	<u>52,066</u>	<u>41,736</u>	<u>27,632</u>	<u>27,702</u>

At the balance sheet date, the Group's share of guarantees given to banks in respect of mortgage loans made to purchasers of the properties of its jointly controlled entity totalled HK\$6,660,000 (1999: HK\$4,014,000).

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31st December, 2000

30. COMMITMENTS

At the balance sheet date, the Group had the following commitments:

(a) Capital commitments not provided for in the financial statements

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Fixed assets and construction in progress:		
Authorised, but not contracted for	<u>29,384</u>	<u>29,492</u>
Properties under development:		
Authorised and contracted for	116,641	62,162
Authorised, but not contracted for	<u>147,792</u>	<u>160,541</u>
	264,433	222,703
Others:		
Authorised and contracted for	<u>46,564</u>	<u>36,888</u>
Total commitments	<u><u>340,381</u></u>	<u><u>289,083</u></u>

(b) In addition to the above, the Group's attributable share of authorised and contracted for commitment of its jointly controlled entity in respect of properties amounted to HK\$1,448,000 (1999: HK\$59,029,000).

(c) Commitments under non-cancellable operating leases in respect of land and buildings expiring:

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Within one year	—	957
In the second to fifth years, inclusive	<u>2,388</u>	<u>188</u>
	<u><u>2,388</u></u>	<u><u>1,145</u></u>

31. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, the Group entered into the following significant transactions:

- (a) On 12th March, 2001, an agreement was entered into between Fairyoung Electronics Technology Investment Holdings Limited (“Fairyoung Electronics”), a wholly-owned subsidiary of the Group, Beijing Investment Limited (“Beijing Investment”), and Mr. Au Shui Yuen Alick (“Mr. Au”), whereby Fairyoung Electronics agreed to acquire 1,500 and 500 ordinary shares of HK\$1.00 each in Well Known Technology Limited (“Well Known”) from Beijing Investment and Mr. Au, respectively, representing an aggregate of 20% of the entire issued share capital therein, for a total consideration of HK\$40,000,000. On 17th March, 2001, the consideration was satisfied by the allotment and issue of 200,000,000 new ordinary shares of the Company credited as fully paid at an issue price of HK\$0.20 each.

Well Known has a 90% interest in a privately owned company, Shenzhen Yuan Tang Baye Fingerprint Recognition Technology Co., Ltd., based in Shenzhen, Mainland China, which is principally engaged in the design and development of fingerprint recognition technology.

- (b) On 22nd March, 2001, a conditional agreement was entered into between China Software Development Limited (“China Software”), a wholly-owned subsidiary of the Group, Mr. Law Su Kwong (“Mr. Law”), Mr. Chan Wing Cheng, Barry (“Mr. Chan”), and Tudor House Properties Limited (“Tudor”), whereby China Software agreed to acquire 8,800, 1,320 and 880 ordinary shares of US\$1.00 each in Lawsons Infotech (Holdings) Corporation (“Lawsons Infotech”) from Mr. Law, Mr. Chan and Tudor, respectively, representing an aggregate of 20% of the entire issued share capital therein, for a total consideration of HK\$25,000,000. On 21st May, 2001, the consideration was satisfied by the allotment and issue of 125,000,000 new ordinary shares of the Company credited as fully paid at an issue price of HK\$0.20 each.

Lawson Infotech is an investment holding company and, through its subsidiaries, is engaged in the development and licensing of e-commerce solutions.

- (c) On 20th September, 2001, Fairyoung Net Association Limited (“Fairyoung Net”), a wholly-owned subsidiary of the Group, entered into separate share purchase agreements with Moring Zone Co., Limited (“Moringing”), Bestray Investments Limited (“Bestray”), Bestate Investments Limited (“Bestate”) and New Charm Investments Limited (“New Charm”), respectively, whereby Fairyoung Net agreed to acquire 570, 310, 770 and 1,250 ordinary shares of US\$1.00 each in Golden Yield Enterprises Limited (“Golden Yield”) and the corresponding shareholders’ loans from Moringing, Bestray, Bestate and New Charm, respectively, representing an aggregate of 29% of the entire issued share capital of and the shareholders’ loans to Golden Yield, for a total consideration of HK\$67,193,000.

The consideration is to be satisfied by the allotment and issue of 479,950,000 new ordinary shares of the Company at an issue price of HK\$0.14 each.

Golden Yield has a 70% interest in a sino-foreign equity joint venture enterprise, Beijing Zotn Digital Technologies, Inc., which is an application service provider in Mainland China.

Notes to Financial Statements

31st December, 2000

32. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 30th October, 2001.