

## Notes to Financial Statements for the year ended 31st December, 2000

### 1. GROUP REORGANISATION AND BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

The Company was incorporated in Bermuda on 8th August, 1997 as an exempted company under the Companies Act 1981 of Bermuda (as amended) and its shares were listed on The Stock Exchange of Hong Kong Limited (“the SEHK”) with effect from 28th September, 2000.

Under a group reorganisation scheme (“the Reorganisation”) to rationalise the structure of the Group in preparation for the listing of the Company’s shares on the SEHK, the Company became the holding company of the Group in Hong Kong on 15th August, 2000.

The principal steps of the Reorganisation, which involved the exchange of shares, were as follows:

- (a) OSK Asia Holdings Limited (“OAH”) transferred 1,000,000 shares of the Company at a cash consideration of HK\$100,000 to the then shareholders of OAH pro-rated to their then shareholdings in OAH.
- (b) The Company acquired the entire issued share capital of OAH from the then shareholders of OAH and as consideration for the acquisition, the Company allotted and issued an aggregate of 474,000,000 shares, credited as fully paid, to the then shareholders of OAH on a pro-rata basis.

The Group resulting from the Reorganisation is regarded as a continuing entity as described in the Statements of Standard Accounting Practice No. 27 “Accounting for group reconstruction” issued by the Hong Kong Society of Accountants. Accordingly, the financial statements of the Group have been prepared on a merger basis.

The Company is an investment holding company. Its subsidiaries are principally engaged in the provision of financial services including stockbroking, margin financing, futures and options trading, corporate finance, research and asset management.

### 2. SIGNIFICANT ACCOUNTING POLICIES

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

#### **Basis of consolidation**

The consolidated financial statements of the Group incorporate the results of the Company and its subsidiaries made up to 31st December every year on the basis described in note 1.

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 Financial Statements for the year ended 31st December, 2000

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Revenue recognition

Commission income, handling fee income and asset management and advisory fees are recognised when the service is rendered, the amount can be reliably estimated and it is probable that it will be received.

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

Realised gains and losses on disposal of investments in securities are dealt with through the profit and loss account on a trade date basis when a sales contract is entered into.

#### Property and equipment

Property and equipment are stated at cost less depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the profit and loss account in the year in which they are incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of the asset.

The gain or loss arising 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 recognised 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.

Depreciation is provided to write off the cost of property and equipment over their estimated useful lives, using the straight line method, at the following rates per annum:

Leasehold improvements	20%-50%
Furniture and fixtures	25%
Office equipment	25%
Motor vehicles	25%

#### Intangible assets

Intangible assets represent trading rights in the SEHK and Hong Kong Futures Exchange Limited ("the HKFE") which are stated at amortised cost. Cost is amortised on a straight-line basis over a period of 10 years.

## **Notes to Financial Statements**

### **for the year ended 31st December, 2000**

#### **2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### **Subsidiaries**

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

Investments in subsidiaries are stated at cost, as reduced by any impairment in value of the subsidiary. Results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable during the year.

##### **Investments in securities**

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

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

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

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

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

##### **Taxation**

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

##### **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 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.

**Notes to Financial Statements**  
for the year ended 31st December, 2000

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

**Retirement benefits cost**

Payments to defined contribution plans are charged as an expense as they fall due.

**Operating leases**

Rentals payable under operating leases are charged to the profit and loss account on a straight line basis over the lease terms.

**Cash equivalents**

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

**3. TURNOVER**

	<b>2000</b>	1999
	<i>HK\$</i>	<i>HK\$</i>
Commission income	<b>84,122,713</b>	68,720,412
Interest income from:		
— banks	<b>10,066,067</b>	10,877,978
— investments in securities	<b>121,166</b>	2,508,086
— margin clients	<b>21,930,938</b>	4,488,727
Handling fee income from an overseas fellow subsidiary	<b>512,160</b>	258,924
Asset management and advisory fees	<b>484,899</b>	137,846
	<b>117,237,943</b>	86,991,973

**4. FINANCE COSTS**

	<b>2000</b>	1999
	<i>HK\$</i>	<i>HK\$</i>
Interest on:		
Bank loans and overdrafts wholly repayable within five years	<b>1,247,066</b>	256,758
Clients payable with no fixed repayment terms	<b>4,583,010</b>	2,226,392
	<b>5,830,076</b>	2,483,150

**Notes to Financial Statements**  
for the year ended 31st December, 2000

**5. STAFF COSTS**

	<b>2000</b>	1999
	<i>HK\$</i>	<i>HK\$</i>
Directors' remuneration ( <i>Note 10</i> )		
— fee	<b>160,000</b>	—
— other emoluments	<b>6,026,302</b>	5,058,046
Salaries and allowances	<b>30,813,085</b>	21,559,815
Provident fund contributions	<b>718,793</b>	805,011
	<b>37,718,180</b>	27,422,872

In addition to the above, commission expenses paid to the staff for securities and futures dealing amounting to approximately HK\$17.6 million (1999: HK\$8.4 million) are included in commission expenses as disclosed in the consolidated profit and loss account on page 22.

**6. PROFIT BEFORE TAXATION**

	<b>2000</b>	1999
	<i>HK\$</i>	<i>HK\$</i>
Profit before taxation has been arrived at after charging:		
Auditors' remuneration	<b>550,000</b>	342,000
Loss on disposal of property and equipment	<b>334,215</b>	1,822
Amortisation of trading rights	<b>83,061</b>	—
Operating lease rentals in respect of office premises and staff quarters	<b>8,467,933</b>	6,130,600

**Notes to Financial Statements**  
for the year ended 31st December, 2000

**7. TAXATION**

	<b>2000</b>	1999
	<b>HK\$</b>	<b>HK\$</b>
The charge (credit) comprises:		
Hong Kong Profits Tax		
— current year	2,704,582	2,000,000
— refund of 10% of 97/98 final tax under section 87 of the Inland Revenue Ordinance	—	(1,040,427)
	<b>2,704,582</b>	<b>959,573</b>

Hong Kong Profits Tax is calculated at 16% (1999: 16%) of the estimated assessable profits for the year.

Details of the potential deferred taxation not recognised for the year are set out in note 26.

**8. DIVIDEND**

	<b>2000</b>	1999
	<b>HK\$</b>	<b>HK\$</b>
Interim dividend — HK\$0.025 per share (1999: nil)	15,000,000	—
Special final dividend, proposed HK\$0.015 per share (1999: nil)	9,000,000	—
	<b>24,000,000</b>	<b>—</b>

Other than the above, no dividend has been paid by the Company since its incorporation.

**9. EARNINGS PER SHARE — BASIC**

The calculation of the basic earnings per share is based on net profit for the year of HK\$30,668,410 (1999: HK\$28,103,736) and the weighted average of 507,445,355 (1999: 475,000,000) shares in issue during the year.

The computation of diluted earnings per share for the year does not assume the exercise of the Company's outstanding share options as the exercise prices of the share options are higher than the fair value per share.

**Notes to Financial Statements**  
for the year ended 31st December, 2000

**10. EMOLUMENTS OF DIRECTORS AND SENIOR EXECUTIVES**

(a) Details of emoluments paid to the directors of the Company are as follows:

	<b>2000</b>	1999
	<i>HK\$</i>	<i>HK\$</i>
Fees for executive directors	—	—
Fees for non-executive directors	<b>160,000</b>	—
Other emoluments for executive directors		
— Basic salaries and allowances	<b>4,710,000</b>	4,385,000
— Discretionary bonuses	<b>530,000</b>	—
— Others	<b>552,302</b>	553,046
— Provident fund contributions	<b>234,000</b>	120,000
	<b>6,186,302</b>	<b>5,058,046</b>

	<b>2000</b>	1999
Number of executive directors	<b>3</b>	3
Number of non-executive directors	<b>5</b>	5
	<b>8</b>	<b>8</b>

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

(b) The emoluments of the directors by number of individuals are within the following bands:

	<b>2000</b>	1999
	<i>No. of</i>	<i>No. of</i>
	<i>Directors</i>	<i>Directors</i>
HK\$Nil - HK\$1,000,000	<b>5</b>	5
HK\$1,000,001 - HK\$1,500,000	<b>1</b>	1
HK\$1,500,001 - HK\$2,000,000	—	1
HK\$2,000,001 - HK\$2,500,000	<b>1</b>	1
HK\$2,500,001 - HK\$3,000,000	<b>1</b>	—
	<b>8</b>	<b>8</b>

**Notes to Financial Statements**  
**for the year ended 31st December, 2000**

**10. EMOLUMENTS OF DIRECTORS AND SENIOR EXECUTIVES (continued)**

- (c) Of the five individuals with the highest emoluments in the Group, three (1999: three) were directors of the Company whose emoluments are included in the disclosures in notes 10(a) and (b) above. The emoluments of the remaining two (1999: two) individuals were as follows:

	<b>2000</b> <i>HK\$</i>	1999 <i>HK\$</i>
Basic salaries and allowances	2,554,500	1,969,500
Discretionary bonuses	98,250	—
Provident fund contributions	117,900	90,900
	<b>2,770,650</b>	<b>2,060,400</b>

The emoluments of these remaining two highest paid employees are within the following bands:

	<b>2000</b> <i>No. of</i> <i>Employees</i>	1999 <i>No. of</i> <i>Employees</i>
HK\$Nil - HK\$1,000,000	—	1
HK\$1,000,001 - HK\$1,500,000	2	1
	<b>2</b>	<b>2</b>



**Notes to Financial Statements**  
for the year ended 31st December, 2000

**11. PROPERTY AND EQUIPMENT**

	<b>Leasehold improvements</b>	<b>Furniture and fixtures</b>	<b>Office equipment</b>	<b>Motor vehicles</b>	<b>Total</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
<b>THE GROUP</b>					
<b>COST</b>					
At 1st January, 2000	4,965,800	1,771,601	8,323,267	738,554	15,799,222
Additions	6,687,225	998,509	3,802,863	—	11,488,597
Disposals	(4,501,425)	(1,675,857)	(1,036,238)	—	(7,213,520)
<b>At 31st December, 2000</b>	<b>7,151,600</b>	<b>1,094,253</b>	<b>11,089,892</b>	<b>738,554</b>	<b>20,074,299</b>
<b>DEPRECIATION</b>					
At 1st January, 2000	4,397,446	1,512,587	4,570,369	430,823	10,911,225
Provided for the year	929,757	202,247	1,924,308	184,638	3,240,950
Eliminated on disposals	(4,369,300)	(1,474,119)	(1,035,536)	—	(6,878,955)
<b>At 31st December, 2000</b>	<b>957,903</b>	<b>240,715</b>	<b>5,459,141</b>	<b>615,461</b>	<b>7,273,220</b>
<b>NET BOOK VALUES</b>					
<b>At 31st December, 2000</b>	<b>6,193,697</b>	<b>853,538</b>	<b>5,630,751</b>	<b>123,093</b>	<b>12,801,079</b>
At 31st December, 1999	568,354	259,014	3,752,898	307,731	4,887,997

**12. INVESTMENTS IN SUBSIDIARIES**

	<b>THE COMPANY</b>	
	<b>2000</b>	1999
	<i>HK\$</i>	<i>HK\$</i>
Unlisted shares, at cost	<b>286,338,109</b>	—

The cost of the unlisted shares is determined based on the carrying value of the underlying net assets of OAH and its subsidiaries at the time they became members of the Group pursuant to the Reorganisation.

**Notes to Financial Statements**  
for the year ended 31st December, 2000

**12. INVESTMENTS IN SUBSIDIARIES (continued)**

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

Name of subsidiary	Place of incorporation	Class of share held	Percentage of nominal value of issued share capital held by the Company		Principal activities
			Directly	Indirectly	
			%	%	
OSK Asia Holdings Limited	British Virgins Islands	Ordinary	100	—	Investment holding
OSK Asia Limited	Hong Kong	Ordinary	100	—	Investment holding
OSK Asia Asset Management Limited	Hong Kong	Ordinary	—	100	Provision of investment advisory and fund management services
OSK Asia Capital Limited	Hong Kong	Ordinary	—	100	Provision of corporate finance and advisory services
OSK Asia Corporate Services Limited	Hong Kong	Ordinary	—	100	Provision of corporate secretarial services
OSK Asia Finance Limited	Hong Kong	Ordinary	—	100	Money lending
OSK Asia Futures Limited	Hong Kong	Ordinary	—	100	Futures and commodities dealing
OSK Asia Management Limited	Hong Kong	Ordinary	—	100	Provision of management services
OSK Asia Nominee Limited	Hong Kong	Ordinary	—	100	Provision of nominee services
OSK Asia Realty Limited	Hong Kong	Ordinary	—	100	Investment holding

**Notes to Financial Statements**  
for the year ended 31st December, 2000

**12. INVESTMENTS IN SUBSIDIARIES (continued)**

Name of subsidiary	Place of incorporation	Class of share held	Percentage of nominal value of issued share capital held by the Company		Principal activities
			Directly	Indirectly	
			%	%	
OSK Asia Research Limited	Hong Kong	Ordinary	—	100	Provision of research services
OSK Asia Securities Limited	Hong Kong	Ordinary	—	100	Securities dealing and margin financing
Betamax International Limited	Hong Kong	Ordinary	—	100	Investment holding
oskasia.com Limited	Hong Kong	Ordinary	—	100	Provision of information services

The directors are of the opinion that a complete list of the particulars of all subsidiaries would be of excessive length and therefore the above list contains only the subsidiaries which principally affect the results or assets and liabilities of the Group.

The Company's principal subsidiaries listed above principally operate in Hong Kong.

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

**13. INTANGIBLE ASSETS**

	Cost at 31st December, 2000	Amortisation for the year	Net book value at 31st December, 2000
<b>THE GROUP</b>			
2 trading rights in the SEHK	842,800	70,594	772,206
1 trading right in the HKFE	149,600	12,467	137,133
	<u>992,400</u>	<u>83,061</u>	<u>909,339</u>

**Notes to Financial Statements**  
for the year ended 31st December, 2000

**13. INTANGIBLE ASSETS (continued)**

Pursuant to the documents dated 3rd September, 1999 (the "Scheme Documents") issued by the SEHK and the HKFE to their respective shareholders, all outstanding "A" shares of the SEHK and all outstanding ordinary shares of the HKFE were cancelled. For each of the shares of the SEHK and the HKFE held, the shareholders of the SEHK and the HKFE would receive 805,000 and 1,393,500 shares in HKEC respectively and one trading right in the SEHK and the HKFE respectively. The shareholders of the SEHK and the HKFE were also offered a cash alternative pursuant to the respective Scheme Documents.

On 6th March, 2000, the Company exchanged its two "A" shares of the SEHK and one ordinary share of the HKFE for a total number of 2,910,000 shares in HKEC which were all disposed of prior to the balance sheet date. On the same date, two trading rights in the SEHK and one trading right in the HKFE were conferred on the Company.

**14. INVESTMENTS IN SECURITIES**

	<b>THE GROUP</b>	
	<b>2000</b>	1999
	<i>HK\$</i>	<i>HK\$</i>
Non-current:		
Investment securities, at cost		
Overseas listed investments ( <i>Note</i> )	31,282,470	—
Unlisted shares in the SEHK and HKFE	—	2,400,000
	<b>31,282,470</b>	<b>2,400,000</b>
Market value of listed securities	7,731,630	—
Current:		
Other investments, at fair value		
Listed equities in Hong Kong	4,626,882	—
Unlisted overseas unit trust	18,736,312	21,439,081
Unlisted overseas debt securities	—	10,004,600
Unlisted unit trusts in Hong Kong	1,953,961	—
	<b>25,317,155</b>	<b>31,443,681</b>
Market value of listed securities	4,626,882	—

## Notes to Financial Statements for the year ended 31st December, 2000

### 14. INVESTMENTS IN SECURITIES (continued)

*Note:*

The balance represents an approximately 9% interest in I.T. & e Limited ("IT&e"), a listed company in Australia, which is principally engaged in the provision of services in the information technology and e-commerce industries.

During the year, the Company's parent company in Malaysia entered into a joint venture agreement with IT&e to develop a network of pan Asian internet portals providing e-stockbroking and related financial services. The Company's directors consider that the investment in IT&e is held as a long-term strategic investment.

As per the audited financial statements of IT&e for the year ended 30th June, 2000, IT&e had net assets of approximately AUD28 million and recorded a profit of approximately AUD448,000 for the year ended 30th June, 2000.

### 15. STATUTORY DEPOSITS

	<b>THE GROUP</b>	
	<b>2000</b>	1999
	<b>HK\$</b>	<b>HK\$</b>
Hong Kong Securities Clearing Company Limited		
— guarantee fund deposit	<b>140,000</b>	300,000
— admission fee	<b>100,000</b>	100,000
The SEHK		
— compensation fund	<b>100,000</b>	100,000
— fidelity fund	<b>100,000</b>	100,000
— system access deposit for stock options	<b>200,000</b>	200,000
— teletext deposit	<b>2,400</b>	2,400
— stamp duty deposit	<b>250,000</b>	75,000
The SEHK Options Clearing House Limited		
— reserve fund initial contribution	<b>1,500,000</b>	1,500,000
HKFE Clearing Corporation Limited		
— reserve fund deposit	<b>1,500,000</b>	1,500,000
The HKFE		
— compensation fund deposit	<b>100,000</b>	100,000
	<b>3,992,400</b>	<b>3,977,400</b>

**Notes to Financial Statements**  
for the year ended 31st December, 2000

**16. TRADE RECEIVABLE**

	<b>THE GROUP</b>	
	<b>2000</b>	1999
	<i>HK\$</i>	<i>HK\$</i>
Margin clients receivable, net	146,820,412	119,524,150
Other clients receivable	11,077,377	25,795,437
Amounts due from clearing houses	20,548,528	10,714,105
	<b>178,446,317</b>	<b>156,033,692</b>

Margin clients receivable are repayable on demand, bear interest at prevailing market rates and secured by clients' securities listed on the SEHK with a market value of approximately HK\$474 million as at 31st December, 2000 (1999: HK\$498 million).

The settlement terms of other clients receivable and amounts due from clearing houses are one or two days after the trade date. The age of these balances is within 30 days.

No ageing analysis is disclosed for margin clients receivable as in the opinion of the directors, the ageing analysis does not give additional value in view of the nature of business of share margin financing.

Included in the net clients receivable as at 31st December, 2000 are the accounts of the directors and their associates of approximately HK\$1,766,000 (1999: HK\$1,163,000).

**17. BANK BALANCES AND CASH**

	<b>THE GROUP</b>		<b>THE COMPANY</b>	
	<b>2000</b>	1999	<b>2000</b>	1999
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Bank balances				
— general accounts	110,780,677	85,253,110	60,757	8,475
— trust and segregated accounts	66,434,985	60,304,106	—	—
Cash in hand	50,000	30,000	—	—
	<b>177,265,662</b>	<b>145,587,216</b>	<b>60,757</b>	<b>8,475</b>

**Notes to Financial Statements**  
for the year ended 31st December, 2000

**18. TRADE PAYABLE**

	<b>THE GROUP</b>	
	<b>2000</b>	1999
	<i>HK\$</i>	<i>HK\$</i>
Margin clients payable	<b>62,635,584</b>	76,201,279
Other clients payable	<b>47,595,226</b>	68,644,984
	<b>110,230,810</b>	144,846,263

Margin clients payable are repayable on demand and bear interest at prevailing market rates.

The settlement term of other clients payable is two days after the trade date. The age of these balances is within 30 days.

No ageing analysis is disclosed for margin clients payable as in the opinion of the directors, the ageing analysis does not give additional value in view of the nature of business of share margin financing.

Included in the above clients payable as at 31st December, 2000 are the accounts of the directors and their associates of approximately HK\$5,680,000 (1999: HK\$5,801,000).

**19. AMOUNT DUE TO PARENT COMPANY IN MALAYSIA**

The amount is unsecured, interest-free and is repayable on demand.

**Notes to Financial Statements**  
for the year ended 31st December, 2000

**20. SHARE CAPITAL**

	Number of shares		Share capital	
	2000	1999	2000 HK\$	1999 HK\$
Ordinary shares of HK\$0.1 each				
<i>Authorized:</i>				
At the beginning of the year	1,000,000	1,000,000	100,000	100,000
Increase during the year ( <i>note a</i> )	1,999,000,000	—	199,900,000	—
At the end of the year	2,000,000,000	1,000,000	200,000,000	100,000
<i>Issued and fully paid:</i>				
At the beginning of the year	1,000,000	1,000,000	100,000	100,000
— issued on 15th August, 2000 ( <i>note b</i> )	474,000,000	—	47,400,000	—
— issued on 28th September, 2000 ( <i>note c</i> )	125,000,000	—	12,500,000	—
At the end of the year	600,000,000	1,000,000	60,000,000	100,000

*Notes:*

- (a) Pursuant to a special resolution passed on 15th August, 2000, 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 in the Company. These shares rank pari passu in all respects with the existing shares in issue.
- (b) On 15th August, 2000, the Company issued and allotted, credited as fully paid, an aggregate of 474,000,000 shares of HK\$0.1 each in the Company to the then shareholders of OAH, as consideration for the acquisition of the entire issued share capital of OAH.
- (c) On 28th September, 2000, 125,000,000 shares of HK\$0.10 each in the Company were allotted and issued at HK\$0.55 per share to the public pursuant to the prospectus dated 19th September, 2000 issued by the Company.

All shares issued by the Company during the year rank pari passu with each other in all respects.

**21. SHARE OPTION SCHEME**

Under the terms of the share option scheme (the “Scheme”) which became effective on 15th August, 2000, the board of directors of the Company may grant options to executive directors and employees of the Company to subscribe for shares in the Company at a price equal to the higher of the nominal value of the shares and 80% of the average of the closing prices of the shares on the SEHK on the five trading days immediately preceding the date of the grant of the options, subject to a maximum of 10% of the issued share capital of the Company from time to time.



**Notes to Financial Statements**  
for the year ended 31st December, 2000

**21. SHARE OPTION SCHEME (continued)**

Pursuant to the Scheme, options to purchase ordinary shares in the Company are granted to selected executives. At 31st December, 2000, options to purchase 31,875,000 ordinary shares within the following exercisable periods were outstanding (1999: Nil):

Exercisable period	Exercise price HK\$	Number of share options
15th August, 2000 - 31st May, 2002	0.48	15,000,000
15th August, 2000 - 31st December 2002	0.50	16,875,000
		<u>31,875,000</u>

No option was exercised in the period from 15th August, 2000 to 31st December, 2000.

**22. RESERVES**

	Share premium HK\$	Capital reserve HK\$	Retained profits HK\$	Special reserve HK\$	Total HK\$
<b>THE GROUP</b>					
As at 1st January, 1999	—	22,282	15,514,240	198,880,856	214,417,378
Profit for the year	—	—	28,103,736	—	28,103,736
As at 1st January, 2000	—	22,282	43,617,976	198,880,856	242,521,114
Premium arising from issue of new shares	56,250,000	—	—	—	56,250,000
Expenses on issue of new shares	(12,598,033)	—	—	—	(12,598,033)
Effect of the Reorganisation	—	—	—	(47,300,000)	(47,300,000)
Profit attributable to shareholders	—	—	30,668,410	—	30,668,410
Dividend ( <i>Note 8</i> )	—	—	—	(24,000,000)	(24,000,000)
<b>As at 31st December, 2000</b>	<b>43,651,967</b>	<b>22,282</b>	<b>74,286,386</b>	<b>127,580,856</b>	<b>245,541,491</b>

**Notes to Financial Statements**  
for the year ended 31st December, 2000

**22. RESERVES (continued)**

	<b>Share premium</b>	<b>Deficit</b>	<b>Contributed surplus</b>	<b>Total</b>
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
<b>THE COMPANY</b>				
As at 1st January, 1999	—	(106,990)	—	(106,990)
Loss for the year	—	(24,535)	—	(24,535)
<hr/>				
As at 1st January, 2000	—	(131,525)	—	(131,525)
Surplus arising from the Reorganisation	—	—	238,938,109	238,938,109
Premium arising from issue of new shares	56,250,000	—	—	56,250,000
Expenses on issue of new shares	(12,598,033)	—	—	(12,598,033)
Loss for the year	—	(234,516)	—	(234,516)
Dividend ( <i>Note 8</i> )	—	—	(24,000,000)	(24,000,000)
<hr/>				
<b>As at 31st December, 2000</b>	<b>43,651,967</b>	<b>(366,041)</b>	<b>214,938,109</b>	<b>258,224,035</b>

The special reserve of the Group as at 31st December, 2000 represents the difference between the nominal amount of the shares of the subsidiaries at the date on which they were acquired by the Group and the nominal amount of the shares issued for the acquisition, less dividend for the year.

The contributed surplus of the Company as at 31st December, 2000 represents the difference between the consolidated net assets of OAH at the date when its shares were acquired by the Company, and the nominal amount of the Company's shares issued for the acquisition, less dividend for the year.

Of the Group's profit attributable to shareholders of approximately HK\$30,668,000 (1999: profit of HK\$28,104,000), a loss of approximately HK\$235,000 (1999: loss of HK\$25,000) has been dealt with in the financial statements of the Company.

**Notes to Financial Statements**  
for the year ended 31st December, 2000

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

	<b>THE GROUP</b>	
	<b>2000</b>	1999
	<i>HK\$</i>	<i>HK\$</i>
Profit before taxation	33,372,992	29,063,309
Interest expenses	5,830,076	2,483,150
Depreciation	3,240,950	1,715,911
Amortisation of trading rights	83,061	—
Loss on disposal of property and equipment	334,215	1,822
Unrealised loss (gain) on revaluation of other investments	11,593,152	(2,810,507)
Realised gain on disposal of shares in HKEC	(26,691,262)	—
Realised gain on disposal of other investments and futures trading	(5,750,236)	(4,101,707)
Increase in pledged time deposit	—	(1,930,215)
(Increase) decrease in statutory deposits	(15,000)	185,000
Increase in trade receivable	(22,412,625)	(115,905,265)
Decrease (increase) in other debtors, deposits and prepayments	41,942,294	(41,357,071)
Increase in bank trust and segregated accounts	(6,130,879)	(3,455,562)
(Decrease) increase in trade payable	(34,615,453)	68,557,633
(Decrease) increase in other payable and accruals	(523,891)	620,084
	<hr/>	<hr/>
Net cash inflow (outflow) from operating activities	257,394	(66,933,418)
	<hr/>	<hr/>

**24. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR**

	<b>Share capital and share premium</b>
	<i>HK\$</i>
Balance at 1st January, 1999 and 1st January, 2000	100,000
Proceeds from issue of new shares	68,750,000
Expenses on issue of new shares	(12,598,033)
Issue of share capital to acquire OAH (notes 20 and 25)	47,400,000
	<hr/>
<b>Balance at 31st December, 2000</b>	<b>103,651,967</b>
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**Notes to Financial Statements**  
for the year ended 31st December, 2000

**25. MAJOR NON-CASH TRANSACTION**

On 15th August, 2000, the Company issued and allotted, credited as fully paid, an aggregate of 474,000,000 shares of HK\$0.1 each in the Company to the then shareholders of OAH as consideration for the acquisition of the entire issued share capital of OAH.

**26. POTENTIAL DEFERRED TAXATION**

A deferred tax asset has not been recognised in the financial statements as it is not certain that the net deferred tax asset will be realised in the foreseeable future.

Details of net deferred tax asset not recognised at the balance sheet date are as follows:

	<b>THE GROUP</b>	
	<b>2000</b>	1999
	<b>HK\$</b>	<b>HK\$</b>
Tax effect of timing difference because of:		
Estimated tax losses	7,244,349	5,038,332
Excess of tax allowances over depreciation	(967,003)	(562,150)
Other timing differences	226,516	176,011
	<b>6,503,862</b>	<b>4,652,193</b>

The amount of potential deferred taxation charge (credit) for the year is as follows:

	<b>THE GROUP</b>	
	<b>2000</b>	1999
	<b>HK\$</b>	<b>HK\$</b>
Tax effect of timing differences because of:		
Tax losses utilised	2,206,017	(345,896)
Excess of tax allowances over depreciation	(404,853)	(408,437)
Other timing differences	50,505	86,147
	<b>1,851,669</b>	<b>(668,186)</b>

**THE COMPANY**

The Company did not have any significant unprovided deferred taxation at the balance sheet date.

**Notes to Financial Statements**  
for the year ended 31st December, 2000

**27. CONTINGENT LIABILITIES**

**THE GROUP**

At 31st December, 2000, the Group has no significant contingent liabilities.

**THE COMPANY**

The Company has issued unlimited corporate guarantees to a bank in respect of general facilities granted to a subsidiary. The subsidiary did not utilise any of the facilities as at 31st December, 2000 (1999: Nil).

The Company has also issued guarantees amounting to HK\$30,000,000 (1999: HK\$57,000,000) to other banks in respect of general facilities granted to its subsidiary. The subsidiary did not utilise any of the facilities as at 31st December, 2000 (1999: Nil).

**28. OPERATING LEASE COMMITMENTS**

At 31st December, 2000, the Group had commitments payable within next twelve months under non-cancellable operating leases in respect of rented premises as follows:

	<b>THE GROUP</b>	
	<b>2000</b>	1999
	<i>HK\$</i>	<i>HK\$</i>
Operating leases which expire:		
Within one year	<b>109,500</b>	1,983,600
In the second to fifth year inclusive	<b>1,272,000</b>	240,000
Over five years	<b>4,269,600</b>	4,269,600
	<b>5,651,100</b>	6,493,200

**THE COMPANY**

At 31st December, 2000, the Company had no commitments under non-cancellable operating leases.

**Notes to Financial Statements**  
for the year ended 31st December, 2000

**29. CAPITAL COMMITMENTS**

	<b>THE GROUP</b>	
	<b>2000</b>	1999
	<i>HK\$</i>	<i>HK\$</i>
Capital expenditure in respect of acquisition of property and equipment		
— authorized but not contracted for	—	2,402,368
— contracted for but not provided in the financial statements	—	2,597,632
		<hr/>
	—	5,000,000
		<hr/>

**THE COMPANY**

At 31st December, 2000, the Company had no capital commitments.

**30. PLEDGE OF ASSETS**

The Group has pledged its time deposit of HK\$1,930,215 (1999: HK\$1,930,215) to secure a bank guarantee granted to a subsidiary for the purpose of renting the office premises.

**31. RELATED PARTY TRANSACTIONS**

Particulars of significant transactions between the Group and a fellow subsidiary in Malaysia during the year were as summarised below:

	<b>2000</b>	1999
	<i>HK\$</i>	<i>HK\$</i>
Handling fee received	<b>512,160</b>	258,924
		<hr/>
Commission paid	<b>248,404</b>	66,791
		<hr/>

In the ordinary course of business, the clients of OSK Asia Securities Limited and OSK Asia Futures Limited place orders with the Group to trade in listed securities and futures contracts in Malaysia. Fellow subsidiaries in Malaysia execute the trades and charge the Group brokerage and futures broking commission at pre-agreed rates based on the minimum commission rates required in Malaysia. In return, the Group receives handling fees for introducing trade orders to this fellow subsidiary. The handling fee is dependent on the size of order and the volume of transactions generated, and is pre-agreed between two parties.

**Notes to Financial Statements**  
for the year ended 31st December, 2000

**31. RELATED PARTY TRANSACTIONS (continued)**

Furthermore, the Group entered into the following transactions with certain shareholders of the Company and certain directors of the Group during the year. The commission fee and the interest are charged at market rates. The transactions are related to futures and securities trading and margin accounts:

	<b>2000</b>	1999
	<i>HK\$</i>	<i>HK\$</i>
Commission, fee and interest income		
Shareholders	<b>357,378</b>	80,507
Directors	<b>545,676</b>	258,168
Interest paid		
Shareholders	<b>79,653</b>	12,996
Directors	<b>236,541</b>	211,404

In the opinion of directors, the above transactions are carried in the Group's ordinary course of business and on normal commercial terms.

**32. SEGMENTAL INFORMATION**

An analysis of the Group's turnover and profit (loss) from operations by principal activity is as follows:

	<b>Turnover</b>		<b>Profit (loss)</b>	
	<b>2000</b>	1999	<b>2000</b>	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Stockbroking	<b>72,648</b>	53,710	<b>5,159</b>	9,175
Margin financing	<b>21,931</b>	4,489	<b>12,278</b>	2,006
Treasury — interest income	<b>10,187</b>	13,386	<b>10,187</b>	13,386
Futures broking	<b>10,064</b>	14,970	<b>(13,956)</b>	(2,082)
Underwriting	<b>1,817</b>	290	<b>(202)</b>	214
Asset management and advisory	<b>591</b>	147	<b>(941)</b>	(548)
	<b>117,238</b>	86,992	<b>12,525</b>	22,151

No geographical analysis is presented as all the activities of the Group are predominately attributable to operations in Hong Kong.

**Notes to Financial Statements**  
**for the year ended 31st December, 2000**

**33. RETIREMENT BENEFITS SCHEME**

The Group has operated a defined contribution retirement benefits plan for all qualified employees throughout the year. The assets of the scheme are held separately from those of the Group in a provident fund managed by an independent trustee. The retirement benefits scheme contributions represent contributions payable to the fund by the Group at rates specified in the rules of the scheme. Where there are employees who leave the scheme prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions. During the year, there were no significant forfeited contributions available to offset contributions payable by the Group.

In December 2000, the Group had joined the Mandatory Provident Fund Scheme (“MPF Scheme”) under the rules and regulations of the Mandatory Provident Fund Authority. All the previous retirement benefits scheme contributions were transferred to the MPF Scheme.