

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

1. GENERAL

The Company is incorporated in Bermuda as an exempt company with limited liability and its shares are listed on the Hong Kong Stock Exchange. Its ultimate holding company is Asia Pacific Promotion Limited, a private limited company incorporated in the BVI.

The principal activities of the Group are property development, supply of electricity and wholesaling and retailing of LP Gas and natural gas ("Gas fuel").

2. ADOPTION OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted for the first time a number of new and revised Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants. Adoption of these SSAPs has led to a number of changes in the Group's accounting policies. The revised accounting policies are set out in note 3. In addition, the new and revised SSAPs have introduced additional and revised disclosure requirements which have been adopted in these financial statements. Comparative amounts for the prior year have been restated in order to achieve a consistent presentation.

The adoption of these new and revised SSAPs has resulted in the following changes to the Group's accounting policies that have affected the amounts reported for the current or prior periods.

Operating lease commitments

SSAP No. 14 (Revised) "Leases" has introduced some amendments to the basis of accounting for operating leases, and to the disclosures specified for the Group's and the Company's leasing arrangements. These changes have not had any material effect on the results for the current or prior accounting periods and, accordingly, no prior period adjustment has been required. Disclosures for all of the Group's and the Company's leasing arrangements have been modified so as to comply with the requirements of SSAP 14 (Revised). Comparative amounts have been restated in order to achieve a consistent presentation.

Segment reporting

In the current year, the Group has changed the basis of identification of reportable segments to that required by SSAP 26 "Segment Reporting". Segment disclosures for the year ended 31 December 2000 have been amended so that they are presented on a consistent basis.

For the year ended 31 December 2001

2. ADOPTION OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE *(Continued)*

Goodwill

In the current year, 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 1 January 2001 is held in reserves and will be charged to the income statement at the time of disposal of the relevant subsidiary or at such time as the goodwill is determined to be impaired. Negative goodwill arising on acquisitions prior to 1 January 2001 will be credited to income at the time of disposal of the relevant subsidiary.

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition.

For the year ended 31 December 2001

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill *(Continued)*

Goodwill arising on acquisitions prior to 1 January 2001 continues to be held in reserves and will be charged to the income statement at the time of disposal of the relevant subsidiary or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisitions on or after 1 January 2001 is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of a subsidiary is presented separately in the balance sheet.

Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition over the cost of acquisition.

Negative goodwill arising on acquisitions prior to 1 January 2001 continues to be held in reserves and will be credited to income at the time of disposal of the relevant subsidiary.

Negative goodwill arising on acquisitions on or after 1 January 2001 is presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

To the extent that the negative goodwill is attributable to future losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised in income immediately.

Negative goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a deduction from assets.

Recognition of revenue

Development properties

Income from properties developed for sale, where there are no pre-sales prior to completion of a development, is recognised on the execution of the sales and purchase agreement.

For the year ended 31 December 2001

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Recognition of revenue *(Continued)*

Development properties (Continued)

Income from properties pre-sold prior to completion of a development is recognised over the period from the execution of the sales and purchase agreement to the completion of the development on the basis of development costs incurred to date as a proportion of estimated total development costs.

Income from outright sales of an entire property development project is recognised upon execution of the sale and purchase agreement.

Sales of electricity supply

Revenue from electricity supply operations is recognised when electricity is supplied.

Gas pipelines construction revenue

Gas pipelines construction revenue is recognised when the outcome of a gas connection contract can be estimated reliably and the stage of completion at the balance sheet date can be measured reliably. Revenue from gas connection contracts is recognised on the percentage of completion method, measured by reference to the value of work carried out during the period. When the outcome of a gas connection contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that is probable will be recoverable.

Sales of goods

Sales of goods are recognised when goods are delivered and title has passed.

Income from decoration, interior design and related services

Income from decoration, interior design and related services is recognised using the percentage of completion method, measured by reference to the proportion that costs incurred to date bear to estimated total costs for each contract. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

Income from property management services

Income from property management services is recognised on provision of services.

Interest income

Interest income is accrued on a time proportion basis on the principal outstanding and at the rate applicable.

For the year ended 31 December 2001

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recognition of revenue (Continued)

Dividend income

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Stock of properties

Stock of properties includes properties under development and properties held for sale.

The carrying value of properties under development comprises the land cost together with development expenditure, which includes construction costs, capitalised interest and ancillary borrowing costs, plus attributable profits taken to date, less progress payments received and foreseeable losses. Attributable profit on pre-sale of properties under development is recognised over the course of the development. Profit recognised on pre-sale of properties during an accounting period is calculated by reference to the proportion of construction costs incurred up to the accounting date to total estimated construction costs to completion, with due allowance for contingencies.

Properties held for sale are classified under current assets and stated at the lower of cost and net realisable value. Cost is determined by apportionment of the total land and development cost attributable to the unsold properties. Net realisable value is the estimated price at which a property can be realised in the ordinary course of business less related selling expenses.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

A joint venture is treated as a subsidiary if, under the joint venture control, the Group holds more than half of the joint venture Company's registered capital or the Group can control the composition of the board of directors.

Interests in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates less any identified impairment loss.

When the Group transacts with its associates, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associates, except where unrealised losses provide evidence of an impairment of the asset transferred.

For the year ended 31 December 2001

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment securities

Investments securities are recognised on a trade-date basis and are initially measured at cost.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair values, with unrealised gains and losses included in net profit or loss for the year.

Property, plant and equipment

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

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

Other plant and equipment are stated at cost less depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost or valuation of items of property, plant and equipment over their estimated useful lives on a straight line basis, after taking into consideration their estimated residual values. The principal annual rates used are as follows:

| | |
|-----------------------------------|--|
| Leasehold land | Over the unexpired term of lease or over the term of equity joint venture contract, whichever is shorter |
| Buildings | 3 per cent. to 10 per cent. |
| Plant and machinery | 6 per cent. to 30 per cent. |
| Furniture, fixtures and equipment | 18 per cent. to 40 per cent. |
| Motor vehicles | 6 per cent. to 30 per cent. |

For the year ended 31 December 2001

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Construction in progress

Construction in progress, which includes all development expenditure and other direct costs, including interest expenses attributable to such projects, is stated at cost. Costs on completed construction work are transferred to property, plant and equipment.

Impairment

At each balance sheet date, the Company reviews the carrying amounts of its tangible assets and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Foreign currencies

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions or at the contracted settlement rate. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Profits and losses arising on the translation of foreign currency borrowings used to finance net investments in overseas operations/subsidiaries are taken directly to reserves. Other profits and losses arising on exchange are dealt with in the income statement.

On consolidation, the financial statements of subsidiaries/associates which are denominated in currencies other than the Hong Kong dollar and which operate in the PRC and overseas are translated at the rates ruling on the balance sheet date. All exchange differences arising on consolidation are dealt with in reserves.

For the year ended 31 December 2001

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Decoration work in progress comprises direct material and labour cost plus attributable profits taken to date less deposits received and provision for any foreseeable losses.

Construction contracts

When the outcome of a construction contract can be estimated reliably and the stage of contract completion at the balance sheet date can be measured reliably, contract costs are charged to the income statement by reference to the stage of completion of the contract activity at the balance sheet date on the same basis as contract revenue is recognised.

When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred. When it is probable that total contracts costs will exceed contract revenue, the expected loss is recognised an expense immediately.

Convertible note

A convertible note is regarded as a liability until conversion occurs and the finance costs recognised in the income statement in respect of the convertible note are calculated so as to produce a constant periodic rate of charge on the remaining balance of the convertible note for each accounting period.

Capitalisation of borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

For the year ended 31 December 2001

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessors are accounted for as operating leases. Rental receivable or payable in respect of operating leases are credited or charged respectively to the income statement on a straight line basis over the terms of the respective leases.

Retirement benefits scheme

The retirement benefit costs charged in the income statement represents the contributions payable in respect of the current year to the Group's defined contribution scheme and Mandatory Provident Fund Scheme in Hong Kong and state — sponsored retirement plan for its employees in the PRC.

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable a liability or asset will crystallise in the foreseeable future.

4. TURNOVER AND CONTRIBUTION TO PROFIT FROM OPERATIONS

An analysis of the Group's turnover from operations during the year is as follows:

| | TURNOVER | |
|--|------------------|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 |
| Sales of completed properties/ development properties | 335,898 | 349,580 |
| Revenue from electricity supply operations | 156,156 | 80,837 |
| Revenue from gas fuel business | 1,008,335 | 1,059,729 |
| Others (Note) | 26,916 | 28,684 |
| | <u>1,527,305</u> | <u>1,518,830</u> |

Note: Others includes income from decoration, interior design work and property management services.

For the year ended 31 December 2001

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

(A) Business segments (Continued)

BALANCE SHEET

| | Property development HK\$'000 | Electricity supply HK\$'000 | Gas fuel business HK\$'000 | Others HK\$'000 | Consolidated HK\$'000 |
|--------------------------------------|-------------------------------------|-----------------------------------|----------------------------------|--------------------|--------------------------|
| ASSETS | | | | | |
| Segment assets | 1,891,732 | 239,711 | 529,972 | 182,247 | 2,843,662 |
| Unallocated corporate assets | | | | | <u>122,817</u> |
| Consolidated total assets | | | | | <u><u>2,966,479</u></u> |
| LIABILITIES | | | | | |
| Segment liabilities | 227,065 | 41,509 | 113,447 | 7,979 | 390,000 |
| Unallocated corporate liabilities | | | | | <u>931,962</u> |
| Consolidated total liabilities | | | | | <u><u>1,321,962</u></u> |

OTHER INFORMATION

| | Property development HK\$'000 | Electricity supply HK\$'000 | Gas fuel business HK\$'000 | Others HK\$'000 | Total HK\$'000 |
|---|-------------------------------------|-----------------------------------|----------------------------------|--------------------|-------------------|
| Capital additions | 16,473 | 33,697 | 70,649 | 1,080 | 121,899 |
| Depreciation and amortisation | 10,348 | 16,851 | 16,355 | 996 | 44,550 |
| Unrealised holding loss on other investments | — | — | — | 2,317 | 2,317 |
| Deficit on revaluation of property, plant and equipment | <u>—</u> | <u>—</u> | <u>1,851</u> | <u>—</u> | <u>1,851</u> |

For the year ended 31 December 2001

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

(A) Business segments (Continued)

- (ii) Segment information about these businesses for the year ended 31 December 2000 is presented below:

INCOME STATEMENT

| | Property development HK\$'000 | Electricity supply HK\$'000 | Gas fuel business HK\$'000 | Others HK\$'000 | Eliminations HK\$'000 | Consolidated HK\$'000 |
|---------------------|-------------------------------------|-----------------------------------|----------------------------------|--------------------|--------------------------|--------------------------|
| TURNOVER | | | | | | |
| External sales | 349,580 | 80,837 | 1,059,729 | 28,684 | — | 1,518,830 |
| Inter-segment sales | — | — | — | 9,961 | (9,961) | — |
| | <u>349,580</u> | <u>80,837</u> | <u>1,059,729</u> | <u>38,645</u> | <u>(9,961)</u> | <u>1,518,830</u> |

Inter-segment sales are charged at prevailing market prices.

RESULT

| | | | | | | |
|-----------------------------------|---------------|-----------------|--------------|-----------------|----------|----------------|
| Segment result | <u>40,596</u> | <u>(16,266)</u> | <u>1,245</u> | <u>(11,162)</u> | <u>—</u> | 14,413 |
| Other revenue | | | | | | 4,673 |
| Unallocated corporate expenses | | | | | | <u>(6,973)</u> |
| Profit from operations | | | | | | 12,113 |
| Interest income | | | | | | 27,455 |
| Finance costs | | | | | | <u>(5,326)</u> |
| Share of results of associates | | | | | | <u>222</u> |
| Profit before taxation | | | | | | 34,464 |
| Taxation | | | | | | <u>(7,049)</u> |
| Profit after taxation | | | | | | <u>27,415</u> |

For the year ended 31 December 2001

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

(A) Business segments (Continued)

BALANCE SHEET

| | Property development HK\$'000 | Electricity supply HK\$'000 | Gas fuel business HK\$'000 | Others HK\$'000 | Consolidated HK\$'000 |
|--------------------------------------|-------------------------------------|-----------------------------------|----------------------------------|--------------------|--------------------------|
| ASSETS | | | | | |
| Segment assets | 1,297,745 | 193,920 | 356,031 | 199,399 | 2,047,095 |
| Unallocated corporate assets | | | | | <u>141,497</u> |
| Consolidated total assets | | | | | <u><u>2,188,592</u></u> |
| LIABILITIES | | | | | |
| Segment liabilities | 263,081 | 48,923 | 99,591 | 9,237 | 420,832 |
| Unallocated corporate liabilities | | | | | <u>285,715</u> |
| Consolidated total liabilities | | | | | <u><u>706,547</u></u> |

OTHER INFORMATION

| | Property development HK\$'000 | Electricity supply HK\$'000 | Gas fuel business HK\$'000 | Others HK\$'000 | Total HK\$'000 |
|--|-------------------------------------|-----------------------------------|----------------------------------|--------------------|-------------------|
| Capital additions | 14,692 | 9,415 | 61,293 | 270 | 85,670 |
| Depreciation and amortisation | 9,084 | 16,280 | 11,354 | 528 | 37,246 |
| Unrealised holding loss on other investment | — | — | — | 554 | 554 |
| Provision for doubtful debts | <u>3,301</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>3,301</u> |

(B) Geographical segments

As over 90% of the consolidated turnover, trading results and assets for the year is derived from the PRC, an analysis of the consolidated turnover, trading results and assets by geographical location is not presented.

For the year ended 31 December 2001

6. OTHER REVENUE

| | 2001 HK\$'000 | 2000 HK\$'000 |
|---|------------------|------------------|
| Rental income under operating leases | 2,216 | 1,358 |
| Insurance claimed | 1,957 | — |
| Gain on disposal of investment in securities | 1,616 | — |
| Gain on disposal of property, plant and equipment | 541 | — |
| Net exchange gain | 316 | — |
| Realisation of negative goodwill | 145 | — |
| Deposits forfeited | — | 734 |
| Dividend income | — | 108 |
| Sundry | 3,326 | 2,473 |
| | <u>10,117</u> | <u>4,673</u> |

7. PROFIT FROM OPERATIONS

| | 2001 HK\$'000 | 2000 HK\$'000 |
|---|------------------|------------------|
| Profit from operations is arrived at after charging: | | |
| Auditors' remuneration | 2,540 | 1,269 |
| Depreciation | 43,852 | 37,246 |
| Net exchange loss | — | 1,230 |
| Operating lease rentals | 7,166 | 4,116 |
| Loss on disposal of property, plant and equipment | — | 1,058 |
| Unrealised holding loss on investments in securities | 2,317 | 554 |
| Staff costs including directors' remuneration | 68,218 | 50,830 |
| Amortisation of goodwill (included in administrative expenses) | 698 | — |
| Deficit on revaluation of property, plant and equipment | 1,851 | — |
| | <u>1,851</u> | <u>—</u> |

For the year ended 31 December 2001

8. EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT

Details of the emoluments paid by the Group to the directors are as follows:

| | 2001 HK\$'000 | 2000 HK\$'000 |
|---|------------------|------------------|
| Fees | 150 | 150 |
| Salaries and other emoluments | 7,502 | 6,483 |
| Contributions to retirement benefits scheme | 111 | 165 |
| Discretionary bonuses | 550 | 500 |
| Compensation for loss of office | — | — |
| Inducement for joining the Group | — | — |
| Waiver of emoluments paid | — | — |
| | <u>8,313</u> | <u>7,298</u> |

The amounts disclosed above include directors' fees of HK\$150,000 (2000: HK\$150,000) payable to independent non-executive directors. No other emoluments were payable to independent non-executive directors.

The emoluments of the directors were within the following bands:

| Emolument band | Number of individuals | |
|---------------------------|-----------------------|----------|
| | 2001 | 2000 |
| \$Nil - \$1,000,000 | 3 | 4 |
| \$1,000,001 - \$1,500,000 | 3 | 2 |
| \$3,500,001 - \$4,000,000 | <u>1</u> | <u>1</u> |

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8. EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT (Continued)

Of the five individuals with the highest emoluments in the Group, four (2000: four) were directors of the Company whose emoluments are included in the disclosures above. The emoluments of the remaining individual were as follows:

| | 2001 HK\$'000 | 2000 HK\$'000 |
|---|------------------|------------------|
| Salaries and allowances | 1,353 | 786 |
| Contributions to retirement benefits scheme | 12 | 22 |
| Discretionary bonuses | — | — |
| Compensation for loss of office | — | — |
| Inducement for joining the Group | — | — |
| Waiver of emoluments paid | — | — |
| | <u>1,365</u> | <u>808</u> |

His emoluments were within the following bands:

| Emolument band | Number of individuals | |
|---------------------------|-----------------------|----------|
| | 2001 | 2000 |
| \$Nil - \$1,000,000 | — | 1 |
| \$1,000,001 - \$1,500,000 | <u>1</u> | <u>—</u> |

9. FINANCE COSTS

| | 2001 HK\$'000 | 2000 HK\$'000 |
|---|------------------|------------------|
| Interest expenses on bank and other loans wholly repayable within 5 years | 19,728 | 16,583 |
| Less: Amount capitalised to properties under development for sale | <u>(13,191)</u> | <u>(12,799)</u> |
| | 6,537 | 3,784 |
| Bank charges | 307 | 241 |
| Exchange loss | — | 1,301 |
| | <u>6,844</u> | <u>5,326</u> |

For the year ended 31 December 2001

9. FINANCE COSTS (Continued)

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 5.4% (2000: 5.4%) to expenditure on qualifying assets.

10. GAIN ON DISPOSAL OF SUBSIDIARIES

| | 2001 HK\$'000 | 2000 HK\$'000 |
|--|------------------|------------------|
| Gain on partial disposal of interest in a subsidiary | 44,183 | — |
| Gain on disposal of a subsidiary | 283 | — |
| | <u>44,466</u> | <u>—</u> |

Gain on partial disposal of interest in a subsidiary represented the gain arising on the spin-off of Panva Gas on the Growth Enterprise Market of the Hong Kong Stock Exchange during the year.

11. TAXATION

| | 2001 HK\$'000 | 2000 HK\$'000 |
|---------------------------|------------------|------------------|
| The tax charge comprises: | | |
| Profit for the year | | |
| PRC excluding Hong Kong | <u>10,499</u> | <u>7,049</u> |

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from, Hong Kong.

Pursuant to relevant laws and regulations in the PRC, certain of the Group's PRC subsidiaries established in the PRC are exempted from paying income tax for the first two years starting from their first profitable year of operation, followed by a 50 per cent. reduction from the third to fifth year. Provision for PRC income tax is provided for with reference to the applicable tax rates on the estimated assessable profits of those subsidiaries for the year, which range from 15% to 33%.

Deferred taxation has not been provided for in the financial statements as there were no significant timing differences arising during the year or at the balance sheet date.

For the year ended 31 December 2001

12. DIVIDENDS

On 12 April 2001, the Company distributed a special interim dividend of HK\$15,039,000 by way of a dividend in specie of 15,200,000 shares of Panva Gas ("Panva shares") in the proportion of 20 Panva Shares for every 2,000 shares of the Company held.

The Company paid an interim dividend of HK\$0.03 per share (2000: Nil) amounting to HK\$45,600,000 in respect of the six months ended 30 June 2001.

13. EARNINGS PER SHARE

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

| | 2001 HK\$'000 | 2000 HK\$'000 |
|--|----------------------|----------------------|
| Earnings for the purposes of basic earnings per share | 116,971 | <u>21,030</u> |
| Effect of dilutive potential shares: | | |
| Interest on convertible note | <u>2,759</u> | |
| Earnings for the purposes of diluted earnings per share | <u>119,730</u> | |
| Weighted average number of shares for the purposes of basic earnings per share | 1,672,000,000 | <u>1,672,000,000</u> |
| Effect of dilutive potential ordinary shares: | | |
| Convertible note | <u>134,592,000</u> | |
| Weighted average number of shares for the purposes of diluted earnings per share | <u>1,806,592,000</u> | |

The computation of diluted earnings per share does not assume the exercise of the Company's outstanding share options as the exercise price of those options is higher than the average market price for the Company's shares for both 2000 and 2001.

No diluted earnings per share for 2000 had been presented as the exercise of convertible note was anti-dilutive.

For the year ended 31 December 2001

14. PROPERTY, PLANT AND EQUIPMENT

| | Medium term leasehold land and buildings in the PRC HK\$'000 | Construction in progress in progress HK\$'000 | Plant and machinery HK\$'000 | Furniture, fixtures and equipment HK\$'000 | Motor vehicles HK\$'000 | Total HK\$'000 |
|-----------------------------|--|--|------------------------------------|---|-------------------------------|-------------------|
| THE GROUP | | | | | | |
| COST OR VALUATION | | | | | | |
| At 1 January 2001 | 176,760 | 4,783 | 263,393 | 29,360 | 26,365 | 500,661 |
| Acquisition of a subsidiary | 4,520 | 19,574 | 298 | — | 124 | 24,516 |
| Disposal of a subsidiary | (948) | — | (383) | (66) | (424) | (1,821) |
| Additions | 38,253 | 35,986 | 12,386 | 4,417 | 6,341 | 97,383 |
| Disposals | (2,492) | (522) | (10) | (751) | (4,845) | (8,620) |
| Net surplus on revaluation | 1,281 | — | — | — | — | 1,281 |
| Reclassification | — | (2,732) | 2,732 | — | — | — |
| | <u>217,374</u> | <u>57,089</u> | <u>278,416</u> | <u>32,960</u> | <u>27,561</u> | <u>613,400</u> |
| At 31 December 2001 | 217,374 | 57,089 | 278,416 | 32,960 | 27,561 | 613,400 |
| Comprising: | | | | | | |
| At cost | — | 57,089 | 278,416 | 32,960 | 27,561 | 396,026 |
| At valuation 2001 | <u>217,374</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>217,374</u> |
| | <u>217,374</u> | <u>57,089</u> | <u>278,416</u> | <u>32,960</u> | <u>27,561</u> | <u>613,400</u> |
| DEPRECIATION | | | | | | |
| At 1 January 2001 | 37,184 | — | 60,730 | 11,695 | 6,550 | 116,159 |
| Disposal of subsidiary | (114) | — | (49) | (26) | (78) | (267) |
| Provided for the year | 11,718 | — | 21,847 | 5,214 | 5,073 | 43,852 |
| Eliminated on disposals | (1,752) | — | (2) | (683) | (3,844) | (6,281) |
| Eliminated on revaluation | (20,936) | — | — | — | — | (20,936) |
| | <u>26,100</u> | <u>—</u> | <u>82,526</u> | <u>16,200</u> | <u>7,701</u> | <u>132,527</u> |
| At 31 December 2001 | 26,100 | — | 82,526 | 16,200 | 7,701 | 132,527 |
| NET BOOK VALUE | | | | | | |
| At 31 December 2001 | <u>191,274</u> | <u>57,089</u> | <u>195,890</u> | <u>16,760</u> | <u>19,860</u> | <u>480,873</u> |
| At 31 December 2000 | <u>139,576</u> | <u>4,783</u> | <u>202,663</u> | <u>17,665</u> | <u>19,815</u> | <u>384,502</u> |

Certain leasehold land and buildings of the Group in the PRC were valued at 31 January 2001 by Messrs. DTZ Debenham Tie Leung Limited, Chartered Surveyors, on an opened market value basis resulting in a deficit of HK\$1,851,000 and a surplus of HK\$7,488,000. Messrs. DTZ Debenham Tie Leung Limited are not connected with the Group.

For the year ended 31 December 2001

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

At 31 December 2001, other leasehold land and buildings of the Group in the PRC were valued by the directors of the Group with reference to various professional reports prepared on an open market value basis, resulting in a surplus of HK\$16,580,000.

If the leasehold land and buildings had not been revalued, they would have been included in these financial statements at historical cost less accumulated depreciation of HK\$169,057,000 (2000: HK\$139,576,000).

The net book value of land and buildings includes an amount of approximately HK\$9,795,000 (2000: HK\$10,330,000) in respect of assets rented out under operating lease.

The Group had pledged property, plant and equipment with a net book value of approximately HK\$8,337,000 (2000: HK\$8,954,000) to secure banking facilities granted to the Group (note 40).

| | Furniture, fixtures and equipment <i>HK\$'000</i> |
|-----------------------|---|
| THE COMPANY | |
| COST | |
| At 1 January 2001 | 776 |
| Additions | 39 |
| | <hr/> |
| At 31 December 2001 | 815 |
| | <hr/> |
| DEPRECIATION | |
| At 1 January 2001 | 300 |
| Provided for the year | 155 |
| | <hr/> |
| | 455 |
| | <hr/> |
| NET BOOK VALUES | |
| At 31 December 2001 | 360 |
| | <hr/> <hr/> |
| At 31 December 2000 | 476 |
| | <hr/> <hr/> |

For the year ended 31 December 2001

15. GOODWILL

| | THE GROUP |
|---|-----------------|
| | 2001 |
| | <i>HK\$'000</i> |
| COST | |
| Arising on acquisition of a subsidiary and additional interests in subsidiaries during the year and at 31 December 2001 | 22,767 |
| AMORTISATION | |
| Provided for the year and at 31 December 2001 | 698 |
| NET BOOK VALUE | |
| At 31 December 2001 | <u>22,069</u> |

The amortisation period adopted for goodwill is 20 years.

16. NEGATIVE GOODWILL

| | THE GROUP |
|---|-----------------|
| | 2001 |
| | <i>HK\$'000</i> |
| GROSS AMOUNT | |
| Arising on acquisitions during the year and balance at 31 December 2001 | (19,100) |
| RELEASED TO INCOME | |
| Released in the year and balance at 31 December 2001 | 145 |
| CARRYING AMOUNT | |
| At 31 December 2001 | <u>(18,955)</u> |

The negative goodwill arose on the Group's acquisition of an additional interest in Fuhuade in November 2001 amounting to HK\$19,100,000 being the excess of the Group's interest in the fair value of the identifiable assets and liabilities of the subsidiary at the date of acquisition over the cost of acquisition. The negative goodwill is being released to income on a straight line basis of 11 years, the remaining weighted average useful life of the depreciable assets acquired.

For the year ended 31 December 2001

17. INVESTMENTS IN SUBSIDIARIES

| | 2001 HK\$'000 | 2000 HK\$'000 |
|-------------------------------|------------------|------------------|
| Unlisted shares, at cost | 670,174 | 661,257 |
| Amounts due from subsidiaries | 381,554 | 344,834 |
| | <u>1,051,728</u> | <u>1,006,091</u> |

The amounts due from subsidiaries are interest-free, unsecured and have no fixed term of repayment. In the opinion of the directors, the amount will not be repayable within one year and therefore classified as non-current assets.

Particulars of the subsidiaries as at 31 December 2001 are as follows:

| Name | Place of incorporation/ establishment and operation | Issued and fully paid up share capital/ registered capital | Proportion of nominal value of issued capital/ registered capital held | Principal activities |
|---|---|--|--|-------------------------------------|
| Directly-owned subsidiaries | | | | |
| I-Happy Profit Limited | BVI | 1 share of US\$1 each | 100% | Investment holding |
| Kenson Investment Limited | BVI | 1 share of US\$1 each | 100% | Investment holding |
| Sinolink Progressive Limited | BVI | 47,207 shares of US\$1 each | 100% | Investment holding |
| Supreme All Investments Limited | BVI | 1 share of US\$1 each | 100% | Investment holding |
| Indirectly-owned subsidiaries | | | | |
| China Pan River Group Ltd. | BVI | 1 share of US\$1 each | 100% | Investment holding |
| Chenzhou Pan River Gas Industry Co., Ltd. | PRC — Sino-foreign equity joint venture | RMB9,000,000 | 55% | Wholesaling and retailing of LP Gas |
| China Overlink Holdings Co., Limited | BVI | 1 share of US\$1 each | 100% | Investment holding |

For the year ended 31 December 2001

17. INVESTMENTS IN SUBSIDIARIES (Continued)

| Name | Place of incorporation/ establishment and operation | Issued and fully paid up share capital/ registered capital | Proportion of nominal value of issued capital/ registered capital held | Principal activities |
|--|---|--|--|-------------------------------------|
| Indirectly-owned subsidiaries (Continued) | | | | |
| Firstline Investment Limited | BVI | 1 share of US\$1 each | 100% | Investment holding |
| Link Capital Investments Limited | BVI | 50,000 shares of US\$1 each | 100% | Investment holding |
| Nanjing Panva LPG Company Ltd. | PRC — Sino-foreign equity joint venture | RMB50,000,000 | 55% | Wholesaling and retailing of LP Gas |
| Nanling Pan River LPG Ltd. | PRC — Limited liability company | RMB2,000,000 | 55% | Wholesaling and retailing of LP Gas |
| Ocean Diamond Limited | BVI | 50,000 shares of US\$1 each | 100% | Investment holding |
| Pan River Enterprises (Changde) Co., Ltd. | PRC — Sino-foreign equity joint venture | RMB6,000,000 | 85% | Wholesaling and retailing of LP Gas |
| Pan River Enterprises (Changsha) Co., Ltd. | PRC — Sino-foreign equity joint venture | RMB40,000,000 | 60% | Wholesaling and retailing of LP Gas |
| Pan River Enterprises (Hengyang) Co., Ltd. | PRC — Sino-foreign equity joint venture | RMB6,000,000 | 84% | Wholesaling and retailing of LP Gas |
| Pan River Enterprises (Wuhu) Co., Ltd. | PRC — Sino-foreign equity joint venture | RMB32,000,000 | 55% | Wholesaling and retailing of LP Gas |

For the year ended 31 December 2001

17. INVESTMENTS IN SUBSIDIARIES (Continued)

| Name | Place of incorporation/ establishment and operation | Issued and fully paid up share capital/ registered capital | Proportion of nominal value of issued capital/ registered capital held | Principal activities |
|---|---|--|--|--|
| Indirectly-owned subsidiaries (Continued) | | | | |
| Pan River Gas (China Southwest) Co., Ltd. (formerly known as Pan River Gas (Guizhou) Co., Ltd.) | PRC — Sino-foreign equity joint venture | RMB16,000,000 | 50.10% | Wholesaling and retailing of LP Gas |
| Panriver Investments Company Limited | PRC — Limited liability company | US\$30,000,000 (Note 1) | 100% | Investment holding |
| Panva Gas Holdings Limited | BVI | 500,000,000 shares of HK\$0.1 each | 77.96% | Investment holding |
| Panva Gas (Yunnan) Co., Ltd. | PRC — Limited liability company | RMB58,840,000 | 56.94% | Wholesaling and retailing of LP Gas |
| Shenzhen China Overseas-Sinolink Property Management Co., Ltd. | PRC — Limited liability company | RMB1,500,000 | 100% | Property management |
| Shenzhen Fuhuade Electric Power Co., Ltd. | PRC — Foreign equity joint venture | RMB100,000,000 | 100% | Electricity supply |
| Shenzhen Sinolink Enterprises Co., Ltd. | PRC — Foreign equity joint venture | RMB375,000,000 | 80% | Property development |
| Shenzhen Sinolink Property Management Co., Ltd. | PRC — Foreign equity joint venture | RMB2,000,000 | 85% | Property management |
| Shenzhen Weikong Decorate Engineering Co., Ltd. | PRC — Foreign equity joint venture | RMB5,000,000 | 100% | Decoration, interior design and related services |
| Singkong Investments Limited | Hong Kong | 10,000 ordinary shares of HK\$1 each | 100% | Investment holding |

For the year ended 31 December 2001

17. INVESTMENTS IN SUBSIDIARIES (Continued)

| Name | Place of incorporation/ establishment and operation | Issued and fully paid up share capital/ registered capital | Proportion of nominal value of issued capital/ registered capital held | Principal activities |
|---|---|---|--|-------------------------------------|
| Indirectly-owned subsidiaries (Continued) | | | | |
| Sinolink Electric Power Company Limited | Hong Kong | 2 ordinary shares of HK\$1 each 100,000 non-voting deferred shares of HK\$1 each | 100% | Investment holding |
| Sinolink Industrial Limited | BVI | 50,001 shares of US\$1 each | 100% | Investment holding |
| Sinolink International Investment (Group) Limited | BVI | 1 share of US\$1 each | 100% | Investment holding |
| Sinolink LPG Development Limited | BVI | 1 share of US\$1 each | 100% | Not yet commenced business |
| Sinolink LPG Investment Limited | BVI | 1 share of US\$1 each | 100% | Investment holding |
| Sinolink Petrochemical Investment Limited | BVI | 1 share of US\$1 each | 100% | Not yet commenced business |
| Sinolink Power Investment Limited | BVI | 1 share of US\$1 each | 100% | Investment holding |
| Sinolink Properties Agent Limited | Hong Kong | 10,000 ordinary shares of HK\$1 each | 100% | Property agent |
| Sinolink Worldwide (HK) Company Limited | Hong Kong | 10,000,000 ordinary shares of HK\$1 each | 100% | Investment holding |
| Wuhu Pan River Jiangbei Enterprises Co., Ltd. | PRC — Limited liability company | RMB500,000 | 51% | Wholesaling and retailing of LP Gas |
| Xiangtan Pan River Enterprises Industry Co., Ltd. | PRC — Sino-foreign equity joint venture | RMB10,000,000 | 55% | Wholesaling and retailing of LP Gas |

For the year ended 31 December 2001

17. INVESTMENTS IN SUBSIDIARIES (Continued)

| Name | Place of incorporation/ establishment and operation | Issued and fully paid up share capital/ registered capital | Proportion of nominal value of issued capital/ registered capital held | Principal activities |
|--|---|--|--|---|
| Indirectly-owned subsidiaries (Continued) | | | | |
| Yangzi Petrochemical Baijiang Energy Resources Co., Ltd. | PRC — Sino-foreign equity joint venture | US\$7,230,000 | 50% (Note 2) | Wholesaling and retailing of LP Gas |
| Yiyang Pan River Enterprises Co., Ltd. | PRC — Sino-foreign equity joint venture | RMB5,000,000 | 60% | Wholesaling and retailing of LP Gas |
| Yongzhou Pan River Enterprises Co., Ltd. | PRC — Sino-foreign equity joint venture | RMB5,000,000 | 60% | Wholesaling and retailing of LP Gas |
| Ziyang Gas Company | PRC — Limited liability company | RMB1,953,279 | 90% | Provision of piped natural gas and related services |

Note 1: Panriver Investments Company Limited is a foreign wholly-owned enterprise with a tenure of 50 years. At the date of this report, Panriver Investments Company Limited has an outstanding registered capital contribution of US\$20,000,000 which needs to be paid up by China Pan River Group Ltd. by 9 March 2003 or on such later date as approved by the relevant PRC governing authority.

Note 2: Yangzi Petrochemical Baijiang Energy Resources Co., Ltd. is a subsidiary of the Company because the Company has control over the board of directors.

None of the subsidiaries had issued any debt securities at 31 December 2001 or at any time during the year.

For the year ended 31 December 2001

18. INTERESTS IN ASSOCIATES

| | THE GROUP | |
|-----------------------------------|------------------|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 |
| Share of net (liabilities) assets | (2,082) | 663 |
| Amounts due from associates | 8,504 | 8,678 |
| | <u>6,422</u> | <u>9,341</u> |

The amounts due from associates are interest free and unsecured. The amount is classified under non-current assets as the directors are of the opinion that they will not be repaid in the forthcoming year.

As at 31 December 2001, the Group had interests in the following associates:

| Name of associate | Place of incorporation/ establishment and operation | Issued and fully paid up registered capital | Proportion of nominal value of registered capital held by the Group | Principal activities |
|--|---|---|---|----------------------------------|
| Shenzhen Xiangdu F. & E. Co., Ltd. | PRC — Foreign equity joint venture | RMB4,000,000 | 45% | Restaurant operation |
| Shenzhen Everlink Cable Engineering Consulting Co., Ltd. | PRC — Foreign equity joint venture | RMB3,000,000 | 21% | Cable work consulting service |
| Shenzhen Northern Red Star Culture & Art Development Co., Ltd. | PRC — Limited liability company | RMB1,000,000 | 25% | Not yet commenced business |

For the year ended 31 December 2001

19. INVESTMENT IN SECURITIES

| | Investment securities | | Other investments | | Total | |
|---|-----------------------|------------------|-------------------|------------------|------------------|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 | 2001 HK\$'000 | 2000 HK\$'000 | 2001 HK\$'000 | 2000 HK\$'000 |
| THE GROUP | | | | | | |
| Equity securities | | | | | | |
| Listed — Hong Kong (Note) | 23,214 | — | 6,992 | 1,324 | 30,206 | 1,324 |
| Unlisted | 594 | 1,124 | — | — | 594 | 1,124 |
| | <u>23,808</u> | <u>1,124</u> | <u>6,992</u> | <u>1,324</u> | <u>30,800</u> | <u>2,448</u> |
| Market value of listed securities | <u>11,753</u> | <u>1,124</u> | <u>6,992</u> | <u>1,324</u> | <u>18,745</u> | <u>2,448</u> |
| Carrying amount analysed for reporting purposes as: | | | | | | |
| Non-current | 23,808 | 1,124 | — | — | 23,808 | 1,124 |
| Current | — | — | 6,992 | 1,324 | 6,992 | 1,324 |
| | <u>23,808</u> | <u>1,124</u> | <u>6,992</u> | <u>1,324</u> | <u>30,800</u> | <u>2,448</u> |

Note: The Group has entered into an arrangement with an independent third party to hedge these investments against any impairment loss that may arise. Accordingly, no impairment loss has been made against these investments for the difference between the carrying amount and the market value. The market value disclosed was for information purpose.

| | Other investments | |
|---|-------------------|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 |
| THE COMPANY | | |
| Equity securities | | |
| Listed — Hong Kong | <u>6,641</u> | <u>—</u> |
| Market value of listed securities | <u>6,641</u> | <u>—</u> |
| Carrying amount analysed for reporting purposes as: | | |
| Non-current | <u>6,641</u> | <u>—</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

20. LOAN RECEIVABLE

| | THE GROUP | |
|--|------------------|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 |
| Trade receivables — non-current portion (<i>note 23</i>) | 2,473 | 5,982 |

21. STOCK OF PROPERTIES

| | THE GROUP | |
|---|------------------|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 |
| Properties under development for sale | | |
| Cost plus attributable profit less foreseeable losses | 1,539,397 | 544,870 |
| Less: Progress payments received | — | 1,130 |
| | 1,539,397 | 543,740 |
| Stock of unsold properties | 63,027 | 248,461 |
| | 1,602,424 | 792,201 |

22. INVENTORIES

| | THE GROUP | |
|-------------------|------------------|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 |
| At cost: | | |
| Gas fuel | 20,078 | 12,675 |
| Diesel fuel | 12,737 | 6,448 |
| Consumable stores | 6,653 | 5,272 |
| | 39,468 | 24,395 |

For the year ended 31 December 2001

23. TRADE AND OTHER RECEIVABLES

The Group has a policy of allowing an average credit terms ranging from 0 to 180 days to its customers. Included in trade and other receivables are trade receivables totalling from HK\$139,920,000 (2000: HK\$258,644,000), the aged analysis of which is as follows:

| | THE GROUP | |
|-------------------------------------|----------------|----------------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| Aged: | | |
| 0 to 90 days | 109,293 | 77,535 |
| 91 to 180 days | 18,233 | 1,608 |
| 181 to 360 days | 299 | 9,071 |
| over 360 days | 12,095 | 170,430 |
| | <u>139,920</u> | <u>258,644</u> |
| Less: Non-current portion (note 20) | (2,473) | (5,982) |
| | <u>137,447</u> | <u>252,662</u> |

24. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$111,981,000 (2000: HK\$214,616,000), the aged analysis of which is as follows:

| | THE GROUP | |
|-----------------|----------------|----------------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| Aged: | | |
| 0 to 90 days | 93,116 | 205,046 |
| 91 to 180 days | 5,986 | — |
| 181 to 360 days | 8,824 | 948 |
| over 360 days | 4,055 | 8,622 |
| | <u>111,981</u> | <u>214,616</u> |

25. AMOUNT DUE TO SUBSIDIARIES

The balances were unsecured, interest free and with no fixed term of repayment.

For the year ended 31 December 2001

26. AMOUNTS DUE TO MINORITY SHAREHOLDERS

| | THE GROUP | |
|--------------------------|------------------|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 |
| Interest-bearing portion | — | 7,480 |
| Interest-free portion | 7,267 | 49,005 |
| | <u>7,267</u> | <u>56,485</u> |

These balances are unsecured and have no fixed term of repayment. The interest bearing portion bears interest equivalent to the prevailing bank rate.

27. BORROWINGS

| | THE GROUP | | THE COMPANY | |
|--|------------------|------------------|------------------|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 | 2001 HK\$'000 | 2000 HK\$'000 |
| Bank loans | | | | |
| — secured | 189,804 | 229,093 | — | — |
| — unsecured | 675,412 | — | — | — |
| Other loans | 561 | — | — | — |
| Convertible notes | 55,183 | 55,183 | 55,183 | 55,183 |
| | <u>920,960</u> | <u>284,276</u> | <u>55,183</u> | <u>55,183</u> |
| The maturity of the above loans is as follows: | | | | |
| On demand or within one year | 410,170 | 229,093 | 55,183 | — |
| More than two years but not exceeding five years | 510,790 | 55,183 | — | 55,183 |
| | <u>920,960</u> | <u>284,276</u> | <u>55,183</u> | <u>55,183</u> |
| Less: Amount due within one year shown under current liabilities | (410,170) | (229,093) | (55,183) | — |
| Non-current portion | <u>510,790</u> | <u>55,183</u> | <u>—</u> | <u>55,183</u> |

For the year ended 31 December 2001

27. BORROWINGS (Continued)

The convertible loan notes were issued on 12 February 1999. The note is convertible into shares of the Company from the date of issue up to the third anniversary of the date of issue. The outstanding unconverted principal amount of the note was converted into shares of the Company on 8 February 2002. Interest of 5% is paid quarterly.

28. SHARE CAPITAL

| | 2001 HK\$'000 | 2000 HK\$'000 |
|---------------------------------------|-----------------------|-----------------------|
| Shares of HK\$0.1 each | | |
| Authorised: | | |
| At 1 January | | |
| 2,000,000,000 shares of HK\$0.10 each | 200,000 | 200,000 |
| Increased on 26 October 2001 | | |
| 2,800,000,000 shares of HK\$0.10 each | <u>280,000</u> | <u>—</u> |
| At 31 December | <u><u>480,000</u></u> | <u><u>200,000</u></u> |
| | | |
| Issued and fully paid: | | |
| At 1 January | | |
| 1,520,000,000 shares of HK\$0.10 each | 152,000 | 152,000 |
| Bonus issue of shares | | |
| 152,000,000 shares of HK\$0.10 each | <u>15,200</u> | <u>—</u> |
| At 31 December | <u><u>167,200</u></u> | <u><u>152,000</u></u> |

On 26 October 2001, the Company issued 152,000,000 shares of HK\$0.10 each in the Company as bonus issue of shares on the basis of one new share of HK\$0.10 each for every ten existing shares of HK\$0.10 each held by the shareholders of the Company by the way of capitalization of the sum of HK\$15,200,000 standing to the credit of the share premium account of the Company. The new shares rank pari passu with the existing shares in all respects.

For the year ended 31 December 2001

29. RESERVES

| | Share premium account HK\$'000 | Properties revaluation reserve HK\$'000 | Translation reserve HK\$'000 | Goodwill reserve HK\$'000 | General reserve HK\$'000 | Capital reserve HK\$'000 | Contributed surplus HK\$'000 | Retained profits HK\$'000 | Total HK\$'000 |
|---|---|--|------------------------------------|---------------------------------|--------------------------------|--------------------------------|------------------------------------|---------------------------------|-------------------|
| THE GROUP | | | | | | | | | |
| At 31 December 1999 | 293,853 | — | (5,763) | (5,985) | 46,289 | — | 368,262 | 329,481 | 1,026,137 |
| Exchange rate adjustment | — | — | 21 | — | — | — | — | — | 21 |
| Transfer from profit and loss account | — | — | — | — | 5,493 | — | — | (5,493) | — |
| Profit for the year | — | — | — | — | — | — | — | 21,030 | 21,030 |
| At 31 December 2000 | 293,853 | — | (5,742) | (5,985) | 51,782 | — | 368,262 | 345,018 | 1,047,188 |
| Exchange rate adjustment | — | — | 8 | — | — | — | — | — | 8 |
| Capitalisation of shares | (15,200) | — | — | — | — | — | — | — | (15,200) |
| Disposal of a subsidiary | — | (1,096) | 24 | 65 | (177) | (207) | — | — | (1,391) |
| Revaluation of land and buildings | — | 20,558 | — | — | — | — | — | — | 20,558 |
| Contribution from a minority shareholder | — | — | — | — | — | 1,065 | — | — | 1,065 |
| Transfer from profit and loss account | — | — | — | — | 6,117 | — | — | (6,117) | — |
| Profit for the year | — | — | — | — | — | — | — | 116,971 | 116,971 |
| Dividend | — | — | — | — | — | — | — | (60,639) | (60,639) |
| At 31 December 2001 | <u>278,653</u> | <u>19,462</u> | <u>(5,710)</u> | <u>(5,920)</u> | <u>57,722</u> | <u>858</u> | <u>368,262</u> | <u>395,233</u> | <u>1,108,560</u> |

| | Share premium account HK\$'000 | Contributed surplus HK\$'000 | Retained profits HK\$'000 | Total HK\$'000 |
|--------------------------|---|------------------------------------|---------------------------------|-------------------|
| THE COMPANY | | | | |
| At 31 December 1999 | 293,853 | 572,173 | 70,316 | 936,342 |
| Profit for the year | — | — | 76 | 76 |
| At 31 December 2000 | 293,853 | 572,173 | 70,392 | 936,418 |
| Capitalisation of shares | (15,200) | — | — | (15,200) |
| Profit for the year | — | — | 10,242 | 10,242 |
| Dividend | — | — | (60,639) | (60,639) |
| At 31 December 2001 | <u>278,653</u> | <u>572,173</u> | <u>19,995</u> | <u>870,821</u> |

For the year ended 31 December 2001

29. RESERVES (Continued)

Included in the above are the Group's share of post-acquisition reserves of its associates as follows:

| | Accumulated loss HK\$'000 |
|--------------------------------|--|
| At 1 January 2001 | (3,674) |
| Loss for the year, accumulated | <u>(360)</u> |
| At 31 December 2001 | <u><u>(4,034)</u></u> |

The contributed surplus of the Company represents the difference between the nominal value of the shares of the acquired subsidiaries and the nominal value of the Company's shares issued for the acquisition at the time of the group reorganisation prior to the listing of the Company's shares in 1998.

The contributed surplus of the Group represents the differences between the consolidated shareholders' funds of the subsidiaries at the date at which they were acquired by the Company, and the nominal amount of the Company's shares issued for the acquisition at the time of the group reorganisation prior to the listing of the Company's shares in 1998.

The general reserve represents the Enterprise Expansion Fund and General Reserve Fund set aside by certain subsidiaries in accordance with the relevant laws and regulations of the PRC, which are not available for distribution.

The capital reserve represents the contribution from the minority shareholders of the subsidiaries waived.

Under the Companies Act 1981 of Bermuda, the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- (a) it is, or would after the payment be, unable to pay its liabilities as they become due;
or
- (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

For the year ended 31 December 2001

29. RESERVES (Continued)

In the opinion of the directors, the Company's reserves available for distribution to shareholders are as follows:

| | 2001 HK\$'000 | 2000 HK\$'000 |
|---------------------|------------------|------------------|
| Contributed surplus | 572,173 | 572,173 |
| Retained earnings | 19,995 | 70,392 |
| | <u>592,168</u> | <u>642,565</u> |

30. RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH (OUTFLOW) INFLOW FROM OPERATING ACTIVITIES

| | 2001 HK\$'000 | 2000 HK\$'000 |
|---|------------------|------------------|
| Profit before taxation | 183,672 | 34,464 |
| Share of loss (profit) of associates | 360 | (222) |
| Interest income | (22,733) | (27,455) |
| Interest expense | 6,537 | 3,784 |
| Provision for doubtful debts | — | 3,301 |
| Depreciation | 43,852 | 37,246 |
| Gain on disposal of subsidiaries | (44,466) | — |
| Gain on disposal of an associate | (422) | — |
| Gain on disposal of investments | (1,616) | — |
| Unrealised holding loss on investment in securities | 2,317 | 554 |
| Deficit on revaluation of property, plant and equipment | 1,851 | — |
| Amortisation of goodwill | 698 | — |
| Realisation of negative goodwill | (145) | — |
| (Gain) loss on disposal of property, plant and equipment | (541) | 1,058 |
| Movements in assets/liabilities held for operating activities: | | |
| (Increase) decrease in stock of properties | (797,032) | 33,244 |
| Increase in inventories | (13,063) | (9,943) |
| Decrease in trade and other receivables | 85,253 | 58,591 |
| Decrease in loan receivable | 3,509 | 771 |
| (Decrease) increase in trade and other payables | (1,540) | 28,666 |
| NET CASH (OUTFLOW) INFLOW FROM CONTINUING OPERATING ACTIVITIES | <u>(553,509)</u> | <u>164,059</u> |

For the year ended 31 December 2001

31. DISPOSAL OF A SUBSIDIARY

| | 2001 HK\$'000 |
|---|------------------|
| Net assets disposed of: | |
| Property, plant and equipment | 1,554 |
| Inventories | 134 |
| Trade receivables | 109 |
| Bank balances and cash | 34 |
| Other receivables, deposits and prepayments | 60 |
| Trade payables | (260) |
| Other payables and accruals | (450) |
| Tax payable | (258) |
| Minority interests | (706) |
| | <hr/> |
| | 217 |
| Write back of provision made in prior year | (500) |
| Gain on disposal | 283 |
| | <hr/> |
| Total consideration | — |
| | <hr/> |
| Net cash outflow arising on disposal: | |
| Bank balances and cash disposed of | (34) |
| | <hr/> <hr/> |

For the year ended 31 December 2001

32. ACQUISITION OF A SUBSIDIARY

The Group acquired 90 per cent of the issued share capital of Ziyang Gas Company for cash consideration of HK\$14,032,000. This acquisition has been accounted for by the acquisition method of accounting. The amount of goodwill arising as a result of the acquisition was HK\$13,340,000. Ziyang Gas Company contributed HK\$4,350,000 of revenue and HK\$414,000 of loss after tax for the period between the date of acquisition and the balance sheet date.

| | 2001 HK\$'000 |
|---|------------------|
| Net assets acquired: | |
| Property, plant and equipment | 24,516 |
| Other investments | 782 |
| Inventories | 2,144 |
| Trade receivables | 55 |
| Other receivables, deposits and prepayments | 2,325 |
| Tax recoverable | 211 |
| Bank and cash balances | 6,984 |
| Trade payables | (2,345) |
| Other payables and accruals | (32,421) |
| Minority interests | (1,559) |
| | <hr/> |
| | 692 |
| Goodwill | 13,340 |
| | <hr/> |
| Total consideration | 14,032 |
| | <hr/> <hr/> |
| Satisfied by cash | 14,032 |
| | <hr/> <hr/> |
| Net cash outflow arising on acquisition: | |
| Cash consideration | (14,032) |
| Bank balances and cash acquired | 6,984 |
| | <hr/> |
| | (7,048) |
| | <hr/> <hr/> |

For the year ended 31 December 2001

33. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

| | Share capital and share premium HK\$'000 | Borrowings (excluding convertible notes) HK\$'000 | Amounts due to a director HK\$'000 | Amounts due to minority interests HK\$'000 | Minority interests HK\$'000 |
|--|---|---|---|--|-----------------------------------|
| Balance at 31 December 1999 | 445,853 | 226,380 | 4,713 | 22,797 | 260,091 |
| Net cash inflow (outflow) from financing | — | 2,713 | (4,713) | 33,688 | 17,927 |
| Dividend paid to minority shareholders | — | — | — | — | (1,871) |
| Minority shares of reserves | — | — | — | — | 1,698 |
| Minority share of profit for the year | — | — | — | — | 5,012 |
| Balance at 31 December 2000 | 445,853 | 229,093 | — | 56,485 | 282,857 |
| Net cash inflow (outflow) from financing | — | 636,684 | — | (49,218) | 43,078 |
| Dividend paid to minority shareholders | — | — | — | — | (14,582) |
| Realised on partial disposal of subsidiaries | — | — | — | — | 21,966 |
| Realised on disposal of a subsidiary | — | — | — | — | (706) |
| Acquisition of a subsidiary | — | — | — | — | 1,559 |
| Acquisition of additional interests of subsidiaries | — | — | — | — | (26,065) |
| Minority share of reserves | — | — | — | — | 4,448 |
| Minority share of profit for the year | — | — | — | — | 56,202 |
| Balance at 31 December 2001 | <u>445,853</u> | <u>865,777</u> | <u>—</u> | <u>7,267</u> | <u>368,757</u> |

34. MAJOR NON-CASH TRANSACTIONS

During the year, a minority shareholder contributed HK\$2,001,000 to the Group in the form of property, plant and equipment.

For the year ended 31 December 2001

35. RELATED PARTY TRANSACTIONS

The following is a summary of significant related party transactions carried out during the year:

| | 2001 HK\$'000 | 2000 HK\$'000 |
|---|------------------|------------------|
| Skillful (Notes a & b) | | |
| — Rental paid thereto (Note c) | 1,200 | 1,200 |
| Mr. Ou Yaping (Note a) | | |
| — Interest paid thereto | — | 40 |
| — Convertible note interest paid thereto (Note d) | 2,759 | 2,767 |
| Shenzhen Xiangdu (Note a) | | |
| — Rental received therefrom (Note c) | 393 | 674 |

Notes:

- a. Transactions with these related parties are regarded as connected transactions as set out in Chapter 14 of the Listing Rules of the Hong Kong Stock Exchange.
- b. A company controlled by Mr. Ou Yaping and of which Mr. Ou Yaping is a director.
- c. Rental expenses were determined by the directors based on the directors' estimates of fair market value.
- d. The interest expense was determined in accordance with the loan agreement.

36. RETIREMENT BENEFITS SCHEME

The Group provides a provident fund scheme for its Hong Kong employees and the scheme is funded by contributions from employers and employees. The amount of the Group's contributions is based on a specified percentage of the basic salary of the employees concerned. Forfeited contributions in respect of unvested benefits of employees leaving the scheme prior to benefits being vested are used to reduce the Group's ongoing contributions.

Moreover, pursuant to the relevant PRC regulations, relevant subsidiaries are required to contribute amounts ranging from approximately 7 to 25 per cent. of the aggregate staff wages to certain defined contribution retirement benefits schemes for the Group's employees in the PRC.

For the year ended 31 December 2001

36. RETIREMENT BENEFITS SCHEME (Continued)

Details of the contributions made by the Group during the year are as follows:

| | THE GROUP | |
|---|------------------|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 |
| Group contributions to staff provident fund | 4,170 | 1,406 |
| Forfeited contributions utilised | (94) | (85) |
| Net contributions charged to operating profit | <u>4,076</u> | <u>1,321</u> |
| Un-utilised forfeited contributions | <u>—</u> | <u>—</u> |

With the implementation of the Mandatory Provident Fund ("MPF") Schemes Ordinance on 1 December 2000 in Hong Kong, the Group also participates in master trust MPF schemes operated by independent service providers. Mandatory contributions to these MPF schemes are made by both the employees and the Company at 5% of the employees' monthly relevant income capped at HK\$20,000. As the Group's retirement schemes in Hong Kong are non MPF-exempt recognised occupational retirement schemes ("ORSO schemes"), all the existing members have to lapse their ORSO schemes and participate in the MPF schemes from 1 December 2000.

37. CONTINGENT LIABILITIES

| | THE GROUP | |
|--|------------------|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 |
| Guarantees given to banks as security for the mortgage loans arranged for the purchasers of the Group's properties | <u>122,026</u> | <u>175,046</u> |

| | THE COMPANY | |
|--|------------------|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 |
| Corporate guarantee given to a bank to secure general banking facilities granted to a subsidiary | <u>594,500</u> | <u>—</u> |

For the year ended 31 December 2001

37. CONTINGENT LIABILITIES *(Continued)*

On 17 May 1996, a legal claim in the amount of approximately HK\$13,585,000 was brought against Sinolink Worldwide (HK) by a third party for charter hire charges overdue. After consultation with the legal adviser in relation to this litigation, the Directors believe that the claim will not have any material adverse effect on the financial position of the Group. No provision for loss has therefore been made by the Group in respect of the outstanding claim. Mr. Ou Yaping, the controlling shareholder of the Company, has agreed to indemnify the Group in connection with any amount payable and all expenses incurred (including legal costs) by Sinolink Worldwide (HK) arising from or in connection with this claim in the event that Sinolink Worldwide (HK) is unsuccessful in defending the claim.

38. CAPITAL COMMITMENTS

| | THE GROUP | |
|--|-----------------------|-----------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 |
| Commitments in respect of properties under development: | | |
| — authorised but not contracted for | 34,549 | 910,006 |
| — contracted for but not provided in the financial statements | <u>113,898</u> | <u>16,084</u> |
| | 148,447 | 926,090 |
| Commitments in respect of interest in subsidiaries contracted for but not provided in the financial statements | <u>92,473</u> | <u>—</u> |
| | <u><u>240,920</u></u> | <u><u>926,090</u></u> |

The Company had no capital commitments at the balance sheet date.

For the year ended 31 December 2001

39. LEASE COMMITMENTS

At the balance sheet date, the Group and the Company had contracted with tenants for future minimum lease receipts in respect of land and buildings under non-cancellable operating leases which expire as follows:

| | THE GROUP | |
|---------------------------------------|------------------|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 |
| Within one year | 757 | 502 |
| In the second to fifth year inclusive | 139 | 328 |
| | <u>896</u> | <u>830</u> |

The properties held has committed tenants for the periods up to three years after the balance sheet date.

At the balance sheet date, the Group and the Company had the following outstanding commitments in respect of land and buildings under non-cancellable operating leases which expire as follows:

| | THE GROUP | | THE COMPANY | |
|---|------------------|------------------|------------------|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 | 2001 HK\$'000 | 2000 HK\$'000 |
| Within one year | 3,067 | 2,155 | 1,560 | 687 |
| In the second to fifth years inclusive | 3,213 | 1,547 | 2,665 | — |
| Over five years | 30,061 | 29,966 | — | — |
| | <u>36,341</u> | <u>33,668</u> | <u>4,225</u> | <u>687</u> |

The operating leases are negotiated for terms up to 30 years.

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40. PLEDGE OF ASSETS

The Group has pledged its land held under medium term leases included in the properties under development for sale, having a net book value of approximately HK\$230,899,000 (2000: HK\$240,160,000) to secure general banking facilities granted to a subsidiary of the Company.

In addition, the Group had pledged property, plant and equipment having a net book value amounting to approximately HK\$8,337,000 (2000: HK\$8,954,000) to secure bank loans granted to the subsidiaries of the Company.

41. POST BALANCE SHEET EVENT

On 8 February 2002, the convertible loan note issued on 12 February 1999 was converted into 134,592,000 shares of the Company at an adjusted conversion price of HK\$0.41 per share.

On 8 March 2002, the Group has entered into a sale and purchase agreement with Silver Grant to acquire 1,089,310,445 shares in SilverNet, a company listed on the Hong Kong Stock Exchange, representing approximately 29.99% of the issued share capital of SilverNet from a wholly owned subsidiary of Silver Grant for a consideration of approximately HK\$163.4 million, equivalent to approximately HK\$0.15 per share.

On 8 March 2002, the Group entered into an agreement with SilverNet where the Group has agreed to sell and SilverNet has agreed to acquire the entire issued share capital of Sinolink Industrial Limited, a wholly-owned subsidiary of the Group. The consideration for the acquisition was determined, after arm's length negotiations with reference to the past and future profitability of Fuhuade, a subsidiary of Sinolink Industrial Limited and the growth capacity of Fuhuade in the future, to be HK\$360.4 million, of which HK\$163.4 million shall be satisfied by cash at completion of the acquisition and the balance of HK\$197.0 million shall remain payable on demand and shall carry interest until actual payment at the rate of 3% per annum payable semi-annually.