

## **NOTES TO THE CONDENSED FINANCIAL STATEMENTS**

*For the Six Months Ended 30th June, 2001*

### **1. Basis of preparation**

The condensed financial statements have been prepared in accordance with the Statement of Standard Accounting Practice (“SSAP”) 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants, except that the comparative figures are not presented for the condensed consolidated cash flow statement, being the condensed consolidated cash flow statement to be included in the first interim financial report relating to accounting periods ended on or after 1st July, 2000. Such departure from SSAP 25 is permitted under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

### **2. Principal accounting policies**

The condensed financial statements have been prepared under the historical cost convention and the accounting policies adopted are consistent with those followed in the Group’s annual financial statements for the year ended 31st December, 2000, except as described below.

In the current period, the Group has adopted SSAP 30 “Business combinations” and has elected not to restate goodwill (negative goodwill) previously eliminated against (credited to) reserves. Accordingly, goodwill arising on acquisitions prior to 1st January, 2001 is held in reserves and will be charged to the income statement at the time of disposal of the relevant subsidiary or associate, or at such time as the goodwill is determined to be impaired. Negative goodwill arising on acquisitions prior to 1st January, 2001 will be credited to income at the time of disposal of the relevant subsidiary or associate.

Goodwill arising on acquisitions after 1st January, 2001 is capitalized and amortized over its estimated useful life. Negative goodwill arising on acquisitions after 1st January, 2001 is presented as a deduction from assets and will be released to income based on analysis of the circumstances from which the balance resulted.

### 3. Segment Information

#### (a) Business segments

	Infrastructure investment <i>HK\$'000</i>	Property development and investment <i>HK\$'000</i>	Investment in high technology related business <i>HK\$'000</i>	Trading and others <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>2001</b>					
Turnover	2,515	19,109	–	2,178	23,802
Segment result	394	(180)	(923)	(3,427)	(4,136)
Unallocated corporate expenses					(12,053)
Loss from operating activities					(16,189)
<b>2000</b>					
Turnover	3,268	47,435	–	108	50,811
Segment result	1,126	2,735	–	11,862	15,723
Unallocated corporate expenses					(10,257)
Profit from operating activities					5,466

### 3. Segment Information (continued)

#### (b) Geographical segments

	The People's Republic of China		United	Total
	Hong Kong	Mainland China	States of America	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>2001</b>				
Turnover	–	23,802	–	23,802
Segment result	(1,373)	(2,458)	(305)	(4,136)
Unallocated corporate expenses				(12,053)
Loss from operating activities				(16,189)
<b>2000</b>				
Turnover	–	36,885	13,926	50,811
Segment result	(1,874)	15,286	2,311	15,723
Unallocated corporate expenses				(10,257)
Profit from operating activities				5,466

#### 4. (Loss) profit from operating activities

(Loss) profit from operating activities has been arrived at after charging (crediting):

	Six months ended	
	30.6.2001	30.6.2000
	HK\$'000	HK\$'000
Amortization of goodwill arising on acquisition of associates	2,597	–
Depreciation of fixed assets	3,962	4,823
Interest income	(43)	(293)

#### 5. Finance costs

	Six months ended	
	30.6.2001	30.6.2000
	HK\$'000	HK\$'000
Interest on bank loans and other loans wholly repayable within five years	4,049	208

## 6. Taxation

	Six months ended	
	30.6.2001	30.6.2000
	HK\$'000	HK\$'000
Group:		
Mainland China	37	78
United States of America	3,163	–
Associates:		
Mainland China	–	1
	<u>3,200</u>	<u>79</u>

## 7. (Loss) earnings per share

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

	Six months ended	
	30.6.2001	30.6.2000
	HK\$'000	HK\$'000
(Loss) earnings		
Net (loss)/profit for the calculation of basic and diluted (loss)/earnings per share	<u>(29,485)</u>	<u>1,024</u>
Number of shares (in thousand)		
Weighted average number of ordinary shares for the calculation of basic (loss)/earnings per share	1,529,902	1,125,254
Effect of dilutive potential ordinary shares from exercise of warrants	–	17,343
Effect of dilutive potential ordinary shares from exercise of share options	<u>–</u>	<u>2,232</u>
	<u>1,529,902</u>	<u>1,144,829</u>

The computation of diluted loss per share for the six months ended 30th June, 2001 has not been shown as the warrants outstanding during the period had an anti-dilutive effect on the basic loss per share.

## 8. Dividend

The Directors of the Company do not recommend the payment of an interim dividend in respect of the six months ended 30th June, 2001 (2000: Nil).

## 9. Movements in fixed assets and properties under development

The Group spent approximately HK\$3,775,000 and HK\$8,444,000 on acquisition of fixed assets and properties under development, respectively.

## 10. Interests in associates

	<b>30.6.2001</b> <i>HK\$'000</i>	31.12.2000 <i>HK\$'000</i>
Share of net assets	<u>1,904</u>	<u>1,573</u>
Goodwill on acquisition of associates	<b>64,443</b>	–
Amortization during the period	<u>(2,597)</u>	<u>–</u>
	<b>61,846</b>	–
Amounts due therefrom	<u>187</u>	<u>182</u>
Amounts due thereto	<u>–</u>	<u>(889)</u>
Total	<b><u>63,937</u></b>	<b><u>866</u></b>

## 11. Debtors, deposits and prepayments

Included in the balance is an amount of HK\$961,000 (31.12.2000: HK\$1,351,000) representing the trade debtors of the Group. The aged analysis of such debtors is as follows:

	<b>30.6.2001</b> <i>HK\$'000</i>	31.12.2000 <i>HK\$'000</i>
Within 3 months	<b>400</b>	584
More than 3 months and less than 6 months	<b>339</b>	580
More than 6 months and less than 1 year	<u>222</u>	<u>187</u>
	<b><u>961</u></b>	<b><u>1,351</u></b>

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.

## 12. Amounts due from shareholders

Amounts due from shareholders are unsecured, interest-free and has no fixed terms of repayment.

### 13. Creditors, accruals and other payables

Included in the balance is an amount of HK\$13,420,000 (31.12.2000: HK\$16,774,000) representing the trade creditors of the Group. The aged analysis of such creditors is as follows:

	<b>30.6.2001</b> <i>HK\$'000</i>	31.12.2000 <i>HK\$'000</i>
Within 3 months	<b>656</b>	–
More than 3 months and less than 6 months	<b>339</b>	351
More than 6 months and less than 1 year	<b>221</b>	–
More than 1 year	<b>12,204</b>	16,423
	<hr/> <b>13,420</b> <hr/>	<hr/> 16,774 <hr/>

### 14. Bank loans

The Group repaid bank loans of HK\$19,914,000 and obtained new bank loans of HK\$3,743,000 during the current reporting period.

### 15. Share capital

	<b>Six months ended 30.6.2001</b>	
	<b>Number of</b>	<b>Share</b>
	<b>shares issued</b>	<b>capital</b>
		<i>HK\$'000</i>
Issued and fully paid ordinary shares of HK\$0.1 each		
At 1st January, 2001	1,384,460,072	138,446
Issued in consideration for the acquisition of two associates		
– Well Known Technology Limited	200,000,000	20,000
– Lawsons Infotech (Holdings) Corporation	125,000,000	12,500
Exercise of warrants	78	–
	<hr/> 1,709,460,150 <hr/>	<hr/> 170,946 <hr/>

## 16. Reserves

	Share premium account <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Exchange equalization reserve <i>HK\$'000</i>	Legal reserve <i>HK\$'000</i>	(Accumul- ated losses)/ retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 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	-	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	59,086	147,076	52	10,278	1,056	(813)	216,735
Premium on issue of shares	32,500	-	-	-	-	-	32,500
Net loss for the period	-	-	-	-	-	(29,485)	(29,485)
At 30th June, 2001	91,586	147,076	52	10,278	1,056	(30,298)	219,750

## 17. Contingent liabilities

	<b>30.6.2001</b> <b><i>HK\$'000</i></b>	31.12.2000 <i>HK\$'000</i>
Guarantees given for banking facilities granted to a third party	<b>2,601</b>	1,601
Guarantees given to banks in respect of mortgage loans made to purchasers of the Group's properties under development	<b>62,677</b>	50,465
	<b>65,278</b>	52,066

## 18. Capital commitments

	<b>30.6.2001</b>	31.12.2000
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Fixed assets and construction in progress:		
Authorized, but not contracted for	<u>29,384</u>	<u>29,384</u>
Properties under development:		
Authorized and contracted for	<b>78,083</b>	116,641
Authorized, but not contracted for	<u>141,322</u>	<u>147,792</u>
	<u>219,405</u>	<u>264,433</u>
Others:		
Authorized and contracted for	<u>46,580</u>	<u>46,564</u>
Total	<u>295,369</u>	<u>340,381</u>

## 19. Post balance sheet event

On 20th September, 2001, Fairyoung Net Association Limited (“Fairyoung Net”), a wholly-owned subsidiary of the Group, entered into separate share purchase agreements with Morning Zone Co., Limited, Bestray Investments Limited, Bestate Investments Limited and New Charm Investments Limited, respectively, whereby Fairyoung Net agreed to acquire a total of 2,900 ordinary shares of US\$1.00 each in Golden Yield Enterprises Limited (“Golden Yield”) and the corresponding shareholders’ loans amounting to HK\$1,439,480, representing an aggregate of 29% of the entire issued share capital of and the shareholders’ loans owing by Golden Yield, at 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..