

NOTES TO THE ACCOUNTS

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation and consolidation

The accounts have been prepared in accordance with generally accepted accounting principles in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants. The accounts are prepared under the historical cost convention as modified by the revaluation of investment properties and investments in securities.

The consolidated accounts include the accounts of the Company and its subsidiary companies made up to 31 December. The results of subsidiaries acquired or disposed of during the year are consolidated from or up to their effective dates of acquisition or disposal, respectively.

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

(b) Investments in subsidiary companies

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 subsidiary companies are included in the Company's balance sheet at cost less provision, if necessary, for any permanent diminution in value.

(c) Investments in associated companies

An associated company is a company, not being a subsidiary company, in which the Group holds an equity interest for the long term and exercises significant influence in its management.

The consolidated profit and loss account includes the Group's share of the post-acquisition results of the associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies plus the unamortised goodwill less capital reserves on acquisition of the associated companies.

In the Company's balance sheet the investments in associated companies are stated at cost less provision, if necessary, for any permanent diminution in value.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Investments in joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and over which none of the participating parties has unilateral control.

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Group's interests in jointly controlled entities are included in the consolidated balance sheet at the Group's share of the net assets of the jointly controlled entities plus the unamortised goodwill less capital reserves on acquisition. The Group's share of post-acquisition results of jointly controlled entities is included in the consolidated profit and loss account.

(e) Goodwill/capital reserve

Goodwill or capital reserve arising from consolidation represents the excess or the shortfall of the purchase consideration over the fair value of the Group's share of the separable net assets at the date of acquisition of subsidiaries and associated companies. Goodwill on consolidation is amortised by equal installments over its estimated useful economic life of five years, while capital reserve is carried in the accounts with no amortisation thereof.

Any goodwill or capital reserve on the acquisition of an interest in a jointly controlled entity, representing the excess or shortfall respectively of the purchase consideration over the fair value ascribed to the Group's share of the separable net assets of the jointly controlled entity at the date of acquisition is dealt with in the same manner as that described above except that goodwill arising on acquisition of a joint venture with specified operation period is amortised over its remaining joint venture period.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Other investments

Investments which are held for non-trading purposes are stated at fair value at the balance sheet date. Changes in the fair value of individual securities are credited or debited to the investment revaluation reserve until the security is sold, or is determined to be impaired. Upon disposal, the cumulative gain or loss representing the difference between the net sales proceeds and the carrying amount of the relevant security, together with any surplus/deficit transferred from the investment revaluation reserve, is dealt with in the profit and loss account.

Transfers from the investment revaluation reserve to the profit and loss account as a result of impairments are written back in the profit and loss account when the circumstances and events leading to the impairment cease to exist.

(g) Fixed assets

Fixed assets other than investment properties (note 1(h)) and other properties are stated at cost less accumulated depreciation. Other properties are interests in land and building and are stated at cost or valuation less accumulated depreciation.

Depreciation of fixed assets is provided on a straight-line basis over their estimated useful lives as follows:

Leasehold properties

Land	–	over the remaining term of the lease, including the period for which a right of renewal is attached
Buildings		
Under long lease	–	3% per annum
Under medium-term lease	–	over the remaining term of the lease
Furniture and equipment	–	10% to 20% per annum

Long leases and medium-term leases are defined as leases having not less than 50 years and 10 years to run respectively.

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Fixed assets *(Continued)*

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

(h) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential.

Investment properties held on leases with unexpired periods greater than 20 years are included in fixed assets at their open market value on the basis of annual professional valuation. Changes in the value of investment properties held by the Company and its subsidiary companies are dealt with as a movement in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit on a portfolio basis, the amount by which the deficit exceeds the total amount in the investment property revaluation reserve is charged to the profit and loss account. If a deficit has previously been charged to the profit and loss account and a revaluation surplus subsequently arises, the surplus is credited to the profit and loss account to the extent of the deficit previously charged.

Investment properties held on leases with unexpired periods of 20 years or less are depreciated over the remaining portion of the leases.

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the investment property revaluation reserve to the profit and loss account.

(i) Trading account securities

Listed and marketable securities held by the Group to facilitate its block trading, arbitrage and underwriting operations are stated at market value. The results from such activities, which include unrealised gains less losses arising from valuation at the balance sheet date of securities on hand, are dealt with in the profit and loss account.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Trade receivables

The credit of trade receivables including secured margin loans and secured term loans are approved and reviewed by either the Credit and Risks Management Committee or the Executive Committee. Clients are normally required to provide additional margin or securities whenever there are any shortfalls in their accounts.

Specific provisions are made for doubtful debts as and when they are considered necessary by the Credit and Risks Management Committee or the Executive Committee. Trade receivables in the balance sheet are stated net of such provisions.

(k) Foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The accounts of subsidiary and associated companies expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. These exchange differences are dealt with as a movement in the exchange reserve.

(l) Turnover

The principal activities of the Group are securities, forex, bullion, commodities and futures broking, provision of online financial services and online financial information distribution, money lending including the provision of term loans, share margin financing, corporate finance, property investment and insurance consultancy. Turnover includes gross brokerage, commission, interest, dividends, rental and service income; and the following stated net of losses: profit from trading in securities, income from bullion transactions and differences on foreign exchange transactions.

(m) Revenue recognition

Brokerage income recognised in the accounts represents brokerage income accrued on all broking transactions traded on or before 31 December.

1. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Revenue recognition *(Continued)*

Realised and unrealised profits and losses from trading in securities is recognised on a trade date basis.

Interest income is accrued on a time proportioned basis.

Dividend income from investments is recognised when the shareholders' right to receive payments has been established.

Rental income is recognised on all leases on the straight-line method over the lease term regardless of when the cash rental payment will be received.

Profits or losses on trading in foreign currencies include both realised and unrealised gains less losses and charges less premium arising from position squaring and valuation at the balance sheet date of foreign currency positions on hand.

(n) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(o) Deferred taxation

Deferred taxation is accounted for at the current tax rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or asset is expected to be payable or receivable in the foreseeable future.

(p) Operating leases

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

2. TURNOVER AND SEGMENT INFORMATION

	Group	
	2000 HK\$'000	1999 HK\$'000
Continuing operations	619,614	657,083
Discontinued operations*	—	1,041
	<u>619,614</u>	<u>658,124</u>

* The Group disposed of two subsidiaries in the fund management business in Hong Kong at a consideration of HK\$6 million. The sale was completed on 28 April 1999 giving rise to a profit of HK\$288,000.

An analysis of the Group's turnover and contribution to operating profit after finance cost by principal activities is as follows:

	Turnover		Contribution to operating profit after finance cost	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Securities broking	250,548	137,295	64,654	25,963
Securities dealing	(82,938)	145,428	(88,859)	129,036
Forex, bullion, commodities and futures	70,859	85,611	26,278	8,975
Margin finance and other financing services	203,341	114,894	20,604	69,132
Term loans	100,393	89,035	37,653	39,766
Corporate finance and others	77,411	85,861	38,669	17,752
	<u>619,614</u>	<u>658,124</u>	<u>98,999</u>	290,624
Share of profits and losses of				
Associated companies			33,310	(5,953)
Jointly controlled entities			7,049	—
			<u>139,358</u>	<u>284,671</u>

No analysis of geographical location of operations is presented as the contribution to turnover and results of operations outside Hong Kong being below 10%.

3. OTHER INCOME

	Group	
	2000	1999
	HK\$'000	HK\$'000
Provision for doubtful debts written back	53,977	19,210
Provision for contingencies relating to investments and receivables written back	–	90,000
Exchange gain arising from a loan to an overseas client	–	20,396
Profit on disposal of discontinued operations	–	288
Net profit on disposal of associated companies	149,491	1,577
Net profit on disposal of other investments	23,556	38,541
Other exchange gain	504	657
Revaluation deficit of investment properties written back	2,000	–
Miscellaneous income	1,378	10,765
	<u>230,906</u>	<u>181,434</u>

4. OTHER EXPENSES

	Group	
	2000	1999
	HK\$'000	HK\$'000
Permanent impairment of other investments transferred from investment revaluation reserve	36,000	143,429
Provision for doubtful debts	81,173	17,852
Loss arising from default of loan agreement with Millennium Touch Limited *	134,124	–
Loss on decrease in shareholding/disposal of subsidiary companies	4,964	292
	<u>256,261</u>	<u>161,573</u>

4. OTHER EXPENSES *(Continued)*

- * On 24 November 1999, the Company entered into an agreement for the sale of 770 million shares in Tian An China Investments Company Limited (“Tian An”) to Millennium Touch Limited (“MT”). These 770 million Tian An shares represented approximately 19.79% of the then issued share capital of Tian An and 9.07% of the issued share capital of Tian An as at 31 December 2000. MT paid 5% of the purchase price and entered into a loan agreement with the Group to finance the balance. As security for the loan agreement, MT entered into a share mortgage with the Group. The share mortgage provided that if there was default under the loan agreement, then the Group may enforce its security by, inter alia, selling the 770 million Tian An shares to discharge the indebtedness owed by MT to the Group or foreclosing on the shares.

MT has defaulted under the loan agreement since 24 November 2000 and the Group has accounted for an unrealised loss of HK\$134,124,000 by marking to market those 770 million Tian An shares at the year end closing market price of HK\$0.134.

5. OPERATING PROFIT

	Group	
	2000	1999
	HK\$'000	HK\$'000
Operating profit is stated after crediting and charging the following:		
Crediting:		
Brokerage, commission and service income	335,404	248,232
Dividends from listed investments	17,642	16,766
Dividends from unlisted investments	11,900	24,315
Gross rental income from investment properties	812	380
Interest income	316,248	193,237
Profit on dealing in foreign currency	9,451	10,488
Profit on derivatives	4,628	19,360
Profit on other dealing activities	1,330	2,944
Net realised profit on trading account securities	7,096	5,965
Unrealised profit on trading account securities	–	122,251
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Charging:		
Auditors' remuneration	2,958	2,970
Amortisation of goodwill	104	128
Depreciation	10,502	8,646
Unrealised loss on trading account securities	97,910	–
Net loss on disposal of fixed assets	1,892	13
Operating lease rentals – land and buildings	21,790	22,920
– others	4,937	5,830
Outgoings in respect of investment properties	251	257
Retirement benefit costs	4,208	6,596
Staff cost	134,148	124,793
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6. EMOLUMENTS OF DIRECTORS AND SENIOR EMPLOYEES

(a) Directors

	2000 HK\$'000	1999 HK\$'000
Fees	152	150
Salaries, housing and other allowances, and benefits in kind	7,482	7,806
Bonuses	2,400	1,910
Contributions to retirement benefit scheme	284	241
	<u>10,318</u>	<u>10,107</u>

During the year, directors' fees of HK\$20,000 (1999: HK\$18,472) and consultancy fees of HK\$300,000 (1999: HK\$539,674) were paid to independent non-executive directors.

Emoluments of the directors including past directors were within the following bands:

Emoluments band (HK\$)	Number of directors	
	2000	1999
\$0 – \$1,000,000	9	12
\$1,000,001 – \$1,500,000	–	–
\$1,500,001 – \$2,000,000	1	–
\$2,000,001 – \$2,500,000	2	1
\$2,500,001 – \$3,000,000	1	1
\$3,000,001 – \$3,500,000	–	1

6. EMOLUMENTS OF DIRECTORS AND SENIOR EMPLOYEES

(Continued)

(b) Senior employees

The five highest paid individuals included three directors (1999: three directors) of the Company, whose emoluments have been included above. The emoluments of the remaining two (1999: two) senior employees are analysed below:

	2000	1999
	HK\$'000	HK\$'000
Fees	–	–
Salaries, housing and other allowances, and benefits in kind	2,999	2,999
Bonuses	1,319	2,646
Contributions to retirement benefit scheme	203	183
	<u>4,521</u>	<u>5,828</u>

Emoluments of the senior employees were within the following bands:

Emoluments band (HK\$)	Number of employees	
	2000	1999
\$1,500,001 – \$2,000,000	–	–
\$2,000,001 – \$2,500,000	2	1
\$2,500,001 – \$3,000,000	–	–
\$3,000,001 – \$3,500,000	–	–
\$3,500,001 – \$4,000,000	–	1

7. RETIREMENT BENEFIT SCHEMES

The Group operates two defined contribution schemes (“the Principal Schemes”) for the Hong Kong office’s qualifying employees and a defined benefit scheme for its subsidiary company’s employees in the Philippines.

The assets of the Principal Schemes are held separately from those of the Group in independently administered funds. Contributions to the Principal Schemes by the Group are calculated as percentage of employees’ basic salaries and are expensed as incurred. The retirement benefit scheme cost charged to the profit and loss account represents contributions payable by the Group to the Principal Schemes. Forfeited contributions are used to reduce the existing level of contributions. The amounts so utilised in the course of the year ended 31 December 2000 were HK\$1,170,000 (1999: HK\$1,438,000). The contributions to the defined benefit scheme in the Philippines are immaterial.

8. FINANCE COST

	Group	
	2000	1999
	HK\$’000	HK\$’000
Interest on bank loans, overdrafts, convertible loan notes and other loans repayable within 5 years	129,461	74,669
Interest on bank loan repayable over 5 years	174	–
Other borrowing costs	3,462	6,069
	<u>133,097</u>	<u>80,738</u>

9. OPERATING PROFIT AFTER FINANCE COST

	Group	
	2000	1999
	HK\$'000	HK\$'000
Operating profit/(loss) after finance cost arising from:		
Continuing operations	98,999	291,011
Discontinued operations	–	(387)
	<u>98,999</u>	<u>290,624</u>

10. TAXATION

	Group	
	2000	1999
	HK\$'000	HK\$'000
Company and subsidiary companies		
Hong Kong profits tax	25,066	24,044
10% tax rebate for 1997/98	–	(3,626)
Overseas taxation	805	785
Deferred taxation (written back)/provided (<i>note 28</i>)	(15,199)	20,985
	<u>10,672</u>	<u>42,188</u>
Associated companies		
Hong Kong profits tax	236	13,601
Hong Kong profits tax written back	–	(148)
Overseas taxation	10,937	10,114
Jointly controlled entities		
Hong Kong profits tax	1,385	–
	<u>23,230</u>	<u>65,755</u>

Hong Kong profits tax has been provided at the rate of 16% (1999: 16%) on the estimated assessable profits for the year.

Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the Group operates.

11. DIVIDENDS

	Company	
	2000 HK\$'000	1999 HK\$'000
Interim dividend paid of 4 cents per share (1999: 1 cent per share)	46,503	11,625
Proposed final dividend of 1 cent per share (1999: 4 cents per share)	15,042	46,503
	<u>61,545</u>	<u>58,128</u>

12. PROFIT FOR THE YEAR RETAINED

	Group	
	2000 HK\$'000	1999 HK\$'000
Profit for the year retained by:		
Company and subsidiary companies	(19,991)	195,072
Associated companies	68,046	(36,459)
Jointly controlled entities	5,664	—
	<u>53,719</u>	<u>158,613</u>

13. EARNINGS PER SHARE

The calculation of earnings per share is based on the profit attributable to shareholders of HK\$116,231,000 (1999: HK\$217,591,000) and the weighted average number of 1,162,567,632 ordinary shares in issue during the year (1999: 1,162,532,309 ordinary shares).

No diluted earnings per share is presented for the year as there are no dilutive potential ordinary shares as at year end. The diluted earnings per share for last year was based on the adjusted earnings of HK\$252,029,000 calculated on the assumption that the convertible loan notes of the Company which would have a diluting effect on the earnings per share had been converted at the beginning of that year and on 1,504,182,712 shares issued and issuable. In addition, the exercise of the outstanding warrants of the Company did not have a diluting effect on the earnings per share in 1999.

14. CASH AND BANK BALANCES

	Company		Group	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash and bank balances	2,204	2,017	133,379	179,060
Fixed deposits with banks	—	—	46,585	72,986
	<u>2,204</u>	<u>2,017</u>	<u>179,964</u>	<u>252,046</u>

The Group maintains trust accounts with a licensed bank to hold clients' deposits arising from normal business transactions. At 31 December 2000, trust accounts not otherwise dealt with in these accounts totalled HK\$750 million (1999: HK\$741 million).

15. TRADE AND OTHER RECEIVABLES

	Group			
	2000		1999	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade receivables				
Receivable from brokers and clients	287,991		489,893	
<i>Less: provision</i>	(43,210)		(51,838)	
		244,781		438,055
Secured margin loans	1,443,397		1,167,487	
<i>Less: provision</i>	(138,985)		(124,311)	
		1,304,412		1,043,176
Secured term loans	806,416		536,815	
Unsecured term loans	256		–	
<i>Less: provision</i>	(56,586)		(5,000)	
		750,086		531,815
		2,299,279		2,013,046
Interest receivable		11,799		1,787
Other accounts receivable, deposits and prepayments		27,077		24,964
		2,338,155		2,039,797

15. TRADE AND OTHER RECEIVABLES (Continued)

	Company	
	2000	1999
	HK\$'000	HK\$'000
Secured term loan	103,180	–
Other accounts receivable, deposits and prepayments	6,098	7,913
	<u>109,278</u>	<u>7,913</u>

The ageing analysis of the overdue trade receivables is as follows:

	Company		Group	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current	–	–	2,184,768	2,001,611
30-60 days	103,180	–	105,475	14,520
60-90 days	–	–	29,972	938
Over 90 days	–	–	217,845	177,126
	<u>103,180</u>	<u>–</u>	2,538,060	2,194,195
<i>Less: provisions</i>			<u>(238,781)</u>	<u>(181,149)</u>
			<u>2,299,279</u>	<u>2,013,046</u>

There were listed and unlisted securities of clients held as collateral against secured margin loans and term loans. The market value of the listed securities as at 31 December 2000 was HK\$5,341 million (1999: HK\$10,473 million).

16. TRADING ACCOUNT SECURITIES

	Company		Group	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Equity securities listed in Hong Kong				
Issued by corporate entities	44,280	303,969	141,610	324,561
Issued by public utility entities	–	–	1	71
Issued by bank	–	–	–	20
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	44,280	303,969	141,611	324,652
Equity securities listed outside Hong Kong issued by corporate entities	–	–	3,398	11,308
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	44,280	303,969	145,009	335,960
Other marketable debt securities Issued by banks	–	–	2,163	51,677
Issued by corporate entity	–	–	–	9,652
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	44,280	303,969	147,172	397,289
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17. LOANS AND OVERDRAFTS

	Group	
	2000 HK\$'000	1999 HK\$'000
Bank loans and overdrafts repayable within 3 months		
Secured (<i>note 33</i>)	962,000	831,062
Unsecured	5,367	42
	<u>967,367</u>	<u>831,104</u>
Current portion of long term loan (<i>note 27</i>)	3,043	–
	<u>970,410</u>	<u>831,104</u>

18. TRADE AND OTHER PAYABLES

	Company		Group	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Payable to brokers and clients	–	–	292,453	512,957
Other accounts payable and accruals	54,198	46,070	259,469	228,202
	<u>54,198</u>	<u>46,070</u>	<u>551,922</u>	<u>741,159</u>

18. TRADE AND OTHER PAYABLES (Continued)

The ageing analysis of the overdue trade and other payables is as follows:

	Company		Group	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Current	35,498	46,070	448,986	688,557
30 – 60 days	–	–	225	102
60 – 90 days	–	–	1,130	23
Over 90 days	18,700	–	101,581	52,477
	<u>54,198</u>	<u>46,070</u>	<u>551,922</u>	<u>741,159</u>

19. INVESTMENTS IN SUBSIDIARY COMPANIES

	Company	
	2000 HK\$'000	1999 HK\$'000
Unlisted shares, at cost	423,320	422,772
<i>Add:</i> amounts due from subsidiary companies	<u>2,056,082</u>	<u>2,260,694</u>
	2,479,402	2,683,466
<i>Less:</i> amounts due to subsidiary companies	<u>(196,766)</u>	<u>(387,248)</u>
	<u>2,282,636</u>	<u>2,296,218</u>

Details of the principal subsidiary companies are shown in note 34.

20. INVESTMENTS IN ASSOCIATED COMPANIES

	Group			
	2000		1999	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Share of net assets other than goodwill <i>(note a)</i>		1,452,818		1,850,627
Share of goodwill of an associated company		182		286
Capital reserves less unamortised goodwill on acquisition of associated companies		<u>(49,074)</u>		<u>(304,028)</u>
		1,403,926		1,546,885
<i>Add:</i> amounts due from associated companies				
– Advances to associated companies, less provision of HK\$2,915,000 (1999: HK\$2,915,000) <i>(note d)</i>		76,453		75,850
– Convertible loan notes issued by a listed associated company <i>(note e)</i>		<u>38,015</u>		<u>545,112</u>
		<u>114,468</u>		<u>620,962</u>
		1,518,394		2,167,847
<i>Less:</i> amounts due to associated companies		<u>(17,885)</u>		<u>(15,499)</u>
		<u>1,500,509</u>		<u>2,152,348</u>

20. INVESTMENTS IN ASSOCIATED COMPANIES *(Continued)*

	Company	
	2000	1999
	HK\$'000	HK\$'000
Listed investments, at cost	1,173,604	845,561
Unlisted investments, at cost	3	55,003
	1,173,607	900,564
<i>Add:</i> Amounts due from associated companies	75,195	81,901
Convertible loan notes issued by a listed associated company	38,015	227,000
	1,286,817	1,209,465
<i>Less:</i> Provision	(16,601)	(16,601)
	1,270,216	1,192,864
	364,834	427,577
Market value of listed investments	364,834	427,577

20. INVESTMENTS IN ASSOCIATED COMPANIES *(Continued)*

(a) Details of share of net assets other than goodwill are as follows:

	Group	
	2000	1999
	HK\$'000	HK\$'000
Investments listed in Hong Kong, at cost	1,232,541	941,554
Unlisted investments, at cost	38,668	536,730
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Total investments, at cost	1,271,209	1,478,284
Goodwill less capital reserves on acquisition	(28,924)	222,219
Share of goodwill of an associated company	(182)	(286)
Share of post-acquisition reserves	218,399	158,031
Elimination of unrealised profit	(7,684)	(7,621)
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	1,452,818	1,850,627
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Market value of listed investments	401,198	484,164
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(b) Details of the principal associated companies are shown in note 34.

(c) During the year, dividends of HK\$1,155,000 (1999: HK\$6,904,000) were received from unlisted associated companies and no dividend was received from listed associated companies (1999: Nil).

(d) Advances to associated companies are unsecured, interest free and not repayable within 12 months from the balance sheet date.

20. INVESTMENTS IN ASSOCIATED COMPANIES *(Continued)*

(e) Details of convertible loan notes issued by a listed associated company are as follows:

- A convertible loan note with an outstanding principal amount of HK\$318,111,967 at 31 December 1999. The note attaches a right to convert the principal amount due under this note at an adjusted conversion price of HK\$1.12 per the listed associated company's share. Interest is payable on a quarterly basis at 5% per annum on the outstanding principal amount. The note was matured and was due for repayment on 22 August 2000.

In April 2000, the Company and the listed associated company agreed to extend the maturity and repayment dates of the convertible loan note for one year to 22 August 2001 on the condition that the interest on the convertible loan note will be adjusted from 5% to 6% per annum and all other terms and conditions remain unchanged. However, subsequently the convertible loan note was fully repaid and no amount was outstanding at 31 December 2000.

- Three convertible loan notes all dated 2 June 1998 with an aggregate principal amount of HK\$227 million. The notes attach a right to convert the principal amounts under these notes at an adjusted conversion price of HK\$0.86 per the listed associated company's shares. Interest is payable on a quarterly basis at 4% per annum. The terms of all the three notes are identical and the notes will mature and are due for repayment on 2 June 2001.

The convertible loan notes were partly repaid during the year and the outstanding amount at 31 December 2000 was HK\$38,015,374.

21. INVESTMENTS IN JOINT VENTURES

	Group	
	2000	1999
	HK\$'000	HK\$'000
Share of net tangible (liabilities)/assets	(4,849)	3,056
Capital reserve on acquisition	(2,558)	(2,558)
Share of goodwill of a jointly controlled entity	13,569	–
	<u>6,162</u>	498
Amount due from a jointly controlled entity *	109,287	–
	<u>115,449</u>	<u>498</u>

* The amount due from a jointly controlled entity has no fixed term of repayment and interest is charged at Prime Rate plus 2% except for a non-interest bearing loan of HK\$65,000,000 (1999: Nil).

Particulars of the jointly controlled entities at 31 December 2000 are as follows:

Name	Country of incorporation	Principal activities	Group equity interest
SHK Barton Limited	British Virgin Islands	On line securities broking	50%
Earnest Finance Limited	British Virgin Islands	Investment holding	50%

22. OTHER INVESTMENTS

	Company		Group	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Listed equity investments issued by corporate entities, at market value				
– Listed in Hong Kong	32,995	35,124	464,471	232,249
– Listed outside Hong Kong	–	–	41,046	63,180
	<u>32,995</u>	<u>35,124</u>	<u>505,517</u>	<u>295,429</u>
Unlisted equity investments, at fair value	31,365	67,102	287,877	313,556
Club debentures, exchange seats and statutory deposits and other deposits with Exchange and Clearing companies	2,090	2,090	20,072	20,208
	<u>66,450</u>	<u>104,316</u>	<u>813,466</u>	<u>629,193</u>
<i>Add:</i> amounts due from investee companies	–	3,636	106,839	80,389
<i>Less:</i> provision for amounts due from investee companies	–	–	(2,161)	(2,154)
	<u>66,450</u>	<u>107,952</u>	<u>918,144</u>	<u>707,428</u>
<i>Less:</i> amounts due to investee companies	–	–	(1,481)	(1,355)
	<u>66,450</u>	<u>107,952</u>	<u>916,663</u>	<u>706,073</u>

23. FIXED ASSETS

	Group			Total HK\$'000
	Investment properties HK\$'000	Other properties HK\$'000	Furniture and equipment HK\$'000	
Cost or valuation				
At 1 January 2000	19,000	19,336	55,933	94,269
Exchange and other adjustments	–	–	(1,077)	(1,077)
Additions	–	47,200	25,083	72,283
Revaluation	2,000	–	–	2,000
Disposals	–	–	(7,445)	(7,445)
At 31 December 2000	<u>21,000</u>	<u>66,536</u>	<u>72,494</u>	<u>160,030</u>
Accumulated depreciation				
At 1 January 2000	–	3,213	36,550	39,763
Exchange and other adjustments	–	–	(846)	(846)
Charge for the year	–	402	10,100	10,502
Written back on disposals	–	–	(5,267)	(5,267)
At 31 December 2000	<u>–</u>	<u>3,615</u>	<u>40,537</u>	<u>44,152</u>
Net book value at 31 December 2000	<u>21,000</u>	<u>62,921</u>	<u>31,957</u>	<u>115,878</u>
Net book value at 31 December 1999	<u>19,000</u>	<u>16,123</u>	<u>19,383</u>	<u>54,506</u>
The analysis of cost or valuation shown above is:				
At professional valuation – 1985	–	16,000	–	16,000
At professional valuation – 2000	21,000	–	–	21,000
At cost	–	50,536	72,494	123,030
	<u>21,000</u>	<u>66,536</u>	<u>72,494</u>	<u>160,030</u>

23. FIXED ASSETS (Continued)

- (a) The investment properties were valued at 31 December 2000 by DTZ Debenham Tie Leung Limited, an independent firm of registered professional surveyors, on an open market basis. Particulars of the investment properties at 31 December 2000 were:

Location	Classification	Term of lease	Interest
Houses C7 and C8, Hawaii Garden, No. 18, Silver Cape Road, Sai Kung, New Territories	Residential	2047	100%

- (b) In preparing these accounts, the Group has availed itself of the transitional provisions set out in paragraph 72 of the Statement of Standard Accounting Practice Number 17, which permit the retention of “Other Properties” at previously stated professional valuation.

An item of the revalued “Other Properties” amounting to HK\$16,000,000 was valued in 1985 by Jones Lang Wootton, independent professional valuer, on an open market basis. The carrying amount of the “Other Properties”, including the revalued property, would have been HK\$64,695,000 (1999: HK\$17,928,000), had the property been carried at cost less accumulated depreciation.

Net book value of other properties comprises:

	Group	
	2000	1999
	HK\$'000	HK\$'000
Long lease properties in Hong Kong	61,137	14,177
Medium-term lease property overseas	1,784	1,946
	<u>62,921</u>	<u>16,123</u>

- (c) At 31 December 2000, the net book value of fixed assets pledged as security for the Group’s long term loan amounted to HK\$47,152,000 (1999: Nil).

24. SHARE CAPITAL

	Company	
	2000 HK\$'000	1999 HK\$'000
<i>Authorised:</i>		
15,000,000,000 ordinary shares of HK\$0.2 each	<u>3,000,000</u>	<u>3,000,000</u>
	No. of shares of HK\$0.2 each	Amount HK\$'000
<i>Issued and fully paid:</i>		
Balance as at 1 January 2000	1,162,532,309	232,506
2000 Warrants exercised during the year	<u>40,753</u>	<u>8</u>
	<u>1,162,573,062</u>	232,514
<i>Subscribed and credited as fully paid:</i>		
Conversion of convertible loan notes at year end (note b)	<u>341,650,403</u>	<u>68,331</u>
Balance as at 31 December 2000		<u>300,845</u>

(a) 2000 Warrants

As at 1 January 2000, the Company had 193,637,507 outstanding warrants in issue. Each warrant entitles the holder thereof to subscribe in cash for 1 fully paid share at an initial subscription price of HK\$2.50 per share, subject to adjustment, at any time during the subscription period up to and including 18 February 2000. In February 2000, 40,753 new shares of HK\$0.2 each were issued upon the exercise of 40,753 warrants and the remaining 193,596,754 outstanding warrants had expired on 18 February 2000.

24. SHARE CAPITAL (Continued)

(b) 8% Listed Non-Redeemable Convertible Loan Notes

Pursuant to the terms of an open offer of 8% listed non-redeemable convertible loan notes (the “Notes”) to shareholders, Notes for a total principal amount of HK\$512,475,604.50 were allotted and issued on 13 January 1998. The Notes were due on 31 December 2000 and were then automatically converted into new shares (with new 2003 warrants in the proportion of one new 2003 warrant for every five new shares) at the conversion price of HK\$1.50 per new share. Pursuant to the mandatory conversion of the Notes, 341,650,403 new shares (with 68,330,080 new 2003 warrants) were issued on 12 January 2001.

25. CAPITAL AND OTHER RESERVES

	Company		Group	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Special capital reserve arising from adjustment of nominal value of shares*				
Balance as at 1 January and 31 December	<u>930,026</u>	930,026	<u>930,026</u>	930,026
Share premium account				
Balance as at 1 January	681,081	681,081	682,520	682,520
Allotment during the year	94	–	94	–
Conversion of convertible loan notes at year end	444,145	–	444,145	–
Shares issue expenses	(2,057)	–	(2,056)	–
Balance as at 31 December	<u>1,123,263</u>	681,081	<u>1,124,703</u>	682,520
Balance carried forward	<u>2,053,289</u>	1,611,107	<u>2,054,729</u>	1,612,546

25. CAPITAL AND OTHER RESERVES (Continued)

	Company		Group	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Balance brought forward	<u>2,053,289</u>	<u>1,611,107</u>	<u>2,054,729</u>	<u>1,612,546</u>
Exchange reserve				
Balance as at 1 January	–	–	(38,336)	(26,414)
Translation of the accounts of overseas subsidiary and associated companies	–	–	(3,103)	(21,504)
Reverse exchange deficit on decrease in shareholding/disposal of overseas subsidiary and associated companies	–	–	6,383	8,643
Associated companies	–	–	(1,985)	939
Transfer on reclassification of investments	–	–	74	–
Balance as at 31 December	<u>–</u>	<u>–</u>	<u>(36,967)</u>	<u>(38,336)</u>
Investment property revaluation reserve				
Balance as at 1 January	–	–	64,532	81,373
Associated companies	–	–	(2,852)	(12,969)
Transfer on reclassification of investments	–	–	–	(3,872)
Balance as at 31 December	<u>–</u>	<u>–</u>	<u>61,680</u>	<u>64,532</u>
Investment revaluation reserve				
Balance as at 1 January as previously reported	62,543	–	(158,131)	2,944
Prior year adjustments	–	(1,350)	–	(327,717)
As restated	62,543	(1,350)	(158,131)	(324,773)
Revaluation surplus/(deficit) of other investments	(37,865)	63,717	103,115	15,480
Permanent impairment of other investments transferred to profit and loss account	–	–	36,000	143,429
Release on disposal of other investments	–	176	(4,176)	28,667
Release on disposal of an associated company	–	–	574	(2,944)
Associated company	–	–	10,868	(17,990)
Transfer on reclassification of investments	–	–	27	–
Balance as at 31 December	<u>24,678</u>	<u>62,543</u>	<u>(11,723)</u>	<u>(158,131)</u>
Balance carried forward	<u>2,077,967</u>	<u>1,673,650</u>	<u>2,067,719</u>	<u>1,480,611</u>

25. CAPITAL AND OTHER RESERVES (Continued)

	Company		Group	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance brought forward	<u>2,077,967</u>	<u>1,673,650</u>	<u>2,067,719</u>	<u>1,480,611</u>
Capital reserves				
Balance as at 1 January	–	–	19,154	6,889
Transfer from retained earnings by associated companies	–	–	967	850
Release on disposal of a subsidiary company	–	–	–	(1,072)
Release on disposal of an associated company	–	–	(11,634)	–
Associated companies	–	–	(307)	12,457
Transfer on reclassification of investments	–	–	(638)	30
	<u>–</u>	<u>–</u>	<u>7,542</u>	<u>19,154</u>
Balance as at 31 December	<u>–</u>	<u>–</u>	<u>7,542</u>	<u>19,154</u>
Total balance as at 31 December	<u>2,077,967</u>	<u>1,673,650</u>	<u>2,075,261</u>	<u>1,499,765</u>
Retained by:				
Company and subsidiary companies			2,025,386	1,446,044
Associated companies			49,875	53,721
			<u>2,075,261</u>	<u>1,499,765</u>

* The High Court of the Hong Kong Special Administrative Region sanctioned the reduction in nominal value of the Company's shares on 14 July 1998 ("Reduction"). Accordingly, an amount equal to the credit arising from the Reduction was transferred to the special capital reserve.

The special capital reserve will not be treated as realised profits. It shall be treated as an undistributable reserve for as long as there remain outstanding any debts or claims which were in existence on the date of the Reduction, provided that the amount of the reserve may be reduced by the amount of any future increase in the paid up share capital and the share premium account.

26. PROFIT AND LOSS ACCOUNT

	Company		Group	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance as at 1 January	1,384,633	364,249	1,789,603	1,630,990
Profit for the year	3,924	1,078,512	116,231	217,591
Dividends (<i>note 11</i>)	(61,545)	(58,128)	(61,545)	(58,128)
Transfer to capital reserve by associated companies	–	–	(967)	(850)
	<u>–</u>	<u>–</u>	<u>(967)</u>	<u>(850)</u>
Balance as at 31 December	<u>1,327,012</u>	<u>1,384,633</u>	<u>1,843,322</u>	<u>1,789,603</u>
Retained by:				
Company and subsidiary companies			1,676,893	1,696,884
Associated companies			160,765	92,719
Jointly controlled entities			5,664	–
			<u>1,843,322</u>	<u>1,789,603</u>

Distributable reserves of the Company at 31 December 2000, calculated under Section 79B of the Hong Kong Companies Ordinance, amounted to HK\$1,347,280,000 (1999: HK\$1,259,708,000).

27. LONG TERM LOAN

	Group	
	2000	1999
	HK\$'000	HK\$'000
Secured bank loan (<i>note 33</i>)	26,757	–
Less: current portion (<i>note 17</i>)	(3,043)	–
	<u>26,757</u>	<u>–</u>
	<u>23,714</u>	<u>–</u>

27. LONG TERM LOAN (Continued)

At 31 December 2000, the secured bank loan was repayable as follows:

	Group	
	2000 HK\$'000	1999 HK\$'000
Within one year	3,043	–
In the second year	3,287	–
In the third to fifth year	11,531	–
After the fifth year	8,896	–
	<u>26,757</u>	<u>–</u>

The secured bank loan is repayable by instalments from December 2000 to November 2007. Interest is charged on the outstanding balances at Prime Rate minus 1.75% per annum.

28. DEFERRED TAXATION

	Company		Group	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Balance as at 1 January	19,988	–	17,068	(3,924)
Exchange adjustments	–	–	341	7
Transfer (from)/to profit and loss account (note 10)	(19,988)	19,988	(15,199)	20,985
	<u>–</u>	<u>19,988</u>	<u>2,210</u>	<u>17,068</u>
Balance as at 31 December	<u>–</u>	<u>19,988</u>	<u>2,210</u>	<u>17,068</u>
Representing:				
Accelerated depreciation allowances	–	–	2,227	1,862
Unrealised profit on marketable securities	–	19,988	–	21,171
General provision and others	–	–	(17)	(5,965)
	<u>–</u>	<u>19,988</u>	<u>2,210</u>	<u>17,068</u>

28. DEFERRED TAXATION *(Continued)*

The deferred tax assets not recognised in the accounts are analysed as follows:

	Group	
	2000	1999
	HK\$'000	HK\$'000
Arising from:		
Tax losses carried forward	62,942	58,268
General provision and others	1,160	2,610
	<u>64,102</u>	<u>60,878</u>

The revaluation of the Group's investment properties does not constitute a timing difference for deferred taxation purposes as realisation of the revaluation surplus would not result in a tax liability.

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit before taxation to net cash outflow from operating activities

	2000 HK\$'000	1999 HK\$'000
Profit before taxation	139,358	284,671
Share of profits and losses of associated companies	(33,310)	5,953
Share of profits and losses of jointly controlled entities	(7,049)	–
Provision for doubtful debts written back	(53,977)	(19,210)
Provision for contingencies relating to investments and receivables written back	–	(90,000)
Net profit on disposal of associated companies	(149,491)	(1,577)
Net profit on disposal of other investments	(23,556)	(38,541)
Exchange gain	(504)	(21,053)
Revaluation deficit of investment properties written back	(2,000)	–
Permanent impairment of other investments transferred from investment revaluation reserve	36,000	143,429
Provision for doubtful debts	81,173	17,852
Loss arising from default of loan agreement with Millennium Touch Limited	134,124	–
Net loss on decrease in shareholding/disposal of subsidiary companies and discontinued operations	4,964	4
Net interest (income)/expense relating to investments	(4,796)	1,125
Net loss on disposal of fixed assets	1,892	13
Dividend income from other investments	(27,857)	(40,879)
Depreciation and amortisation of goodwill	10,606	8,774
Amortisation of other investments	–	292
Unrealised loss/(profit) on trading account securities	88,087	(127,611)
(Increase)/decrease in trading account securities	(105,214)	5,066
Increase in trade and other receivables	(8,171)	(931,447)
(Decrease)/increase in trade and other payables	(202,231)	59,446
(Increase)/decrease in lending over one year	(169,939)	18,956
Net cash outflow from operating activities	<u>(291,891)</u>	<u>(724,737)</u>

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(Continued)

(b) Analysis of changes in financing during the year

	Convertible loan notes HK\$'000	Share capital, special capital reserve and premium HK\$'000	Minority interests HK\$'000
Balance as at 1 January 2000	512,476	1,845,052	14,021
Conversion of convertible loan notes at year end	(512,476)	512,476	–
Cash inflow/(outflow) from financing	–	102	(9,671)
Share issue expenses	–	(2,056)	–
Exchange adjustments	–	–	(2,056)
Share of results by minority interests	–	–	(103)
Capital reserve on acquisition of interest from a minority shareholder	–	–	(591)
	<hr/>	<hr/>	<hr/>
Balance as at 31 December 2000	<u>–</u>	<u>2,355,574</u>	<u>1,600</u>

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(Continued)

(c) Major non-cash transactions

During the year, the Group had the following major non-cash transactions:

- The Group disposed of an associated company to the associated company's holding company at a consideration of HK\$624 million and purchased from this holding company Hong Kong listed shares amounting to HK\$62.9 million. The net consideration of HK\$561.1 million was settled by cash of HK\$100 million and a loan of HK\$461.1 million drawn from a subsidiary company of the Group.

In February 2001, the Group and the buyer entered into a supplemental deed of extension a loan facility to the buyer. The facility was extended for 12 months from 10 February 2001. The outstanding amount of the facility as at 31 December 2000 was HK\$321.1 million. The portion of the loan amounting to HK\$300 million repayable over one year is included in "lending over one year".

- The 8% listed non-redeemable convertible loan notes of the Company amounted to HK\$512,476,604.50 were due on 31 December 2000 and were then automatically converted into new shares at a conversion price of HK\$1.50 per share.

30. CAPITAL COMMITMENTS

	Group	
	2000	1999
	HK\$	HK\$
	Million	Million
Contracted but not provided for	1	–
Authorised but not contracted for	–	14
	<hr/>	<hr/>
	1	14
	<hr/> <hr/>	<hr/> <hr/>

31. OPERATING LEASE COMMITMENTS

The Group's operating lease commitments at 31 December payable in the next twelve months, analysed according to the period in which the lease expires, are as follows:

	2000		1999	
	Land and buildings HK\$'000	Others HK\$'000	Land and buildings HK\$'000	Others HK\$'000
Operating leases which expire:				
In the first year	884	2,681	4,897	1,776
In the second to fifth years inclusive	22,884	–	17,998	5,527
	<u>23,768</u>	<u>2,681</u>	<u>22,895</u>	<u>7,303</u>

32. CONTINGENT LIABILITIES

At 31 December 2000, the Company and the Group had contingent liabilities as follows:

- (a) Guarantees of the Company amounted to HK\$512 million (1999: HK\$350 million) in respect of banking and loan facilities of HK\$512 million (1999: HK\$500 million) and were made available to a subsidiary company and an investee company, of which facilities utilised amounted to HK\$253 million (1999: HK\$421 million).
- (b) Guarantees of the Sun Hung Kai Securities Limited Group in respect of indemnities on banking guarantees made available to a clearing house and regulatory body and others were HK\$5.2 million (1999: HK\$4.5 million), of which no facilities were utilised (1999: Nil).

32. CONTINGENT LIABILITIES *(Continued)*

- (c) Sun Hung Kai Forex Limited (“SHK Forex”) and Sun Hung Kai Bullion Company Limited (“SHK Bullion”), wholly-owned subsidiary companies, entered into agreements with SHK Leveraged Forex & Gold Fund Limited (“the Fund”), an open-ended mutual fund corporation authorised by the Securities and Futures Commission in Hong Kong trading in leveraged foreign exchange and bullion contracts. Under the agreements, SHK Forex and SHK Bullion have agreed to limit the claim against the Fund arising from transactions entered into by SHK Forex and SHK Bullion as the principal brokers and counterparties of the Fund to the amount recoverable from the assets of the Fund. No provision has to be made in respect of these agreements for the year (1999: Nil).
- (d) Sun Hung Kai Securities Limited (“SHKSL”), a wholly-owned subsidiary of the Company, issued proceedings against New World Development Company Limited (“NWD”) on 22 December 1998, claiming, inter alia, the repayment of approximately HK\$35 million paid by SHKSL to NWD as restitution of monies received by NWD in relation to a project in Kuala Lumpur, Malaysia.

NWD and its wholly-owned subsidiary, namely, Stapleton Developments Limited, issued proceedings against SHKSL, claiming, inter alia, the specific performance of SHKSL’s commitment with them in respect of the development project to provide funding of approximately HK\$115.9 million, of which HK\$18.7 million represents interest accrued.

Legal costs are recorded in the profit and loss account as incurred. In the opinion of directors, no material contingency on legal costs will arise from these proceedings and accordingly no further provision is presently required.

33. ASSETS PLEDGED TO THIRD PARTIES

At 31 December 2000, listed investments belonging to the Group and margin clients with a total market value of HK\$3,364 million (1999: HK\$3,111 million) were pledged to banks and financial institutions. Banking facilities of HK\$2,265 million (1999: HK\$1,720 million) were available to the Group. The Group also had a leasehold property with a book value of HK\$47 million (1999: Nil) pledged to a bank as security for an installment loan of HK\$27 million (1999: Nil) granted to the Group.

34. PRINCIPAL SUBSIDIARY AND ASSOCIATED COMPANIES

The principal subsidiary and associated companies as at 31 December 2000 were as follows:

Principal subsidiary companies	Country of incorporation and operation	Issued and paid up share capital	Group equity interest	Principal activities
Boneast Assets Limited	British Virgin Islands	1 US\$1 share	100%*	Investment holding
Cheeroll Limited	Hong Kong	2 HK\$1 shares	100%	Share trading
China Direction Investments Limited	Hong Kong	4,500,000 HK\$1 shares	67%	Share trading and investment holding
Constable Development S.A.	The Republic of Panama	5 US\$1 shares	100%	Investment holding
Cowslip Company Limited	Hong Kong	2 HK\$1 shares	100%	Investment holding
Gloria (Nominees) Limited	Hong Kong	2 HK\$100 shares	100%	Investment holding
Gloxin Limited	Hong Kong	2 HK\$1 shares	100%	Investment holding
Hilarious (Nominees) Limited	Hong Kong	100 HK\$100 shares	100%	Investment holding
I-Market Limited	British Virgin Islands	1 US\$1 share	100%*	Investment holding
Itso Limited	Hong Kong	2 HK\$1 shares	100%	Share trading
Kennedy (Nominees) Limited	Hong Kong	100 HK\$100 shares	100%	Share trading
Lexshan Nominees Limited	Hong Kong	2 HK\$1 shares	100%	Nominee service
Macdonnell (Nominees) Limited	Hong Kong	100 HK\$100 shares	100%	Investment holding
Oakfame Investment Limited	Hong Kong	2 HK\$1 shares	100%	Investment holding
Pine Kwong Limited	Hong Kong	2 HK\$1 shares	67%	Property investment
Pine Most Limited	Hong Kong	2 HK\$1 shares	67%	Property investment
Pioneer Score Development Limited	Hong Kong	2 HK\$1 shares	100%	Investment holding
Plentiwind Limited	Hong Kong	2 HK\$1 shares	100%	Futures trading
Quick Art Limited	Hong Kong	3,540,000 HK\$1 shares	100%	Share trading and property investment
Ranbridge Finance Limited	Hong Kong	20,000,000 HK\$1 shares	100%*	Money lending
Ranbridge, Inc.	The Philippines	5,385,000 Peso 1 shares	100%	Money lending
Rodril Limited	Hong Kong	2 HK\$1 shares	100%	Investment holding

34. PRINCIPAL SUBSIDIARY AND ASSOCIATED COMPANIES *(Continued)*

Principal subsidiary companies	Country of incorporation and operation	Issued and paid up share capital	Group equity interest	Principal activities
Scienter Investments Limited	Hong Kong	2 HK\$10 shares	100%	Share trading
Shipshape Investments Limited	British Virgin Islands	1 US\$1 share	100%*	Investment holding
SHK Financial Data Limited	Hong Kong	100 HK\$1 shares	51%	Provision of financial information service
SHK Fund Management Limited (formerly: SHK Financial Management Limited)	Hong Kong	5,000,000 HK\$1 shares	100%	Fund management
SHK Online (Securities) Limited	Hong Kong	800,000 HK\$10 shares	100%	Online securities broking and margin financing
SHK Online Limited	Hong Kong	2,000,000 HK\$10 shares	100%	Online financial services
Splendid Gain Limited	Hong Kong	2 HK\$1 shares	100%	Investment holding
Sun Hing Bullion Company Limited	Hong Kong	5,000,000 HK\$1 shares	100%	Bullion trading
Sun Hung Kai (Nominees) Limited	Hong Kong	2 HK\$100 shares	100%	Nominee service
Sun Hung Kai Bullion Company Limited	Hong Kong	30,000,000 HK\$1 shares	100%	Bullion trading
Sun Hung Kai Commodities Limited	Hong Kong	80,000,600 HK\$1 shares	100%	Commodities broking
Sun Hung Kai Credit, Inc.	The Philippines	275,000,000 Peso 1 shares	100%	Money lending
Sun Hung Kai Financial Management Limited	Hong Kong	5,000,000 HK\$1 shares	100%	Fund management
Sun Hung Kai Forex Limited	Hong Kong	150,000,000 HK\$1 shares	100%	Foreign exchange trading
Sun Hung Kai Insurance Consultants Limited	Hong Kong	1,000,000 HK\$1 shares	100%	Insurance broking
Sun Hung Kai International Commodities Limited	Hong Kong	50,000 HK\$100 shares	100%	Commodities dealer
Sun Hung Kai International Investment Management Limited	British Virgin Islands	50,000 US\$1 shares	100% *	Investment holding

34. PRINCIPAL SUBSIDIARY AND ASSOCIATED COMPANIES *(Continued)*

Principal subsidiary companies	Country of incorporation and operation	Issued and paid up share capital	Group equity interest	Principal activities
Sun Hung Kai International Limited	Hong Kong	100,000 HK\$100 shares	100%	Corporate finance service
Sun Hung Kai Investment Services (Macau) Limited	Macau	Fully paid capital MOP 1,000,000	100%	Financial service
Sun Hung Kai Investment Services Limited	Hong Kong	65,000 HK\$100 shares	100%	Share broking
Sun Hung Kai Online Limited	British Virgin Islands	1 US\$1 share	100%	Online service
Sun Hung Kai Research Limited	Hong Kong	1,000 HK\$10 shares	100%	Securities research service
Sun Hung Kai Securities (Bermuda) Limited	Bermuda	12,000 US\$1 shares	100%	Investment holding and management services
Sun Hung Kai Securities (Overseas) Limited	Hong Kong	60,000 HK\$1 shares	100%	Investment holding
Sun Hung Kai Securities (Phil.), Inc.	The Philippines	273,600,000 Peso 1 shares	100%	Share broking
Sun Hung Kai Securities (Trustees) Limited	Hong Kong	3,000,000 HK\$1 shares	100%	Provision of trustee services
Sun Hung Kai Securities Capital Markets Limited	Hong Kong	1,000 HK\$1 shares	100%	Investment holding
Sun Hung Kai Securities Limited	Hong Kong	249,797,178 HK\$0.5 shares	100%*	Investment holding
Sun Hung Kai Venture Capital Limited	Hong Kong	2 HK\$1 shares	100%	Investment holding
Sun Tai Cheung Credits Limited	Hong Kong	11,000,000 HK\$10 shares	100%	Share margin financing
Sun Tai Cheung Finance Company Limited	Hong Kong	25,000,000 HK\$1 shares	100%	Financial service
Swan Islands Limited	British Virgin Islands	1 US\$1 share	100%*	Investment holding
Tailwind Consultants Limited	British Virgin Islands	1 US\$1 share	100%*	Investment holding
Texgulf Limited	Hong Kong	2 HK\$10 shares	100%	Property investment
To Wan Development Company Limited	Hong Kong	1,000 HK\$10 shares	100%	Investment holding

34. PRINCIPAL SUBSIDIARY AND ASSOCIATED COMPANIES *(Continued)*

Principal subsidiary companies	Country of incorporation and operation	Issued and paid up share capital	Group equity interest	Principal activities
Tung Wo Investment Company, Limited	Hong Kong	100 HK\$100 shares	100%	Investment holding
Upper Selection Investments Limited	British Virgin Islands	1 US\$1 share	100%	Investment holding
Upstand Assets Limited	British Virgin Islands	1 US\$1 share	100%*	Investment holding
Wah Cheong Development Company, Limited	Hong Kong	25,100,000 HK\$1 shares	100%*	Investment holding
Wineur Secretaries Limited	Hong Kong	2 HK\$1 shares	100%	Secretarial service

* These subsidiary companies are directly held by the Company.

Principal associated companies	Country of incorporation and operation	Equity interest held by		Principal activities
		Group	Company	
Business Logistic Holdings Limited	British Virgin Islands	49.9%	–	Investment holding
Chronicle Gain Limited	Hong Kong	45%	–	Property holding
Drinkwater Investment Limited	Hong Kong	22%	–	Property holding
Omicron International Limited	British Virgin Islands	38%	38%	Investment holding
Real Estate Investments (N.T.) Limited	Hong Kong	40%	–	Property development
Shanghai Orient-Sun International Investment Management Co., Ltd.	People's Republic of China	49%	–	Consultancy service in equity and direct investments
SHK Pearl River Delta Investment Company Limited	Hong Kong	20%	–	Investment holding
Silver York Development Limited	Hong Kong	40%	–	Property development
Start Hold Limited	Hong Kong	33%	–	Investment holding
Tian An China Investments Company Limited **	Hong Kong	34% #	31% #	Investment holding
Tian An Development Company Limited	Hong Kong	40%	40%	Investment holding

Excluding 749,896,647 shares held by the Company and subsidiary companies for trading purposes.

** This associated company is listed in Hong Kong and further details about this associated company is available in its published audited accounts.

34. PRINCIPAL SUBSIDIARY AND ASSOCIATED COMPANIES *(Continued)*

The above tables list the subsidiary and associated companies of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiary and associated companies would, in the opinion of the directors, result in particulars of excessive length.

35. SUBSEQUENT EVENTS

- (a) In January 2001, the Group has acquired a further 30% interest in SHK Pearl River Delta Investment Company Limited (“SHK Pearl River Delta”), an associated company of the Group, at a consideration of HK\$11.4 million. After the acquisition, the Group’s equity interest in SHK Pearl River Delta increased to 50% and was classified as jointly controlled entity.

- (b) In February 2001, the Group entered into a deed of settlement with a client to settle a debt due by the client to the Group amounting to HK\$73.6 million (after a provision of HK\$19.5 million). Pursuant to the deed of settlement, the Group sold to the client overseas listed shares and warrants at a consideration of HK\$103.5 million, and bought from the client Hong Kong listed shares at a consideration of HK\$53.5 million and a 7% promissory note issued by a listed associated company of the Group with a face value of HK\$145 million.

36. RELATED PARTY TRANSACTIONS

During the year, the Group had the following material transactions with related parties:

	<i>Note</i>	2000 HK\$'000	1999 HK\$'000
– Repurchase of shares and set-off of shareholders' loan by an associated company	(a)	31,774	–
– Disposal of an associated company to and purchase listed shares from the associated company's holding company	(b)	561,100	–
– Establishment of a jointly controlled entity by the Group and a subsidiary of the deemed substantial shareholder	(c)	65,000	–
– Underwriting commission received from a listed associated company	(d)	10,261	5,269
– Subscription of rights shares in a listed associated company	(d)	398,806	311,231
– Interest income from a listed associated company	(e)	20,664	26,557
– Dividend received from a subsidiary of the deemed substantial shareholder		10,038	9,075
– Interest received from bank deposits in a subsidiary of an associated company		1,353	3,365
– Interest received from a subsidiary of a jointly controlled entity		1,571	–
– Insurance premium received from the deemed substantial shareholder		2,177	1,233
– Financial printing service and translation fees paid to companies in which a non-executive director has significant influence		–	1,025
– Professional fees paid to a company in which a non-executive director has significant influence		2,006	1,063

36. RELATED PARTY TRANSACTIONS *(Continued)*

NOTES:

- (a) In March 2000, an associated company transferred to the Group shares in a listed associated company for the set-off of its shareholders' loan due to the Group and repurchase part of its shares held by the Group. The consideration of the listed shares transferred, based on the average market closing price to value, was amounted to HK\$31,774,000. As the Group treated the associated company as a vehicle to hold shares in the listed associated company, the above transfer of share did not affect the Group's equity interest in that listed associated company.
- (b) In May 2000, the Group disposed of all the interest in an associated company to the associated company's holding company at a consideration of HK\$624 million and purchased from its holding company Hong Kong listed shares at a consideration of HK\$63 million (note 29(c)). The above was a discloseable transaction and details of which were contained in a circular to shareholders dated 2 June 2000.
- (c) In June 2000, the Group and a subsidiary of the deemed substantial shareholder established a joint venture company for the acquisition of a personal loan business. The Group and the subsidiary of the deemed substantial shareholder each invested HK\$65 million for 50% interest in the joint venture company. The above was a connected transaction and details of which were contained in the Directors' Report.
- (d) In October 2000, Sun Hung Kai International Limited, a wholly-owned subsidiary of the Group, underwrote a rights issue of a listed associated company and received an underwriting commission. The Group's obligations pursuant to the underwriting were subscription of 1,994,029,942 rights shares at a consideration of HK\$399 million. The above was a major transaction and had been approved by shareholders on 13 October 2000. Details of the transaction were contained in a circular to shareholders dated 25 September 2000.
- (e) The interest income from a listed associated company arose from its convertible loan notes being held by the Group and details of which are disclosed in note 20(e) to the financial statements.

37. MATURITY PROFILE OF ASSETS AND LIABILITIES

	As at 31 December 2000					Total HK\$'000
	Within 3	3 months	1 year to	After 5	On	
	months	to 1 year	5 years	years	demand	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets						
Fixed deposits with banks	46,585	–	–	–	–	46,585
Term loans	376,100	255,387	–	–	175,185	806,672
Debts securities	2,163	–	–	–	–	2,163
Lending over one year	–	–	485,857	–	–	485,857
Liabilities						
Loans and overdrafts	967,367	–	–	–	–	967,367
Long term loan	739	2,304	14,818	8,896	–	26,757

As at 31 December 1999

Assets						
Fixed deposits with banks	72,986	–	–	–	–	72,986
Term loans	198,000	333,063	–	–	5,752	536,815
Debts securities	51,677	9,652	–	–	–	61,329
Lending over one year	–	–	103,304	–	–	103,304
Liabilities						
Loans and overdrafts	831,104	–	–	–	–	831,104
8% listed non-redeemable convertible loan notes	–	–	512,476	–	–	512,476

The above tables list the assets and liabilities which have a term of maturity. Overdue assets are reported as on demand.

38. APPROVAL OF ACCOUNTS

The accounts on pages 29 to 82 were approved by the Board of Directors on 4 April 2001.