

# Notes to the Financial Statements

For the year ended 31st December, 2000

## 1. General

The Company is incorporated in the Cayman Islands as an exempted company with limited liability. Its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 17th July, 1998.

The Group principally invests in listed and unlisted companies in Hong Kong and in other parts of the People's Republic of China (the "PRC").

## 2. Significant Accounting Policies

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain investments in securities, and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below.

### **Basis of Consolidation**

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

### **Investments in Subsidiaries**

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or where the Company controls the composition of its board of directors or equivalent governing body.

Investments in subsidiaries are included in the Company's balance sheet at cost less provision, if necessary, for any impairment in value.

### **Turnover**

Turnover represents interest and dividend income received and receivable for the year.

# Notes to the Financial Statements

For the year ended 31st December, 2000

## 2. Significant Accounting Policies (continued)

### Revenue Recognition

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rates applicable.

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

Proceeds from the disposal of investments are recognised when a sale and purchase contract is entered into and title has been passed.

### Property, Plant and Equipment

Property, plant and equipment is stated at cost less depreciation at the balance sheet date.

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. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the year in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of the asset.

The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

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 not discounted to their present values.

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives, using the straight line method, at 20% per annum.

# Notes to the Financial Statements

For the year ended 31st December, 2000

## 2. Significant Accounting Policies (continued)

### Investments in Securities

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

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

All securities other than held-to-maturity debt securities are measured at subsequent reporting dates at fair value.

Where securities are held for trading purposes, unrealised gains and losses are included in net profit or loss for the period. For other securities, unrealised gains and losses are dealt with in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss is included in net profit or loss for the period.

Non-trading securities quoted, listed, traded or dealt in on any market are stated at the last transacted price on that market as at the official close of such market at the balance sheet date or the trading date immediately prior to the balance sheet date if it is not a trading date on that market. The cost of the investments in listed securities is calculated using the moving average cost method.

Each unquoted non-trading security is valued at fair value as determined by the investment manager.

### Foreign Currencies

Transactions in currencies other than Hong Kong Dollars are initially recorded at the rates of exchange ruling on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are re-translated at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

# Notes to the Financial Statements

For the year ended 31st December, 2000

## 2. Significant Accounting Policies (continued)

### 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 the resulting timing differences, computed under the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

### Operating leases

Rentals payable under operating leases are charged to the income statement on a straight line basis over the relevant lease term.

## 3. Turnover

An analysis of the Group's turnover is as follows:

Dividend income (*Note 4*)

Interest income

<b>2000</b>	1999
<b>HK\$'000</b>	HK\$'000
<b>526</b>	799
<b>3,934</b>	5,899
<b>4,460</b>	6,698

## 4. Dividend Income

Listed investments:

Champion Technology Holdings Limited

Harmony Assets Limited

Prime Success International Group Limited

Tonic Industries Holdings Limited

<b>2000</b>	1999
<b>HK\$'000</b>	HK\$'000
<b>1</b>	—
<b>263</b>	262
<b>—</b>	113
<b>262</b>	424
<b>526</b>	799

# Notes to the Financial Statements

For the year ended 31st December, 2000

## 5. (Loss) Profit before Taxation

	2000 HK\$'000	1999 HK\$'000
(Loss) profit before taxation has been arrived at after charging:		
Auditors' remuneration:		
Current year	184	114
Underprovision in prior period	42	28
Depreciation	151	142
Investment management fee (Note 20)	1,427	1,427
Investment incentive fee	–	1,331
Loss on disposal of property, plant and equipment	1	–
Operating lease rentals in respect of land and building	206	252
Staff costs	273	279

## 6. Directors' Remuneration and Highest Paid Employees

	2000 HK\$'000	1999 HK\$'000
Fees:		
Executive Directors	60	60
Independent Non-executive Directors	40	51
	100	111
Other emoluments	–	–
Total emoluments	100	111

Of the five individuals with the highest emoluments in the Group, four (1999: four) were directors of the Company whose emoluments are set out above. The emoluments of the remaining individual (1999: one) were as follows:

	2000 HK\$'000	1999 HK\$'000
Salaries and other benefits	166	160
Retirement benefit scheme contribution	7	8
	173	168

# Notes to the Financial Statements

For the year ended 31st December, 2000

## 6. Directors' Remuneration and Highest Paid Employees (continued)

The Group formerly operates a defined contribution provident fund scheme for all qualifying employees. The assets of the scheme are held separately from those of the Group in funds under the control of the trustees. The provident fund scheme contributions represent contributions payable to the scheme by the Group at rates specified in the rules of the scheme. Where there are employees who leave the scheme prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions. At the balance sheet date, there was no forfeited contributions (1999: Nil) to the scheme.

In December 2000, the Group changed its retirement benefits scheme to Mandatory Provident Fund ("MPF"). According to the MPF legislation regulated by the Mandatory Provident Fund Schemes Authority in Hong Kong, with effect from 1st December, 2000, the Group is required to participate in MPF scheme operated by approved trustees in Hong Kong and to make contributions for its eligible employees. The contributions borne by the Group are calculated at 5% of the salaries and wages as calculated under the MPF legislation.

## 7. Taxation

The charge comprises:

Hong Kong Profits Tax

Overprovision in prior years

<b>2000</b>	1999
<b>HK\$'000</b>	HK\$'000
<b>185</b>	194
<b>(167)</b>	—
<b>18</b>	194

Hong Kong Profits Tax has been calculated at 16% (1999: 16%) of the estimated assessable profit for the year.

The Group had no significant unprovided deferred taxation for the year or at the balance sheet date.

## 8. (Loss) Profit for The Year

The Group's loss for the year includes HK\$30,551,000 (1999: HK\$33,000) which has been dealt with in the financial statements of the Company.

## 9. (Loss) Earnings per Share

The calculation of the loss per share is based on the loss for the year of HK\$14,348,000 (1999: profit of HK\$1,450,000) and on the weighted average number of 100,000,000 (1999: 100,000,000) shares in issue during the year.

# Notes to the Financial Statements

For the year ended 31st December, 2000

## 10. Property, Plant and Equipment

	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Total HK\$'000
<b>THE GROUP AND THE COMPANY</b>			
COST			
At 1st January, 2000	574	168	742
Additions	—	40	40
Disposal	—	(28)	(28)
<b>At 31st December, 2000</b>	<b>574</b>	<b>180</b>	<b>754</b>
DEPRECIATION			
At 1st January, 2000	172	39	211
Provided for the year	115	36	151
Eliminated on disposal	—	(2)	(2)
<b>At 31st December, 2000</b>	<b>287</b>	<b>73</b>	<b>360</b>
NET BOOK VALUE			
<b>At 31st December, 2000</b>	<b>287</b>	<b>107</b>	<b>394</b>
At 31st December, 1999	402	129	531

## 11. Interests in Subsidiaries

	The Company	
	2000 HK\$'000	1999 HK\$'000
Unlisted shares, at cost	—	—
Amounts due from subsidiaries	57,572	60,173
Less: Provision for impairment in value	(21,333)	—
	<b>36,239</b>	<b>60,173</b>

# Notes to the Financial Statements

For the year ended 31st December, 2000

## 11. Interests in Subsidiaries (continued)

Details of the Company's subsidiaries at 31st December, 2000 are as follows:

Name of subsidiary	Place of incorporation/ operations	Nominal value of issued and fully paid share capital	Proportion of nominal value of issued capital held directly by the Company	Principal activity
New Portfolio Limited	British Virgin Islands/ Hong Kong	US\$1	100%	Investment holding
Double Dragon Profits Limited	Hong Kong	HK\$2	100%	Inactive
Good Place Investments Limited	Hong Kong	HK\$2	100%	Inactive
Gold Canal International Limited	British Virgin Islands	US\$10	100%	Investment holding

None of the subsidiaries had any loan capital outstanding at the end of the year.

## 12. Investments in Securities

	The Group		The Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Equity securities listed in Hong Kong, at cost	52,728	40,970	27,320	15,913
Unrealised (loss) gain	(25,518)	2,751	(6,770)	12,262
Market value at 31st December	27,210	43,721	20,550	28,175
Unlisted equity security, at fair value	17,461	10,000	–	10,000
Unlisted convertible loan notes, at fair value	6,750	40,000	–	9,000
	51,421	93,721	20,550	47,175



# Notes to the Financial Statements

For the year ended 31st December, 2000

## 12. Investments in Securities (continued)

Included in the above are the following investments which exceed one tenth of the amount of the Group's total assets:

### (a) Equity securities listed on the Stock Exchange

Name of investee company	Place of incorporation	Number of shares held	Proportion of investee's capital owned %	Cost HK\$'000	Market value at 31st December, 2000 HK\$'000	Unrealised loss arising on revaluation HK\$'000
<b>At 31st December, 2000</b>						
<b>Shares</b>						
Everest International Investments Limited ("Everest") *	Cayman Islands	30,000,000	14.52%	10,000	<b>9,300</b>	(700)
Harmony Asset Limited*	Cayman Islands	52,500,000	5.76%	9,987	<b>6,300</b>	(3,687)
				19,987	<b>15,600</b>	(4,387)

### (b) Unlisted equity security

Name of investee company	Place of incorporation	2000 HK\$'000	1999 HK\$'000
天津標準國際建材工業有限公司 Tianjin Standard International Building Materials Industry Co., Ltd. ("Tianjin Standard")**	The PRC	<b>17,461</b>	—

# Notes to the Financial Statements

For the year ended 31st December, 2000

## 12. Investments in Securities (continued)

### (c) Unlisted convertible loan notes

Issuer	Principal amount <i>HK\$'000</i>	Interest rate	Maturity Date
Dynamic Venture Enterprises Limited – secured	6,750	15% per annum	31st December, 2001
Koffman Limited – unsecured*	–	N/A	On default
	<b>6,750</b>		

\* held directly by the Company

\*\* Pursuant to various agreements entered into in December 2000, the Group acquired all the issued share capital of Gold Canal International Limited ("Gold Canal") for a nominal value, changed the terms of the convertible loan note such that it becomes interest-free and has neither fixed repayment terms nor the right to conversion. Gold Canal's sole asset is an investment in a 21% equity interest in Tianjin Standard which is principally engaged in the manufacture and trading of building materials and the provision of related consultancy services. In the opinion of the directors, following the acquisition of Gold Canal by the Group, the Group is not in a position to exercise any significant influence over the financial and operating policies of Tianjin Standard. Accordingly, Tianjin Standard is accounted for as an investment security.

## 13. Trade and Other Receivables

Included in trade and other receivables are trade receivable of HK\$1,051,000 (1999: HK\$3,814,000) the aging analysis of which is as follows:

	The Group		The Company	
	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
0-60 days	541	1,306	17	12
61-120 days	510	1,231	–	–
121-180 days	–	–	–	–
over 180 days	–	1,277	–	–
	<b>1,051</b>	<b>3,814</b>	<b>17</b>	<b>12</b>

The Group allows an average credit period of 60-120 days.

# Notes to the Financial Statements

For the year ended 31st December, 2000

## 14. Amount Due to a Related Company

### The Group and The Company

As at 31st December, 1999, the amount, representing accrued management fees, was due to Haywood Investment Management Limited, a company in which the directors, Mr. Wong Fong Kim and Dr. Chow Pok Yu, Augustine, had beneficial interests. The amount was unsecured, interest free and was repaid during the year.

## 15. Share Capital

	<b>Number of ordinary shares 2000 &amp; 1999</b>	<b>Amount 2000 &amp; 1999 HK\$'000</b>
Authorised:		
Ordinary shares of HK\$0.01 each	<u>200,000,000</u>	<u>2,000</u>
Issued and fully paid:		
Ordinary shares of HK\$0.01 each	<u>100,000,000</u>	<u>1,000</u>

There were no changes in the share capital of the Company for both years.

# Notes to the Financial Statements

For the year ended 31st December, 2000

## 16. Reserves

	Share premium HK\$'000	Investment revaluation reserve HK\$'000	Accumulated profits (loss) HK\$'000	Total HK\$'000
<b>THE GROUP</b>				
At 1st January, 1999	94,117	(6,048)	2,274	90,343
Unrealised gain on revaluation of investments	–	8,799	–	8,799
Profit attributable to shareholders	–	–	1,450	1,450
At 31st December, 1999	94,117	2,751	3,724	100,592
Unrealised loss on revaluation of investments	–	(28,269)	–	(28,269)
Loss attributable to shareholders	–	–	(14,348)	(14,348)
<b>At 31st December, 2000</b>	<b>94,117</b>	<b>(25,518)</b>	<b>(10,624)</b>	<b>57,975</b>
<b>THE COMPANY</b>				
At 1st January 1999	94,117	2,200	1,034	97,351
Unrealised gain on revaluation of investments	–	10,062	–	10,062
Loss attributable to shareholders	–	–	(33)	(33)
At 31st December, 1999	94,117	12,262	1,001	107,380
Unrealised loss on revaluation of investments	–	(19,032)	–	(19,032)
Loss attributable to shareholders	–	–	(30,551)	(30,551)
<b>At 31st December, 2000</b>	<b>94,117</b>	<b>(6,770)</b>	<b>(29,550)</b>	<b>57,797</b>

The investment revaluation reserve represents the net unrealised gain or loss on revaluation of investments at the balance sheet date.

In accordance with the Company's Articles of Association, as at the balance sheet date, the Company's reserve available for distribution to shareholders is its share premium.

# Notes to the Financial Statements

For the year ended 31st December, 2000

## 17. Net Asset Value per Share

The calculation of the net asset value per share is based on the net assets of the Group as at 31st December, 2000 of HK\$58,975,000 (1999: HK\$101,592,000) and 100,000,000 (1999: 100,000,000) ordinary shares in issue as at that date.

## 18. Reconciliation of (Loss) Profit before Taxation to Net Cash Inflow (Outflow) from Operating Activities

	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
(Loss) profit before taxation	<b>(14,330)</b>	1,644
Gain on disposal of listed investments	<b>(615)</b>	(101)
Depreciation	<b>151</b>	142
Loss on disposal of property, plant and equipment	<b>1</b>	—
Provision for impairment in value of investments in securities	<b>15,750</b>	—
Decrease (increase) in trade and other receivables	<b>2,900</b>	(3,531)
Increase in other payables	<b>397</b>	163
(Decrease) increase in amount due to a related company	<b>(1,458)</b>	1,347
Net cash inflow (outflow) from operating activities	<b>2,796</b>	(336)

# Notes to the Financial Statements

For the year ended 31st December, 2000

## 19. Purchase of a Subsidiary

During the year the Group acquired 100% of the issued share capital of Gold Canal for a consideration of HK\$78, together with an agreement to vary the terms of a convertible loan advanced by the Group to Gold Canal. This acquisition has been accounted for by the acquisition method of accounting. No goodwill arose on the acquisition. The loss after taxation of Gold Canal included in the consolidated income statement for the year ended 31st December, 2000 amounted to HK\$4,000.

Net assets acquired:

Investments in securities

Bank balances and cashs

Amount due to New Portfolio Limited, a subsidiary of the Company

**2000**  
**HK\$'000**

**17,461**

**39**

**(17,500)**

**-**

Satisfied by:

Cash

**-**

Net cash inflow arising on acquisition:

Cash consideration

**-**

Bank balances and cash acquired

**39**

Net inflow of cash and cash equivalents in  
respect of the purchase of a subsidiary

**39**

The subsidiary acquired during the year did not make a significant contribution to the net cash flows of the Group.

# Notes to the Financial Statements

For the year ended 31st December, 2000

## 20. Related Party Transactions

During the year, the Company, in accordance with the relevant management agreement, paid management fee to the following company as follows:

	<b>2000</b> <b>HK\$'000</b>	1999 HK\$'000
Haywood Investment Management Limited		
– Management fee	<b>1,427</b>	1,427
– Incentive fee	<b>–</b>	1,331

Management fee and incentive fee are calculated at 1.5% per annum of the net asset value of the Company of the preceding month and 10% of the surplus in net asset value (with appropriate adjustment) over the preceding financial year, respectively, in accordance with the relevant management agreement.

Haywood Investment Management Limited is a company in which the directors, Mr. Wong Fong Kim and Dr. Chow Pok Yu, Augustine have beneficial interests.

## 21. Operating Lease Commitments

At the balance sheet date, the Group had outstanding commitments under non-cancellable operating leases which expire in the second to fifth year inclusive in respect of rented premises amounting to approximately HK\$156,000 (1999: HK\$126,000 within one year).

## 22. Pending Litigation

In 1999, Koffman Limited, an investee company, defaulted on the repayment of its convertible loan note held by the Company in the sum of approximately HK\$9,363,000 including accrued interest to the scheduled date of repayment. The Company had filed a legal action against Koffman Limited for the recovery of the amount of approximately HK\$9,363,000 plus overdue interest. At the same time, the Company had also brought a legal action against the guarantor of the convertible loan note for the enforcement of guarantee. Koffman Limited had subsequently counterclaimed against the Company for loss and damages for a total amount of approximately HK\$9,355,000. During the year, these proceedings were still in progress.

As the outcome of the action cannot be determined reliably at this time, the carrying amount of the Company's investment in the convertible loan note has been reduced to nil.