

Notes to the Financial Statements

31st December 2000

1. CORPORATE INFORMATION

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

- securities dealing and margin finance
- consumer finance

In the opinion of the directors, the ultimate holding company is Magnum Corporation Berhad, which is incorporated and listed in Malaysia.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

Basis of consolidation

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

Subsidiaries

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

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

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

On disposal of such subsidiaries, the relevant portion of attributable goodwill previously eliminated against reserves is realised and included in the calculation of the gain or loss on disposal.

Fixed assets and depreciation

Fixed assets, other than investment properties, are stated at cost or valuation less accumulated depreciation. The Group has adopted the transitional provisions set out in paragraph 72 of the Statement of Standard Accounting Practice No. 17 "Property, plant and equipment" issued by the Hong Kong Society of Accountants, of not making further revaluations of its fixed assets.

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

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

Leasehold land	Over the unexpired lease terms
Buildings	2.5% – 10%
Leasehold improvements	Over the lease terms
Furniture and fixtures	20%
Motor vehicles	25%
Computers and equipment	30% – 33%



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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets and depreciation (continued)

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset. On disposal of a revalued asset, the relevant portion of the revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year. Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

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

Intangible asset

The intangible asset, representing the eligibility right to trade on or through The Stock Exchange of Hong Kong Limited ("Stock Exchange Trading Right"), is stated at cost less accumulated amortisation. Cost was determined by the directors according to the methodology detailed in note 16.

Amortisation is calculated on the straight-line basis to write off the cost of the trading right over its estimated useful life of ten years.

Other assets

Other assets held on a long term basis are stated at cost less provision for impairments in value deemed necessary by the directors, other than those considered to be temporary in nature, on an individual asset basis.



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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other assets (continued)

When such impairments in values have occurred, the carrying amounts of the other assets are reduced to their fair values, as estimated by the directors, and the amounts of the impairments are charged to the profit and loss account for the period in which they arise. When the circumstances and events which led to the impairments in values cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amounts of the impairments previously charged is credited to the profit and loss account to the extent of the amounts previously charged.

Short term investments

Short term investments consist of investments in equity securities which are expected to be realised within one year from the date of acquisition and treasury notes held to maturity with maturity terms less than one year.

Investments in equity securities are stated at their fair values on the basis of their quoted market prices at the balance sheet date on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the profit and loss account for the period in which they arise.

Treasury notes held to maturity are stated at amortised cost. Premiums and discounts are amortised over the period from the date of purchase to the date of maturity or redemption.

Related parties

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

Revenue recognition

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

- sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;



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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

- commissions on securities dealings, on a trade date basis;
- interest income, on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable; and
- rental income, in the period in which the properties are let out and on the straight-line basis over the lease terms.

Deferred tax

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

Retirement benefits scheme

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

Prior to the Scheme being effective, the Group operated a defined contributions retirement benefits scheme for those employees who were eligible to participate in the scheme. This scheme operated in a similar way to the Mandatory Provident Fund retirement benefit scheme, except that when an employee left the scheme prior to his/her interest in the Group's employee contributions vesting fully, the ongoing contributions payable by the Group were reduced by the relevant amount of forfeited contributions. With effect from 1st December 2000 this scheme was terminated.

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 the straight-line basis over the lease terms.



Notes to the Financial Statements

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

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

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

Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advances. For the purpose of balance sheet classification cash equivalents represent assets similar in nature to cash, which are not restricted as to use.



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3. DISCONTINUED OPERATIONS

As the Group had incurred substantial losses in its electronic product manufacturing operations, the directors resolved on 21st July 1999 that it would be beneficial for the Group to close down its manufacturing division and to deploy its resources to the other core businesses of the Group. This discontinued business was accounted for up to 31st December 1999, at which time the abandonment process was substantially completed.

The revenues, expenses and net loss from ordinary activities attributable to shareholders of the discontinued operations for the year ended 31st December 1999 were as follows:

	HK\$
Turnover	3,333,860
Other revenue	915,877
	<u>4,249,737</u>
Loss on cessation of discontinued operations:	
Provision against inventories	(14,220,101)
Write off of deferred development costs	(185,404)
Loss on disposal of fixed assets	(272,301)
Redundancy and miscellaneous payments	(4,121,533)
Gain on waiver of minority interests' entitlement	3,001,717
	<u>(15,797,622)</u>
Cost of inventories sold	(7,672,359)
Distribution costs	(1,079,972)
Administrative expenses	(5,226,469)
Other operating expenses	(1,530,894)
	<u>(27,057,579)</u>
Loss from operating activities	(27,057,579)
Tax	777,000
	<u>(26,280,579)</u>
Loss before minority interests	(26,280,579)
Minority interests	107,269
	<u>(26,173,310)</u>

Notes to the Financial Statements

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4. TURNOVER

The current year's turnover represents commission and interest income from securities dealing and margin finance and interest income from consumer finance. The prior year's turnover also included the net invoiced value of electronic product goods sold, after allowance for returns and trade discounts, which arose from the Group's discontinued business (note 3).

An analysis of turnover is as follows:

	Group	
	2000	1999
	HK\$	HK\$
Commissions and interest income from securities dealing and margin finance	32,441,958	18,286,420
Interest income from consumer finance	1,478,763	5,418,707
Net invoiced value of goods sold	—	3,333,860
	33,920,721	27,038,987

5. RELATED PARTY TRANSACTIONS

The Group had the following transactions with related parties during the year:

	Group	
	2000	1999
	HK\$	HK\$
Interest expenses charged by a fellow subsidiary	121,480	24,536
Interest expenses charged by immediate holding company	3,423,255	—
Interest expenses charged by an intermediate holding company	2,711,553	2,774,108

The interest expenses charged by a fellow subsidiary, the immediate holding company and an intermediate holding company during the year arose from their respective advances, further details of which, including the terms, are disclosed in notes 24, 25 and 26 respectively.



Notes to the Financial Statements

31st December 2000

6. LOSS FROM OPERATING ACTIVITIES

This is arrived at after charging:

	Group	
	2000	1999
	HK\$	HK\$
Depreciation	1,901,798	3,645,556
Operating lease rentals on land and buildings	2,360,795	4,036,167
Amortisation of deferred development costs	—	290,006
Amortisation of intangible asset	379,432	—
Write off of deferred pre-operating expenses	—	379,854
Write off of fixed assets	92,030	—
Exchange loss realised upon cessation of business of a foreign subsidiary	2,634,427	—
Staff costs (including directors' remuneration — note 7):		
Pension contributions	228,243	374,233
Less: Forfeited contributions	(63,777)	(185,662)
Net pension contributions*	164,466	188,571
Wages and salaries	15,265,559	13,565,799
	15,430,025	13,754,370
Auditors' remuneration	700,000	730,000
Exchange loss, net	—	1,507,515
Loss on cessation of discontinued operations	—	15,797,622
and after crediting:		
Gross rental income	2,426,020	1,767,573
Less: Outgoings	(33,269)	(47,408)
Net rental income	2,392,751	1,720,165
Exchange gain, net	741,869	—
Dividend income from listed investments	—	4,442
Interest income	12,185,372	9,058,481

* At 31st December 1999, there were no forfeited contributions available to the Group to reduce its contributions to the pension scheme in future years. The pension scheme was terminated on 1st December 2000 and replaced by the Scheme under the Mandatory Provident Fund Schemes Ordinance.

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7. DIRECTORS' REMUNERATION

	Group	
	2000	1999
	HK\$	HK\$
Fees	210,000	—
Salaries, allowances and benefits in kind	1,740,000	1,798,226
Pension scheme contribution	62,100	20,000
Bonuses paid and payable	345,500	100,000
Ex-gratia and leave payment	—	890,000
	2,357,600	2,808,226

During the year, directors' fees of HK\$60,000 were paid to the independent non-executive directors (1999: Nil).

The remuneration of the above directors fell within the following bands:

	Group	
	2000	1999
	Number of directors	Number of directors
Nil – HK\$1,000,000	7	11
HK\$1,500,001 – HK\$2,000,000	1	—
HK\$2,000,001 – HK\$2,500,000	—	1
	8	12

There were no arrangements under which a director waived or agreed to waive any remuneration during the year (1999: Nil).

No value is included in the directors' remuneration in respect of share options granted during the year because, in the absence of a readily available market value for the options on the Company's shares, the directors are unable to arrive at an accurate assessment of the value of the options granted. Further details of the options granted to the directors during the year are set out in the section "Directors' rights to acquire shares" in the Report of the Directors on pages 11 and 13.



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8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two director (1999: one director), details of whose remuneration are set out in note 7 above. The details of the remuneration of the remaining three (1999: four) non-director, highest paid employees are set out below.

	Group	
	2000	1999
	HK\$	HK\$
Salaries, allowances and benefits in kind	4,898,803	1,714,721
Bonuses paid and payable	94,155	245,685
Pension scheme contributions	51,850	43,600
Redundancy payment	—	639,847
	5,044,808	2,643,853

The remuneration of the non-director, highest paid employees fell within the following bands:

	Group	
	2000	1999
	Number of employees	Number of employees
Nil – HK\$1,000,000	1	3
HK\$1,000,001 – HK\$1,500,000	—	1
HK\$2,000,001 – HK\$2,500,000	2	—
	3	4

No value is included in the five highest paid employees' remuneration in respect of share options granted during the year because, in the absence of a readily available market value for the options on the Company's shares, the directors are unable to arrive at an accurate assessment of the value of the options granted.

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9. FINANCE COSTS

	Group	
	2000	1999
	HK\$	HK\$
Interest on bank loans and overdrafts wholly repayable within five years	5,417,806	3,669,640
Interest expense on amounts due to related parties	6,256,288	2,798,644
	11,674,094	6,468,284

10. TAX

No provision for profits tax has been made as the Group had no assessable profits for the year (1999: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2000	1999
	HK\$	HK\$
Current year provisions:		
Hong Kong	—	—
Elsewhere	—	(1,000,052)
Prior year over provisions:		
Hong Kong	559,000	3,156,284
Elsewhere	582,906	489,826
	1,141,906	2,646,058
Rebate relating to prior year provision in Hong Kong	—	79,705
	1,141,906	2,725,763

11. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is HK\$19,440,499 (1999: HK\$53,450,821).



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12. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss attributable to shareholders for the year of HK\$17,684,641 (1999: HK\$50,790,247) and on the 615,024,175 shares (1999: 615,024,175 shares) in issue throughout the year.

The diluted loss per share for the years ended 31st December 2000 and 1999 have not been shown as the share options outstanding during these years had an anti-dilutive effect on the basic loss per share for these years.

13. FIXED ASSETS

Group

	Land and buildings HK\$	Leasehold improve- ments HK\$	Furniture and fixtures HK\$	Motor vehicles HK\$	Computers and equipment HK\$	Total HK\$
Cost or valuation:						
At beginning of year	21,150,788	2,432,696	3,970,637	1,131,198	2,394,343	31,079,662
Additions	—	1,214,870	80,925	—	174,313	1,470,108
Write off	—	—	(1,435,496)	(266,193)	(881,905)	(2,583,594)
Reclassified to investment properties — note 14	(15,411,934)	—	—	—	—	(15,411,934)
Exchange realignment	—	—	(203,089)	(43,769)	(83,603)	(330,461)
At 31st December 2000	5,738,854	3,647,566	2,412,977	821,236	1,603,148	14,223,781
Accumulated depreciation:						
At beginning of year	1,809,268	1,870,683	2,668,342	785,598	1,670,974	8,804,865
Provided during the year	221,282	656,548	477,802	200,910	345,256	1,901,798
Write off	—	—	(1,435,496)	(244,472)	(811,596)	(2,491,564)
Reclassified to investment properties — note 14	(1,293,860)	—	—	—	—	(1,293,860)
Exchange realignment	—	—	(111,339)	(26,520)	(50,400)	(188,259)
At 31st December 2000	736,690	2,527,231	1,599,309	715,516	1,154,234	6,732,980
Net book value:						
At 31st December 2000	5,002,164	1,120,335	813,668	105,720	448,914	7,490,801
At 31st December 1999	19,341,520	562,013	1,302,295	345,600	723,369	22,274,797

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13. FIXED ASSETS (continued)

The analysis of cost/valuation of land and buildings is as follows:

	Group	
	2000	1999
	HK\$	HK\$
At cost	277,400	12,827,555
At 1995 valuation	5,461,454	8,323,233
	5,738,854	21,150,788

The land and buildings are situated in Hong Kong and are held under medium term leases.

Certain of the Group's land and buildings at the balance sheet date were reclassified from investment properties during the year ended 31st December 1996 at their carrying amounts of HK\$5,461,454 (1999: HK\$8,323,233), as revalued in December 1995 by Colliers Jardine (Hong Kong) Limited, an independent firm of valuers, on an open market value/existing use basis. Had these land and buildings not been revalued, their net book values at 31st December 2000 would have been HK\$3,914,540 (1999: HK\$6,002,513), being their cost of HK\$4,452,554 (1999: HK\$6,720,916) less accumulated depreciation of HK\$538,014 (1999: HK\$718,403).

Certain land and buildings were pledged to a bank to secure banking facilities granted to the Group as detailed in notes 23 and 33.

14. INVESTMENT PROPERTIES

	Group	
	2000	1999
	HK\$	HK\$
At beginning of year, at valuation	21,576,000	17,350,000
Reclassified from fixed assets — note 13	14,118,074	10,604,080
Deficit on revaluation	(6,426,074)	(6,378,080)
At end of year, at valuation	29,268,000	21,576,000

The investment properties are all situated in Hong Kong.

At 31st December 2000, the investment properties were valued by Vigers Hong Kong Limited, an independent firm of valuers, on an open market use basis, at HK\$29,268,000.

The investment properties were pledged to banks to secure banking facilities granted to the Group as further set out in notes 23 and 33.



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14. INVESTMENT PROPERTIES (continued)

Particulars of the investment properties are as follows:

<u>Location</u>	<u>Approximate floor area</u>	<u>Existing use</u>	<u>Lease term</u>	<u>Group interest</u>
a. Flat A & Part of Flat B of 4th Floor and Roof thereto, Front Block, Wing Tai Centre, 12 Hing Yip Street, Kwun Tong, Hong Kong (51/2260th shares of and in Kwun Tong Inland Lot No. 83)	11,113 sq.ft.	Commercial	Medium	100%
b. Flat A & Flat B of 7th Floor, Front Block, Wing Tai Centre, 12 Hing Yip Street, Kwun Tong, Hong Kong (76/2260th shares of and in Kwun Tong Inland Lot No. 83)	16,818 sq.ft.	Commercial	Medium	100%
c. 4th Floor of Block A, Chung Mei Centre, 15 Hing Yip Street, Kwun Tong, Hong Kong (112/3190th shares of and in Kwun Tong Inland Lot Nos. 51 and 52)	5,997 sq.ft.	Commercial	Medium	100%
d. Office 1 on 1st Floor, GITIC Centre, No. 28, Queen's Road East, Wan Chai, Hong Kong (15/1386th parts or shares of and in Section B, C, D, E, F, G and Remaining Portion of Sub-section 106 Section A Marine Lot No. 65 and Sub-section 3 and 4 of Section A of Marine Lot No. 65)	1,188 sq.ft.	Commercial	Long	100%
e. Apartment A on 20th Floor, Car Parking Space No. 172, 1st Floor, South Bay Towers, No. 59 South Bay Road, South Bay, Island South, Hong Kong (105/16026th shares of and in Rural Building Lot No. 1049)	2,545 sq.ft.	Residential	Long	100%



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15. INTERESTS IN SUBSIDIARIES

	Company	
	2000	1999
	HK\$	HK\$
Unlisted shares, at cost	143,919,955	143,919,955
Less: Provisions for diminution in value	(127,765,446)	(112,765,446)
	16,154,509	31,154,509
Amounts due from subsidiaries	310,308,317	296,432,183
Less: Provision for amounts due from subsidiaries	(188,329,028)	(188,329,028)
	121,979,289	108,103,155
Amounts due to subsidiaries	(48,383,171)	(48,071,120)
	89,750,627	91,186,544

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Watary Investments Limited	British Virgin Islands/ Hong Kong	US\$36,000	100%	—	Investment holding
Magnum International Holdings Services Limited	Hong Kong	HK\$2	—	100%	Provision of administrative services
Lismore Properties Limited	British Virgin Islands/ Hong Kong	US\$1	—	100%	Property holding and investment
Ongreat Properties Limited	British Virgin Islands/ Hong Kong	US\$1	—	100%	Property investment

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15. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Continuous Gain Limited	British Virgin Islands/ Hong Kong	US\$1	—	100%	Property holding and investment
Jenpoint Limited	Hong Kong	HK\$2	—	100%	Trading of marketable securities
Wolston Limited	British Virgin Islands/ Hong Kong	US\$1	—	100%	Property investment
Magnum Secretarial Services Limited	Hong Kong	HK\$2	—	100%	Dormant
Magnum International Finance Limited	Hong Kong	HK\$10,000,000	—	100%	Money lending
Magnum International Securities Limited	Hong Kong	HK\$37,510,000	—	100%	Securities dealing and margin finance
Magnum Financial Services Holdings Limited	British Virgin Islands/ Hong Kong	US\$2	100%	—	Investment holding
Hilcrest Limited	British Virgin Islands/ Hong Kong	US\$1	100%	—	Dormant
Magnum International Nominees Limited	Hong Kong	HK\$2	—	100%	Provision of nominee services
Magnum International Securities, Inc.	Philippines	PHP150,000,000	100%	—	Securities dealing and brokerage

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results of the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.



Notes to the Financial Statements

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16. INTANGIBLE ASSET

	2000 HK\$	1999 HK\$
Cost:		
At beginning of year	—	—
Transfer from other assets — Note 17	5,059,100	—
At end of year	5,059,100	—
Accumulated amortisation:		
At beginning of year	—	—
Provided during the year	379,432	—
At end of year	379,432	—
Net book value at end of year	4,679,668	—

Pursuant to the restructuring of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the Hong Kong Futures Exchange Limited (the "Futures Exchange"), effective on 6th March 2000, the Group received a Stock Exchange Trading Right and 805,000 ordinary shares of HK\$1.00 each in Hong Kong Exchanges and Clearing Limited (the "HKEC Shares") in exchange for its one share previously held in the Stock Exchange.

The prior cost of the previously-held share in the Stock Exchange (note 17) has been fully allocated to the Stock Exchange Trading Rights with nil cost being allocated to the HKEC Shares.

The Stock Exchange Trading Right has been classified as an intangible asset as further described above. The HKEC Shares, which were subsequently listed on the Stock Exchange, have been classified as short term investments in note 21 to the financial statements. Subsequent to their classification under these balance sheet categories, the Stock Exchange Trading Right and HKEC Shares have been treated under the Group's intangible asset and short term investments accounting policies, respectively.

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17. OTHER ASSETS

	2000 HK\$	1999 HK\$
Share in the Stock Exchange, at cost*:		
At beginning of year	5,059,100	5,059,100
Transfer to intangible asset — Note 16	(5,059,100)	—
At end of year	—	5,059,100
Share in the Philippine Stock Exchange, Inc., at cost:		
At beginning of year	15,572,816	16,040,000
Provision for impairment in value	(8,419,084)	—
Exchange realignment	(2,637,332)	(467,184)
At end of year	4,516,400	15,572,816
	4,516,400	20,631,916

* The Group held one share in the Stock Exchange as at 31st December 1999. Pursuant to the restructuring of the Stock Exchange and the Futures Exchange, effective on 6th March 2000, this share was exchanged for a Stock Exchange Trading Right and 805,000 HKEC Shares, as further detailed in note 16.

18. CASH AND CASH EQUIVALENTS

Cash and cash equivalents represent cash and bank balances which are not restricted as to use.

As further detailed in note 22, included in the balance of cash and cash equivalents is an amount of HK\$4,629,000 held by the Group on behalf of the Company's immediate holding company and intermediate holding company.

19. FIXED DEPOSITS, PLEDGED

The amounts represent bank deposits which are pledged to a bank to secure banking facilities granted to the Group (note 33).

20. CLIENT TRUST BANK ACCOUNTS

Client trust bank accounts represent clients' trust monies kept in the trust bank accounts of subsidiaries engaged in the securities dealing business. The application of amounts maintained in such trust bank accounts is prescribed in the Securities Ordinance.



Notes to the Financial Statements

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21. SHORT TERM INVESTMENTS

	Group	
	2000	1999
	HK\$	HK\$
<hr/>		
Listed equity investments, at market value:		
Hong Kong	16,154,500	—
Elsewhere	134,071	135,698
<hr/>		
	16,288,571	135,698
Treasury notes, at amortised cost	27,614,560	—
<hr/>		
	43,903,131	135,698
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As further detailed in note 22, included in the balance of treasury notes is an amount of HK\$22,404,000 held by the Group on behalf of the Company's immediate holding company and intermediate holding company.

The market value of the Group's short term listed equity investments at the date of approval of these financial statements was approximately HK\$12,407,000.



Notes to the Financial Statements

31st December 2000

22. ACCOUNTS RECEIVABLE/ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

- (a) The credit terms provided to customers are consistent with the practice of the securities dealing industries. Details of the accounts receivable of the Group as at the balance sheet date are as follows:

Accounts receivable:

	Group	
	2000	1999
	HK\$	HK\$
Not yet due	12,536,131	33,988,186
0 – 30 days	5,248,282	8,568,238
Over 30 days	616,666	1,610,722
	18,401,079	44,167,146

- (b) Details of the accounts payable and accrued liabilities of the Group as at the balance sheet date are as follows:

Accounts payable:

	Group	
	2000	1999
	HK\$	HK\$
Not yet due	12,045,670	32,421,888
0 – 30 days	387,427	489,501
Over 30 days	3,294,122	5,564,974
	15,727,219	38,476,363
Accrued liabilities*	44,717,594	10,631,095
	60,444,813	49,107,458

* Included in accrued liabilities is an amount of HK\$27,033,000 received from the sale of securities on behalf of the Company's immediate holding company and intermediate holding company. The Group has been instructed by the holding companies to manage such amount on behalf of them. The Group placed the amount in saving accounts and purchased treasury notes, both in the name of a subsidiary, amounting to HK\$4,629,000 (note 18) and HK\$22,404,000 (note 21), respectively, as at the balance sheet date.

Notes to the Financial Statements

31st December 2000

23. BANK LOANS AND OVERDRAFTS, SECURED

	Group		Company	
	2000 HK\$	1999 HK\$	2000 HK\$	1999 HK\$
Mortgage loans, secured	7,914,024	9,421,111	7,914,024	9,421,111
Term loans, secured	2,625,000	4,375,000	2,625,000	4,375,000
Bank overdrafts, secured	25,799,063	29,809,159	7,017,501	6,946,567
Total bank borrowings	36,338,087	43,605,270	17,556,525	20,742,678
Portion classified as current liabilities	(29,783,099)	(33,803,015)	(11,001,537)	(10,940,423)
Long term portion	6,554,988	9,802,255	6,554,988	9,802,255
The maturities of bank borrowings are as follows:				
Within one year	29,783,099	33,803,015	11,001,537	10,940,423
In the second year	2,662,130	3,429,102	2,662,130	3,429,102
In the third to fifth years, inclusive	3,892,858	6,373,153	3,892,858	6,373,153
	36,338,087	43,605,270	17,556,525	20,742,678

Details of the assets pledged as security for the Group's banking borrowings are set out in note 33.

24. AMOUNT DUE TO A FELLOW SUBSIDIARY

The balance is unsecured, bears interest at rates ranging from 5.13% to 6.44% (1999: 5.75% to 5.83%) per annum and is not repayable within one year.

25. AMOUNT DUE TO IMMEDIATE HOLDING COMPANY

Except for an amount of HK\$51,464,350 (1999: Nil) which bears interest at rates ranging from 6.43% to 9.50% per annum, the balance is unsecured, interest-free and is not repayable within one year.

26. AMOUNT DUE TO AN INTERMEDIATE HOLDING COMPANY

The balance is unsecured, bears interest at rates ranging from 7% to 7.30% (1999: 7.30% to 8.55%) per annum and is not repayable within one year.



Notes to the Financial Statements

31st December 2000

27. DEFERRED TAX

There are no significant potential deferred tax liabilities for which provision has not been made (1999: Nil).

The component of the Group's unprovided deferred tax asset is as follows:

	2000	1999
	HK\$	HK\$
Tax losses	23,186,416	24,498,000

The revaluations of the Group's investment properties and land and buildings do not constitute timing differences and, consequently, the amount of potential deferred tax thereon has not been quantified.

28. ISSUED CAPITAL

Shares

	Company	
	2000	1999
	HK\$	HK\$
<i>Authorised:</i>		
1,000,000,000 ordinary shares of HK\$0.10 each	100,000,000	100,000,000
<i>Issued and fully paid:</i>		
615,024,175 ordinary shares of HK\$0.10 each	61,502,418	61,502,418

Share options

The Company has a share option scheme under which the directors may, on or before 29th October 2002, at their absolute discretion, invite any employee or executive director of the Company or its subsidiaries to take up options to subscribe for shares in the capital of the Company. The maximum number of shares in respect of which options may be granted under the scheme may not exceed 10% of the share capital of the Company in issue from time to time.



Notes to the Financial Statements

31st December 2000

28. ISSUED CAPITAL (continued)

During the year, the Company granted share options to certain employees and directors of the Group. Details of the share options granted are as follows:

Date of share options granted	No. of options granted during the year	No. of options lapsed during the year	No. of options outstanding as at 31st December 2000	Exercise price	Exercise period
22nd February 2000	30,980,000	7,720,000	23,260,000	HK\$0.37	23rd August 2000 to 22nd August 2002
11th October 2000	1,440,000	—	1,440,000	HK\$0.21	12th April 2001 to 29th October 2002
	32,420,000	7,720,000	24,700,000		

29. RESERVES

Group

	Share premium account	Contributed surplus	Fixed assets revaluation reserve	Exchange fluctuation reserve	Accumulated losses	Total
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
At 1st January 1999	168,315,330	29,412,071	2,740,350	(18,426,137)	(145,839,964)	36,201,650
Net loss for the year	—	—	—	—	(50,790,247)	(50,790,247)
Exchange realignment	—	—	—	609,767	—	609,767
At 31st December 1999 and 1st January 2000	168,315,330	29,412,071	2,740,350	(17,816,370)	(196,630,211)	(13,978,830)
Exchange loss realised upon cessation of business of a foreign subsidiary	—	—	—	2,634,427	—	2,634,427
Exchange realignment	—	—	—	(6,339,880)	—	(6,339,880)
Net loss for the year	—	—	—	—	(17,684,641)	(17,684,641)
At 31st December 2000	168,315,330	29,412,071	2,740,350	(21,521,823)	(214,314,852)	(35,368,924)



Notes to the Financial Statements

31st December 2000

29. RESERVES (continued)

The contributed surplus of the Group represents the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the Group reorganisation on 30th October 1992 over the nominal value of the Company's shares issued in exchange therefor.

Company

	Share premium account HK\$	Contributed surplus HK\$	Accumulated losses HK\$	Total HK\$
At 1st January 1999	168,315,330	95,165,446	(226,357,784)	37,122,992
Net loss for the year	—	—	(53,450,821)	(53,450,821)
At 31st December 1999 and 1st January 2000	168,315,330	95,165,446	(279,808,605)	(16,327,829)
Net loss for the year	—	—	(19,440,499)	(19,440,499)
At 31st December 2000	168,315,330	95,165,446	(299,249,104)	(35,768,328)

The contributed surplus of the Company represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the Group reorganisation on 30th October 1992 over the nominal value of the Company's shares issued in exchange. Under the Companies Act 1981 of Bermuda (as amended), the Company may make distributions to its members out of the contributed surplus under certain circumstances but does not presently qualify to do so.

Notes to the Financial Statements

31st December 2000

30. NOTES TO THE CASH FLOW STATEMENT

(a) Reconciliation of loss before tax to net cash outflow from operating activities

	Group	
	2000	1999
	HK\$	HK\$
Loss before tax	(18,826,602)	(53,623,279)
Interest income	(12,185,372)	(9,058,481)
Interest expense	11,674,094	6,468,284
Amortisation of deferred development costs	—	290,006
Write off of deferred development costs	—	185,404
Write off of deferred pre-operating expenses	—	379,854
Depreciation	1,901,798	3,645,556
Amortisation of intangible asset	379,432	—
Deficit on revaluation of investment properties	6,426,074	6,378,080
Provision for impairment in value of other assets	8,419,084	—
Provision against doubtful debts	10,865,978	9,984,156
Provision against inventories	—	14,220,101
Gain on waiver of minority interests' entitlement upon cessation of discontinued operations	—	(3,001,717)
Loss on disposal of fixed assets	—	272,301
Exchange loss realised upon cessation of business of a foreign subsidiary	2,634,427	—
Write off of fixed assets	92,030	—
Unrealised holding gain on short term investments	(14,217,555)	—
Decrease/(increase) in client trust bank accounts	1,965,877	(292,974)
Decrease/(increase) in short term investments	(29,570,309)	356,620
Decrease/(increase) in accounts receivable	19,981,324	(21,702,472)
Increase in loans receivable	(16,011,209)	(18,699,026)
Decrease/(increase) in prepayments and other debtors	504,417	(768,741)
Decrease in inventories	—	678,381
Increase in accounts payable and accrued liabilities	11,731,944	35,219,199
Net cash outflow from operating activities	(14,234,568)	(29,068,748)



Notes to the Financial Statements

31st December 2000

30. NOTES TO THE CASH FLOW STATEMENT (continued)

(b) Analysis of changes in financing during the year

	Amount due to a fellow subsidiary HK\$	Group		Minority interests HK\$	Bank loans and mortgage loans HK\$
		Amount due to immediate holding company HK\$	Amount due to an intermediate holding company HK\$		
Balance at 1st January 1999	—	28,049,000	30,920,000	3,108,986	15,176,431
Share of loss for the year	—	—	—	(107,269)	—
Waiver of entitlement upon cessation of discontinued operations	—	—	—	(3,001,717)	—
Net cash inflow/(outflow) from financing activities	1,932,500	6,998,081	—	—	(1,380,320)
Balance at 31st December 1999 and 1st January 2000	1,932,500	35,047,081	30,920,000	—	13,796,111
Net cash inflow/(outflow) from financing activities	—	18,434,916	—	—	(3,257,087)
Balance at 31st December 2000	1,932,500	53,481,997	30,920,000	—	10,539,024

(c) Major non-cash transaction

As further detailed in notes 16 and 17 to the financial statements, during the year the Group received a Stock Exchange Trading Right and 805,000 HKEC Shares in exchange for its one share previously held in the Stock Exchange. There was no effect on the Group's cash flow in respect of such exchange of assets.

Notes to the Financial Statements

31st December 2000

30. NOTES TO THE CASH FLOW STATEMENT (continued)

(d) Analysis of cash and cash equivalents at the balance sheet date

	Group	
	2000	1999
	HK\$	HK\$
Cash and bank balances	8,695,282	14,465,318
Bank overdrafts	(25,799,063)	(29,809,159)
	(17,103,781)	(15,343,841)

31. CONTINGENT LIABILITIES

	Company	
	2000	1999
	HK\$	HK\$
Guarantees of banking facilities granted to a subsidiary	62,000,000	37,000,000

As at 31st December 2000, approximately HK\$18,782,000 (1999: HK\$22,863,000) of the banking facilities granted to a subsidiary were utilised.

Save as disclosed above, neither the Group nor the Company had any significant contingent liabilities at 31st December 2000.



Notes to the Financial Statements

31st December 2000

32. COMMITMENTS

At 31st December 2000, the Group and the Company had commitments under non-cancellable operating leases to make payments in the following year as follows:

	Group		Company	
	2000 HK\$	1999 HK\$	2000 HK\$	1999 HK\$
Annual commitments payable in the following year under non-cancellable operating leases on land and buildings expiring:				
Within one year	112,000	959,200	—	959,200
In the second to fifth years, inclusive	1,291,920	204,000	1,238,952	—
	1,403,920	1,163,200	1,238,952	959,200

33. PLEDGE OF ASSETS

At the balance sheet date, certain of the Group's leasehold land and buildings and investment properties situated in Hong Kong with net book values and carrying values of HK\$4,770,997 (1999: HK\$19,103,417) and HK\$29,268,000 (1999: HK\$21,576,000), respectively, and its bank deposits amounting to HK\$5,000,000 (1999: HK\$5,000,000) were pledged to banks for banking facilities granted to the Group.

34. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 11th April 2001.

