

# NOTES TO THE FINANCIAL STATEMENTS

For the period from 9 February 2000 (date of incorporation) to 31 December 2000

## I. GENERAL

The Company was incorporated on 9 February 2000 as an exempted company with limited liability in the Cayman Islands under the Companies Law Chapter 22 of the Cayman Islands.

The Company was listed on The Stock Exchange of Hong Kong Limited on 26 July 2000.

The principal investment objective of the Company is to achieve medium-term capital appreciation through investments in listed and unlisted companies in Hong Kong and the PRC.

## 2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

### (a) Statement of Compliance

The financial statements have been prepared in accordance with Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. A summary of the significant accounting policies followed by the Company in the preparation of the financial statements is set out below.

### (b) Basis of Measurement

The measurement basis used in the preparation of the financial statements is historical cost as modified by the marking-to-market of certain investments in securities as explained in Note 2(f) below.

### (c) Turnover

Turnover represents dividend income received and receivable for the period.

### (d) Revenue Recognition

Dividend income from investments is recognised when the shareholders' right to receive payment is established.

Interest income is recognised on a time-apportioned basis on the principal outstanding and at the rates applicable.

Sundry income is recognised on an accruals basis.

### (e) Tangible Fixed Assets and Depreciation

Tangible fixed assets 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 present working condition and location for its intended use. Subsequent expenditure relating to a tangible fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the enterprise. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

## NOTES TO THE FINANCIAL STATEMENTS

For the period from 9 February 2000 (date of incorporation) to 31 December 2000

### 2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### (e) Tangible Fixed Assets and Depreciation *(Continued)*

Where the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are discounted to their present values.

Depreciation is provided on the straight-line method so as to write down the cost of fixed assets to their estimated realisable value over their anticipated useful lives at the following annual rates:

Leasehold improvements	:	Over the lease term period
Furniture and fixtures	:	20%
Office equipment	:	25%

The gain or loss on disposal of a tangible fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

#### (f) Investments in Securities

Securities transactions are accounted for on a trade date basis and gains and losses on securities are calculated on the average cost basis.

##### *Held-to-maturity Debt Securities:*

Dated debt securities that the Company has the ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated in the balance sheet at cost plus/less any discount/premium amortised to date. The discount or premium is amortised over the period to maturity and included as interest income/expense in the income statement. Provision is made when there is a diminution in value.

##### *Non-trading Securities:*

Non-trading securities are investments in listed and unlisted securities not intended to be held for trading purposes. Listed non-trading securities are stated at their fair values on the basis of their latest available quoted or traded market prices at the balance sheet date on an individual investment basis. Unlisted non-trading securities are stated at their estimated fair values on an individual basis. The estimated fair values are determined by the directors having regard to information known to them and on market conditions existing at the balance sheet date.

## NOTES TO THE FINANCIAL STATEMENTS

For the period from 9 February 2000 (date of incorporation) to 31 December 2000

### 2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **(f) Investments in Securities** *(Continued)*

##### *Non-trading Securities: (Continued)*

The gains or losses arising from changes in the fair values of a non-trading security are dealt with as movements in the investment revaluation reserve until the security is sold, collected, or otherwise disposed of, or until the security is determined to be impaired, when the cumulative gain or loss derived from the security recognised in the investment revaluation reserve, together with the amount of any further impairment, is charged to the income statement for the period in which the impairment arises. Where the circumstances and events which led to an impairment 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 and any appreciation in fair value is credited to the income statement to the extent of the amount previously charged.

##### *Trading Securities:*

Trading securities are investments in listed or unlisted securities held for trading purposes. Listed trading securities are stated at their fair values on the basis of their quoted market prices at the balance sheet date on an individual investment basis. Unlisted trading securities are stated at their estimated fair values on an individual basis. The estimated fair values are determined by the directors having regard to information known to them and on market conditions existing at the balance sheet date. The gains or losses arising from changes in the fair value of a trading security are credited or charged to the income statement for the period in which they arise.

#### **(g) Current Assets and Liabilities**

Current assets are expected to be realised within twelve months of the balance sheet date or in the normal course of the Company's operating cycle. Current liabilities are expected to be settled within twelve months of the balance sheet date or in the normal course of the Company's operating cycle.

#### **(h) Deferred Taxation**

Deferred taxation is provided on material timing differences, using the liability method, to the extent that there is a reasonable probability that a liability will arise in the foreseeable future.

#### **(i) Foreign Currencies**

Transactions in foreign currencies during the period are translated into Hong Kong dollars at rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at rates of exchange ruling at the balance sheet date. All gains and losses on translation of foreign currencies are dealt with in the income statement.

## NOTES TO THE FINANCIAL STATEMENTS

For the period from 9 February 2000 (date of incorporation) to 31 December 2000

### 2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **(j) Operating Leases**

Lease payments are charged to the income statement on a straight-line basis over the period of the leases.

#### **(k) 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.

#### **(l) Related Party Transactions**

A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

#### **(m) Cash Equivalents**

Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired; less advances from banks repayable within three months from the date of the advance.

## NOTES TO THE FINANCIAL STATEMENTS

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### 3. TURNOVER, REVENUE AND INCOME

HK\$

#### Turnover

Dividend income from listed securities (*Note 4*) 123,560

#### Other Revenue

Interest on bank deposits 505,658

Other interest income 2,245

507,903

#### Total Revenue

631,463

#### Other Net Income

Net realised gains on disposal of trading securities 340,391

Sundry income 1,366,800

1,707,191

### 4. DIVIDEND INCOME

HK\$

#### Listed securities:

Great Wall Cybertech Limited 84,360

The Hong Kong Exchanges and Clearing Limited 39,200

123,560

## NOTES TO THE FINANCIAL STATEMENTS

For the period from 9 February 2000 (date of incorporation) to 31 December 2000

### 5. LOSS BEFORE TAXATION

Loss before taxation is stated after charging:

	HK\$
Auditors' remuneration	150,000
Total staff costs	705,245
Depreciation of owned tangible fixed assets	263,578
Operating lease rentals in respect of office premises	214,620
Net unrealised holding losses on trading securities	3,034,597
Investment management fee ( <i>Note 20</i> )	<u>366,540</u>

### 6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

	HK\$
Fees:	
Executive directors	115,000
Non-executive directors	5,000
Independent non-executive directors	<u>30,000</u>
	150,000
Other emoluments for executive directors:	
Provident fund contributions	<u>774</u>
Total emoluments	<u><u>150,774</u></u>

The aggregate emoluments of each of the directors during the period were within the band of nil to HK\$1,000,000.

In addition to the above emoluments, certain directors were granted share options under the Company's share option scheme. The details of these benefits in kind are disclosed under the paragraph "Directors' interests in shares and rights to acquire shares or debt securities" in the directors' report. In the absence of a ready market for the options granted on the shares of the Company, the directors are unable to arrive at an accurate assessment of the value of the options granted to the respective directors.

No directors waived any emoluments and no emoluments were paid to the directors as inducement to join or upon joining the Company or as compensation for loss of office during the period.

## NOTES TO THE FINANCIAL STATEMENTS

For the period from 9 February 2000 (date of incorporation) to 31 December 2000

### 6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

The aggregate emoluments for the period ended 31 December 2000 of the five highest paid individuals employed by the Company, excluding directors of the Company, were as follows:

	HK\$
Salaries and other emoluments	413,386
Provident fund contributions	<u>4,336</u>
	<u><u>417,722</u></u>

The emoluments of the five highest paid individuals were within the band of nil to HK\$1,000,000.

### 7. TAXATION

No provision for Hong Kong profits tax has been made as the Company does not have any assessable profits for the period.

The Company had no significant unprovided deferred taxation for the period or at the balance sheet date.

### 8. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss for the period of HK\$4,045,317 and on the weighted average of 25,474,005 ordinary shares in issue during the period.

No diluted loss per share is presented for the period ended 31 December 2000 as the exercise of share options of the Company is anti-dilutive.

### 9. TANGIBLE FIXED ASSETS

	<b>Leasehold Improvements</b> HK\$	<b>Furniture &amp; Fixtures</b> HK\$	<b>Office Equipment</b> HK\$	<b>Total</b> HK\$
<b>At cost:</b>				
Additions and at 31 December 2000	<u>572,550</u>	<u>343,450</u>	<u>165,240</u>	<u>1,081,240</u>
<b>Depreciation:</b>				
Charge for the period and at 31 December 2000	<u>187,623</u>	<u>51,517</u>	<u>24,438</u>	<u>263,578</u>
<b>Net book value:</b>				
At 31 December 2000	<u><u>384,927</u></u>	<u><u>291,933</u></u>	<u><u>140,802</u></u>	<u><u>817,662</u></u>

## NOTES TO THE FINANCIAL STATEMENTS

For the period from 9 February 2000 (date of incorporation) to 31 December 2000

### 10. CONVERTIBLE LOANS RECEIVABLE

- (a) As at 31 December 2000, the Company had an unsecured loan receivable of HK\$6,000,000 from Xinhui Changning High Polymer Material Company Limited ("Changning"), an independent third party which engages in manufacturing of polymer material and related products in the PRC, for investment purposes, for a maximum term of five years. Pursuant to a loan agreement effective as from 28 November 2000, the Company may demand repayment, and Changning may prepay, at any time before maturity all or part of the loan with interest accrued thereon provided that either party shall have given to the other party six months' prior written notice specifying the amount and date of repayment/prepayment. The loan can be converted into equity shares of Changning at any time before maturity if not previously repaid up to a maximum of 35% of the enlarged equity share capital of Changning, provided that the Company shall have given one month's prior written notice to Changning. The Company is entitled to an investment return at the higher of (i) interest at a fixed rate of 8% per annum; and (ii) an annual amount equivalent to 30% of the net profits after tax of Changning determined in accordance with the PRC accounting standards.
- (b) As at 31 December 2000, the Company had an unsecured loan receivable of HK\$2,800,000 from Yuelong Huayuan Produce Developing Company ("Yuelong"), an independent third party which engages in property development in the PRC, to assist financing the investment in certain property development, investment and management projects, for a maximum term of three years. Pursuant to a loan agreement effective as from 18 December 2000, the Company may demand repayment, and Yuelong may prepay, at any time before maturity all or part of the loan with interest accrued thereon provided that either party shall have given to the other party six months' prior written notice specifying the amount and date of repayment/prepayment. The loan can be converted into equity shares of Yuelong at any time before maturity if not previously repaid up to a maximum of 35% of the enlarged equity share capital of Yuelong, provided that the Company shall have given one month's prior written notice to Yuelong. The Company is entitled to an investment return at the higher of (i) interest at a fixed rate of 8.75% per annum; and (ii) an annual amount equivalent to 20% of the net profits after tax of Yuelong determined in accordance with the PRC accounting standards.



## NOTES TO THE FINANCIAL STATEMENTS

For the period from 9 February 2000 (date of incorporation) to 31 December 2000

### II. TRADING SECURITIES

#### Equity securities listed on Stock Exchange

Name of investee company	Place of incorporation	Number of shares held	Proportion of investee's capital owned	Cost HK\$	Market value HK\$	Unrealised gain/(loss) arising on revaluation HK\$	Net assets attributable to the Company HK\$
<b>Shares</b>							
(a)	China Unicom Limited	60,000	—	734,765	717,000	(17,765)	38
(b)	Great Wall Cybertech Limited	8,506,000	0.52%	2,407,361	1,377,972	(1,029,389)	8,069,060
(c)	Intcera High Tech Group Limited	6,112,000	1.52%	7,937,084	7,517,760	(419,324)	4,280,691
(d)	Karce International Holdings Company Limited	15,968,000	3.55%	7,388,817	7,984,000	595,183	8,818,204
(e)	Welback Holdings Limited	138,140,000	2.14%	<u>8,241,462</u>	<u>6,078,160</u>	<u>(2,163,302)</u>	3,267,792
				<u>26,709,489</u>	<u>23,674,892</u>	<u>(3,034,597)</u>	

Notes:

- (1) The calculation of net assets of Great Wall Cybertech Limited, Karce International Holdings Company Limited and Welback Holdings Limited attributable to the Company is based on the latest published annual reports of the respective investee companies at the report dates.
- (2) The calculation of net assets of China Unicom Limited and Intcera High Tech Group Limited attributable to the Company is based on the proforma consolidated net assets values referred to in the prospectuses of the respective investee companies in relation to their new issues.

A brief description of the business and financial information of the listed investee companies, based on their published annual reports or interim financial reports, is as follows:

- (a) China Unicom Limited ("China Unicom") is principally engaged in telecommunications services, including cellular, paging, long distance, data and Internet services.

The unaudited interim profit attributable to shareholders of China Unicom for the six months ended 30 June 2000 was approximately RMB171,227,000.

- (b) Great Wall Cybertech Limited ("Great Wall") is principally engaged in the manufacture and sale of consumer electronic products and investment holding.

The audited consolidated net profit attributable to shareholders of Great Wall for the year ended 31 March 2000 was approximately HK\$85,054,000 (1999: HK\$100,829,000). As at 31 March 2000, the audited consolidated net asset value of Great Wall was approximately HK\$1,548,999,000 (1999: HK\$1,433,567,000).

- (c) Intcera High Tech Group Limited ("Intcera") is principally engaged in the manufacture and sale of ceramic blanks and ferrules.

The unaudited consolidated loss attributable to shareholders of Intcera for the nine months ended 30 September 2000 was approximately HK\$24,368,000.

## NOTES TO THE FINANCIAL STATEMENTS

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### 11. TRADING SECURITIES *(Continued)*

- (d) Karce International Holdings Company Limited ("Karce") is principally engaged in the manufacture and sale of electronic products and investment holding.

The audited consolidated profit attributable to shareholders of Karce for the year ended 31 December 1999 was approximately HK\$15,596,000 (1999: HK\$50,636,000). As at 31 December 1999, the audited consolidated net asset value of Karce was approximately HK\$248,509,000 (1999: HK\$215,475,000).

- (e) Welback Holdings Limited ("Welback") is principally engaged in investment holding and designing and manufacturing electronic handheld games, educational toys, multi-lingual translators, electronic databank and other premium item products incorporating liquid crystal display features.

The audited consolidated net loss attributable to shareholders of Welback for the year ended 30 June 2000 was HK\$22,084,251 (1999: a loss of HK\$27,469,616). As at 30 June 2000, the audited consolidated net asset value of Welback was HK\$152,557,884 (1999: HK\$85,855,421).

### 12. NON-TRADING SECURITIES

On 10 October 2000, the Company entered into a subscription agreement (the "Subscription Agreement") with Canada Pacific Sunshine Technology Co., Limited ("CPST") to subscribe for a 20% equity interest at a subscription price of CAD\$200,000 (equivalent to HK\$1,033,522). CPST is a company incorporated in Canada and will be involved in waste treatment project in Hong Kong and the PRC. The subscription was completed on 23 October 2000 and the amount has been classified as investment in non-trading securities as at 31 December 2000.

Subsequent to the balance sheet date, due to the non-fulfilment of certain conditions, the Company entered into negotiation with CPST to withdraw its investment in CPST. The directors expect that the amount will be fully refunded to the Company within one year from the balance sheet date.

### 13. SUBSCRIPTION MONEY FOR INVESTMENT IN UNLISTED SHARES

On 13 October 2000, the Company entered into a conditional agreement (the "Agreement") whereby the parties agreed to procure the formation and incorporation of a company in the British Virgin Islands (the "New JV Company") which will be involved in waste and/or water treatment project in Hong Kong and the PRC. Pursuant to the Agreement, the Company shall subscribe for 8% of the issued share capital of the New JV Company by cash at a subscription price of HK\$8,080,808. As at 31 December 2000, the Company had paid a deposit of HK\$2,424,242 representing 30% of the subscription price payable by the Company.

## NOTES TO THE FINANCIAL STATEMENTS

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### 13. SUBSCRIPTION MONEY FOR INVESTMENT IN UNLISTED SHARES (Continued)

Due to the failure of the parties to reach an agreement on certain terms and conditions, the Company had entered into a cancellation agreement (the "Cancellation Agreement") with the other parties on 22 January 2001. Pursuant to the Cancellation Agreement, each of the parties to the Agreement (a) confirmed to the other that it did not wish to proceed with the Agreement and acknowledged that none of the other parties had been in breach of the same; and (b) agreed to release and discharge the other from any further performance and observance of the Agreement and that each party should have no claim whatsoever against the other for or on account of the Agreement.

On 22 January 2001, the deposit together with interest earned thereon and after deducting certain expenses was refunded to the parties to the Agreement.

### 14. SHARE CAPITAL

	Number of shares	Total value HK\$
Ordinary shares of HK\$0.10 each		
<b>Authorised:</b>		
On incorporation and at 31 December 2000	<u>200,000,000</u>	<u>20,000,000</u>
<b>Issued and fully paid:</b>		
Allotted and issued on incorporation	2	—
Issue of shares to the then shareholders of the Company	49,999,998	5,000,000
Issue of shares through public offering	<u>10,000,000</u>	<u>1,000,000</u>
At 31 December 2000	<u>60,000,000</u>	<u>6,000,000</u>

The Company was incorporated on 9 February 2000 in the Cayman Islands with an authorised share capital of HK\$20,000,000 divided into 200,000,000 shares of HK\$0.10 each of which two shares were issued at HK\$1.00 each to the subscribers.

By a written resolution approved by the directors on 13 March 2000, the Company issued and allotted a total of 49,999,998 shares of HK\$0.10 each at an aggregate consideration of approximately HK\$50,000,000 to the then existing shareholders to provide funding to the Company for investment. These shares rank pari passu in all respects with the then existing shares.

On 26 July 2000, 10,000,000 shares of HK\$0.10 each were allotted and issued to the public for cash at a price of HK\$1.00 per share pursuant to the prospectus issued by the Company dated 17 July 2000. The proceeds arising from the initial public offering, after deduction of related expenses, amounted to approximately HK\$6,325,000 and have been applied in investments in listed securities. There were no unused proceeds from the initial public offering as at 31 December 2000.

## NOTES TO THE FINANCIAL STATEMENTS

For the period from 9 February 2000 (date of incorporation) to 31 December 2000

### 15. SHARE OPTIONS

Under the terms of the Company's share option scheme (the "Scheme") approved by the shareholders on 7 July 2000, the Board of Directors may, at its discretion, invite full-time employees, including executive directors of the Company upon a payment of HK\$1.00 to take up options to subscribe for shares of the Company subject to the terms and conditions stipulated therein. The exercise price is to be determined by the directors at their absolute discretion provided that in no event shall such price be less than the higher of the nominal value of the shares and 80% of the average of the closing prices of the Company's shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the option.

The maximum number of shares in respect of which options may be granted under the Scheme when aggregated with any securities subject to any other scheme may not exceed 10% of the shares which have been duly allotted and issued and that the maximum number of shares in respect of which options may be granted to any one employee shall not exceed 25% of the maximum number of shares in respect of which options may be granted under the Scheme.

On 23 October 2000, the Company granted a total of 6,000,000 share options to its employees at an exercise price of HK\$0.8096 pursuant to the Scheme. The market price per share at the date of grant of the share options and at the balance sheet date are HK\$1.0600 and HK\$0.8500 respectively. These new options are exercisable from 23 October 2000 to 22 October 2010.

800,000 options were cancelled and none were exercised during the period from 23 October 2000 to 31 December 2000. As at the balance sheet date, the Company had 5,200,000 outstanding share options.

### 16. RESERVES

	<b>Share premium</b>	<b>Accumulated losses</b>	<b>Total</b>
	HK\$	HK\$	HK\$
Net loss for the period	—	(4,045,317)	(4,045,317)
Premium arising from issue of shares	54,000,000	—	54,000,000
Expenses incurred in connection with issue of shares	<u>(3,675,383)</u>	<u>—</u>	<u>(3,675,383)</u>
Balance at 31 December 2000	<u>50,324,617</u>	<u>(4,045,317)</u>	<u>46,279,300</u>

Under the Companies Law Chapter 22 of the Cayman Islands, share premium of the Company is available for paying distributions or dividends to the shareholders subject to the provisions of its Memorandum and Articles of Association and a statutory solvency test. In accordance with Article 143 of the Company's Articles of Association, no dividend shall be declared or payable except out of the profits, any reserves of the Company set aside from profits which the directors determine is no longer needed and, with the approval of the shareholders of the Company, out of share premium.

### 17. NET ASSET VALUE PER SHARE

The calculation of the net asset value per share is based on the net assets as at 31 December 2000 of HK\$52,279,307 and 60,000,000 ordinary shares in issue as at that date.

## NOTES TO THE FINANCIAL STATEMENTS

For the period from 9 February 2000 (date of incorporation) to 31 December 2000

### 18. RECONCILIATION OF LOSS BEFORE TAXATION TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	HK\$
Loss before taxation	(4,045,317)
Interest income	(507,903)
Depreciation	263,578
Net unrealised holding losses from trading securities	3,034,597
Net realised gains on disposal of trading securities	(340,391)
Increase in sundry deposits, prepayments and other receivables	(4,206,788)
Increase in sundry payables and accruals	<u>651,144</u>
Net cash outflow from operating activities	<u><u>(5,151,080)</u></u>

### 19. ANALYSIS OF CHANGES IN FINANCING DURING THE PERIOD

	Share capital and share options HK\$	Share premium HK\$	Total HK\$
Proceeds from issue of ordinary shares	6,000,000	54,000,000	60,000,000
Proceeds from grant of share options	7	—	7
Expenses incurred in connection with issue of shares	<u>—</u>	<u>(3,675,383)</u>	<u>(3,675,383)</u>
At 31 December 2000	<u><u>6,000,007</u></u>	<u><u>50,324,617</u></u>	<u><u>56,324,624</u></u>

### 20. RELATED PARTY TRANSACTIONS

The Company had the following material transactions with a related party during the period:

	HK\$
Investment management fee paid to Success Talent Investments Limited	<u><u>366,540</u></u>

Success Talent Investments Limited is a company in which Mr. Lee Kwok Leung, director of the Company, has beneficial interests. Monthly investment management fee is calculated at 1.5% per annum of the net asset value of the Company of the preceding month in accordance with the Investment Management Agreement.

### 21. OPERATING LEASE COMMITMENTS

At 31 December 2000, the Company had outstanding commitments under a non-cancellable operating lease which expires in the second to fifth years inclusive in respect of rented premises amounting to approximately HK\$641,670.

## NOTES TO THE FINANCIAL STATEMENTS

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### 22. POST BALANCE SHEET EVENT

On 2 January 2001, the Company advanced an unsecured loan of HK\$5,000,000 to Newcorp Investment & Development Limited ("Newcorp"), an independent third party engaging in property investment in Hong Kong, for a maximum term of three years. Pursuant to a loan agreement effective as from 2 January 2001, the Company may demand repayment, and Newcorp may prepay, at any time before maturity all or part of the loan with interest accrued thereon provided that either party shall have given to the other party six months' prior written notice specifying the amount and date of repayment/prepayment. The loan can be converted into equity shares of Newcorp at any time before maturity if not previously repaid up to a maximum of 35% of the enlarged equity share capital of Newcorp, provided that the Company shall have given sixty days' prior written notice to Newcorp. The Company is entitled to an investment return at the higher of (i) interest at a fixed rate of 9% per annum; and (ii) an annual amount equivalent to 25% of the net profits after tax of Newcorp determined in accordance with generally accepted accounting principles in Hong Kong.

### 23. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 12 April 2001.