

NOTES TO FINANCIAL STATEMENTS

31 December 2000

1. CORPORATE INFORMATION

The registered office of Oriental Explorer Holdings Limited is located at Clarendon House, Church Street, Hamilton HM11, Bermuda.

During the year, the Group was involved in the following principal activities:

- manufacture and trading of steel; and
- manufacture and trading of electronic products

During the year, the Company changed its name from Linkful International Holdings Limited to Oriental Explorer Holdings Limited, with effect from 26 April 2000.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of certain investments, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2000. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors.

Interests in subsidiaries are stated at cost unless, in the opinion of the directors, there have been permanent diminutions in values, when they are written down to values determined by the directors.

Associate

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

The Group's share of the post-acquisition results and reserves of its associate is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interest in the associate is stated in the consolidated balance sheet at the Group's share of net liabilities, other than the goodwill of the associate, under the equity method of accounting, less any provisions for diminution in value other than those considered to be temporary in nature, deemed necessary by the directors.

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

Goodwill

Goodwill arising on consolidation of subsidiaries and on the acquisition of an associate represents the excess purchase consideration paid over the fair values ascribed to the net underlying assets acquired and is eliminated against reserves in the year of acquisition.

On the disposal of subsidiaries or an associate, the relevant portion of attributable goodwill previously eliminated against or credited to reserves is written back and included in the calculation of the gain or loss on disposal.

Fixed assets and depreciation

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 working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period 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 fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	4% or over the lease terms, if shorter
Leasehold land	Over the lease terms
Leasehold improvements	Over the lease terms
Plant and machinery	10% - 20%
Furniture, fixtures, office and computer equipment	20% - 33⅓%
Motor vehicles	20% - 25%

No depreciation is provided on freehold land.

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

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

Investments

Investments in securities held for long term strategic purposes are stated in the balance sheet at cost less any provisions for impairment in values other than those considered to be temporary in nature, deemed necessary by the directors.

The carrying amounts of such securities are reviewed as at the balance sheet date in order to assess whether the fair values have declined below the carrying amounts. When such a decline has occurred, the carrying amount is reduced to the fair value unless there is evidence that the decline is temporary. The amount of the reduction is recognised in the profit and loss account.

Other investments are stated in the balance sheet at fair value. Changes in fair value are recognised in the profit and loss account as they arise.

Profits and losses on disposal of investments in securities are accounted for in the profit and loss account as they arise.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis for steel products, and on the first-in, first-out basis for electronics products and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Deferred tax

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

Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of foreign subsidiaries and associate are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

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

Revenue recognition

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

- (a) the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) interest income, on a time proportion basis taking into account the principal outstanding and the effective rate of interest applicable;
- (c) dividends, when the shareholders' right to receive payment is established; and
- (d) proceeds from disposal of listed investments, when the relevant sale contract is entered into.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Retirement benefits scheme

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

Cash equivalents

For the purpose of the consolidated cash flow statement, 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. For the purpose of balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

31 December 2000

3. TURNOVER AND REVENUE

Turnover represents the invoiced value of goods sold, net of discounts and returns. An analysis of turnover and revenue is as follows:

	2000 HK\$'000	1999 HK\$'000
Turnover	1,280,586	1,155,281
Other revenue:		
Interest income	7,298	6,381
Gain on disposal of listed investments	4,042	1,310
Gain on disposal of an unconsolidated subsidiary (note 14)	3,660	—
Gain on disposal of an associate	—	5,153
Unrealised gain on listed investments	—	2,691
Dividend income from listed investments	1,896	61
Dividend income from unlisted investments	593	330
Sales of scrap and raw materials	14,827	12,595
	32,316	28,521
Total turnover and revenue	1,312,902	1,183,802

NOTES TO FINANCIAL STATEMENTS (CONT'D)

31 December 2000

4. LOSS FROM OPERATING ACTIVITIES

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

	2000 HK\$'000	1999 HK\$'000
Cost of inventories sold *	1,277,864	1,151,141
Depreciation of fixed assets	26,192	31,932
Operating lease rentals:		
Land and buildings	4,741	4,634
Plant and machinery	—	83
Auditors' remuneration:		
Current year's provision	683	600
Last year's under-provision	120	—
Staff costs (including directors' remuneration – note 6)	24,547	26,856
Exchange losses, net	117	1,484
Interest income	(7,298)	(6,381)
Gain on disposal of listed investments	(4,042)	(1,310)
Gain on disposal of an unconsolidated subsidiary	(3,660)	—
Gain on disposal of an associate	—	(5,153)
Unrealised gain on listed investments	—	(2,691)
Dividend income from listed and unlisted investments	(2,489)	(391)
Other operating income:		
Write back of customer claims provision	—	(3,263)
Write back of accounts payable	—	(18,822)
Recovery and reversal of doubtful debts previously provided	—	(6,786)
Others	—	(1,077)
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	—	(29,948)
Other operating expenses:		
Provision for doubtful debts	5,318	—
Unrealised losses on listed investments	40,787	—
Loss on scrapping of fixed assets	22,632	—
Loss on subcontracting services	8,718	—
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	77,455	—
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* Cost of inventories sold includes depreciation of approximately HK\$13,096,000 (1999: HK\$15,966,000) and staff costs of HK\$14,472,000 (1999: HK\$16,023,000), which are also included in the respective total amounts as disclosed above for each of these types of expenses.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

31 December 2000

5. FINANCE COSTS

	2000 HK\$'000	1999 <i>HK\$'000</i>
Interest on bank loans and overdrafts wholly repayable within five years	9,558	12,245
Interest on discounted bills	2,261	583
	11,819	12,828

6. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance is as follows:

	2000 HK\$'000	1999 <i>HK\$'000</i>
Fees	120	120
Other emoluments	2,770	1,953
	2,890	2,073

Fees include HK\$120,000 (1999: HK\$120,000) payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (1999: Nil).

The remuneration of the directors fell within the following bands:

	Number of directors	
	2000	1999
Nil to HK\$1,000,000	5	6
HK\$1,000,001 to HK\$1,500,000	1	—
HK\$1,500,001 to HK\$2,000,000	—	1
	6	7

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

NOTES TO FINANCIAL STATEMENTS (CONT'D)

31 December 2000

7. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (1999: two) directors, details of whose remuneration are set out in note 6 above. The details of the remuneration of the remaining three (1999: three) non-directors, highest paid employees are as follows:

	Group	
	2000	1999
	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	2,085	1,622

The remuneration of each of these three highest paid employees fell within the band of Nil-HK\$1,000,000.

8. TAX

	2000	1999
	HK\$'000	HK\$'000
Group:		
Hong Kong and the PRC:		
Provision for the year	—	—
Overprovision in prior years	(6,084)	(5,203)
Elsewhere	—	—
Tax credit for the year	(6,084)	(5,203)

No provision for Hong Kong tax has been made as the Group had no assessable profit during the year (1999: Nil).

No provision for overseas tax has been made in respect of the subsidiaries in the People's Republic of China (the "PRC"), nor other overseas subsidiaries as these subsidiaries had no assessable profits. No provision for income tax has been made in respect of an associate as this company had no assessable income during the year.

Deferred tax has not been provided as there were no significant timing differences at the balance sheet date (1999: Nil).

The amount of the unprovided deferred tax asset of the Group is as follows:

	2000	1999
	HK\$'000	HK\$'000
Tax losses carried forward	(2,989)	(2,974)

9. NET PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS

The results for the year attributable to shareholders dealt with in the financial statements of the Company amounted to loss of HK\$144,230,000 (1999: loss of HK\$21,661,000).