



百仕達控股有限公司

SINOLINK WORLDWIDE HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

Annual Report 1998

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Corporate Information

BOARD OF DIRECTORS

Executive directors

Mr. Ou Yaping (*Chairman and Managing Director*)

Mr. Law Sze Lai

Mr. Chen Wei

Independent non-executive directors

Mr. Liang Xiaoting

Mr. Xu Yang

Mr. Tsang Yu Chor, Patrick

COMPANY SECRETARY

Mr. Cheung Wing Yui, Solicitor

REGISTERED OFFICE

Clarendon House

2 Church Street

Hamilton HM11

Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

25th Floor, Vicwood Plaza

199 Des Voeux Road Central

Central

Hong Kong

AUDITORS

Deloitte Touche Tohmatsu

Certified Public Accountants

26th Floor

Wing On Centre

111 Connaught Road Central

Central

Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Corporate Services Limited

Rosebank Centre

11 Bermudiana Road

Pembroke

Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Central Registration Hong Kong Limited

19th Floor, Hopewell Centre

183 Queen's Road East

Hong Kong

LEGAL ADVISERS

(As to Hong Kong Law)

Woo, Kwan, Lee & Lo*

* Legal Adviser during the Initial Public Offer

Tsang, Chan & Wong

(As to Bermuda Law)

Conyers Dill & Pearman

(As to the PRC Law)

Haiwen & Partners

PRINCIPAL BANKERS

Bank of China, Hong Kong Branch

Bank of China, Shenzhen Branch

Nanyang Commercial Bank, Shenzhen Branch

China Construction Bank,

Luohu Branch, Shenzhen

China Merchants Bank, Dongmen

Sub-branch, Shenzhen

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the annual general meeting of the Company will be held at Coral Room 1, 3/F., Furama Hotel, One Connaught Road Central, Hong Kong on Tuesday, 8 June 1999 at 10:00 a.m. for the following purposes:—

1. To receive and consider the audited financial statements and the directors' and auditors' reports of the Company for the year ended 31 December 1998.
2. To declare a final dividend for the year ended 31 December 1998.
3. To re-elect the retiring directors and to fix the remuneration of directors.
4. To appoint auditors and to authorize the directors to fix their remuneration.
5. As special business, to consider and, if thought fit, to pass with or without amendments the following resolutions as ordinary resolutions of the Company:—

ORDINARY RESOLUTIONS

A. "THAT:—

- (a) subject to paragraph (b) below, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the

powers of the Company to repurchase shares of the Company on The Stock Exchange of Hong Kong Limited ("Stock Exchange") or on any other stock exchange on which the shares of the Company may be listed and recognized by the Securities and Futures Commission of Hong Kong and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the Stock Exchange or of any other stock exchange as amended from time to time, be and is hereby generally and unconditionally approved;

- (b) the aggregate nominal amount of the shares of the Company which the Company is authorized to repurchase pursuant to the approval in paragraph (a) above shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing this Resolution and the said approval shall be limited accordingly; and

- (c) for the purposes of this Resolution, "Relevant Period" means the period from the passing of this Resolution until whichever is the earliest of:—

Notice of Annual General Meeting

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company or any applicable law to be held; and
- (iii) the date on which the authority set out in this Resolution is revoked or varied by an ordinary resolution of the shareholders of the Company in general meeting."

B. "THAT:—

- (a) subject to paragraph (c) below, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options (including bonds, warrants and debentures convertible into shares of the Company) which would or might require the exercise of such power be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) above shall authorize the directors of the Company during the Relevant Period (as hereinafter defined) to make or grant offers, agreements and options (including bonds, warrants and debentures convertible into shares of the Company) which would or might require the exercise of such powers after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) and issued by the directors of the Company pursuant to the approval in paragraph (a) above, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined); (ii) an issue of shares as scrip dividends pursuant to the bye-laws of the Company from time to time; or (iii) an issue of shares under any option scheme or similar arrangement for the time being adopted for the grant or issue to employees of the Company and/or any of its subsidiaries of shares or rights of the Company, shall not exceed 20% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing this Resolution and the said approval shall be limited accordingly; and

Notice of Annual General Meeting

(d) for the purpose of this Resolution, “Relevant Period” means the period from the passing of this Resolution until whichever is the earliest of:—

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company or any applicable law to be held; and
- (iii) the date on which the authority set out in this Resolution is revoked or varied by an ordinary resolution of the shareholders of the Company in general meeting; and

“Rights Issue” means an offer of shares open for a period fixed by the directors of the Company to the holders of shares of the Company on the register on a fixed record date in proportion to their then holdings of such shares as at that date (subject to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any

restrictions or obligations under the laws of, or the requirements of any recognized regulatory body or any stock exchange in, any territory outside Hong Kong applicable to the Company).”

C. “**THAT** subject to the passing of Ordinary Resolutions Nos.5A and 5B set out in the notice convening this meeting, the general mandate granted to the directors of the Company to allot, issue and deal with additional shares pursuant to Ordinary Resolution No.5B set out in the notice convening this meeting be and is hereby extended by the addition thereto of an amount representing the aggregate nominal amount of shares in the capital of the Company repurchased by the Company under the authority granted pursuant to Ordinary Resolution No.5A set out in the notice convening this meeting, provided that such amount of shares shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing the said Resolution.”

6. To transact any other business.

By Order of the Board

Ou Yaping
Chairman

Hong Kong, 26 April 1999

Notice of Annual General Meeting

Principal place of business:—

25th Floor, Vicwood Plaza,
199 Des Voeux Road Central,
Hong Kong

Notes:

1. Any member of the Company entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a member of the Company.
2. To be valid, the proxy form, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, must be deposited at the principal place of business of the Company at 25th Floor, Vicwood Plaza, 199 Des Vouex Road Central, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.
3. The register of members of the Company will be closed from Wednesday, 2 June 1999 to Friday, 4 June 1999, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, all completed transfer forms with share certificates must be lodged with the Company's Hong Kong Registrar and Transfer Office, Central Registration Hong Kong Limited, 19th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on Tuesday, 1 June 1999.
4. An explanatory statement as required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in connection with the proposed repurchase mandate under Resolution 5A above will be despatched to members together with the 1998 Annual Report of the Company.

Chairman's Statement



Mr. Ou Yaping
Chairman

On behalf of Sinolink Worldwide Holdings Limited (the Company) and its subsidiaries (collectively the Group), I am pleased to submit to shareholders the Group's first annual report since its listing.

INITIAL PUBLIC OFFER

1998 was a significant year for the Group. On 8 June 1998, the Company was successfully listed on The Stock Exchange of Hong Kong Limited following an issue of 380,000,000 new shares at an issue price of HK\$1.15 per share. The net proceeds arising from the initial public offer amounted to approximately HK\$412,000,000. The listing not only provided the Company with new share capital but also increased our development opportunities.

DIVIDENDS

The Board of Directors (the "Directors") recommended the payment of a final dividend of HK\$0.046 per share to the shareholders for the year ended 31 December 1998. Due to the fact that the listing of the Company only took effect on 8 June 1998, no interim dividend had been declared.

REVIEW OF OPERATIONS

For the year ended 31 December 1998, the Group's turnover amounted to HK\$1,010,305,000, representing an increase of 64.9% over 1997. Profit attributable to shareholders rose 177.6% to approximately HK\$307,432,000 which was higher than the profit forecast contained in the prospectus issued by the Company dated 26 May 1998. As at 31 December 1998, the Group's consolidated net asset value was HK\$1,147,406,000, or HK\$0.75 per share, with borrowings of HK\$370,999,000, resulting in a debt-to-equity ratio of 32.3%.

Chairman's Statement

The Asian financial turmoil continued to affect Hong Kong and the People's Republic of China (the "PRC") during the second half of 1998. In Shenzhen, the real estate market was also affected by an increase of unsold flats and a drop in property prices by an average of 10 to 20%; the electricity supply industry was further aggravated by intense market competition.

In response to those conditions, the Group has revised its development strategies. Recognizing that small residential units were in stronger demand due to the change in market sentiment, the Group amended its property development plan so that those large units under the original design were reduced to smaller ones. The Group also strengthened its property sales through better planning and marketing and the enhancement of ancillary facilities. As part of the efforts to increase the sophistication of its properties, the Group offered a number of valuable services to residents, including internal decoration, free installation of telephone and computer lines, and shuttle bus service between Hong Kong and Shenzhen.

Although the real estate market in Shenzhen was hit by the Asian financial turmoil, the impact has been relatively smaller when compared with the slump in the Hong Kong property market. This can be attributed partly to the significant efforts made by the PRC Central Government in developing the domestic housing market, and partly to the land policy maintained by the People's Government of

Shenzhen Municipal (the "Shenzhen Municipal Government") under which the supply of land is regulated through auctions and tenders to sustain a healthy market. This policy together with other related measures taken by the Shenzhen Municipal Government have positive effects on the real estate market in Shenzhen. As such, the Group managed to achieve encouraging results for its real estate business in 1998 despite the "depressing" environment.

The Group's subsidiary, Shenzhen Fuhuade Electric Power Co., Ltd. ("Fuhuade"), operates Dapeng Power Plant in Shenzhen. During the year ended 31 December 1998, Fuhuade continued its operations as planned. However, due to the economic downturn, Shenzhen saw a slowdown in electricity demand which resulted in strong competition among small and medium-sized electricity plants. In addition, the biannual major overhauls of the generating units at Dapeng Power Plant took place during the year and lasted three months. As such, Fuhuade experienced a decline in turnover when compared with 1997. Nevertheless, the rate charged for electricity sold by Dapeng Power Plant remained at RMB0.78 per KWh. In view of strong and growing competition among electricity suppliers in Shenzhen, Fuhuade has focused on strengthening its internal management, with further efforts made to reduce costs and increase efficiency. Such measures have improved Fuhuade's earning capacity and contributed to Fuhuade's satisfactory results in 1998.



Chairman's Statement



MANAGEMENT AND STAFF

It is a long-held belief of the Group that people are the primary source of any success. The Group is committed to building up a capable, versatile and innovative management team and a dedicated, diligent and sharp-witted workforce. In order to strengthen the professionalism and proficiency of its management, the Group established three professional management committees in 1998 – namely, Finance and Internal Audit Committee, Administration and Personnel Supervisory Committee, and Project Planning and Development Committee. These committees are responsible for assisting the Directors to manage the Group's operations. The



Group also strengthened the management and training of its staff and further improved their quality and efficiency during 1998. Initiatives were taken to obtain and adopt constructive suggestions from staff, aiming at reducing the Group's unit cost while maintaining a high product quality. Efforts were also made to enhance staff welfare, in particular the introduction of a share option scheme which links the fortunes of the management team directly to the success of the Group. All these efforts have laid down a solid foundation for the Group's future development.

PROSPECTS FOR 1999

The Group will continue to focus on and actively expand its residential property development and electricity generation businesses in Shenzhen, as well as the liquid petroleum gas ("LPG") business acquired in February 1999. The Group will also study and explore opportunities in other infrastructure projects to maximize returns for shareholders.

1999 will still be a difficult year. In the PRC, deepening economic reforms are giving rise to soaring unemployment and a further decline in consumption. Already riddled with a significant

Chairman's Statement

amount of bad debts, the banking sector is more reluctant to make new loans now that the risks have become even higher. These factors combined could lead to serious credit crunch and deflation in the PRC economy. Elsewhere, the international financial market has become more volatile. Largely as a result of the economic problems in Brazil and Russia, both the Hong Kong Dollar and Renminbi are increasingly under pressure to devalue. In view of the above, whether the property industry (and, for that matter, the whole business sector) can start to recover in 1999 depends on the efforts of all concerned.

Despite this, there are factors favourable to the Group's development in 1999. Firstly, the PRC is continuing with its housing reform whereas its interest rates - already at low levels after having been reduced several times in recent years - have further room for reduction. These provide a fundamental stimulus to the housing demand in Shenzhen. Secondly, the economic tie between Shenzhen and Hong Kong is becoming increasingly strong. Construction of the Western Corridor project has already been approved; the operating hours of the crossing points at the Shenzhen/Hong Kong border have been gradually extended. It is now a trend for Hong Kong people to do their shopping in Shenzhen, or to work or reside there. Major efforts have also been made by Shenzhen to improve its infrastructure, with remarkable results already achieved in urban development, road system and environmental enhancement.

Such efforts will help attract more foreign investment to Shenzhen, and particularly beneficial to encouraging Hong Kong people to buy properties there. In addition, the Shenzhen Municipal Government is taking active measures to draw talented people into the city to facilitate the development of high-technology industries. These positive factors will also help stimulate the demand for housing in Shenzhen.

In 1999, the Group will seek to capitalize on the positive factors and to minimize the impact of those negative factors. Given that both Shenzhen and Hong Kong are actively developing the high-technology industries, the Group will strengthen its efforts in promoting Sinolink Garden as an ideal living place for people who work for or invest in the high-technology industries. Such efforts will include the increase of sales and marketing in Hong Kong, advertising at land crossings, and promotional campaigns at designated sales points. Moreover, the Group will step up marketing and promotion towards the well off class in the PRC, in particular the professionals. It will also further enhance the quality of its properties and property management services to strive for satisfactory sales in 1999. All in all, the Group believes the real estate market in Shenzhen presents both difficulties and opportunities in 1999. By facing the challenges, overcoming the difficulties and grasping the opportunities, it is still likely that the Group can achieve good results in 1999.



Chairman's Statement



The Group is preparing for the cable transformation works at the Yinhu site in Luohu District, Shenzhen. It is expected that these works will take 30 to 36 months to complete. Upon completion of these works and taking into account the proposed cable transformation works at Bijiasan, over 320,000 square metres of land will be available for property development. Moreover, the Group is negotiating with the relevant departments of the Shenzhen Municipal Government to jointly develop properties along the future subway lines. Should agreements be reached, the Group would be able to increase its land bank, which would facilitate the Group's long-term development.

Dapeng Power Plant will continue to provide consistent and stable cash revenue for the Group. While the plant's electricity generation is based on market demand, it is expected that the amount in 1999 will be higher than that of 1998 since the generating units already went through major overhauls during the first half of last year. The Group will actively but prudently study the expansion plan of Dapeng Power Plant in 1999 to meet the future electricity demand in Shenzhen.

Infrastructure development has always been regarded as a high priority in the PRC's

economic development and is capable of providing long-term stable returns. In view of the growth of the PRC economy and the increasing popularity of LPG in the industrial and commercial sectors, the Group firmly believes that the LPG business has vast development potential in the PRC. The Group has therefore acquired China Pan River Group Ltd., which is principally engaged in the production, transportation, storage, sale and distribution of LPG in the PRC. The acquisition was completed in February 1999.

The Directors consider that LPG has wide applications in the commercial, industrial and civil fields. Given that the PRC's per capita consumption of LPG is merely 5%, 6%, 7.5% and 8.6% respectively of the volume in Japan, Korea, Malaysia and Singapore, the Directors believe that the PRC is a huge potential market for the LPG business. It is expected that the use of LPG will become increasingly popular in the PRC and solid growth will be seen in the coming 10 to 20 years. It is against this background that the Group decided to expand into the LPG business. By capitalizing on the rising trend of LPG consumption in the PRC, it is expected that the LPG business will gradually account for a higher proportion of the Group's earnings.

Chairman's Statement

The Group is focusing its attention on the Yangzi River and the southwestern regions where the use of LPG has the highest potential. The Group is striving to increase its market share in these regions for the retail and distribution of LPG. It is utilizing the LPG resources available in the local areas and adopting flexible storage and transportation systems to ensure an adequate supply of LPG to the regions. In future, the Group will take steps to expand its investment in the LPG business, such as acquiring major LPG piers and storage facilities. Efforts will also be spent to enhance the Group's corporate brand name in LPG supply, including the establishment of a comprehensive retail and distribution network to ensure an effective control on product quality. The best management practices of modern retail enterprises will also be introduced for developing this huge market. Furthermore, the Group plans to increase pipeline networks in small districts to match the overall urban development of these regions. For these reasons, the LPG business might see a higher amount of investment in the short term and there might not be substantial immediate returns. However, taking a long term perspective, the Directors believe that the LPG business is solid and has tremendous potential and would provide shareholders with reasonable returns over the long term. Indeed, given the significance of LPG in environmental protection, it has received strong support from the PRC Government and

favorable attention from renowned international corporations, investment funds and oil companies. The Group is holding talks with these corporations, investment funds and LPG companies on joint development of the LPG business. Successful conclusion of these talks could have a major positive bearing on the Group's future development.

Along with the arrival of 1999 comes a period of hard time. However, the Group has formulated strategies in advance and is well-prepared to overcome the difficulties. Facing the challenges in the real estate market, the Group is strengthening the sales and planning of its property projects while diversifying into other businesses. The acquisition of the LPG business in February 1999 represents a good start. Moreover, the Group pays close attention to the exchange risk associated with investing in the PRC and is taking measures to minimize the impact of exchange rate fluctuations on its operating income. The Directors believe that with prudent financial management, a sophisticated management team, the capability to grasp opportunities, and the diligence of its staff, the Group will continue to provide shareholders with reasonable returns in future.

Ou Yaping

Chairman

Hong Kong, 26 April 1999



Directors' Profile

EXECUTIVE DIRECTORS



Mr. Ou Yaping, aged 37, was appointed as the chairman and managing director of the Company in December 1997. Mr. Ou is the founder and the controlling shareholder of the Group. He holds a Bachelor of Engineering Management degree from the Beijing Institute of Technology, the PRC and is also a part-time lecturer of this Institute. He was employed by a number of trading companies and investment companies in the PRC and Hong Kong and is presently a director of China Merchants Bank of the PRC. Mr. Ou has many years of experience in investing, trading and real estate development. He is presently responsible for the overall planning, management and strategic development of the Group.

Mr. Law Sze Lai, aged 56, was appointed as a director of the Company in December 1997. He is also a director and deputy general manager of Shenzhen Sinolink Enterprises Co., Ltd. He has been employed by a number of real estate companies in the PRC. He qualified as an economist in the PRC and has over 11 years of experience in property development. Mr. Law joined the Group in 1992 and is responsible for the coordination and administration of the real estate business of the Group.



Mr. Chen Wei, aged 37, was appointed as a director of the Company in December 1997. Mr. Chen holds a Bachelor of Engineering Management degree from the Beijing Institute of Technology, the PRC. He has been employed by China North Industries Group Corporation and a number of other large organisations and has over 13 years of experience in the engineering business and administration. Mr. Chen joined the Group in 1992 and is responsible for the operation and administration of the power generation business and LPG business of the Group.



Directors' Profile

NON-EXECUTIVE DIRECTORS

Mr. Liang Xiaoting, aged 48, was appointed as an independent non-executive director of the Company in April 1998. He is a director of Bank of China, Deputy Chief Executive of the BOC Hong Kong-Macau Regional Office, First Deputy General Manager of the BOC Hong Kong Branch, Director of Bank of China International Holdings Ltd., Chairman of BOC Group Insurance Co. Ltd., Chairman of Sun Chung Estate Co. Ltd., and Chairman of Kiu Kwong Investment Corporation Ltd. Mr. Liang is a member of the Hong Kong Monetary Authority Exchange Fund Advisory Committee, the Securities and Futures Commission ("SFC") Advisory Committee, SFC Takeovers and Mergers Panel, SFC Takeovers and Appeal Committee, Director of Hong Kong Interbank Clearing Co. Ltd., General Committee Member of the Hong Kong General Chamber of Commerce, Standing Committee Member of the Chinese General Chamber of Commerce, Member of the Hong Kong Polytechnic University Council and Finance Committee.



Mr. Xu Yang, aged 60, was appointed as an independent non-executive director of the Company in April 1998. He is the chairman and general manager of Shum Yip Holdings Co., Ltd, the chairman of Shum Yip Investment Limited, the deputy chairman of the Chinese People's Political Consultative Conference of Shenzhen, and a part-time lecturer in each of the Tongji University, the PRC and the Harbin Industrial University, the PRC. He had served as the deputy secretary general of the Shenzhen Municipal Government, the director of the Shenzhen Economic Development Bureau, the chairman of Shenzhen Corporate Management Association and the general manager of Shenzhen China Aviation Enterprise Group.



Mr. Tsang Yu Chor, Patrick, aged 47, was appointed as an independent non-executive director of the Company in April 1998. He is a senior partner of Tsang, Chan and Wong, Solicitors & Notaries. He is a practising solicitor in Hong Kong and is admitted as a solicitor of England, a solicitor and barrister in Victoria, Australia, a notary public in Hong Kong and an appointed attesting officer of the PRC. Mr. Tsang is also a non-executive director of Legend Holdings Limited, a company listed on the Stock Exchange.



Directors' Report

The Directors present their first annual report and the audited financial statements of the Company from 15 December 1997 (date of incorporation) to 31 December 1998 and of the Group for the year ended 31 December 1998.

CORPORATE REORGANIZATION

The Company was incorporated in Bermuda with limited liability on 15 December 1997 under the name of Sinolink Holdings Limited. With the approval of the Registrar of Companies in Bermuda, the Company's name was changed to Sinolink Worldwide Holdings Limited with effect from 17 April 1998.

Pursuant to a reorganization scheme to rationalize the structure of the Group in preparation for the public listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the companies now comprising the Group on 11 May 1998.

Details of the reorganization are set out in note 1 to the financial statements.

The shares of the Company were listed on the Stock Exchange with effect from 8 June 1998.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries and associated companies are set out in notes 11 and 12 respectively to the financial statements.

The Group's turnover and contribution to operating profit for the year ended 31 December 1998, analyzed by principal activity, were as follows:

	Turnover <i>HK\$'000</i>	Contribution to results from ordinary activities before taxation <i>HK\$'000</i>
By principal activity:		
Property development	875,253	479,629
Electricity supply operations	121,348	32,166
Others	13,704	6,011
	<u>1,010,305</u>	<u>517,806</u>
Contribution from associated companies		(3,384)
Interest income (net)		10,899
Operating expenses less other income		<u>(78,523)</u>
Profit from ordinary activities before taxation		<u>446,798</u>

All of the activities of the Group are based in the People's Republic of China (the "PRC") and more than 90% of the Group's turnover and operating profit are derived from the PRC.

Directors' Report

SUBSIDIARIES AND ASSOCIATED COMPANIES

Details of the Company's subsidiaries and associated companies at 31 December 1998 are set out in notes 11 and 12 respectively to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 1998 are set out in the consolidated profit and loss account on page 29 of the annual report.

The Directors recommend the payment of a final dividend of HK\$0.046 per share to the shareholders on the register of members on 4 June 1999, amounting to HK\$69,920,000, payable on or before 15 June 1999 and the retention of the remaining profit for the year of HK\$237,512,000.

RESERVES

Movements during the year in the reserves of the Group and the Company are set out in note 23 to the financial statements.

FINANCIAL SUMMARY

A summary of the results of the Group for the four financial years ended 31 December 1998 and of the assets and liabilities of the Group as at 31 December 1997 and 1998 is set out on page 56 of the annual report .

TANGIBLE FIXED ASSETS

Certain of the Group's land and buildings were revalued at 31 March 1998. The revaluation resulted in a deficit over book values amounting to HK\$98,000, which has been debited directly to the profit and loss account.

Details of this and other movements during the year in the tangible fixed assets of the Group are set out in note 10 to the financial statements.

MAJOR PROPERTIES

Details of the major properties of the Group at 31 December 1998 are set out on pages 57 and 58 of the annual report.

Directors' Report

SHARE CAPITAL

Details of movements during the period in the share capital of the Company are set out in note 21 to the financial statements.

USE OF PROCEEDS FROM ISSUE OF NEW SHARES

Pursuant to the prospectus issued by the Company dated 26 May 1998 (the "Prospectus"), the Company made an initial public offering through placing and new issue of 380,000,000 shares to the investing communities in June 1998 and the net proceeds were approximately HK\$412 million.

Details on the application of the proceeds arising from the initial public offer are set out below:

	HK\$'000
Net proceeds arising from initial public offer	<u>412,000</u>
Application of funds:	
— Repayment of secured short-term bank loan obtained for the payment of land premium with respect to Sinolink Garden	196,000
— Construction of Phase II of Sinolink Garden	56,000
Funds retained for:	
— transformation of outdoor power transformer stations and overhead transmission cables into indoor power transformer stations and underground transmission cables at Yinhu	100,000
— remaining construction of Phase II of Sinolink Garden	44,000
— additional general working capital of the Group	<u>16,000</u>
	<u>412,000</u>

The funds retained were placed on short term deposits with commercial banks in Hong Kong. The application of proceeds from the initial public offer was in line with the proposed application as set out in the Prospectus.

Directors' Report

PURCHASE, SALE OR REDEMPTION OF SHARES OF THE COMPANY

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company.

BORROWINGS AND INTEREST CAPITALIZED

Details of bank loans and other borrowings of the Group are set out in note 20 to the financial statements.

Interest capitalized by the Group during the year in respect of properties under development amounted to HK\$11,016,000.

RETIREMENT BENEFITS SCHEME

Details of the retirement benefits scheme of the Group are set out in note 27 to the financial statements.

DIRECTORS

The directors of the Company during the period and up to the date of this report were:

Executive directors:

Mr. Ou Yaping (<i>Chairman</i>)	(appointed on 17 December 1997)
Mr. Law Sze Lai	(appointed on 17 December 1997)
Mr. Chen Wei	(appointed on 17 December 1997)

Independent non-executive directors:

Mr. Liang Xiaoting	(appointed on 2 April 1998)
Mr. Xu Yang	(appointed on 2 April 1998)
Mr. Tsang Yu Chor, Patrick	(appointed on 2 April 1998)

In accordance with the Company's Bye-laws, Mr. Chen Wei, Mr. Liang Xiaoting, Mr. Xu Yang and Mr. Tsang Yu Chor, Patrick retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election except for Mr. Xu Yang, who does not offer himself for re-election.

The biographical details of the directors of the Company are set out on pages 13 and 14 of this annual report.

Directors' Report

DIRECTORS' INTERESTS IN SHARES

(i) Shares of the Company

At 31 December 1998, the interests of the directors and their associates in the share capital of the Company and its associated corporations, within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Name of director	Number of ordinary shares held	
	Personal	Corporate
Mr. Ou Yaping	—	1,140,000,000 (Note 1)

Note:

- These shares are held by Asia Pacific Promotion Limited, a company incorporated in the British Virgin Islands, which is legally and beneficially owned by Mr. Ou Yaping.

(ii) Shares in a subsidiary

Name of director	Name of subsidiary	Number of non-voting deferred shares held
Mr. Ou Yaping	Sinolink Electric Power Company Limited	90,000

(iii) Interest in an associated corporation (within the meaning of the SDI Ordinance) of the Company

Name of interested party	Name of associated corporation	Nature of interest	Percentage of equity interest in associated corporation
Mr. Ou Yaping and his associates	Shenzhen Xiangdu F.& E. Co., Ltd.	Corporate	55%

Save as disclosed above, none of the directors, or their associates, had any interests in any securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

Directors' Report

DIRECTORS' INTERESTS IN SHARE OPTIONS

The directors had personal interests in share options to subscribe for shares of the Company as follows:

Name of director	Exercise period	Exercise price HK\$	Number of share options held and outstanding at 31.12.1998
Mr. Law Sze Lai	6.1.1999 to 5.1.2002	0.6	10,000,000
	6.7.1999 to 5.1.2002	0.7	10,000,000
Mr. Chen Wei	6.1.1999 to 5.1.2002	0.6	10,000,000
	6.7.1999 to 5.1.2002	0.7	10,000,000

The share options were granted on 29 June 1998 and up to the date of this annual report, the above directors have not exercised any of the options granted to them.

Details of the share option scheme are set out in note 22 to the financial statements.

Save as disclosed above, none of the directors or chief executives, nor their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year and at no time during the year was the Company, or its subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in the section headed "CONNECTED TRANSACTIONS", no contracts of significance to which the Company or any related company (holding companies, subsidiaries, or fellow subsidiaries) was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the period or at any time during the period.

Directors' Report

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors has entered into a service contract with the Company. Each service contract is for an initial period of three years commencing on 1 April 1998 and will continue thereafter unless and until terminated by either party by giving not less than six months' prior written notice, such notice to expire upon the expiry of the initial period of three years.

Save as disclosed above, none of the directors or service companies under their respective control has entered into or has proposed to enter into any service or management contract with any member of the Group excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation.

CONNECTED TRANSACTIONS

During the year, the Group has engaged in the following connected transactions (as defined under the Rules Governing the Listing of Securities of the Stock Exchange (the "Listing Rules")):

Pursuant to an agreement for the provision of services dated 8 January 1998 between Ocean Diamond Limited, a wholly owned subsidiary of the Company and Shenzhen Sinolink Enterprises Co., Ltd. ("Shenzhen Sinolink"), which is owned as to 80 percent by the Group and 20 percent by Shenzhen Power Supply Services Corporation, a connected person of the Company, Ocean Diamond Limited agreed to provide to Shenzhen Sinolink (i) management staffing services by supplying and sending staff to Shenzhen and (ii) services relating to the design and planning for real estate development, cable engineering consultancy and the import and sourcing of materials. Shenzhen Sinolink shall pay a monthly service fee of RMB150,000 (HK\$140,397) to Ocean Diamond Limited. It is intended that a service agreement with the same terms (subject to adjustment as to service fee) will be entered into between Ocean Diamond Limited and Shenzhen Sinolink on a yearly basis. Total service fee of RMB1,800,000 (HK\$1,684,762) was paid or payable to Ocean Diamond Limited for the year ended 31 December 1998.

Directors' Report

CONNECTED TRANSACTIONS *(continued)*

Pursuant to an agreement for the provision of agency services dated 8 January 1998 between Sinolink Worldwide (HK) Company Limited ("Sinolink Worldwide (HK)"), a wholly owned subsidiary of the Company and Shenzhen Sinolink, Sinolink Worldwide (HK) shall provide agency services regarding matters including, amongst others, advertising and promotion for overseas sales of property units developed by the Group in the PRC and customer liaison on behalf of Shenzhen Sinolink in return for a monthly service fee of RMB1,100,000 (HK\$1,029,577). It is intended that an agency services agreement with the same terms (subject to adjustment as to service fee) will be entered into annually between Sinolink Worldwide (HK) and Shenzhen Sinolink. Total service fee of RMB13,200,000 (HK\$12,354,923) was paid or payable by Shenzhen Sinolink to Sinolink Worldwide (HK) for the year ended 31 December 1998.

Pursuant to the Cable Transformation Agreement dated 9 May 1995 entered into between Shenzhen Sinolink and Shenzhen Power Supply Bureau, the regulatory body of Shenzhen Power Supply Services Corporation (the substantial shareholder of Shenzhen Xiehe Power Company Limited which holds a 30 per cent. equity interest in Shenzhen Fuhuade Electric Power Co., Ltd. ("Fuhuade")), Shenzhen Power Supply Bureau will be responsible for the carrying out of cable transformation work at Sinolink Garden. Total installation cost of approximately HK\$2,799,000 was paid or payable to Shenzhen Power Supply Bureau for the year ended 31 December 1998.

Pursuant to the Cable Transformation Agreement entered into between Shenzhen Sinolink and Shenzhen Power Supply Bureau on 28 December 1997, the parties will jointly be responsible for the carrying out of cable transformation work at Yinhu High Voltage Corridor. No amount of installation cost was paid or payable to Shenzhen Power Supply Bureau for the year as no work has commenced yet.

Pursuant to the Power Purchase Contract entered into between Fuhuade and Shenzhen Power Supply Bureau which came into effect on 15 March 1996, Fuhuade agrees to supply to Shenzhen Power Supply Bureau electricity generated at Dapeng Power Plant, which is operated by Fuhuade, for on-grid onward transmission to public end-users. Total amount of approximately HK\$121,348,000 worth of electricity was sold to Shenzhen Power Supply Bureau for the year ended 31 December 1998.

Directors' Report

CONNECTED TRANSACTIONS *(continued)*

Pursuant to an agreement dated 8 April 1998, Shenzhen Power Supply Services Corporation, granted to Fuhuade (a 70 percent owned subsidiary of the Company) an unsecured loan in the sum of RMB5,000,000 (HK\$4,679,895) at an interest rate equivalent to the prevailing lending rate charged by banks in the PRC. The principal amount of the loan, together with interest thereon, shall be repayable by Fuhuade on or before 26 April 1999. The loan together with total interest expenses of RMB240,000 (HK\$224,635) were repaid during the year.

Pursuant to an agreement dated 8 April 1998, Shenzhen Power Supply Services Corporation granted to Fuhuade a second unsecured loan in the sum of RMB15,000,000 (HK\$14,039,685) at an interest rate equivalent to the prevailing lending rate charged by banks in the PRC. The principal amount of the loan, together with interest thereon, shall be repayable by Fuhuade on or before 26 April 1999. The loan together with total interest expense of RMB722,000 (HK\$675,777) were repaid during the year.

Pursuant to an agreement dated 8 April 1998, Shenzhen Power Supply Services Corporation granted to Fuhuade a third unsecured loan in the sum of RMB6,633,197 (HK\$6,208,533) at an interest rate equivalent to the prevailing lending rate charged by banks in the PRC. The principal amount of the loan, together with interest thereon, shall be repayable by Fuhuade on or before 26 April 1999. The loan together with total interest expense of RMB319,000 (HK\$298,577) were repaid during the year.

Pursuant to an agreement dated 10 February 1998 and a supplemental agreement dated 12 February 1998, Shenzhen Xiehe Power Company Limited, which has a 30 percent equity interest in Fuhuade, granted to Fuhuade an unsecured loan in the sum of RMB16,620,000 (HK\$15,555,972) for a term of one year at an interest rate equivalent to the prevailing lending rate charged by banks in the PRC. The loan together with total interest expense of RMB624,000 (HK\$584,051) were repaid during the year.

Pursuant to an agreement dated 25 May 1998, Shenzhen Xiehe Power Company Limited granted to Fuhuade an unsecured loan in the sum of RMB50,000,000 (HK\$46,798,952) for a term of one year at an interest rate equivalent to the prevailing lending rate charged by banks in the PRC. The principal amount of the loan, together with interest thereon, shall be repayable by Fuhuade on or before 25 May 1999. Total interest expense of RMB2,469,000 (HK\$2,310,932) was paid or payable to Shenzhen Xiehe Power Company Limited for the year ended 31 December 1998.

Directors' Report

CONNECTED TRANSACTIONS *(continued)*

Pursuant to a loan agreement dated 29 December 1997 entered into between Bank of China, Shenzhen Branch (the "Bank") and Shenzhen Sinolink, the Bank agreed to grant a loan in the amount of RMB250,000,000 (HK\$233,994,758) to Shenzhen Sinolink. Pursuant to a letter of undertaking dated 19 December 1997 signed by Fuhuade in favour of the Bank, Fuhuade agreed to guarantee repayment of the said loan, together with the accrued interest, by Shenzhen Sinolink to the Bank. The bank loan together with the interest expenses were repaid by Shenzhen Sinolink during the year.

China Overseas Building Development (Shenzhen) Co., Ltd. ("China Overseas Building"), a connected person of the Company by virtue of its being an associate of Zhonghai Property Managing (Shenzhen) Co., Ltd., a substantial shareholder of Shenzhen China Overseas-Sinolink Property Management Co., Ltd. (a subsidiary of the Company), entered into a development co-operation agreement with Shenzhen Sinolink on 26 March 1996 for the joint development of phase I of Sinolink Garden, which is situated in Shenzhen. China Overseas Building is appointed as the main contractor to Sinolink Garden pursuant to this agreement. A management fee equivalent to 1.8 per cent of the total construction costs of the development of phase I of Sinolink Garden is payable to China Overseas Building in consideration for the services provided by it. This agreement shall continue until the development of the whole of phase I of Sinolink Garden has been completed. RMB2,303,000 (HK\$2,155,560) was paid or payable to China Overseas Building for the year ended 31 December 1998.

Pursuant to the Fuel Supply Contract dated 12 January 1998 entered into between Fuhuade and Sinolink Worldwide Company Limited, a private company incorporated in Hong Kong in which Mr. Ou Yaping has a 35 per cent shareholding, Sinolink Worldwide Company Limited has agreed to supply diesel fuel to Fuhuade for use at Dapeng Power plant. Fuhuade made purchases of diesel fuel amounted to approximately HK\$27,601,000 for the year ended 31 December 1998.

Pursuant to a licence agreement dated 1 May 1998 entered into between the Company, Sinolink Electric Power Company Limited ("Sinolink Electric Power") and Sinolink Worldwide (HK) (the "Licensees") and Sinolink Worldwide Company Limited (the "Licensor"), the Licensor grants a licence to the Licensees to use a portion of the office premises at Units 2501 and 2502, 25th Floor, Vicwood Plaza, No. 199 Des Voeux Road Central, Hong Kong (the "Office Premises") for use as the office of the Group, from 1 January 1998 to 12 June 1999 at a licence fee of HK\$117,828 per month. Total licence fee of HK\$1,416,000 was paid or payable to the Licensor for the year ended 31 December 1998.

Directors' Report

CONNECTED TRANSACTIONS *(continued)*

Pursuant to an agreement for sharing of services dated 1 May 1998 entered into between the Company and Sinolink Worldwide Company Limited, the parties will share certain overhead expenses of the Office Premises occupied by the licensees pursuant to the licence agreement dated 1 May 1998 mentioned above. Total amount of HK\$120,000 was paid or payable to Sinolink Worldwide Company Limited for the year ended 31 December 1998.

Pursuant to a tenancy agreement dated 12 March 1998 between Sinolink Worldwide (HK) as tenant and Skillful Assets Limited ("Skillful"), a company controlled by Mr. Ou Yaping and of which Mr. Ou Yaping is a director, as landlord, Skillful agreed to let to Sinolink Worldwide (HK) the property known as House 3, Kellett View Town Houses, Nos. 65-69 Mount Kellett Road, Hong Kong for a term of two years commencing on 1 April 1998 at a rent of HK\$100,000 per month exclusive of rates and management fees. Total rental expenses of HK\$900,000 was paid or payable to Skillful for the year ended 31 December 1998.

Pursuant to a tenancy agreement dated 1 January 1998 entered into between Shenzhen Sinolink as the landlord and Shenzhen Xiangdu F. & E. Co., Ltd. ("Shenzhen Xiangdu"), a sino-foreign equity joint venture in which Shenzhen Sinolink and Superline Limited (a company in which each of Mr. Ou Yaping and his spouse has an attributable interest of 93.5 per cent. and 6.5 per cent. respectively) are interested in 45 per cent. and 55 per cent. respectively of its registered capital, Shenzhen Sinolink allows Shenzhen Xiangdu to use the property situated at No. 2, Taining Road, Luohu District, Shenzhen as a restaurant for a term of five years commencing on 1 January 1998 at a rental of RMB900,000 per quarter payable every three months. Total rental income of RMB3,600,000 (HK\$3,369,525) was received or receivable from Shenzhen Xiangdu for the year ended 31 December 1998.

Pursuant to a loan agreement dated 31 March 1998, Mr. Ou Yaping granted to Ocean Diamond Limited an unsecured loan in the sum of HK\$76,982,679 at an interest rate equivalent to three months Hong Kong Interbank Offer Rate. Interest is chargeable every three months and repayment of the principal is to be made in one lump sum upon expiration of the term of the loan on or before 31 December 1999. Total interest expenses of HK\$4,646,000 was paid or payable to Mr. Ou Yaping for the year ended 31 December 1998.

On 2 April 1998, the wife of Mr. Ou Yaping entered into two agreements with Shenzhen Sinolink for the purchase of two units at Sinolink Garden for a total consideration of approximately HK\$1,807,000.

Directors' Report

CONNECTED TRANSACTIONS *(continued)*

On 2 April 1998, two brothers of Mr. Ou Yaping entered into an agreement each with Shenzhen Sinolink for the purchase of one unit each at Sinolink Garden for a consideration of approximately HK\$3,529,000 and HK\$4,122,000 respectively.

On 2 April 1998, Mr. Law Sze Lai entered into two agreements with Shenzhen Sinolink for the purchase of two units at Sinolink Garden for a total consideration of approximately HK\$4,808,000.

The independent non-executive directors of the Company reviewed the above transactions and confirmed that the above transactions have been entered into in the ordinary and usual course of business on normal commercial terms or on terms no less favourable than terms available from independent third parties, and are fair and reasonable so far as the shareholders of the Company are concerned.

SUBSTANTIAL SHAREHOLDERS

Other than the interests disclosed above in respect of certain directors, the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance discloses no person as having an interest of 10% or more in the issued share capital of the Company as at 31 December 1998.

DONATIONS

During the year, the Group made charitable and other donations amounting to HK\$1,905,000.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, both the aggregate sales attributable to the Group's five largest customers and the aggregate purchases attributable to the Group's five largest suppliers were less than 30% of the Group's sales and purchases respectively.

POST BALANCE SHEET EVENTS

Details of significant post balance sheet events are set out in note 30 to the financial statements.

YEAR 2000 COMPLIANCE

The Directors note that certain computer systems use only two digits to represent a year and may not be able to distinguish the year 1900 from the year 2000. Such deficiency, if not rectified, may result in the failure of the computer systems to accurately process or record data on transition to the year 2000.

Directors' Report

YEAR 2000 COMPLIANCE *(continued)*

The Directors are aware of the year 2000 issue and appropriate compliance measures have been taken. With regard to the Group's property development business, all major computer systems used at our Shenzhen office had been upgraded by March 1998. The computer systems used at our Hong Kong office were either upgraded or replaced and the final phase of installation and testing was completed at the end of 1998. As for our electricity generation business, the computer systems currently in use at Dapeng Power Plant were purchased and installed in 1997. These systems use four digits to represent a year and have been tested for year 2000 compliance. To date, our compliance project has been 95% completed and the Directors are satisfied with the results. Bearing unforeseen circumstances, the Group should not encounter any major problems arising from year 2000 compliance.

Total cost incurred by the Group for the year 2000 compliance project is approximately HK\$369,000, which have been accounted for as expenses during their respective years.

CORPORATE GOVERNANCE

The Company has complied in the period between its listing date and 31 December 1998 with the Code of Best Practice, as set out in Appendix 14 of the Listing Rules of the Stock Exchange, except that the independent non-executive directors of the Company are not appointed for a specific term as they are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's Bye-laws.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws although there are no restrictions against such rights under the laws of Bermuda.

AUDITORS

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Ou Yaping
Chairman

Hong Kong, 26 April 1999

Auditors' Report

**Deloitte Touche
Tohmatsu**



**德勤 · 關黃陳方
會計師行**

Certified Public Accountants
26th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong

TO THE MEMBERS OF SINOLINK WORLDWIDE HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 29 to 55 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Group and the Company, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Group and the Company as at 31 December 1998 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong, 26 April 1999

Consolidated Profit and Loss Account

For the year ended 31 December 1998

	NOTES	1998 HK\$'000	1997 HK\$'000
TURNOVER	3	<u>1,010,305</u>	<u>612,517</u>
OPERATING PROFIT	4	450,182	183,483
SHARE OF RESULTS OF ASSOCIATED COMPANIES		<u>(3,384)</u>	<u>—</u>
PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION		446,798	183,483
TAXATION	6	<u>(63,729)</u>	<u>(23,092)</u>
PROFIT BEFORE MINORITY INTERESTS		383,069	160,391
MINORITY INTERESTS		<u>(75,637)</u>	<u>(49,644)</u>
PROFIT FOR THE YEAR	7	<u>307,432</u>	<u>110,747</u>
DIVIDENDS	8	<u>69,920</u>	<u>90,769</u>
		HK\$	HK\$
EARNINGS PER SHARE	9	<u>0.23</u>	<u>0.10</u>

Consolidated Balance Sheet

As at 31 December 1998

	NOTES	1998 HK\$'000	1997 HK\$'000
TANGIBLE FIXED ASSETS	10	240,261	241,652
PRE-OPERATING EXPENSES		5,701	7,669
INTERESTS IN ASSOCIATED COMPANIES	12	5,520	7,272
NET CURRENT ASSETS (LIABILITIES)	13	<u>1,068,327</u>	<u>(43,017)</u>
		1,319,809	213,576
MINORITY INTERESTS		<u>(172,403)</u>	<u>(120,156)</u>
NET ASSETS		<u><u>1,147,406</u></u>	<u><u>93,420</u></u>
Financed by:			
SHARE CAPITAL	21	152,000	1,258
RESERVES	23	<u>995,406</u>	<u>92,162</u>
SHAREHOLDERS' FUNDS		<u><u>1,147,406</u></u>	<u><u>93,420</u></u>

The financial statements on pages 29 to 55 were approved by the Board of Directors on 26 April 1999.

Ou Yaping
Chairman & Managing Director

Law Sze Lai
Director

Balance Sheet

As at 31 December 1998

	NOTES	HK\$'000
INTERESTS IN SUBSIDIARIES	11	1,155,784
NET CURRENT LIABILITIES	13	<u>(59,289)</u>
NET ASSETS		<u><u>1,096,495</u></u>
Financed by:		
SHARE CAPITAL	21	152,000
RESERVES	23	<u>944,495</u>
SHAREHOLDERS' FUNDS		<u><u>1,096,495</u></u>

Ou Yaping
Chairman & Managing Director

Law Sze Lai
Director

Consolidated Cash Flow Statement

For the Year ended 31 December 1998

	NOTES	1998 HK\$'000	1997 HK\$'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	24	24,411	464,684
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest paid		(30,200)	(8,971)
Interest income		24,930	1,786
Dividends paid by subsidiaries to minority shareholders		(2,049)	(10,247)
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		(7,319)	(17,432)
TAXATION			
Hong Kong Profits Tax refund		—	2
Overseas tax paid		(33,545)	(4,603)
TAX PAID		(33,545)	(4,601)
INVESTING ACTIVITIES			
Purchase of tangible fixed assets		(29,818)	(33,273)
Proceeds from sale of tangible fixed assets		7,778	156
Acquisition of associated companies		—	(3,403)
Advances to associated companies		(1,600)	(5,896)
Increasing shareholding in existing subsidiaries		—	(9,039)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(23,640)	(51,455)
NET CASH (OUTFLOW) INFLOW BEFORE FINANCING		(40,093)	391,196
FINANCING	25		
Issue of new shares		437,000	378
Share issue expenses		(25,147)	—
Net proceeds from subscription monies		411,853	378
Interest income from subscription monies		143	—
New bank and other loans		201,235	233,995
Repayment of bank and other loans		(266,411)	(11,201)
Drawdown of loan from a director		76,983	—
Repayment of loan from a director		—	(262,571)
Drawdown of loan from minority shareholders		46,799	—
Repayment of loan from minority shareholders		(204,027)	(18,455)
Contribution from minority shareholders of a subsidiary		186	760
(Repayment to) advance from associated companies		(32)	1,239
NET CASH INFLOW (OUTFLOW) FROM FINANCING		266,729	(55,855)
INCREASE IN CASH AND CASH EQUIVALENTS		226,636	335,341
CASH AND CASH EQUIVALENTS AT 1 JANUARY		401,879	66,315
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		—	223
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		628,515	401,879
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		628,515	401,879

Notes to the Financial Statements

For the year ended 31 December 1998

1. GROUP REORGANIZATION AND BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

The Company was incorporated in Bermuda on 15 December 1997 as an exempt company under the Companies Act 1981 of Bermuda (as amended) and its shares have been listed on the Stock Exchange with effect from 8 June 1998. Its ultimate holding company is Asia Pacific Promotion Limited, a private limited company incorporated in the British Virgin Islands ("BVI").

As part of the reorganization of the Group (the "Reorganization") for the listing of the Company's shares on the Stock Exchange, the Company acquired, through an intermediate holding company, certain subsidiaries and associated companies, and became the holding company of the Group from 11 May 1998. Further details of the Reorganization have been set out in the Prospectus issued by the Company dated 26 May 1998. There were no change in the structure of the Group during the period from 11 May 1998 to 31 December 1998.

The Group resulting from the above mentioned reorganization is regarded as a continuing entity. Accordingly, the consolidated financial statements of the Group have been prepared on the basis as if the Group structure as at 31 December 1998 had been in existence since 1 January 1997, or since their respective dates of incorporation/establishment, where this is a shorter period.

In the opinion of the Directors of the Company, the consolidated financial statements prepared on the above basis present fairly the results and the state of affairs of the Group as a whole.

The financial statements of the Company cover the period from 15 December 1997 (the date of incorporation) to 31 December 1998.

2. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies which have been adopted in preparing these financial statements and which conform with accounting principles generally accepted in Hong Kong 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 profit and loss account 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.

Notes to the Financial Statements

For the year ended 31 December 1998

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

Goodwill arising on consolidation which represents the excess of the purchase consideration over the fair value ascribed to the Group's share of the net assets at the date of acquisition of a subsidiary is written off to reserves immediately on acquisition or, where appropriate, capitalized and amortized on a straight line basis over its useful economic life, not exceeding twenty years. Negative goodwill, which represents the excess of the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a subsidiary over the purchase consideration, is credited to reserves.

On disposal of a subsidiary, the attributable amount of unamortized goodwill/goodwill previously eliminated against or credited to reserves is included in the determination of the profit or loss on disposal of the subsidiary.

Recognition of revenue

Sales of properties/development properties

Income from sales of completed properties is recognized upon the execution of the sale and purchase agreement and income from pre-sales of properties under development is recognized over the course of development on the basis stipulated below.

Sale of electricity supply

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

Income from decoration, interior design and related services

Income from decoration, interior design and related services is recognized on 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 decoration, interior design and related services was recognized on completion method in previous years. This change in the basis of recognition does not have a material effect on the profit for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

Income from property management service

Income from property management service is recognized on provision of service.

Interest income

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

Notes to the Financial Statements

For the year ended 31 December 1998

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Properties under development

Properties under development with pre-sale are included in current assets and stated at cost plus attributable profits taken to date less sale deposits/instalments received and provisions for any foreseeable losses.

Property development cost comprises land cost, development expenditure which includes construction costs, and interest expenses, if any, capitalized during the development period.

When properties are developed for sale, the total estimated profit is apportioned over the entire period of construction to reflect the progress of the development. On this basis, profit on properties pre-sold during an accounting period is recognized by reference to the proportion of construction costs incurred up to the balance sheet date to estimated total construction costs to completion, with the allowance for contingencies. Where purchasers fail to pay the balance of the purchase price on completion, the Group exercises its entitlement to forfeit the pre-sale deposits and to resell the property. In this case, the difference between the pre-sale deposits forfeited and the profit recognized up to the date of forfeiture is credited or charged to the profit and loss account as appropriate. Profit or loss arising from outright sales of an entire development project prior to completion is recognized when the contract is executed.

No depreciation is provided on properties under development.

Investments in subsidiaries

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share or registered 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 permanent diminution in value.

Interests in associated companies

An associated company is an enterprise, over which the Group is in a position to exercise significant influence, including participation in financial and operating policy decisions.

The consolidated profit and loss account includes the Group's share of the post-acquisition results of its associated companies for the year. In the consolidated balance sheet, interests in associated companies are stated at the Group's share of the net assets of the associated companies.

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

Notes to the Financial Statements

For the year ended 31 December 1998

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Tangible fixed assets, depreciation and amortization

Tangible fixed assets are stated at cost or valuation less depreciation or amortization. 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 fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, 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 tangible fixed asset, the expenditure is capitalized as an additional cost of the fixed asset.

The gain or loss arising on 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 recognized in the profit and loss account.

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.

It is the Group's policy to determine the carrying amount of the tangible fixed assets on the historical cost basis. However, for the purpose of obtaining a listing of the Company's shares on the Stock Exchange and in order to comply with the Rules Governing the Listing of Securities on the Stock Exchange, the land and buildings then held by the Group were revalued at 31 March 1998 and are stated in the financial statements at such valuation.

Any surplus 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 recognized as an expense, in which case this surplus is credited to the profit and loss account to the extent of the deficit previously charged. A decrease in net carrying amount arising on revaluation of an asset is charged to profit and loss account to the extent that it exceeds the balances, 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.

Depreciation is provided to write off the cost or valuation of tangible fixed assets 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	5 per cent. to 20 per cent.
Plant and machinery	10 per cent. to 20 per cent.
Furniture, fixtures and equipment	20 per cent. to 30 per cent.
Motor vehicles	20 per cent. to 30 per cent.

Notes to the Financial Statements

For the year ended 31 December 1998

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 exchange are dealt with in the profit and loss account.

On consolidation the financial statements of subsidiaries/associated companies 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.

Stock of unsold properties

Stock of unsold properties 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 realized in the ordinary course of business less related selling expenses.

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.

Pre-operating expenses

Pre-operating expenses are those costs incurred in the period prior to the commencement of the commercial operation of a new business. Such expenses are deferred where they are directly related to placing the new business into commercial operation, and to the extent that they are expected to be recovered from future revenues. The expenditure is charged to the profit and loss account, on a straight line basis, over a period of 5 years from the date of commencement of full operations.

Notes to the Financial Statements

For the year ended 31 December 1998

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Capitalization 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 capitalized as part of the cost of those assets. Capitalization 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 borrowings costs capitalized.

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

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 profit and loss account on a straight line basis over the terms of the respective leases.

Retirement benefits scheme

The pension costs charged in the profit and loss account represent the contributions payable in respect of the current year to the Group's defined contribution scheme.

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 recognized in the financial statements. The tax effect of timing differences, computed using the liability method, is recognized as deferred taxation in the financial statements to the extent that it is probable a liability or asset will crystallize in the foreseeable future.

3. TURNOVER

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

	1998 HK\$'000	1997 HK\$'000
Sales of completed properties/development properties	875,253	364,974
Revenue from electricity supply operations	121,348	224,886
Others (Note)	13,704	22,657
	<u>1,010,305</u>	<u>612,517</u>

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

Notes to the Financial Statements

For the year ended 31 December 1998

4. OPERATING PROFIT

	1998 HK\$'000	1997 HK\$'000
Operating profit is arrived at after charging:		
Amortization of pre-operating expenses	1,968	1,968
Auditors' remuneration	704	873
Depreciation	22,962	20,619
Directors' emoluments (Note 5)		
Fees	—	—
Other emoluments	4,181	6,180
Interest expenses on bank and other loans wholly repayable within 5 years	25,190	8,971
Less: Amount capitalized to properties under development for sale	(11,016)	—
	14,174	8,971
Net exchange loss	27	3,536
Operating lease rentals	2,319	1,357
Deficit on revaluation of tangible fixed assets	98	—
Loss on disposal of fixed assets	371	—
Retirement benefits scheme contributions, net of forfeited contributions	354	130
and after crediting:		
Gain on disposal of fixed assets	—	19
Interest income	25,073	1,786
Rental income under an operating lease	3,370	—

5. EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT

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

	1998 HK\$'000	1997 HK\$'000
Fees	—	—
Salaries and other emoluments	4,076	2,135
Contributions to retirement benefits scheme	105	45
Discretionary bonuses	—	4,000
Compensation for loss of office	—	—
Inducement for joining the Group	—	—
Waiver of emoluments paid	—	—
	4,181	6,180

No directors' fees and other emoluments were paid to independent non-executive directors during the year.

Notes to the Financial Statements

For the year ended 31 December 1998

5. EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT (continued)

The emoluments of the directors were within the following bands:

Emolument band (in HK\$)	Number of individuals	
	1998	1997
Nil — 1,000,000	3	—
1,000,001 — 1,500,000	2	1
2,000,001 — 2,500,000	1	1
2,500,001 — 3,000,000	—	1

Of the five individuals with the highest emoluments in the Group, three (1997: three) were directors of the Company whose emoluments are included in the disclosures above. The emoluments of the remaining two (1997: two) individuals were as follows:

	1998 HK\$'000	1997 HK\$'000
Salaries and allowances	1,441	996
Contributions to retirement benefits scheme	40	25
Discretionary bonuses	—	—
Compensation for loss of office	—	—
Inducement for joining the Group	—	—
Waiver of emoluments paid	—	—
	<u>1,481</u>	<u>1,021</u>

Their emoluments were within the following bands:

Emolument band (in HK\$)	Number of individuals	
	1998	1997
Nil — 1,000,000	<u>2</u>	<u>2</u>

Notes to the Financial Statements

For the year ended 31 December 1998

6. TAXATION

	1998 HK\$'000	1997 HK\$'000
The tax charge comprises:		
Profit for the year		
Hong Kong	—	(2)
Other regions in the PRC	63,729	23,094
	<u>63,729</u>	<u>23,092</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 its first profitable year of operations, 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.

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

7. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Of the Group's profit for the year of HK\$307,432,000 (1997: HK\$110,747,000), a profit of HK\$148,389,000 (1997: Nil) has been dealt with in the financial statements of the Company, and a loss of HK\$2,707,000 (1997: Nil) is attributable to the associated companies.

8. DIVIDENDS

	1998 HK\$'000	1997 HK\$'000
Proposed final dividend of HK\$0.046 per share on 1,520,000,000 shares (1997: represents dividend payable by certain subsidiaries of the Company to the then shareholder prior to the Reorganization as set out in note 1)	<u>69,920</u>	<u>90,769</u>

9. EARNINGS PER SHARE

The calculation of earnings per share is based on HK\$307,432,000 (1997: HK\$110,747,000) being profit attributable to shareholders and on weighted average number of 1,355,507,000 shares (1997: 1,140,000,000) in issue during the year assuming the Reorganization had been completed on 1 January 1997.

The diluted earnings per share is not presented as the exercise price of the Company's outstanding share options is higher than the fair value per share during the outstanding period.

Notes to the Financial Statements

For the year ended 31 December 1998

10. TANGIBLE FIXED ASSETS

	Medium term leasehold land and buildings in the PRC HK\$'000	Furniture, fixtures and equipment HK\$'000	Plant and machinery HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
THE GROUP					
COST OR VALUATION					
At 1 January 1998	125,804	4,141	125,771	12,064	267,780
Additions	23,619	1,951	2,022	2,226	29,818
Deficit on revaluation	(98)	—	—	—	(98)
Disposals	(7,809)	—	—	(1,426)	(9,235)
	<u>141,516</u>	<u>6,092</u>	<u>127,793</u>	<u>12,864</u>	<u>288,265</u>
At 31 December 1998					
Comprising:					
At cost	28,685	6,092	127,793	12,864	175,434
At valuation 1998	<u>112,831</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>112,831</u>
	<u>141,516</u>	<u>6,092</u>	<u>127,793</u>	<u>12,864</u>	<u>288,265</u>
DEPRECIATION AND AMORTIZATION					
At 1 January 1998	9,984	1,374	10,673	4,097	26,128
Provided for the year	8,240	877	11,410	2,435	22,962
Eliminated on disposals	(870)	—	—	(216)	(1,086)
	<u>17,354</u>	<u>2,251</u>	<u>22,083</u>	<u>6,316</u>	<u>48,004</u>
At 31 December 1998					
NET BOOK VALUES					
At 31 December 1998	<u>124,162</u>	<u>3,841</u>	<u>105,710</u>	<u>6,548</u>	<u>240,261</u>
At 31 December 1997	<u>115,820</u>	<u>2,767</u>	<u>115,098</u>	<u>7,967</u>	<u>241,652</u>

Notes to the Financial Statements

For the year ended 31 December 1998

10. TANGIBLE FIXED ASSETS (continued)

Certain of the Group's land and buildings held under medium term leases in the PRC have been revalued on an open market value basis at 31 March 1998 by C.Y. Leung & Company Limited, a firm of independent professional valuers. Had these land and buildings been carried at cost less accumulated depreciation, the carrying amount of these land and buildings that would have been included in the financial statements as at 31 December 1998 would be HK\$104,075,000.

11. INTERESTS IN SUBSIDIARIES

	1998 HK\$'000
Investment at cost (less amounts written off):	
Unlisted shares	606,073
Amounts due from subsidiaries	549,711
	<u>1,155,784</u>

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid up share capital/ registered capital	Percentage of equity interest attributable to the Group	Principal activities
Sinolink Progressive Limited	BVI	47,207 shares of US\$1 each	100	Investment holding
Ocean Diamond Limited	BVI	50,000 shares of US\$1 each	100	Investment holding
Link Capital Investments Limited	BVI	50,000 shares 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
Shenzhen Sinolink Enterprises Co., Ltd.	PRC	RMB375,000,000	80	Property development

Notes to the Financial Statements

For the year ended 31 December 1998

11. INTEREST IN SUBSIDIARIES (continued)

Name of company	Place of incorporation/ establishment and operation	Issued and fully paid up share capital/ registered capital	Percentage of equity interest attributable to the Group	Principal activities
Shenzhen Weikong Decorate Engineering Co., Ltd.	PRC	RMB5,000,000	88.4	Decoration, interior design and related services
Shenzhen Sinolink Property Management Co., Ltd.	PRC	RMB2,000,000	75	Property management
Shenzhen China Overseas-Sinolink Property Management Co., Ltd.	PRC	RMB1,500,000	45	Property management
Sinolink Industrial Limited	BVI	50,001 shares of US\$1 each	100	Investment holding
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
Shenzhen Fuhuade Electric Power Co., Ltd.	PRC	RMB100,000,000	70	Electricity supply

12. INTERESTS IN ASSOCIATED COMPANIES

	THE GROUP	
	1998	1997
	HK\$'000	HK\$'000
Share of net assets	800	4,184
Amounts due from associated companies	7,496	5,896
Amounts due to an associated company	(2,776)	(2,808)
	<u>5,520</u>	<u>7,272</u>

The amounts due from (to) associated companies are interest free, unsecured and have no fixed terms of repayment.

Notes to the Financial Statements

For the year ended 31 December 1998

12. INTERESTS IN ASSOCIATED COMPANIES (continued)

As at 31 December 1998, the Group had interests in the following associated companies:

Name of company	Place of incorporation/ establishment	Issued and fully paid up registered capital	Percentage of equity interest attributable to the Group	Principal activities
Shenzhen Xiangdu F. & E. Co., Ltd.	PRC	RMB4,000,000	36	Restaurant operation
Shenzhen Everlink Cable Engineering Consulting Co., Ltd.	PRC	RMB3,000,000	21	Not yet commenced business
Shenzhen Sino-Trust Investment Co., Ltd.	PRC	RMB10,000,000	24	Not yet commenced business

13. NET CURRENT ASSETS

	NOTES	THE GROUP 1998 HK\$'000	1997 HK\$'000	THE COMPANY 1998 HK\$'000
CURRENT ASSETS				
Stock of properties	14	714,713	573,062	—
Inventories	15	3,857	32,502	—
Accounts receivable		408,145	77,502	—
Other debtors, deposits and prepayments		38,746	15,077	479
Amounts due from a related company	16	—	254	—
Cash and bank balances		628,515	401,879	10,272
		<u>1,793,976</u>	<u>1,100,276</u>	<u>10,751</u>
CURRENT LIABILITIES				
Creditors and accruals		221,035	193,490	120
Taxation		60,154	29,970	—
Amounts due to a related company	17	3,541	20,419	—
Amounts due to minority shareholders	18	92,781	232,099	—
Amounts due to a director	19	76,983	400,904	—
Proposed dividends		69,920	—	69,920
Bank and other loans	20	201,235	266,411	—
		<u>725,649</u>	<u>1,143,293</u>	<u>70,040</u>
NET CURRENT ASSETS (LIABILITIES)		<u>1,068,327</u>	<u>(43,017)</u>	<u>(59,289)</u>

Notes to the Financial Statements

For the year ended 31 December 1998

14. STOCK OF PROPERTIES

	1998 HK\$'000	1997 HK\$'000
Properties under development for sale		
Cost plus attributable profits less foreseeable losses	590,720	558,503
Less: Sale deposits/instalments received	<u>24,713</u>	<u>55,243</u>
	566,007	503,260
Stock of unsold properties	<u>148,706</u>	<u>69,802</u>
	<u><u>714,713</u></u>	<u><u>573,062</u></u>

The cost of properties recognized as an expense during the year was HK\$395,624,000 (1997: HK\$187,334,000).

15. INVENTORIES

	1998 HK\$'000	1997 HK\$'000
Diesel fuel	1,918	31,911
Consumables	<u>1,939</u>	<u>591</u>
	<u><u>3,857</u></u>	<u><u>32,502</u></u>

The cost of inventories recognized as an expense during the year was HK\$89,182,000 (1997: HK\$156,126,000).

16. AMOUNTS DUE FROM A RELATED COMPANY

Amounts due from a related company is interest free, unsecured and have no fixed term of repayment.

17. AMOUNTS DUE TO A RELATED COMPANY

Amounts due to a related company represents trade amount payable to Sinolink Worldwide Company Limited, a company in which Mr. Ou Yaping is a director and shareholder.

Notes to the Financial Statements

For the year ended 31 December 1998

18. AMOUNTS DUE TO MINORITY SHAREHOLDERS

	1998 HK\$'000	1997 HK\$'000
Interest-bearing portion	46,799	14,478
Interest-free portion	45,982	217,621
	<u>92,781</u>	<u>232,099</u>

These balances are unsecured. The interest-bearing portion bears interest equivalent to the prevailing bank rate and repayable on or before 25 May 1999. The interest-free portion have no fixed term of repayment.

19. AMOUNTS DUE TO A DIRECTOR

The balance represent current account with the director, Mr. Ou Yaping which are unsecured and bears interest at an interest rate equivalent to three months Hong Kong Interbank Offer Rate (1997: interest-free).

20. BANK AND OTHER LOANS

	1998 HK\$'000	1997 HK\$'000
Bank loan, secured	201,235	—
Bank loan, unsecured	—	241,483
Loans from a related company, unsecured	—	24,928
	<u>201,235</u>	<u>266,411</u>

The loans from a related company represented amounts borrowed from Shenzhen Power Supply Services Corporation, a related company connected with Shenzhen Xiehe Power Co., Limited, the minority shareholder of Shenzhen Fuhuade Electric Power Co., Ltd., and bear interest at prevailing bank rates.

Notes to the Financial Statements

For the year ended 31 December 1998

21. SHARE CAPITAL

	1998 HK\$'000	1997 HK\$'000
Shares of HK\$0.1 each		
Authorized:		
At end of the year	<u>200,000</u>	<u>100</u>
Issued and fully paid:		
Issued in consideration for the acquisition of the issued share capital of Sinolink Progressive Limited	34,000	
Issued on public flotation	38,000	
Issued by capitalization of the share premium account	<u>80,000</u>	
At end of year	<u>152,000</u>	<u>1,258</u>

The Company was incorporated with an authorized share capital of HK\$100,000 divided into 1,000,000 shares of HK\$0.1 each. On 17 December 1997, 1,000,000 shares were allotted and issued nil paid to Mr. Ou Yaping.

By written resolutions of the sole shareholder of the Company held on 11 May 1998:

- the authorized share capital of the Company was increased from HK\$100,000 to HK\$200,000,000 by the creation of an additional 1,999,000,000 shares of HK\$0.1 each; and
- the directors were authorized to allot and issue, credited as fully paid, a total of 339,000,000 shares to Asia Pacific Promotion Limited and to credit as fully paid at par the 1,000,000 shares which were allotted and issued nil paid on 17 December 1997 as consideration for the acquisition of the entire share capital of Sinolink Progressive Limited.
- the Placing and the New Issue (the "Share offer") of 380,000,000 shares of HK\$0.1 each to the public and institutional investors, at a price of HK\$1.15 per share, were approved and, the directors were authorized to allot and issued the new shares in connection with the share offer; and
- the directors were also authorized to allot and issue a total 800,000,000 shares credited as fully paid at par to Asia Pacific Promotion Limited, by way of capitalization of the sum of HK\$80,000,000 standing to the credit of the share premium account of the Company as a result of the shares offer mentioned above.

Notes to the Financial Statements

For the year ended 31 December 1998

21. SHARE CAPITAL (continued)

The above resolutions became unconditional on 8 June 1998 when the Company's shares were listed on the Stock Exchange. The proceeds from the shares issued above were used for financing the Group's construction of phase II of Sinolink Garden, repayment of short term bank loan, acquisition of land for development and the provision of additional general working capital.

The share capital at 31 December 1997 shown in the consolidated balance sheet represents the issued share capital of the then holding companies comprising the Group.

22. SHARE OPTION SCHEME

The share option scheme of the Company provides that the directors of the Company may offer to any executive directors and full-time employees of the Group options to subscribe for shares of the Company in accordance with the terms of the share option scheme.

During the year, certain directors of the Company had options granted by the Company under the Scheme to subscribe for shares in the Company, details of which are set out in the directors' report. These share options were accepted by the grantees upon payment to the Company a total amount of HK\$2.

23. RESERVES

	Share premium account HK\$'000	Translation reserve HK\$'000	Goodwill reserve HK\$'000	General reserve HK\$'000	Contributed surplus HK\$'000	Retained profits HK\$'000	Total HK\$'000
THE GROUP							
At 1 January 1998	—	(5,570)	(8,511)	16,196	—	90,047	92,162
Arising on							
reorganization	—	—	—	—	368,262	—	368,262
Capital reserve on							
consolidation	—	—	3,617	—	—	—	3,617
Shares issued at							
premium	399,000	—	—	—	—	—	399,000
Share issue							
expenses	(25,147)	—	—	—	—	—	(25,147)
Capitalization issue of							
800,000,000 shares	(80,000)	—	—	—	—	—	(80,000)
Profit for the year	—	—	—	—	—	307,432	307,432
Transfer from profit and							
loss account	—	—	—	30,093	—	(30,093)	—
Dividends	—	—	—	—	—	(69,920)	(69,920)
At 31 December 1998	<u>293,853</u>	<u>(5,570)</u>	<u>(4,894)</u>	<u>46,289</u>	<u>368,262</u>	<u>297,466</u>	<u>995,406</u>

Notes to the Financial Statements

For the year ended 31 December 1998

23. RESERVES (continued)

	Share premium account <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE COMPANY				
At beginning of period	—	—	—	—
Arising on reorganization	—	572,173	—	572,173
Shares issued at premium	399,000	—	—	399,000
Shares issue expenses	(25,147)	—	—	(25,147)
Capitalization issue of 800,000,000 shares	(80,000)	—	—	(80,000)
Profit for the year	—	—	148,389	148,389
Dividends	—	—	(69,920)	(69,920)
At 31 December 1998	<u>293,853</u>	<u>572,173</u>	<u>78,469</u>	<u>944,495</u>

Included in the above are the following Group's share of post-acquisition reserves of the associated companies:

	Accumulated loss <i>HK\$'000</i>
At 1 January 1998	—
Loss for the year, accumulated	<u>(2,707)</u>
At 31 December 1998	<u>(2,707)</u>

The contributed surplus 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 reorganization prior to the listing of the Company's shares in 1998.

General reserve represents Enterprise Expansion Fund and General Reserve Fund set aside by certain subsidiaries in accordance with the relevant laws and regulations of the PRC.

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

- it is, or would after the payment be, unable to pay its liabilities as they become due; or
- 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.

Notes to the Financial Statements

For the year ended 31 December 1998

23. RESERVES (continued)

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

	1998 HK\$'000
Contributed surplus	572,173
Retained earnings	78,469
	<u>650,642</u>

24. RECONCILIATION OF PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	1998 HK\$'000	1997 HK\$'000
Operating profit on continuing activities	446,798	183,483
Share of loss of associated companies	3,384	—
Interest income	(25,073)	(1,786)
Interest expense	14,174	8,971
Amortization of pre-operating expenses	1,968	1,968
Deficit on revaluation of tangible fixed assets	98	—
Depreciation and amortization	22,962	20,619
Loss on disposal of tangible fixed assets	371	—
Gain on disposal of tangible fixed assets	—	(19)

Movements in assets/liabilities held for operating activities:

Decrease in amounts due to directors	—	386
Increase in pre-operating expenses	—	(229)
(Increase) decrease in properties held for sales	(15,491)	29,402
(Increase) decrease in accounts receivable	(330,643)	2,173
Increase in other debtors, deposits and prepayments	(23,669)	(3,582)
Decrease in amounts due from a related company	254	131,602
Decrease (increase) in inventories	28,645	(31,774)
(Decrease) increase in amounts due to a related company	(16,878)	20,419
(Decrease) increase in creditors and accruals	(82,489)	103,051

NET CASH INFLOW FROM CONTINUING OPERATING ACTIVITIES

24,411	464,684
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Notes to the Financial Statements

For the year ended 31 December 1998

25. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital and share premium HK\$'000	Bank and other loans HK\$'000	Amounts due to a director HK\$'000	Amounts due to an associated company HK\$'000	Amounts due to minority interests HK\$'000	Minority interests HK\$'000
Balance at 1 January 1998	—	266,411	400,904	2,808	232,099	120,156
Net cash inflow (outflow) from financing	411,853	(65,176)	76,983	(32)	(157,228)	—
Contributions from minority shareholders	—	—	—	—	—	186
Dividend paid to minority shareholders	—	—	—	—	—	(2,049)
Other movements not involving cash flows:						
Shares issued in consideration for the acquisition of the issued share capital of Sinolink Progressive Limited	33,900	—	—	—	—	—
Capitalization of reserve to pay up in full 1,000,000 nil-paid shares	100	—	—	—	—	—
Capitalization of a director's loan	—	—	(400,904)	—	—	—
Minority share of profit for the year	—	—	—	—	—	75,637
Net effect on the increase in shareholding of existing subsidiary companies	—	—	—	—	—	(3,617)
Dividend payable to minority shareholders	—	—	—	—	17,910	(17,910)
Balance at 31 December 1998	<u>445,853</u>	<u>201,235</u>	<u>76,983</u>	<u>2,776</u>	<u>92,781</u>	<u>172,403</u>

26. RELATED PARTY TRANSACTIONS

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

	1998 HK\$'000	1997 HK\$'000
Sinolink Worldwide Company Limited (Notes 1 & 2)		
— Reimbursement of directors and staff's salaries paid thereto	—	3,120
— Purchase of diesel fuel therefrom	27,601	83,360
— Interest paid thereto	—	1,244
— Rental paid thereto	1,416	1,200
— Sharing of overheads paid thereto	120	—
Shenzhen Xiehe Power Co., Limited (Note 2)		
— Interest paid thereto	2,895	1,273
Shenzhen Power Supply Bureau (Note 2)		
— Installation cost paid for work performed on underground electricity cables of Sinolink Garden	2,799	8,686
— Sales of electricity thereto	121,348	224,886
Shenzhen Power Supply Services Corporation (Note 2)		
— Interest paid thereto	1,199	2,719
Skillful Assets Limited (Notes 2&3)		
— Rental paid thereto	900	—
Mr. Ou Yaping (Note 2)		
— Interest paid thereto	4,646	—
Shenzhen Xiangdu F. & E. Co., Ltd. (Note 2)		
— Rental received therefrom	3,370	—
Mr. Law Sze Lai (Note 2)		
— Sales of units of Sinolink Garden thereto	4,808	—
Related parties of Mr. Ou Yaping (Note 2)		
— Sales of units of Sinolink Garden thereto	<u>9,458</u>	<u>—</u>

Notes to the Financial Statements

For the year ended 31 December 1998

26. RELATED PARTY TRANSACTIONS (continued)

Notes:

1. Mr. Ou Yaping, a director and shareholder of the Company, has indirect beneficial interest in this company.
2. Transactions with these related parties are regarded as connected transactions as set out in Chapter 14 of the Listing Rules of the Stock Exchange.
3. A company controlled by Mr. Ou Yaping and of which Mr. Ou Yaping is a director.

In the opinion of the Directors, the above related party transactions were carried out in the usual course of business of the relevant company and on terms in accordance with the agreements as set out in the section headed "Connected Transactions" in the Directors' Report.

27. RETIREMENT BENEFITS SCHEME

The Group provides 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 15 per cent. of the aggregate staff wages to certain defined contribution retirement benefits schemes for the Group's employees in the PRC.

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

	1998 HK\$'000	1997 HK\$'000
Net contributions charged to operating profit	<u>354</u>	<u>130</u>

As at 31 December 1998, there was no forfeited contribution to offset future contributions to be made by the Group.

Notes to the Financial Statements

For the year ended 31 December 1998

28. CONTINGENT LIABILITIES

	THE GROUP	
	1998	1997
	HK\$'000	HK\$'000
Guarantees given to banks as security for the mortgage loans arranged for the purchasers of the Group's properties	<u>513,111</u>	<u>219,116</u>

On 17 May 1996, a legal claim in the amount of approximately HK\$13,585,000 has been brought against Sinolink Worldwide (HK) Company Limited 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 would 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) Company Limited arising from or in connection with this claim in the event that Sinolink Worldwide (HK) Company Limited is unsuccessful in defending the claim.

29. COMMITMENTS

As at the balance sheet date, the Group had commitments not provided for in the accounts as follows:

	THE GROUP	
	1998	1997
	HK\$'000	HK\$'000
(i) Commitments in respect of properties under development:		
— authorized but not contracted for	1,247,015	1,107,156
— contracted but not provided for	<u>66,627</u>	<u>62,529</u>
	<u>1,313,642</u>	<u>1,169,685</u>
(ii) Lease commitments payable in the next twelve months in respect of non-cancellable operating lease expiring:		
— within one year	578	—
— in the second to fifth years inclusive	2,195	1,260
— over five years	<u>897</u>	<u>—</u>
	<u>3,670</u>	<u>1,260</u>

Notes to the Financial Statements

For the year ended 31 December 1998

30. POST BALANCE SHEET EVENTS

On 13 January 1999, the Group entered into a conditional sale and purchase agreement with the director, Mr. Ou Yaping to acquire the entire issued share capital of China Pan River Group Ltd., which is engaged in the Liquid Petroleum Gas business for a consideration of approximately HK\$55,180,000. An ordinary resolution was passed on 10 February 1999 to approve this transaction. The details relating to this transaction is contained in the circular dated 25 January 1999.

31. PLEDGE OF ASSETS

The Group has pledged land held under medium term lease, included in the properties under developments, having a net book value of approximately HK\$276,912,000 to secure general banking facilities granted to the subsidiary of the Company (1997: Nil).

Financial Summary

For the year ended 31 December 1998

	For the year ended 31 December			
	1995	1996	1997	1998
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
RESULTS				
Turnover	<u>19,834</u>	<u>283,267</u>	<u>612,517</u>	<u>1,010,305</u>
(Loss) profit from ordinary activities before taxation	(4,213)	69,711	183,483	446,798
Taxation	<u>(209)</u>	<u>(11,271)</u>	<u>(23,092)</u>	<u>(63,729)</u>
(Loss) profit from ordinary activities before minority interests	(4,422)	58,440	160,391	383,069
Minority interests	<u>569</u>	<u>(18,131)</u>	<u>(49,644)</u>	<u>(75,637)</u>
(Loss) profit for the year	<u>(3,853)</u>	<u>40,309</u>	<u>110,747</u>	<u>307,432</u>
ASSETS AND LIABILITIES				
Total assets			1,356,869	2,045,458
Total liabilities			(1,143,293)	(725,649)
Minority interests			<u>(120,156)</u>	<u>(172,403)</u>
Shareholders' funds			<u>93,420</u>	<u>1,147,406</u>

Notes:

1. The results for the four years ended 31 December 1998 have been prepared on a combined basis to indicate the results of the Group as if the Group structure, at the time when the Company's shares were listed on the Stock Exchange, had been in existence throughout the years concerned. The figures for the three years ended 31 December 1997 have been extracted from the Company's Prospectus dated 26 May 1998.
2. The results for the year ended 31 December 1998 have been extracted from the audited consolidated profit and loss account as set out on page 29 of the financial statements.

Particulars of Major Properties

At 31 December 1998

PROPERTIES OCCUPIED BY THE GROUP

	Description	Type of use	GFA (M2)	Lease expiry	Effective % held
1.	District B, Sinolink Garden Phase I Dongxiao Road, Luohu District Shenzhen, Guangdong Province	Office	2,000	2067	80%
2.	Block No. 6, Pengcheng Garden Donghu Road, Luohu District Shenzhen, Guangdong province	Residential	1,042	2067	80%
3.	Sinolink Garden Phase IV Taining Road, Luohu District Shenzhen, Guangdong Province	Commercial & Car Park	1,480	2067	80%
4.	Club House, Sinolink Garden Phase I Taining Road, Luohu District Shenzhen, Guangdong Province	Commercial & Entertainment	3,625	2067	49.60%
5.	Shuitou Villiage, Dapeng Town, Longgang District, Shenzhen, Guangdong Province	Industrial	11,097	2044	70%

Particulars of Major Properties

At 31 December 1998

PROPERTIES HELD FOR DEVELOPMENT / SALE

	Description	Type of use	GFA (M2)	Effective % held	Stage of completion	Anticipated completion
1	Certain residential units at District B Sinolink Garden Phase I Dongxiao Road, Luohu District, Shenzhen Guandong Province	Residential	5,007	80%	Completed in 1998	
2	Car Park at Club House Sinolink Garden Phase I Taining Road, Luohu District, Shenzhen Guandong Province	Car Park	189 units	80%	Completed in 1998	
3	Commercial / office composite Building , District B of Sinolink Garden Phase I Dongxiao Road, Luohu District, Shenzhen Guandong Province	Commercial	3,416	80%	Completed in 1998	
4	Certain residential units at Southern District of Sinolink Garden Phase II, Buxin Road, Luohu District, Shenzhen, Guandong Province	Residential	24,059	80%	Completed in 1998	
5	Southern District of Sinolink Garden Phase II Buxin Road, Luohu District, Shenzhen Guandong Province	Residential	11,922	80%	Decoration work in progress	Mid 1999
6	Southern & Northern District of Sinolink Garden Phase II, Buxin Road, Luohu District, Shenzhen Guandong Province	Residential	52,562	80%	Superstructure works in progress	Late 1999
7	District B of Sinolink Garden Phase I Dongxiao Road, Luohu District, Shenzhen, Guandong Province	Residential	17,537 Site Area 5,077	80%	Development plans being reviewed	Late 2000
8	Sinolink Garden Phase IV Taining Road, Luohu District, Shenzhen, Guandong Province	Residential & Commercial	423,382 Site Area 94,176	80%	Site formation works commenced	In phase between 2000 -2003